European Commission - Questions and answers

Questions and Answers: Taxonomy Climate Delegated Act and Amendments to Delegated Acts on fiduciary duties, investment and insurance advice

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EU Taxonomy Climate Delegated Act

What is the EU Taxonomy Climate Delegated Act?

The EU's Taxonomy Regulation, which entered into force on 12 July 2020, will help create the world's first-ever "green list" – a classification system for environmentally sustainable economic activities. It will create a common language that investors can use when investing in projects and economic activities that have a substantial positive impact on the climate and the environment. The Regulation tasked the Commission with establishing technical screening criteria through Delegated Acts. The first Delegated Act, politically agreed today by the College of Commissioners, defines the technical screening criteria for economic activities that can make a substantial contribution to climate change mitigation and climate change adaptation. The Delegated Act will be formally adopted at the end of May and will enter into force at the end of the scrutiny period of co-legislators (four months that can be extended by another two months), and it will apply from 1 January 2022.

How does EU Taxonomy help meet the ambitious targets of the European Green Deal?

The EU Taxonomy is part of the EU's overall efforts to reach the objectives of the European Green Deal and make Europe climate-neutral by 2050. It is a robust, science-based transparency tool to help companies and investors make sustainable investment decisions. The Taxonomy Delegated Act agreed today introduces clear performance criteria for determining - within each sector covered - which economic activities make a substantial contribution to the Green Deal objectives. These criteria create common ground for businesses and investors, allowing them to communicate about green activities credibly and help them to navigate the transition to sustainability. Today's criteria cover the economic activities of roughly 40% of EU-domiciled listed companies[1], in sectors which are responsible for almost 80% of direct greenhouse gas emissions in Europe[2]. Alongside a common classification system, the EU Taxonomy framework is designed to improve transparency. The companies (both, financial and non-financial) that fall under the scope of the EU Taxonomy can use the criteria of the Taxonomy Climate Delegated Act as a compass to guide their transition towards sustainability.

How can the EU Taxonomy Climate Delegated Act concretely support green investments?

The EU Taxonomy Climate Delegated Act delivers the first set of technical criteria for defining activities that contribute substantially to climate change mitigation and adaptation. It includes more economic activities and more environmental objectives than used so far in market-based green financing frameworks. The EU Taxonomy aims to provide incentives to investors to finance transition projects. By clearly defining what is green, the EU Taxonomy seeks to incentivise and encourage companies to launch new projects, or upgrade existing ones, to meet these criteria.

The disclosure by companies of Taxonomy-aligned green activities will mean that there is more reliable, comparable sustainability information publicly available on the market for investors and stakeholders. Companies can, if they wish, reliably use the EU Taxonomy to plan their climate and environmental transition and raise financing for this transition. Financial market participants can, if they wish, use the EU Taxonomy to design credible green financial products. While the EU Taxonomy can guide market participants in their investment decisions, it does not prohibit investment in any activity. There is no obligation for companies to be Taxonomy-aligned and investors are free to choose what to invest in.

Will you revise this Delegated Act and include more activities should there be a need?

Yes. The Taxonomy Climate Delegated Act is a living document and will continue to evolve over time, with more activities being added to its scope by means of amendments. It will also reflect technological progress. The screening criteria for climate change mitigation[3] and adaptation[4] in this Delegated Act are dynamic and will be subject to regular review. This ensures that new sectors and activities, including transitional[5] and enabling activities[6], can be added to the scope over time. A complementary Delegated Act will be adopted later in 2021 on agriculture and certain energy sectors not yet included in the Delegated Act agreed today. In addition, another Taxonomy Climate Delegated Act will focus on activities making a substantial contribution to the other four environmental objectives[7]. Stakeholders will be able to suggest activities to be included in the criteria via a web portal, which will be established in mid-2021 on the European Commission website. The Commission, with input from the Platform on Sustainable Finance, will assess the suggestions.

How is science-based advice ensured throughout the process?

