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European Commission's Technical Expert Group consultation on the usability of the taxonomy

EBF response

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General comments on KEY elements of usability

Usability

We see the taxonomy as **a common language that could be applied by all (financial and non-financial) market participants to all their activities**, even if regulatory proposals referring to the taxonomy have had a smaller scope up to now. The commonly accepted framework or classification system should be designed in a way that will enable an unambiguous identification of all sustainable activities, companies and assets. It is however important to distinguish between voluntary and mandatory use of the taxonomy. It should be possible to apply the taxonomy as a common comprehensive framework or classification system by all market participants to all activities, products and services on a voluntary basis while required for those financial products marketed as sustainable. Even if it is beyond the scope of this consultation, we would also recommend governments to use them for various goals, such as reporting and procurement. We agree with TEG that the taxonomy is not and should not be a mandatory list of activities in which to invest.

Financial market participants are willing to finance sustainable economic activities. Yet it needs to be recognized that the skills of financial professionals are outside natural sciences. Therefore, **the taxonomy needs to be simple enough** so

those who are supposed to use it in their investment decision making can understand it.

An overly complex and complicated taxonomy which usage requires highly specialized personnel is likely to limit the use in smaller companies and doesn't serve transparency or credibility of the financial market. The **principle of proportionality** is vital to make sustainable finance work in practice. Also, the complexity and detailed requirements would limit the use of the taxonomy and limit its potential to be used outside the EU.

It is important to **align the taxonomy with existing standards**, systems and frameworks as well as market practices and initiatives. For example, one of the ongoing green finance projects is to create a "green mortgage", a project led by the European Mortgage Federation (EMF). Currently, banks are already piloting this product. The eligibility threshold for a mortgage to be considered "green" in the EMF's model doesn't align with the TEG's taxonomy proposal. The EMF's green mortgage product demands 30% energy efficiency improvement of the building, while the TEG's taxonomy proposal requires an energy efficiency improvement of at least 50%. Where energy efficiency is generally already at a high level, finding eligible project in real estate sector might prove to be near impossible with the TEG's 50% threshold.

The usability of the taxonomy will depend mainly on the way the taxonomy is or will be implemented, or to be precise, to which extent the taxonomy is a system with well-defined environmental activity codes, which can be used to originate financial products, to make (automated) selections of investments or to verify compliance of these with the taxonomy. **Automatization of the processes and integration in the IT systems** has a great potential for acceptance a successful adoption and implementation of the taxonomy.

Ideally the taxonomy is a collection of environmental activity codes which can be implemented in fully automated systems of financial market participants. This improves the usability for the two users of the Taxonomy:

1. **Member States when setting out requirements for environmentally sustainable financial products or bonds.**

    a. A first **KEY element of usability** is **alignment of the Taxonomy with existing economic activity classifications to the maximum extent possible**. We think that the usability of the Taxonomy for member states and market participants would benefit enormously when the Taxonomy uses multiple existing EU classifications simultaneously to identify environmental activities next to NACE codes that seem to take central stage. Important economic activity classifications in the EU are CPA (Classification of Products by Activity), PRODCOM and CN (Combined Nomenclature).

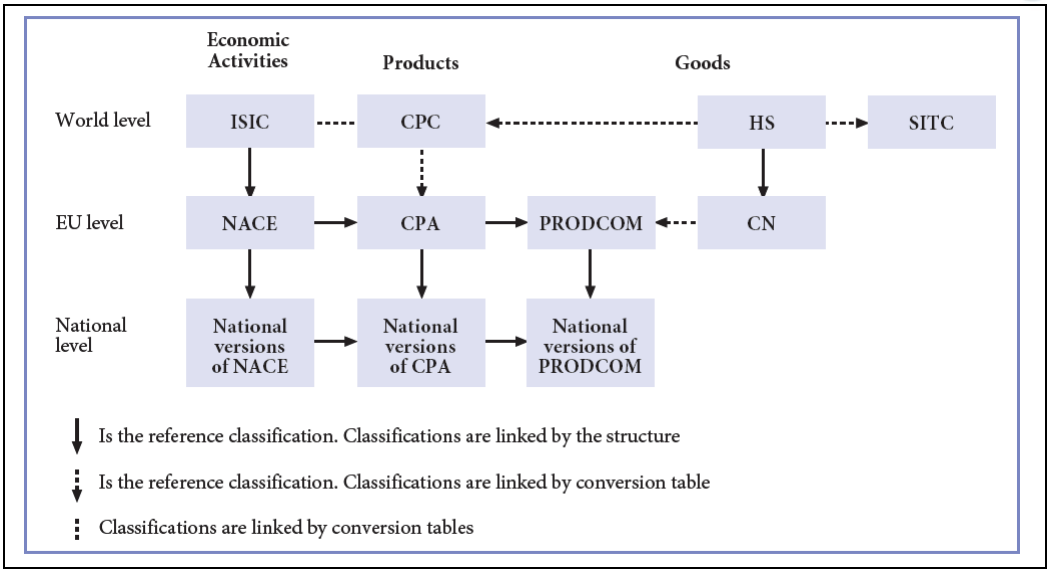


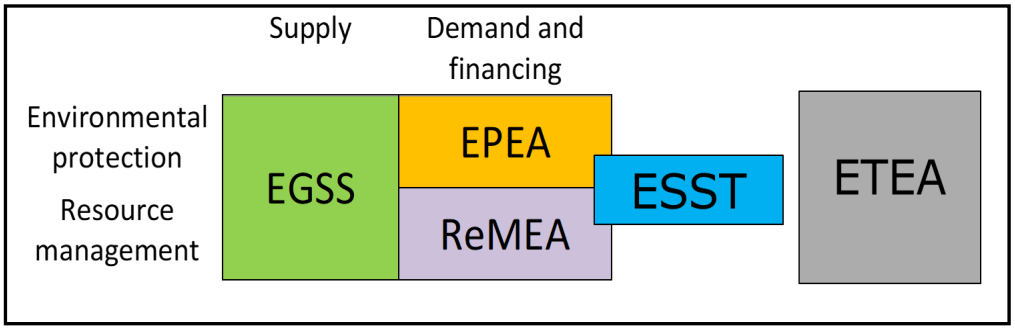
Figure 1 Economic activity classifications

https://ec.europa.eu/eurostat/statistics-explained/index.php/NACE_background#The_international_system_of_economic_classifications

b. A second **KEY element of usability** is **alignment of the Taxonomy with existing environmental classifications to the maximum possible extent**. EU member states combine the above economic activity classifications with CEPA/CReMA classifications to identify environmental activities and expenditures. This happens in the socalled System of Environmental Economic Accounting (SEEA 2012). The member states use this system for their environmental accounts[1] such as: Environmental Goods and Services (EGSS), Environmental protection (EPEA) and Resource management (ReMEA), Environmental subsidies and other transfers (ESST) and environmental taxes (ETEA), see figure. The member states also use the CN classification for monitoring trade, including trade in environmental goods. We are happy that you already referred to the EGSS in SECTION 3.2. of the Taxonomy Pack but we would like to see a much more concrete and complete use and embedding of the

[1] There are six mandatory European environmental accounts under Regulation (EU) 691/2011 (amended in Regulation (EU) 538/2014). See: European Strategy for Environmental Accounts, 7 February 2019 https://ec.europa.eu/eurostat/documents/1798247/6191525/European+Strategy+for+Environmental+Accounts/

various codes in the Taxonomy because this will make the Sustainable Finance Plan more effective.



Eurostat : Figure 2: Environmental accounts of the Member States

c. A third **KEY element of usability** is **alignment of environmental disclosures**. We think the Sustainable Finance Taxonomy must be fully aligned with the taxonomy for the Environmental Accounts of the member states, otherwise Member States will report different environmental investment figures than Financial Market Participants, which is a nightmare for policy makers. If member states would share data with Financial Market Participants then sustainable finance disclosures can be (as much as possible) automated. Financial Market Participants would for example need to know which companies buy or sell what kind of environmental goods and services; this kind of PRODCOM related information is at least partially available to the member states but not public.

2. **Financial Market Participants when disclosing to what extent the Taxonomy criteria have been used in their environmentally labelled products**

   a. A fourth **KEY element of usability** is **its applicability**. It is important to distinguish between voluntary and mandatory use of the taxonomy. The taxonomy as a common comprehensive framework or classification system should be able to be applied by all market participants to all activities, products and services on a voluntary basis while required for those financial products marketed as sustainable. The TEG indicates that the taxonomy is not and should not be a mandatory list of activities in which environmental funds can invest in. We fully agree with that **flexibility**.

   b. A fifth **KEY element of usability** is the **possibility to implement the taxonomy in ICT systems** and work processes. The codes are necessary to enable (automated) selection of companies, projects, assets and products/services for green financing/investment and to generate the "allocation or use-of-proceeds report" for the

environmentally labeled financial products. We agree that the main purpose of the taxonomy is to help financial markets participants to identify which percentage of the 'activities' of an issuer can be labelled as environmentally sustainable. Financial market participants need a taxonomy that can be used to originate environmentally labeled financial products and to verify compliance of clients with the taxonomy. Manual solutions for selection/verification and reporting are labor intensive, too expensive and "out of the question". We we encourage and support a a system of **robust classifications and codes** that can be used in **automated way.** In the current draft taxonomy the only code used is NACE which is too much of a simplification and this limits the usability of the taxonomy by financial markets participants. The point of the taxonomy should be to define what part of an activity can be deemed sustainable. The existing NACE codes will never be enough for this purpose, therefore it is necessary to use additional codes for this purpose.

c. A sixth **KEY element of usability** is the **threshold**. The Taxonomy seems to opt for a **rigid definition** (rigid thresholds) of environmentally sustainable activities. We are not convinced that the EU **will be able** to set meaningful, rigid thresholds per activity and keep them **up to date** in a fast changing society. A so called **comparison approach** to the normal activities in a sector is easier and preferred. In a comparison an activity will be compared to **existing sustainable EU or third party criteria for such activities, similar to the EGSS (Environmental Goods and Services Sector) accounts**. Relative approaches for example focus on the top 30% most efficient activities of a sector, the % of activities that is better than the average in a sector, or the % of activities with external Certifications, Claims or Declarations (see elsewhere: ISO 14020). Using a comparison approach allows for the natural drifting of items in and out because the standard activities/goods/services will become more efficient over time. **We recommend the EU to leave it to the market what these thresholds are, and only describe the process of how market participants can define thresholds, and the management and documentation of the results.** The current document forms a good starting point for that approach. The Sustainable Finance Plan (coordinated by DG FISMA) can incentivize, and perhaps also influence priorities of other DG's, but in the end finance is just a means to an end and it must **build on and support environmental EU policies and directives** from DG ENV, DG CLIMATE and DG ENER. Some examples of how to

implement a comparison approach are described in section 1.2, followed by some examples

d. The seventh **KEY element is the application of the do no harm assessment at the level of the investee companies and the borrowers**. Assessing this at the level of the projects (such as a hydropower dam) or environmental activities (such as the production of an electric car) may not always be possible. It should be therefore allowed, as an alternative, to assess the sustainability at the level of the investee companies and borrowers. Companies should demonstrate that they have the relevant ESG policies in place (with particular reference to transparency and stakeholder engagement) to manage projects in a responsible way including the projects that are in the taxonomy. Financial Market Participants must be able to continue using tools like sustainability/ESG ratings, which are always at the level of the corporate/company. Sustainability ratings are not available at the level of sub-activities.

