Climate Bonds' Equivalence Methodology - Climate Mitigation

Operationalising interoperability through an expanded Climate Bonds Taxonomy

6 July 2026

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1. Introduction

1.1. The need for interoperability plus

Countries globally are seeking to attract the capital needed to develop their green economies and meet their Nationally Determined Contributions (NDCs). A notable development in this context is the emergence of 'green' or 'sustainable' finance taxonomies worldwide.

A taxonomy is, in effect, a shopping list, identifying and classifying sustainable activities, assets and/or measures, and may include technical screening criteria for more precise identification.[1] Many taxonomies are accompanied by guidance or regulation specifying who should or could use it and for what purpose.

By providing transparency and a common language, a "green "or "sustainable" taxonomy enables financial and non-financial actors as well as policymakers and regulators to share a common understanding of what contributes to achieving goals such as the climate goals of the Paris Agreement. In doing so, it can act as the building block for the standardisation of other sustainability policy tools, corporate accounting and disclosure and capital flows.

Over 65 national and regional taxonomies are either in use or development. While the taxonomy models developed by Climate Bonds Initiative (Climate Bonds), the European Union (EU), China, Singapore and Australia have been widely adopted as global benchmarks, each region and country is, rightly, introducing innovations tailored to its socioeconomic context, national policy, strategy, and development needs.

While this reflects growing momentum in the sustainable finance landscape, it also raises challenges as the development of a large number of taxonomies with diverse technical screening criteria exacerbates market fragmentation and transaction costs, and undercuts the standardisation needed to scale the cross-border capital flows needed to finance global sustainability goals.

Further, a major concern among sustainable finance investors is uncertainty over whether the initiatives or entities they fund genuinely contribute to intended environmental outcomes, or might represent greenwashing risk. A diversity of locally-tailored technical screening criteria, with varying degrees of granularity, metrics and thresholds increases the complexity of investor assessment and comparability, particularly in respect of hard-to-abate sectors as different taxonomies are incorporating transition elements in a variety of ways.[2] Transition definitions and guidance, including the recent Transition Bond Principles from the ICMA, have arisen seeking to provide additional clarity, but operating at a principles level, these do not directly address which elements of which taxonomies may present a higher greenwashing risk.

For taxonomies to enable the flow of cross-border capital, "interoperability" and more is necessary.

[1] The term taxonomy is here used by Climate Bonds as a broad term to cover any local taxonomy or set of definitions or criteria aiming to address environmental and/or social objectives. This includes more formal taxonomies owned by a government or regulator, as well as criteria developed by organisations such as the Science Based Targets initiative (SBTi), the Transition Pathway Initiative (TPI), the Mission Possible Partnership (MPP), and a variety of sector-specific industry standards.
[2] See 'Transition in Taxonomies', Climate Bonds: https://www.climatebonds.net/data-insights/publications/transition-taxonomies

According to the Principles for Taxonomy Interoperability, "Interoperability describes how taxonomies relate to one another as based on common principles, and/or a scientific baseline (e.g. the Paris Agreement). Taxonomies that are interoperable are not the same as one another but share a common language, principles, structure/methodologies and objectives to allow them to be compared and understood across borders."[3]

As reported in the Taxonomy Roadmap Initiative 2025 Progress Report: "There are positive indicators of high-level inter-operability across taxonomies. Many taxonomies are using similar classification structures, objectives, and sector coverage. This indicates the growing potential for taxonomies to be mapped and compared to each other." However, at the granular level, interoperability is more challenging: "It remains challenging to compare taxonomies developed with different research, pathways, and criteria."[4]

1.2. Operationalising interoperability: Climate Bonds' Equivalence Methodology for Climate Mitigation

Principle 7 of the Interoperability Principles promotes international collaborative efforts by taxonomy developers to close criteria gaps and explore the legal and operational feasibility of cross-border taxonomy recognition. The International Platform on Sustainable Finance's (IPSF) Common Ground Taxonomy (CGT) was an early example of such collaboration, identifying commonalities and differences between the EU, China, and Singapore-Asia taxonomies. Similarly, the EU Sustainable Finance Advisory Hub's bilateral taxonomy comparison studies help investors understand how sustainability criteria compare across jurisdictions, for example the EU- South Africa comparison study and the Colombia-EU comparison study.

