Sustainable finance

Developing and Implementing Sustainable Finance Taxonomies

The Case of the Eu Taxonomy for Sustainable Activities

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Action plan on financing sustainable growth -overview

Commission's actions stretch across the whole investment chain

1	**Taxonomy**	Develop an EU classification system for environmentally sustainable economic activities
2	**Standards and labels**	Develop EU standards (such as EU Green Bond Standard) and labels for sustainable financial products (via Ecolabel) to protect integrity and trust of sustainable finance market
3	**Fostering investment in sustainable projects**	Exploring measures to improve the efficiency and impact of instruments aiming at investment support. Mapping on investment gaps and financing.
4	**Incorporating sustainability in financial advice**	Amend MiFID II and IDD delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment.
5	**Developing sustainability benchmarks**	Develop climate benchmarks and ESG disclosures for benchmarks
6	**Sustainability in research and ratings**	Explore how credit rating agencies could more explicitly integrate sustainability in to their assessments. Study on sustainability ratings and research and exploring possible measures to encourage their uptake.
7	**Disclosures by financial market participants**	Enhance transparency to end-investors on how financial market participants consider sustainability
8	**Sustainability in prudential requirements**	Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective)
9	**Strengthening sustainability disclosures and improving accounting**	Enhance climate and sustainability-related information provided by corporations
10	**Fostering sustainable corporate governance**	Collect evidence of undue short-term pressures from capital markets on corporations and consider steps for promoting corporate governance that is more conducive to sustainable investments.

Intended Impact of an EU Taxonomy

Market practice

Different taxonomies among Member States and institutions hinder cross-border capital flows

Costs for real economy to raise capital and for financial institutions to provide clarity

Burdensome for investors to check and compare information

Hampering investments into a more sustainable economy

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EU Sustainable Taxonomy

A harmonised **list of economic activities**

that can be considered **environmentally sustainable** for investment purposes.

Intended impact

- **Certainty for economic actors** and financial market participants
- **Protection of private investors** and mitigation of Greenwashing
- **Easier for real economy** to raise capital
- **Mitigation of** market fragmentation
- **Basis for further policy action**

Reorienting capital flows towards sustainable investment

The Taxonomy Regulation

What is the Taxonomy?

A list of economic activities that are considered environmentally sustainable for investment purposes.

Regulation?

The framework to develop the taxonomy. For an economic activity to be on the list, it has to comply with four conditions:

(a) **Substantially contribute** to at least one of the six environmental objectives as defined in the proposed Regulation*

+

(b) **Do no significant harm** to any of the other six environmental objecties as defined in the proposed Regulation*

+

(c) Comply with **minimum safeguards**

+

(d) Comply with quantitative or qualitative **Technical Screening Criteria**

*The six environmental objectives as defined in the proposed Regulation are: (1) climate change mitigation; (2) climate change adaptation; (3) sustainable use and protection of water and marine resources; (4) transition to a circular economy, waste prevention and recycling; (5) pollution prevention and control; (6) protection of healthy ecosystems.

Source: *European Commission: Proposal on the establishment of a framework to facilitate sustainable investment (2018).*

Key features of the Taxonomy

- **Reflecting technological and policy developments:** The Taxonomy will be updated regularly by the Platform on Sustainable Finance which will replace the TEG after its mandate.
- **Building on market practices and existing initiatives**
- **What's not green is not necessarily brown.** Activities that are not on the list, are not necessarily polluting activities. The focus is simply on activities that contribute substantially to environmental objectives.
- **Facilitating transition of polluting sectors**
- **Technology neutral**

The "spotlight on taxonomy" provides a useful summary of the taxonomy and its features.

Who will use the Taxonomy and how?

The proposed regulation has three mandatory users:

1. **Financial market participants**

2. **EU/Member States**

3. **Companies subject to NFRD**

The Taxonomy can be used on a voluntary basis by **credit institutions** and other **issuers**, such as local authorities.

How will it be developed?

Governance and review

- **Delegated acts**
- Platform on sustainable finance (Art. 15)
- Member State Expert Group (Art. 16c)
- Review: Extension to “brown” or “shades of green”, social objectives (Art. 17)
- Technical Expert Group

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The Technical Expert Group on Sustainable Finance

The TEG assists the Commission in implementing four specific actions.