Information gap

We need a "coherent information chain". Companies need to disclose the relevant information with regards to the types of activity so that then market players can identify what can be considered sustainable or not when marketing financial products as sustainable. Currently the onus is put on financial market players when the information in many instances is not available. At the same time we acknowledge that it may be both challenging and costly for companies, especially SMEs, to provide the information and data necessary for the assessment. Also, from experience, it is cumbersome to obtain information from clients (of banks) in the absence of obvious incentives to do so. If client companies are not in the position to provide the data required by the taxonomy, and as a consequence, these will not be available to banks, there is a risk of under- representation of the environmentally sustainable sectors only due to the information gap (this risk appears particularly relevant in the case of the credit business, which is relevant to investment too because of origination). The TEG should therefore verify not only the fit for purpose of the metrics but also their simplicity to avoid creating unjustified competitive disadvantage for SMEs.

Question 1: Do you believe the Taxonomy will provide a clear indication of what economic activities should be considered environmentally sustainable?

[Yes/No]. Please explain your answer. Referring to the Activity Sheets (see 6.1 Example sheet: Energy Production (Geothermal) and in PART D: Full list of 1st round climate mitigation activities, screening criteria and questions)

No

General comments are followed by detailed suggestion in sections 1.1, 1.2 and 1.3

General comment

Overall, the taxonomy provides a useful starting point. The structure of the templates are sound and clear and easily understandable.

We also welcome the preference for a modular approach applicable to each of the selected sustainable activities, with the same fields and type of information and focused on some measurable objectives, metrics, principles and rationale.

However, we would like to stress that mitigation only covers a small part of the lending/financing activities of the banking sector. The banking sector, which finances around 70 percent of the EU economy plays a crucial role in achieving the objectives of the Paris agreement and in financing the transformation towards a sustainable economy and society model. Most companies are at different stages in their transition journey towards low-carbon and sustainable activities. Banks have a particular role to play in supporting corporates on this journey. This is especially important when considering the role that stewardship plays in investment management through engagement with companies, or when banks financing of bridging activities help those companies to build progressively their sustainability strategy.

We also think there are some flaws or missing links in the design of the taxonomy. As regards real estate, for instance, only concentrating on e.g. GHG emissions or energy efficiency exclusively is too narrow obtain a complete picture. Clarity should be reached on whether the criteria would apply on a project or company level. How the TEG national thresholds relate to NZEB standards should also be specified further in terms of what the national thresholds are to be based on (differences in climate, national and local regulations et al.). As regards the significant harm assessment, not only the level of sustainability, but the surrounding circumstances should be taken into account: for real estate, location (pollution, regulations related to noise, dangers, and consequences for location in terms of infrastructure and transport) is a decisive factor for what may be achieved and how.

As regards forestry activities, for added legal certainty and in order to avoid confusion and unnecessary complexity, the criteria and definitions should be strictly aligned with existing national and union legislation, including the Renewable Energy Directive (RED) and the Land Use, Land Use Change and Forestry (LULUCF) Regulation, as well the Paris Agreement and the work of the Ministerial Conference on the Protection of Forests in Europe (Forest Europe) principles. Unclear or lacking definitions would lead to uncertainty regarding their interpretation. Both RED and the Forest Europe principles build upon the fact that forest policy is predominantly a national competence; the national rules

implementing these would thus need to be taken into account. Compliance with existing requirements agreed upon or acknowledged at the union level should indicate sustainability.

Creation of further layers of requirements on top of and in contradiction with existing requirements in national and union legislation would create unnecessary complexity, unclarity, legal uncertainty for companies, especially SMEs, as well as for investors, thus discouraging the process envisioned in the EU Sustainable Finance Action Plan.

Specific comments

Question 1.1 - The classification of environmentally sustainable economic activities
Question 1.2 - Mitigation Criteria
Question 1.3 - Do no significant harm assessment

Question 1.1: The classification of environmentally sustainable economic activities

The classification of economic activities based on NACE only –as the Taxonomy suggests- is too simplistic. The list of activities is also not consistent; it is in fact not a list of activities but a mix of sectors, products, goods and services (in 10.2 renewable energy equipment and 10.4 building materials and 13.2 Renovation) and even environmental purposes (10.1) without classifying them in the right way. For example, light passenger cars are put in the macro sector transport (NACE H49), but cars are not an activity at all; cars belong in C29 when seen as a product (manufacturing) or when they considered a service in G45 (car sales, repair, wash etc.), H49 (passenger transport services via taxi etc.) or N77 (car leasing). Infrastructure for low carbon transport is classified as part of F42 (not H as is suggested), but the example of car charging points would certainly not be part of F42; it is on the other hand very good that you indicate that walking and cycling paths (part of F42.11 are eligible), this is the kind of granularity that is needed. Also the codes for renewable energy are not correct. As you know NACE 35.11 does not include a code for solar plants since it is not an activity, nor does CPA 35.11.10. Solar manufacturing is part of NACE 26.11 and CPA 26.11.22 and is classified in detail in PRODCOM as 26.11.22.40 and in CN as 85.41.40.90. Buildings are classified as NACE F41/43 (construction of buildings) but in reality the borrowers are often Real Estate companies (NACE L) and 'renovation of existing buildings' is not at all an existing NACE class. For Manufacturing activities (Nace C) we have included a detailed section in 10.1 (feedback on the climate mitigation activities)

When the Taxonomy is not based on a normal classification then the implementation and use for sustainable finance will be chaotic, confusing, time consuming and costly, if at all possible. We are happy that you already referred to the Environmental Goods and Services classification (EGSS) in SECTION 3.2. of

the Taxonomy Pack because this implies you are planning to use PRODCOM and CN codes as well.

We strongly suggest to

1. use and expand existing activity classifications[2], including NACE, of the revised European system of integrated statistical classifications that distinguishes between activities (NACE), products (CPA) and goods/services (PRODCOM/CN). The figure shows that international harmonization of codes is not only possible but also already partly in place.

and

2. to classify each of them in 16 environmental CEPA/CReMA purposes/domains. See the next two figures.

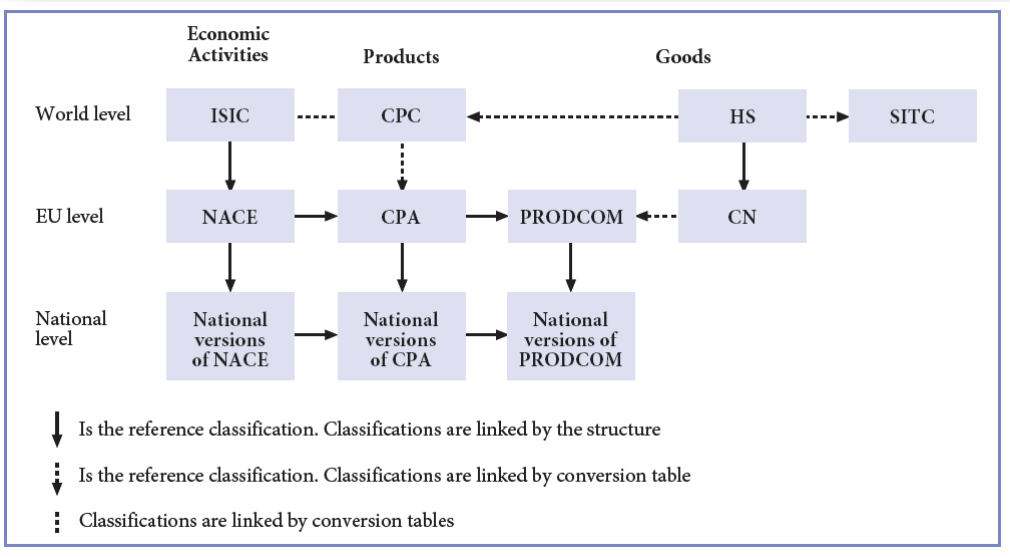


Figure 3 Integrated classifications of activities

(Source: Eurostat, https://ec.europa.eu/eurostat/statistics-explained/index.php/NACE_background#The_international_system_of_economic_classifications)

