

FREQUENTLY ASKED QUESTIONS

about the work of the European Commission and the Technical Expert Group on Sustainable Finance on

EU TAXONOMY & EU GREEN BOND STANDARD

This FAQ focusses on the final reports of the Technical Expert Group on Sustainable Finance (TEG) on the EU Taxonomy and the EU Green Bond Standard (EU GBS), as well as on how the Commission intends to take the content of those reports forward.

CONTEXT

In March 2018, the European Commission adopted the Action Plan on Financing sustainable growth. Among other actions, the Commission committed with this Action Plan to:

- establishing a clear and detailed EU classification system – or taxonomy – for sustainable activities which would create a common language for all actors in the financial system;
- establishing EU labels for green financial products.

In June 2018, the European Commission set up the Technical expert group on sustainable finance (TEG) to assist it in implementing the Action Plan, most notably by helping to develop:

- an EU classification system – the so-called [EU taxonomy](#) – to determine whether an economic activity is environmentally sustainable;
- an [EU Green Bond Standard](#);
- methodologies for EU climate [benchmarks](#) and ESG disclosures for benchmarks; and
- guidance to improve [corporate disclosure](#) of climate-related information.

Its 35 members from civil society, academia, business and the finance sector, as well as additional members and observers from EU and international public bodies work both through formal plenaries and subgroup meetings for each work stream.

In the past two years, the TEG has produced ten reports (including interim reports) and held five calls for feedback. The final reports on the EU Taxonomy and the EU GBS were published in March 2020. With that, the technical work of the TEG has come to an end. However, to retain the breadth and depth of knowledge of the TEG in an advisory role until the new Platform on Sustainable Finance becomes operational, the TEG's mandate has been extended until the end of September 2020.

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QUESTIONS TO THE EUROPEAN COMMISSION

EU TAXONOMY

About the legal process and the further development of the Taxonomy

How will the Commission take the TEG Taxonomy report forward?

- The European Commission will draw on the TEG recommendations to draft the delegated act on the climate objectives that is due to be adopted by 31 December 2020 and will enter into force in December 2021. The Commission will do so in line with the Better Regulation guidelines. This means that the delegated act will be accompanied by an impact assessment and that an inception impact assessment was published and been subject to a feedback period of four weeks (plus a one-week extension, 23 March - 27 April).
- Furthermore, stakeholders will have the opportunity to give feedback on detailed technical screening criteria in the framework of a feedback period on the draft Delegated Act (presumably in September/October) and before its adoption by the Commission at the end of this year.

To what extent will the European Parliament, the Member States and external stakeholders be consulted?

- The political agreement on the Taxonomy Regulation empowers the European Commission to establish the technical screening criteria for the six environmental objectives through delegated acts. As part of this process and as established in the Taxonomy Regulation, the Commission will ask advice from the Platform on Sustainable Finance that will be composed of a broad range of stakeholders. In addition, stakeholders will have the opportunity to give feedback on the draft delegated act before its adoption by the Commission.
- The Commission will also consult Member States through the Member State Expert Group on Sustainable Finance, in which the European Parliament is also represented as an observer. Finally, both Member States and the European Parliament will have the right to object to the delegated act after adoption by the Commission. The objection period is 4 months plus additional possible 2 months.

To what extent will the final criteria differ from the TEG proposal?

- The Commission is currently carrying out a proportionate impact assessment to ensure that all criteria that are proposed for the delegated act are aligned with the requirements of the Taxonomy Regulation, notably with the requirements for technical screening criteria established in Article 19 of the Regulation. This analysis is carried out based on the expertise of the European Commission's services and takes into account the stakeholder feedback received.
- In this process, substantive departure from the recommendations of the TEG will be explained and underpinned with relevant evidence in the impact assessment. The detailed assessment will be published together with the draft delegated act in September/October 2020.

How will the Commission ensure that the final criteria remain science-based?

- According to the political agreement on the Taxonomy Regulation, the technical screening criteria adopted by the Commission shall be based on conclusive scientific evidence and the precautionary principle enshrined in Article 191 TFEU. The Taxonomy Regulation, as well as the first delegated act is prepared in alignment with the Commission's Better Regulation Guidelines. "Better Regulation" is a way of working to ensure that political decisions are prepared in an open, transparent manner, informed by the best available evidence and backed by the comprehensive involvement of stakeholders. The Taxonomy Regulation and the delegated act are accompanied by an impact assessment, which ensures informed policy-making by gathering and analysing evidence including data, scientific advice, expert

views and stakeholder input. The Taxonomy delegated act's consistency with relevant existing EU policies will allow the delegated act to build on the evidence-base used in these policy areas.

