

Call for feedback on TEG report on EU Taxonomy

Fields marked with * are mandatory.

Introduction

Disclaimer:

This call for feedback is part of ongoing work by Directorate-general for financial stability, financial services and capital markets union, Directorate-general for environment, Directorate-general for climate action and Directorate-general for energy on sustainable finance, for which the European Commission has set up a dedicated Technical expert group (TEG).

This feedback process is not an official Commission consultation or document nor an official Commission position. Nothing in this feedback process commits the Commission nor does it preclude any policy outcomes.

In March 2018 the European Commission published its action plan: financing sustainable growth. Action 1 of the Commission's action plan calls for the establishment of an EU classification system for sustainable activities, or Taxonomy. The European Commission followed through on this action in May 2018 with a proposal for a regulation on the establishment of a framework to facilitate sustainable investment (taxonomy regulation).

In addition, a technical expert group on sustainable finance (TEG) was set up by the European Commission in July 2018 to assist in with the implementation of four key actions of the action plan, including the development of an EU taxonomy.

Within the framework of the proposed taxonomy regulation, the TEG has been asked to develop recommendations for technical screening criteria for economic activities that can make a substantial contribution to climate change mitigation or adaptation, while avoiding significant harm to the four other environmental objectives:

1. sustainable use and protection of water and marine resources;
2. transition to a circular economy, waste prevention and recycling;
3. pollution prevention control; and (4) protection of healthy ecosystems.

On 18 June 2019, the TEG published its [technical report on EU taxonomy](#). The report sets out the basis for a future EU taxonomy in legislation. The report contains:

- technical screening criteria for 67 activities across 8 sectors that can make a substantial contribution to **climate change mitigation**;
- a methodology and worked examples for evaluating substantial contribution to **climate change adaptation**;
- guidance and case studies for **investors preparing to use the taxonomy**.

This report builds on the [work that the TEG published in December last year](#) together with a call for feedback on the proposed criteria for these “first round” activities. The TEG has also engaged with over 150 additional experts in the past months to develop technical screening criteria for the ‘second round’ of climate change mitigation activities and climate change adaptation activities.

In addition to its technical report, the TEG has also published a [supplementary report on using the taxonomy](#). This provides investors and companies with a concise and clear explanation of why the taxonomy is needed, what it looks like, and its ease of use.

Call for feedback

The TEG is inviting stakeholders to provide feedback on (parts of) its technical report through the online [questionnaire](#).

Because of technical problems, the deadline for providing feedback is **extended at least until Monday 16 September 2019 23:59**. If the technical problems persist, a further extension will be considered.

In the online questionnaire, you will be able to select on which parts of the report you want to provide feedback to, including a selection of the 67 individual activities that make a substantial contribution to climate change mitigation and the different elements of each activity.

- Don't know / no opinion / not relevant

Please explain what other information would be useful:

3000 character(s) maximum

4. Would any additional data or tools would improve the usability of the Adaptation qualitative screening criteria?

- Yes
 No
 Don't know / no opinion / not relevant

Are there areas of potential harm that TEG should consider for DNSH criteria for the activities that make a substantial contribution to adaptation objectives?

- Yes
 No
 Don't know / no opinion / not relevant

3. Usability of the taxonomy

1. Do you expect to use the Taxonomy in your business activities in the short term (1-3 years) or long term (4 years or more)?

- Yes
 No
 Don't know / no opinion / not relevant

If yes, please indicate when (short term or long term) and specify the activities for which you will use the Taxonomy.

2000 character(s) maximum

The European Association of Co-operative Banks believes that the taxonomy should be used as a voluntary framework for successful implementation of the idea of sustainable finance. Although the Taxonomy does not directly address the banking sector and, at the moment, it is difficult to assess fully which activities the taxonomy should be applied to, it will have a huge impact on the green loan market and green project finance in the short term (within 3 years).

Indeed, taxonomy eligible loans might become the "best in class benchmark" with a realistic chance to show first financial benefits for green project promoters. For those reasons, several EACB Members believe that the taxonomy could be used for green loans on a voluntary basis in the short term.