Explanation of figure 1

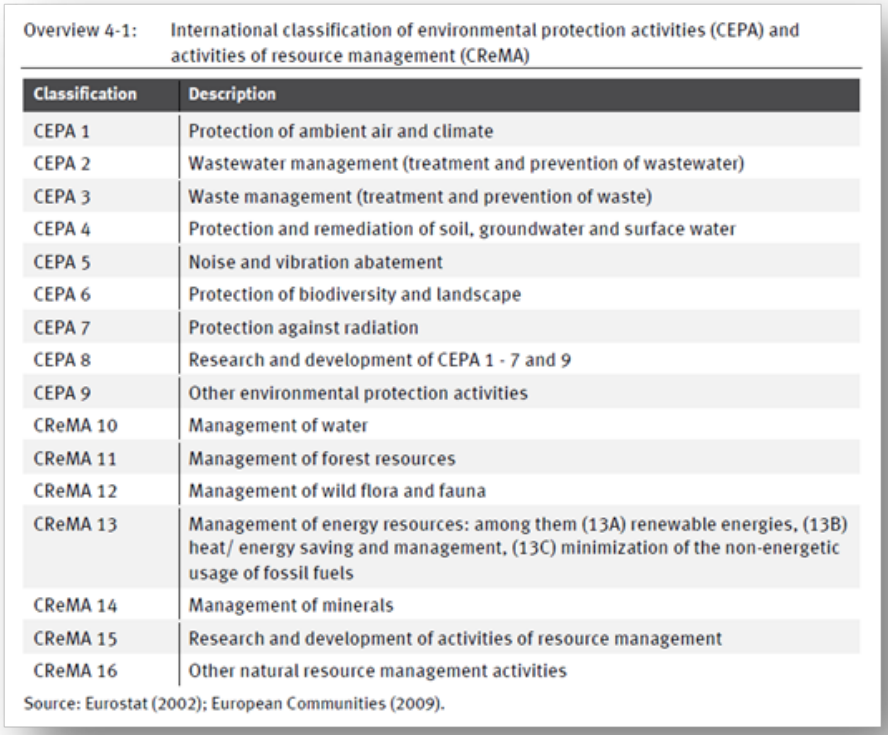
i. ISIC is the United Nations' International standard industrial classification of all economic activities. The European version is NACE

ii. CPC is the United Nations' Central product classification. The European version is the Classification of Products by Activity (CPA)

[2] Other classifications, see Eurostat Metadata Classifications in RAMON, https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM&StrGroupCode=CLASSIFIC&StrLanguageCode=EN

iii. *HS is the Harmonized commodity description and coding system, managed by the World Customs Organisation. The European version is CN which stands for the Combined nomenclature, a European classification of goods used for foreign trade statistics.*

iv. *PRODCOM is the classification of goods and services used for statistics on industrial production in the EU. The 8-digit PRODCOM starts with 4 digits from NACE and then 2 digits from CPA.*



Overview 4-1: International classification of environmental protection activities (CEPA) and activities of resource management (CReMA)

Classification	Description
CEPA 1	Protection of ambient air and climate
CEPA 2	Wastewater management (treatment and prevention of wastewater)
CEPA 3	Waste management (treatment and prevention of waste)
CEPA 4	Protection and remediation of soil, groundwater and surface water
CEPA 5	Noise and vibration abatement
CEPA 6	Protection of biodiversity and landscape
CEPA 7	Protection against radiation
CEPA 8	Research and development of CEPA 1 - 7 and 9
CEPA 9	Other environmental protection activities
CReMA 10	Management of water
CReMA 11	Management of forest resources
CReMA 12	Management of wild flora and fauna
CReMA 13	Management of energy resources: among them (13A) renewable energies, (13B) heat/ energy saving and management, (13C) minimization of the non-energetic usage of fossil fuels
CReMA 14	Management of minerals
CReMA 15	Research and development of activities of resource management
CReMA 16	Other natural resource management activities

Source: Eurostat (2002); European Communities (2009).

Figure 4 Overview of CEPA/CreMA codes

(Source: Eurostat/EC, https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_CLS_DLD&StrLanguageCode=EN&StrNom=CL_CEPAREM&StrLayoutCode=LINEAR)

Financial Market Participants will need detailed codes in order to automate sustainable finance. It is acceptable when the codes are not perfect in the beginning. It is better to be able to do automated identification of sustainable investments and then do a manual correction than having perfect thresholds for sustainable activities without the possibility to make automated selections due to inappropriate codes.

Financial Market Participants play a role in financing the entire supply chain of economic activities. The taxonomy must therefore identify what investments are

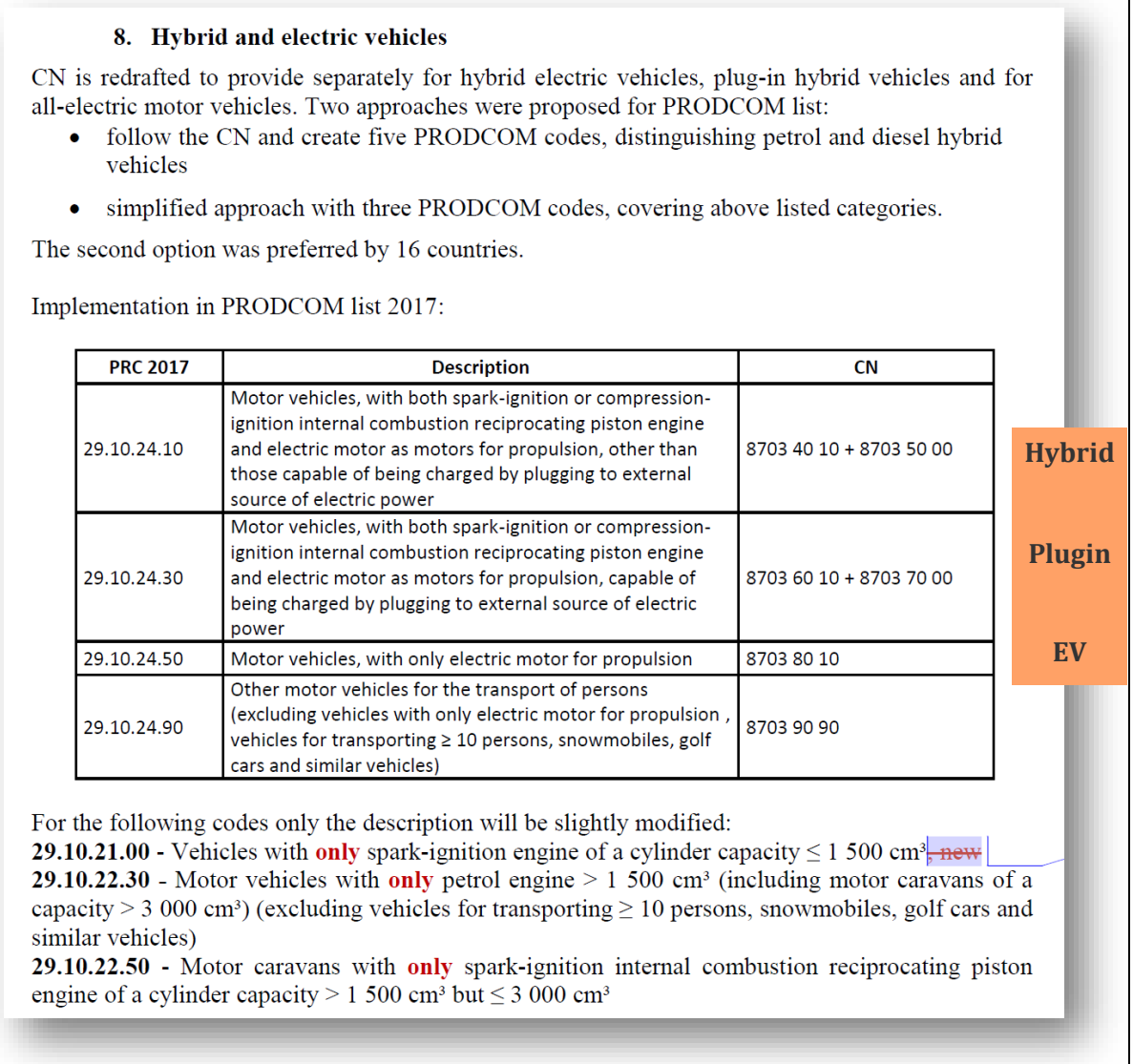
necessary to drive the transition in many sectors. For many activities NACE is not detailed enough so it is necessary to refer to PRODCOM, CN or CPA codes in combination with CEPA/CReMA to identify environmental purpose.

This may not be perfect in the beginning and may require some finetuning. Given that each sector will be identified through the final product's code, when this is composed of several interlinked codes, the interaction will have to be clarified.

Given the fact that the taxonomy wants to include manufacturing of renewable energy equipment (10.2, such as wind or geothermal) and energy efficiency equipment in manufacturing (10.1) the product level codes cannot be avoided and temporary imperfection must be accepted. Example: for Geothermal Heat Production you would also need Steam Turbines (part of PRODOM 28.11.21.60) and for wind power you would also need generating sets (PRODCOM 28.11.24.00). Steam turbines can also be used for something else; when we want to avoid this at all costs then PRODCOM codes must be expanded. In many cases the combination with NACE and CEPA/CReMA will determine whether it is for electricity production. For that reason we would highly encourage to use the combination of existing code systems in order refine the classification of activities. Also the SEEA system uses the CEPA/CREMA dimension to define environmental purpose.
The taxonomy should be inclusive. It is a good idea to focus in the beginning on a limited number of selected activities but the EU must avoid excluding companies or sectors to access sustainable finance. Sustainable investments take place in almost every sector and almost every company and the taxonomy must acknowledge that. The taxonomy must allow expansion to all sectors.

EXAMPLE
*The **manufacturing of light passenger cars** is classified as an activity (NACE C29) but the car itself is classified a product in PRODCOM. The PRODCOM[3] code for an Electric Vehicle (EV) was introduced in 2017 and approved by 16 member states and is 29.10.24.50 (first part is NACE). There are also codes for plugins and hybrids. The combined nomenclature uses similar codes, which is important for trade finance. See next two figures. An Electric Vehicle (EV) is classified in the environmental domain CEPA 1 (air and climate). This means in their Environmental Goods and Services (EGSS) reporting the member states will report the amount invested in electric cars under CEPA 1. Such a car is classified as a so called "adapted product" (a product that has other primary functions than just environmental).*

[3] COMMISSION REGULATION (EU) 2017/2119 of 22 November 2017 establishing the 'Prodcom list' of industrial products provided for by Council Regulation (EEC) No 3924/91.



8. Hybrid and electric vehicles

CN is redrafted to provide separately for hybrid electric vehicles, plug-in hybrid vehicles and for all-electric motor vehicles. Two approaches were proposed for PRODCOM list:

- follow the CN and create five PRODCOM codes, distinguishing petrol and diesel hybrid vehicles
- simplified approach with three PRODCOM codes, covering above listed categories.

The second option was preferred by 16 countries.