With this 'Equivalence Methodology for Climate Mitigation' (the Methodology), Climate Bonds aims to drill deeper, applying the Methodology to examine if and how climate mitigation criteria developed in and for different jurisdictions, potentially with different thresholds, metrics and practices, can be **deemed to be equally (or equivalently) contributing to the shared climate mitigation goal articulated in the Paris Agreement, taking into account the principle of common but differentiated responsibilities recognised in the Agreement**.

In this framing, equivalence sits beneath interoperability because it is a more granular, technical assessment. It answers the market's practical question: Can (elements of) these taxonomies be treated as interchangeable in certain use cases? Hence, equivalence is effectively a sub-layer of interoperability: more precise, more operational, and directly tied to usability. [5]

The market needs practicality, not just conceptual alignment. Climate Bonds intends to fill this gap by applying this Equivalence Methodology to the assessment of criteria in a number of local taxonomies, helping users navigate equivalence within an interoperability framework, providing an assessment of criteria credibility and ambition. The Methodology is intended to screen for criteria that meet **robust scientific and procedural standards**, enabling the creation of a trusted basket of global and locally applicable criteria to guide and inform capital flows.

Criteria that satisfy this Climate Mitigation Equivalence Methodology will be brought together with Climate Bonds' existing sectoral criteria and recognised as part of Climate Bonds' own, expanded, taxonomy. Climate Bonds

[3] Principles-for-Taxonomy-Interoperability-English.pdf
[4] FES-Broschüre DIN A4
[5] This work may inform considerations of potential mutual recognition of taxonomies, for example, bilateral or multilateral recognition of taxonomies based on careful consideration between jurisdictions, but is not the focus here.

Taxonomy can then serve as a single, science-based, interoperable reference point for market actors globally. By extension, these criteria will also be incorporated into the Climate Bonds' Standard and Certification Scheme, providing a verification and assurance mechanism for financial instruments, assets and entities that comply with criteria from a variety of local taxonomies.

1.3. This document

Section 2 describes the draft Methodology, addressing what it can be applied to, and the principles that are used to assess the robustness of the scientific and procedural underpinnings of the criteria being screened.

Section 3 describes the processes Climate Bonds will use to apply the Methodology to any taxonomy, and any subsequent approval of incorporation of criteria from external taxonomies ('externally developed criteria') in the Climate Bonds Taxonomy and the Climate Bonds Standard & Certification Scheme.

1.4. Next steps

This draft Methodology has been developed in conjunction with a pilot assessment of the Australian Sustainable Finance Taxonomy and informed by that practical experience.

It is open for public consultation until XX, and Climate Bonds welcomes all feedback, not least on readers views on the robustness of the proposed Methodology. Please see here for the feedback form or contact XXX if you would like to discuss.

The feedback will inform the finalisation of the Methodology. However, it should be noted that it will continue to evolve based on lessons learned from further applications to additional taxonomies.

To note, a separate Equivalence Methodology for climate resilience will follow.

1.5. Why Climate Bonds Initiative

Climate Bonds is an international organisation working to mobilise global capital for climate action. It promotes investment in projects and assets necessary for a rapid transition to a low-carbon, resilient, and fair economy. The focus of its mission is to help reduce the cost of capital for large-scale climate and infrastructure projects and to support governments seeking to raise funds in capital markets to meet greenhouse gas (GHG) emissions reduction and climate impact targets. Climate Bonds conducts market analysis and public policy research; undertakes market development activities; advises governments and regulators; and administers a global green bond standard and certification scheme.

In particular, Climate Bonds has an established role as a neutral, science-based standard-setter.

