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EBF final response to the Call for feedback on TEG report on EU Taxonomy

General remarks about the TEG report

We welcome the quality and exhaustivity of the work from the Technical Expert Group. In our response, we would like to highlight some elements that we believe could contribute to steering the taxonomy more optimally towards facilitation of investment and financing of the gradual shift of the economy to a net zero carbon emitting model by 2050. In addition, we also would like to highlight the efforts by the Commission in discussing the taxonomy with third countries, as coordinated action at global level is key for financing the transition to more sustainable economic activities.

Climate change mitigation

- Thresholds

While

we are generally supportive of the approach taken; we recommend further refinement in order to encompass the reality of companies' shift towards increased sustainability.

- Use of the taxonomy outside the EU

While we understand that more granular information can be extracted from project-specific financing, complexity is increased in order to assess the due diligence compliance of investee/borrowing companies in jurisdictions where the information is not available.

Climate adaptation activities

- The qualitative criteria for adaptation should not apply equally to all sectors, as the activities are very much context specific. We understand also that at the same time, the assessment is really challenging as it should be based on robust analysis of available climate data and projections across a range of future scenarios. We would welcome further examples regarding performance metrics.

Usability of the taxonomy

- We reiterate the comments that we submitted in our answer to the TEG consultation on the usability of the taxonomy in February this year, reviewed and refined subject to continued discussions.

- The taxonomy should be seen as a common language that could be applied by all market participants to all their activities. (1) The taxonomy should be aligned with existing economic activity classifications, and (2) environmental classifications (NACE, CPA, PRODCOM/CN & CEPA CReMA). It should also be aligned (3) with the environmental disclosures of Member States, (4) applicable on a voluntary basis while required on those products marketed as sustainable, (5) and easily implementable in ICT systems and work processes of banks. Finally (6), we recommend to introduce some forms of flexibility on thresholds, taking into account considerations of current assessment of sustainable activities by market participants and forward looking impacts on scientific developments. 7) The application of the do no harm assessment should be allowed, as an alternative, to be assessed at the level of the investee companies and borrowers.
- With regards to the specific point on thresholds, we would like to reiterate that the taxonomy should be applied and updated in a structured manner; as a holistic and flexible standard that does not preclude current market practices and allows enough lenience to adapt to scientific and financial innovations; and is proportional to clients with different capabilities of sustainability measurement. Current assessments of sustainability by market participants using already existing standards should be allowed in a continuous manner, while also enabling the taxonomy to be flexible enough to adapt as science and financial innovation evolve.
- In addition, with regards to SMEs, we reiterate the principle of proportionality to ensure they access to finance is not restricted and that they are not subject of undue and burdensome requirements to access sustainable financing.
- Finally, we propose different practical tools and measures that could be developed to facilitate the implementation of the taxonomy by financial and non-financial actors.

Usability and future uses of the taxonomy

- Although a direct application of the Taxonomy to loans and other banking activities is not currently envisaged by the EU legislation, we would like to mention the joint project the EBF will be launching together with the UNEP FI. Given the original focus of the EU taxonomy on investment process and asset management as opposed to banking activities or risk management, the objective of the project is to analyze the potential of the application of the EU taxonomy to bank's portfolios, identify any shortcoming or need for adaptations in order to make the taxonomy applicable to banking activities for banks that wish to apply the EU taxonomy on a voluntary basis. Upon agreement of participating institutions and the validation of the final scope, the project will aim to develop and promote high-level voluntary guidelines that will facilitate the identification of sustainable activities in banks' portfolios based on the EU taxonomy, including use cases, disclosure guidance and recommendations.
- It is important to create European incentive policies for both enterprises and banks involved in the transition towards a more sustainable economy. The joint EBF/UNEP FI project to assess the possible usability of the taxonomy beyond its original scope, albeit on a voluntary basis is not only expected to contribute to the debate on the usability of the taxonomy and its future adaptation, but also contribute to facilitation of the application of targeted incentives and further positive effects.

- We would therefore like to reiterate our interest to be engaged in the next steps of the planned regulatory and review process and in the membership of the Platform on Sustainable Finance. This is critical not only to ensure a structured representation of the banking industry, but also a link between the important joint project undertaken by the UNEP FI and EBF and the future work on the taxonomy.

1 - Climate change mitigation activities

With regards to climate change mitigation activities, we see quite clear differences depending on the sectors impacted and more concrete elements in the specific activities.

Generally, comments are not focused on the boundaries of the activity, but on the rest of the considerations.

Agriculture and forestry:

The **metrics** could be improved. Point 3 in the criteria should refer directly to Renewable Energy Directive II (REDII) in order to account for potential future changes to the legislation.