- Furthermore, prior to adopting the delegated act on climate change mitigation and adaptation, the Commission will consult the Platform on Sustainable Finance. The Platform will be composed of, amongst others, the European Environment Agency and experts from academia (including universities, research institutes and other scientific organisations).

How will the Commission proceed to tighten the criteria in the future? Will currently aligned activities retrospectively lose eligibility?

- The Taxonomy Regulation requires the European Commission to review the technical screening criteria for transitional activities at least every 3 years and for other activities at least every 5 years.
- The Commission will task the Platform on Sustainable Finance to advise on the development and update of the technical screening criteria. Based on this advice, the Commission will review the technical screening criteria and, where appropriate, amend the delegated acts establishing these criteria.
- In the case of tightening of the criteria for certain economic activities, it is possible that some activities that were previously been considered taxonomy-aligned would lose their eligibility. However, when tightening the technical screening criteria, the Platform and the Commission will be required by the Taxonomy Regulation to take into account the potential market impact, including the risk of certain assets becoming stranded as a result of the transition, as well as the risk of creating inconsistent incentives for sustainable investing.

What are the next steps with regard to economic activities that could contribute to climate change mitigation and adaptation, but that are not covered by the TEG Taxonomy report?

- As described in its report, the TEG prioritised activities on the basis of GHG emissions and the size of the potential reductions in emissions. Ultimately, the TEG has developed technical screening criteria for 70 activities in 8 sectors of the economy contributing to climate change mitigation, as well as for 68 activities contributing to climate change adaptation. This represents an enormous amount of work in the short period of its mandate.
- The TEG's work provides the basis for the delegated act that the Commissions should adopt by end of 2020, but it is possible that further activities will be included in this delegated act. In addition, the Commission is currently considering amending the delegated act already by end of 2021 in order to include additional activities that can make a substantial contribution to the climate objectives but that were not covered by the TEG.
- In the meantime, it is important to note that a sector / activity could also be included in the delegated act on the other four environmental objectives (due end of 2021), if it can substantially contribute to one of these objectives (e.g. circular economy).

How will the Taxonomy be developed for the other four environmental objectives?

- The Taxonomy Regulation requires the Commission to adopt delegated act(s) establishing technical screening criteria for the other four environmental objectives by the end of 2021. The Platform on Sustainable Finance will provide advice to the Commission on the technical screening criteria for these objectives. Based on this advice, the Commission will develop the delegated act establishing the criteria. Like the delegated act on the climate objectives, this delegated act will be accompanied by an impact assessment and will be subject to stakeholder feedback before its adoption.

What are the Commission's plans to extend the taxonomy to social objectives, especially considering COVID19?

- The Taxonomy Regulation already takes social and governance issues into consideration in the sense that an economic activity can only qualify as environmentally sustainable if it is carried out in alignment with minimum safeguards. These include the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, including the International Labour Organisation's ('ILO') declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights.
- In addition, the review clause of the Taxonomy Regulation requires the Commission to publish a report by 31 December 2021 on extending the scope of the Taxonomy to social objectives. The Commission will seek advice from the Platform on Sustainable Finance on the review of the regulation and the possible extension of the Taxonomy.

Does the Commission plan to develop a "brown" taxonomy?

- The approach of the Commission has been to focus first on redirecting capital flows towards environmentally sustainable activities. Developing criteria for environmentally sustainable economic activities across the six environmental objectives defined in the Taxonomy Regulation, is already a very large task. For instance, it took the TEG 20 months to elaborate criteria for economic activities making a substantial contribution to the first two environmental objectives.
- However, the final political agreement on the Taxonomy Regulation does include a review clause for year-end 2021, tasking the Commission to set out in a report the provisions that would be required to extend the current taxonomy to cover economic activities that are significantly environmentally harmful ('brown' activities) as well as activities that do not have a significant impact on environmental sustainability (low impact activities).

Does the Commission plan to use the taxonomy for financial risk assessment and regulatory incentives (on capital and liquidity requirements)?

- The primary objective of the Taxonomy Regulation is to redirect capital flows towards environmentally sustainable activities. However, it can be a very useful tool for other purposes as well. Regarding the risk assessment, in the long run, environmentally sustainable activities are more likely to prosper compared to non-sustainable ones, given the implementation of conducive policies to reach our environmental and climate objectives. However, the existence of a lower or higher risk due to the environmental profile of a type of asset needs to be clearly assessed before being translated into prudential rules. For this reason, Action 8 of the Action Plan on Financing Sustainable Growth already refers to the taxonomy as a key tool to assess the adequacy of banks' prudential rules. In this perspective, Article 501c of CRR 2 gives a mandate to the EBA to assess the need for a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives. The EBA will collect relevant data, using to the extent possible the new EU taxonomy on sustainable activities.