It established its own taxonomy, the Climate Bonds Taxonomy, in 2012, introducing and pioneering the concept of a taxonomy. Since then, it has been continually expanding the breadth and depth of the Climate Bonds Taxonomy and its associated sector criteria, to incorporate technical screening criteria for an expanding range of sectors, activities and measures eligible for financing via labelled instruments, covering climate, green, blue, resilience, transition and many other themes under the sustainability umbrella. This includes criteria across sectors including energy,

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transport, buildings, manufacturing/ heavy industry, agriculture, forestry, waste management, and others, collectively referred to as the 'Climate Bonds Sector Criteria' (or Sector Criteria).

The Climate Bonds Taxonomy and associated Sector Criteria have many use cases, including informing internal screening methodologies of many capital providers and second party opinion providers globally. The Sector Criteria serve as the foundation of the Climate Bonds Standard & Certification Scheme, which to date has been used to certify USD 360 billion in labelled debt globally.

As a result of this expertise, Climate Bonds has provided technical support or other services in the development of over 30 sovereign-led local taxonomies globally, including Australia, Brazil, China, Colombia, the EU, Rwanda, Singapore and many more.

In addition, Climate Bonds is a trusted data provider on the credibility of labelled instruments, providing data and analysis to many leading green bond indices and individual financial institutions globally.

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2. The Methodology

2.1. What can be assessed under the Equivalence Methodology

The Methodology covers criteria for economic activities ('activities') and criteria for 'measures', i.e., decarbonisation levers such as technologies or practices that contribute to the decarbonisation of an activity. Between them, these activity-level and measures-level criteria enable the assessment of a wide range of projects, assets, activities and entities, and associated finance.[6]

The Methodology is designed to be applied to the (set of) criteria for any activity or measure within a taxonomy on a standalone basis, rather than for a taxonomy as a whole.

2.2. What is meant by equivalence

As noted above, the Methodology is intended to screen for criteria that identify only activities and measures that contribute to the shared climate mitigation goal articulated in the Paris Agreement, taking into account the principle of common but differentiated responsibilities also recognised in the Agreement, following robust scientific and procedural standards.

Practically speaking, the Methodology screens for criteria that meet:

- The technical principles in section 2.4 (for activity-level criteria) or section 2.5 (for measures-level criteria); *and*
- The governance principles in section 2.6 (activity- and measures-level criteria).

These principles have been derived from:

- Climate Bonds' extensive experience in developing its trusted, taxonomy and sector criteria with hundreds of technical experts convened by Climate Bonds, which has focussed on 1.5-degree alignment and globally applicable (rarely locally tailored) criteria; plus
- Climate Bonds' extensive experience in supporting the development of 30 local taxonomies across developed, developing and emerging economies, taking into account local contexts, opportunities and sometimes data availability challenges; plus
- The conceptual foundations for credible sectoral pathways previously articulated in the Climate Bonds 2024 paper *Navigating Corporate Transitions*.

[6] Noting that criteria for activities can also be used to assess key assets driving that activity or whole entities whose business is defined by that activity. For example, criteria using a metric of tCO_2e/ t of steel produced can be used under the Climate Bonds Standard & Certification Scheme to assess a steel-producing facility, the economic activity of steel production, and a steel producing entity, enabling application across a wide-range of debt and equity instruments.

