



Taxonomy

**Federal Council For Sustainable Development
Belgium**

05/10/18

Commission action plan on financing sustainable growth

- Adopted on 8 March 2018
- Comprehensive strategy based on HLEG recommendations
- Sets out 3 main objectives and 10 actions to be delivered

AP Objectives

- 1. Reorienting capital flows towards sustainable investment*
- 2. Managing financial risks stemming from climate change, environmental degradation and social issues*
- 3. Fostering transparency and long-termism*

Taxonomy: what is it and why?

- **Definition** → A harmonised classification system
- **Why?**
 - Clarity on what can be considered environmentally sustainable;
 - protect private investors by avoiding risks of green-washing (i.e. preventing that marketing is used to promote the perception that an organisation's products, aims or policies are environmentally-friendly when they are in fact not);
 - avoid market fragmentation by providing a single system of classification; and

The proposal (i)

- ***EU taxonomy:*** A harmonised classification system identifying economic activities that can be considered environmentally sustainable
- ***When is an economic activity environmentally sustainable?***
 - Contribute substantially to one of the 6 EU environmental objectives set out in the Regulation;
 - Not do significant harm to any of the other 5 EU environmental objectives;
 - The activity must be carried out in compliance with minimum safeguards, mainly in terms of fundamental labour rights;
 - The activity must comply with several technical screening criteria.

The proposal (ii)

- ***6 EU environmental objectives:***
 - (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.

The proposal (iii)

- **Technical Screening Criteria** needed to determine whether an activity contributes substantially to one of the 6 objectives, while not significantly harming any of the other 5.
- Regulation is a framework that allows for the progress development of the Taxonomy **over time**.
- Delegated acts on climate change mitigation and adaptation will be adopted first (by December 2019). Transition to a circular economy, waste prevention and recycling as well as pollution prevention and control by December 2021 and by December 2022 sustainable use and protection of water and marine resources and protection of healthy ecosystems.
- Review clause for **social issues**

Who will have to use it?

- A) Member States or the Union when setting any requirements on market actors in respect of financial products or corporate bonds that are marketed or deemed as environmentally sustainable.
- B) Financial market participants offering financial products as environmentally sustainable investments or as investments having similar characteristics. They would have to disclose information on how and to what extent the criteria for environmentally sustainable economic activities are used to determine the environmental sustainability of the investment.
- no behavioral requirements

Key features/principles

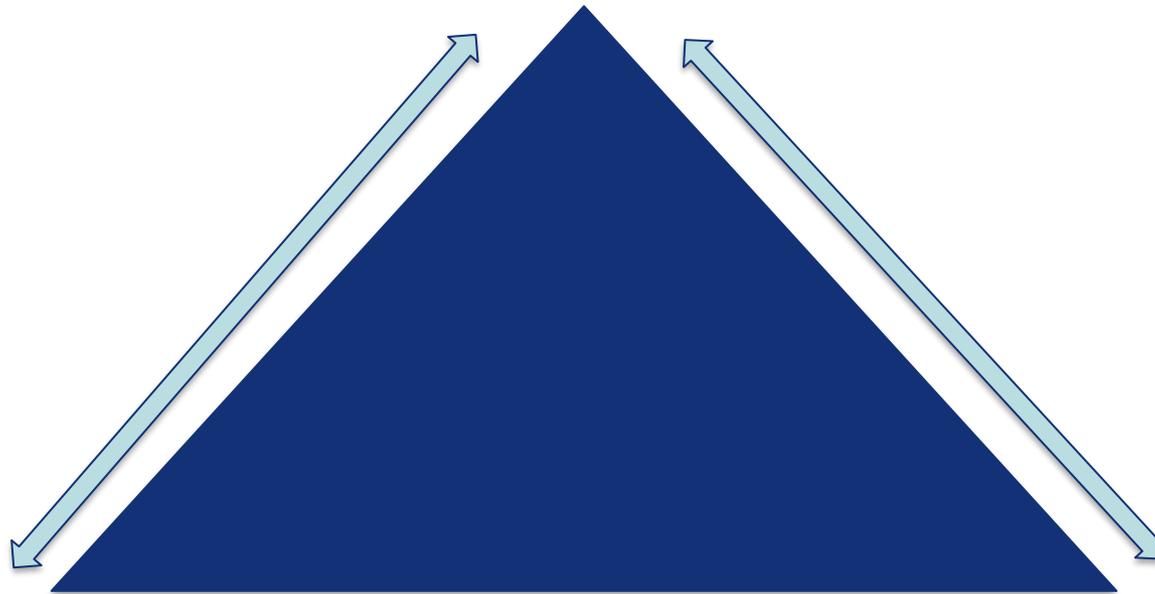
- **Science-based**
- **Consider long term and short term environmental impact**
- **Translation device (builds on EU acquis)**
- **Technology-neutral**
- **Granular yet easy to use**
- **Dynamic**
- **Greening of polluting sectors**
- **What is not green is not necessarily brown!**
- **Build on existing market practices**

What next?

