APPROVED/FINAL VERSION

Issues Note: Sustainable Finance in the *2025 SNA* and *BPM7*

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Final version incorporating the decisions of the AEG-BOPCOM meeting of 20 February 2024

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Date: 30 May 2024

Section 1: Introduction

1. The 2025 System of National Accounts (SNA) and Balance of Payments Manual 7 (BPM7) aim to provide expanded information on the interplay between the economy and the environment. This includes the statistics related to sustainable finance that quantify funding activities which actively contribute to green and climate outcomes, for example the transition to low-carbon economies. The 2015 Paris Agreement led to rapid growth in demand for related sustainable finance statistics, especially green bonds, equities and investment funds. From a user/policy perspective, including such measures in the financial accounts and balance sheets of the national accounts is important for tracking investment in the green and climate/transition economy and informing decisions on monetary and fiscal incentives relating to it (OECD, 2020).

2. SNA update Guidance Note WS.12: *Environmental Classifications* recommends that countries report the stocks and flows (issuances and holdings) of Environment, Social and Governance (ESG) and Green financial instruments (bonds, loans, equity and investment fund shares) as 'of which' categories in the financial accounts and balance sheets of the 2025 SNA, when these are material. It argues that although reporting mechanisms, classifications and regulations around sustainable finance are in their infancy, it would be forward-looking to include this recommendation in the 2025 SNA (WS.12 paragraph 14).

3. At its 22nd meeting in March 2023, the Advisory Expert Group on National Accounts (AEG) agreed "to include 'of which' categories for ESG Bonds, Loans and Equity and Investment Fund Shares and for Green Bonds, Loans and Equity and Investment Fund Shares in the SNA Financial Asset classification, as proposed in the guidance note" (AEG, 2023). The International Monetary Fund (IMF) Committee on Balance of Payments Statistics (BOPCOM) also supported this work during its 42nd meeting in October 2023.

4. An *Issues Note* on sustainable finance (Barahona, Girón and Tebrake, 2023) was prepared in the second half of 2023 and discussed at the Joint 43rd meeting of the BOPCOM and 25th meeting of the AEG on 20 February 2024. It updated the WS.12 proposal and added further discussion of principles and definitions. At the February 2024 meeting, AEG and BOPCOM members endorsed the changes proposed in the sustainable finance *Issues Note* and gave their views on the remaining questions. This is the final version of the note, incorporating the outcome of the AEG-BOPCOM meeting.

Reason for this *Issues Note*:

5. WS.12 paragraph 19 provides a set of working definitions for ESG and green financial instruments (**Annex 1**). At its 22nd meeting in March 2023, the AEG said that "the above definitions should be added but that these definitions should be periodically reviewed and, when appropriate, updated to reflect work being undertaken by various international financial reporting, disclosure, and statistical initiatives (such as the G20 Data Gaps Initiative). The AEG also requested that the economic-environmental accounting community and the task team for Recommendation 4 on Climate Finance of the G20 Data Gaps Initiative be consulted regarding these definitions, as well as on the usefulness of nesting 'of which: green' under 'of which: ESG'." (WS.12, paragraph 20). BPM6 update Guidance Note B.6 (see **Section 2**) also acknowledged the ongoing work in this area in international fora and the need to closely follow up and adapt the new developments (BOPCOM, 2023).

6. The original aim of this *Issues Note* was to review the WS.12 working definitions of ESG and green financial instruments in light of on-going definitional discussions in related areas of work. As the work progressed, it also became necessary to address other questions relating to the recording of sustainable finance in the accounts such as classification principles, labelling and certification.

7. This *Issues Note* provides, in **Section 2**, background on the work on sustainable finance for the BPM and SNA update processes, as well as the work going on in parallel to collect data on green and sustainable securities under Recommendation 4 of the third G20 Data Gaps Initiative (DGI-3 Rec 4). **Sections 3-6** of the note contain the final proposal for the sustainable finance changes in the 2025 SNA and BPM7. **Section 3** proposes general principles relating to recording sustainable finance in the national accounts and balance of payments and international investment position. **Section 4** elaborates revised breakdowns and associated definitions for each type of financial instrument to be included in the sustainable financial instrument breakdowns in the 2025 SNA and BPM7. **Section 5** looks at the importance of metadata for clear communication with users. **Section 6** provides a summary of the sustainable finance changes to the SNA and BPM endorsed by the AEG and BOPCOM on 20 February 2024.

Section 2: Background

The SNA update proposals

8. In March 2023, the AEG endorsed the proposal in Guidance Note WS.12 to add '*of which*: *ESG*' and '*of which*: *green*' breakdowns to four of the financial instrument classes in the financial accounts and balance sheets of the national accounts: debt securities (AF.3), loans (AF.4), equity (AF.51) and investment fund shares (AF.52) (**Table 1**).