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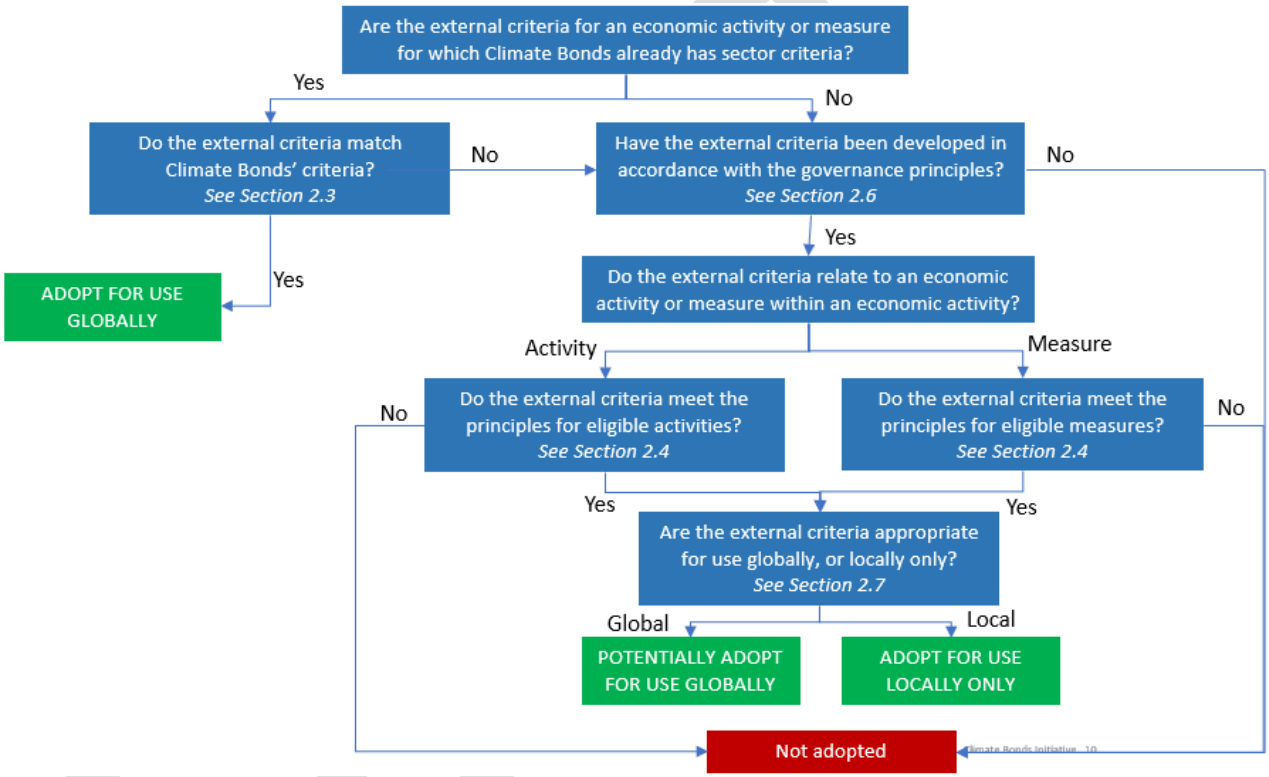
Given that the genesis of these principles is Climate Bonds' extensive experience in developing its own Sector Criteria and the Climate Bonds Taxonomy, externally developed criteria that substantially align with existing Climate Bonds Sector Criteria (per Section 2.3) can also be deemed 'equivalent' through this Methodology.

A further element to the decision-making process is whether Climate Bonds recommends that criteria deemed 'equivalent' can be credibly and robustly used beyond the jurisdiction within which and for which they were initially developed. This is addressed in Section 2.6.

Figure 2 provides a flowchart to navigate the key elements of the Methodology.

Figure 2: Adoption of external mitigation criteria on the basis of its 'equivalence' – a flowchart



2.3. Equivalence by virtue of substantial alignment with existing Climate Bonds' criteria

Externally-developed activity- or measures-level criteria are deemed to substantially align with existing Climate Bonds Sector Criteria if any of the following apply:

- The same activity or measure is recognised as automatically eligible in both Climate Bonds Sector Criteria and the externally developed criteria; *or*
- The two sets of criteria are functionally equivalent to a high degree, e.g.;
    - If they are both expressed in the form of an emissions intensity pathway, the externally developed pathway is either more ambitious than or has no more than a 5-10% variance from the Climate Bonds pathway, taking into account both the thresholds represented by those pathways and the

scope of emissions covered by the pathway, though flexibility may be required depending on data and context. Any significant differences will be documented and justified before decisions are made; or

- If there are any qualitative conditions attached to any activity or measure in Climate Bonds Sector Criteria (such as the specification of the use of a particular practice or technology, or a phase out date), these are at least matched by equivalent qualitative or quantitative criteria in the externally developed criteria; or
- If the externally developed criteria utilise an existing standard, local regulation or other framework, the compliance requirements of that standard/regulation/framework are functionally equivalent to Climate Bonds Sector Criteria, and in effect represent a 'proxy' for Climate Bonds Sector Criteria.

