The EU Sustainable Finance Framework
EU Taxonomy

July 2022

Context: EU climate targets and Green Deal

- The EU has set ambitious objective of **zero net emissions** of greenhouse gases by 2050
- On the way to 2050, our **2030 targets** are increasing too. Minus at least 55% (instead of 40% previously) greenhouse gas emission reduction is needed compared to 1990.
- This cuts across **all sectors**.
- **Extra investments needed** in the 2020-2030, Europe will need an estimated annual additional investment of around:
  - EUR 390 billion, over this decade, to meet its 2030 emissions-reduction target in the energy and transport sectors
  - EUR 130 billion for other environmental goals

The foundations of the EU sustainable finance framework

1. EU TAXONOMY

A common classification of economic activities substantially contributing to environmental objectives, using science-based criteria.

- Taxonomy Regulation: **adopted** on 18 June 2020

2. DISCLOSURES

Comprehensive disclosure regime for both non-financial and financial institutions to provide investors with the information necessary to make sustainable investment choices.

- Sustainable Finance Disclosure Regulation (SFDR) **applies** since March 2021
- Corporate Sustainibility Reporting Directive (CSRD) **proposed** by the Commission in April 2021
- Sustainability preferences: **adopted** by the Commission in April 2021

3. TOOLS

Broad toolbox for companies, market participants and financial intermediaries to develop sustainable investment solutions, while preventing green washing.

- EU Climate Benchmarks Regulation **applies** since April 2020
- Standard for European green bonds (EuGB), **proposed** by the Commission today

The European Green Deal announced a ‘Renewed Sustainable Finance Strategy’

- **Complete the work started under the 2018 Action Plan on Financing Sustainable Growth**
- **An evolved context provides need for additional measures in four key areas**

FINANCING THE TRANSITION TO SUSTAINABILITY

This strategy provides the tools and policies to enable economic actors across the economy to finance their transition plans and to reach climate and broader environmental goals, whatever their starting point.

INCLUSIVENESS

This strategy caters for the needs of, and provides opportunities to individuals and small and medium companies to have greater access to sustainable finance.

FINANCIAL SECTOR RESILIENCE AND CONTRIBUTION

This strategy sets out how the financial sector itself can contribute to meet Green Deal targets, while also becoming more resilient and combatting greenwashing.

GLOBAL AMBITION

This strategy sets out how to promote an international consensus for an ambitious global sustainable finance agenda.

Taxonomy – defining sustainable

A classification system

Provides clarity on what is an environmentally sustainable activity and under which circumstances.

A measuring tool

Measures the degree of sustainability of an investment and the degree of green activities of companies

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.

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

What the taxonomy is not:

- It's not a mandatory list to invest in
- It's not a rating of the "greenness" of companies
- It does not make any judgement on the financial performance of an investment
- What's not green is not necessarily brown.

Taxonomy – Objectives and Framework

Sustainability objectives

- (a) climate change mitigation,
- (b) climate change adaptation,
- (c) the sustainable use and protection of water and marine resources,
- (d) the transition to a circular economy,
- (e) pollution prevention and control, and
- (f) the protection and restoration of biodiversity and ecosystems.

Taxonomy framework

Make a positive contribution

(a) Substantial contribution to at least one of the six environmental objectives

\+

Avoid significant harm

(b) **Do no significant harm** to any of the other five environmental objecties

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Social safeguards

(c) Comply with **minimum safeguards**

Taxonomy – Scope of uses

Impact outside the EU

The Taxonomy Regulation mandates three user obligations

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

- How and to what extent the Taxonomy was used in determining the sustainability of the underlying investments;
- To what environmental objective(s) the investments contribute; and
- The proportion of underlying investments that are Taxonomy-aligned, as a percentage of the investment, fund or portfolio.

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

The proportion of turnover aligned with the EU taxonomy; CAPEX and, if relevant, OPEX aligned with the EU taxonomy.