Table 1: ESG and green breakdowns for financial instruments in WS.12

AF.1	Monetary gold and SDRs
AF.2	Currency and deposits
AF.3	Debt securities
	Of which: ESG bonds
	Of which: Green bonds
AF.4	Loans
	Of which: ESG loans
	Of which: Green loans
AF.5	Equity and investment fund shares
AF.51	Equity
	Of which: ESG equity
	Of which: Green equity
AF.52	Investment fund shares
	Of which: ESG investment fund shares
	Of which: Green investment fund shares
AF.6	Insurance, pension and standardized guarantee schemes
AF.7	Financial derivatives and employee stock options
AF.8	Other accounts payable/receivable

9. It should be noted that in relation to the category of debt securities (AF.3), WS.12 specifies that the '*of which*: *ESG*' and '*of which*: *green*' breakdowns relate to bonds, which leaves open the question of whether any debt securities other than bonds should be recorded as ESG or green – for example, short-term and other types of debt security[1]. This *Issues Note* proposes an adjustment to this terminology to include not just bonds but all debt securities that are ESG or green (see **Section 4**).

[1] Other debt securities (not bonds) include, for example, Treasury bills, negotiable Certificates of Deposit, bankers' acceptances, Commercial Paper, Asset-Backed Securities, Collateralised Debt Obligations.

The BOPCOM proposals

10. In 2022, BOPCOM approved BPM6 update Guidance Note B.6 on *Sustainable Finance: Integrating Measures of Climate Change Risk into External Sector Statistics*. This note contains one proposed addition to the BOP and IIP: a supplementary 'of which' category to identify green labelled bonds[2]. The note also recommends a flexible approach in which further indicators can be added via an updateable appendix to the revised BPM to "allow for addressing the new developments in the needs and availability of cross-border indicators of climate change" (initially with a focus on financial risk)[3].

Work of the DGI-3 Recommendation 4 Task Team

11. The DGI-3 Rec 4 (Climate Finance) Task Team, coordinated by the Bank for International Settlements (BIS), the European Central Bank (ECB) and the IMF, was set up in 2023 to collect data from G20 and other countries on green debt securities and green listed shares. At its first workshop, it was agreed that data on debt securities should include sustainability and sustainability-linked debt securities as well as green debt securities. **Table 2** shows how the financial instrument coverage of DGI-3 Rec 4 compares with those of the 2025 SNA and of BPM7. The complementarities are important because securities statistics are an important input into institutional sector financial accounts and balance sheets and the data compiled for DGI-3 Rec 4 would be the primary source for many producers to populate these 'of which' categories.

Table 2: Complementarity of SNA, BPM and DGI-3

	2025 SNA		BPM7	DGI-3 Rec 4	
	ESG	Green	Green	Sustainability, Sustainability-linked[1]	Green
Debt securities				X	X
Bonds[2]	X	X	X		
Other debt securities					
Loans	X	X			
Equity	X	X			
Listed shares[3]					X
Unlisted shares					
Other equity					
Investment fund shares	X	X			

[2] GN B.6 also notes that depending on country circumstances, they may also choose to identify a broader category such as "ESG-labelled" or "sustainability-labelled" bonds.

[3] In addition to "green-labelled bonds", Guidance Note B.6 also suggested that data on direct investment by economic activity, on physical location of direct investment as well as climate-related international cooperation grants to low-income countries would be useful to capture risks from a cross-border perspective.

1. Sustainability debt securities and sustainability-linked debt securities in DGI-3 Rec 4 are conceptually part of ‘ESG debt securities’. However, DGI-3 Rec 4 data collection does not cover the whole of ESG.
2. Table 2 uses the terminology from SNA update Guidance Note WS.12 and BOP Guidance Note B.6, which refers to bonds rather than debt securities.
3. Green listed shares in DGI-3 Rec 4 is a sub-category of the SNA update’s ‘of which: green equity’.

12. The DGI-3 Rec 4 Task Team intends to align the definitions that it uses for collecting securities data with those of the SNA, where the financial instrument coverage is the same. The authors of this *Issues Note* are also keen to ensure alignment with the work of the DGI-3 Rec 4 Task Team and have consulted the coordinators, who have made important contributions to our understanding of the general principles discussed in **Section 3** and the SNA definitions for debt securities presented in **Section 4**.

13. In October 2023, the DGI-3 Rec 4 Task Team reached agreement on the reporting templates, which are a set of tables for issuances, holdings and from-whom-to-whom statistics on green debt securities, sustainability debt securities, sustainability-linked debt securities and green listed shares. The workshop also agreed on the reporting targets, which include a basic intermediate target for core data on green debt securities by end-2025 and a final target for other data by end-2027, subject to member country self-commitments.

Section 3: General principles for recording sustainable finance in the accounts

What do we mean by ESG and green?

14. WS.12 defined ESG finance as finance for "activities or projects that sustain or improve the condition of the environment or society or governance practices"; and it defined green finance as finance for "activities or projects that sustain or improve the condition of the environment".

15. ESG is a broad approach and is generally described with reference to examples. WS.12 noted that: "Examples of ESG projects include renewable energy projects, green building projects, sustainable agriculture, affordable housing, and social infrastructure. ESG investors are typically looking for opportunities to support projects that have a positive impact on the environment or society while generating a financial return". Examples vary from one source to another. For instance, the French government's Socially Responsible Investment label (ISR in French) for investment funds[4] has the following ESG categories (Nefzi, 2021):

    - Environment (E): carbon footprint, greenhouse gas emissions, electricity consumption, water and waste management, etc.
    - Social (S): training of employees, equal pay for men and women, place of women in the management of the company, employment of disabled people, etc.
    - Governance (G): transparency on executive compensation, place of women on the board of directors, fight against corruption, etc.

