EU Taxonomy

Technical Expert Group on Sustainable Finance

The taxonomy is a tool, an extremely useful TOOL

A “dictionary-style” tool

Provides clarity on what is an environmentally sustainable activity and under which circumstances.
Ends fears of greenwashing Provides the market and the public with the necessary confidence

A policy tool

It is consistent with EU environmental objectives and the goals of the Paris Agreement. It helps making informed decisions, developing more effective policies

A measuring tool

Measures the degree of sustainability of an investment and of companies’ activities Allows consistent reporting, “apples to apples” accounting and comparability:

A dynamic tool

Like EU ETS carbon markets and EU sector policies, it will be updated and revised periodically (approx. 5 years) as science, technology, market dynamics and policy needs evolve.

A transition tool

Helps investors and companies to plan and report on the transition. It sets the objectives and the direction of travel for different economic activities.

An Engagement tool

Ultimately, it helps raise the investments we need to build a net zero, resilient and environmentally sustainable economy.

Companies' disclosures

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

All companies subject to this requirement will include a description of how, and to what extent, their activities are associated with Taxonomy-eligible activities.

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.

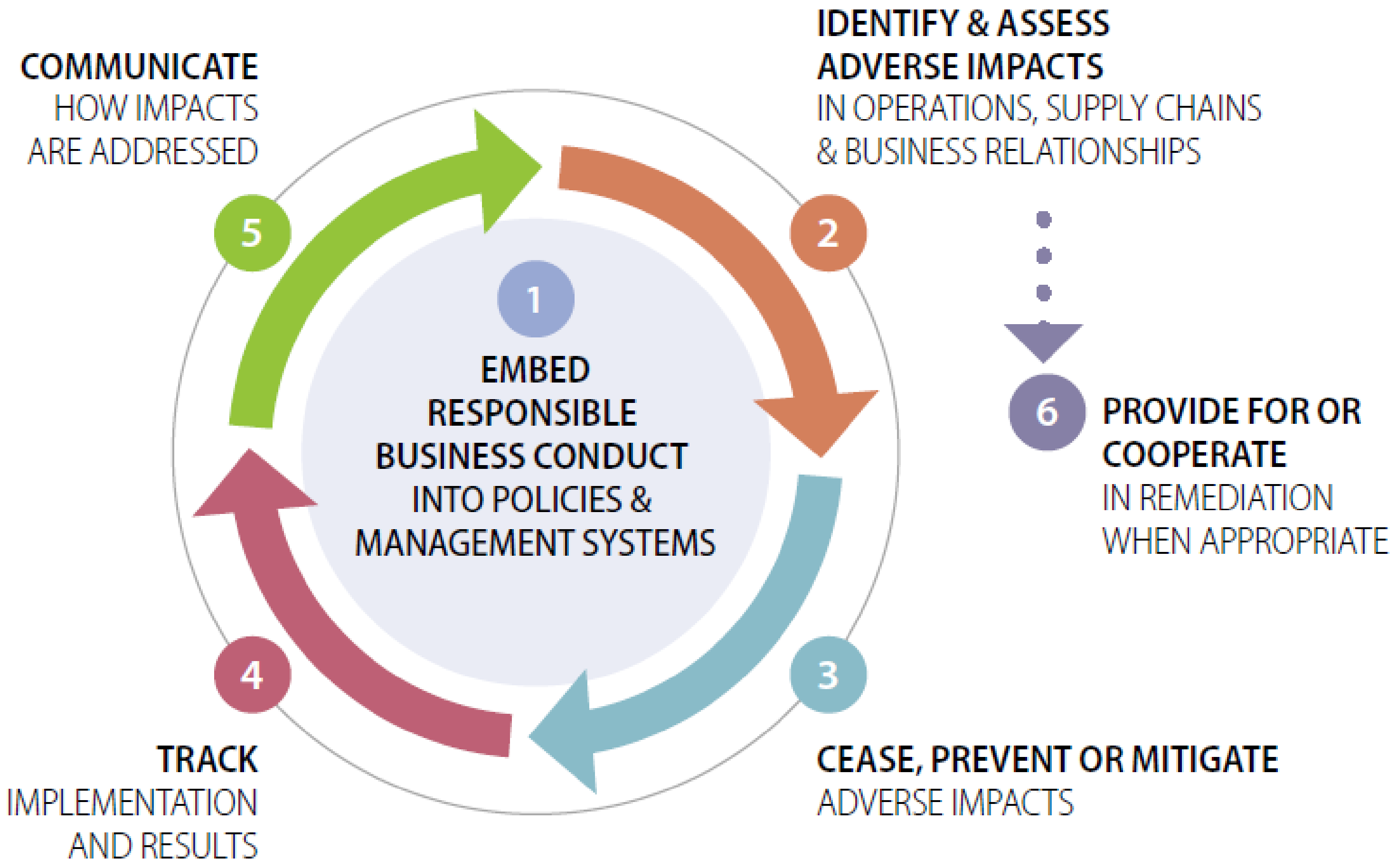
By 1 June 2021, the European Commission will adopt a delegated act specifying how these obligations should be applied in practice. The delegated act will consider the differences between non-financial and financial companies. First disclosures are due in the course of 2022.