- **Consultation period, currently reviewing feedback received, and will report to the Council and the EP.**
- **Negotiations started with Council**
- **EP rapporteur Bas Eickhout**
- **Technical expert group**
- **Member states expert group**

Iterative process

Negotiations of L1 text
(determining content and approach followed by TEG; fed by and feeding the technical work including MS expert group)



Technical work
(carried out by TEG with steer and secretariat provided by Commission on the basis on discussions with co-legislators and stakeholders feedback)

MS expert group
(forum to exchange views, present progress of TEG and feed discussion at technical and political level)

Technical expert group (TEG)

- Around 40 experts representing public as well as private sector (both financial and "real economy" sectors) together with academia and NGOs working on 4 tasks:
 1. technical screening criteria for environmentally sustainable economic activities under the EU taxonomy;
 2. an EU Green Bond Standard;
 3. a category of "low carbon" indices for use by asset and portfolio managers as a benchmark for a low carbon investment strategy; and
 4. metrics allowing improving disclosure on climate-related information.
- Set up in July 2018, mandate until June 2019 and possible extension until December 2019

Taxonomy work of the TEG

- Within the framework of the EU Taxonomy Regulation proposal the TEG is tasked to:
 - 1) Propose technical screening criteria
 - 2) Assess the implications of the taxonomy considering the potential environmental, economic and financial (market) impacts.