16. An important aspect of the SNA update approach is the decision to include two 'of which' categories. The green category is narrowly defined, while the ESG category is deliberately broad (see paragraphs 14 and 15). The rationale of including the broad ESG approach is: firstly, that it provides a way to accommodate financial products that are not exclusively green such as sustainability bonds, where proceeds are allocated to both green and social objectives and whose classification as green or 'brown' would be problematic; secondly, that much of the industry has gravitated towards ESG labelling; and thirdly, that it will allow the accounts to provide different measures to meet different user needs. This also means providing metadata to explain these measures to users (see **Section 5**).

17. It should be noted that some financial instruments do not include all E, S and G components. Bonds, for example, can be green (E), social (S), or a mix of green and social bonds in the form of sustainability and sustainability-linked bonds (E,S); but there are no governance bonds (G).

[4] The ISR label also has a fourth category: Respect for human rights (fight against poverty, for example).

Scope

18. In March 2023, the AEG agreed to include green and ESG breakdowns for all securities and loans, as shown in **Table 1** (**Section 2**). This *Issues Note* proposes to include further breakdowns of debt securities in line with the approach taken by the DGI-3 Rec 4 Task Team. This is shown in **Table 3** and discussed in paragraphs 44-45 (**Section 4**).

19. At the time of the WS.12 discussion in March 2023, the AEG was not asked whether this inclusion should pertain only to assets and liabilities (stocks) or also to flows, encompassing transactions, revaluations (holding gains/losses), and other changes in volume. While conventional analysis expectations would lean towards a comprehensive set of accounts for all new instruments, concerns about feasibility may advocate for a more cautious approach starting with estimates of stocks. Furthermore, the AEG might consider recommending that countries have the flexibility to decide based on the relevance of the detail and the availability of data.

20. Likewise, there is a choice to be made on whether we should gather green and ESG information for a broad range of sectors and subsectors, maybe even for 'from-whom-to-whom' accounts, or if we should keep it simpler and focus on a higher-level overview (perhaps limited to the national economy). Deciding what to include in terms of sectors brings up questions of what is relevant and doable.

21. Both account scope (paragraph 19) and sector scope (paragraph 20) could be linked to the coverage of DGI-3 Rec 4 data collection and therefore be different depending on the financial instrument. For example, in the case of debt securities and listed shares, the DGI-3 Rec 4 data collection templates ask for a full sector breakdown (see **Annex 2**), which means that presenting green and ESG breakdowns for debt securities by sector should be feasible for many participating countries[5]. The DGI-3 Rec 4 data collection templates will record stocks, but they will not record flows on a financial accounts basis (transactions, revaluations and other changes in volume)[6], which may make it difficult to ask for detailed flows, at least initially.

Classification principles

22. A critical aspect demanding attention is the perspective adopted to assess the 'greenness' or ESG nature of a financial instrument: is it the use of the *proceeds* raised with the instrument? Or is it the origin of the *revenues* generated by the financing transaction? or is it a question of whether the financial instrument aims to *achieve certain objectives or performance targets*?

23. Intertwined with that question is what the focal point for the classification should be: should the emphasis be put on the intrinsic nature of the financial instrument or of the

[5] However, not all DGI-3 Rec 4 participating countries will be able to produce sector breakdowns initially; the self-commitments approach of DGI-3 Rec 4 allows countries flexibility where such breakdowns are not feasible.
[6] The DGI Rec 4 data collection templates ask countries to record stocks and net transactions.

entity issuing it? While a revenue approach tends to spotlight the issuing unit, given the interchangeable nature of revenues, the proceeds approach appears more attuned to the attributes of the financial instrument itself, which may or may not perfectly align with the overarching corporate policy[7].

24. In the context of the WS.12 discussion, the AEG decided to adopt the *proceeds* approach universally. However, while this approach aligns well with green debt securities, social debt securities and sustainability debt securities, it does not work for sustainability-linked debt securities such as the so-called Key Performance Indicator (KPI)-linked or Sustainable Development Goals (SDG)-linked bonds, which are structurally connected to the issuer's goal achievement – often through a covenant influencing the bond's coupon. For green debt securities, social debt securities and sustainability debt securities it is, therefore, recommended to follow the *proceeds* approach, while for sustainability-linked debt securities, the approach should be based on based on *achieving performance objectives*. This is in line with the DGI-3 Rec 4 approach, which in turn is aligned with International Capital Market Association (ICMA) approach.

25. For ordinary equity, both listed and unlisted, the *revenue* approach seems more adequate given the fungible nature of equity liabilities. In the case of listed and unlisted shares, the revenue would come from the corporation issuing the shares, or a subsidiary if it has a separate listing; while for 'other equity' the revenue would typically come from a quasi-corporation – although in practice it may not be feasible to collect data on ESG or green unlisted shares and 'other equity'.

26. A decision needs to be made regarding the criteria for investment funds shares and loans where both practical and conceptual considerations lead to conflicting conclusions as regards the most appropriate approach.

27. For investment fund shares, it might be argued that the *proceeds* and *revenue* approaches are largely equivalent: the revenues come from ESG objectives if and only if the fund invests in ESG financial instruments, i.e. the proceeds are used for ESG projects (defined as assets labelled ESG). In practice, a 'targets' approach is often used by investment fund managers, whereby the ESG or green nature of the fund is assessed against stated objectives such as investing in companies that contribute to emissions reduction targets; this may be expressed in absolute or relative terms (the latter including 'best in class' or performance compared with an index). Therefore, this *Issues Note* recommends using an *achieves objectives/performance* approach in this case.