- Established in June 2018
- Mandate extended until end 2019
- 35 experts (17 women) selected from 240 qualified candidates

Working Groups	Mandate
Taxonomy	Technical screening criteria for environmentally sustainable economic activities
EU Green Bond Standard	An EU Green Bond Standard
Benchmarks	Minimum standards for climate benchmarks and benchmarks' ESG disclosures
Corporate Disclosures	Metrics allowing improving corporate disclosure on climate-related information

Stakeholder inclusion and transparency

- Meeting minutes **publicly available** at the Register of Commission expert groups
- **Workshops** and targeted interviews to inform TEG work
- **Open feedback** on TEG reports

TEG on Sustainable Finance assists the Commission

35 experts - from July 2018 to year-end 2019

1	2	3	4
Disclosures (reporting)	**Taxonomy**	**Benchmarks**	**Green Bond Standard**
guidance to improve corporate disclosure of climate-related information	Technical screening criteria for environmentally sustainable economic activities	Minimum standards for the two new types of climate benchmarks & Benchmarks ESG disclosures	An EU Green Bond Standard

Call for feedback

Call for feedback

Interim
June 2019

Call for feedback

Interim
Mars 2019

Call for feedback

European Commission

The TEG subgroups

Taxonomy

Green Bond Standard

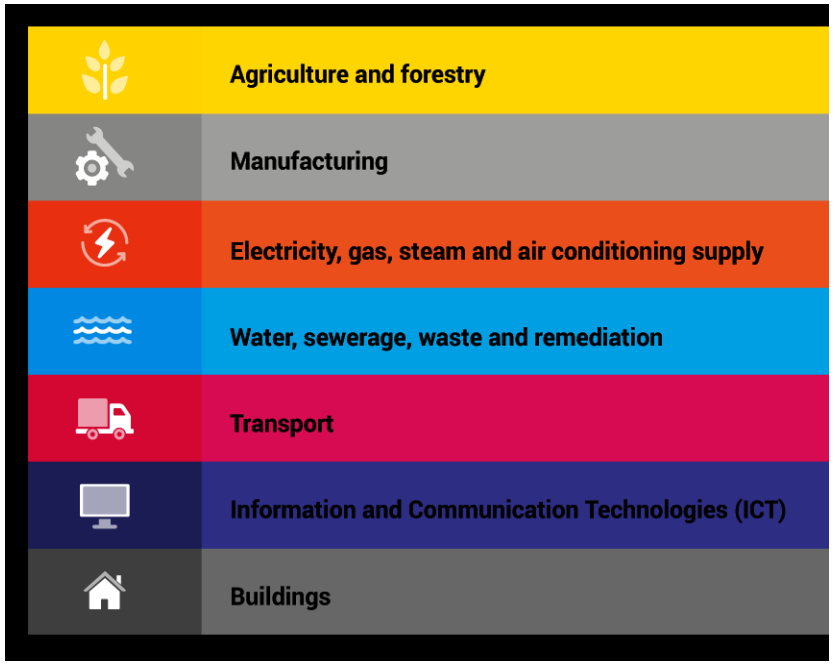
Benchmarks

Disclosures

The TEG report on taxonomy – June 2019

TEG	Composed of 35 experts from civil society, academia, business and the finance sector, as well as 10 additional members and observers from EU and international public bodies
7 Sectors, 67 activities	• highest-emitting macro sectors (represent 93.2% of GHG emissions in the EU)
Screening criteria	• Substantial contribution to one environmental objective (for climate change mitigation → e.g. GHG emission thresholds) • Do not significant harm to any of the other environmental objectives

- All assessments made by TEG were based on scientific evidence, literature and international practice
- TEG report initial focus is on climate change mitigation and adaption



Substantial contribution to climate change mitigation

Characteristics	Type of activity	Criteria	Example
"Greening of"	**Already low carbon** (very low, zero or net negative emissions). Compatible with net zero carbon economy by 2050.	Likely to be stable and long term	Electricity generation from solar PV
	Contribute to a transition to a zero net emissions economy in 2050 or shortly thereafter, but are not currently close to a net zero carbon emission level.	Likely to be revised regularly and tightened over time	Manufacturing of steel
"Greening by"	Activities that **enable emissions reductions** in either of the two previous categories.	Some likely to be stable and long term, some likely to be revised regularly	Manufacturing of wind turbines