For metrics on the topic of existing forest management, it is indicated that as regards the requirement to establish a baseline GHG balance, even maintaining a 100 % natural state at all times is not a realistic objective as regards commercial forestry. Also, against the background of the long-term nature of the activities and the possibility of unexpected events such as fires, rather than emphasising the maintenance of the carbon sink per se, the focus should, in the long term, be on maintaining carbon balance. Forest area in Europe, and consequently, carbon sinks, have increased continuously over the decades. However, this growth is not and has not always been even: there have been fluctuations due to several reasons, normal forest management activities being one important factor. This is especially the case in North and Central-East Europe, where much of the industry is concentrated and where forest areas also remain the largest.¹

With regards to the **threshold**, we understand that the relative thresholds, along with the requirement to establish a management plan with a baseline for GHG emission constitute a feasible approach, compared to one based on absolute thresholds. However, as regards the required reductions in GHG emissions, an aspect that should be carefully considered is that although a force majeure exclusion is included in the criteria, this does not fully solve potential issues in terms of actual achievements. Ideally, additional considerations should be introduced in the criteria in order to facilitate/mitigate potential issues arising i.e. from external factors affecting the GHG emission reductions within the set time periods.

Additionally, smaller GHG emissions should also be acknowledged, especially considering that any future emission levels will, at this stage, have to be based on estimations – in case of other factors affecting these levels, comparability must be ensured.

Should a financial market participant apply the alternative, measure-based metrics, it will at that stage have to base its efforts on estimates, raising issues of foreseeability and liability. Additional clarity is therefore needed. It should especially be assessed how the proposed future performance-based approach would interact with existing rules regarding investment products and advice, including the UCITS Regulation and MiFID/MiFIR. For the same reasons, the risks of focusing on positive future outlook should also be assessed; given that any effects will not show until considerable time, the risks of concentrating on such perceived future effects could turn out to be considerable.

1 <https://www.foresteuropa.org/docs/fullsoef2015.pdf>, see pages 69-73.

The various scenarios herein considered, or still to be evaluated, may enhance information and market asymmetries and aggravate the possibility of stabilizing a framework that should support a common approach for the financial industry.

With regards to the **Do No Significant Harm** criteria, we would like to point out that additional legal certainty, especially concerning the foreseeability of actual performance, is needed. For instance, it should be clear what expectations may be placed upon “best effort basis”, “minimisation” – if unspecified, there will likely be discrepancies between investors’ expectations and actual effects, i.e. what companies perceive as fulfilling the criteria. In parts, causality assessments regarding e.g. decreases in the diversity or abundance of species, may prove difficult and ultimately uncertain. More guidance and clarity would be welcome as to better assess the impact of specific activities.

Concerning the application **on third country economic activities**, the criteria lack certainty in terms of applicability while also placing European companies in a different position from their third-country peers. In this sense, where standards are not global, there should be a way to ensure compliance, perhaps through a third-party assessment. This is important since the compliance of economic activities within the Union can be easily assessed and verified due to the legal requirements imposed on companies in several sectors. In comparison, without verification, similar transparency does not necessarily exist in all cases as regards third-country activities.

Use in **third countries** requires that the activities comply with the European regulations. In order to avoid greenwashing, it is important to ensure that the third-country activities indeed fulfill the criteria. What complicates this is that these regulations are obviously not directly enforceable in third countries, which is why compliance with European standards needs to be ensured through other means, preferably through a third-party assessment which would greatly contribute to additional clarity and transparency from the investor perspective.

Manufacturing:

We believe a different **metric and threshold** should be used.

The proposed criteria risks shifting focus – and thus orienting capital flows – towards activities that are already sustainable (and which should indeed be developed further as well, which the criteria does acknowledge).

The other activities will, however, likely not disappear in the near future, but the level of their sustainability will not be able to be assessed under the taxonomy, thus complicating the promotion of adequate measures to increase their sustainability. For instance, we expect that the combination of the BTS benchmark thresholds for GHG emissions (top 15%) and the strict DNSH principles for the manufacture of Cement, Aluminium, Iron and Steel would only allow companies in a far lower percentile of the top 15% to be eligible. This is of particular importance, since **the manufacturing macro-sector represents 23,9% of GHG emissions in the EU.**

In addition, necessary investments not specifically relating to sustainability efforts could effectively be regarded as brown by the market, while specific adaptation activities would be classified as green and could subsequently be encouraged, and activities that are “light green” and under further development could, in total, be deprived of the necessary level of investment.

The taxonomy will have immediate transition-inducing or -discouraging implications on the market. Therefore, **thresholds should be refined to a level that better reflects the nature of the shift towards greater sustainability** and elasticity in defining boundaries, including time and sectoral boundaries, allowing for the recognition and definition of sustainable characteristics on a broader scale, as well as promoting a greater transparency in the assumption and reporting of these developments coinciding with the energy transition on the European agenda.

With regards to the **Do No Significant Harm** criteria, additional legal certainty, especially concerning the foreseeability of actual performance, is needed. For instance, it should be clear what expectations may be placed upon “best effort basis”, “minimisation” – if unspecified, there will likely be discrepancies between investors’ expectations and actual effects, i.e. what companies perceive as fulfilling the criteria. In parts, causality assessments regarding for example decreases in the diversity or abundance of species, may prove difficult and ultimately uncertain. The risk of diverse asymmetries and self-regulation may hinder the consensus needed for a common reference matrix for all companies regardless of their size.