Where externally developed activity- or measures-level criteria are very close to being equivalent to Climate Bonds Sector Criteria but omit what Climate Bonds considers to be a key element, Climate Bonds may recognize those externally developed criteria as equivalent subject to meeting additional conditions specified by Climate Bonds. For example, some taxonomies recognize electric rail infrastructure as automatically eligible, whereas per Climate Bonds Sector Criteria, electric rail infrastructure is only eligible subject to no more than 25% of its freight rail cargo being made up of fossil fuels, to avoid circumstances where electric rail is an enabler for fossil fuels. In this case, Climate Bonds would add this 'freight rail fossil fuel cargo limit' as an additional condition for equivalence.

2.4. Equivalence by virtue of satisfying the activity-level equivalence principles

Externally-developed activity-level criteria are deemed equivalent to Climate Bonds Sector Criteria if they meet all of the seven principles described in Table 1 below. The descriptions of these principles are intended to enable application to the different forms in which those criteria may be expressed – see Box 1. However, Climate Bonds will use its discretion and judgement to interpret and apply these principles on a case-by-case basis as needed.

As noted above, in limited cases, Climate Bonds may add additional conditions alongside the externally-developed criteria to bring them into line with the principles described below.

Over time, a bank of case studies will be built up to illustrate how they have been applied in practice.

Table 1: Activity-level equivalence principles

Principle	Description
Principle 1: Consistent with an ambitious temperature goal	Criteria describe an emissions performance level consistent with a carbon budget limiting global mean temperature rise compatible with the goals of the Paris Agreement. For developed markets, these performance levels should be compatible with scenarios for 1.5°C warming with a 50% probability and low or no overshoot. For emerging markets, performance levels compatible with a 'well below 2°C' outcome may be accepted, recognising the principle of 'common but differentiated responsibilities', taking into account local circumstances (see Principle 2). What this means in terms of a net-zero date will vary by jurisdiction and by sector.

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Principle 2: Developed on a scientific basis	Ideally, the criteria are derived from and consistent with climate modelling that allocates the global carbon budget across time, regions and sectors (typically via Integrated Assessment Models with 1.5-degree / well-below 2-degree scenarios for developed and emerging markets respectively). For example, the sectoral pathways determined by the IEA. Where national or regional integrated climate modelling is not available, local criteria should be consistent with (at minimum) global sectoral averages for 1.5-degree scenarios (developed markets) or well-below 2-degree scenarios (emerging markets). Where integrated climate modelling for the relevant sector and scenario is not available even at a global level, the following alternative approaches to criteria development are recognised: • Using a 'best-in-class' starting point (e.g., representing the top quintile in a sector) and defining a pathway to net-zero by 2050 from that starting point; or • If best-in-class data are unavailable, taking a sectoral average and applying a proportional reduction to approximate the top 20% best-in-class. Finally, discretion will be exercised for the assessment of local criteria related to sectors where emissions reductions pathways from global modelling exist, but there are clear technological barriers for the top 20% of best performers being able to meet those pathways at this time. In this case, criteria derived from a bottom-up assessment of local feasibility will be recognised. However, even in this scenario, it is anticipated that any such criteria will be recognised only for a limited period in recognition that technological barriers can be removed with appropriate policy support and investment. This flexibility is intended to increase inclusivity and usability, particularly for emerging markets and/or under-researched or under-modelled sectors, while maintaining alignment with the need to drive deep, real-economy decarbonisation to limit global warming in line with the goals of the Paris Agreement. Note, where activity level criteria are (also) expressed in other formats than emission reduction pathways such as descriptions of eligible technologies or practices, or sunset dates for technologies or activities as a whole, these alternative criteria should be consistent with sectoral decarbonisation pathways determined in line with the approaches described above, or be compatible with or represent (close to) net-zero solutions.
Principle 3: Sector specificity	Ideally, the criteria are activity-specific. However, discretion will be exercised for situations where this is not feasible, e.g. due to a lack of sector specific modelling or data. In this case, the SBTi Cross-Sectoral Pathway or equivalent alternatives, may be recognised, subject to the conditions and limitations identified by SBTi (or the authors of any equivalent alternative) relating to the application of the cross-sectoral pathway for certain sectors.
Principle 4: Comprehensive coverage of emissions	The criteria address all material scopes and emission types relevant to the sector or activity, that are within any degree of control or influence of the activity operator and for which data can reasonably be expected to be available or approximated. Materiality is defined as at least 80% of scope 1, 2 and 3 emissions that are within the direct or indirect control or influence of the activity operator. This includes scope 3 (upstream and downstream) emissions over which the operator can reasonably be