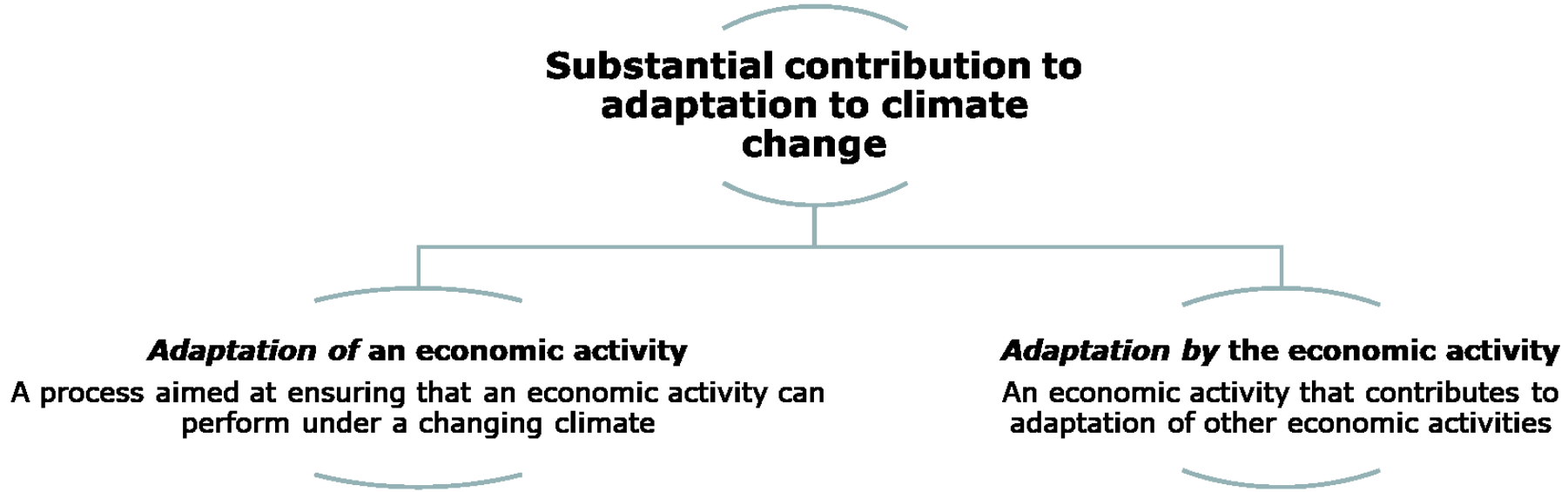
Activities that undermine mitigation objectives are **not** included.

Example – Mitigation activity

Sector classification and activity	
Macro-Sector	C – Manufacturing
NACE Level	3 and 4
Code	C24.1, C24.2, C24.3, C24.5.1, C24.5.2
Description	Manufacture of iron and steel
Mitigation criteria	
Principle	Manufacturing of iron and steel at the level of performance achieved by best performing plants is considered to make a substantial contribution to climate change mitigation. Additionally, secondary production of steel (i.e. using scrap steel) is considered eligible due to significantly lower emissions than primary steel production.
Metric	GHG emissions (tCO2e) / t product GHG emissions must be calculated according to the methodology used for EU-ETS benchmarks.
Threshold	Manufacturing of iron and steel is eligible if the GHG emissions (calculated according to the methodology used for EU-ETS benchmarks) associated to the production processes are lower than the values of the related EU-ETS benchmarks. As of June 2019, the EU-ETS benchmarks values for iron and steel manufacturing are: • Hot metal = 1.328 tCO2e/t product • Sintered ore = 0.171 tCO2e/t product • Iron casting = 0.325 tCO2e/t product • Electric Arc Furnace (EAF) high alloy steel = 0.352 tCO2e/t product • Electric Arc Furnace (EAF) carbon steel = 0.283 tCO2e/t product Additionally, all production of steel in EAF using at least 90% of scrap steel is considered eligible.

Defining substantial contribution to climate change adaptation

- **Principle 1:** The economic activity reduces all material physical climate risks to the extent possible and on a best effort basis.
- **Principle 2:** The economic activity does not adversely affect adaptation efforts by others.
- **Principle 3:** The economic activity has adaptation-related outcomes that can be defined and measured using adequate indicators.