Does the Commission plan to use the taxonomy to assess the alignment of EU budget (in particular, the SEIP) and MS expenses?

- Concerning the long-term budget of the EU (the Multiannual Financial Framework), as set out in the proposed regulation establishing the InvestEU Programme, the EU Taxonomy will be used in an appropriate way to track the achievements of the InvestEU fund to the climate objectives by establishing guidance for investment projects. In addition, projects will need to do a sustainability proofing to qualify and can use the Taxonomy criteria in an appropriate way to do so.

- Furthermore, as announced in the European Green Deal Investment Plan, the Commission services will explore how the EU Taxonomy can be used by the public sector in the context of the European Green Deal.
- Finally, the Communication “Europe's moment: Repair and Prepare for the Next Generation” adopted by the Commission on 27 May, underlines the fact that the EU sustainable finance taxonomy will guide investment in Europe’s recovery to ensure they are in line with our long-term ambitions.

What does the Commission plan to do to strengthen the understanding of the EU taxonomy by retail investors and consumers?

- The primary users of the Taxonomy will be financial and non-financial companies and financial market participants when disclosing against the Taxonomy, as required by the Regulation.
- Member States and the EU will also have to use the Taxonomy when setting out green labelling schemes on financial market participants and issuers of corporate bonds.
- The Commission is working on an EU Eco-label for financial products that will allow retail investors to easily recognise green financial products. The EU Taxonomy will determine the pool of eligible assets for the EU eco-label.
- In order for direct users to understand the Taxonomy better, the TEG has provided guidance in their final report. In addition, the Commission is working on an IT-tool to make the Taxonomy more user friendly and understandable including for retail investors.

The Commission is reviewing the NACE classification of economic activities. How to ensure seamless alignment between taxonomy structure and the new NACE codes once released?

- The Commission recognises the importance of ensuring consistency between the EU Taxonomy and NACE as much as possible in order to enhance the usability for companies and investors. Therefore, the work on the EU taxonomy will be taken into account in the review process for NACE. However, as NACE is used for a wide range of purposes, needs to fit a broad frame put in place for the international economic classifications (e.g., be compatible with ISIC) and serves as reference for many other statistical classifications, alignment with the EU taxonomy is only one of many considerations and hence it might not be possible to ensure seamless alignment between the two.
- In addition, it should be noted that consistency between NACE and the EU Taxonomy will only make it easier to determine which criteria apply to a given activity. In each case, it needs to be examined whether a producer, its specific business segment or project belonging to a given NACE code complies with the technical screening criteria of the EU taxonomy for that activity.

About the Platform on Sustainable Finance:

How and when will the Commission set up the Platform on Sustainable Finance? In particular, what is the selection process?

- Given that the Platform on Sustainable Finance is formally created through the Taxonomy Regulation, the Commission has to await the formal adoption of the regulation before it can launch the Platform. This process is still ongoing and at this point, formal adoption by both co-legislators is expected no later than June 2020. In light of this timeline, the Platform will likely be operational by September 2020 at the earliest.
- As for all Commission expert groups, there will be a public call for applications for the Platform on Sustainable Finance. This means that anyone can express their interest to become a member of the Platform. We expect to launch the call for applications on the Commission’s (DG FISMA) website mid-June 2020 with a deadline of 4 weeks to apply, as specified by the horizontal rules for Commission expert groups.

- The Commission will select members from the list of applicants in line with the requirements of the Taxonomy Regulation and other relevant factors, like the level of expertise, geographical balance, gender balance, balanced representation of know-how and areas of interest, etc. The criteria for the selection of members will be published together with the call for applications.

What role and functioning are planned for the Platform?

- The numerous tasks of the Platform are described in the Taxonomy Regulation, but can roughly be grouped in four work-streams:
 - 1) Advise on the development and update of technical screening criteria.
 - 2) Advise on the review of the Taxonomy Regulation, including extension to social objectives.
 - 3) Advise on policy development on sustainable finance.
 - 4) Observatory function: monitoring capital flows to sustainable investments.
- Given the ambitious timeline for the delegated acts on the other four environmental objectives (end 2021) and the review of the regulation, the first two tasks will be the most urgent ones for the Platform in the first year of its mandate.
- The Platform will be an advisory body similar to a Commission expert group and will be subject to the Commission's horizontal rules on expert groups.

