The EU Sustainable Finance Taxonomy:

Driving sustainable investments

Financing Innovative Clean Tech Conference

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19 January 2023

Investment needs

To meet the EU climate and European Green Deal targets, 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

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),

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.

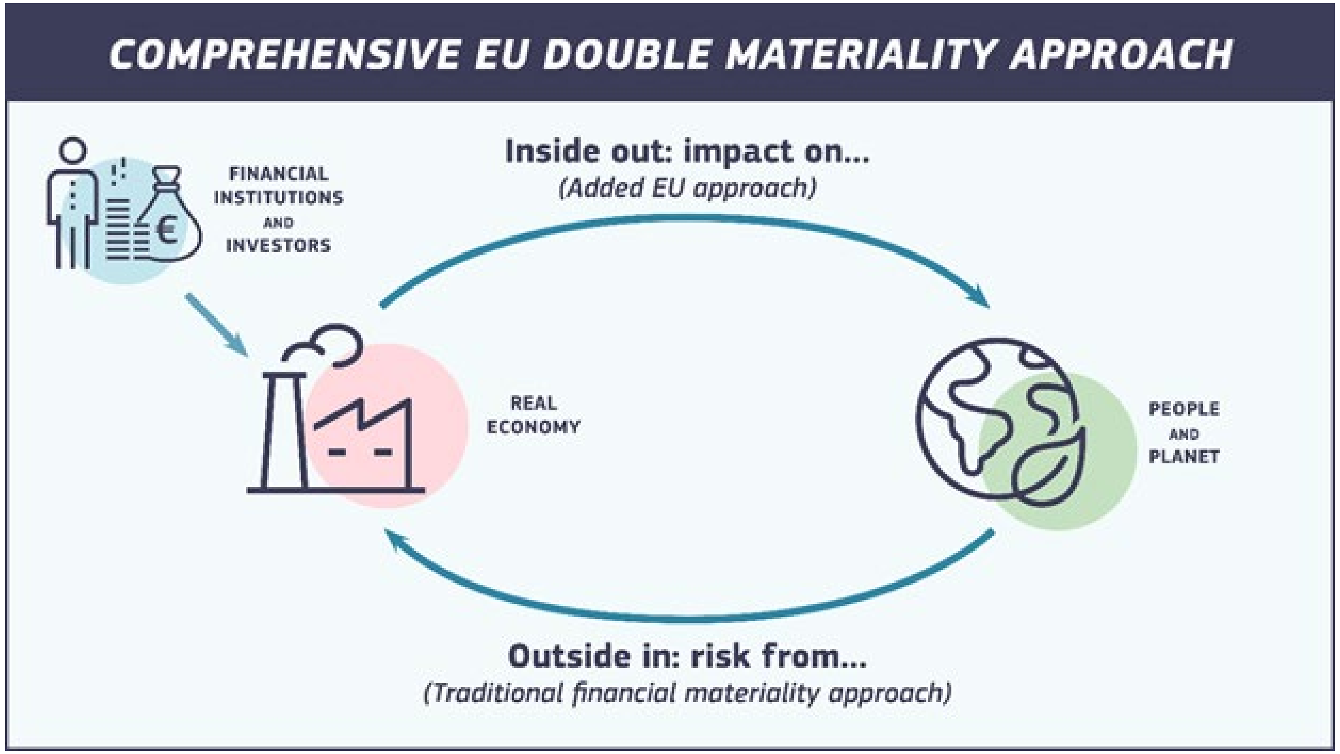
FINANCIAL SECTOR RESILIENCE AND CONTRIBUTION

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.

The EU double materiality approach



The **double materiality** approach consists of the systematic integration of both financially material sustainability risks (outside-in) and sustainability impacts (inside-out) in financial decision-making processes.

It is crucial that both angles of the materiality concept are duly integrated for the financial sector to contribute pro-actively and fully to the success of the European Green Deal.

European Commission

EU 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 EU 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.