Implementation in PRODCOM list 2017:

PRC 2017	Description	CN
29.10.24.10	Motor vehicles, with both spark-ignition or compression-ignition internal combustion reciprocating piston engine and electric motor as motors for propulsion, other than those capable of being charged by plugging to external source of electric power	8703 40 10 + 8703 50 00
29.10.24.30	Motor vehicles, with both spark-ignition or compression-ignition internal combustion reciprocating piston engine and electric motor as motors for propulsion, capable of being charged by plugging to external source of electric power	8703 60 10 + 8703 70 00
29.10.24.50	Motor vehicles, with only electric motor for propulsion	8703 80 10
29.10.24.90	Other motor vehicles for the transport of persons (excluding vehicles with only electric motor for propulsion , vehicles for transporting ≥ 10 persons, snowmobiles, golf cars and similar vehicles)	8703 90 90

Hybrid

Plugin

EV

For the following codes only the description will be slightly modified:
29.10.21.00 - Vehicles with **only** spark-ignition engine of a cylinder capacity ≤ 1 500 cm³~~, new~~
29.10.22.30 - Motor vehicles with **only** petrol engine > 1 500 cm³ (including motor caravans of a capacity > 3 000 cm³) (excluding vehicles for transporting ≥ 10 persons, snowmobiles, golf cars and similar vehicles)
29.10.22.50 - Motor caravans with **only** spark-ignition internal combustion reciprocating piston engine of a cylinder capacity > 1 500 cm³ but ≤ 3 000 cm³

Figure 5 Prodcom list 2017 defines codes for hybrid, plugin and electric cars

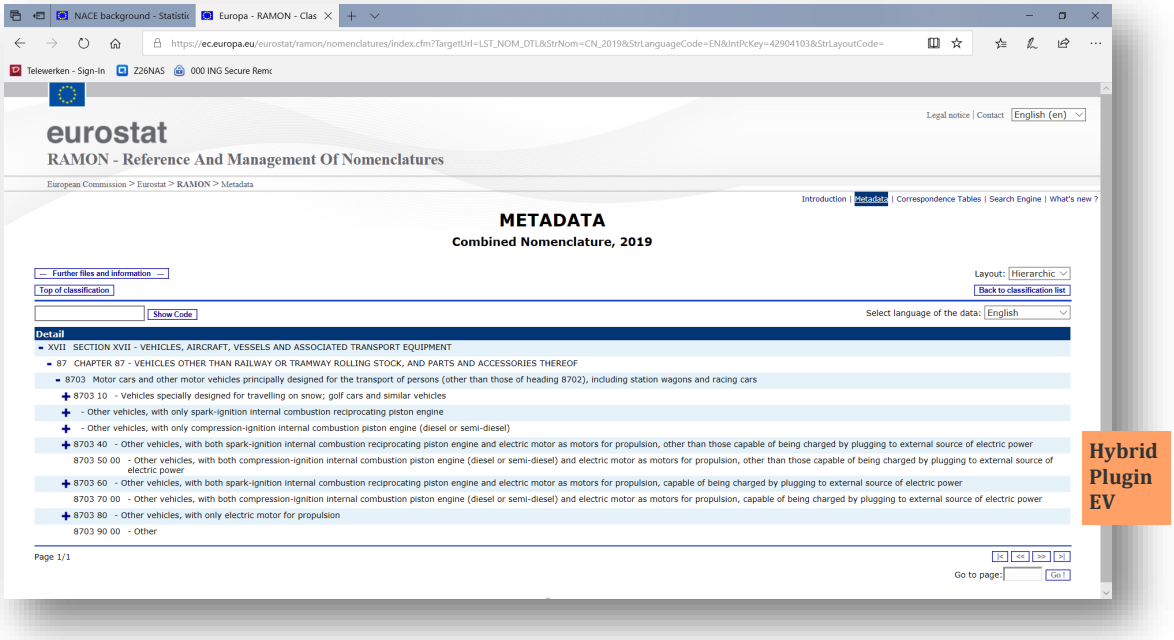


Figure 6 Combined Nomenclature 2019 defines codes for hybrid, plugin and electric cars

(Source: Eurostat, https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm)

The example of car manufacturing above makes clear that it is necessary to go beyond NACE codes because these are too general. We have included some suggestions in 10.1 (feedback on the climate mitigation activities for Manufacturing (Nace C)).

There are various publications[4] that focus on the combination of the NACE, CPA and PRODCOM product codes with CEPA/CReMA codes to identify environmental activities. CEPA and CReMA are "main purpose criterions" for activities. The System for Environmental Economic Accounting (SEEA 2012) does exactly this, resulting in environmental accounts as published by all EU Member States, such as:

- Environmental goods and service sector (EGSS)

[4] See for example https://www.unece.org/fileadmin/DAM/stats/documents/ece/ces/ge.33/2018/mtg1/S8_1_Mon_activity_accounts_2018.pdf and http://www.umweltbundesamt.de/en/publikationen/environmental-protection-goods-defining-the-scope

- Environmental protection expenditure accounts (EPEA)
- Resource management expenditure accounts (ReMEA)

Our three recommendations in that section are as follows:

1. **Apply normal classifications for manufacturing and other activities, including products and services**
2. **Provide guidance for the 'manufactured' goods and services**
3. **Ask companies to come up with lists of environmental goods and services and establish a governance mechanism to define whether they can be part of the Taxonomy.** T

The EU has done a tremendous amount of work in this area of which the Sustainable Finance Plan can benefit. Eurostat published handbooks on how to identify these activities. At the highest level of NACE it is easy to identify which activities are about goods or services. The EU has developed an EGSS handbook to identify *Environmental* Goods and Services. Environmental goods and services are not just pure play products (such as a windmill) or services (such as waste collection), but also *adapted* goods (such as an electric car). In the EU EGSS handbook and the SEEA handbook Environmental Goods and Services are classified as:

a) **Environmental specific services** (SEEA 2012 § 4.53). These are pure play environmental activities.

b) **Goods: environmental sole purpose products (connected products)** (SEEA 2012 § 4.65)**.** These goods are not the output of environmental activities but the main purpose of these goods is to serve certain environmental protection or resource efficiency goals.

c) **Goods: adapted products** (SEEA 2012 § 4.99), these can be any normal product as long as it cleaner or more resource efficient; the main purpose is of the product is not environmental.

d) **Environmental technologies** (SEEA 2012 § 4.103), these are integrated or end-of-pipe technologies that operate at the end of a production or consumption cycle when the pressure on the environment has already occurred.

This is very **important for the Sustainable Finance Taxonomy as well.** The EU EGSS handbook not only identifies "technical" sustainable products via PRODCOM codes (for example a code for a solar panel or an electric car) but the EU EGSS is also able to identify "adapted products" by referring to existing sustainability standards that the market uses (such as energy labels on building or organic food) and certifications (such as FSC or the EU ecolabel) to define sustainability. This is similar to what the Taxonomy wants, and the flexibility is great. Also for financial market participants this will work, because there are automated data on this.

In the examples and graphics below we show examples of how the EU EGSS handbook defines sustainable goods and services. Financial Market Participants would need to have data on which companies buy or sell what kind of environmental goods and services; this information is at least partially available for the member states for their EGSS accounts but not public. Some important benefits of a more detailed coding system for Financial Market Participants are:

- Many financial market participants use NACE codes, and many companies already use the CN / PRODCOM system to register goods and services (including environmental)
- When a Financial Market Participant would get a PRODCOM list of environmental products or services per NACE code or -even better- per company then **green finance can be automated**.
- When the HS code of traded environmental goods would be documented in trade finance transactions then **green trade finance can be automated. The codes are often used globally.**

Classification of industries applied to index decomposition analyses

#	Type	Industry
1	Goods	A Agriculture, forestry and fishing
2	Goods	B Mining and quarrying
3	Goods	C10-C12 Manufacture of food products; beverages and tobacco products
4	Goods	C13-C15 Manufacture of textiles, wearing apparel, leather and related products
5	Goods	C16 Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
6	Goods	C17 Manufacture of paper and paper products
7	Goods	C18 Printing and reproduction of recorded media
8	Goods	C19 Manufacture of coke and refined petroleum products
9	Goods	C20-C21 Chemical and pharmaceutical products
10	Goods	C22 Manufacture of rubber and plastic products
11	Goods	C23 Manufacture of other non-metallic mineral products
12	Goods	C24 Manufacture of basic metals
13	Goods	C25 Manufacture of fabricated metal products, except machinery and equipment
14	Goods	C26 Manufacture of computer, electronic and optical products
15	Goods	C27 Manufacture of electrical equipment
16	Goods	C28 Manufacture of machinery and equipment n.e.c.
17	Goods	C29 Manufacture of motor vehicles, trailers and semi-trailers
18	Goods	C31-C33 Other manufacturing and repair
19	Goods	D Electricity, gas, steam and air conditioning supply
20	Goods	E Water collection, treatment and supply
21	Goods	F Construction
22	Services	G Wholesale and retail trade; repair of motor vehicles and motorcycles
23	Services	H49 Land transport and transport via pipelines
24	Services	H50 Water transport
25	Services	H51 Air transport
26	Services	H52Warehousing and support activities for transportation
27	Services	H53 Postal and courier activities
28	Services	I Accommodation and food service activities
29	Services	J Information and communication
30	Services	K Financial and insurance activities
31	Services	L Real estate activities
32	Services	M Professional, scientific and technical activities
33	Services	N Administrative and support service activities
34	Services	O Public administration and defence; compulsory social security
35	Services	P Education
36	Services	Q Human health and social work activities
37	Services	R Arts, entertainment and recreation
38	Services	S Other service activities

Figure 7 Combination of NACE codes and Goods/Services definitions.

