



BANKING AND FINANCE

# Feedback on the usability of the taxonomy

Fields marked with \* are mandatory.

## Introduction

### Disclaimer:

This invitation for feedback is part of DG FISMA, DG ENV, DG CLIMA and DG ENER ongoing work to develop the taxonomy, for which the Commission has set up the TEG. The [action plan on financing sustainable growth](#) – action 1 – requests the group to develop the taxonomy on the basis of broad consultation of all relevant stakeholders. This feedback process is not an official Commission document nor an official Commission position. Nothing in this feedback process commits the Commission nor does it preclude any policy outcomes.

The proposed regulation (in Article 4 on use of the criteria for environmentally sustainable economic activities) envisages two specific uses of the taxonomy:

1. **Member States** when setting out “requirements on market actors in respect of financial products or corporate bonds that are marketed as 'environmentally sustainable'”;
2. **Financial market participants** “when marketing financial products as environmentally sustainable investments, or as investments having similar

characteristics, will have to disclose how and to what extent the criteria have been used to determine the sustainability of the product.” To comply with the regulation, the information disclosed by financial market participants should enable investors to identify:

- “the percentage of holdings pertaining to companies carrying out environmentally sustainable economic activities”; and
- “the share of the investment funding environmentally sustainable economic activities as a percentage of all economic activities”.

For financial market participants, these are disclosure requirements. The taxonomy is not a mandatory list of activities in which to invest. Funds targeting environmental objectives are not limited to investing in taxonomy-compliant activities. Moreover, the taxonomy can also be used on a voluntary basis by any financial institution. The taxonomy should also encourage companies to raise funds for projects that meet the criteria of the taxonomy.

Considering the above, and also the wider aims and objectives of the taxonomy ([see taxonomy approach explained](#)), potential users of the taxonomy are invited to respond to the feedback questions.

**The deadline for providing feedback is 22 February 2019 cob.**

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More information:

- [on this feedback process](#)
- [on the protection of personal data regime for this workshop registration form](#)

## 1. Information about you

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\* Are you replying as:

- ☐ a private individual
- ☒ an organisation or a company
- ☐ a public authority or an international organisation

\* Name of your organisation:

International Capital Market Association (ICMA)

Contact email address:

The information you provide here is for administrative purposes only and will not be published

berit.lauridsen@icmagroup.org

\* Is your organisation included in the Transparency Register?

(If your organisation is not registered, [we invite you to register here](#), although it is not compulsory to be registered to reply to this feedback process. [Why a transparency register?](#))

- ☒ Yes  
☐ No

\* If so, please indicate your Register ID number:

0223480577-59

\* Type of organisation:

- |                                                                   |                                                     |
|-------------------------------------------------------------------|-----------------------------------------------------|
| <input type="radio"/> Academic institution                        | <input type="radio"/> Media                         |
| <input type="radio"/> Company, SME, micro-enterprise, sole trader | <input type="radio"/> Non-governmental organisation |
| <input type="radio"/> Consultancy, law firm                       | <input type="radio"/> Think tank                    |
| <input type="radio"/> Consumer organisation                       | <input type="radio"/> Trade union                   |
| <input checked="" type="radio"/> Industry association             | <input type="radio"/> Other                         |

\* Where are you based and/or where do you carry out your activity?

France

\* Field of activity (*if applicable*):

*at least 1 choice(s)*

- ☐ Accounting  
☐ Auditing  
☐ Banking  
☐ Credit rating agencies  
☐ Insurance  
☐ Pension provision  
☐ Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)  
☐ Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)  
☐ Social entrepreneurship  
☒ Other  
☐ Not applicable

\* Please specify your activity field(s) or sector(s):

Trade association

\* Sector (*if applicable*):

*at least 1 choice(s)*

- ☐ A Agriculture, forestry and fishing
- ☐ B Mining and quarrying
- ☐ C Manufacturing
- ☐ D Electricity, gas, steam and air conditioning supply
- ☐ E Water supply; sewerage, waste management and remediation activities
- ☐ F Construction
- ☐ H Transportation and storage
- ☐ I Accommodation and food service activities
- ☐ J Information and communication
- ☒ K Financial and insurance activities
- ☐ L Real estate activities
- ☐ M Professional, scientific and technical activities
- ☐ N Administrative and support service activities
- ☐ O Public administration and defence; compulsory social security
- ☐ P Education
- ☐ Q Human health and social work activities
- ☐ Not applicable



## Important notice on the publication of responses

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\* Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?