The proposed criteria for substantial contribution and DNSH are considered as appropriate for **activities outside the EU** except with regards to the manufacture of plastics in primary form.

No specific metrics or threshold changes mentioned regarding manufacture of hydrogen and inorganic basic chemicals, while DNSH and outside of the EU considerations apply.

Electricity, gas, steam and air conditioning supply:

Principle - The definition of transition activities in the TEG report could be improved, going beyond activities that have the potential, on a stand-alone basis, to be carbon-neutral in 2050. A more holistic perspective, integrating combinations of new and existing technologies and practices (i.e. electrification, hydrogen, sustainable bio-based feedstocks, product substitution, and carbon capture, utilization and storage (CCUS)) that have the potential to significantly reduce carbon emissions would be more pragmatic.

Metrics - Any future emission levels will, at this stage have to be based on estimations – in case of other factors affecting these levels, comparability must be ensured. Ideally, this should be done in the taxonomy regulation itself by establishing a system based on screening against the technical screening criteria which at any given point in time, in a dynamic fashion – as is indeed proposed in the criteria in part- would demonstrate to what extent economic activities show sustainable characteristics. In order to make this possible, the criteria should consist of several factors, some of which the activity in question may not fulfil while still fulfilling others.

Threshold - There must be more diversity in terms of criteria: a single threshold for the emissions does not leave any room for a more granular analysis of the differences between the different means for producing electricity. For some means, such as gas combustion, the targets seem unpragmatic and the reduction path envisaged does not seem achievable: the level of the maximum GHG emission threshold for the production of electricity from gas combustion translate into a de facto exclusion of this activity. We believe instead that a threshold should be set around 350-420 gCO₂/kWh on a lifecycle GHG emission basis for all fossil-fuel power plants (except bioenergy plants)

In addition, the level of reduction of the threshold every 5 years , in line with a net-zero CO₂e in 2050 trajectory, raises uncertainty on the assets and activities that will qualify as sustainable at specific points in time, taking into account different rates of convergence from the initial “<100gCO₂e/kWh” to “0gCO₂e/kWh by 2050”.

Setting greenhouse gas emission reduction targets in line with the European target for Carbon neutrality, the Paris Agreement and aligned with climate science is a way to future-proof growth. Science-Based Targets can be suggested as a referential tool, along with similar others internationally recognized, for companies to define their pathways to future-proof growth by specifying how much and how quickly they need to reduce their greenhouse gas emissions.

With regards to CCS activity, the TEG's proposal is that coal-fired and gas-fired power may qualify as green if CCS is used and if GHG emissions are below 100 gCO₂/kWh (pages 253-254). We are particularly worried that by setting the initial threshold at 100gCO₂e/kWh without providing guidance on how to measure it consistently and without defining the scope of measurement would open the door to a lack of confidence and transparency on the results achieved. **This could divert the use of CO₂ storage technology to enhance CO₂-emitting activities such as CCU or EOR (Enhanced Oil Recovery).**

Indeed, for calculating emissions of CCS activity, **reference is made to life cycle emissions (LCE) methodology that does not yet exist and remains to be developed.**

In order to avoid any misuse of the CCS technology and avoid any risk of considering as eligible an activity with a net negative impact on the climate and the environment at large (CCU or EOR for example), we believe that the future LCE methodology for CCS must include at least:

- the direct and indirect emissions as defined in ISO 14064 in development,
- all GHGs listed in the Kyoto Protocol in addition to CO₂, including methane (the threshold value should be expressed in CO₂ equivalent),
- the overall scope of the value chain (capture, transport, storage) including any downstream use of CO₂ such as CCU or EOR activities.
- the reference period needs to be taken into account for calculation,
- the analysis of other environmental impacts such as eutrophication, acidification, oxidation

As a result, we recommend that, **for CCS activity in particular:**

- In the absence of a clear, reliable and complete methodology, it is imperative to refer to the specific guidance on LCE methodologies based on ISO 14025, 14044 and 14067 standards as quoted by the TEG (currently being developed) and also to the ISO 14064 standard on the quantification of GHG emissions for a standardized measurement of GHG emissions (also currently being developed).
- The investment in CCS for downstream use of EOR should be specifically excluded from the scope of eligible activities under the current taxonomy.