Source: https://www.cbs.nl/-/media/_pdf/2017/16/report-egss2016.pdf

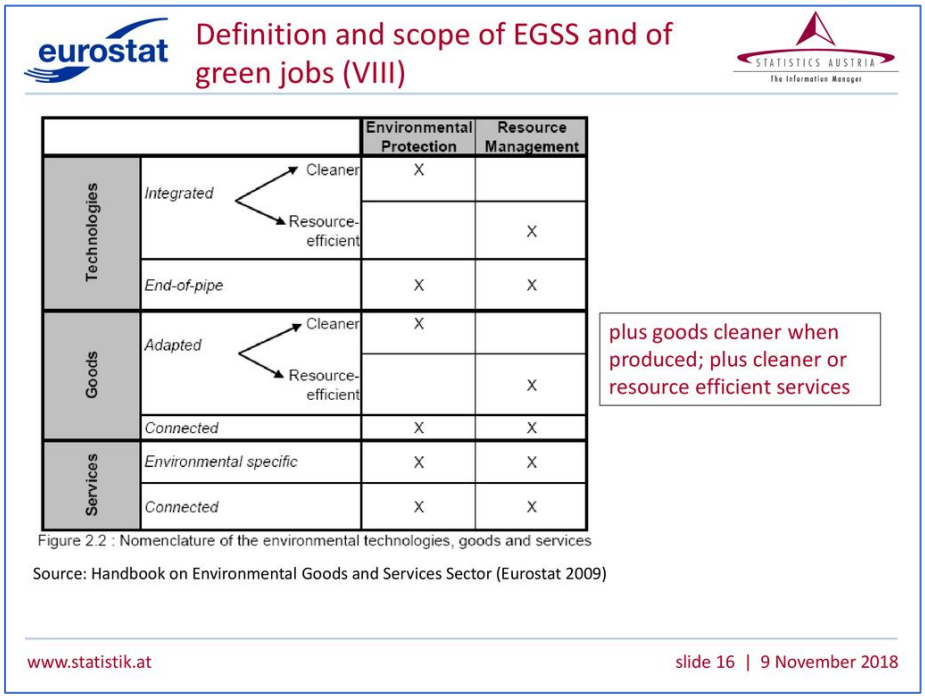


Figure 8 The relationship between environmental goods, services and technologies

Abbreviations: Environmental Protection (EP) and Resource Management (RM)

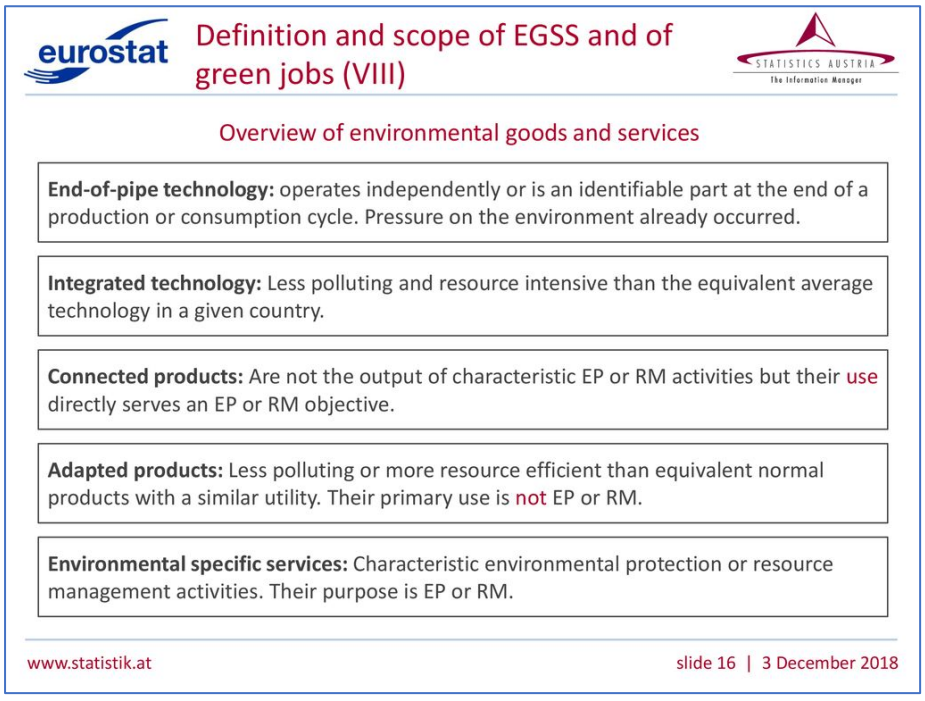


Figure 9 The definition of environmental goods, services and technologies

- **Specific services**
- **Connected products**
- **Adapted products**

Figure 10 Examples of environmental goods and services.

Source: CBS, Environmental activity accounts: EPEA and EGSS, Jan. 2018

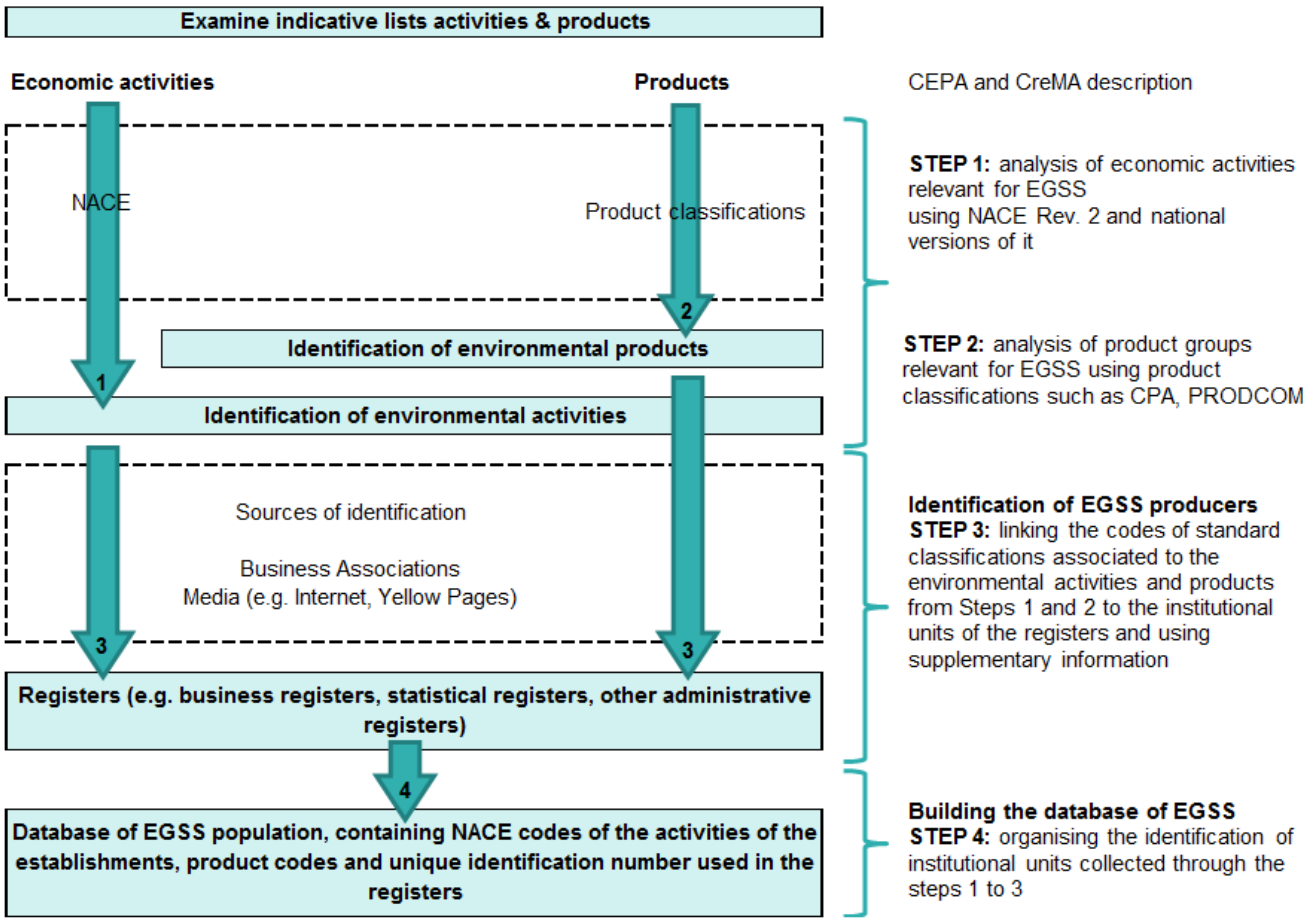


Figure 11 Eurostat EGSS handbook 2016

PRODCOM	Description
20.14.74.00	Un-denatured ethyl alcohol of an alcoholic strength by volume ≥ 80 %
20.14.75.00	Denatured ethyl alcohol and other denatured spirits; of any strength
20.59.59.97	Biofuels (diesel substitute)
23.12.13.30	Multiple-walled insulating units of glass
23.99.19.10	Slag wool, rock wool a. similar mineral wools and mixtures thereof, in bulk, sheets or rolls
23.99.19.30	Mixtures and articles of heat/sound-insulating materials n.e.c.
26.11.22.40	Photosensitive semiconductor devices; solar cells, photo-diodes, photo-transistors, etc.
26.51.53.13	Electronic gas or smoke analysers
28.25.13.80	Heat pumps other than air conditioning machines
28.25.14.40	Machinery a. apparatus for filtering or purifying gases by catalytic process (excl. intake air filters for internal combustion engines, machinery a. apparatus for filtering or purifying air)
33.20.29.10	Installation of engines and turbines (excluding aircraft, vehicle and cycle engines)