([see specific privacy statement](#))

- ☒ Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- ☐ No, I do not want my response to be published

## 2. Questions

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**1. Do you believe the taxonomy will provide a clear indication of what economic activities should be considered environmentally sustainable?**

Please refer to:

- [example sheet: Energy production \(geothermal\)](#)
- [full list of 1<sup>st</sup> round climate mitigation activities, screening criteria and questions](#)

- ☐ Yes
- ☒ No
- ☐ Don't know / no opinion / not relevant

## Please explain your answer to question 1:

*2000 character(s) maximum*

We welcome efforts to establish a harmonized, science-based, qualitative and/or quantitative system that can help determine environmental sustainability and would be additive and complementary to the existing GBP project categories and taxonomies already used by the green bond market.

We are however concerned that many green bond issuers, including non-financial and financial corporates will face difficulties in using the Taxonomy in its current form to determine if their projects and investments are sustainable. We also believe that the Taxonomy's activity-based approach may conflict with the way green bond frameworks have been assessed to date (see 2 & 6). More specifically we believe that:

- The assessment of the sustainability of projects often requires that it is analysed within the context of its supply chain and end use. This does not fit easily in the activity-based NACE codes.
- There are inconsistencies in the ambition level of the thresholds across activities and sectors. In some areas they can be interpreted as low (e.g. NZEB for new buildings or the thresholds for hydro and geothermal within the renewable energy), while others are very ambitious (e.g. 50% improvement of energy efficiency for existing buildings).
- Interpretation of quantitative thresholds require both contextual and qualitative information as well as transparency of the assumptions and counterfactuals typically underlying quantitative metrics.
- In general, the thresholds for individual sectors should be reviewed from the perspective of achieved impact towards the climate goals of the Paris Agreement.
- Reflect geographic conditions by setting country-specific thresholds for example for energy efficiency.
- The Taxonomy does not easily accommodate the impact-based approach that prevails for green bonds and green finance. It is unclear how green investors can report impact on economic activities rather than a project with boundaries and typically, specific, measurable impact

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

- ☒ Yes
- ☐ No
- ☐ Don't know / no opinion / not relevant

## Please explain your answer to question 2:

*2000 character(s) maximum*

Investors and financial institutions will not necessarily be familiar with the NACE codes of their issuers and their clients' activities, and how they are applied to projects and investments. This may make them time-consuming to obtain, hard to validate where provided, and results difficult to aggregate.

Green bond issuers (including governments and public entities) with multiple and/or complex business activities may well face difficulties in categorising their activities in the proposed Taxonomy; and for some corporate assets, a life-cycle and/or holistic approach might be more appropriate to determine sustainability. There will also be a time lag for issuers to comprehensively proceed with such categorisation as the Taxonomy will be rolled out over time.

It is important to underline that the green bond market has been operating successfully with existing project categories and taxonomies incorporating academic input and sector expertise, and with the benefit of independent external reviews.

The NACE system may be less applicable for green bonds as they are project based and can correspond to multiple activities which may not easily fit in existing NACE categories and/or may cut across multiple ones. We suggest therefore that a methodology is developed to facilitate the application of NACE codes to sustainable projects and the green bonds.

It is unclear how the Taxonomy applies to economic activities enabling a low carbon transition, but that do not yet meet the proposed sustainability thresholds. Disqualifying or precluding these types of activities from being considered sustainable or green under the Taxonomy could delay the financing of a transition which will be critical for meeting the goals of a low carbon future and may undermine existing green bonds.