With regards to:

- Biomass, Biogas or biofuels
- Cogeneration of Heat/Cool and power from Concentrated Solar Power
- Cogeneration of Heat/Cool and power from Geothermal Energy
- Cogeneration of Heat/Cool and power from Gas Combustion

- Cogeneration of Heat/Cool and power from Bioenergy
- Production of Heating and Cooling from Concentrated Solar Power
- Production of Heating and Cooling from Geothermal Energy
- Production of Heating and Cooling from Gas Combustion
- Considerations on threshold and metrics mentioned on the manufacturing section apply. (see above).
- Production of heating and cooling from Bioenergy includes the considerations above on metrics while it is indicated that with regards to metrics, there must be more diversity in terms of criteria: a single threshold for the emissions does not leave any room for further assessment. Also, using a taxonomy based on such a metric means that the financial market participant will effectively be giving the investor a promise of future performance, something which, in practice, may not be able to be fulfilled and which the institution in fact – despite efforts to such an effect – cannot promise.
- Note: Air conditioning activity is mentioned but does not seem to be treated. It is not known whether this activity is to be analyzed by the electrical energy consumed (indirect emission) or by the refrigerant gases that make up this activity under the Kyoto Protocol for GHGs (and the Montreal Protocol for the protection of the O₃ layer)

Water waste and sewerage remediation

Threshold: The TEG recommends a too uniform front-to-end cycle 0.5 Kwh/m³ threshold for **water collection, treatment and supply** disregarding territorial physical aspects (i.e. mountains as opposed to flat territories). Also, there is no recommended threshold for the different phases of water collection, treatment and supply whereas investments/financing are merely on specific phases rather than whole front-to-end cycle.

Transport:

Arguments used above with regards the risk of shifting focus to activities that are already sustainable prevail, with some specific additions on sectors:

- Freight rail: Considering that fossil fuels will likely continue to be used to a smaller, but still considerable extent for some time going forward, excluding their transport, is at this stage not advisable, since this would only contribute to stagnating economic growth and sustainable development overall. The carbon intensity of freight rail is significantly lower than road freight transport. Sustainable transport systems can reduce some of the climate risks associated with fossil fuels. In this sense, sustainable transport systems, regardless of what is transported, should be seen as part of the solution.
- Freight by road, vessels and construction of water projects: Exclusion of fleets of vehicles and vessels dedicated to the transport of fossil fuels or fossil fuels blended with alternative from the eligibility even if meeting the criteria above could be questioned – to the extent there will still be fossil fuel, it could be argued that at least the transport of it be conducted in a sustainable manner. In fact, should freight transport services for these fuels do not continue to be developed and invested in, fossil fuels will affect the environment even more. Also, even outside the context of fossil fuels, the same sustainable, constantly developing transport services have a positive overall environmental effect. Similarly, eligibility under the taxonomy should not be limited to sole use of advance biofuels or renewable liquid and gaseous transport fuels of non-biological origin, but also be extended to blended fuels, which after all, should be considered as a necessary part of the transition towards pure renewables.

- Hybrid passenger rail and public transportation: the increasing use of hybrid vehicles is definitely part of the transition to a net-zero carbon economy by 2050. **Against this background, it is counterproductive to make hybrid passenger rail and public transportation vehicles taxonomy-eligible only until 2025 and rule them out as early as 2026.** Passenger rail and public transportation, even emitting moderately with hybrid trains and buses, present massive emission-avoidance opportunity if it succeeds being the alternative to individual cars: this is why disregards that one of the key sustainability priorities of current societies worldwide is to develop public transport infrastructures². This approach does not either take into account the time needed to invest in and develop electrified railways (only 57% of railways are electrified in France, 53% in Germany, 64% in Spain, 55% in Finland, 24.5% in Denmark³).
- Inland freight water transport and Construction of water projects: We believe there is an inconsistency between the inclusion of “Production of heat/cool from gas combustion” under “Electricity, gas, steam and air condition supply” and the exclusion of the transport of natural gas in this part of the screening report. It seems illogical that the use of the gas combustion for heating can be considered sustainable, while the transport of the natural gas itself cannot.

With regards to use in **third countries**, while references to EU legislation are welcomed, it must be ensured that these are indeed complied with, considering that they are not directly enforceable in third countries.

Buildings:

Regarding the construction of new buildings, we welcome the TEG decision to use energy metrics instead of GHG emissions metrics at this stage to evaluate building’s performance.

On metrics, we understand that for the acquisition of buildings it is important to make sure that all owners of buildings have an incentive to make major renovations irrespective of their foreseen length of ownership. This implies that major renovations must still be valid after change of ownership. It would not make sense if a building has to improve savings in energy performance of at least 30% twice to be taxonomy eligible. Often it will not be cost-optimal.

Thresholds: As a general remark, it is worth noting that the technical screening criteria are based on national rules at this stage. This creates an unlevel playing fields within the EU as levels of stringency between EU Member States vary tremendously. For example, in France, the *réglementation thermique* RT2012 captures the top 15% performers but is currently being reviewed to be aligned with a carbon neutrality objective and is therefore expected to translate into even more stringent norms than in other Member States. The TEG explicitly calls for the development of absolute thresholds in a second step, but this shows how difficult it will be to adapt and implement a patchwork of different norms across the EU.

