legal memo

Mexico City, Mexico, April 5th, 2023

What is Sustainable Taxonomy in Mexico and what entities will be affected?

During the 86th edition of the Banking Convention, held on March 16 and 17, 2023, in Merida, Yucatan, Mexico's Ministry of Finance and Public Credit ("SHCP") presented the Sustainable Taxonomy project, aligned with Sustainable development goals. This system will validate that investments or assets that are intended to be regarded as "green" or sustainable in Mexico fulfill the given framework.

What is Sustainable Taxonomy?

According to the SHCP, **sustainable taxonomy** is "a classification system that makes it possible to identify and define activities, assets, or investment projects with positive environmental and social impacts, based on established goals and criteria."

The first edition of Mexico's Sustainable Taxonomy includes three chapters: **(i)** the first, on "Sustainable Taxonomy Framework in Mexico," which includes the methodology for determining which projects can be considered sustainable, as well as its link to the Sustainable Development Goals, **(ii)** the second, on "Mitigation and adaptation to climate change," which involves the reduction of climate risks by economic activity, and **(iii)** the third, on gender equality, as a priority objective to close gender gaps.

The sustainable taxonomy aims to avoid the phenomenon of **greenwashing**, which refers to companies that claim to provide environmental benefits without carrying out real actions to protect the environment.

What is the reason for the launch of the Sustainable Taxonomy?

The consolidation of the Sustainable Taxonomy in Mexico can be attributed to the promotion of **ESG** criteria, associated with social, environmental, and corporate governance criteria in companies, among other reasons. The Sustainable Taxonomy classifications allow for the objective analysis of the fulfillment of these criteria within organizations within a reference framework.

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1

Although Mexico's Sustainable Taxonomy is not the first in the world, it is a pioneering program in the integration of environmental, social, and sustainability objectives, including dimensions such as the gender perspective in a cross-cutting dimension. Broadly speaking, it is an investment scheme that contributes to closing socioeconomic gaps and protecting the environment, taking as a starting point the climate and sustainable objectives of the Paris Agreement and the United Nations 2030 Agenda.

The **Taxonomy** will function in the manner of a catalog, with respect to the requirements for an asset to be classified as green. In order to identify the economic activities referred to in the classification system, a sectoral analysis is carried out under the North American Industry Classification System (NAICS). This allows the evaluation of such activities under the Technical Evaluation Criteria (TEC), which serve as a methodology to determine whether they are sustainable or not, based on the assessment of the substantial contribution to sustainability, criteria of no significant environmental damage, and minimum safeguards. [1]

Who is Sustainable Taxonomy aimed at?

The Sustainable Taxonomy is aimed at the Mexican Financial System as an immediate recipient and at all Mexicans as a subsequent recipient. When talking about the implementation of the Taxonomy, **we refer mainly to banks (public and private)**, which will have to incorporate this classification system to issue green bonds or categorize projects as sustainable.

This, in turn, would impact all users of the financial system, particularly companies that carry out economic activities classified within the Taxonomy. This is because their assets and investment projects could be classified as green and, therefore, promoted in light of the objectives set forth by the Sustainable Taxonomy.

In other words, **the application of this system will have an impact on a wide variety of sectors and companies, including those in the energy, industrial, tourism, and real estate sectors**, among others. Of course, there is a huge challenge for organizations in all these sectors that they will have to address by strengthening their regulatory compliance, particularly in environmental, social, and corporate governance matters, i.e. **ESG criteria**.

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[1] **The methodology for the creation of the CET recognizes previous classification exercises such as the taxonomy of the Mexican Banking Association (2019-2020), as well as the Taxonomy of the European Union and the Taxonomy of Colombia.**

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2