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.

Guidance to non-financial companies



Guidance to non-financial companies

#	Case	TEG Recommendation
1.	The economic activity is covered by existing technical screening criteria.	• Disclose turnover, capex and if relevant, opex in line with methodology (above).
2.	The economic activity may be able to make a substantial contribution to climate change mitigation or adaptation, but technical screening criteria haven't been developed yet.	• Disclose that the economic activity does not yet have technical screening criteria. • Inform the Platform on Sustainable Finance
3.	The economic activity may be able to make a substantial contribution to the other environmental objectives, but technical screening criteria haven't been developed yet. <u>All disclosure of this kind is voluntary</u> until the delegated acts enter force.	• Disclose that the economic activity does not yet have technical screening criteria because the taxonomy does not yet cover the environmental objective it contributes to (3 to 6). Narrative disclosure about environmental performance is still possible using NFRD guidelines. • Inform the Platform on Sustainable Finance
4.	The economic activity does not have a significant impact on the Taxonomy environmental objective(s) and is unlikely to make a substantial contribution to an environmental objective improved performance in its operations.	• Disclose that the economic activity is not covered by the Taxonomy. • Companies can (and should) disclose how they manage their environmental risks. The fact that their activities do not make a SC to an environmental objective does not mean that the companies do not contribute positively to the environment by well managing their environmental impacts no matter how limited these are.

Debt and lending-related products: the big winners

Aluminium company
Not compliant
($tCO_2/t > 2.9$)

Asks for green loan or to issue a green bond to reduce carbon intensity of its facility

Bank will demand necessary data

If reduction objectives meet taxonomy thresholds, the loan or bond can be marketed as taxonomy compliant