2 UN Sustainable Development Goals – Number 11: “Make cities and human settlements inclusive, safe, resilient and sustainable: “By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport »

3 https://ec.europa.eu/transport/facts-fundings/scoreboard/compare/energy-union-innovation/share-electrified-railway_en

Of the real estate stock in most Member States, only a minor part is energy-efficient at present, with energy class B constituting an even smaller part. Energy-efficient building is on the rise, but the number of high-performing activities is still not growing to any larger extent. In this respect, the focus of the taxonomy would be on high-performing activities that already take place and would be forward-looking as to the further development of such future projects. The proposed taxonomy criteria do however not provide for ways in which the level of sustainability of new, not quite-energy-efficient buildings or class C buildings could be assessed, thus placing the further development of such project types towards increased sustainability at a disadvantage. Despite the thresholds being based on national NZEB levels, they risk making the taxonomy less relevant on a wider (as opposed to individual improving measures) project level for parts of the Union because of considerable differences in the prevalence of different energy levels, since an overall assessment may not be possible – this is especially the case as regards projects where sustainability efforts would be most needed.⁴

Regarding the **Do No Significant Harm** criteria, for the construction of new buildings, renovation of existing buildings and acquisition of buildings, the fulfilment of the DNSH can be a large administrative burden especially for small private entrepreneurs. We would suggest that national authorities could assist by granting accreditations, setting requirements to producers of materials etc. We do find it crucial, that a proportionality principle is used, distinguishing between construction of private residential buildings and non-residential buildings. The requirements for documentation of the 'do no significant harm' criteria should not be as comprehensive for privates, as is the case for corporates. In general, it should be sought to minimize the administrative burden of complying to the criteria, as this will ultimately make it more expensive for the consumers.

We think that existing buildings in Natura 2000 should be eligible to fulfill the taxonomy. Also, buildings in those areas should contribute to reducing the Co2 emissions and benefit by fulfilling the taxonomy like other buildings.

On top of this, it should be possible to renovate buildings located on protected natural areas, such as land designated as Natura 2000. We see no reason why these buildings should not also contribute to the reduction of Co2, of course under due consideration to protecting the environment. If deemed necessary, permission from the relevant national authorities could be required before renovation.

With regards to use **third countries**, we would like to mention again that while references to EU legislation are welcomed, it must be ensured that these are indeed complied with, considering that they are not directly enforceable in third countries.

4 www.zebra-monitoring.enerdata.eu/overall-building-activities/share-of-new-non-residential-buildings-with-epcs.html

www.zebra-monitoring.enerdata.eu/overall-building-activities/share-of-new-non-residential-buildings-with-epcs.html#share-of-new-dwellings-with-epcs.html

2 - Climate change adaptation

The qualitative criteria for adaptation should not apply equally to all sectors. Climate change adaptation refers to the responses to physical environmental risk. The grounding tenet of the climate change adaptation’s conceptual approach is that adaptation is context- and location-specific. The efforts to shape qualitative screening criteria according to the sector characteristics would enhance their consistency with the context specificity. For instance, screening criteria may have a different weight according to the specific critical issues of the sector.

The criteria should be different, given the very high level of screening criteria for 'adaptation of an economic activity (see table 3 in 7.3.1 but also table 4). While they are too generic (neither sector nor location nor risk specific) but at the same time really challenging because they are based also on robust analysis of available climate data and projections across a range of future scenarios. Some improvements in term of usability should be developed starting from the typical sensitivities of single activity to climate-related hazards but not only as examples, as they are now, but as part of the agreed screening criteria. These suggested improvements would be useful to build wide consensus on adaptation activities that should be (financially) incentivized.

With regards to examples, data and tools, the examples provided in the technical report are useful for indicating the potential application of the criteria. Further examples regarding performance metrics would be useful. In addition, a tool providing a list of possible performance metrics for each “specific hazard” could better drive the application of adaptation measures.

3 - Usability of the Taxonomy

The topic of the usability of the taxonomy was already covered in great level of detail in our previous reply to the TEG consultation. We are therefore only referencing the key elements.

7 KEY ELEMENTS OF THE TAXONOMY USABILITY

	KEY ELEMENTS	Alignment
A. EU LEGISLATORS & MEMBER STATES (setting out requirements)	1 <u>Economic activity</u> classifications	EU classifications to identify environmental activities next to NACE codes
	2 <u>Environmental</u> classifications	Use and expand economic activity classifications and combine them with CEPA/CreMA classifications
	3 Environmental disclosures	Sustainable Finance Taxonomy aligned with taxonomy for the Environmental Accounts of the member states
B. FINANCIAL MARKET PARTICIPANTS	4 Applicability	Voluntary and mandatory use
	5 Implementation	Information and Communications Technology (ICT) and automatization of work processes
	6 Thresholds	Adaptive
	7 “Do No Harm” assessment	At the level of Investee companies and borrowers

Coherent Information Chain

General remarks on Usability:

The taxonomy should be seen as a common language that **could be applied by all (financial and non-financial) market participants to all their activities**. The usability of the taxonomy will depend mainly on the way the taxonomy will be implemented and communicated.

Automatization of the processes and integration into the IT systems has a great potential for acceptance, successful adoption and implementation of the taxonomy. Taxonomy should be 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.

A first KEY element of usability is **alignment of the Taxonomy with existing economic activity classifications**, to the maximum extent possible.