How does the Commission plan to ensure a balanced representation of stakeholders from all covered sectors?

- In line with the Taxonomy Regulation, the Commission will put in place a governance structure for the Platform on Sustainable Finance that ensures a balanced composition and includes experts from a broad range of industries and business sectors. In this context, the Commission will soon launch a public call for applications and the Platform members will be selected based on their representativeness and level of expertise in the fields related to the tasks of the Platform.

On international cooperation on taxonomies

What extra-territorial reach will the Taxonomy Regulation have? What will be its effect on non-EU companies? And on EU companies' activities located outside the EU?

- The disclosure obligations for financial market participants in the Taxonomy Regulation apply to anyone offering financial products in the EU, regardless of where the manufacturer of such products is based. Disclosure obligations as per Article 8 of the Taxonomy Regulation apply to entities subject to the scope of the Non-Financial Reporting Directive and to all their activities regardless of their location. This approach is not different to other corporate or financial product disclosure obligations already in place in the EU. The international influence of the EU Taxonomy will exist despite there being no intention to bind third countries on their own sustainability or sustainable finance activities.

How to ensure a global harmonisation of taxonomies? Is a formal international coordination planned?

- The EU has convened an International Platform on Sustainable Finance (IPSF), which will encourage dialogue and, where appropriate, coordination on the development and harmonisation of taxonomies between its members. The IPSF was set up in October 2019 by the EU and relevant authorities of Argentina, Canada, Chile, China, India, Kenya, and Morocco. Since then, Indonesia, Norway, Switzerland and New Zealand have also joined the IPSF.

On using the taxonomy (including disclosures questions)

Who will be responsible to assess the alignment of activities with the taxonomy? How will the Commission enforce a fair assessment?

- The Taxonomy Regulation does not explicitly require any formal verification of whether activities comply with the technical screening criteria and minimum safeguards of the EU taxonomy.
- However, national supervisors will monitor compliance by financial market participants with the taxonomy *disclosure* obligations. In addition, following good practice, financial market participants are encouraged to seek external assurance on their taxonomy-related disclosures.
- Companies that fall under the scope of the Non-Financial Reporting Directive (NFRD) must make the relevant taxonomy disclosures as part of their non-financial statements, which does not, as a baseline, require verification (although this might be different based on the transposition by Member States). However, this may be subject to change depending on the outcome of the currently on-going review of the NFRD.
- Additionally, the Commission will evaluate the need for setting up mechanisms for verifying compliance with the Taxonomy criteria by autumn 2022.
- Note, however, that verification can be an explicit element in standards and labels that are based on the EU Taxonomy. For example, as part of the TEG's recommendations for an EU Green Bond Standard, the TEG recommends that the Green Bond Framework and the Final Allocation Report should be verified by supervised or authorised verifiers. As for the EU Ecolabel for retail investment products, verification is subject to the standard verification procedures as part of the EU Ecolabel scheme.

How can financial product issuers meet their disclosure obligations before corporate disclosures are available?

- As set out in the Taxonomy Regulation, financial market participants will be required to disclose the alignment of their products with the EU Taxonomy in relation to the climate objectives by 1 January 2022. Companies falling under the scope of the NFRD will be required to disclose their alignment with the EU taxonomy from the same date on, meaning that disclosures by companies will become available only in the course of 2022.
- The Commission recognises that this timeline presents challenges for the implementation of the disclosure obligations by financial market participants, as company disclosures may not be available for financial market participants to use in their disclosures. Nevertheless, the delegated act establishing the activities and technical screening criteria for the climate objectives will already be accessible by the end of 2020. Financial market participants and companies can therefore already familiarise themselves with the EU taxonomy criteria before the disclosure obligations will apply one year later. In addition, financial market participant can start a dialogue with their investee companies to encourage them to disclose relevant data.

Can financial institutions and large corporates use existing metrics and measurements (e.g. certifications) as proxies for complying with the taxonomy or should they make their own analysis to demonstrate compliance?

- The EU taxonomy aims to take existing metrics and measurements into consideration to ensure a high degree of compatibility. This is also in line with Article 19 of the Taxonomy Regulation, which specifies that the technical screening criteria shall be built on Union methodologies, labelling and certification schemes, as well as on sustainability indicators used in the financial services sector.
- Where no technical screening criteria for economic activities exist yet, companies are encouraged to use their own metrics and measurements and explain how these relate to the EU Taxonomy. However, such economic activities would not be considered taxonomy-aligned. According to the Taxonomy Regulation,

companies can nevertheless propose to the Platform the inclusion of further economic activities in the taxonomy.

