

Sustainable finance definitions in the 2025 SNA and BPM7

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What this presentation will cover

- Background
- The changes proposed for the 2025 SNA and BPM7
- Principles
 - Including taxonomies, labelling and certification
- The proposed definitions
- Questions for AEG and BOPCOM members
 - Including feedback from the written consultation

The image features a background with a diagonal gradient of blue, transitioning from a dark blue on the left to a light blue on the right. The word "Background" is written in a white, bold, sans-serif font in the lower-left quadrant.

Background



What has been agreed so far

- The **AEG** has endorsed the proposal to report **Environment, Social and Governance (ESG)** and **green** financial instruments separately as ‘of which’ lines in the financial accounts and balance sheets (*WS.12: Environmental Classifications*)
- Definitions were to be reviewed and updated in consultation with the third G20 Data Gaps Initiative Recommendation 4 (**DGI-3 Rec.4**) task team
- **BOPCOM** has agreed to add an ‘of which’ category for **green bonds** and to take into consideration any new developments in this area (*B.6: Sustainable Finance*); and also supported this work during its 42nd meeting in October 2023



Proposed changes



AF	Financial assets and liabilities (National Accounts)
AF.3	Debt securities
	<i>Of which: ESG debt securities</i>
	<i>Of which: Social debt securities</i>
	<i>Of which: Green debt securities</i>
	<i>Of which: Sustainability debt securities</i>
	<i>Of which: Sustainability-linked debt securities</i>
	<i>Of which: Other ESG debt securities</i>
AF.4	Loans
	<i>Of which: ESG loans</i>
	<i>Of which: Green loans</i>
AF.5	Equity and investment fund shares
AF.51	Equity
	<i>Of which: ESG equity</i>
	<i>Of which: Green equity</i>
AF.52	Investment fund shares
	<i>Of which: ESG investment fund shares</i>
	<i>Of which: Green investment fund shares</i>



1	Direct Investment (BOP and IIP)
1.1	Equity and investment fund shares
	<i>Of which: ESG equity/investment fund shares</i>
	<i>Of which: Green equity/investment fund shares</i>
1.2	Debt Instruments
1.2.0.1	Debt Securities
	<i>Of which: ESG debt securities</i>
	<i>Of which: Social debt securities</i>
	<i>Of which: Green debt securities</i>
	<i>Of which: Sustainability debt securities</i>
	<i>Of which: Sustainability-linked debt securities</i>
	<i>Of which: Other ESG debt securities</i>



2	Portfolio Investment (BOP and IIP)
2.1	Equity and investment fund shares
	<i>Of which: ESG equity/investment fund shares</i>
	<i>Of which: Green equity/investment fund shares</i>
2.2	Debt Securities
	<i>Of which: ESG debt securities</i>
	<i>Of which: Social debt securities</i>
	<i>Of which: Green debt securities</i>
	<i>Of which: Sustainability debt securities</i>
	<i>Of which: Sustainability-linked debt securities</i>
	<i>Of which: Other ESG debt securities</i>
4	Other Investment (BOP and IIP)
4.3	Loans
	<i>Of which: ESG loans</i>
	<i>Of which: Green loans</i>



To note

- In the 2025 SNA, the ESG and green breakdowns should be provided as priority for financial assets and liabilities (**stocks**), with detailed flows (**transactions**) being developed as a second order of priority
- If possible, the ESG and green breakdowns in the national accounts should be provided for all main **sectors and sub-sectors** of the accounts
- All available **sector** breakdowns should be provided for the BOP and the IIP
- There is a **question** for the AEG/BOPCOM about whether to ask countries to produce the **detailed breakdown of ESG debt securities** (not just green debt securities)... Or are these mainly for guidance in compiling the aggregates?



Principles

Taxonomies, labelling, certification



General principles

- **ESG** finance is finance for “activities or projects that sustain or improve the condition of the environment or society or governance practices” (this is deliberately a broad concept)
- **Green** finance is finance for “activities or projects that sustain or improve the condition of the environment”
- The general principle for establishing greenness is a **positive** contribution to the environment (rather than ‘do no harm’)
- What is the *perspective* used to assess whether something is ESG or green?
 - **Most debt securities**: the use of proceeds raised with the financial instrument
 - **Equity**: the corporate revenues generated by the financing transaction
 - **Loans**: revenue approach (business loans)/proceeds approach (household loans)
 - **Sustainability-linked debt securities, investment fund shares**: achieving certain objectives or performance targets



Taxonomies, labelling and certification

- For the 2025 SNA and BPM7 the proposal is **not** to adopt a single **taxonomy** for sustainable finance activities, although the development of official taxonomies is encouraged and may be used in some regions (such as Europe)
- Three modalities of ESG and green **labelling/certification** have been considered, in line with the approach of the DGI-3 Rec 4 Task Team:
 - a) Self-labelling, where the issuing entity decides on the appropriate ESG or green classification (no second party opinion or SPO, and no certification)
 - b) Second Party Opinion (SPO), where a trusted entity provides the ESG or green label (but no certification)
 - c) Certification, where, in the presence of standards, a specialised entity grants the ESG or green status