A second KEY element of usability is **alignment of the Taxonomy with existing environmental classifications** to the maximum extent possible.

The point of the taxonomy should be to define what part of an activity percentage of activities can be deemed sustainable. The existing NACE codes will never be sufficient for this purpose; therefore, it is necessary to use additional codes for the purpose.

We suggest:

- **Using and expanding existing activity classifications** including NACE, of the revised European system of integrated statistical classifications, which distinguishes between activities (NACE), products (CPA) and goods/services (PRODCOM/CN/HS); Companies should be asked to publicly disclose the following information table concerning the percentage of their activities that are sustainable:
 - a. the list of taxonomy-compliant products they produce (a list of prodcom codes),
 - b. the environmental characteristics or applications of the respective products that makes them compliant, and
- the (percentage of) associated revenues.
and
- **Classifying each of them into 16 environmental CEPA/CRReMA purposes/domains.**

A third KEY element of usability is **alignment of environmental disclosures**. Sustainable Finance Taxonomy must be fully aligned with the taxonomy for the Environmental Accounts of the Member States, otherwise Member States will report environmental investment figures different from those of Financial Market Participants. If Member States share data with financial market participants, then sustainable finance disclosures can be (as much as possible) **automated**.

A fourth KEY element of usability is its **applicability**. It is important to distinguish between voluntary and mandatory use of the taxonomy. It should be possible for all market participants to apply the taxonomy as a common comprehensive framework or classification system to all activities, products and services **on a voluntary basis while requiring the financial products marketed as environmentally sustainable, to be sustainable**. The taxonomy also needs to be simple enough so that those who are supposed to use it in their investment decision-making can understand it.

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 an 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. Manual solutions for selection/verification and reporting are labor intensive, too expensive and “out of the question”. We encourage and support a system of **robust classifications and codes that can be used in an automated way**.

A sixth KEY element of the usability of the taxonomy is regarding **thresholds**. We are generally supportive of the approach taken, while we recommend further refinement in order to reflect and encompass the reality of companies’ shift towards increased sustainability and introduce some form of flexibility.

The taxonomy should be applied and updated using a structured approach, conforming it as a holistic and flexible standard, that does not preclude current ways of working in the market and allows enough lenience to adapt to scientific innovations, financial innovation and is proportional to clients with different capabilities of sustainability measurement.

Before the taxonomy is fully enforceable as a standard, market participants need enough flexibility to adapt their internal processes (in many cases operating with their own taxonomies) and ensure that they can identify sustainable activities in a structured manner.

Currently, market participants (organizations such as: standard setting bodies, industry groups, research organisations, consultants, engineering firms) classify sustainable economic activities according to existing classifications. At this stage, the taxonomy also refers in some cases to external standards, such as EU (building) regulation or product/process certifications like FSC and ISO certifications.

It would be a missed opportunity for financial markets participants if the taxonomy would become an overly stringent piece of regulation, precluding the use of existing criteria from existing standards to identify eligible activities. There should be no prejudice in the longer term of this usage in the way forward.

Once the taxonomy is approved, it will be mandatory for the financial products made available as sustainable, however flexibility should be allowed for participants using their own taxonomies (benchmarkable to the EU taxonomy).

Considering the future usability of the taxonomy, the key criteria for considering economic activities sustainable (and taxonomy eligible), need to be adapted as science evolves, in order to reflect the fact-based findings to achieve the goal of a climate neutral Europe by 2050.

This is a task that needs to count with an appropriate update method in the way forward, unhampered by political discussions, based on scientific evolutions.

A constructive and structured engagement of all relevant sectors in the Platform for Sustainable Finance is crucial. The European Banking Federation as a key representative of the European banking sector, main provider of the finance for the European economy should be represented in the Platform.

Evolution in the market is likely to be very fast when identifying novel products that can be considered sustainable under different metrics. As we understand the rhythm of market evolutions is faster than that of regulatory change, we would like to ensure that innovation in the market is not hampered, and that possible eligible assets as sustainable is allowed under a taxonomy-like basis proven the market participant can provide scientific basis for these advancements and how it could be considered under the taxonomy (even if impacting already defined screening criteria).

The seventh KEY element is the **application of the do no harm assessment**. It should be **allowed, as an alternative, to assess the sustainability at the level of the investee companies and borrowers**. 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. The majority of SRI funds operate in this way at the moment, and this process should not be frustrated in order to avoid countereffects.

In addition, we need a **coherent information chain**. Companies need to disclose the relevant information with regards to the types of activity so that 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. 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 owing simply 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). **As a result, the TEG should verify, not only the fit for purpose of the metrics, but also their simplicity in order to avoid creating unjustified competitive disadvantage for SMEs**. It is critical in this regard to balance the place SME financing falls under in order to avoid greenwashing.

Given that the vast majority of companies in the EU are SMEs, to avoid unintended barriers to innovation and progress on green initiatives across the largest business segment. We have to ensure that access of SMEs to finance is not restricted due to the lack of data and assessment inability. Categorizing companies and institutions financed along the three main types: Listed companies, large corporates and SMEs. A simplified framework may then be considered for SMEs.

