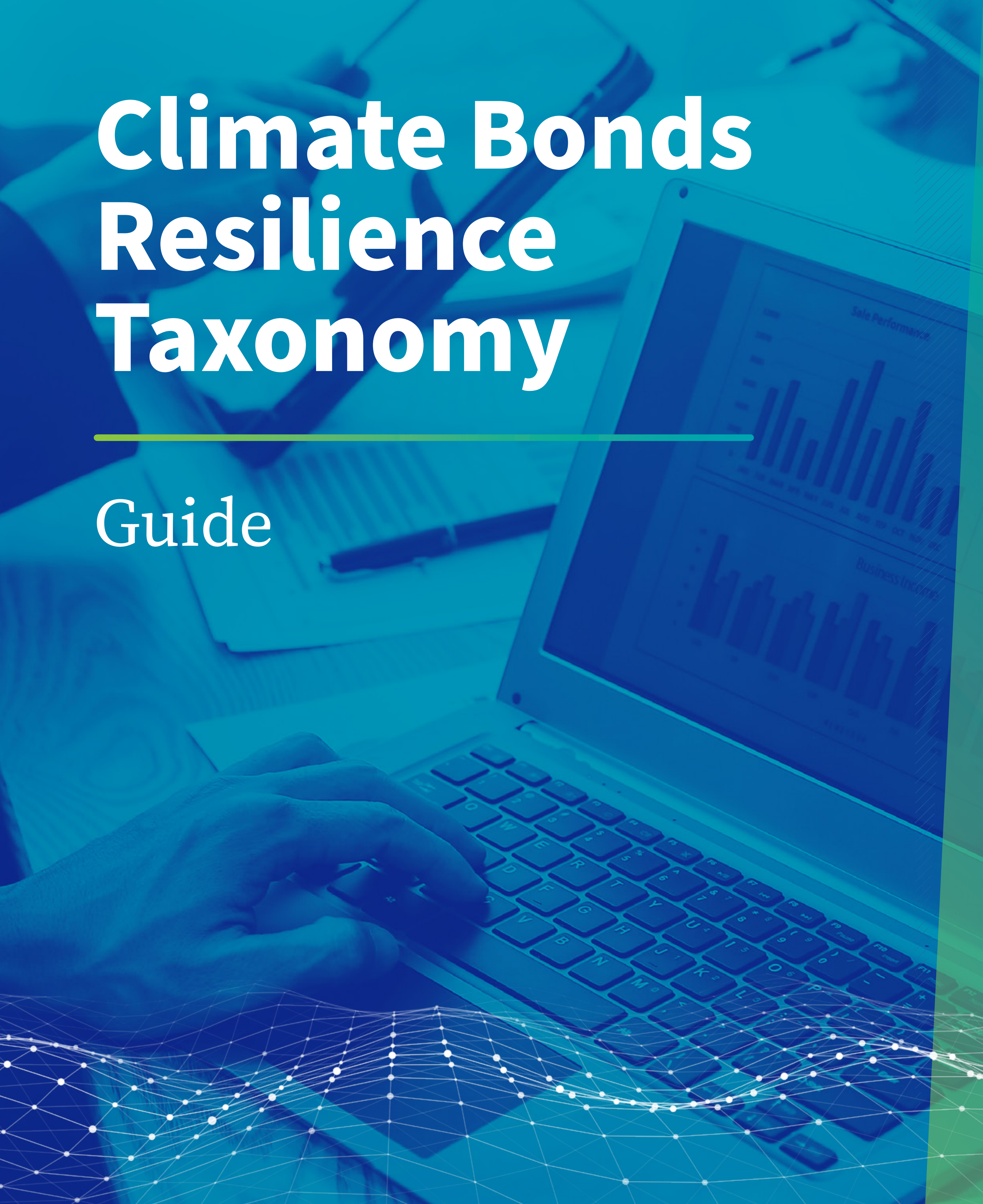


Climate Bonds Resilience Taxonomy

Guide

Climate Bonds Initiative

climatebonds.net

What is the Climate Bonds Resilience Taxonomy?

The Climate Bonds Resilience Taxonomy (CBRT) is a framework for classifying, identifying, and qualifying investments that contribute towards climate adaptation and resilience.