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	expected to have some control or influence, or scope 2 emissions where energy could be sourced from alternatives to a high emissions grid. The exception to this will be for sectors or specific activities deemed to be 'enabling' where their contribution to climate mitigation is by enabling other activities or sectors to substantially decarbonize. For these sectors or activities, reduction in their own emissions is not expected to be the focus of their criteria.
Principle 5: Comprehensive coverage over time	Ideally, the criteria address the full trajectory to net-zero, identifying any and all residual emissions. Where this principle is not met in respect of any criteria, recognition of the criteria may be subject to a time-limited duration that aligns with the period of applicability of the criteria themselves and/or any known phase out or phase down date for that activity.
Principle 6: No offset reliance	The criteria are not predicated on the assumption that offsets can be used or will be needed to meet them (with the exception of any residual emissions).[7] That is, the criteria represent what it is possible to be achieved by addressing the direct emissions, and potentially sequestration potential, of the activity or within the supply chain of the activity.
Principle 7: Metrics integrity	Any emissions intensity metrics are expressed in physical or product-based units, not revenue-based units.

N.B. A carve-out for activities with no criteria

Some activities may be included in taxonomies or other criteria sets as making a substantial contribution to climate mitigation without associated eligibility criteria. One example might be electricity generation from nuclear power.

In these cases, equivalence cannot be tested by an assessment of compliance with the above activity-level principles, as there are no criteria to test the principles on. Where it is also the case that Climate Bonds does not already recognise that activity (so we cannot determine equivalence via matching per Section 2.3), the 'automatically eligible' activity will be recognised by Climate Bonds if it is a commonly recognised net-zero or near-net-zero activity, with science-based evidence from a recognised source.

This may include 'enabling' activities that enable other activities to make a substantial contribution to mitigation in line with the goals and associated decarbonisation scenarios of the Paris-Agreement, without any substantial emissions of its own. For example, it:

A. Enables electrification roll out; or
B. Enables a transition away from fossil fuels (without locking out longer term electrification) by mining, manufacturing or installing essential components/ products or services for the transition such as the mining of critical minerals, or the manufacture of low-carbon technologies.

[7] Where residual emissions are defined as 'greenhouse gas emission that remains after taking all possible actions to implement emissions reductions, and when net zero has been reached. All possible actions refer to what is technically and scientifically feasible'. Per ISO's IWA Net Zero Guidelines (IWA 42 3.2.9).

Box 1: Forms of criteria

Activity-level criteria may be expressed in multiple forms. The most commonly used are described below. Consideration has been given to ensure the principles can be applied to each of these forms, with explicit guidance provided in Table 1 as needed.

1. Sector specific decarbonisation pathways expressed either via physical emissions intensity metrics e.g., tCO2e/ t of steel produced or tCO2e/kWh, or % of emissions reductions per annum, via:
   - The use of Integrated Assessment Models (IAMs);
   - Comprehensive bottom-up models such as the Global Energy and Climate Model (GEC Model) used by the International Energy Agency (IEA) to develop energy scenarios;
   - Simply taking data representing top x% of performers at a recent date, then drawing a (linear) line down to (near) net-zero;
2. Cross-sectoral decarbonisation pathways, expressed as a required % of emissions reductions per annum;
3. Sector specific qualitative criteria, such as:
4. A described set of low-carbon practices and/or technologies and/or other decarbonisation measures, such as low-carbon agricultural practices, or energy efficiency measures or fossil fuel phase out dates;
5. Proxies for any of the above, including industry standards or certification schemes or regulation such as Building Codes, which incorporate criteria that align with the principles for activity-level criteria;
6. A combination of the above.