In addition to our general comments on the usability of the taxonomy and given the more concrete questions and implications included in the consultation, we would like to make the following comments:

Specific usage of the taxonomy on business activities on the short term

We would like to comment on specific examples on buildings. If a building has fulfilled the taxonomy when the loan is granted this status must be maintained for the whole maturity of the loan. This will be in line with the statement regarding green bonds on page 29 in the Report on EU Green bond standard: "In this respect it is important to note that subsequent changes to the Taxonomy will not apply to outstanding EU Green Bonds (grandfathering)". Furthermore, it will be aligned with the set up for EU Green Bonds where "Verification of allocation reporting further confirms alignment with the original taxonomy-aligned use of funds, as defined in the Green Bond Framework" (page 67 in Taxonomy Technical Report)

Usability of the taxonomy for disclosures related to specific financial products

Even though "the Taxonomy would not impose regulations on companies to change reporting practices", a more granular indication on how companies should communicate the alignment of their activities with the Taxonomy, could enable investors to better identify the sustainable profile of financial products.

In relation to Portfolio management, the Taxonomy should help to analyze the financed projects in more detail and to select the Green Bonds that offer the best environmental risk reward.

Usability of the taxonomy for different asset classes:

As mentioned in the section below on the future of the taxonomy, the EBF is partnering with UNEP FI to analyze the potential of the application of the EU taxonomy to bank's portfolios as well as potential shortcoming and the need for any adaptations in order to make the taxonomy applicable to banking activities, given that the original focus of the EU taxonomy was on investment process and asset management. Upon agreement of the participating institutions validation of the final scope, the project will aim to develop and promote high-level voluntary guidelines that will facilitate the identification of sustainable activities in banks' portfolios based on the EU taxonomy, including use cases, disclosure guidance and recommendations.

Upon assessment, possible use-cases are envisaged to be provided for specific banking activities in different areas:

Retail lending

- Mortgages
- Energy Efficient mortgages
- Car loans, home equity loans

Commercial lending

- Commercial building loans
- Bilateral loans with use of proceeds for sustainable activities
- Syndicated loans or project finance with use of proceeds for sustainable activities
- Corporate lending to clients with 100% (or other %) business in sustainable activities ESG-linked loans
- SME lending
- Business auto loans and financing solutions (that meet the needs of renewal and maintenance of car fleets, for example with hybrid and electric vehicles)
- Energy efficiency credit (credit for companies wishing to invest in projects aimed at improving the energy performance of facilities)

Investment banking

- Off-balance sheet sustainable bonds' intermediation
- Off-balance sheet securitization

Other lending solutions

- Long-term infrastructure financing, (export finance)
- Guarantees
- Project finance (trade finance, long-term infrastructure, export finance etc.)

The project and its outcome will contribute to the debate on the usability of the taxonomy and potential of its use beyond its initial scope, albeit on a voluntary basis. We are interested therefore to be engaged in the next steps of the planned regulatory and review process and are interested in the membership of the Platform on Sustainable Finance. This is critical in order to ensure structured representation of the banking industry as well as link between the important joint project of UNEP FI and EBF and the future work on the taxonomy.

Other comments on the usability:

Concerning the usability of the taxonomy for Corporate bonds and Green Bonds, the taxonomy could increase data/information transparency and comparability as well as a more focused companies' commitment in developing their own activities/projects. More specifically on Green Bonds, we appreciate the reference that the Taxonomy can be applied to bonds whose proceeds are invested in qualifying environmentally beneficial economic activities, with the level of greenness of a given bond being calculated by the percentage or amount of proceeds that go to Taxonomy-eligible assets. However, we find it unnecessary strict to require 100% fulfilment of the taxonomy to get the EU Green bond standard. A lower threshold, as for other standards to make it more useful in promoting green finance to a larger extent.

Practical tools or measures that could be developed to facilitate the implementation of the taxonomy by financial and non-financial actors:

We propose the tools and measures below should be made available and promoted by the "Platform on Sustainable Finance", in order to:

- A) collect periodically, with the help of new reading technologies, existing climate change mitigation and adaptation data of companies that published non-financial statements - NFS (under the Directive EU 95/2014). The development of APIs should also be allowed in order to enable real time data exchange;
- B) identify the information gaps of relevant climate change mitigation and adaptation information that are missing in the NFS
- C) collect other available information or, at least, identify the sources to know them (i.e. in Italy companies only in specific sectors must have an "environmental permits to operate" which, however, are relative to the production sites and not to the entire company)
- D) providing a synthetic assessment regarding to which extent the economic activities can be considered Taxonomy-eligible or what are the areas that need to be improved in order to be Taxonomy-eligible (i.e. a numerical indicator - for example from 0 to 100 - for each economic sector, which represents a summary number of the quantitative and qualitative components of the single activity. This indicator should be updated dynamically, following the change in objectives within the Taxonomy. This value would make it easier to compare the various activities of the same company/issuer and to evaluate the factors of excellence or future areas for improvement).