It has been developed to help accelerate the allocation of finance towards urgently needed climate resilience investments, in response to growing awareness of climate change impacts and the need for greater volumes of investment to build resilience to them.

The CBRT can be used to support climate resilience financing through the identification and assessment of climate resilience investments, debt issues such as bonds, and loans. It may also be used to support capital allocation decision making for climate resilience by financial institutions, real economy firms, and public bodies, in addition to informing the development of national or regional sustainable taxonomies that consider climate resilience, or adaptation.

Benefiting from Climate Bond's extensive experience of taxonomy development, the CBRT builds on the Climate Bonds Resilience Principles and incorporates key elements of leading frameworks and methodologies for defining climate resilience finance, such as the EU Sustainable Finance Taxonomy Regulation and the Multilateral Development Bank Joint Methodology for Tracking Climate Change Adaptation Finance.

This promotes interoperability with existing approaches, which is crucial for ensuring the adoption and effectiveness of the CBRT, while providing a common reference point for national taxonomy development across jurisdictions.

Additionally, projects aligned with the CBRT can now be Certified using the Climate Bonds Standard Resilience Criteria, which enables issuers to demonstrate that their investments are consistent with the requirements of the CBRT.

Who has been involved in CBRT development?

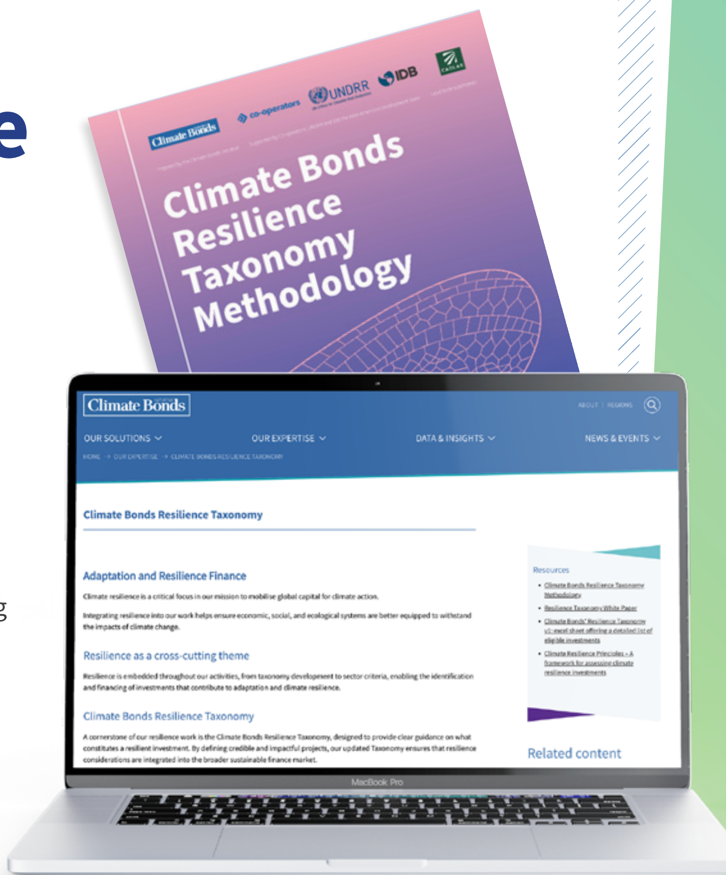
Resilience Taxonomy Advisory Group

The CBRT was developed with guidance from the Resilience Technical Advisory Group (RTAG), a curated network of adaptation and resilience experts from technical institutions, multilateral development banks, NGOs, think tanks, and academic institutions. RTAG members provide strategic and technical input to refine CBRT definitions, concepts, rulesets, and thematic investment databases.

Technical working groups

Technical working groups (TWGs) review, validate, and refine the CBRT content on a theme-by-theme or sector-by-sector basis. Their role includes identifying missing investments within the primary sector, verifying those considered automatically eligible based on their substantial contribution to climate resilience, finalising criteria for remaining investment types, and confirming suitable proxies for assessing substantial contribution to resilience. As a result, all criteria presented in the CBRT and accompanying methodology are non-exhaustive and **remain interim until validated by the TWGs.**

What is the purpose of this explainer?