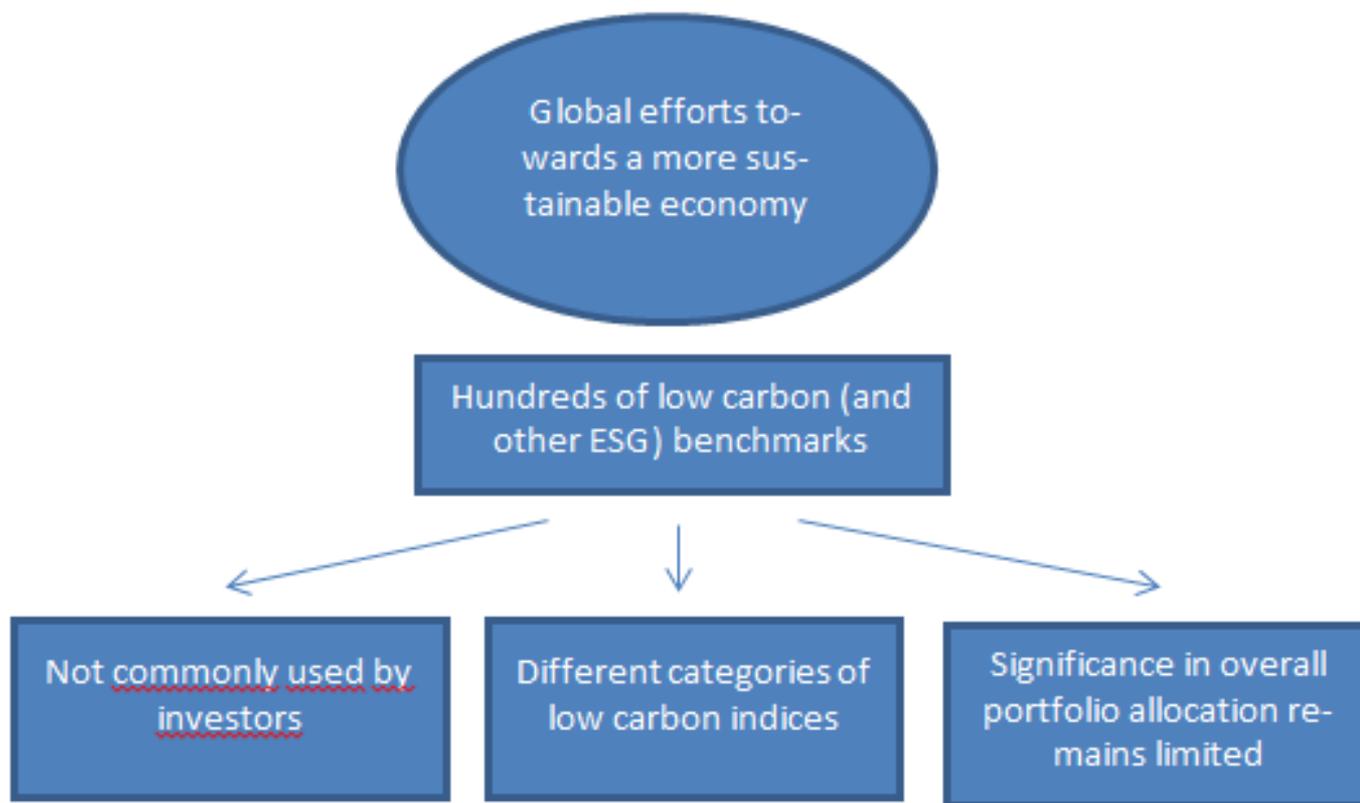
Outreach strategy

- Need to seek technical input to assist in establishing technical screening criteria for the different sectors
- Need to consult stakeholders to receive feedback on interim progress made
- Need to communicate on the progress to outside world
- Will go online soon.



Low-carbon benchmarks

BACKGROUND



BENCHMARK PROPOSAL



Creation of the low carbon benchmark



Creation of the positive carbon impact benchmark

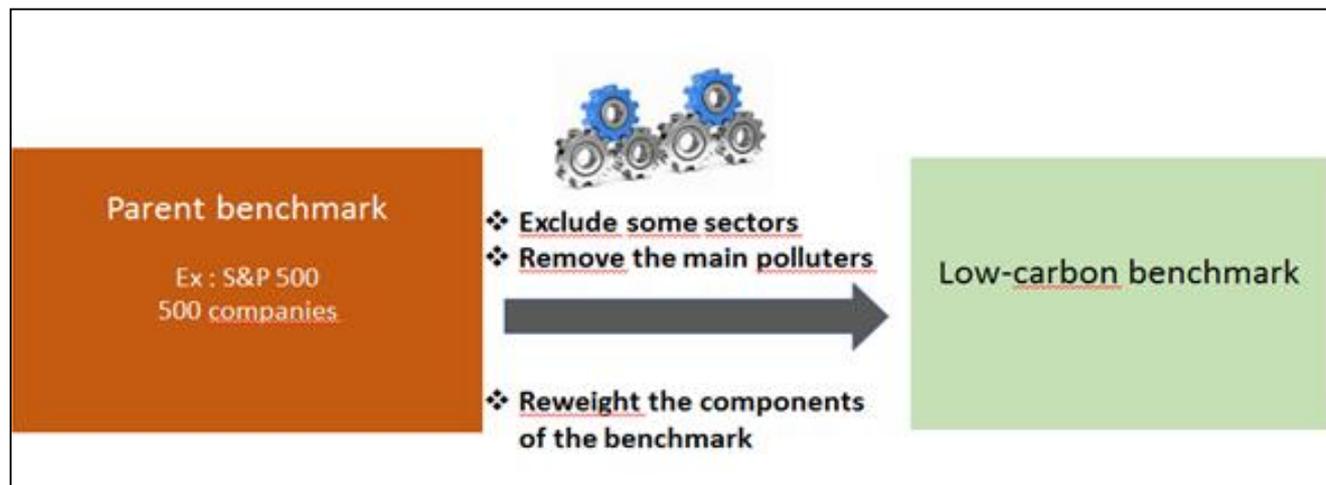


Increase the level of transparency of ESG benchmarks

Objective: avoid greenwashing and create reliable tools for green-investment strategies