The Commission's work is based on robust, science-based, technical criteria. At the same time, these criteria must be usable by market participants and acceptable to the co-legislators. Under Article 20 of the Taxonomy Regulation, the Commission established in 2020 a permanent expert group, the Platform on Sustainable Finance (the Platform). The Platform plays a key role by bringing together the best expertise on sustainability from the public sector, industry, academia, civil society and the financial industry. Previously, in order to inform its work on sustainable finance, including the Taxonomy Climate Delegated Act, the European Commission established a Technical Expert Group (TEG) on Sustainable Finance in July 2018. The TEG was the Platform's predecessor. Within the framework of the Taxonomy Regulation, the TEG was asked to develop recommendations for technical screening criteria for economic activities that can make a substantial contribution to climate change mitigation or adaptation, while avoiding significant harm to the four other environmental objectives. On 9 March 2020, the TEG published its final report on the EU Taxonomy. The report contains recommendations relating to the overarching design of the EU Taxonomy, as well as extensive implementation guidance on how companies and financial institutions can use and disclose sustainability information based on the EU Taxonomy. This report builds on the work that the TEG published in June 2019 and the early feedback report published in December 2018. Both reports were subject to an open call for feedback, which gathered views from stakeholders and fed into the work on the development of the screening criteria. During its mandate, the TEG engaged with over 200 additional experts to develop recommendations for these technical criteria. The process was further supported by various Commission services and especially by scientific advice and dedicated reports from the Commission's Joint Research Centre, such as the report setting out the framework for defining what constitutes a substantial contribution to climate change mitigation and suggesting a process for developing technical screening criteria.

Overall, the development and regular updating of the EU Taxonomy framework relies on extensive input from experts across the economy and civil society.

Is nuclear power included or excluded from the EU Taxonomy?

The Taxonomy Regulation reflects a delicate compromise on whether or not to include nuclear energy in the EU Taxonomy. In 2020, the Commission launched in-depth work to assess the issue. As a first step, the Joint Research Centre, the in-house science and knowledge service of the Commission, drafted a technical report on the 'do no significant harm' aspects of nuclear energy. This report is currently being reviewed by two sets of independent experts, the Group of Experts on radiation protection and waste management under Article 31 of the Euratom Treaty and the Scientific Committee on Health, Environmental and Emerging Risks on environmental impacts. The two Committees have three months to issue their assessment. The two assessment reports, along with the JRC report, will inform the Commission's decision.

As soon as this process is complete, the Commission will follow up based on its results in the context of the Taxonomy Regulation.

Is natural gas included or excluded from the EU Taxonomy?

The Taxonomy Regulation neither includes nor excludes natural gas in the EU Taxonomy. The inclusion of natural gas has been subject to a technical assessment and public feedback, just as for other sectors. In this context, public feedback revealed a wide range of views among stakeholders on whether and how natural gas-based energy technologies should be recognised in the EU Taxonomy, notably as a potential transitional activity facilitating the switch from coal and oil to renewables.

The complementary Delegated Act, to be adopted later this year, will cover natural gas and related technologies as transitional activity in as far as they fall within the limits of the EU Taxonomy Regulation In addition, the Commission will consider specific legislation covering the gas activities that contribute to reduce greenhouse gas emissions but cannot be covered within the EU Taxonomy as they do not meet the screening criteria.

All this will be based on technical and scientific expertise.

What about bioenergy and forestry?

The Taxonomy Climate Delegated Act covers both bioenergy and forestry.

The Delegated Act foresees that the Commission will review the screening criteria for both bioenergy and forestry based on upcoming Commission policies and taking into account legislation (including the revision of the Renewables Directive), in accordance with the biodiversity and climate neutrality ambitions of the Union. A review will occur at the time of issuance of the Delegated Act on the biodiversity objective.

Why has the agricultural sector been removed from the Delegated Act?

Agriculture plays a central role in climate change mitigation, while also reversing biodiversity loss, and fostering other sustainable development goals. Given that there are ongoing inter-institutional negotiations on the Common Agricultural Policy, it has been decided to delay the inclusion of the agricultural sector until the next Delegated Act. This will provide greater coherence across the different instruments available in order to achieve the environmental and climate ambitions of the European Green Deal.

What changes have been made to the criteria for hydropower?

We have made the criteria more context-specific. Namely, "run-of-river" plants (i.e. no reservoir), or plants with power density above 5W/m2, will not have to carry out the life-cycle assessment to prove that they comply with the 100g threshold as for other renewable technologies. While this "power density threshold" has been introduced already by the Technical Expert Group, the criteria have been made clearer and more usable.

Plants with a reservoir and with a power density below 5W/m2 will have to confirm that they meet the life cycle-based GHG emission intensity threshold of 100gCO2e/kWh.

A careful alignment had to be found between the requirements of the Taxonomy Regulation, notably the "do no significant harm" requirements, and the requirements of existing law, such as the Water Framework Directive. The criteria have been revised to bring it into more explicit alignment with the Water Framework Directive and to strike the right balance to protect ecosystems and waterbodies, while promoting hydropower and without putting excessive administrative burden on users.

What about hydrogen?