[7] The perspective taken might also heavily depend on data availability. By way of background, this may depend on how the information is reported, whether from the 'issuance' or 'investor/holding' side. Information on debt securities tends to be sourced from securities databases, although countries that do not have such databases may use other information including holding/investing information. Information on investment funds tends to come from the investor/holding side.

28. For loans, there may be arguments in favour of both *proceeds* and *revenue* approaches: for business loans a revenue approach seems appropriate given the data constraints, while a *proceeds* approach seems acceptable for the household sector. Although the conceptual focus is on the debtor, for business loans information is more likely to be available from the creditor (e.g. detailed breakdowns of banks' loan portfolios); but, as noted by experts in this field[8], economic activity and product classifications do not currently permit the separate identification of green activities, even for key industries such as energy. Therefore, most statisticians will need to proxy this information by looking at the industry of the firm receiving the loan and assuming the average firm in the industry generates over 50% of its revenue from activities improving the environment. With respect to loans to the household sector, it is likely that compilers would either ignore these because of lack of information on their purpose; or attempt to model a proportion of household borrowing where the proceeds are used, for example, for renewable energy projects.

29. For some financial instruments following the *revenues* approach it might be argued that if the revenues end up not coming from the ESG objective, then the instruments should be (re)classified outside the ESG perimeter. The authors of this note generally support a stable framework avoiding the need for many reclassifications; but in cases where information is available to compilers about changes (for instance certification is revoked, or a company changes its business model and the company and its shares are then certified as green), best practice would be to reflect this in a reclassification.[9]

30. Applying the *revenues* approach[10] often requires establishing a numerical threshold for classification purposes as revenues would typically not come from a single source. Such thresholds could be set to 50%, in line with the practice followed in similar cases. A 50% threshold principle is recommended for AF.4 loans and AF.51 equity, see **Table 6** (**Section 4**), although the threshold approach is considered to be less than ideal in the case of equity. The AEG-BOPCOM meeting in February 2024 recommended that the 2025 SNA and BPM7 include wording to the effect that if the DGI-3 Rec 4 task team develops a better approach than the 50% threshold principle for equity (for example reflecting new market standards), this should be adopted by the SNA and BOP/IIP.

31. Many of the established standards for investment funds use a similar threshold; for example, the London Stock Exchange's Green Economy Mark (see **Taxonomies, labelling**

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[8] For example, presentations by Luis Angel Maza (Bank of Spain) and Ulf von Kalckreuth (Deutsche Bundesbank) at the 11th Biennial Conference of the Irving Fisher Committee on Central Bank Statistics, 2022.

[9] This could also be argued for the *objectives/performance* approach, or even for the *proceeds* approach, if any kind of formal monitoring of the performance is established. In the European Union, the recently approved European Green Bond Standard introduces post-issuance second party opinions (SPOs) and supervision of the external reviewers by the European Securities and Markets Authority.

[10] It can be argued that a similar threshold should be established for instruments following the *proceeds* approach. However, in that case the classification as ESG in market standard is linked to the entire proceeds to be used for ESG projects (some limited examples exist; for instance, the European Green Bond Standard has a flexibility pocket of up to 15% of the proceeds to be used for activities for which no technical screening criteria under the European Taxonomy have entered into force yet).

and certification) is given to "companies and funds that derive more than 50% of their revenues from products and services that are contributing the environmental objectives". However, not all of the established standards following this approach; for example, the French government's ISR label for investment funds follows a 'best in class' approach (Nefzi, 2021) rather than using a threshold. Therefore, the authors of this *Issues Note* do not recommend using a threshold for AF.52 Investment fund shares (**Table 6**, **Section 4**).

32. The authors of this note recommend restricting the ESG and green assessment criteria to the instrument or issuer under examination, and not extending it to third-party activities linked to them via the supply chain, upstream or downstream (included the so-called 'enabling' activities). Although such extension makes sense from a conceptual point of view, its implementation would be difficult before it is adopted by market standards.

33. Also related to the approach to be taken, but specifically for green debt securities, are the following questions:

    a) There is some debate as to whether the criteria for greenness should follow the principle of proceeds/revenues/activities 'causing no harm' to the environment, or the more stringent one of making a 'positive contribution' to the environment. While there is debate, WS.12 recommends the latter and this *Issues Note* reaffirms this recommendation in line with the corresponding decision taken by G20 DGI-3 Rec 4 Task Team and the ICMA principles.

    b) G20 DGI-3 Rec 4 explicitly excludes 'transition bonds' (where proceeds are used to fund the transition towards a reduced climate impact, even if the underlying activity is not properly labelled as 'green'[11]) from its scope of work, yet this exclusion does not imply that such bonds are not conceptually within the green ecosystem. The AEG-BOPCOM meeting in February 2024 discussed whether transition bonds should be covered, taking into account that their exclusion from DGI-3 Rec 4 means that source data may not be readily available. At the same time, their exclusion might entail practical difficulties, as it might be difficult to exclude them from some financial data sources (e.g. data on ESG-labelled investment funds). Finally, it should be noted that the definition of 'transition' is subject to more uncertainty than other sustainability concepts, and no definition of it has been agreed at international level. In this context, the European Union (EU) is considering the inclusion of an amber category in its taxonomy framework to capture 'transition' projects. The AEG-BOPCOM meeting concluded that the general advice should be to exclude transition bonds, but if a country wishes to include them or cannot exclude them, then they can be included in 'other ESG debt securities' (see **Section 4**) and this should be made clear in the metadata.