2.5. Equivalence by virtue of satisfying the measures-level equivalence principles

Externally-developed measures-level criteria should meet all of the three principles described in Table 2 below.

Climate Bonds will use its discretion and judgement to interpret and apply these principles on a case-by-case basis as needed. In limited cases, Climate Bonds may add additional conditions alongside the externally-developed criteria to bring them into line with the principles described below. Over time, a bank of case studies will be built up to illustrate how they have been applied in practice.

Table 2: Measures-level equivalence principles

Principle	Description
Principle 1: **The measure represents a significant leap in decarbonisation** **OR** **It is an essential, no regret measure**	A credible measure should demonstrate a substantial and transformative improvement in emissions performance, rather than marginal efficiency gains, evidenced by at least one of the following: • **System replacement**: The measure replaces a high-carbon system with a low- or zero-carbon alternative (e.g., fossil fuel to electric, or diesel to hydrogen); or • **Substantial emissions reduction**: The measure achieves or enables an emissions reduction of approximately 20-40% relative to the prevailing baseline;[8] or • **Best-in-class performance**:

[8] This range is deliberately broad as what is a substantial emissions reduction will be highly sector dependent and may vary depending on the proximity to net zero. Hence such a threshold cannot be easily generalised. Climate Bonds will exercise its technical judgement and expertise to determine an appropriate threshold on a case-by-case basis.

	○ The measure reflects performance in the top 15-20% of the sector's emissions intensity; and ○ It is demonstrably on track to net-zero by 2050. Where none of these can be demonstrated, a measure should alternatively represent a clear 'no regret' intervention. That is, it represents an essential step to the decarbonisation of the activity in which it is deployed.
Principle 2: The measure does not lock in fossil fuels	A credible measure should: • **Not support or enable the following fossil fuel activities:** ○ Fossil fuel power generation; or ○ Exploration, extraction, refining, supply, or transportation of fossil fuels; or ○ The manufacture or maintenance of technologies that lock in fossil fuel use. • **Not itself relying on long-term fossil fuel use**
Principle 3: The measure does not lock out electrification	To ensure that short-term decarbonisation measures do not delay the electrification of energy systems, measures must: • **Not support technologies for which electrification alternatives already exist and can be deployed; and** • **Remain consistent with long-term decarbonisation trajectories.**

2.6. Governance over the development of the externally-developed criteria

All externally-developed criteria should comply with the governance principles for criteria development laid out in Table 3.

Even if some of these principles have not been fully met in respect of any externally-developed criteria, the criteria may still be recognised by Climate Bonds, subject to public consultation on those criteria per Climate Bonds' governance process – see Section 3.

Table 3: Governance principles for credible criteria

Principle	Description
1.	The criteria have been developed in line with a methodology that is publicly available, and ideally has been subject to stakeholder consultation
2.	The criteria have been developed by parties who are not the primary user(s) of the criteria, with expert technical input. I.e. Are developed by those who do not have a conflict of interest in the development and use of the Taxonomy.
3.	Proposed criteria have been subject to multi-stakeholder public consultation and review prior to finalisation, ideally with the results of that review being made public
4.	Finalised criteria are supported by publicly available technical documentation
5.	Criteria development, review and finalisation is supported by a transparent governance model

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2.7. Determining global or local applicability

Some externally developed criteria effectively define a 'global average' performance level. This is the case for emissions reductions pathways determined from global integrated climate models for example, or any other criteria developed using global data without any localisation. Any such criteria, where deemed to be equivalent to Climate Bonds principles (per sections 2.4 or 2.5), will be adopted for global use, i.e. applicable regardless of the location of the activity or measure in question.

However, some externally developed criteria have been specifically determined with local factors and contextualisation taken into account, and/or based on locally specific data. This might particularly be the case in local taxonomies, though it is not a universal rule for all criteria in all local taxonomies. Any such criteria deemed to be equivalent to Climate Bonds principles (per sections 2.4 or 2.5) will be adopted for local use only, i.e. applicable to the jurisdiction specified by the developers of those criteria.