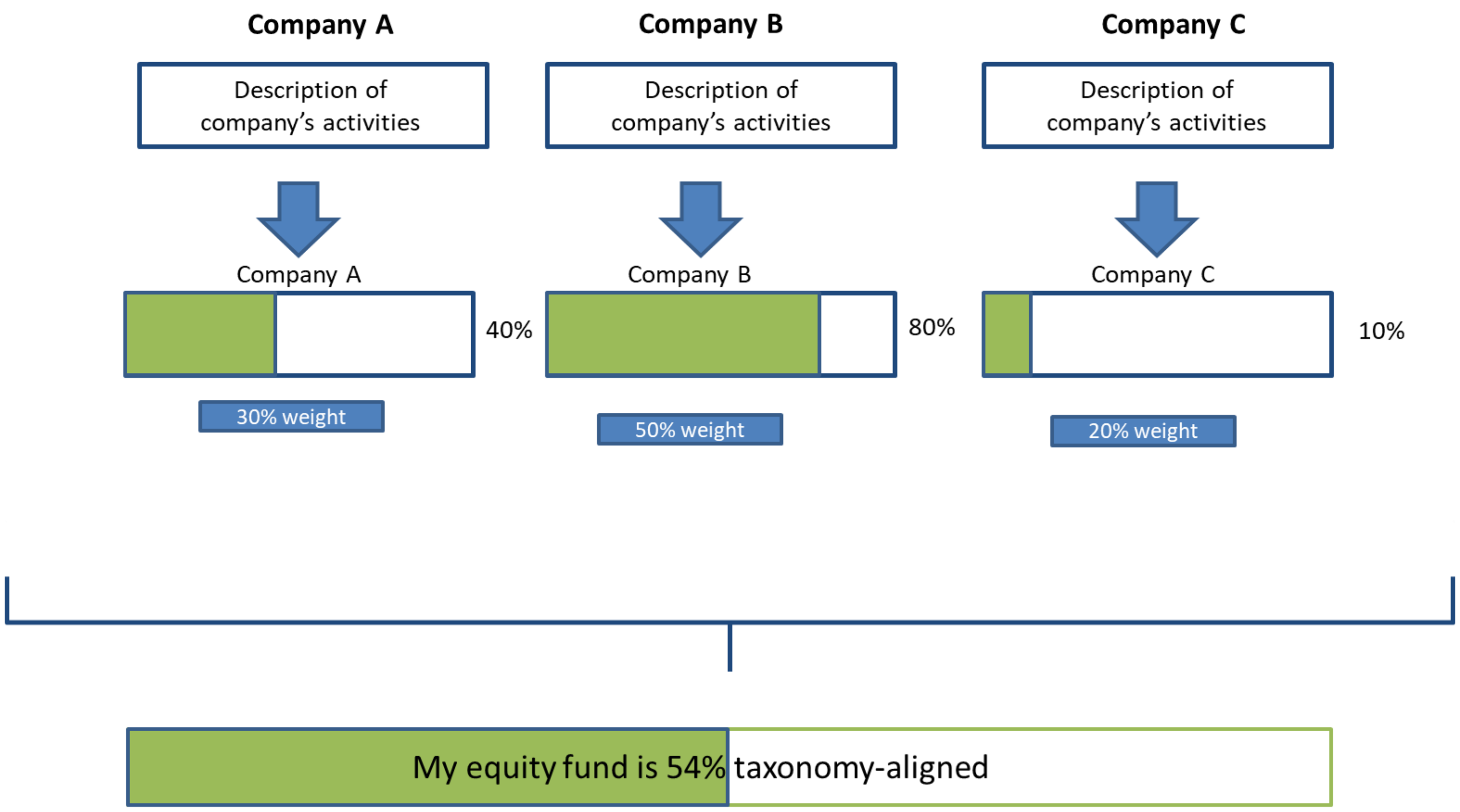
Project to reduce emissions is successful

Revenues from installation become taxonomy-compliant

Green loans securitised
Fund, or
EU Green Bond Standard

Bank sells to investors who have to report on their green shares of taxonomy-compliant investments