[11] E.g. an airline may issue a transition bond to finance the acquisition of more fuel efficient aircrafts.

Taxonomies, labelling and certification

34. The use of common ESG and green taxonomies (sets of official classifications, definitions and standards) would greatly contribute to the comparability and serviceability of the data, as well as facilitate compilation tasks. In most cases when developing a taxonomy, detailed inclusion and exclusion lists are developed to ensure that macroeconomic accountants are applying the definitions in a consistent fashion.

35. ESG and/or green taxonomies are currently under development across several jurisdictions and stakeholders. However, there are differences of opinion: for example, the EU "recognizes as green, or environmentally sustainable, economic activities that make a substantial contribution to at least one of the EU's climate and environmental objectives, while at the same time not significantly harming any of these objectives and meeting minimum social safeguards".[12] It is clear that while this may be a suitable definition for EU countries that subscribe to the EU's climate and environmental objectives, it may not be as applicable outside of the EU.

36. As there is no international consensus on how to define sustainable finance activities or products or on the metrics to be used to determine if they meet minimum agreed standards, this *Issues Note* recommends not to adopt a single taxonomy. This is in line with approach of DGI-3 Rec 4. While in most cases the SNA requires consistency in reporting approaches, in this case the authors' view is that flexibility is acceptable. The rationale is that it is more important to make a start on compiling estimates, even though initially there will be poor comparability and varying quality across countries.

37. At the same time, the development of official taxonomies is encouraged. Some countries have already developed their own official standards and definitions, e.g. Japan. Other countries may wish to use data from private sources, which each have their own sustainable finance metrics. Regional versions of SNA, such as the ESA, may also refer to a specific taxonomy of use in the corresponding region.

38. A labelling and certification approach is also needed. Three modalities of ESG and green labelling are 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) SPO, where a trusted entity provides the ESG or green label (no certification).
    c) Certification, where, in the presence of standards, a specialised entity grants the ESG or green status.

39. Two decisions need to be taken in this respect. The first is whether all three assessment levels should be allowed for reporting in the SNA financial accounts and balance sheets. Originally, the DGI-3 Rec 4 Task Team argued in favour of requiring SPO or certification to address concerns about greenwashing. However, this approach may not be suitable in

[12] https://finance.ec.europa.eu/system/files/2021-04/sustainable-finance-taxonomy-faq_en.pdf

all contexts. SPO and certification is not common in all countries, and it may only be available for large entities with deep pockets, introducing a possible bias against small- and medium-sized companies and local governments. Based on these concerns, the DGI-3 Rec 4 Task Team decided to allow a flexible approach to certification while stressing the importance of compilers providing metadata so that users know which approach is being taken. The authors of this *Issues Note* are in favour aligning with this approach, and this was endorsed by the AEG-BOPCOM meeting in February 2024.

40. The second decision is whether both private or public certifying entities should be allowed. Examples of private standards are the Climate Bonds Initiative, the ICMA principles and guidance, and the Green Economy Mark of the London Stock Exchange. In some jurisdictions where there is no public standard, private standards may be the only feasible option. WS.12 and the DG1-3 Rec 4 Task Team advocate the use of standards set by private sector organisations, as well as official bodies. This was supported by members of the AEG and BOPCOM at their meeting in February 2024.

41. Considering the link between the SNA and BPM through the Rest of the World accounts, the above updates on the classification and definition of ESG and green financial instruments could also be included in the IIP (stocks) and in the BOP (flows). This would align with the BPM6 update Guidance Note B.6, which indicates that any new developments in this ongoing area of work should be taken into consideration. The suggestion is to introduce a separate table in Annex 14 of the BPM7 rather than including the ESG related breakdowns in the main BOP/IIP tables (see **Table 4, Section 4**). Given that the integrated IIP will be at the centre of the BPM7 with exchange rate changes, other price changes, and other changes in volume becoming standard components, having these as a separate table rather than as part of the standard IIP/BOP tables would simplify the compilers' job. In addition, no maturity breakdown would need to be introduced as in the main IIP/BOP tables. This proposal was endorsed by members of BOPCOM at the joint meeting with the AEG in February 2024.

Section 4: Breakdowns and definitions for ESG and green financial instruments

42. As noted above, ESG and green investing have taken on greater prominence as more and more investors consider the macro-critical implications of climate change and social tensions. In a world of purpose-based investing, it is important to separately identify such critical information so that policy makers can see whether investments are aligning with policy objectives.

43. To incorporate these concepts into the SNA and BPM (and other manuals as appropriate) it is important to develop definitions for these concepts. The statistical definitions for ESG and green financial instruments flow out of the classification principles established above in **Section 3**.

