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Sustainable Finance

The EU Taxonomy

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online

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GOVNET Conferences

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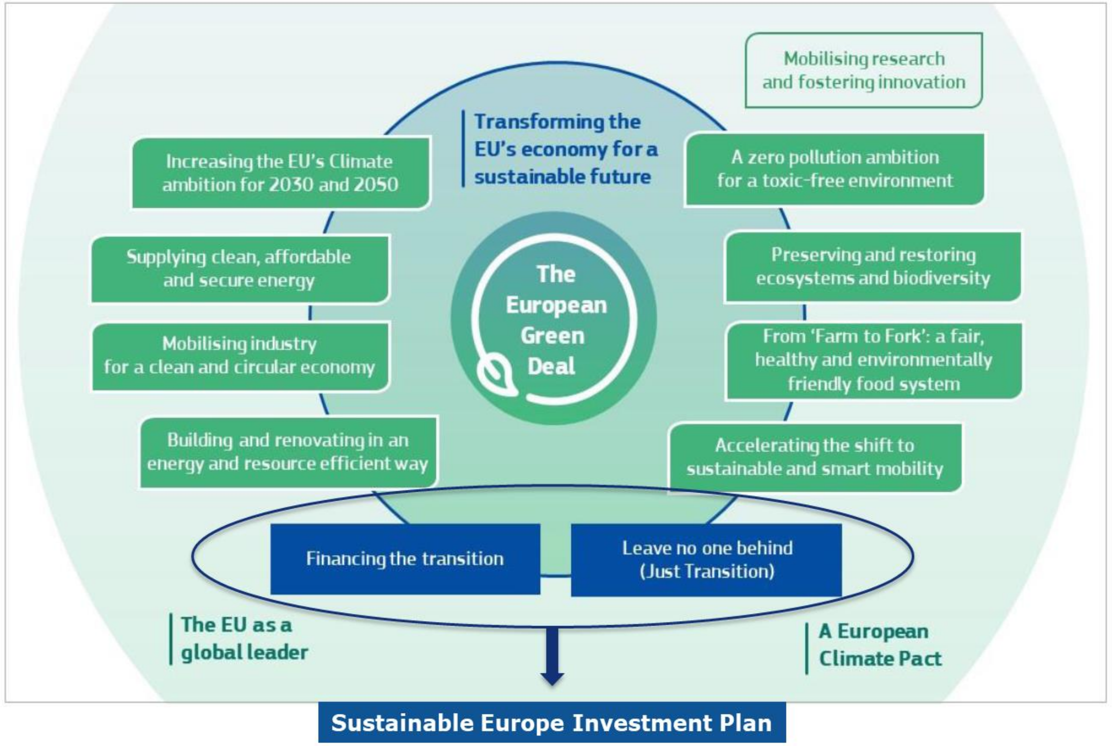
Sustainable Finance within the EU

In the EU's policy context, sustainable finance is understood as finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects. Sustainable finance also encompasses transparency on risks related to ESG factors that may impact the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors.



Challenges related to this efforts

KEY CHALLENGES	ACTIONS	
No common definition of 'sustainable investment'	EU classification (taxonomy) for sustainable activities	RELIABLE INFORMATION
Risk of 'greenwashing' of investment products	Standards and labels for 'green' financial products give investors certainty	
Banks and insurers often give insufficient consideration to climate and environmental risks	Study if capital requirements should reflect exposure to climate change and environmental risks	SUSTAINBILITY AND RISK MANAGEMENT
Investors often disregard sustainability factors or underestimate their impact	Clarify institutional investor duties to consider sustainable finance when allocating assets	
Too little information on corporate sustainability-related activities	Enhancing non-financial information disclosure	LONG-TERMISM IN GOVERNANCE

Source: European Commission

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EU Taxonomy Regulation

- Climate Change Mitigation
- Climate Change Adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention control
- Protection and restoration of biodiversity and ecosystems

Four criteria that need to be met in order to be considered a „environmentally sustainable activity“:

1) Substantial Contribution to at least one target (SC).
2) „Do no significant harm“ to any other target (DNSH).
3) Minimum Safeguards concerning social and governance aspects .
4) Meet robust scientifically sound evaluation criteria.

OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

United Nations Guiding Principles on Business & Human Rights

Source: REGULATION (EU) 2020/852 (Article3; Article 9)

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In-Scope activities

- **Substantial contribution** to one of the six environmental objectives *(Article 10, 11,12,13,14,15)*
    - **Criteria:** Likely to be stable and long-term
    - **Examples:** Zero emissions transports, near to zero carbon electricity generation

- **Transitional activities:** Activities that contribute to a transition to a zero net emissions economy in 2050 but are not currently operating at that level. *(Article 10 (2))*
    - **Criteria:** Likely to be subject to regular revision, tending towards zero emissions.
    - **Examples:** manufacturing of hydrogen <5.8 tCO_2e/t, manufacture of cement < 0.498tCO_2e/t

- **Enabling activities:** Activities that enable those above *(Article 16)*
    - **Criteria:** Likely to be stable and long-term (if enabling activities that are already low carbon) or subject to regular revision tending to zero (if enabling activities that contribute to transition but are not yet operating at this level).
    - **Examples:** Manufacture of wind turbines, installing efficient boilers in buildings

Source: REGULATION (EU) 2020/852, TEG Supplementary Report 2019 & Taxonomy Report Technical Annex March 2020

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What is the taxonomy …

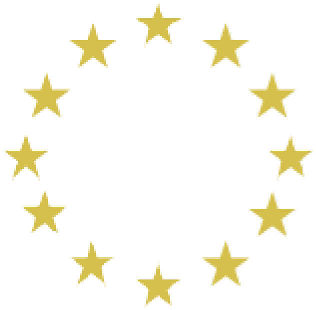
IS	IS NOT
A list of economic activities and relevant criteria	A rating of good or bad companies
Flexible to adapt to different investment styles and strategies	A mandatory list to invest in
Based on latest scientific and industry experience	Making a judgement on the financial performance of an investment – only the environmental performance
Dynamic, responding to changes in technology, science, new activities and data	Inflexible or static

Source: European Commission; Technical Expert Group

Three groups of taxonomy users

Financial market participants offering financial products in the EU, including occupational pension providers

Large companies who are already required to provide a non-financial statement under the Non-Financial Reporting Directive;



The EU and Member States, when setting public measures, standards or labels for green financial products or green (corporate) bonds.

Source: TEG Final Report EU Taxonomy March 2020

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Timeline

European Commision

Taxonomy | Delegated act establishing the tech. Evaluation criteria for the environmental objectives 1) climate protection and 2) adaptation to climate change

until 31. December

Taxonomy | Delegated act Non-Financial disclosure

1. Juni

Taxonomy | Delegated act establishing the tech. Evaluation criteria for the other four environmental objectives

until 31. Dezember

2020 | 2021 | 2022

Companies under NFRD Articel 19a or 29a

1. Januar

From 1 January, new reporting obligations in connection with the taxonomy and environmental objectives of climate change and adaptation to climate change must be observed by companies covered by the CSR Directive.

(covering the financial year 2021, publication in 2022)

1. Januar

From 1 January **2023** new reporting obligations in connection with the taxonomy and environmental objectives 4 to 6 are to be observed by companies covered by the CSR Directive.

Financial market participants

SFDR/Taxonomy Disclosure in relation to climate change mitigation and adaption in periodic reports, pre-contractual disclosure and on websites

SFDR/Taxonomy Disclosure in relation to all environmental objectives in periodic reports, pre-contractual disclosure and on websites

Companies‘ disclosure

Taxonomy Regulation introduces a new disclosure requirement for companies already required to provide a non-financial statement under the Non-Financial Reporting Directive (NFRD)

This disclosure should be made as part of the non-financial statement, which may be located in annual reporting or in a dedicated sustainability report.