Figure 12 Example of PRODCOM codes relevant for EGSS

CEPA/CReMA		Description	CN 2016
CEPA 1	Protection of ambient air and climate	Machinery a. apparatus f. filtering or purifying air (excl. isotope separators and intake air filters for internal combustion engines)	8421.39.20
		Machinery and apparatus for filtering or purifying gases other than air by a catalytic process (excl. isotope separators)	8421.39.60
		Machinery and apparatus for filtering and purifying gases other than air (excl. those which operate using a catalytic process, and isotope separators)	8421.39.80
		Parts of machinery and apparatus for filtering or purifying liquids or gases, n.e.c.	8421.99.00
		Electronic gas or smoke analysis apparatus	9027.10.10
		Non-electronic gas or smoke analysis apparatus	9027.10.90
CEPA 2	Wastewater management	Activated carbon (excl. medicaments or deodorant products for fridges, vehicles etc., put up for retail sale)	3802.10.00
		Submersible pumps, single-stage	8413.70.21
		Machinery and apparatus for filtering or purifying liquids (excl. such machinery and apparatus for water and other beverages, oil or petrol-filters for internal combustion engines)	8421.29.00
CEPA 3	Waste disposal	Panels, boards, tiles, blocks and similar articles of vegetable fibre, of straw or of shavings, chips, particles, sawdust or other waste of wood, agglomerated with cement, plaster or other mineral binders	6808.00.00
		Industrial or laboratory furnaces, incl. incinerators, non-electric (excl. for the roasting, melting or other heat treatment of ores, pyrites or metals, bakery ovens, ovens and furnaces for firing ceramic products, ovens and furnaces for firing cement, glass or chemical products)	8417.80.70
		Parts of industrial or laboratory furnaces, non-electric, incl. incinerators, n.e.c.	8417.90.00
CEPA 7	Protection against radiation	Instruments and apparatus for measuring or detecting ionising radiations	9030.10.00
CReMA 11	Management of forest resources	Pulps of fibres derived from recovered waste and scrap paper or paperboard	4706.20.00
CReMA 13	Management of energy resources	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 % vol or higher; ethyl alcohol and other spirits, denatured, of any strength	2207
		Biodiesel and mixtures thereof, not containing or containing less than 70 % by weight of petroleum oils or oils obtained from bituminous minerals	3826
		Natural rubber latex, whether or not prevulcanised	4001.10.00
		Reclaimed rubber in primary forms or in plates, sheets or strip	4003.00.00
		Fuel wood, in logs, in billets, in twigs, in faggots or in similar forms; wood in chips or particles; sawdust and wood waste and scrap, whether or not agglomerated in logs, briquettes, pellets or similar forms	4401
		Wood charcoal (including shell or nut charcoal), whether or not agglomerated	4402
		Slag-wool, rock-wool and similar mineral wools; exfoliated vermiculite, expanded clays, foamed slag and similar expanded mineral materials; mixtures and articles of heat-insulating, sound-insulating or sound absorbing mineral materials (other than headings 8611 and 6812 and those of Chapter 69)	6806
		Multiple-walled insulating glass consisting of two panels of glass sealed around the edges by an airtight joint and separated by a layer of air, other gases or vacuum	7008.00.81
		Multiple-walled insulating glass: other	7008.00.89
		Panels comprising two walls of profiled (ribbed) sheet with an insulating core	7308.90.51
		Hydraulic turbines, water wheels, and regulators therefor	8410
		Heat pumps other than air conditioning machines of heading 8415)	8418.61.00
		Generating sets, wind-powered	8502.31.00
		Photosensitive semiconductor devices, including photovoltaic cells whether or not assembled in modules or made up into panels; light-emitting diodes	8541.4
CReMA 14	Management of minerals	Macadam of slag, dross or similar industrial waste, whether or not incorporating the materials cited in subheading 2517 10	2517.20.00

Figure 13 Example of Combined Nomenclature (CN) 2016 trade codes relevant for EGSS

The EUROSTAT EGSS handbook mentions as an example a long list of coded environmental goods and services, such as:

Annex 1: Indicative compendium of environmental goods and services and of the economic activities to be covered by Regulation (EU) No 691/2011, Annex V

ENVIRONMENTAL GOODS AND SERVICES

☐☐Organic agricultural (plant and livestock) and aquaculture products and supporting services
☐☐Fuel wood; other wood when complying with sustainability measures
☐☐Rehabilitation of mining sites services
☐☐Drainage water capturing services to prevent groundwater contamination
☐☐Electric and more resource efficient transport equipment; exhaust pipes and their parts (also
particles filters)
☐☐Instruments, machinery and apparatus for analysis of pollutants, filtering or purifying gases and
liquid
☐☐Septic tanks, perforated buckets and similar articles used to filter water at the entrance to drains;
pumps for use in wastewater treatment, vehicles for wastewater collection and sewer cleaning,
activated carbon for water-filtering purposes
☐☐Tubes and pipes for wastewater treatment plants as well as for water management
☐☐Sacks and bags for replacing plastic bags; bins, boxes, containers and other receptacles for
storing and transporting waste; boards, blocks and similar articles of vegetable fibre, straw or
wood waste, agglomerated with mineral binders; incinerators and machinery for waste treatment
(e.g. used at landfilling sites)
☐☐Lead containers for radioactive waste
☐☐Maintenance and repair services for reducing water losses
☐☐Specific equipment for the production of energy from renewable sources: e.g. storage systems for
biogas, wood fired boilers and other appliances, solar panels and photovoltaic cells, hydraulic
turbines and water wheels, wind turbines
☐☐Biofuels
☐☐Charcoal when complying with sustainability measures
☐☐Goods for thermal and noise insulation mainly in buildings: e.g. cork products, windows with three

insulating layers, insulation materials for facades, roofs and other elements of buildings such as
materials made of glass fibre, rock wool, cellulose, polymers and polyurethane and others
☐☐Reconditioned wooden containers
☐☐Specific equipment produced for environmental protection and resource management products:
e.g. thermostats for heating and cooling regulation, thermostatic valves, heat pumps, condensing
boilers, solar water heaters
☐☐Discharge lamps as low pressure lamps (e.g. compact fluorescent lamps) and the most efficient
domestic appliances
☐☐Reclaimed rubber in primary forms or in plates, sheets or strip, bio-plastic sacks and bags
Etc.

Question 1.2: Mitigation Criteria

The Taxonomy seems to go for a **rigid definition** of environmentally sustainable activities. We acknowledge it will not be easy to set meaningful, rigid thresholds per activity and keep them **up to date** in a fast changing society. A so called **comparison approach** to the normal activities in a sector is easier and preferred. In a comparison an activity will be compared to **existing sustainable EU or third party criteria for such activities, similar to the EGSS accounts**. Using a comparison approach allows for the natural drifting of items in and out because the standard activities/goods/services will become more efficient over time.

We recommend the EU to let some degree of flexibility to the markets to identify these thresholds, and mainly to concentrate on the description of the appropriate process of how market players should define the thresholds**and the management and documentation of the results.** The current document forms a good starting point for that approach. A comparison approach means that the Taxonomy embraces and follows existing standards in the various sectors, many of which are already directly or indirectly regulated by the EU.

Many Financial Market Participants are afraid that the taxonomy will be too strict or too loose. If criteria are too loose, everything will fit in but it will have no credibility (green washing) which harms the financial industry. **If criteria of the taxonomy become too strict, or the scope is too narrow it is not possible to identify investments or it may leave certain sectors unable to attract investors**.. Hence, an asset shortage limits the possibilities to launch mainstream products and promoting sustainability to consumers/investors/issuers. This is detrimental to closing the funding gap that exists.

EXAMPLE: the standard setting body for the Telecom sector, 3GPP, is continuously setting standards for energy efficiency in next-gen telecom networks. Dozens of publications are published each year. The decommissioning of 3G networks and rolling out 4G networks will save 50% of energy per unit of data. The roll out of 5G for the Internet of Things will again be 50% more efficient than 4G and saves energy for the users as well depending on the application. It would not be a good idea when the Taxonomy sets additional thresholds just for the financing sustainable telecom networks; no financial market player and no company would be able or want to implement that. It is sufficient when the EU Taxonomy refers to 3GPP and other standards in telecom equipment as possible standards. Sustainable finance must just mirror sustainability in the real economy. The eligible technologies in the recent ***Vodafone green bond framework*** *are based on external 3GPP and device specific energy saving standards and the fiber networks in the* ***Telefónica green bond framework****.*

A description of a simple process for market participants to set thresholds for sustainable finance could for example be :

1. Companies are 100% eligible for green financing when 50% of their activities/products are pure play but increasing every year towards a more sustainable path. Financial market participants can identify them easily via the NACE codes in their systems. Banks already use lists of 'pure play environmental and social NACE codes' and we are happy to share.
2. Companies are x% (pro rata) eligible for green financing when x% (pro rata) of their activities or products belongs to the top 30% of most efficient activities/products in a sector. What exactly the top 30% is must **NOT be defined by the EU**. Standard setting bodies or specialized consultants in the market will do that based on assignments of market participants. The EU could provide general requirements for what it takes to be an "eligible standard" (*there is an OECD report on ELIS that gives an overview of such requirements*). See examples.
3. Companies are 100% eligible for green financing when they have reliable eco-labels on products, services or processes (in the case of SMEs, irrespective of % of certified turnover which cannot be monitored for SME's). The EU could require in the Taxonomy that eligible eco labels must meet certain basic governance requirements such as monitoring or audits.
4. Companies are x% (pro rata) eligible for green financing when x% (pro rata) of their activities or products is better than the average activities/products in a sector. This approach will work for some sectors but will lead to lower percentages than when the focus is on the top 30% most efficient products. For example, in cement or concrete manufacturing the CO2 footprint depends very much on alternative fuels (residual waste from other industries such as slag). The large cement manufacturers will be able to show that 5-10% of their products is better than average. The EU should definitively not define a rigid threshold, but a relative one.

EXAMPLE: a leading standard setting body for the leisure sector (hotels) is Green Key. This body provides environmental certifications for hotels with different levels of certification such as Bronze, Silver and Gold. For the gold level hotels must also meet specific hospitality criteria (think of serving fresh milk with coffee). This is for the Taxonomy less relevant, and maybe even not optimal from an environmental point of view (because it increases food waste) but it would be very frustrating for the hospitality sector when the EU would only focus on the hotel buildings and not support the criteria the sector has defined for their own sustainable transition. Of course the EU Taxonomy could say that "Green Key Gold" is eligible, but it is better to leave this to the market and just provide general requirements for what it takes to be an "eligible standard".

EXAMPLE: a leading green real estate consulting firm in Germany, Drees & Sommer, has defined criteria for the top 15% most energy efficient buildings in Germany, based on the local building code EnEV. They were asked to do this by two green bond issuers LBBW and Volkswagen Immobilien. The deals are CBI certified because they meet the top 15% of the CBI low carbon buildings standard. The criteria become stricter when regulation becomes stricter. An absolute EU threshold for energy efficient buildings in Germany could have blocked the deal if it would have been stricter or would have made it too light green when it would be looser. Similar consultancy reports have been prepared in other countries as well. The proxy worked very well: the two issuers could select eligible green buildings with simple criteria. Of course the EU Taxonomy could say that "Everything from EnEV 2007" is eligible, but it is better to leave this to the market and just provide general requirements for what it takes to be an "eligible standard".

EXAMPLE: the standardization body ISO has set ISO14020 standards for environmental labeling and information standards (ELIS). There are 3 types of labelling schemes. Of course the EU Taxonomy could say that "manufacturing of products that claim to be biodegradable under ISO 14021" are eligible, but it is better to leave this to the market and just provide general requirements for what it takes to be an "eligible standard". The third column below shows per type examples of ISO14020 schemes. Source: OECD

3.1 The ISO typology

Despite their broad scope and diversity, only a few typologies of ELIS have been developed and used. The most widely used typology relies on the series of ISO 14020 standards, which separates environmental labelling schemes into three types (ISO, 1999a, 1999b and 1999c).