44. Before proposing definitions for ESG financial instruments it is important to identify the specific target financial instruments to be measured. **Table 1** (**Section 2**) showed the proposed breakdowns in Guidance Note WS.12, which was endorsed by the AEG in 2023. The authors of this *Issues Note* propose two key amendments to the WS.12 approach for ESG and green 'of which' breakdowns of debt securities:

    a) Change the label '*Of which*: *ESG bonds*' to '*Of which*: *ESG debt securities*' (see **Table 3**). This makes it clear that all types of ESG debt securities are covered (not just bonds). It also makes the labelling for the ESG breakdowns of AF.3 debt securities consistent with those of the other financial instruments, for which the '*Of which*: *ESG*' label is in line with the financial instrument label.

    b) Introduce a further disaggregation of ESG debt securities designed to show separately (in addition to green debt securities) the other ESG sub-categories that the DGI-3 Rec 4 Task Team is including: sustainability and sustainability-linked debt securities. To complete the picture, social debt securities (which are not included in DGI-3 Rec 4 data collection[13]) are also listed separately; and there is a catch-all category 'Other ESG debt securities' to capture any other types of ESG debt securities that might emerge in future, as well as transition bonds if the AEG advises that they should be included (see paragraph 33).

45. The AEG and BOPCOM endorsed proposals (a) and (b), paragraph 44, at their meeting in February 2024. AEG and BOPCOM members were also asked to decide whether countries should be required to produce the detailed '*of which*: *ESG*' breakdowns for debt securities (other than green debt securities) shown in **Tables 3** and 4 or whether these are intended mainly for guidance in compiling the aggregates. It should be noted that some countries may not have the source data to compile these detailed breakdowns; or they may consider that (some of) the additional breakdowns are less relevant in their policy context. The February meeting agreed that the '*of which*: *ESG*' breakdowns for debt securities (other than green debt securities) should be optional.

[13] Social debt securities are not included in DGI-3 Rec 4 because the focus is on climate-related financing.

Table 3: Proposed structure for ESG and green financial instruments for the 2025 SNA

AF.1	Monetary gold and SDRs
AF.2	Currency and deposits
AF.3	Debt securities
	Of which: ESG debt securities
	Of which: Social debt securities
	Of which: Green debt securities
	Of which: Sustainability debt securities
	Of which: Sustainability-linked debt securities
	Of which: Other ESG debt securities
AF.4	Loans
	Of which: ESG loans
	Of which: Green loans
AF.5	Equity and investment fund shares
AF.51	Equity
	Of which: ESG equity
	Of which: Green equity
AF.52	Investment fund shares
	Of which: ESG investment fund shares
	Of which: Green investment fund shares
AF.6	Insurance, pension and standardized guarantee schemes
AF.7	Financial derivatives and employee stock options
AF.8	Other accounts payable/receivable

Table 4: Proposed table for ESG and green financial instruments for the BPM7 (IIP and BOP)

1	**Direct Investment**
1.1	Equity and investment fund shares
	Of which: ESG equity/investment fund shares
	Of which: Green equity/investment fund shares
1.2	Debt Instruments
	Of which: 1.2.0.1 Debt Securities
	Of which: ESG debt securities
	Of which: Social debt securities
	Of which: Green debt securities
	Of which: Sustainability debt securities
	Of which: Sustainability-linked debt securities
	Of which: Other ESG debt securities
2	**Portfolio Investment**
2.1	Equity and investment fund shares
	Of which: ESG equity/investment fund shares
	Of which: Green equity/investment fund shares
2.2	Debt Securities
	Of which: ESG debt securities
	Of which: Social debt securities
	Of which: Green debt securities
	Of which: Sustainability debt securities
	Of which: Sustainability-linked debt securities
	Of which: Other ESG debt securities
3	**Financial Derivatives**

Table 4: Proposed table for ESG and green financial instruments for the BPM7 (IIP and BOP) (continued)

4	**Other Investment**
4.1	Other equity
4.2	Currency and deposits
4.3	Loans
	Of which: ESG loans
	Of which: Green loans
4.4	Insurance, pension and standardized guarantee schemes
4.5	Trade credit and advances
4.6	Other accounts receivable/payable
4.7	SDRs
5	Reserve assets

46. Having established the structure of the financial instruments classification we can now apply the principles noted above to each of the categories to develop the definitions. **Table 5** below draws on **Section 3** and outlines the proposed principles to be applied to each instrument class. **Table 6** outlines the proposed definition for each class based on the selected principles.

Table 5: Proposed principles for ESG and green financial instruments

AF.3	Debt securities	
	Of which: ESG debt securities	*Improves the condition of the environment, social conditions, or governance practices; Use of Proceeds; Achieves Objectives/Performance*
	Of which: Social debt securities	*Sustains or improves social conditions; Use of Proceeds*
	Of which: Green debt securities	*Improves the condition of the environment; Use of Proceeds*
	Of which: Sustainability debt securities	*Improves the condition of environment and/or social conditions; Use of Proceeds*
	Of which: Sustainability-linked debt securities	*Improves the condition of the environment and/or social conditions; Achieves Objectives/Performance*
	Of which: Other ESG debt securities	*Improves conditions other than environmental and social conditions; Use of Proceeds; Achieves Objectives/Performance*
AF.4	Loans	
	Of which: ESG loans	*Improves the condition of the environment, social conditions, or governance practices; Revenue approach (business loans)/Proceeds approach (household loans).*
	Of which: Green loans	*Improves the condition of the environment; Revenue approach (business loans)/Proceeds approach (household loans).*
AF.5	Equity and investment fund shares	
AF.51	Equity	
	Of which: ESG equity	*Improves the condition of the environment, social conditions, or governance; Revenue approach.*
	Of which: Green equity	*Improves the condition of the environment; Revenue approach.*
AF.52	Investment fund shares	
	Of which: ESG investment fund shares	*Improves the condition of the environment, social conditions, or governance practices; Achieves Objectives/Performance.*
	Of which: Green investment fund shares	*Improves the condition of the environment; Achieves Objectives/Performance.*