Example – Climate Change Adaptation

Sector classification and activity	
Macro-Sector	Professional, scientific and technical activities
NACE Level	3
Code	NACE code: 72.1 CPA codes: 72.1
Description	This group comprises basic research, applied research, experimental development in natural sciences and engineering dedicated to adaptation to climate change. See example contributions for further examples.
Adaptation criteria	
These criteria relate to **adaptation enabled by** this activity. To be eligible for the EU taxonomy, the economic activity must meet the following qualitative screening criteria:	
Criterion B1. Supporting adaptation of other economic activities	The economic activity contributes to adaptation of other activities and/or addresses systemic barriers to adaptation.
B1.1	The activity reduces or facilitates adaptation to physical climate risks beyond the boundaries of the activity itself. This includes activities that: a) Promote a new technology, product, practice or governance process or innovative uses of existing practices (including those related to natural infrastructure); or, b) Remove information, financial, technological and capacity barriers to adaptation by others.
B1.2	In the case of infrastructure-based activities, the economic activity must also meet the screening criteria A1, A2 and A3 for adaptation of an economic activity.

Avoiding significant harm

"Do No Significant Harm" (DNSH) analysis has been completed for most of the 67 activities contributing to climate change mitigation. It will also be developed for activities contributing to climate change adaptation.

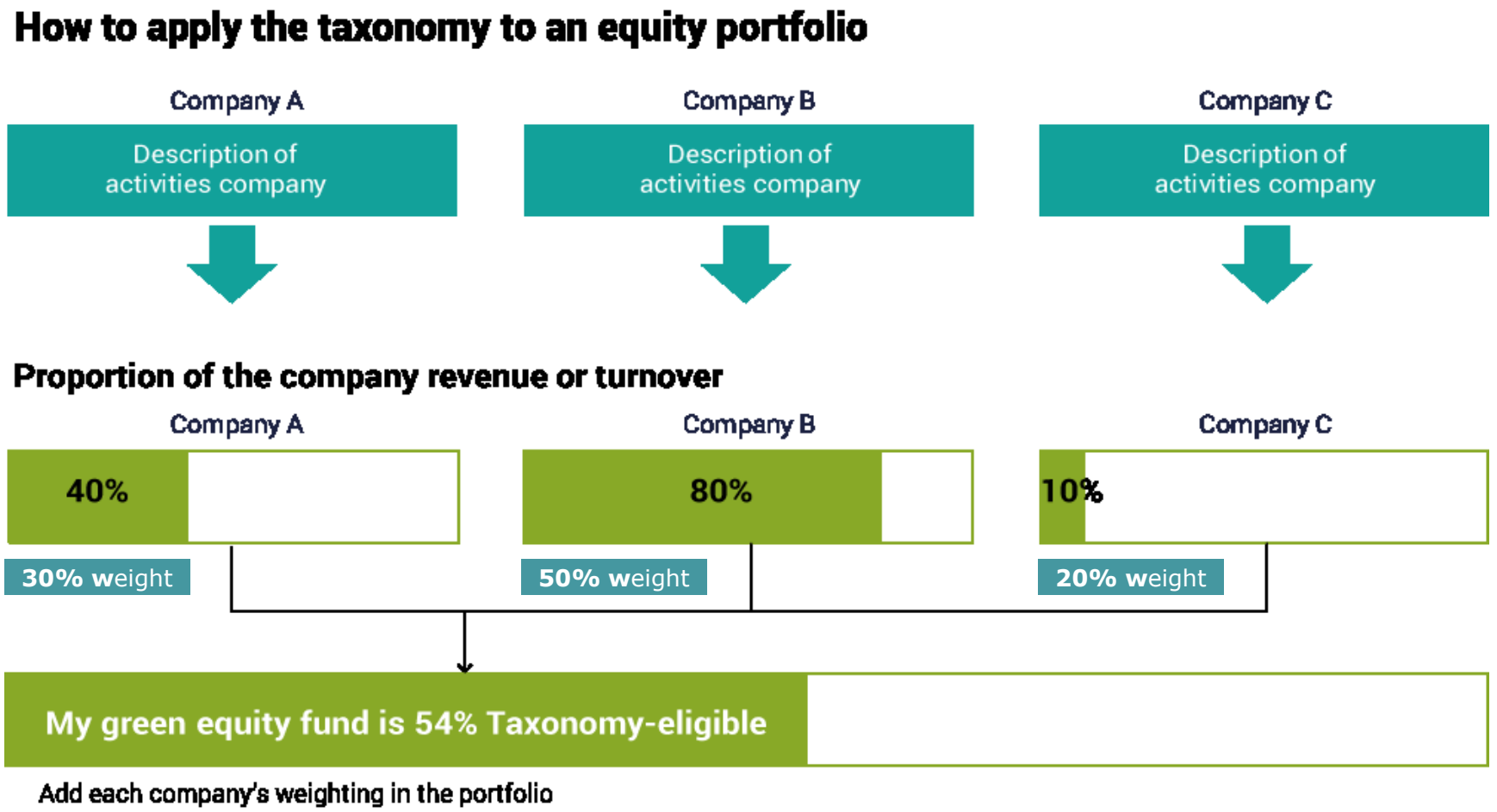
Why assess significant harm?