In addition, ad hoc training developed at European level on criteria and norms on which sustainability activities thresholds for mitigation are defined would help specific financial actors to build a common understanding to implement the Taxonomy

Finally, for non-financial companies, a strong communication campaign is needed on companies (also not listed), especially on the activation of innovations useful for adaptation.

4 - Future development of the taxonomy

With regards to the future development of the taxonomy, we have highly welcomed during the discussions with the TEG, the clarifications and encouragement provided in order to apply the taxonomy beyond its original scope, albeit on a voluntary basis.

We understand that the future development of the taxonomy and its success lie both in its wide and simplified applicability by market actors and the recognition of its benefits and validity at international level.

For that, a critical assessment of all bank activities, in which the taxonomy can be applied and how, is a conscious next step and critical exercise that European Banks are purposefully engaging.

In reference to the optional additional uses of the taxonomy table as exemplified by the TEG during the stakeholder engagement event on 24 June 2019, we would like to mention that the EBF is partnering with UNEP FI to analyze the potential application of the EU taxonomy to bank's portfolios and potential need for any adaptations in order to make the taxonomy applicable to banking activities, given that the original focus of the EU taxonomy was on investment process and asset management.

Uses and users of the Taxonomy		
	Disclosure obligations	Optional additional uses
Pensions and Asset Management	<ul style="list-style-type: none"> • UCITS funds: <ul style="list-style-type: none"> • equity funds; • exchange-traded funds (ETFs); • bond funds • Alternative Investment Funds (AIFs): <ul style="list-style-type: none"> • fund of funds; • real estate funds; • private equity or SME loan funds; • venture capital funds; • infrastructure funds; • Portfolio management. 	
Insurance	<ul style="list-style-type: none"> • Insurance-based investment products (IBIP) 	<ul style="list-style-type: none"> • Insurance
Corporate & Investment Banking	<ul style="list-style-type: none"> • Securitisation funds* • Venture capital and private equity funds • Portfolio Management • Indices funds 	<ul style="list-style-type: none"> • Securitisation • Venture capital and private equity • Indices • Project finance and corporate financing
Retail banking		<ul style="list-style-type: none"> • Mortgages • Commercial building loans • Car loans • Home equity loans

Upon agreement of the participating institutions and validation of the final scope, the project will aim to develop and promote high-level voluntary guidelines for banks that wish to apply the taxonomy on a voluntary basis that will facilitate the identification of sustainable activities in banks' portfolios based on the EU taxonomy, including use cases, disclosure guidance and recommendations.

The potential voluntary adoption of the Taxonomy by banks could enlarge the perimeter of the Taxonomy with, among others, relevant effects in terms of:

- a larger amount of capital channelled to sustainable activities;
- more effective and faster ability to meet sustainability targets;
- increased transparency with lower greenwashing risk;

- improved ability for banks to meet the sustainable preferences of their customers and other stakeholders;
- improved ability to map exposures and client relations;
- improved sustainability literacy;
- application of targeted incentives.

However, it must be recognized that the EU taxonomy has been designed with the investment process by asset owners and asset managers in mind, and not the traditional bank's activities or from risk management approach. It is therefore likely that the project may identify a need for material adaptations to the taxonomy in order to ensure its applicability for banking activities.

Other comments on the future developments of the taxonomy:

The taxonomy could pay more attention to the corporate attitude to implement technological innovations for climate change mitigation and adaptation⁵. Technological innovation represents one of the main responses that companies, belonging to different sectors, may undertake to face the challenges due to climate change. Furthermore, the taxonomy should also be developed even with reference to social and governance aspects, with the aim to guarantee a stronger effort in promoting a sustainable development coherent with United Nations Sustainable Development Goals and with due attention to creation of new job opportunities and strengthening social cohesion.

⁵ Below are reported the references to some articles on the topic:

- Long, T. B., Blok, V., & Coninx, I. (2016). *Barriers to the adoption and diffusion of technological innovations for climate-smart agriculture in Europe: evidence from the Netherlands, France, Switzerland, and Italy*. *Journal of Cleaner Production*, 112, 9-21.
- Schmidt, T. S., & Sewerin, S. (2017). *Technology as a driver of climate and energy politics*. *Nature Energy*, 2, 17084.
- Singh, R., & Singh, G. S. (2017). *Traditional agriculture: a climate-smart approach for sustainable food production*. *Energy, Ecology and Environment*, 2(5), 296-316.

About EBF

The European Banking Federation is the voice of the European banking sector, uniting 32 national banking associations in Europe that together represent some 4,500 banks - large and small, wholesale and retail, local and international - employing about 2.1 million people. EBF members represent banks that make available loans to the European economy in excess of €20 trillion and that securely handle more than 300 million payment transactions per day. Launched in 1960, the EBF is committed to creating a single market for financial services in the European Union and to supporting policies that foster economic growth.

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