Taxonomies, labelling and certification (2)

- We recommend that the 2025 SNA and BPM7 align with the DGI-3 Rec 4 approach to labelling and certification, which is to permit inclusion of financial instruments with **all three levels** of labelling/certification. This is because:
 - SPO and certification is not common in all countries, and
 - it may only be available for large entities with deep pockets
- We also recommend that both **public** and **private** standards may be used
- To provide transparency for users and address concerns about greenwashing, the provision of **metadata** is strongly encouraged – compilers should provide additional breakdowns showing whether the ESG and green figures include *self-labelled* and/or *SPO* and/or *certified* financial instruments

Definitions



Definitions

- **ESG [green] debt securities** are negotiable financial instruments serving as evidence of debt in which the use of the debt security is restricted to finance or refinance activities or projects or where the issuer agrees to achieve performance objectives that **improve the condition of the environment or society or governance practices [of the environment]**.
- **ESG [green] loans** are funds lent by creditors to debtors in which **50% or more** of the debtor's activities **improve the condition of the environment or society or governance practices [of the environment]**.
- **ESG [green] equity** are *equity investments* by investors to institutional units in which **50% or more** of the institutional unit's revenue comes from activities **improve the condition of the environment or society or governance practices [of the environment]**.
- **ESG [green] investment funds** are funds investing in financial instruments, companies, projects or other funds that intend to achieve performance objectives that **improve the condition of the environment or society or governance practices [of the environment]**.



Including thresholds in the definitions

- We recommend that the definitions...
 - **Should** use a 50% threshold approach for **loans**
 - **Might** use a 50% threshold approach for **equity** - but DGI-3 Rec 4 coordinators note that there is not yet a market standard for defining green shares and that future standards may not use the threshold principle
 - There is a **question** re. equity for AEG/BOPCOM members
 - **Should not** include a threshold in the cases of debt securities and investment fund shares:
 - **Debt securities:** thresholds are not normally used
 - **Investment fund shares:** some established industry standards do not use thresholds

**Questions for AEG/BOPCOM and
feedback from the written consultation**



Questions

General questions

1. Do the **AEG and BOPCOM** agree with the *recommendations* set out in the Issues Note (first paragraph of Section 6)?
2. Does **BOPCOM** agree with introducing a separate table for the ESG and green ‘of which’ categories of the IIP and BOP as part of Annex 14 of the BPM7?

Specific questions

1. Should the **50% threshold** principle be applied in the case of **equity**?
2. Should ‘**transition bonds**’ be considered in or out of scope of ESG debt securities?
3. Should all countries be asked to produce the **detailed breakdown** of ESG debt securities (beyond green debt securities)? Or are these mainly for guidance in compiling the ESG aggregate for debt securities?



Feedback from AEG/BOPCOM written consultation (Feb 2024) (1)

General questions

2. Does **BOPCOM** agree with introducing a separate table for the ESG and green ‘of which’ categories of the IIP and BOP as part of Annex 14 of the BPM7?

Feedback

- The comments received were few but supportive 😊
- Pleased with compromise proposal (Annex 14) and noted that “on a practical level, each country will start with the ones which it can deal with”.
- There was a suggestion to focus on IIP (**stocks**) as first order of priority, to be followed by BOP (**transactions**) – this aligns well with the recommendation for the SNA.
- Request to add further explanation about the ‘proceeds/revenue/achieves performance objectives’ approaches and to add links to DGI-3 Rec 4 reference materials.



Feedback from AEG/BOPCOM written consultation (Feb 2024) (2)

Specific questions

1. Should the **50% threshold** principle be applied in the case of **equity**?

Feedback

- The guidelines could say something like "When a market standard for defining green shares is unavailable a 50% threshold should be applied." This provides flexibility when a future standard is developed.
- The 50% threshold approach may be used as an interim/default approach until a market standard is available.
- If DGI-3 develops guidance in future, we should align.
- Practically, it would be quite difficult for companies to calculate the percentage of their revenue derived from ESG-related activities. Thus, we are not in favor of introducing the 50% threshold principle for assessing the greenness of equity.



Feedback from AEG/BOPCOM written consultation (Feb 2024) (3)

Specific questions

2. Should **'transition bonds'** be considered in or out of scope of ESG debt securities?

Feedback

- Exclusion (in line with DGI-3 Rec 4) would be best.
- If transition bonds cannot be excluded, ideally they should be shown as a separate sub-category.



Feedback from AEG/BOPCOM written consultation (Feb 2024) (4)

Specific questions

3. Should all countries be asked to produce the **detailed breakdown** of ESG debt securities (beyond green debt securities)? Or are these mainly for guidance in compiling the ESG aggregate for debt securities?

Feedback

- Mainly for guidance in compiling aggregates. Not all countries should be required to produce the breakdowns.
- The detailed breakdown is useful. *Encourage* production of detailed breakdown of ESG debt securities, *but* economies' own capacities and policy stances need to be considered.
- Even if other sub-categories of ESG debt securities are not shown separately, clarify that **green** debt securities are an important sub-category and should be shown separately.