For non-financial companies, the disclosure must include:

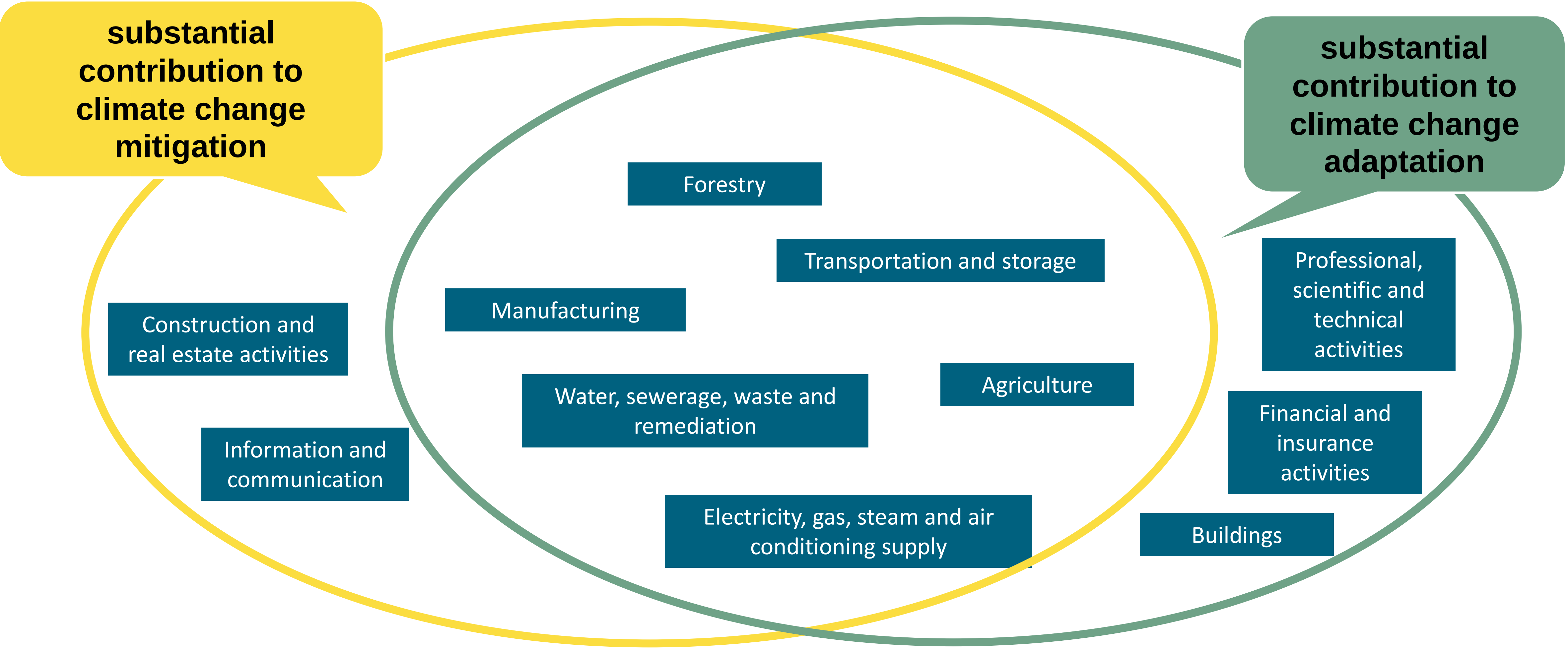
- The proportion of **turnover** aligned with the taxonomy; and
- **Capex** and **if relevant, opex** aligned with taxonomy.

TEG recommends companies to disclose breakdown by environmental objective, and % on transitioning and enabling activities.

By 1 June 2021, the European Commission will adopt a delegated act specifying how these obligations should be applied in practice. The delegated act will consider the differences between non-financial and financial companies. First disclosures are due in the course of 2022.

