



Extended abstract

„EU Taxonomy - use and reference in different regulatory and political contexts“

„A New Reality“

eccee Summer Study on energy efficiency

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»»» EU Taxonomy

Use and reference in multiple financial, regulatory and political contexts

1. Introduction to the EU Taxonomy

- Background, structure

2. Reporting obligations based on the EU Taxonomy Regulation

- NFRD
- Disclosure Regulation

3. Further contexts with reference to the EU Taxonomy

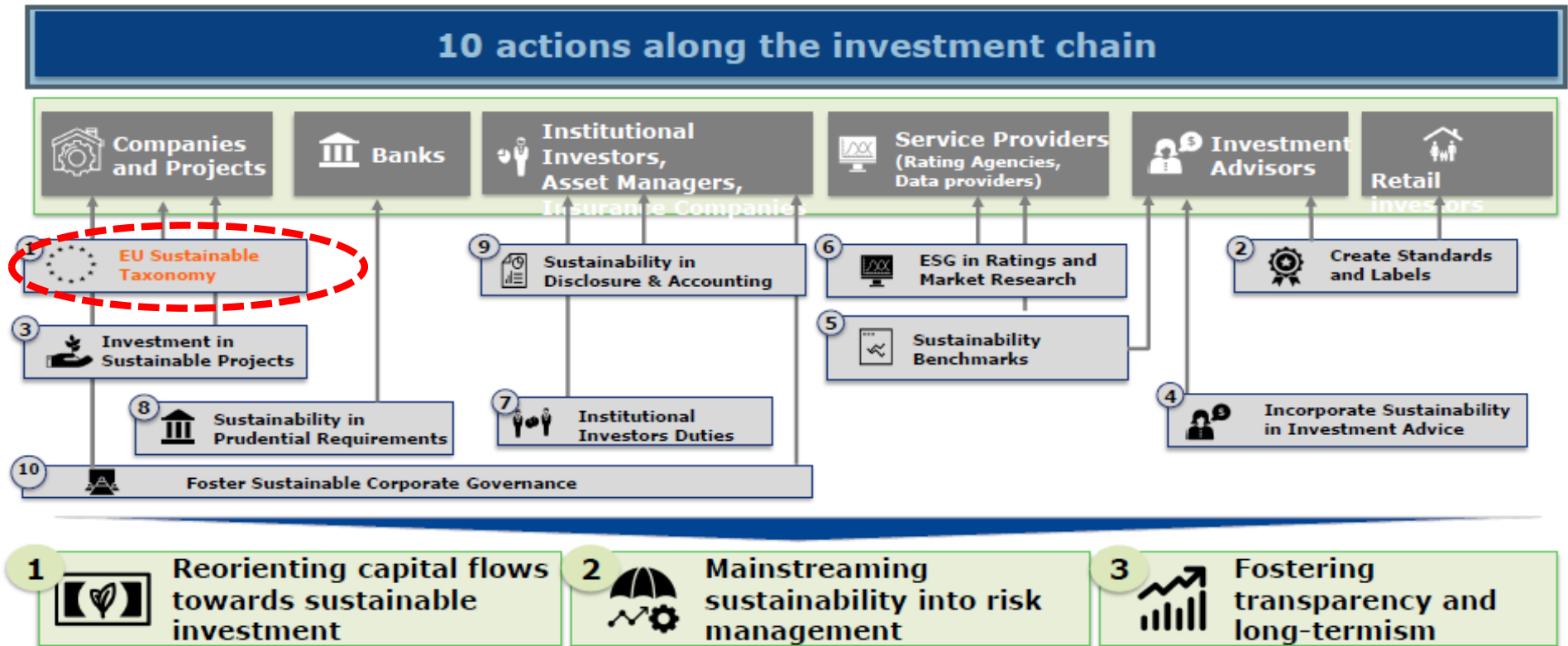
- EU Green Bond Standard
- Next GenerationEU (RRF; EU Green Bond Issuance)
- InvestEU (Sustainability proofing)
- Eco Label
- Sustainable Finance Strategy