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

- ☐ Yes
- ☒ No
- ☐ Don't know / no opinion / not relevant

### What changes would you propose?

*2000 character(s) maximum*

It is clear from the draft EU TEG report on 'Climate-related disclosures' released in parallel for comments that recommended disclosures will largely follow TCFD recommendations. These are primarily designed to help financial and non-financial corporates identify, quantify and translate climate-related risks into financial reporting. The proposed Taxonomy mainly aims to help identify sustainable activities rather than risks. It is therefore complementary, but not directly applicable in many cases for risk identification purposes.

Obviously, the Taxonomy will be useful to implement the reporting of sustainable economic activities (in line with the Taxonomy's own proposed classifications) as recommended by the 'Climate-related disclosures' report.

What changes would you propose?

As mentioned above, it is not clear to us that the Taxonomy is designed to facilitate risk-related information which is the main thrust of the report on 'Climate-related disclosures'.

The green bond transparency is based on an impact reporting framework which focuses on reporting the positive green contribution or impact. We recommend the Taxonomy to better accommodate the impact-based approach.

**4. Is the proposed taxonomy approach sufficiently clear and usable for investment purposes?**

- ☐ Yes
- ☒ No
- ☐ Don't know / no opinion / not relevant

**What changes would you propose?**

*2000 character(s) maximum*

The Taxonomy will require interpretation by issuers, underwriters, investors, creditors and their advisers to be usable at the project level which is relevant to the bond and green finance markets. Furthermore, since the green bond players are not familiar with the NACE codes, it will require learning and adjustment time. It might be helpful to map the NACE codes to existing international financial sector systems and nomenclature e.g. GICS and ICB. It would also increase the Taxonomy's usability beyond the EU's borders.

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

- ☒ Yes
- ☐ No
- ☐ Don't know / no opinion / not relevant

**Please specify what additional resources and if possible, give an indication of the expected costs (e.g. as a % of turnover or operating costs):**

*2000 character(s) maximum*

The Taxonomy provides a useful framework, however, the data collection, the assessment processes and verification will require additional resources and competences. Not all current and potential green bond issuers have the in-house capacity of the multilateral development banks, and they would therefore benefit from the recognition of simple and straightforward metrics, as well as providing qualitative and contextual information.

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

*2000 character(s) maximum*

The ICMA supported GBP Secretariat has reviewed green bonds issued in 2017-2018 (a representative sample of over 150 green bonds) and registered in its database. If the thresholds remain unchanged up to 2/3 would potentially not comply with the Taxonomy as proposed. These findings are consistent with those published by CICERO (see “Preliminary comments on the proposed EU Taxonomy CICERO Shades of Green”).

More specifically, we find that most green buildings, both new constructions and refurbishments, being funded in the 2017-2018 sample do not meet the ambitions of the Taxonomy. The other major group impacted is green bonds with diversified green frameworks (typically issued by financials, agencies and governments) where some may not meet the criteria of the Taxonomy and/or where there are uncovered sectors.

There is a risk that the green bond market could be substantially affected by the Taxonomy rather than supported. We therefore recommend further clarity on the intent of the Taxonomy, its objectives and its geographical scope, and how it should be implemented and interpreted. Our specific recommendations include that the Taxonomy:

- Allow for a complementary project-based approach where alignment would be based on the technical criteria and on the Taxonomy fundamentals (i.e. EU environmental objectives, do no harm criteria and social safeguards), project implementation (including supply chain and end use), as well as existing GBP project categories and established taxonomies.
- Include international thresholds and metrics limits to ensure the suitability and relevance of the Taxonomy for the international green bond market.
- Allow for grandfathering and specify its scope.
- Be dynamic and explain the process and envisaged frequency for updating the criteria and thresholds following the scientific and technological development as well as policy changes.
- Provide clarity on how the technical criteria relate to a Paris Agreement compliant pathway.

## Useful links

[More on the Transparency register \(http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en\)](http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

[Feedback process details \(https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/sustainable-finance-taxonomy-feedback-and-workshops\\_en.pdf#usability\)](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-feedback-and-workshops_en.pdf#usability)

[Specific privacy statement \(https://ec.europa.eu/info/files/sustainable-finance-taxonomy-feedback-and-workshops-privacy-statement\\_en\)](https://ec.europa.eu/info/files/sustainable-finance-taxonomy-feedback-and-workshops-privacy-statement_en)

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