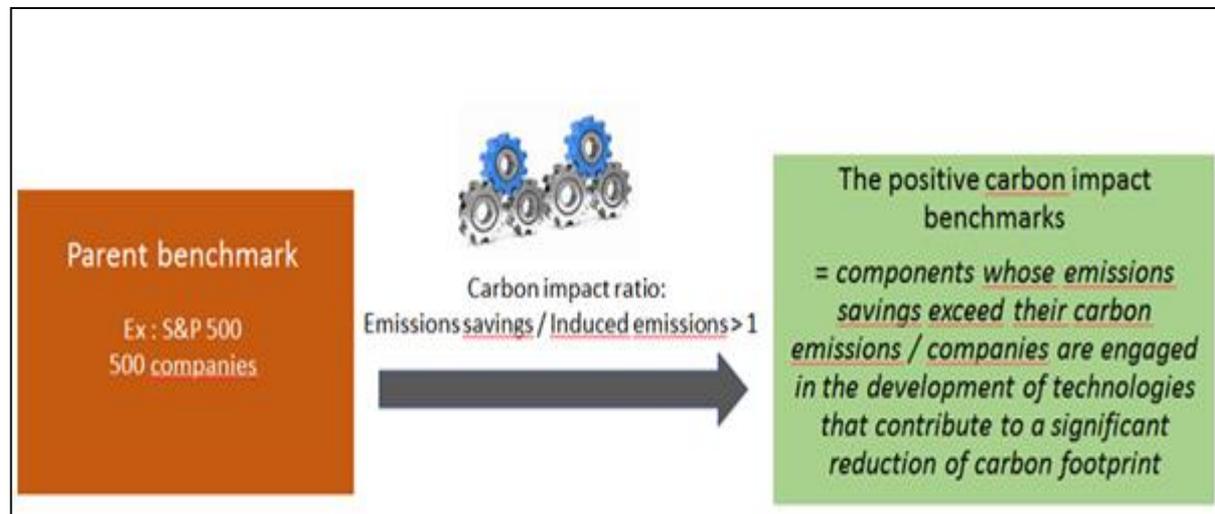
1/ Low-carbon benchmark: new article 19a

(23a) 'low-carbon benchmark' means a benchmark where the underlying assets, for the purposes of point 1(b)(ii) of this paragraph, are selected so that the resulting benchmark portfolio **has less carbon emissions when compared to the assets that comprise a standard capital-weighted benchmark** and which **is constructed in accordance with the standards** laid down in the delegated acts referred to in Article 19a(2)



2/ Positive carbon impact benchmark: new article 19a

(23b) 'positive carbon impact benchmark' means a benchmark where the underlying assets, for the purposes of point 1(b)(ii) of this paragraph, are selected on the basis that their carbon emissions savings exceed the asset's carbon footprint and which is constructed in accordance with the standards laid down in the delegated acts referred to in Article 19a(2)



3/ Increase the level of transparency for ESG benchmarks

- *Objective: address greenwashing*
- *Explain how the key elements of the methodology reflect the ESG factors*

HOW TO IMPLEMENT THESE PROPOSALS?

- Regulation amending the Benchmark Regulation (EU) 2016/1011
- **Technical details** at L2. The **technical expert group** on sustainable finance will:
 - 1. Provide minimum standards for the methodology of the low carbon benchmarks.** *The group will define the key elements of the methodology used providing standards for the selection criteria, type and source of input data, methods used to weight,*
 - 2. Promote common standards to calculate the carbon footprint**
 - 3. Provide minimum standards for the methodology of the PCIB :** *how the company may calculate emissions savings, how to choose an appropriate baseline scenario against which the company's emissions savings are measured, what category of emissions may be included in the category of saved emissions.*
 - 4. Specify the minimum content of disclosure for ESG benchmarks**
- Delegated acts based on the expert group's advice

THE TECHNICAL EXPERT GROUP ON BENCHMARKS

- *The subgroup is composed of benchmark providers, investors, academics, ESMA, etc.*
- *The subgroup has started discussing selection criteria, data needs, and weighting methods for underlying assets of such benchmarks. This includes determining the key elements of minimum standards for low-carbon and positive carbon impact benchmarks.*
- *The importance of ensuring the comparability and reliability of data used for the construction of these benchmarks is clear. In this context, the experts have started deliberations on the various greenhouse gas emission scopes (1, 2 and 3) to develop the positive carbon impact benchmark.*

PUBLIC CONSULTATION APPROACH

- *The European Commission organised a feedback consultation on its proposal from 24 May 2018 - 22 August 2018 on its proposal*
- The responses were analyzed and a summary will be sent to the Parliament and the Council.

KEY THEMES MENTIONED BY STAKEHOLDERS

Overall, comments were supportive. Some also provided constructive feedback on the proposal.

Link with the taxonomy?

Ambitious enough and forward looking?

Disclosure for ESG or all benchmarks?

The risk to hinder innovation



NEXT STEPS

- In the Parliament:
 - Neena Gill is the rapporteur. The Report was published on 27 September. It will be presented at the Parliament on 18 October.
 - The deadline for amendments is 24 October. The amendments will then be examined on 18/19 November.
 - A Vote is scheduled in committee on 3rd December
- In the Council:
 - Meeting today.

NEXT STEPS

- *In the TEG*

Meetings +
workshops
(from July
2018 to June
2019)

Interim
consultation
(March 2019)

Publication of
the Final
report (June
2019)

Public
consultation
organised by
the EC (July-
September
2019)