

Ministry of Finance and Public Credit presents Mexico's Sustainable Taxonomy

Mexico City, March 17, 2023

On March 16, 2023, the Ministry of Finance and Public Credit presented the Sustainable Taxonomy of Mexico, an indispensable tool to assess the sustainability of investments in the financial sector and provide a framework of reliability to responsible investing in the Mexican market.

What is a Taxonomy?

A Sustainability Taxonomy is a classification system that allows the identification and definition of activities, assets or investment projects that have positive social and environmental impacts, according to previously established bases, metrics and criteria. The objective of a taxonomy is to provide greater clarity, certainty, transparency, and reliability to markets, while seeking to encourage investment in sustainable activities and provide better monitoring of financing flows destined for sustainability.

In this sense, the Sustainable Taxonomy of Mexico is created with the objective of increasing the investment in projects and economic activities that foster the social and environmental goals of the country, through a reliable, legitimate, unified and science-based classification system.

I. Target users of Mexico's Sustainable Taxonomy

For the process to identify the main users of the Taxonomy, the companies most relevant to the financial and banking system were studied and their operations assessed. As a result of this identification process, the actors and potential users of the Taxonomy were classified into three groups:

1) Companies operating in the real sector

While the Taxonomy does not define what should be understood as the "real sector", this term makes reference to those companies, different from financing and banking institutions, that operate in the global economy by producing goods and providing services. The companies in

this sector are meant to be the main users of the Taxonomy, in order to have access to the sustainable financing capital markets, through the emission of bonds, loans and thematic credits. This will be instrumental in these companies' quest to implement technologies aligned to the Taxonomy and in their environmental, social and corporate governance efforts.

2) Credit institutions

Multiple banking institutions, development banks and non-banking financial and credit institutions may use the Taxonomy to raise and mobilize capital toward sustainable activities. In addition, they may also use the Taxonomy to design green, social or sustainable financial products and services, based on the destination that the borrowers will give to the funding.

3) Institutional investors

This category includes retirement fund managers (AFORES), investment funds and insurance companies, among others. These users will be able to use the Taxonomy to focus their investments on activities with social and environmental benefits. It is expected that this type of users will be the main agents for the demand of sustainable assets and thus, drive issuers to generate greater commitments towards sustainability.

II. Objectives of the Sustainable Taxonomy

As part of the first stage of implementation, the Taxonomy seeks to help solve three main risks and opportunities: (i) climate change, (ii) gender equality and (iii) sustainable cities, designing strategies and metrics to measure the substantial contribution to these objectives.

II.1. Climate Change

As part of the solutions to the impacts and risks borne by companies and society associated to climate change, the Taxonomy develops a system of tools and metrics to facilitate decision taking by investors, through:

- Outlining in the Taxonomy the economic sectors and activities most impacted by -and having most impact in- climate change;
- Alignment of these economic sectors and activities to applicable metrics and thresholds;
- Abidance to Do No Significant Harm criteria; and,
- Abidance to Minimum Safeguards criteria.

Based on the foregoing, the main economic sectors towards the Taxonomy is aimed in the climate change objective are:

- a) Agriculture, animal breeding and forestry exploitation;
- b) Generation, transmission, distribution and commercialization of electric power, and water supply to final users;
- c) Construction;
- d) Manufacturing industries;
- e) Transportation, and
- f) Waste management and remediation services.

II.2. Gender Equality

The Taxonomy considers that a broad concept of sustainability includes not only environmental but also social objectives. Hence the Taxonomy also considers gender equality as a priority objective.

Based on the foregoing, the gender equality strategy focuses on strengthening the following three pillars; (i) decent work; (ii) wellbeing, and (iii) social inclusion. In this regard, the Taxonomy aims to be an orienting guide in the achievement of these objectives, through the proposal of methods, metrics and strategies for its users.

III.3. Sustainable Cities

In the sustainable cities framework, the Taxonomy seeks to improve vulnerable populations' access to decent housing, transport and water supply.

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