→ KPIs for financial companies established in a separate delegated act

The EU and Member States

When setting out measures on standards or labels for green financial products or green (corporate) bonds

Disclosure starting in 2022

Taxonomy Regulation – Delegated Acts

- The Taxonomy Regulation provides a framework for developing the Taxonomy itself (the list of economic activities and corresponding criteria), i.e. the principles, the governance and the disclosure obligation.

- The Technical Screening Criteria defining what counts as substantial contribution and DNSH for each activity are/will be adopted **through Delegated Acts** (‘DAs’):
  - ➢ DA on climate change - in application since 1 January 2022
  - ➢ DA on the other environmental objectives - preparatory work ongoing

European Commission

Taxonomy Regulation – Platform, Member States and Review provisions

Article 20 : Platform on Sustainable Finance

Composition

- Chair appointed by Commission
- Representatives of EEA, ESAs, EIB, EIF, FRA
- Private stakeholders from financial, non-financial and business sector
- Civil society
- Experts in personal capacity
- Academia

Mandate

- Advise on development and update of TSC
- Advise on usability, application and data questions
- Advise on possible review of the Regulation
- Monitor and report sustainable capital flows
- Advise on wider policy development

Article 24: Member States Expert Group

- Advise on appropriateness of TSC the approach taken by the Platform
- Commission shall inform Member States and facilitate exchange of views through meetings of the Member State Expert as regards the main output of the Platform

European Commission

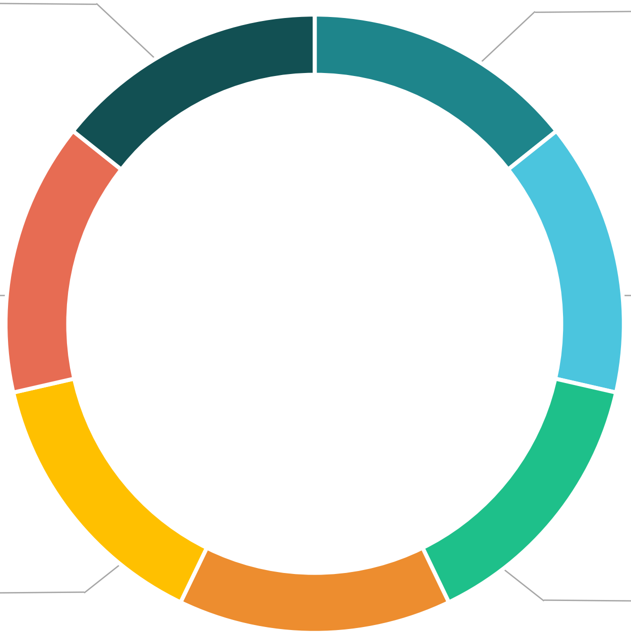
Taxonomy climate DA - wide emissions and company coverage

First set of activities (Delegated act that covers climate change mitigation and adaptation objectives)

Electricity generation
Solar, wind, geothermal,
hydropower, transmission

Transport
Very low emissions, to zero
tailpipe by 2025: electric,
hydrogen

Forestry
Maintaining carbon
Improving carbon
performance
Best practice farming



Buildings
New, existing and renovations
Supply chain / SMEs

ICT

Manufacturing
Transition
Components
Aluminium, Steel,
Concrete, Plastics

Energy efficiency, adaptation

Disclosures by non-financial undertakings

- How and to what extent undertakings' activities are associated with economic activities in the Taxonomy
- If an activity is described in the Climate Delegated Act, the company can report **eligible** Turnover, Capex and Opex from that activity
- Where an activity meets all the technical screening criteria (+ minimum safeguards), relevant turnover, capex and opex can be reported as **aligned**

Schedule of disclosures

Review 30 Dec 2024

As of January 2022

- Non-Financial entities report Taxonomy eligibility for the previous calendar year*
- Financial entities report Taxonomy eligibility for the previous calendar year*

As of January 2023

- Non-Financial entities report eligibility and alignment for the previous calendar year
- Financial entities report Taxonomy eligibility for the previous calendar year