This explainer is aimed at CBRT users, who may include financial institutions, real economy firms, government bodies, and market observers to provide a clear, focused, and practical narrative that enables users to understand how the CBRT is structured, and how it may be used to identify and assess climate resilience investments. It should be read alongside the Excel version of the CBRT, which is available on the Climate Bonds website and provides further information on how the CBRT is structured and operates. However, detailed methodological insights into the development and underlying rationale of the CBRT are covered in detail in the CBRT methodology.

It provides an overview of how the CBRT may be used to classify and identify climate resilience investments, with a logical structure that organises investments by theme and sector, which must then meet screening criteria to ensure they qualify as climate resilience investments that contribute meaningfully to climate resilience while respecting other sustainability goals.

Identification and classification of climate resilience investments

The core elements of the CBRT classification structure can be used to identify investments by theme, sector, subsector, physical climate hazard, and investment type.

How does the CBRT classify climate resilience investments?

Climate resilience finance is needed to fund a diverse range of economic, social, and environmental priorities, which is why the CBRT provides a broad and comprehensive framework for classifying climate resilience investments, encompassing seven climate resilience themes as defined in column [A] of the CBRT.

- Resilient Agrifood Systems
- Resilient Cities & Settlements
- Resilient Health
- Resilient Industry & Commerce
- Resilient Infrastructure
- Resilient Natural Systems
- Resilient Social Systems

These resilience themes reflect the diverse range of economic and societal climate resilience investment needs, drawing on a range of authoritative sources including the Sustainable Development Goals (SDGs), Paris Agreement nationally determined contributions (NDCs) and global goal on adaptation, Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report (AR6), among others. As such, they are referenced to define the scope of climate resilience finance, and have been adopted by a range of organisations including Standard Chartered Bank, the market intelligence firm Tailwind, and several national sustainable finance taxonomies.

How does the CBRT classification structure relate to economic sectors?

Within each climate resilience theme, the CBRT organises investments by recognisable sectors and subsectors, to enable the easy location and identification of investments. Sectors are indicated in column [B] of the CBRT, while subsectors are indicated in column [C]. For example, within the Resilient Infrastructure theme, investments are organised within four sectors: energy infrastructure, transport infrastructure, ICT infrastructure and water infrastructure. Within the transport infrastructure sector, investments are further categorised under four subsectors: aviation, ports, railways, and roads.

The CBRT recognises that some investments may be categorised under more than one sector or subsector, which is why secondary sectors (column [D]) have been identified for some investments. For example, while investments in making roads more climate resilient are primarily identified as transport infrastructure investments, they may also be identified as investments in urban systems, in cases where road investments are being made in an urban context.

In addition, the CBRT also recognises the need for compatibility with widely recognised sector classification systems such as ISIC (International Standard Industrial Classification of All Economic Activities), which forms the basis of many national and regional classification systems and taxonomies. That's why the CBRT sector and sub-sector structure enables mapping against the ISIC structure, to ensure inter-operability with the broadest possible range of taxonomies.

How does the CBRT classification structure take account of physical climate risks?

The classification and identification of climate resilience investment needs extend beyond locating investments within a theme, sector, and subsector structure to take account of the specific physical climate risks to which those investments are building resilience. This means that for an investment to be included in the CBRT, it must respond to the consequences of at least one physical climate hazard, such as heat stress or flood damage. These are defined in CBRT column [N] as:

- Heat stress
- Cold stress
- Water stress
- Flood damage
- Storm damage
- Mass movement damage
- Wildfire damage
- Changes to marine conditions
- Multi-hazard (to cover investments that address the consequence of more than one physical climate hazard)

How does the CBRT classify investments based on how they contribute towards climate resilience?

1

CBRT classifies investments based on the investment type.

Additionally, the CBRT also differentiates between investments in activities and investments in measures.

- *Activities* refer to economic activities that deliver goods or services, such as the construction of residential buildings.
- *Measures* refer to specific interventions within an asset, activity or entity, such as the installation of water-efficient fixtures and fittings in residential buildings.