European Commission

Taxonomy – Objectives and Framework

Sustainability objectives

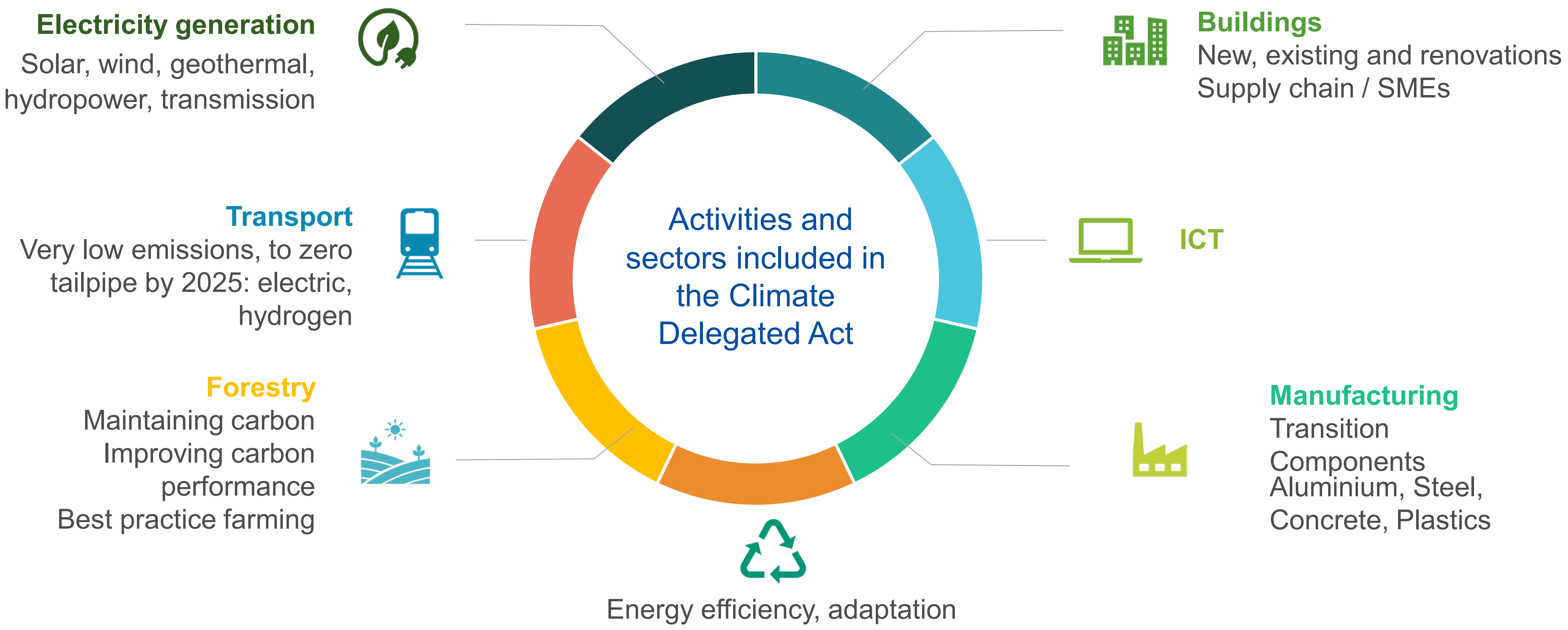
- (a) climate change mitigation,
- (b) climate change adaptation,
- (c) the sustainable use and protection of water and marine resources,
- (d) the transition to a circular economy,
- (e) pollution prevention and control, and
- (f) the protection and restoration of biodiversity and ecosystems.

Taxonomy framework

Make a positive contribution		Avoid significant harm		Social safeguards
(a) Substantial contribution to at least one of the six environmental objectives	+	(b) **Do no significant harm** to any of the other five environmental objectives	+	(c) Comply with **minimum safeguards**

Climate Taxonomy - wide emissions and company coverage

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



EU Taxonomy – focus on impact

The EU Taxonomy aims to provide incentives to investors to finance transition projects.

By clearly defining what is in line with the EU Green Deal targets, the EU Taxonomy seeks to incentivise and encourage companies to launch new projects, or upgrade existing ones, to meet the EU Taxonomy criteria.

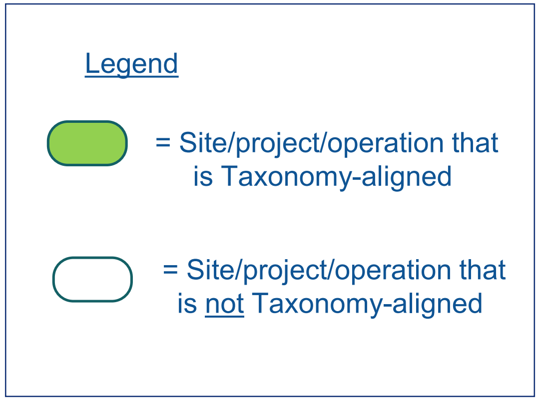
Examples of the most impactful areas – activities enabling transformation of the sectors with the highest contribution to CO2 emissions – **energy, manufacturing, buildings, transport**:

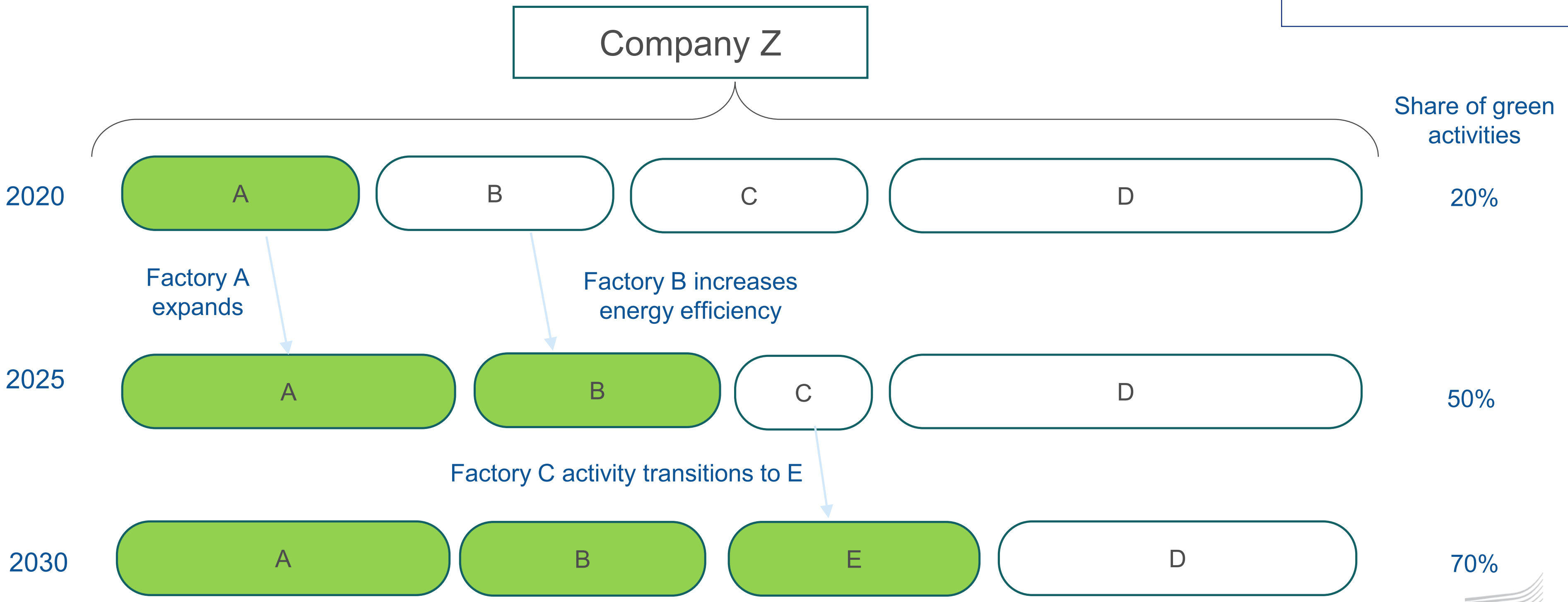
- **Renewable energies**
- **Manufacturing of hydrogen**
- **Batteries, storage of energy/hydrogen**
- **Building renovations**
- **Low carbon transport**

European Commission

Transition tool - how does it help companies to transition?

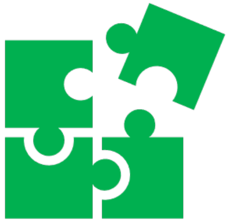
- By defining green economic activities, not companies
- The Taxonomy enables companies to transition by gradually increasing their share of green activities





Source: Platform on Sustainable Finance

Focus on usability and implementation



- **How companies are applying** the Taxonomy in practice
- **How financial markets are applying** it for financial products
- **FAQs** to clarify the content of the EU Taxonomy and the related disclosure rules
- **Recommendations to improve usability** – Platform's report on usability of the taxonomy from November 2022 as well as the future work of the new Platform (to be set up shortly)
- **EU Taxonomy Compass** - user-friendly on-line tool

EU taxonomy for sustainable activities (europa.eu)

FAQ: What is the EU Taxonomy and how will it work in practice? (europa.eu)

Completing the EU Taxonomy

Work ongoing to complete Taxonomy for the other 4 environmental objectives:

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

International Platform on Sustainable Finance

Members

Public authorities

ARGENTINA CANADA CHILE CHINA EUROPEAN UNION

HONG KONG SAR INDIA INDONESIA JAPAN KENYA MALAYSIA

MOROCCO NEW ZEALAND NORWAY SENEGAL SINGAPORE SWITZERLAND UNITED KINGDOM

55% OF GLOBAL GHG EMISSIONS

55% OF GLOBAL GDP

50% OF WORLD POPULATION

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.

Thank you

European Commission