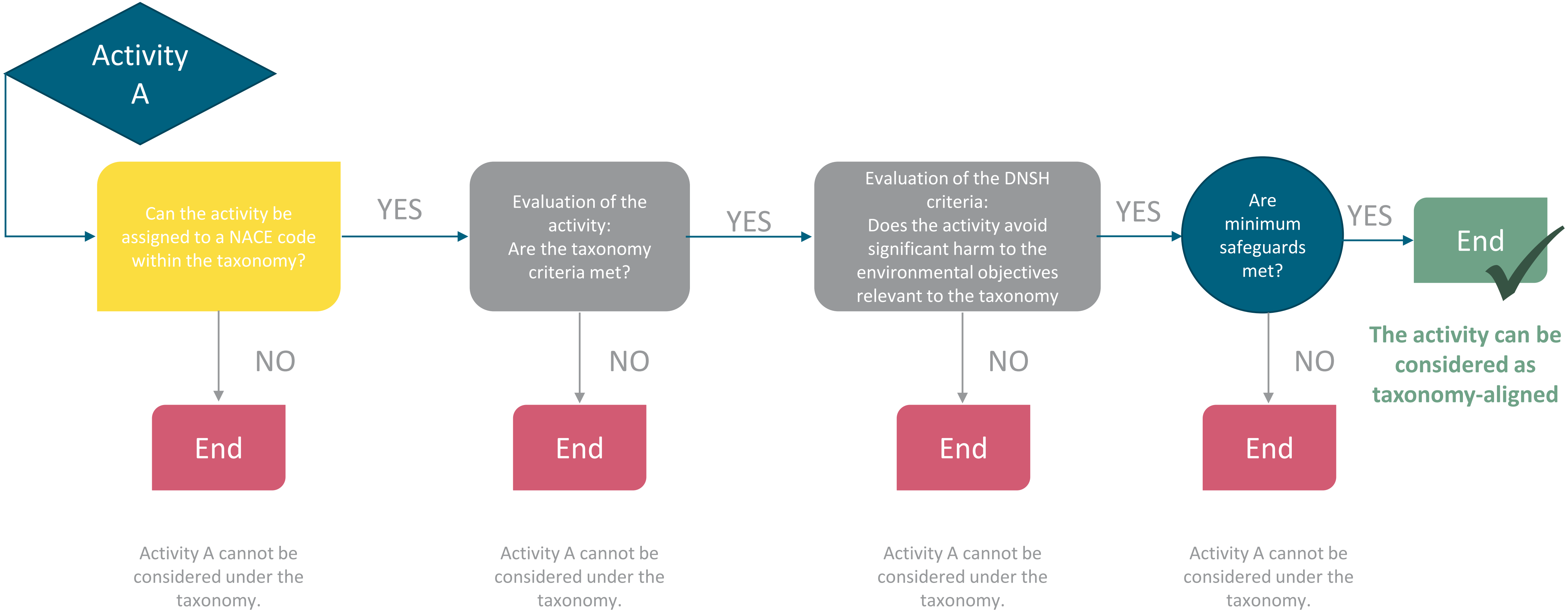
Source: European Commission; REGULATION (EU) 2020/852 (Article 8)