2

CBRT classifies investments based on how they contribute towards climate resilience.

In line with other leading taxonomies, such as the EU Sustainable Finance taxonomy, the CBRT classification structure differentiates between investments that are adapted or enabling.

- *Adapted (or adapting) investments* are themselves climate resilient, incorporating features that reduce material physical climate risks to the investment itself.
- *Enabling investments* enable the climate resilience of other assets, activities or entities.

Based on these classification structures, the CBRT identifies four investment types based on how they contribute to climate resilience.

1. *Adapted activities* are activities that have been made resilient to all material climate risks, such as the **operation or maintenance of a water supply system that is resilient to water stress.**
2. *Enabling activities* are activities that make other activities more climate resilient, such as the **manufacture** of leak detection systems.
3. *Adapting measures* are measures that are implemented within an activity to make that activity more climate resilient, such as the **installation** of leak detection equipment within a water supply system.
4. *Enabling measures* are measures that are implemented within an activity to make other activities more climate resilient, for example, the **expansion** of water supply systems into water-stressed locations.

In this way, the CBRT classifies and identifies climate resilience investments on a granular and specific basis, taking account of:

- the theme, sector, and subsector within which they are located;
- the specific physical climate hazard consequences to which they respond; and,
- the specific investment type and how it contributes towards climate resilience.

Qualification of climate resilience investments

What are the requirements for qualifying an investment under the CBRT?

In addition to being located within the CBRT classification structure, an investment must meet the following requirements in order to be aligned with the CBRT:

- It must make a *substantial contribution to climate resilience*, i.e. delivering a measurable reduction in vulnerability (or exposure) to physical climate impacts in the investment context.
- Any potential *maladaptation* risks must be managed, i.e. the risk of an unintended measurable increase in vulnerability (or exposure) in the investment context and/or in the wider system within which the investment is situated.
- It must *do no significant harm* (DNSH) to climate change mitigation objectives, i.e. avoid undermining climate mitigation objectives by causing a significant increase in GHG emissions.

For each identified investment, the CBRT provides investment-specific guidance and screening criteria where needed, defining how to check that an investment makes a substantial contribution to climate resilience and indicating where a check is required for maladaptation and DNSH.

How does the CBRT differentiate between investments that require different levels of assessment?

The CBRT also differentiates between investments requiring a simple assessment from those requiring a more complex process-based assessment of whether they makes a substantial contribution to climate resilience while managing any maladaptation risks. For each investment, the CBRT provides investment-specific screening criteria where needed so that CBRT users can check whether a given investment makes a substantial contribution to climate resilience while managing any maladaptation risks.

Which investments require no assessment for substantial contribution to climate resilience and maladaptation?

Some investments require no assessment and are automatically eligible on the grounds that they are expected to make a substantial contribution to climate resilience across a broad range of contexts and do not entail significant maladaptation risks. Such investments can only be *adapting measures* and are flagged as 'n/a' in column [J] of the CBRT.

Which investments require simplified assessment for substantial contribution to climate resilience and maladaptation?

Some investments require simplified assessment by the CBRT user. Such investments can only be *adapting measures* that are flagged as 'technical specification check' in column [J] of the CBRT.

What is a simplified assessment and when is it needed?

What: A simplified assessment is a technical specification check. The technical specification check criteria ensure an investment makes substantial contribution to climate resilience.

When: It is used for investments that do not explicitly entail significant maladaptation risks but require further checks to ensure a significant contribution to climate resilience.

Which investments require process-based assessment for substantial contribution to climate resilience and maladaptation?

All investments that are not covered in the above sections i.e., all other *adapting measures, adapted activities, enabling measures*, and *enabling activities* require process-based assessment by the CBRT user. This involves assessing an investment's contribution to climate resilience based on the steps taken to identify, address, and manage material physical climate risks.

These may be carried out as stand-alone assessments by the CBRT user, or through the application of an investment-specific *proxy*, for investments defined by the CBRT.

What type of process-based assessment is needed to verify that an investment makes a substantial contribution to climate resilience and avoids maladaptation?