- To ensure that the technical screening criteria and the Taxonomy itself does not include economic activities undermining any of the environmental objectives.
- In cases where the TEG could not identify practices or criteria to mitigate potential harm, the activity was not included in the Taxonomy.

What are the criteria?

- The vast majority of the screening criteria build from existing EU regulations.
- The remaining DNSH criteria supplement regulatory requirements, taking the form of
- quantitative or qualitative thresholds.

The Taxonomy in practice: Equities



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International Cooperation on Sustainable Finance

The EU's approach to climate action is going beyond the public sphere, with initiatives to mobilise international private investors

- The **global nature of financial markets** offers a great potential to help all countries on their transition path by linking financing needs to global sources of funding. This potential however, is still largely untapped
- To **mobilise international investors** => promoting integrated markets for environmentally sustainable finance and, develop a coordinated approach, while respecting national and regional contexts
- This is the reason why the **European Union** together with relevant **public authorities** from **Argentina, Canada, Chile, China, India, Kenya and Morocco** launched on 18 October 2019:

International Platform on Sustainable Finance (IPSF)

Members

ARGENTINA, CANADA, CHILE, CHINA, EUROPEAN UNION, INDIA, KENYA, MOROCCO

- 45% OF GLOBAL GHG EMISSIONS
- 40% OF GLOBAL GDP
- 40% OF WORLD POPULATION

Observers

OECD, UNEP FINANCE INITIATIVE, THE COALITION OF FINANCE MINISTERS FOR CLIMATE ACTION, European Bank, European Investment Bank, OICV-IOSCO, NGFS

The International Platform on Sustainable Finance

Objectives

PROMOTE INTEGRATED MARKETS
for environmentally sustainable finance

SCALE UP THE MOBILISATION
of private capital towards environmentally sustainablefinance at global level

- Exchange and disseminate information to **promote best practices** in sustainable finance
- Compare the different initiatives and identify **barriers and opportunities** to help scale up environmentally sustainable finance internationally
- Respecting national and regional contexts, enhance international coordination where appropriate

Main focus of work

- **Green taxonomies** (i.e. classification of sustainable economic activities)
- **Green financial product standards and labels** to provide more confidence to investors and
- **Disclosures of sustainability-related information**

WHAT THE IPSF IS	WHAT THE IPSF IS NOT
It is a multilateral forum for facilitating **exchanges**.	**It is not an institutionalised body**, nor does it create any binding, legal or financial obligations on any member under domestic or international law.
It compares and coordinates efforts on initiatives and approaches to environmentally sustainable finance, while respecting national and regional contexts.	It does not create global standards nor does it impose to its members to adhere to other members' rules or approaches on environmentally sustainable finance.
It is a forum for **public authorities** in charge of developing environmentally sustainable finance policies and initiatives (ministries of finance/ economy, central banks, and supervisory and regulatory authorities).	It is not a forum for **private companies** whether or not, working on environmentally sustainable finance issues.