Activities in Scope



Source: TEG Taxonomy Report Technical Annex March 2020

How to use the taxonomy



Source: TEG Taxonomy Report March 2020

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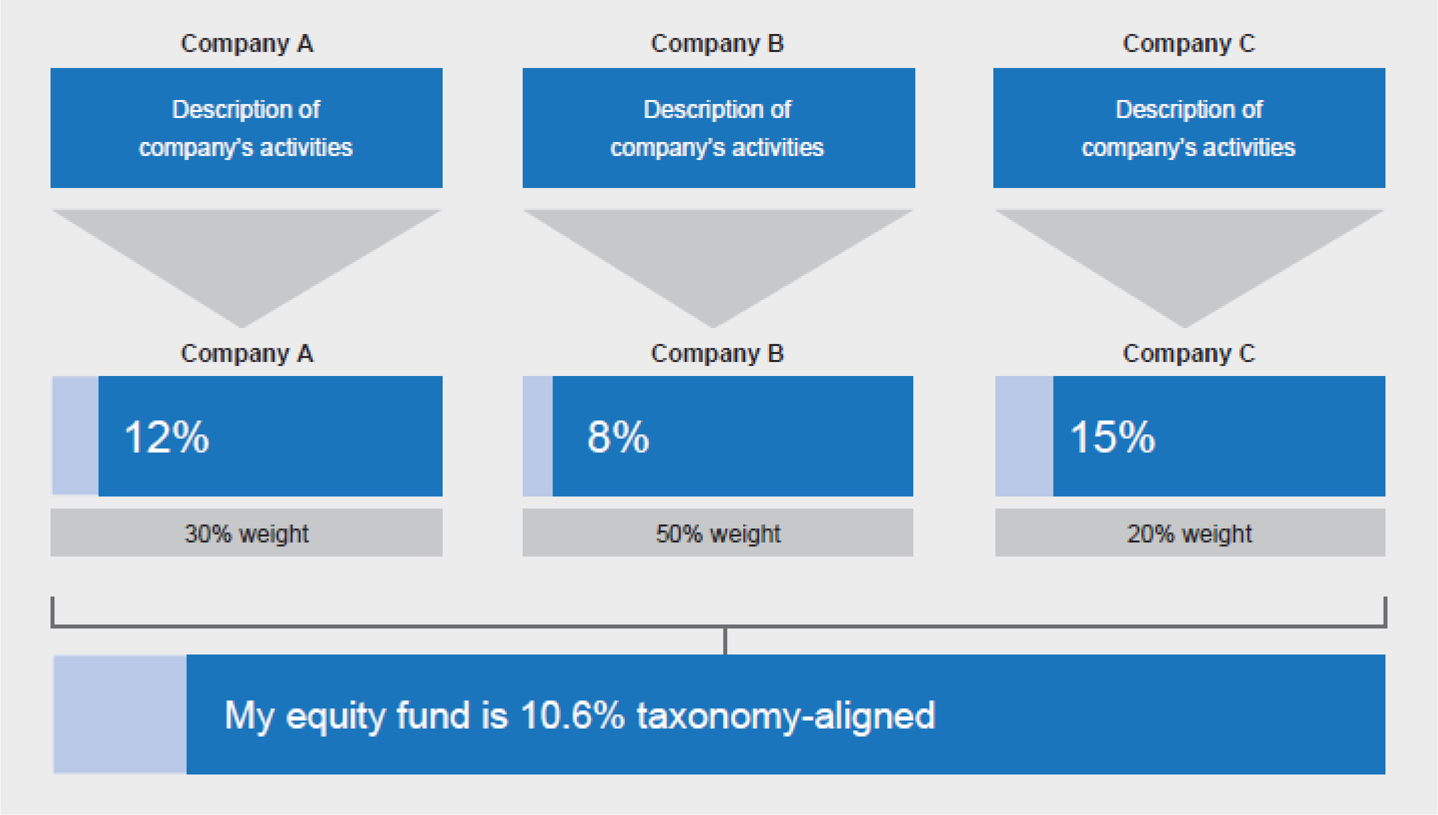
Company Disclosure Levels

Source: TEG Taxonomy Report March 2020

Investor perspective



Investors' disclosures:

- How and to what extent the investments underlying the financial product are invested in environmentally sustainable economic activities.
- To what environmental objective(s) the investments contribute;
- and the proportion of underlying investments that are taxonomy eligible, expressed as a percentage. This should specify the breakdown between activities considered to be "enabling" and "transition".

Source: TEG Taxonomy Report March 2020; European Commission

Opportunities for your company

Improved communication with investors and other stakeholders.

Possibilities are shown how the operative business can be made more environmentally sustainable and can be aligned to risks associated with the climate change.

Positive impact on financing capacity.

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