Adapting measures (checked against a global threshold)

Some *adapting measures* require an investment-level assessment by the CBRT user against a global threshold, as indicated in column [J], in line with the process-based guidance set out in Annex 1 of the CBRT Methodology document and using the global threshold defined in column [I] of the CBRT.

However, as these thresholds are still pending CBRT validation by TWGs, the Climate Bonds Criteria for Certification against the Climate Bonds Resilience Taxonomy should be used for this purpose in the interim.

Adapting measures (checked against a local threshold)

Other *adapting measures* require an investment-level assessment by the user against a *local* threshold, as indicated in column [J], in line with the process-based guidance set out in Annex 2 of the CBRT Methodology document and using the local threshold units defined in column [I] of the CBRT (still interim pending CBRT validation by TWGs).

However, as these thresholds are still pending CBRT validation by TWGs, the Climate Bonds Criteria for Certification against the Climate Bonds Resilience Taxonomy should be used for this purpose in the interm.

Adapted activities

All *adapted activities* require process-based assessment by the user in line with the process-based guidance set out in Annex 3 of the CBRT Methodology document.

This entails framing the scope of the assessment, assessing the materiality of the target climate impacts that the activity is addressing, and identifying and integrating adapting measures that build resilience to those identified material climate impacts.

Enabling measures

All *enabling measures* require a process-based assessment by the user in line with the process-based guidance set out in Annex 4 of the CBRT Methodology document.

This entails framing the scope of the assessment, assessing all climate impacts that are material to the investment, identifying and integrating adapting measures that build resilience to those identified material climate impacts, and checking that the investment makes a measurable improvement in the climate resilience of activities beyond the activity in which it is implemented.

Enabling activities

All *enabling activities* require process-based assessment by the user in line with the process-based guidance set out in Annex 5 of the CBRT Methodology document.

This entails framing the scope of the assessment, assessing all material climate impacts, identifying and implementing adapting measures that build resilience to those climate impacts, and checking for an enabling contribution to activities beyond the investment through the provision of a technology, product, service, information, or practice that the CBRT defines as a climate resilience solution (indicated in column [G]).

What are proxies and how can they be used to streamline the assessment of an investment's substantial contribution to climate resilience?

As the CBRT is further developed and validated by TWGs, it will identify investment-specific proxies that may be used to streamline the process of assessing an investment's substantial contribution to climate resilience. These will be subject to review and validation by TWGs.

These proxies are externally-recognised, robust certification and labelling schemes, frameworks or standards, which are focused on specific sectors, activities or asset types. CBRT users may apply these proxies, where available and appropriate, to confirm that an investment makes a substantial contribution to climate resilience while managing any maladaptation and DNSH risks.

How are investments assessed for DNSH to mitigation?

In addition to being assessed for their substantial contribution to climate resilience and management of any maladaptation risks, investments also require a DNSH check against the mitigation objective in order to be aligned with the CBRT. This is to ensure that investments that contribute towards climate resilience do not undermine other climate-related objectives, specifically the need to reduce greenhouse gas (GHG) emissions.

The CBRT identifies investments that may entail potential significant harm to mitigation objectives, which are flagged in column [L] on an interim basis, pending review and validation by TWGs. Where investments are flagged as having the potential for significant harm to climate mitigation objectives, CBRT users should check that the investment:

- meets any relevant, existing sector-specific DNSH to mitigation criteria from credible and authoritative sources, such as the EU Taxonomy or other sustainable finance taxonomies; or
- is not included in any fossil fuel power/electricity generation activity or any activity dedicated to the exploration, refinement, supply or transportation of fossil fuels; or
- is not expected to result in a material increase GHG emissions intensity over the investment lifespan.

Any investment that fails all these checks will not be eligible under the CBRT.

How much of an investment's cost can be eligible under the CBRT?

Once an investment has passed all of the above checks, the sum of the investment costs that are eligible under the CBRT can be defined, which depends upon the investment type:

- Adapting measures: only the costs of the specific intervention are eligible.
- Adapted activities: only the cost of adaptation measures implemented within the activity are eligible.
- Enabling measures: only the cost of the enabling measure itself is eligible.
- Enabling activities: the entire cost of the activity is eligible (both capital and operating expenditure).

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