As of January 2024

- Non-Financial entities report eligibility and alignment for the previous calendar year
- Financial entities report Taxonomy eligibility and alignment for the previous calendar year

As of January 2025

- Financial entities may include estimates on Taxonomy alignment for DNSH assessments of third-country exposures subject to the 2024 review period

As of January 2026

- Credit institutions include Taxonomy alignment of their trading book and fees and commissions for non-banking activities

*per TR Article 8 Delegated Act

Reporting for a non-financial company e.g. Turnover

Economic Activities	% of Turnover	SC to Climate Change Mitigation	SC to Climate Change Adaptaion	SC to other env. objectives	DNSH	Taxonomy aligned % turnover, year N	Enabling/ Transitional
ELIGIBLE ACTIVITIES							
Taxonomy aligned activities							
Activity A	20%	100%	0%	0%	Yes	**20%**	T
Not Taxonomy aligned activities							
Activity B	10%	100%	0%	0%	No	0%	
NON-ELIGIBLE ACTIVITIES							
Activity C	70%	N/A	N/A	N/A	N/A	N/A	

+ qualitative accompanying information

Complementary Delegated Act

- Recognizes **certain gas and nuclear activities**
- Activities that cannot yet be replaced by technologically and economically feasible low-carbon alternatives, but do contribute to climate change mitigation
- Rationale: to accelerate the move from more harmful energy sources, e.g. coal to a mostly renewables-based future
- Strict conditions apply
- Application as of January 2023 together with first climate delegated act

Nuclear-related activities

- **Advanced technologies** with closed fuel cycle (“Generation IV”)

  to incentivise research and innovation into future technologies in terms of safety standards and minimising waste (with no sunset clause);

- **New nuclear power plant projects** for energy generation, which will be using best-available existing technologies (“Generation III+”)

  (recognition for approval of construction permits until 2045);

- **Modifications and upgrades** of existing nuclear installations for the purposes of lifetime extension

  (recognition for approval by competent authority until 2040).

Comprehensive **nuclear safety** and **waste management** requirements apply for all nuclear activities to qualify, in full compliance with all relevant regulatory requirements and with the best technology criterion, and monitored by the Commission. Additional and stricter requirements apply notably on waste disposal.

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Gas-related activities

- **Electricity generation** from fossil gaseous fuels
- **High-efficiency co-generation** of heat/cool and power from fossil gaseous fuels
- **Production of heat/cool** from fossil gaseous fuels in an efficient district heating and cooling system

Each gas-related activity needs to meet either of the following **emission thresholds**:

- lifecycle emissions are below **100gCO2e/kWh**, or
- **until 2030** (date of approval of construction permit), and where renewables are not available at sufficient scale, direct emissions are below **270gCO2e/kWh** or, for the activity of electricity generation, their annual direct GHG emissions must not exceed an average of **550kgCO2e/kW** of the facility's capacity over 20 years. A set of cumulative conditions applies: e.g. it replaces a facility using solid or liquid fossil fuels, the activity ensures a full switch to renewable or low-carbon gases by 2035, and a regular independent verification of compliance with the criteria is carried out.

Hydrogen & ammonia

- Manufacture of hydrogen and equipment for its production and use
  - With life-cycle GHG emissions lower than $3tCO_2e/tH_2$
- Manufacture of anhydrous ammonia
  - Produced from hydrogen that complies with the above criteria
  - Or recovered from waste water

Platform to report on first uses in September

- How companies are applying the Taxonomy in practice
- How financial markets are applying it for financial products
- Recommendations to improve usability

International Platform on Sustainable Finance

Members

Public authorities

Observers

European Bank for Reconstruction and Development

European Investment Bank

EDFI European Development Finance Institutions

NGFS

UNEP

UNDP

IFRS

The Coalition of Finance Ministers for Climate Action

International Monetary Fund

OICU-IOSCO

OECD

World Bank Group

The Common Ground Taxonomy

Analysis of 72 climate change mitigation activities that share common ground for both the EU and China taxonomies with regard to the “substantial contribution” criteria.

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