However more details would need to be clarified, like the process for the establishment of the technical screening criteria. It has to be ensured that Member States and expert stakeholders are sufficiently involved in the development of the TSC. The length of the TEG report reveals the complexity of the taxonomy and leads to fears of an extensive bureaucracy, especially for small and medium-sized companies.

We urge regulators to ensure that the practical work with the provisions of the taxonomy will be easy, clear, reliable and efficient to avoid unnecessary and costly administrative barriers; in this respect it should be clearly defined that the funded (legal) person has to care for the necessary data and sustainability verifications including the DNSH-criteria and social minimum safeguards which have to be met and how. Moreover, it is our opinion that the TSC should not be changed regularly, to allow a long-term usage.

2. Can the Taxonomy be made more useful for disclosures related to your specific financial product? This question covers only financial products where disclosure obligations are foreseen by the Taxonomy proposal.

- Yes
- No
- Don't know / no opinion / not relevant

Which specific financial product(s) did you have in mind?

- Portfolio management
- UCITS funds
- Alternative investment funds
- Insurance-based Investment Products
- Pension products and pension schemes

How could the Taxonomy be made more useful for Portfolio management?

2000 character(s) maximum

The EACB believes that the taxonomy could be made more useful for disclosures related to specific green financial products. It is essential that companies disclose adequate and externally audited sustainability-related information and data which must be available and reliable. From the investment perspective, the main usability issue is to have the Taxonomy data linked to the companies. According to the Taxonomy Regulation financial market participants are required to assess, how and to what extent the investment meets the criteria for environmentally sustainable economic activities. Therefore, financial market participants should access the relevant data, avoiding additional costs. For those reasons, the EACB encourages to work towards the creation of a database easily to be accessed by financial market participants. One idea of the many ways possible might be a (at least national) platform open to financial market participants, containing taxonomy compliant activities that have been audited or otherwise certified.” Furthermore, we are absolutely convinced that – due to the current structure of the European economy, which is based predominantly on SMEs – the Commission’s approach to address both ways of financing – bank financing and capital markets – is the appropriate way forward; this has been reflected in the respective action plan issued in March 2018.

How could the Taxonomy be made more useful for UCITS funds?

2000 character(s) maximum

How could the Taxonomy be made more useful for Alternative investment funds?

2000 character(s) maximum

How could the Taxonomy be made more useful for Insurance-based Investment Products?

2000 character(s) maximum

How could the Taxonomy be made more useful for Pension products and pension schemes?

2000 character(s) maximum

3. Can the Taxonomy be made more useful for your investment decisions in different asset classes?

- Yes
- No
- Don't know/no opinion/not relevant

Which asset class(es) did you have in mind?

- Public equity
- Corporate bonds
- Green bonds
- Private equity
- Real estate
- Project finance

- Green loans
- Other assets

How could the Taxonomy be made more useful for corporate bonds?

2000 character(s) maximum

How could the Taxonomy be made more useful for green bonds?

2000 character(s) maximum

It should be possible to characterize a bond having a shade of green (cf. page 66 in the Taxonomy Technical Report). However, we find it unnecessary strict to require 100% Taxonomy-eligible assets to be classified under the EU Green bond standard. A 'shades of green' approach on portfolio level will make it more useful in promoting green finance to a larger extent.

How could the Taxonomy be made more useful for real estate?

2000 character(s) maximum

As already reported in the "construction section" of the consultation, a building that is compliant with the taxonomy must keep this classification throughout the lifetime of the loan financing the building ('shades of green' over time). For example, a 30-year 'green mortgage loan' financing a "top-performing" year 2020-renovated building should at least be classified as a 'year 2020 green mortgage loan' throughout the lifetime of the loan.

This approach is necessary for buildings since this type of economic activity is the construction, improvement or acquisition of an expensive long-term asset often financed with up to 30-year mortgage loans. For instance individual renovation measures or renewable energy installations are often (typically for one-family owner-occupied buildings) financed with a specific loan or as part of a re-mortgage with extra proceeds of an existing mortgage loan.