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3. Applying the Methodology

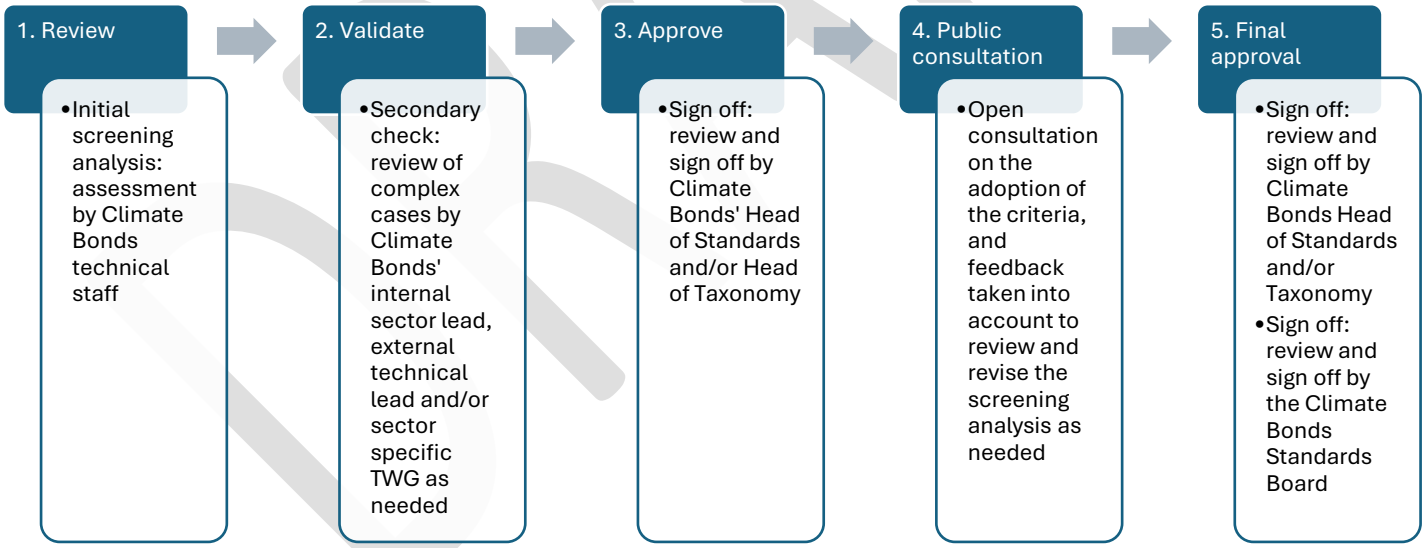
The deployment of this Equivalence Methodology for the assessment of any set of externally developed criteria will be carried out in accordance with the following governance process within Climate Bonds. This is intended to ensure that decisions are made with appropriate expert oversight, transparency, and accountability, maintaining market trust in Climate Bonds' role as a neutral and science-based standard-setter.

Figure 1 outlines the process Climate Bonds will follow to assess and approve the recognition of externally developed criteria following this Equivalence Methodology. All externally-developed criteria will be subject to steps 1, 2 and 3.

Steps 4 and 5 are additional steps that will be taken only in respect of externally-developed criteria that:

- Relate to a sector for which Climate Bonds Sector Criteria did not previously exist, and Climate Bonds proposes recognising them for use globally; *or*
- Were developed through a process which did not fully meet the governance principles laid out in Section 2.6.

Figure 1: Process for the assessment of externally developed criteria



For completeness of information, the following will not be subject to the additional steps 4 and 5:

- Measures-level criteria proposed for global use that relate to a sector for which Climate Bonds Sector Criteria already exist, even if those Sector Criteria do not include those specific measures, so long as that specific measure meets the principles in Section 2.3. Here, under step 2, Climate Bonds can utilize Climate

Bonds' prior knowledge and expertise relating to this sector and engagement with our existing sector technical working group for additional guidance where needed.

- Activity-level or measures-level criteria that relate to a sector for which Climate Bonds Sector Criteria do not already exist, but Climate Bonds proposes they be adopted for local use only, so long as their process of development meets the governance principles requirements described in Section 2.6.

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