The EU Taxonomy fully recognises the multiple low-carbon applications and uses of hydrogen as an energy carrier, storage solution, fuel or feedstock. Today's Taxonomy criteria are in line with the EU Hydrogen Strategy and encourage the production and use of hydrogen in accordance with the European Green Deal goals. Notably, the criteria for manufacturing hydrogen are set at a level considered sufficiently ambitious to ensure a substantial contribution to climate change mitigation, favouring the production of hydrogen from renewable sources. For this reason, the criteria go beyond the recommendations of the Technical Expert Group.

How can investors cooperate with international actors?

International cooperation is key to developing common global standards in sustainable finance. Global financial markets are already calling on authorities to define common standards so that sustainable investment can continue to develop. This momentum is reinforced by the renewed interest in sustainable finance by major international partners. The EU Taxonomy provides an early example at global level of a major jurisdiction defining detailed, science-based criteria about which economic activities contribute most to environmental objectives. Very few countries outside the EU have developed taxonomy frameworks, such as China, while others are in the process of developing them. Consequently, the International Platform on Sustainable Finance (IPSF) has started a working group on taxonomies, co-chaired by China and the EU to undertake a comprehensive assessment of existing taxonomies developed by public authorities of its member countries. This work will result in a Common Ground Taxonomy to display the common features of existing taxonomies, starting with China and the EU. The Common Ground Taxonomy will be a solid basis to develop common standards.

The EU will continue to actively contribute to the global effort to align frameworks defining sustainable activities (i.e. taxonomies), through the IPSF and in other forums such as the G7, G20 and Financial Stability Board.

Amendments to Delegated Acts on investment and insurance advice, fiduciary duties, and product oversight and governance

Why did you amend the six existing Delegated Acts?

Under the existing rules, advisers obtain information about a client's investment knowledge and experience, financial situation, ability to bear losses, investment objectives and risk tolerance (a so-called "suitability assessment"). With today's amendments, advisers will also have to obtain information about their clients' sustainability preferences.

In addition, today's amendments clarify the obligations for financial firms when assessing their sustainability risks, such as the sustainability of their business models. Amendments include a clarification of rules on investment and insurance product oversight and governance so that sustainability factors are considered in designing products.

How will the amended Delegated Acts change incentives in finance?

The amendments support the European Green Deal objectives by providing clear long-term incentives to direct financial flows toward green investments. They should further stimulate the interest of investors and encourage the financial services sector to invest in projects and activities with a positive environmental impact. The amendments do not state how much a given product should be invested in Taxonomy-compliant activities: this should be the result of a dialogue between an adviser and a potential client. The client should ultimately determine this specific ambition.

What are the next steps: will you adopt further Delegated Acts in these areas?

Today's amendments on investment and insurance advice, fiduciary duties, and product oversight and governance are subject to scrutiny by the European Parliament and the Council (three month periods + extendable once by three additional months). After this, the Delegated Acts gives 12 months for market participants to implement the requirements. The rules are expected to apply from around October 2022.

For More Information

Commission Communication: EU Taxonomy – Corporate Sustainability Reporting, Sustainability Preferences and Fiduciary Duties

EU Taxonomy delegated act

Press release

Q&A - Taxonomy Climate Delegated Act and Amendments to Delegated Acts on fiduciary duties, investment and insurance advice

Q&A - Corporate Sustainability Reporting Directive proposal

Factsheet – the April 2021 sustainable finance package

DG FISMA's website on sustainable finance

[1] Share of EU domiciled companies with more than 500 employees active in economic sectors covered by the EU Taxonomy Climate Delegated Act (Source: Bloomberg).

[2] Source: Eurostat.

[3] An economic activity pursuing this objective should contribute substantially to the stabilisation of greenhouse gas emissions by avoiding or reducing them or by enhancing greenhouse gas removals. The economic activity should be consistent with the long-term temperature goal of the Paris Agreement.

[4] An economic activity pursuing this objective should contribute substantially to reducing or preventing the adverse impact of the current or expected future climate, or the risks of such adverse impact, whether on that activity itself or on people, nature or assets.

[5] Activities for which low-carbon alternatives are not yet available and that have greenhouse gas emission levels that correspond to the best performance in the sector or industry, which fulfil the two

following conditions: (i) they should not hamper the development and deployment of low-carbon alternatives and (ii) they should not lead to a lock-in of carbon-intensive assets, considering the economic lifetime of those assets.

[6] Activities that directly enable others to make a substantial contribution to an environmental objective.

[7] The four remaining environmental objectives are i) The sustainable use and protection of water and marine resources, ii) The transition to a circular economy, iii) Pollution prevention and control, and iv) The protection and restoration of biodiversity and ecosystems.

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