

The Taxonomy Regulation: a step further towards the EU Green Transition?

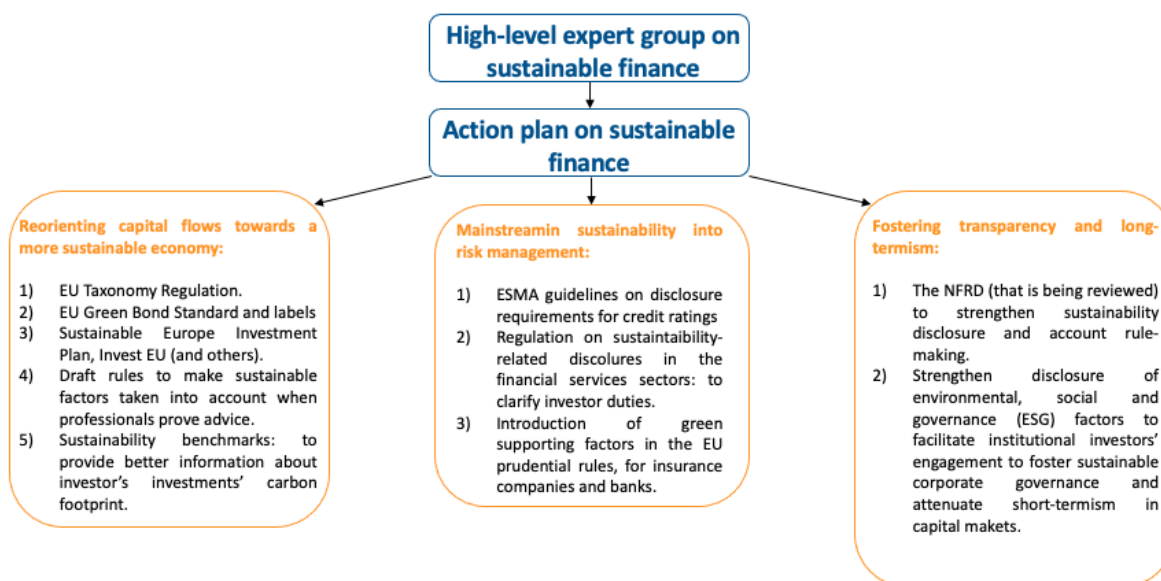
Lighthouse Europe

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The Articulation of the Sustainable Finance Legislative Package

The European Commission created the sustainable finance legislative package to make companies accountable for their investments and orient them towards more environmentally and sustainable economic activities. Achieving sustainable finance is one of the objectives aimed by the [European Green deal](#) and an Action Plan on Financing Sustainable Growth. According to this greater goal, the European Commission has developed **three concrete** objectives and a legislative package to attain them:



As detailed in the above graphic, the legislative instruments that will serve these objectives are the Taxonomy Regulation, the EU Green Bond Standards, the Benchmark Regulation and a regulatory framework to take into account ESG factors.

Regarding the Green Bond Standards, the European Commission is expected to come forward with [European green standards](#), aligned with the taxonomy to create a gold standard - following the objective of reorienting capital flows towards more sustainable economic activities.



Moreover, the Commission has also adopted a proposal for a [Corporate Sustainability Reporting Directive \(CSRD\)](#) that will replace the [Non-Financial Reporting Directive \(NFRD\)](#) already in place. This proposal will aim to:

- Extend the scope of sustainable finance to all large companies and all companies listed on regulated markets (except for listed micro-enterprises),
- Require the audit of reported information, to report on more requirements and a requirement to report according to mandatory EU sustainability reporting standards
- Require companies to digitally 'tag' the reported information
- Disclose sustainability information to increase transparency with regards to sustainability, information and impact.

There are also financial instruments that are important to achieve the objectives. On January 14, 2020, the European Commission presented [the European Green Deal Investment Plan and Just Transition Mechanism](#). This mechanism will mobilize at least **€1 trillion of sustainable investments** over the next decade and will thus create a stimulative environment for public and private investments needed for the green transition. Moreover, in regard to the 2030 objective, the EU is already providing impetus to help attract the needed investment with the [European Fund for Strategic Investments](#) and other initiatives.

To learn more about these instruments and sustainable finance in general, please read [our article](#) "Sustainable Finance and the NFRD".