- Type I (ISO 14024) is the standard for ecolabels, defined as multi-criteria, whole life-cycle-approach-based, third-party voluntary labelling schemes that distinguish some of the best performing products according to predetermined environmental criteria and apply to diverse product categories. These labels are designed to reward environmental excellence and, as such, are a market-based tool designed to encourage environmental improvement. Most ecolabels have been introduced by or with the contribution of government agencies, setting multi-criteria standards that have then been adopted on specific ranges of products starting in the late 1970s.

- Type II labels (ISO 14021) are self-declared claims, privately made, that describe a product based on one or more characteristics following general guiding principles. In particular they have to be verifiable, and use accurate and non-misleading information. The standard provides guidance as to the proper use of ubiquitous symbols and terms (*e.g.*, "recyclable").

- Type III (ISO 14025) focuses on environmental declarations, providing quantitative indicators of environmental performance based on life-cycle assessments. These declarations are generally intended for businesses-to-business communication, but can be used by consumers provided they are third-party audited.

The specific characteristics of each type are shown in Table 2.

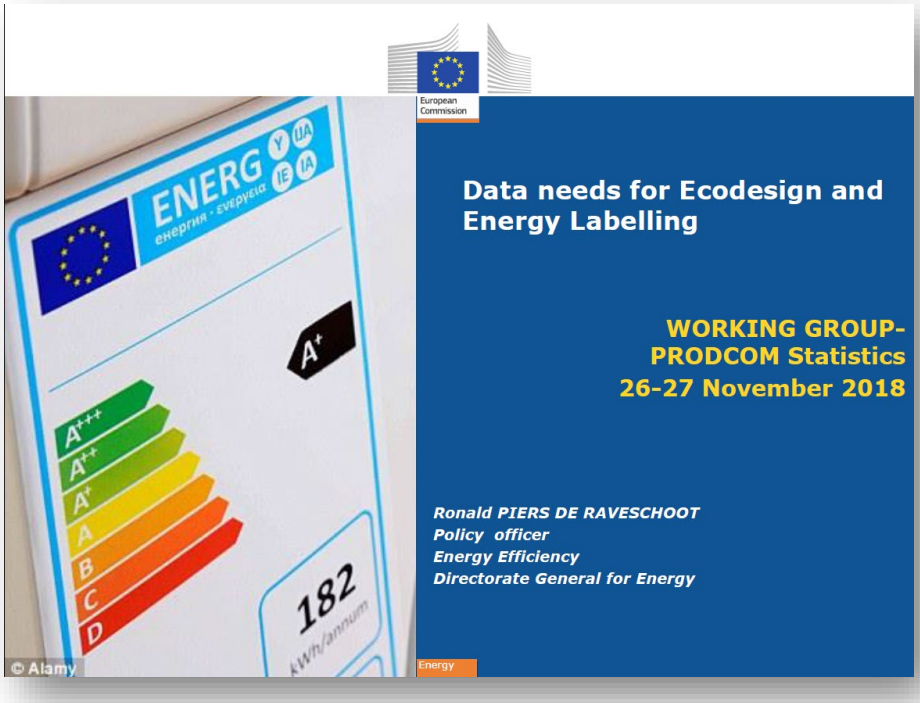
Table 2. ISO Standards and their main requirements

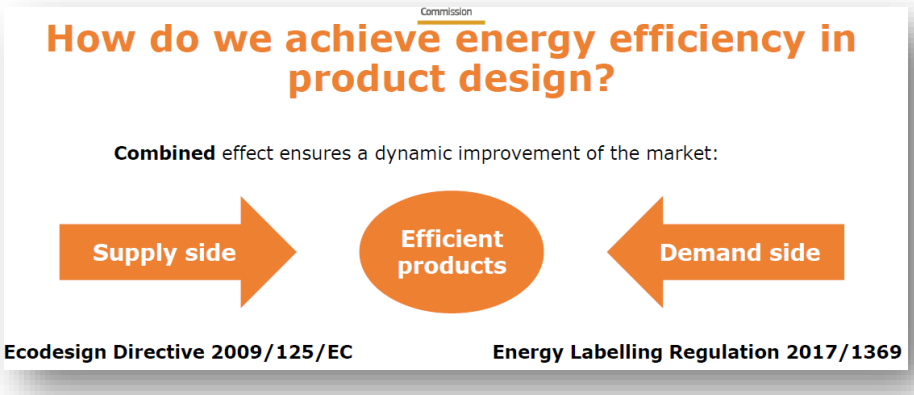
ISO Standard	Type	Requirements	Examples of schemes
14024	Type I – Ecolabels	Multi-issues third-party voluntary labels indicating high environmental performance based on set of life-cycle-based criteria and designed and implemented in a transparent manner.	Blue Angel, Nordic Swan, Canadian Environmental Choice.
14021	Type II – Self-declared Environmental Claims	Private claims, first-party verified, adhering to specific principles (verifiable, accurate information, not misleading).	Recycled content, Biodegradable.
14025	Type III – Environmental Declarations	Quantified environmental information, based on life-cycle analysis, using independent verifiable data, primarily used for business-to-business communication.	Eco-Leaf; Korean Environmental Declaration of Products.

Sources: ISO (1999a; 1999b and 1999c); Allison and Carter (2000); GEN (2013); JEMAI (2013); KEITI (2013).

EXAMPLE: The EU DG ENER implements energy efficiency for example via the Ecodesign Directive (2009/125/EC) and the Energy Labelling Regulation (2017/1369). These implementations also involves gradual changes in the Prodcom codes for eco efficient products. There are working groups for this. It would be effective when the Sustainable Finance Plan refers to these codes. When DG ENER cannot identify sustainable activities at Prodcom code level, then

it cannot be expected from Financial Market Institutions that they can identify these activities.





95 Multi-phase AC motors > 750 kW– add 1000kW threshold or replace the actual 750kW

oncerned heading: ***CPA: 27.11.25*** *- AC motors, multi-phase, of an output > 75 kW*

ı PRODCOM we have the actual situation:

CPA: 27.11.25	*AC motors, multi-phase, of an output > 75 kW*			
27.11.25.30	Multi-phase AC traction motors of an output > 75 kW	8501 53 50	p/st	S
27.11.25.40	Multi-phase AC motors of an output > 75 kW but ≤ 375 kW (excluding traction motors)	8501 53 81	p/st	S
27.11.25.60	Multi-phase AC motors of an output > 375 kW but ≤ 750 kW (excluding traction motors)	8501 53 94	p/st	S
27.11.25.90	Multi-phase AC motors of an output > 750 kW (excluding traction motors)	8501 53 99	p/st	S

or fitting with the Ecodesign Directive DG ENER proposes to create new categories by adding a 1000kW ıreshold or replacing the existing one 750kW

Figure 14 Example of DG ENER proposing a new threshold for specific products via a new PRODCOM categories for a better fit with the Ecodesign directory.

Gradual expansion of PRODCOM codes will make the Sustainable Finance Plan more effective

Source: https://circabc.europa.eu/webdav/CircaBC/ESTAT/prodcom/Library/13-PRODCOM%20Working%20Group/2018%20November/PRODCOM%20WG%202018%204.2.Doc%20-%20ENER%20PPT%20-%20Ecodesign%20and%20energy%20products%20in%20PRODCOM.pdf

Question 1.3: Do no significant harm assessment

It is a good idea to highlight the key issues for each environmentally sustainable activity. The "do no significant harm assessment" presents significant uncertainty and seems to require an extensive amount of resources, but, as it is mentioned in the consultation document, the analysis is preliminary and will be extended further in the future.

We however think that the do no harm assessment may not always be possible even if conducted at general level at the level of project (such as a hydropower dam) or environmental activities (such as the production of an electric car). It should be therefore allowed, as an alternative to assess the sustainability at the level of the investee companies and borrowers. Companies should demonstrate that they have relevant sustainability policies in place (with particular reference to transparency and stakeholders' engagement) to manage projects in a responsible way including the projects that are in the taxonomy.

Financial Market Participants must be able to continue using tools like sustainability/ESG ratings, which are always at the level of the corporate/company. ESG ratings are not available at the level of sub-activities.

Currently the SPO providers for green bonds do these checks, but the quality is poor due to a lack of data. It is key for the usability that ESG checks remain at the level of the company as a whole.

The potential redundancy of the do no significant harm criteria due to existing (national) regulatory requirements towards the industry in question should also be analysed to avoid slowing down the implementation process.

Question 2: Do you expect any practical challenges within your organisation to classify an economic activity according to the taxonomy?

YES, significant challenges.

There are significant challenges to be able to classify an economic activity according to the taxonomy, as indicated in the previous section, since the classification is not aligned with other classifications. Even though the taxonomy provides modular information with metrics, objectives and principles, there is, significant room for interpretation and the need for an individual assessment and monitoring process of activities.

The applicability of such taxonomy -if possible at all- will require a significant investment, in both - quantitative and qualitative assessment process, and ICT systems to identify if an economic activity is sustainable or not. Several tasks will be involved in implementing the taxonomy and integrating it with other systems used by credit institutions. Continuous maintenance will also be necessary, both updating the taxonomy, and classifying new information on activities, as it is added.

It is essential for financial markets participants to have time or systems to verify that the proposed metrics (provided in the sheets in part D of the document) are known at national level by their counterparties (es. issuers). The easiest way to achieve this is when the EU does not set new thresholds for the sustainable finance plan but when market participants must indicate which existing sustainability standards (including certifications, claims and declarations) or EU regulation they use. This work should be facilitated by EU/national Institution providing a mapping of already required metrics for other EU or national derivation purposes / regulations.

Currently there is a large gap of useful data in banks databases. When the Member States would share the data that they already use for their environmental accounts (EGSS and others), and when members states speed up the work on expanding

the PRODCOM and CN coding systems with more environmental codes then the implementation of the sustainable finance process will become much easier.

Also, from experience, it is cumbersome to obtain information from clients if incentives to deliver such data do not exist. This increases the implementation scope significantly, even though the taxonomy comprises certain sectors only.