4. Summary and implications for energy efficiency investments

>>> 1. EU Taxonomie – political context

EU COM measures to foster investment to achieve the energy and climate goals

EU Action Plan on Financing Sustainable Growth



EU Taxonomy: center piece of the EU Action Plan on Sustainable Finance
(March 2018)

1. The EU Taxonomy for sustainable economic activities

Taxonomy Regulation -> long term relevance for corporate and financial sector

1. Reasons

- ✓ Introduction of new disclosure and reporting requirements
- ✓ Mandatory reference for future EU legislation as well as EU Member States
- ✓ Cross-Sectoral reference for the proof/determination of environmental sustainability

4. Status quo of market preparation

- ✓ **At the beginning; preparing for 1st year of reporting**

2. Target groups

Legislation

- ✓ **EU KOM and EU Member States**

Financial Products

Financial market participants:

- ✓ Fund managers, portfolio managers, pension funds etc

Sustainability Reporting

(Large) corporates

3. Data / information providers

Nearly all real economy actors involved

Example **energy efficiency fund**: check taxonomy compliance on a project by project basis

Example of a large corporate: business activities related to taxonomy activities and degree of compliance with criteria

>>> 1. Structure and functioning of the EU taxonomy

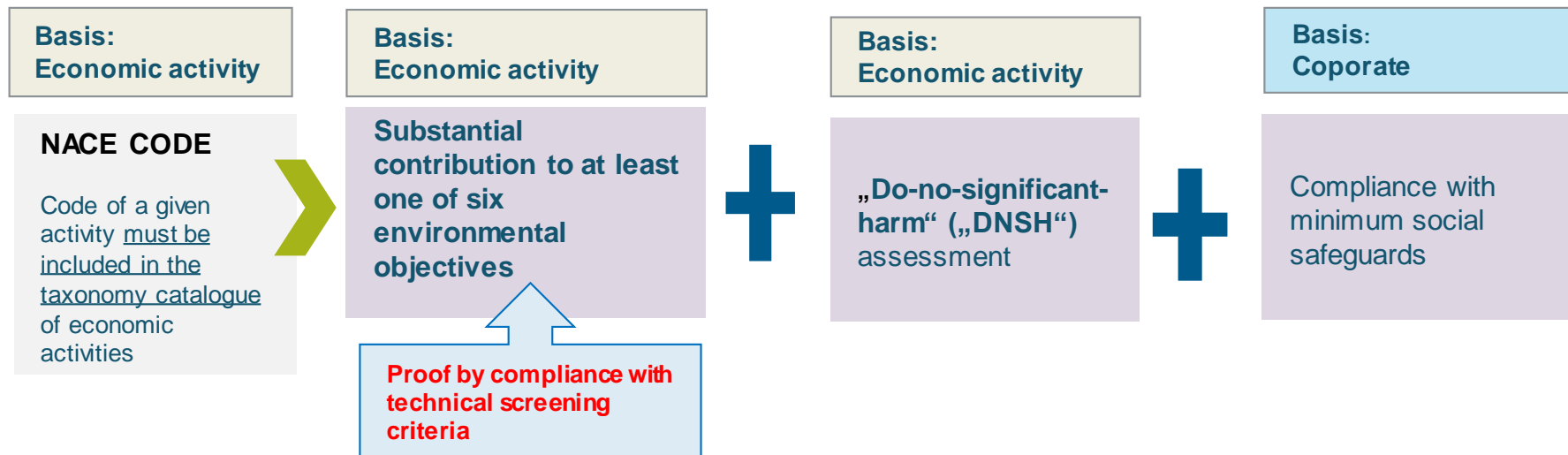
Introduction

1. What can the EU taxonomy deliver

- ✓ **Definition** of the conditions for an economic activity to be regarded **ecologically sustainable**
- ✓ **Clarity for investors** (preventing „green washing“)
- ✓ **High degree of ambition** – climate neutrality serving as orientation
- ✓ **Criteria based on scientific** and industry standards and finding