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The EU wants to increase its ambition on climate change

2014-2019

Jean Claude Juncker, 2014

A Resilient Energy Union with a Forward-Looking Climate Change Policy

Target

- **40%** cuts in greenhouse gas emissions by 2030
- **32%** renewables in energy consumption
- **32,5%** energy savings

Progress

Climate and energy legislation, if implemented: 45% greenhouse gas emission by 2030

2019-2024

Ursula von der Leyen, 2019

A European Green Deal

Target

- **50%** cuts in greenhouse gas emissions by **2030**
- **Climate-neutral** continent by **2050**

Targets envisaged

European Commission

Back-up

Additional Slides

What’s in the Taxonomy?

		Do No Significant Harm criteria identified?				
Agriculture and Forestry	**Can climate change mitigation criteria change in future?**	**Adaptation**	**Water**	**Circular economy**	**Pollution**	**Ecosystems**
Growing of perennial crops	✔	✔	✔	✔	✔	✔
Growing of non-perennial crops	✔	✔	✔	✔	✔	✔
Livestock production	✔	✔	✔	✔	✔	✔
Afforestation		✔	✔		✔	✔
Rehabilitation, Restoration		✔	✔		✔	✔
Reforestation		✔	✔		✔	✔
Existing forest management	✔	✔	✔		✔	✔

What's in the Taxonomy?

		Do No Significant Harm criteria identified?				
Manufacturing	Can climate change mitigation criteria change in future?	Adaptation	Water	Circular economy	Pollution	Ecosystems
Manufacturing of low carbon technologies	✔	✔		✔	✔	
Manufacture of Cement	✔	✔	✔	✔	✔	✔
Manufacture of Aluminium	✔	✔	✔	✔	✔	✔
Manufacture of Iron and Steel	✔	✔	✔	✔	✔	✔
Manufacture of hydrogen	✔	✔	✔	✔	✔	✔
Manufacture of other inorganic basic chemicals	✔	✔	✔	✔	✔	✔
Manufacture of other organic basic chemicals	✔	✔	✔	✔	✔	✔
Manufacture of fertilizers and nitrogen compounds	✔	✔	✔	✔	✔	✔
Manufacture of plastics in primary form	✔	✔	✔	✔	✔	✔

What's in the Taxonomy?

Electricity, gas, steam and air conditioning supply	Can climate change mitigation criteria change in future?	Do No Significant Harm criteria identified?				
		Adaptation	Water	Circular economy	Pollution	Ecosystems
Production of Electricity from Solar PV	✔	✔		✔		✔
Production of Electricity from Concentrated Solar Power	✔	✔	✔			✔
Production of Electricity from Wind Power	✔	✔	✔	✔		✔
Production of Electricity from Ocean Energy	✔	✔			✔	✔
Production of Electricity from Hydropower	✔	✔	✔	✔	✔	✔
Production of Electricity from Geothermal	✔	✔	✔		✔	✔
Production of Electricity from Gas Combustion	✔	✔	✔	✔	✔	✔
Production of Electricity from Bioenergy	✔	✔	✔	✔	✔	✔
Transmission and Distribution of Electricity		✔	✔	✔	✔	✔
Storage of Energy	✔	✔		✔		✔
Manufacture of Biomass, Biogas or Biofuels		✔	✔	✔	✔	✔
Retrofit of Gas Transmission and Distribution Networks		✔	✔	✔	✔	✔
District Heating/Cooling distribution	✔	✔	✔	✔	✔	✔
Installation and operation of Electric Heat Pumps		Not yet assessed				
Cogeneration of Heat/Cool and power from Concentrated Solar Power	✔	✔	✔			✔
Cogeneration of Heat/Cool and power from Geothermal Energy	✔	✔	✔	✔	✔	✔
Cogeneration of Heat/Cool and power from Gas Combustion	✔	✔	✔	✔	✔	✔
Cogeneration of Heat/Cool and power from Bioenergy	✔	✔	✔	✔	✔	✔
Production of Heating and Cooling from Concentrated Solar Power	✔	✔	✔			✔
Production of Heating and Cooling from Geothermal Energy	✔	Not yet assessed				
Production of Heating and Cooling from Gas Combustion	✔	✔	✔	✔	✔	✔
Production of heating and cooling from Bioenergy	✔	✔	✔	✔	✔	✔
Production of Heating and Cooling using Waste Heat	✔	Not yet assessed				

What's in the Taxonomy?

