



EUROPEAN COMMISSION

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C(2019) 2101 final*

Dear President,

The Commission would like to thank the Bundesrat for its Opinion on the proposal for a Regulation of the European Parliament and the Council on the establishment of a framework to facilitate sustainable investments {COM(2018) 353 final}.

The Commission welcomes the general support by the Bundesrat for the Commission's legislative proposal to create an Union-wide classification system for environmentally sustainable activities (or EU taxonomy).

The EU taxonomy would be established gradually and would become applicable for all six environmental objectives of the proposal by the end of 2022. It would provide transparency and clarity to financial market participants in respect to environmentally sustainable economic activities reflecting the climate and environmental policy goals of the Union. It would be the common point of reference for the Member States and financial market participants if they offer and market environmentally sustainable financial products.

The EU taxonomy might also be regarded as a point of reference by other countries, thus potentially helping to align an understanding of environmental sustainability at international level.

The Commission has proposed several criteria for defining economic activities as environmentally sustainable.

While the Regulation itself does not yet create the taxonomy, it already:

- defines the conditions/criteria for an economic activity to qualify as environmentally sustainable ;*
- sets out 6 EU environmental objectives;*
- lists a number of requirements to be complied with for the specification at level 2 of technical screening criteria needed to qualify an economic activity as environmentally sustainable.*

*Mr Daniel GÜNTHER
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Apart from making a substantial contribution to one or more environmental objectives, an environmentally sustainable economic activity should not harm any of the other environmental objectives. Technical criteria would specify what “substantial contribution” would mean. Currently, the Commission’s Technical Expert Group on sustainable finance is working on possible technical criteria for a first set of economic activities in the area of climate change mitigation and adaptation.

When establishing this European Union classification system, both in the current phase in which preparatory work is conducted by the Technical Expert Group reporting to the Commission, and in the longer-term when a permanent Platform on sustainable finance would be set up to maintain and update the EU taxonomy, it is foreseen to regularly take into account views of relevant stakeholders..

The Commission has taken good note of the Bundesrat’s position that a future European Union Green Bond (EU Green Bond) standard should be based on existing good practices and provide clear, transparent criteria to make sure that funding raised through Green Bonds is actually used to finance climate and environmental projects.

The Commission’s approach is indeed that any future EU Green Bond standard should make reference to the EU taxonomy. Other possible elements of a future EU Green Bond standard, such as independent third party verification of the nature and impact of investments financed by Green bonds, are currently under discussion in the Commission’s Technical Expert Group.

The Commission proposal on the establishment of a framework to facilitate sustainable investments focuses on environmentally sustainable activities addressing most pressing climate change-related and environmental investment needs. However, it is also foreseen to evaluate the appropriateness of extending the scope of the EU taxonomy to other sustainability objectives, notably social objectives.

As mentioned in the Commission proposal (Article 15), the future Platform on sustainable finance is intended to bring together public and private expertise from the European institutions, private stakeholders’ representatives and other relevant experts to advise the Commission on how to develop the EU taxonomy further and maintain it.

The Commission would like to reconfirm to the Bundesrat that any measures in respect to prudential regulation, for instance capital requirement for banks or insurance companies, are taken only based on demonstrable risk assessment. Currently, work to gather evidence is undertaken. The European Systemic Risk Board (ESRB), national supervisors, the Commission and the three European supervisory authorities are undertaking an impact analysis on how climate change scenarios may affect the financial system. Furthermore, the European Insurance and Occupational Pension Authority (EIOPA) will investigate how sustainability factors are taken into account by insurers and to which extent Solvency II provisions affect sustainability investments of insurers.

The Commission has taken note of the Bundesrat’s position on the role of the Commission in developing the EU taxonomy technically for the six environmental

objectives. The Commission's view is that due to the necessity to develop the EU taxonomy in steps based on technical expertise provided by the Technical Expert Group, and, later on, by the Platform on sustainable finance, Delegated Acts at level 2 are the most appropriate way to ensure implementation, as this requires some degree of flexibility.

The Commission hopes that the clarifications provided in this reply address the issues raised by the Bundesrat and looks forward to continuing the political dialogue in the future.

Yours faithfully,

*Frans Timmermans
First Vice-President*

*Valdis Dombrovskis
Vice-President*