2. How does the EU taxonomy work in practice – part 1

Cumulative compliance with 4 conditions



7 sectors; to date 2 environmental objectives covered; ca. 75 economic activities identified
Distinguishing: sustainable/green activities, enabling activities, transitional activities

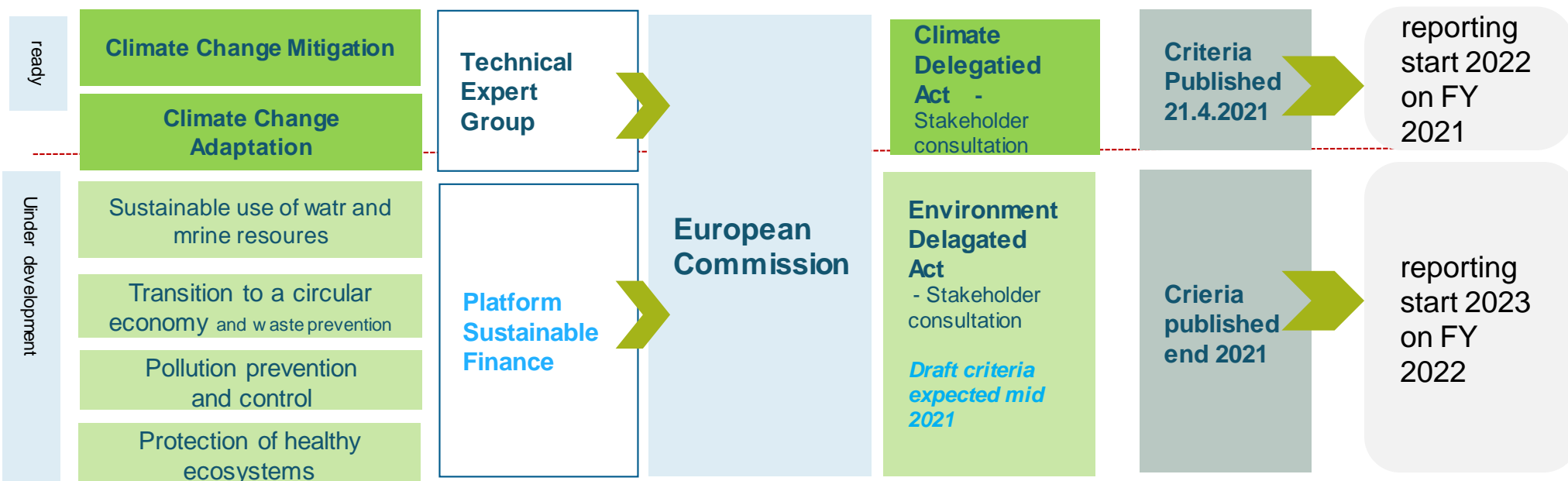
>>> 1. Structure and functioning of the EU taxonomy

Introduction

2. How does the EU taxonomy work in practice – part 2

Step 1 Regulation providing the framework, definition of six environmental objectives

Step 2 Regulation determining the conditions to be met to be regarded ecologically sustainable