		Do No Significant Harm criteria identified?				
Water, Waste and Sewerage remediation	Can climate change mitigation criteria change in future?	Adaptation	Water	Circular economy	Pollution	Ecosystems
Water collection, treatment and supply	✔	✔	✔			✔
Centralized wastewater treatment systems	✔	✔			✔	
Anaerobic digestion of sewage sludge	✔	✔			✔	
Separate collection and transport of non-hazardous waste in source segregated fractions	✔	✔		✔	✔	
Anaerobic digestion of bio-waste	✔	✔			✔	
Composting of bio-waste	✔	✔			✔	
Material recovery from waste	✔	✔		✔	✔	
Landfill gas capture and energetic utilization	✔	✔			✔	
Direct Air Capture of CO_2		Not yet assessed				
Capture of anthropogenic emissions		✔	✔	✔	✔	✔
Transport of CO_2		✔	✔	✔	✔	✔
Permanent Sequestration of captured CO_2		✔	✔	✔	✔	✔

What’s in the Taxonomy?

		Do No Significant Harm criteria identified?				
Transport	Can climate change mitigation criteria change in future?	Adaptation	Water	Circular economy	Pollution	Ecosystems
Passenger Rail Transport (Interurban)	✔	✔	✔	✔	✔	
Freight Rail Transport	✔	✔	✔	✔	✔	
Public transport	✔	✔		✔	✔	
Infrastructure for low carbon transport	✔	✔	✔	✔	✔	✔
Passenger cars and commercial vehicles	✔	✔		✔	✔	
Freight transport services by road	✔	✔		✔	✔	
Interurban scheduled road transport	✔	✔		✔	✔	
Inland passenger water transport	✔	✔	✔	✔	✔	
Inland freight water transport	✔	✔	✔	✔	✔	
Construction of water projects	✔	✔	✔	✔	✔	✔

What’s in the Taxonomy?

		Do No Significant Harm criteria identified?				
Information and Communication Technologies (ICT)	**Can climate change mitigation criteria change in future?**	**Adaptation**	**Water**	**Circular economy**	**Pollution**	**Ecosystems**
Data processing, hosting and related activities	✔	Not yet assessed				
Data-driven solutions for GHG emissions reductions		Not yet assessed				

What’s in the Taxonomy?

		Do No Significant Harm criteria identified?				
Buildings	**Can climate change mitigation criteria change in future?**	**Adaptation**	**Water**	**Circular economy**	**Pollution**	**Ecosystems**
Construction of new buildings	✔	✔	✔	✔	✔	✔
Renovation of existing buildings	✔	✔	✔	✔	✔	✔
Individual renovation measures, installation of renewable on-site and professional, scientific and technical activities	✔	✔		✔	✔	✔
Acquisition of buildings	✔	✔	✔	✔	✔	✔

TEG's Recommendation - Specific activities

In developing the report on the taxonomy, all assessments made by TEG were based on available scientific evidence, literature, international practice, either through existing market-based Taxonomy frameworks or via evidence provided by additional experts and through the public 'call for feedback'.

Activity	Included in Taxonomy	Explanation
Coal-fired power generation		• "Unabated coal-fired power generation will not meet the required threshold." • "Coal-fired power with CCS may qualify in the short-term, but new coal plants generally have a lifetime of 40 years or longer. Under the requirement to reach zero emissions in 2050, coal with CCS would need to demonstrate that it will be able to do this."
Natural gas-fired power generation		"Gas-fired power with carbon capture and sequestration may qualify." "Facilities operating at life cycle emissions lower than 100gCO2e/kWh, declining to 0gCO2e/kWh by 2050, are eligible. • This threshold will be reduced every 5 years in line with a net-zero CO2e in 2050 trajectory • Assets and activities must meet the threshold at the point in time when taxonomy approval is sought • For activities which go beyond 2050, it must be technically feasible to reach net-zero emissions."
Nuclear energy	?	• Nuclear energy generation has near to zero GHG emissions in the energy generation phase and can be a contributor to climate mitigation objectives. • Given these limitations, it was not possible for TEG, nor its members, to conclude that the nuclear energy value chain does not cause significant harm to other environmental objectives on the time scales in question. • The TEG has not recommended the inclusion of nuclear energy in the Taxonomy at this stage. Further, the TEG recommends that more extensive technical work is undertaken on the DNSH aspects of nuclear energy in future and by a group with in-depth technical expertise on nuclear life cycle technologies and the existing and potential environmental impacts across all objectives.