Table 6 – Proposed definitions for ESG and green financial instruments

AF.3 Debt securities
➢ *Of which: ESG debt securities* are debt securities where the use of proceeds is restricted to financing or refinancing activities or projects or where the issuer agrees to achieve performance objectives that improve the condition of the environment or society or governance practices. These include green debt securities, social debt securities, sustainability debt securities, sustainability-linked debt securities, and other ESG debt securities.
➢ *Of which: Social debt securities* are debt securities where the use of proceeds is restricted to financing or refinancing activities or projects that improve the condition of society.
➢ *Of which: Green debt securities* are debt securities where the use of proceeds is restricted to financing or refinancing activities or projects that improve the condition of the environment.
➢ *Of which: Sustainability debt securities* are debt securities where the use of proceeds is restricted to financing or refinancing activities or projects that improve the condition of the environment and society.
➢ *Of which: Sustainability-linked debt securities* are debt securities in which certain characteristics, such as the associated cash payments, are linked to achieving performance objectives that improve the condition of the environment or society[1].
➢ *Of which: Other ESG debt securities* are any ESG debt securities other than those identified as social debt securities, green debt securities, sustainability debt securities or sustainability-linked debt securities.
AF.4 Loans
➢ *Of which: ESG loans* are funds lent by creditors to debtors in which 50% or more of the debtor's activities[2] improve the condition of the environment or society or governance practices.
➢ *Of which: Green loans* are funds lent by creditors to debtors in which 50% or more of the debtor's activities[2] improve the condition of the environment.
AF.5 Equity and investment fund shares
AF.51 Equity
➢ *Of which: ESG 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 which: 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.

Table 6 – Proposed definitions for ESG and green financial instruments (continued)

AF.52 Investment fund shares
➢ *Of which: ESG 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 which: 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.

1. This definition of sustainability-linked debt securities essentially the same as that used by the DGI-3 Rec 4 Task Team: "sustainability-linked debt securities: debt securities whose characteristics (e.g. coupon payments) can vary depending on whether the issuer achieves predefined environmental or other sustainability objectives".
2. In the case of business loans, the debtor's activities would be reflected in the business's revenue, while in the case of loans to households, they would depend on the use of the loan proceeds.

47. It should be noted that in practice, the '*Of which*: *green equity*' category is likely to comprise mainly or exclusively green listed shares, at least in the next few years, when the DGI-Rec 4 Task Team will be collecting data for green listed shares but not for other types of green equity (see **Table 2, Section 2**).

48. Similarly, ESG and green investment funds are likely to be exclusively Non-Money Market Funds (non-MMFs). This is mainly because MMFs short-term financing mechanisms which are not very likely to be used for financing ESG or green activities.

Section 5: Metadata for ESG and green financial instruments

49. Given there is little global consensus on taxonomies and that they vary across countries, it is recommended that the updated SNA and BPM at this point in time include only the definitions noted above and recommend that macroeconomic accountants provide sufficient metadata that indicates how and who determined that the financial instrument was an ESG instrument or green instrument.

50. As noted in **Section 3**, the determination of ESG or green can be made in one of three ways. The issuer of the instrument can self-declare the instrument as green or ESG, perhaps with reference to established guidelines or standards. Self-rated assessments are considered a low tier of assurance that the instrument is ESG or green – given the self-interest of issuers to tag instruments in this manner to attract investors and/or offer lower rates of return – and may give rise to allegations of 'greenwashing'. That said, there is a certain reputational risk that would arise if an issuer issues an ESG or green financial instrument that is in fact not ESG or green. The desire to maintain a good reputation in the market acts as some form of deterrent to greenwashing.

51. ESG and green financial instruments can also be determined via an assessment another party (SPO). The rise in purpose-based investing has led to the emergence of several assessment services that provide investors an additional assurance that the issuer is in fact going to use the funds to improve the condition of the environment, society or their governance practices. These assessments do not necessarily apply a rigorous certification standard to the issuance but rather undertake the assessment based on bespoke assessment frameworks developed by the assessor.

52. ESG and green financial instruments can also be classified using the certification services of a specialised entity. Having an ESG or green issuance assessed in this way should give the highest level of assurance that the funds are being directed to ESG or green activities.

53. It is therefore recommended that when macroeconomic accountants report issuances and holdings of ESG or green instruments they also indicate how this determination was made by showing a breakdown like the examples for green debt securities in **Table 7** and **Table 8** below. This additional metadata will provide users of this information some indication of the quality of the data and degree to which the data can be compared across jurisdictions.