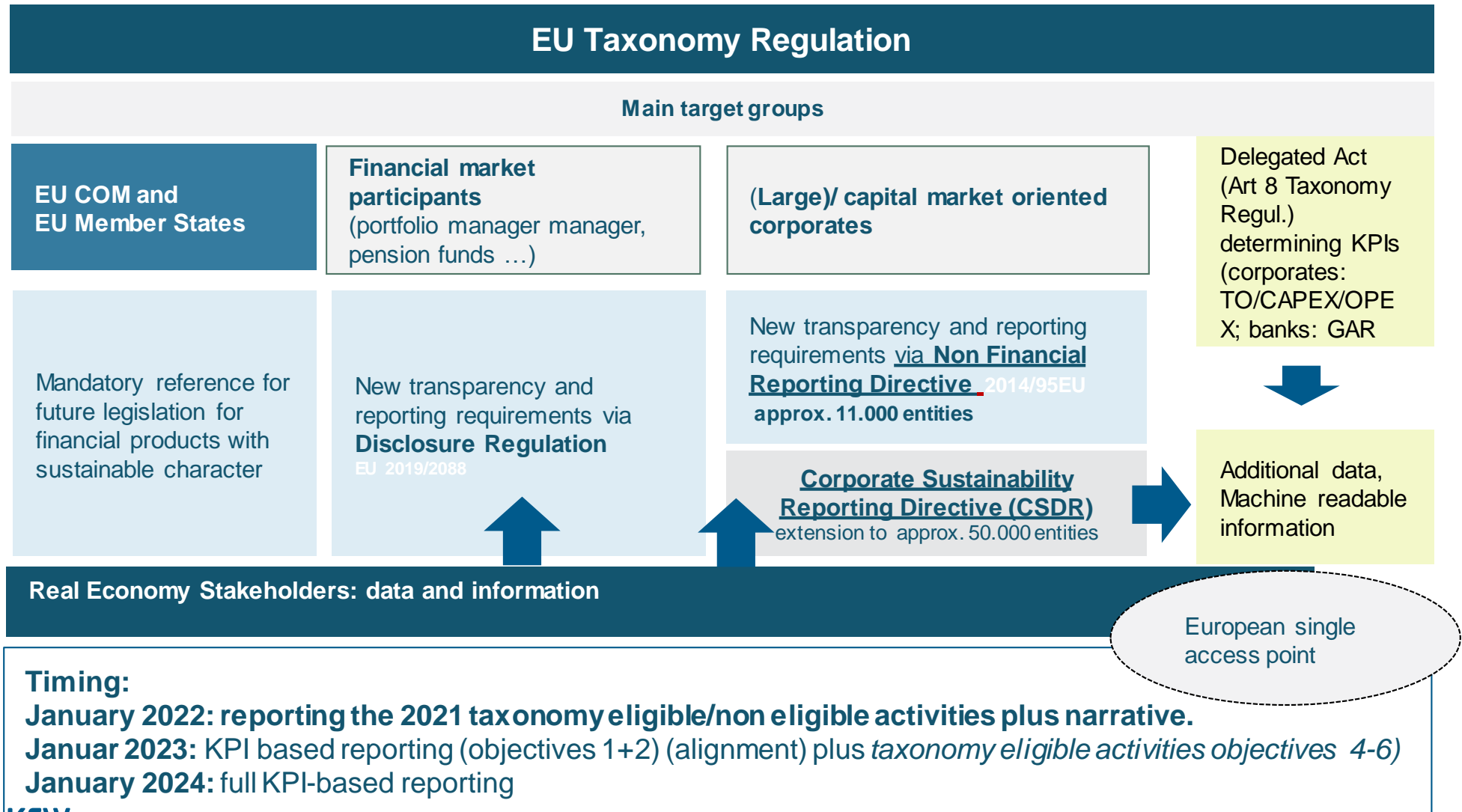


Step 3: Identification of economic activities suitable for the environmental objectives and elaboration of technical screening criteria by experts as a proposal for the European Commission

Step 4: Revision of the criteria by EU COM/changes/amendments (incl. stakeholder consultation), Publication of final technical criteria via Delegated Act of the EU COM (in compliance with Taxonomy Regulation).

>>> 2. Reporting Obligations based on the EU Taxonomy

Overview



3. Regulatory and political contexts

Use of the EU Taxonomy in different regulatory and political contexts

In addition to the Disclosure Regulation and the Non-Financial Reporting Directive...

❖ EU Green Bond Standard

- Full compliance with EU Taxonomy criteria

Legislative proposal expected mid 2021

❖ ECO Label for Retail-Financial Products

- Direct link to the EU Taxonomy criteria
current negotiations as regards share of taxonomy compliant assets
(finalisation/publication in

❖ Next Generation EU

- Recovery and Resilience Facility

DNSH assessment for all investment required
EU Taxonomy –based criteria to be used in the context of the Climate-Tracking procedure

❖ InvestEU

- Sustainability Proofing

Regulation explicitly linked to EU Taxonomy
No obligation but option to use the technical screening criteria/DNSH