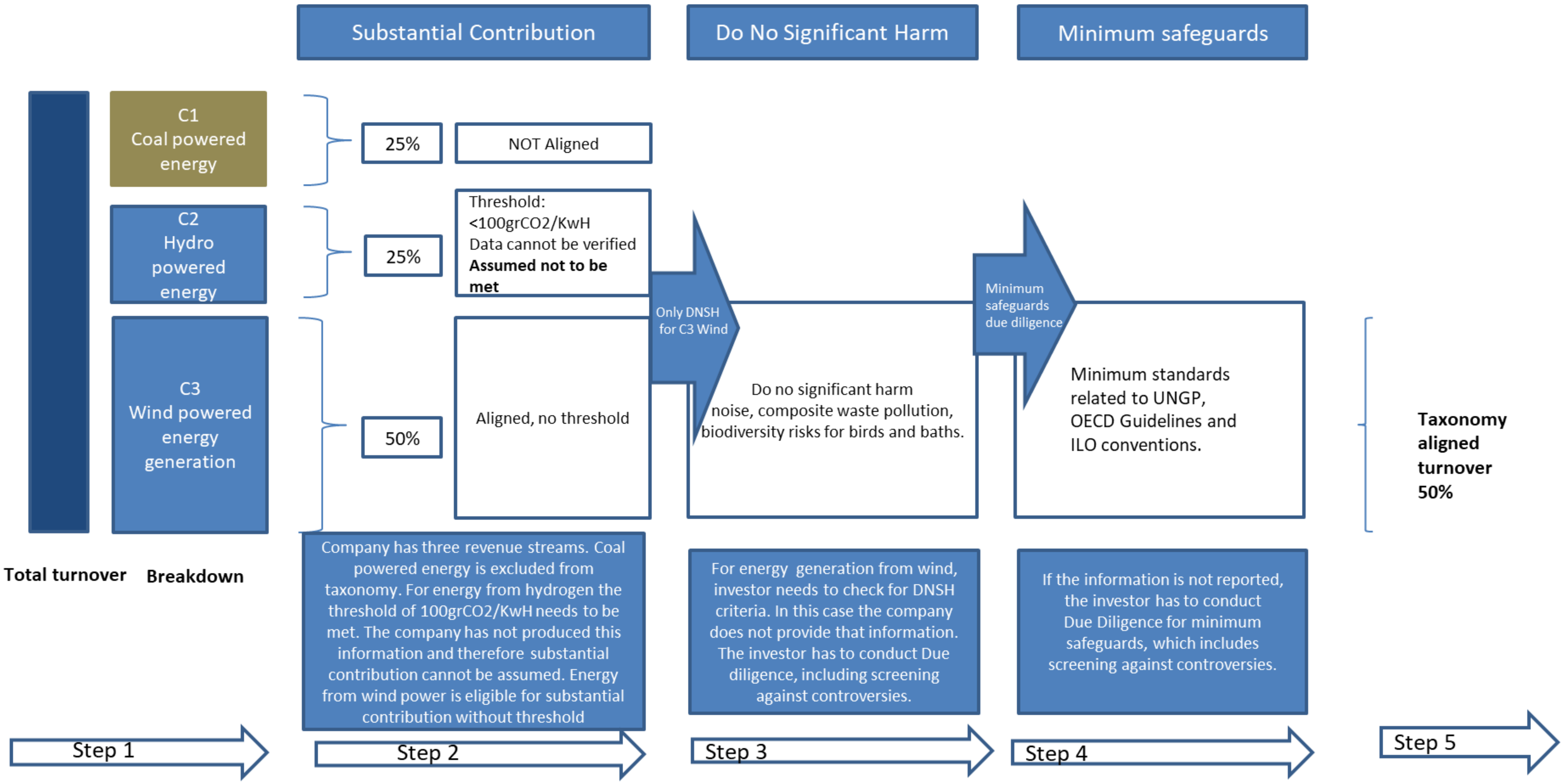
Financial market participants’ disclosures



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”.