Table 7 – Stylized presentation green debt securities (option 1)

AF	Financial assets and liabilities	New Issuances
AF.3	Debt securities	
	Of which: Green debt securities	*100*
	Self-labelled	*25*
	Second Party Opinion	*50*
	Certified	*25*

Table 8 – Stylized presentation green debt securities (option 2)

AF	Financial assets and liabilities	New Issuances
AF.3	Debt securities	
	Of which: Green debt securities[1]	*100*

1. Includes self-labelled, SPO and certified new issuances.

Section 6: Conclusion

54. The following changes were endorsed by AEG and BOPCOM members at their meeting on 20 February 2024 for inclusion in the 2025 SNA and BPM7 and accompanying guidance:

    a) ESG and green 'of which' breakdowns in the 2025 SNA should be provided for financial assets and liabilities (stocks, in the financial balance sheets), with flows (transactions, in the financial accounts) estimates being developed as a second order of priority – paragraphs 19 and 21.

    b) Supplementary 'of which' categories, consistent with the ESG and green breakdowns proposed for the 2025 SNA, should be introduced for the BOP (flows) and IIP (stocks) as a separate table in Annex 14 of the *BPM7.*

    c) If possible, the ESG and green breakdowns in the 2025 SNA should be provided for all of the main sectors and sub-sectors of the accounts as well as for the main aggregates – paragraphs 20 and 21. In the BPM7 all available sector breakdowns are to be provided for the BOP and the IIP.

    d) The perspective adopted should be the *proceeds* approach for (most) debt securities and the *revenue* approach for equity; while for sustainability-linked debt securities, investment fund shares and loans, the *achieves objectives/performance* approach should be followed – paragraphs 22 to 28, and Table 5.

    e) The ESG and green breakdowns of financial instruments in the 2025 SNA and BPM7 should be produced using the structure, principles and definitions in Tables 3, 4, 5 and 6. The '*Of which*: *ESG*' and '*Of which*: *green*' breakdowns are required, while further breakdowns of ESG debt securities are optional.

    f) The definitions should use a 50% threshold approach for loans and – for the time being – equity (see paragraph 55(i)), but they should not include a threshold in the case of debt securities and investment fund shares – paragraphs 30-31 and Table 5.

    g) Financing of 'enabling' activities should not be included in ESG/green financial instrument estimates – paragraph 32.

    h) In general, transition bonds should not be included in ESG debt securities; but if a country wishes to include them or cannot exclude them, then they can be recorded as part of 'other ESG debt securities' and this should be made clear in the metadata – paragraph 33.

    i) The general principle for establishing greenness is positive contribution to the environment (rather than 'do no harm') – paragraph 33.

    j) No single taxonomy for sustainable finance activities is to be adopted by the 2025 SNA and BPM7, although the development of official taxonomies is encouraged and may be used in some regions (such as Europe) – paragraphs 34-37.

    k) The 2025 SNA and BPM7 should align with the DGI-3 Rec 4 approach to labelling and certification, allowing flexibility (including the use of private standards) while strongly encouraging the provision of metadata – paragraphs 38-40 and Section 5.

Sources:

AEG (2023): 22nd Meeting of the Advisory Expert Group on National Accounts - Conclusions, Remote Meeting, 29-31 March 2023.

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Annex 1: Definitions for ESG and green financial instruments in WS.12

Debt Securities

- **Of which: ESG bonds** are negotiable financial instruments serving as evidence of debt in which the use of the bond is restricted to finance or refinance activities or projects that sustain or improve the condition of the environment or society or governance practices. These include green bonds, social bonds, sustainability bonds, sustainability-linked bonds, and governance bonds.

    - **Of which: Green bonds** are negotiable financial instruments serving as evidence of debt in which the use of the bond is restricted to finance or refinance activities or projects that sustain or improve the condition of the environment.

Loans

- **Of which: ESG loans** are funds lent by creditors to debtors in which the debtor agrees to restrict the use of the funds (in whole or in part) to finance or refinance activities or projects that sustain or improve the condition of the environment or society or governance practices. These include green loans, social loans, sustainability loans, governance loans.

    - **Of which: Green loans** are funds lent by creditors to debtors in which the debtor agrees to restrict the use of the funds (in whole or in part) to finance or refinance activities or projects that sustain or improve the condition of the environment.

Equity

- **Of which: ESG equity** are equity investments by creditors to institutional units who agree to restrict the use of the funds (in whole or in part) to finance or refinance activities or projects that sustain or improve the condition of the environment or society or governance practices. These include green equity and social equity and governance equity.

    - **Of which: Green equity** are equity investments by creditors to institutional units who agree to restrict the use of the funds (in whole or in part) to finance or refinance activities or projects that sustain or improve the condition of the environment.

Investment funds

- **Of which: ESG investment funds** are collective investment schemes that raise funds by issuing shares or units to the public. The proceeds are invested predominantly in whole or in part to finance or refinance activities or projects that sustain or improve the condition of the environment or society or governance practices.

    - **Of which: Green investment funds** are collective investment schemes that raise funds by issuing shares or units to the public. The proceeds are invested predominantly (in whole or in part) to finance or refinance activities or projects that sustain or improve the condition of the environment.

Annex 2: DGI-3 Rec 4 template – extract showing sector breakdown of data to be collected

Residents (S1)												Non-residents (S2)
NFCs	Financial corporations (S12)							General government		*Memo item: public sector*	House-holds and NPISH (S14 + S15)	
		Central bank (S121)	Other deposit-taking corporations (S122)	Money market funds (S123)	Other financial corporations (S124 to S127)	*Of which:* Securitisation corporations	Insurance corporations and pension funds (S128, S129)	(S13)	*Of which:* Central government (S1311)			