❖ Next Generation EU Green Bonds

- refinancing 30% of NextGenEU

Up to EUR 256 Mrd. EUR
Green Bond Framework under development
EU GBS (-> EU Taxo criteria) to be used to extent possible

❖ EU Sustainable Finance Strategie

- Numerous links to the EU Taxonomie
- Publication expected 2021

5. Summary and outlook

- EU taxonomy – **first comprehensive framework and benchmark** for ecologically sustainable economic activities
- **Cross sectoral and long term relevance** due to the Taxonomy Regulation
- **High degree of complexity & short time available for implementation** create hurdles and challenges
- Technical **criteria based on scientific evidence** help building trust and comparability
- **Missing data and lack of well established data collection processes** will be the main issue and hurdle for real economy actors at the beginning
- The EU taxonomy will be the **basis for future sustainability reporting**
- Even before its completion and still lacking elements of operationalisation the EU taxonomy is **used and referenced in heterogenous political and regulatory contexts**
- EU Taxonomy will have an **influence of financing conditions**
- energy efficiency investors should prepare for the data and information requirements and prepare for a potentially larger choice of financing options based on a high degree of taxonomy compliant projects
- **Sozial Taxonomy** (2021) under preparation; „brown taxonomy“ on the agenda.



»»» Back-up

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»»» . Further contexts with reference to the EU taxonomy

1. EU Green Bond Standard

Background

- Development of a proposal in parallel to the EU Taxonomy by TEG (mandated by EC to develop)
- delivered in 3/2019, usability guide in 3/2020
- Context: European Green Deal Investment Plan: mobilise EUR 1 trillion in next decade;
- EC commitment to establish EU GBS;

Reference to EU Taxonomy

- Explicit reference to the EU Taxonomy Regulation,
- Green projects finance via EU GBS require full compliance with the technical screening criteria as well as DNSH

EU COM timeline and purpose

- Legislative proposal scheduled for 2nd Q 2021
- Following public consultation on the EU GBS in the context of the EU SF Strategy



>>> . Further contexts with reference to the EU taxonomy

2. NextGeneration EU: RRF and 3. NextGeneration EU Green Bonds

2. Recovery and Resilience Facility (RRF)

- EU financial support to MS – fight against impact of the **corona crisis**
- Volume **EUR 750 bn** (2018 prices current prices EUR 800 bn)
- **90% of proceeds dedicated to Recovery and Resilience Facility** (= EUR 672,5bn (2018 prices))
 - **37% of the funds have to be used to support the transition to a green future**

3. Next Generation EU Green Bonds

- The EU COM plans to **refinance 30% of the NextGeneration EU** (up to EUR 250bn) through the **issuance of “Next Generation EU Green Bonds”**
- EC in **preparation of a green bond issuance framework “taking into account the future EU Green Bond Standard to the extent possible.”**

Source: European Commission, NextGenerationEU, Green Bonds, 14.4.2021,

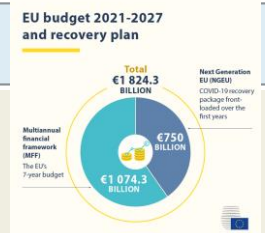
Reference to the EU Taxonomy

- **requirement to conduct a Do No Significant Harm (DNSH) assessment:**
- Tracking of green expenditures via **EU Climate marker tracking system** (aims to anticipate as many elements as possible of the EU Taxonomy (example: new energy efficient buildings)

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Reference to the EU Taxonomy

- Explicit reference to the future EU Green Bond Framework creates the link to the EU Taxonomy (EU GB require full compliance with the Taxonomy criteria)



>>> . Further contexts with reference to the EU taxonomy

2. NextGeneration EU: RRF and 3. NextGeneration EU Green Bonds

2. Recovery and Resilience Facility (RRF)

- **RRF = center piece of NextGenerationEU**
- temporary EU financial support – fight against negative economic impact of the **corona crisis**
- Volume **EUR 750 bn** (2018 prices current prices EUR 800 bn)
 - **90% of proceeds dedicated to Recovery and Resilience Facility** (= EUR 672,5bn (2018 prices))
 - The RRF provides loans and grants to member states
 - Use of funds: building a greener, more digital and resilient future
 - **37% of the funds have to be used to support the transition to a green future**