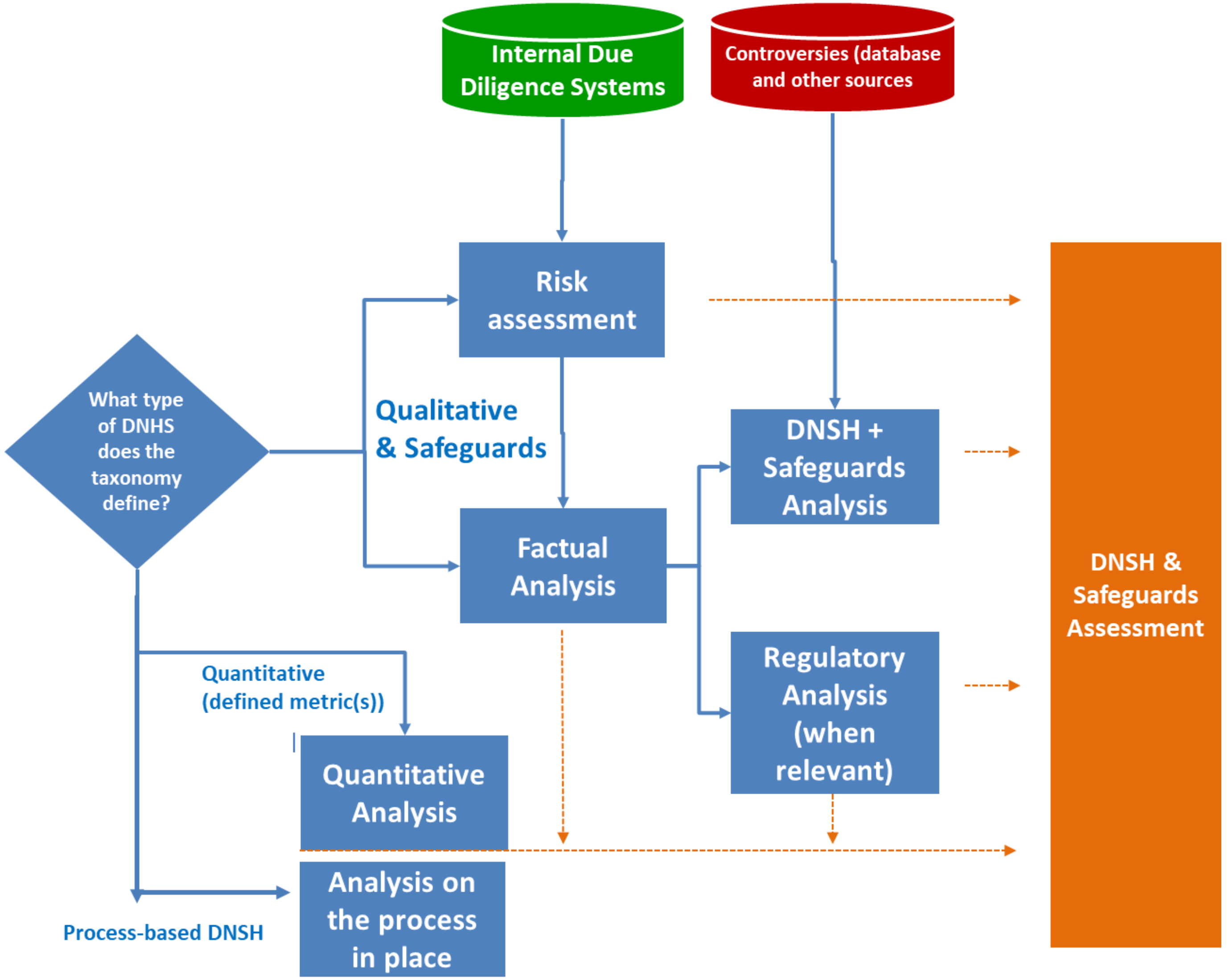
Example on an utility company



Guidance to financial market participants

EQUITIES	FIXED INCOME
1. % of the fund that complies with the taxonomy; breakdown by environmental objectives; and breakdown by activities (all weighted) following example/figure X. Investors ought to disclose the % of the fund invested in transitioning and enabling activities. 2. % of the fund that is potentially taxonomy-aligned, breakdown by environmental objectives and activities. Commentary following recommendations on page X, section Y. 3. (Until the Taxonomy is finished) % of the fund that responds to environmental objectives 3 to 6, and a breakdown by objective, including an explanation on the methodology and criteria used following recommendations on page X, section Y.	Same as equities. In addition, when appropriate, breakdown by: 1. % invested in bonds compliant with EU Green Bond Standards (100% taxonomy compliant); 2. % of the fund invested in green bonds partially compliant (and % that is taxonomy-compliant) 3. % of the fund invested in corporate bonds (and the % that is taxonomy-compliant)
What to disclose: Turnover. Some investors though might decide to build a forward-looking portfolio and disclose the same information based on capex.	What to disclose: Turnover, capex, and opex if relevant.

DNSH and minimum safeguards



EU Taxonomy

The Platform on Sustainable Finance

- Expand Climate Taxonomy by end 2020
- Examine other environmental objectives by end 2021

The taxonomy **expands the investment universe** as it includes transitioning activities e.g. aluminium or cement; and encourage companies to truly transition by facilitating them access to finance

The **greatest opportunities lie in debt and lending-related** products that allow to ring-fence funding such as green bonds, loans or mortgages

Taxonomy will be the base for the coming Ecolabel, the EU Green Bond Standard and for **standards and labels** at national level set on green investments

The Taxonomy is a tool that will be *perfectioned* over time, but ultimately it will help us all raise the additional investments we need to address the climate and ecological challenge we face.