[The Taxonomy Regulation](#)

In addition to the above instruments, the [Taxonomy Regulation](#) is part of the legislative package elaborated by the European Commission to promote sustainable investment and implement the European Green Deal. It is a **classification system** that establishes a list of **environmentally sustainable economic activities** – through the provision of appropriate definitions to investors and policymakers about which economic activities are environmentally sustainable.

It **aims** to:

- Provide **protection** for investors against greenwashing
- Help companies plan the **green transition**
- **Mitigate market fragmentation**
- Help **shift investments** where they are the most needed.

The Taxonomy Regulation entered into force on **July 12, 2020**. It establishes **six environmental objectives**.



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It also defined **four conditions** for an activity to meet in order to be qualified as environmentally sustainable:

- 1) To contribute substantially to one or more of the six environmental objectives (Article 9, and in accordance with Articles 10 to 16 of the Regulation)
- 2) To not do significant harm to any of six other environmental objectives (Article 9 and in accordance with Article 17 of the Regulation)
- 3) To be carried out in compliance with minimum social safeguards (Article 18 of the Regulation)
- 4) To comply with the technical screening criteria established by the European Commission through delegated acts (Articles 10-15 of the Regulation).

The Taxonomy Regulation put the European Commission in charge of establishing the **concrete list of environmentally sustainable activities**, through the issuing of **delegated acts**. These acts will define the **technical screening criteria** for each pre-cited objective.

The [first Delegated Act](#) concerned **climate change adaptation and mitigation objectives**. It was approved on April 21st, 2021, and formally adopted on **June 4th, 2021**, for scrutiny by the co-legislators¹.

The Commission has to **regularly review these criteria**, at least every three years in the case of activities labelled as transitional, and amend the acts if needed. Alongside this first Delegated act was adopted a Communication of the European Commission, the [EU Taxonomy, Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties: Directing finance towards the European Green Deal](#). This Communication aimed to deliver important information about how the sustainable finance toolbox facilitates the access to finance for the green transition.

On **July 6th, 2021**, the European Commission also adopted the [delegated act supplementing Article 8 of the Taxonomy Regulation](#) for scrutiny by co-legislators. This delegated act specifies the content, methodology and presentation of information that will have to be disclosed by financial and non-financial enterprises about the proportion of environmentally sustainable economic activities in

¹ During the scrutiny procedure, the European Parliament has the opportunity to adopt a resolution opposing the delegated act and asking the Commission to withdraw or amend the draft. It may also submit a new proposal under the appropriate legislative procedure. For more information please contact a member of our team.



their business, investments or lending activities. The purpose of [Article 8 of the Taxonomy Regulation](#) is to increase transparency and help prevent greenwashing through the provision of information to investors about the environmental performance of assets and economic activities of financial and non-financial undertakings.

The **second Delegated Act** for the remaining objectives will be published in **2022**. It will cover different fields such as agriculture, certain manufacturing activities and different energy sectors. Notably, in this latter sector, this second Delegated Act will cover nuclear energy. In a recent report conducted by the Joint Research Center in March 2021 for the European Commission, **nuclear energy** was declared to not cause “more harm to human health or to the environment than other electricity production technologies already included in the EU Taxonomy as activities supporting climate change mitigation”. This report was conducted with regards to a specific review process contained in the Taxonomy Regulation. The Euratom Article 31 experts’ groups and the Scientific Committee on Health, Environmental and Emerging Risks (SCHEER) are expected to conduct further research and issue a report about nuclear energy **within three months**.

Conclusion and Recommendations

Companies still struggle to anticipate the progress made by the sustainable package and to determine the concrete implications it might have on their business. Planned developments for finance and the Taxonomy Regulation will impact private stakeholders about how they should, but even more, on how they must, invest their capital.

The timing is right for companies and federations to take action. The following next steps offer opportunities to participate in the legislative proceedings and make their voices heard:

- Companies and market members will be reporting from taxonomy alignment in January 2022;
- The Taxonomy Regulation will probably be extended to unsustainable activities and activities that do not create substantial impacts to the environment;
- There is a need, from an international point of view, for coordination and converged standards, that would enable a more quickly implemented legislation.

Lighthouse Europe maintains a staff specialised in all areas and potential implications of the development of sustainable finance and of the European Green Deal who can help your business position itself in alignment with the EU’s targets.

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