As an example: Danish mortgage banks grant mortgage loans with a maturity up to 30 years funded with covered bonds. This business model supports long-termism and contributes to financial stability of the Danish real estate market. The Danish mortgage system is generally based on a principle of matching the terms and conditions of the mortgage loans with the terms and conditions of the issued covered bonds funding the loans. This means the mortgage banks are funding the mortgage lending by selling covered bonds with matching maturities, i.e. up to 30 years. Such bonds can not be classified as green bonds if the underlying assets can not keep it's classification as green activities.

How could the Taxonomy be made more useful for project finance?

2000 character(s) maximum

How could the Taxonomy be made more useful for green loans?

2000 character(s) maximum

The legislative proposals of the European Commission have concentrated on certain financial market participants. Financial market participants should be able to apply the taxonomy on a voluntary basis. The banking sector has to take into account the financial situation of the borrower when checking the borrower's credit worthiness and ability to repay the loan. If considered, green loans should be able to be classified as X% Taxonomy-eligible. When making a credit assessment of customers (in particular corporate customers) the focus is on the full range of the customer's activities and business. Thus, corporate loans are typically granted as one total loan to an entire company / operational business. With mortgage lending financing, there will be both a business activity and a building that must be assessed in terms of sustainability. For example, in some cases only a part of the company's activities will be classified as "green", while the building is "neutral". The company may also have energy optimized its buildings, while its activities as such are "neutral". In operational terms, therefore, there are a number of challenges when deciding whether a loan can be classified as "green" overall.

Furthermore, most corporate loans are offered to SMEs, raising questions regarding proportionality, if it were applied. Green loans especially to SMEs might be difficult due to the significant resources necessary for providing data and other information. Especially the assessment of DNSH can be challenging.

4. Is it sufficiently clear when the entire activities of a company or other entity should be considered as Taxonomy eligible (revenues or turnover) and when only expenditures by companies or other entities should be considered Taxonomy eligible?

- Yes
- No
- Don't know / no opinion / not relevant

If no, it is not sufficiently clear, please specify how this could be made clearer.

2000 character(s) maximum

We fear that an overall assessment of most companies according to the taxonomy is not possible so far, given the fact that the taxonomy is currently under development and the TEG report focuses on 67 economic activities regarding measures for climate protection.

We also think that corporates would currently not be able to provide all the requested information to their bank.

An external audit of the DNSH criteria in the sustainability report is necessary.

Further guidance is needed for implementation.

5. What practical tools or measures could be developed to facilitate the implementation of the taxonomy by financial actors?

Please specify what these tools would be used for and provide sufficient explanation on how they can help to implement the taxonomy:

2000 character(s) maximum

EACB Members call for a clear and simple taxonomy without causing high administrative burdens. The taxonomy should be clear enough to effectively prevent greenwashing. Existing market initiatives should be integrated.

Moreover we would welcome examples on how the definitions "greening of" and "adapting of" could mean in practice, especially concerning investments.

What if a company e.g. fails to respect human rights when it is already taxonomy-eligible? How will it be supervised and who is responsible to assess whether or when company's activities will be taxonomy-eligible? This should be done by external auditors. It could be difficult to define what share of companies' economic activities are again taxonomy-eligible. Administration and audits needed to comply to the Taxonomy will raise bureaucracy and costs. Therefore we suggest to accelerate and intensify looking into the adherence of the Taxonomy to existing data-sources and/or certification schemes with at least an EU-broad coverage.

Additionally, we have also to take into account the implications of changes over time: what if a company suddenly fails to respect human rights? How long does that prevent the company from being compliant?

What if these findings were in the past but corrected in the mean-time?

We need standardized project reporting templates (minimum requirements).

6. What practical tools or measures could be developed to help non-financial companies assess what share of their economic activities is taxonomy-eligible?

3000 character(s) maximum

1. What economic activities that can make a substantial contribution to the climate change mitigation objective should next be considered for the Taxonomy?

3000 character(s) maximum