3. Next Generation EU Green Bonds

- The EU COM plans to **refinance 30% of the NextGeneration EU** (up to EUR 250bn) through the **issuance of “Next Generation EU Green Bonds”**
- Raising funds on the capital markets between mid 2021 and 2026 (all borrowings to be repaid by 2058)
- EC in **preparation of a green bond issuance framework “based on the four pillars enshrined in the Green Bond Principle of the International Capital Market Association (ICMA) and taking into account the future EU Green Bond Standard to the extent possible.”**

Source: European Commission, NextGenerationEU, Green Bonds, 14.4.2021,

Reference to the EU Taxonomy

- **requirement to conduct a Do no significant harm (DNSH) assessment:** EC Technical guidance: “MS need to provide a **DNSH assessment for each and every measure of their RRP.**”
- Reference to Environmental legislation is not enough
- Tracking of green expenditures will be done via the **EU Climate marker tracking system (aims to anticipate as many elements as possible of the EU Taxonomy** (example: new energy efficient buildings)

Reference to the EU Taxonomy

- explicit reference to the future EU Green Bond Framework creates the link to the EU Taxonomy (EU GB require full compliance with the Taxonomy criteria)



4. Further contexts with reference to the EU taxonomy

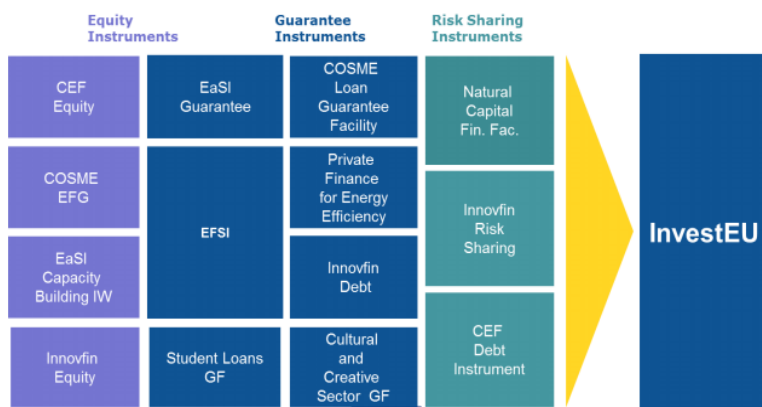
4. Invest EU – Sustainability proofing

4. Invest EU

- InvestEU Fund: single fund bringing together numerous instruments under one roof;
- InvestEU Regulation in force on 26.3.2021, retroactively for 1.1.2021
- Four thematic policy windows



Programmes replaced by the InvestEU Fund



Reference to the EU Taxonomy

- InvestEU Regulation
 - requires (ex ante) sustainability proofing for investments financed under InvestEU;
 - **explicit reference to the EU Taxonomy**
- **No obligation** to comply with the technical screening criteria
- **Guidance to sustainability proofing:**
 - option to use the technical screening criteria and DNSh criteria **where appropriate and to the extent possible**

(Commission notice; Technical guidance on sustainability proofing for the InvestEU Fund (C(2021) 2632 final)

4. Further contexts with reference to the EU taxonomy

5. Eco Label for retail investment products & 6. EUSustainable Finance Strategy

5. EU ECO Label for Investment Products

- part of the **EU Action Plan**: creation of an EU Eco Label also for retail financial products
 - support for retail investors: environmental impact
- packaged retail and insurance based products
- savings products: financial returns plus environmental effect/impact
 - multi option products (for example life insurance)

Reference to the EU Taxonomy

- products the label requires a percentage of EU Taxonomy aligned assets
- use of the DNSH criteria (exclusion list or full compliance) is under discussion
- Finalisation / directive expected in 2021

6. EU Sustainable Finance Strategy

- EU Green deal: renewed sustainable finance strategy; enabling investment framework
- redirecting private capital to green investments;
- culture of sustainable corporate governance
- publication 2021

Reference to the EU Taxonomy

- Cornerstone - multiple references