A large share of European companies may not able to label themselves or important parts of their economic activities as "green" and reap the potential benefits/be able to be seen as active supporters of the transition towards a sustainable European economy. If companies are not in the position to provide the data required by the taxonomy, and as a consequence, these will not be available to banks, there is a risk of under- representation of the environmentally sustainable sectors only due to the information gap (this risk appears particularly relevant in the case of the credit business). For this reason the use of the existing European coding and classification systems such as PRODCOM, CN and CReMA/CEPA are of key importance. Companies already use these systems, and the only thing that the participants of the various Taxonomy workshops need to do is to indicate.

It may be both challenging and costly for SMEs to provide data/input for assessments as competences/knowledge to do so are likely scarce in relatively small organizations, therefore we propose to simplify this and to use PRODCOM codes and environmental labels as a proxy for sustainable SME's. The TEG should verify not only the fit for purpose of the metrics but also their simplicity to avoid creating unjustified competitive disadvantage for SMEs.

To raise companies awareness and readiness to provide the information request by the taxonomy, there is an urgency to engage and support the businesses by institution and business associations, in cooperation with banking associations, banks, other financial institutions, third sector and civil society organizations engaged in promoting sustainable development with particular reference to civil society organizations involved in sustainable and responsible finance.

Lastly, regarding the base example provided for the activity sheet "Energy Production (Geothermal)" we assume as metric the direct GHG emissions. This is only an objective and measurable metric when the grid factor is the same everywhere in Europe. GHG avoided is very much depending on the energy mix. When low GHG avoided is the criterion for sustainable finance based on local grid factors than it would make sense for industries in Europe to move to countries where GHG emissions per unit of energy used is lowest. If the goal is to promote GHG reduction in all countries, is therefore better to focus on energy use (Joules or KWh). Next to that the availability and trustworthy of data will assume core importance, which may require a third-party involvement regarding the level of emissions and/or the correct "no significant harm" assessment.

Question 3: For financial market participants: will the proposed structure and format of the Taxonomy enable you to comply with potential future disclosure obligations?

NO, the disclosure obligations cannot be met.

As stated before, the modular and objective approach applicable to each of the sustainable selected activities is welcomed. The need to disclose what the investments portfolio proportion of sustainable investments is, or the degree of sustainability of individual products, will depend however on the ability to actually apply the taxonomy in an automated way and justify why such an activity is sustainable.

We think the Sustainable Finance Taxonomy and the SEEA Taxonomy must be fully aligned, otherwise Member States will report different environmental investment figures than Financial Market Participants, which is a nightmare for policy makers. Unfortunately incongruent reporting is happening already for member state green bonds (gov bonds): state treasuries use two different sets of criteria and data for similar reporting.

The reason is that they did not link COFOG (budget codes) to CEPA/CReMA categories in the green bond framework, while they are doing that for their environmental accounts. This is bad for the reputation of the member states but also for the investors and the underwriters. We are very concerned about this, but we believe it is still possible to get it right.

The member states use the CN classification for (1) monitoring trade, including trade in environmental goods, but also for (2) environmental reporting under the System of Environmental Economic Accounting (SEEA 2012). According to EU regulation the EU member states are obliged to report environmental expenditures by the government and by market participants, since December 2017. Many member states already do this kind of environmental reporting for many years (EGSS, EPEA, ReMEA, ESST, ETEA, see figure).

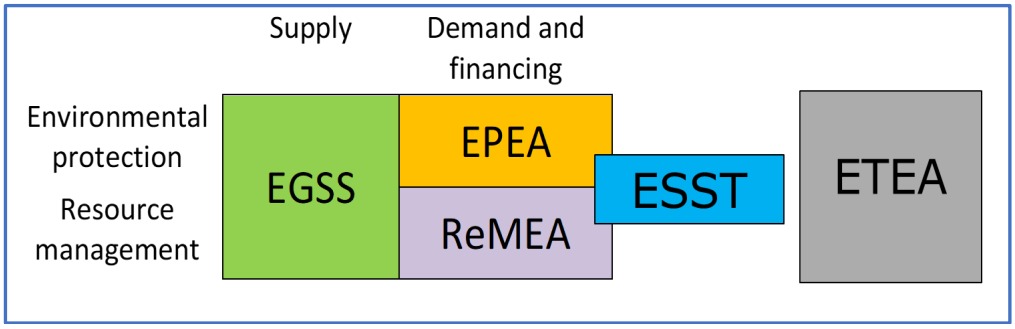


Figure 15: Environmental accounts of the Member States

Another concern is the highly qualitative conditions in the "do no harm significant assessment" for all activities, and also in the "mitigation criteria" for certain activities, where no quantitative threshold is presented. For sustainable finance disclosure we think it is sufficient when the companies demonstrate that they have the relevant policies in place to manage all projects in a responsible way, not only those financed with green finance. Financial Market Participants can then continue using tools like sustainability/ESG ratings, which are always at the level of the corporate/company.

Question 4: Is the proposed taxonomy approach sufficiently clear and usable for investment purposes?

No

First of all, it is important to highlight that according to the "Taxonomy regulation proposal" the taxonomy is not a mandatory list of activities in which to invest and, even funds targeting environmental objectives will not be limited to investing only in taxonomy-compliant activities. Therefore, the voluntary use, by investment firms and credit institutions, of a clear and usable taxonomy will be crucial to mobilize finance for sustainable growth.

We have some concerns that even if the taxonomy can provide a clear indication of what economic activities can be considered as environmentally sustainable, different approaches within different financial market participants regarding the same investment/activity may continue to exist. Making use of existing standards and frameworks, e.g. appropriate ISO standards, is important to ensure uniform application across markets and types of financial institutions.

In addition, while the binary criteria of "sustainable / unsustainable activities" does not differentiate diverse degrees of sustainability at this stage, the added simplicity of the proposed binary approach presents clear advantages for market participants.

The classification of the economic activities under the Taxonomy approach shall foster the disclosure of reliable, comparable and easy-to-use information by the economic actors, providing quantitative and qualitative elements that banks may integrate in their decision-making process.

Industry-wide understanding and adhesion to the activity classification criteria will be a key factor and a condition-precedent for the intended change within the banks decision-making process and business models towards a committed and effective engagement of the banking sector in the promotion of an environmentally sustainable banking model.

Question 5: Would the use of the taxonomy require any additional resources (for example in human resources or information technology)?

YES

We do expect that the use of the taxonomy will demand additional resources (human resources, information technology, third party providers).

First of all, we consider that it is a natural consequence of incorporating a new classification system for investments/assets.

Besides human resources fully dedicated to this theme from both regulatory and process/operational perspective, cost related to technological developments, education/formation, and investments in cultural, governance and internal processes changes are envisaged.

Furthermore, even after the implementation of a solid processes to deal with the taxonomy and its impact on the normal activity of business, a monitoring process will have to be in place to assure that sustainable activities are still correctly considered as such in light of expected futures changes in the taxonomy.

Furthermore, even after the implementation of a solid processes to deal with the taxonomy and its impact on the normal activity of business, a monitoring process will have to be in place to assure that sustainable activities are still correctly considered as such in light of expected futures changes in the taxonomy. The proposal for a regulation on the establishment of a framework to facilitate sustainable investment envisages in article 15 the establishment of a Platform of experts under the Presidency of the EC to advise the Commission on the technical screening criteria and the need to review. It´s important that this platform ensures that any agreed taxonomy keeps evolving and takes into consideration the impact of any changes (i.e. what happens when a financial product that was green or sustainable at the inception is no longer green at the settlement date?)

We are not able to objectively estimate cost increases, since it involves too many variables and it is a progressively adaptation process. The cost impact will depend upon the quality and comparability of the information disclosed by companies within each of the economic activities/sectors identified in the taxonomy. Completeness and precision of the information disclosed by the economic agents to whom banks provide financing services and other banking services will have a direct impact on the activities financed and investment solutions offered by banks.

Even in cases when information is easily available, significant investments in training as well as IT solutions are envisaged in the initial phase in order to carry out mapping of existing operations as well as integrating new operations to be assessed according with the taxonomy.

Question 6: Please provide any additional comments on the design and/or usability of the taxonomy, including proposals for improvement.

Taxonomy data must be accessible in internal systems or easily available through external sources.

We consider that the same investment/activity may have different sustainable categorisations by users, which may translate into duplicate resources spent in the assessment.

The implementation of the taxonomy would, if not involving third parties in the provision of data and the assessment/verification of clients' economic activities, e.g. certification entities, seem to require significant additional resources and competences, and cause potential data quality issues. The certification by third party entities and the public disclosure of information using independent open source data repositories may prove useful. With this kind of measures we may foster the use of the taxonomy, with a homogenous approach and reduce the costs related with the assessment and monitoring processes, that may be significative for smaller banks with exposures in a wide range of activities.

For those banks that, on a voluntary basis, want to use the EU taxonomy to define and quantify their green lending, it is important to have a clear and a solid shared criteria on how to do it. While the application may be rather straightforward for project finance and for loans with specific purposes, the application for corporate lending (es. lending to utilities with % of renewable energy; lending to clients with % of green activities) will be much more challenging. **Issuance of a specific guidelines to help banks to implement this taxonomy on their lending portfolio on a voluntary basis is being envisaged by the European Banking Federation.**

While we do support the phased selection method, we have some concerns with the indirect impact of some activities. For instance, some activities related with public transportation, if not providing zero emissions or providing a low emission intensity that may be slightly higher than the selected threshold (that will be defined further), may not be considered as sustainable. This approach might not cover high impact GHG emission savings generated by the avoidance of self-transportation, even with small direct GHG emissions. We would suggest the TEG to take this into considerations while discussing and setting the thresholds during round 2.

We also believe that some more economic activities should be considered environmentally sustainable in the 1st round climate mitigation activities such as: In 11. Energy: 11.7 Energy Production (Hydrogen), 11.8 Energy Production (Biogas), 11.9 the activity of Energy Services Companies (ESCOs) should be included in the taxonomy. ESCOs services result in a significant reduction of energy consumption by firms. Accordingly, they should be included in this first round, defining a set of thresholds that ensures this positive environmental

impact. Last but not least, smart grids should be included somehow, as they allow for notably efficiency improvements. That would contribute to improve the capacity of the taxonomy on the provision of a clear indication of what economic activities should be considered environmentally sustainable.