How will the NFRD review take into account the Taxonomy and Disclosure Regulations? Will the NFRD requirements be aligned with the corporate data provided for the Environmental Economic Accounts?

- The NFRD review will take very close account of the Taxonomy and Disclosure Regulations. They will be an important reference point throughout the process. One of the aims of the NFRD review will be to ensure that companies report the necessary information for the Taxonomy and Disclosure Regulations to be successful. Some of the information reported may also be useful as input for environmental economic accounts.

Should all disclosure obligations under the Taxonomy Regulation and the Non-Financial Reporting Directive be combined in one place?

- The taxonomy disclosures by companies should be made as part of the non-financial statement that is required under the Non-Financial Reporting Directive (NFRD), which may be located in annual reporting or in a dedicated sustainability report if the Member State in question allows that option.

Does the term "companies" also cover retail banks (non-investment banks)? Their "activities" refer to activities of their clients, who do not currently report according to the Taxonomy. What is the timing to comply for a commercial bank?

- Any company – financial or non-financial – that is subject to an obligation to publish non-financial information under the Non-Financial Reporting Directive (NFRD) will be required to disclose how and to what extent its activities are aligned with the EU taxonomy as of 1 January 2022, starting with the climate objectives.
- The Commission will complement and further specify this disclosure obligation in a delegated act to be adopted by 1 June 2021, taking into account the specificities of both financial and non-financial companies.

Will the Commission encourage smaller companies – not falling under NFRD – to disclose their activities' alignment with the taxonomy?

- The European Commission underlines the importance of small and medium sized companies (SMEs) to the EU economy for many reasons, including their integral role in multiple value chains. Although these companies do not fall under the scope of the Non-Financial Reporting Directive (NFRD), the Commission encourages them to voluntarily disclose their activities' alignment with the EU Taxonomy. This is important for SMEs as it could ease access to green financing opportunities.

Is it correct that economic activities not yet included in the Taxonomy do not have any reporting obligation under the Taxonomy Regulation, even if they are currently required to report other non-financial information under the NFRD?

- Companies within the scope of the Non-Financial Reporting Directive (NFRD) will be required to disclose how and to what extent their activities are aligned with the EU taxonomy, even if there are no specific criteria (yet) relevant to their activities. The content and presentation of the information to be disclosed pursuant Article 8 of the Taxonomy Regulation will be further specified by the Commission by 1 June 2020 through a delegated act.
- The Commission encourages companies and other stakeholders to inform the future Platform on Sustainable Finance that their activities are not yet covered by the EU taxonomy and to submit evidence about the nature of their activities to inform the development of relevant criteria.

Can we expect specific targets for taxonomy aligned investments (% in the portfolio) for the investors?

- The EU Taxonomy is not a label or product standard; it is a classification system of environmentally sustainable economic activities to help investors identify investments that substantially contribute to meeting environmental objectives. Therefore, the Taxonomy Regulation only requires investors to disclose their alignment with the EU Taxonomy.
- Nevertheless, as part of the work ongoing to develop an EU Ecolabel for retail investment products, portfolio %-targets for taxonomy-aligned investments are being considered.

On specific taxonomy-activities or sectors

How will the Commission proceed on assessing nuclear energy?

- The Taxonomy Regulation reflects a delicate compromise on the question of whether or not to include nuclear energy in the EU taxonomy, and calls on the Commission to further assess this activity as part of its work on the delegated acts establishing technical screening criteria for economic activities to qualify as environmentally sustainable. These activities should both make a substantial contribution to one or more environmental objectives and cause no significant harm to the other objectives. While nuclear energy is generally acknowledged as a low-carbon energy source, opinions differ notably on the potential environmental impacts of nuclear waste.
- The Commission considers that the credibility of this assessment is crucial. It should be scientifically rigorous, transparent and bring together a balanced set of views. It should also reflect the principle of technological neutrality, as included in the Taxonomy Regulation.
- Therefore, after weighing different options, the Commission has decided to request the (Commission's) Joint Research Centre to draft a technical report on the 'do no significant harm' aspects of nuclear energy. This report will be reviewed by experts on radiation protection and waste management under Article 31 of the Euratom Treaty, as well as by experts on environmental impacts from an equivalent Commission environmental group or committee.
- This process is not expected to conclude before the beginning of 2021. In the meantime, work on adopting the delegated act on all other economic activities that can substantially contribute towards climate change mitigation and adaptation by the end of 2020 continues apace, irrespective of the separate assessment on nuclear energy.
- To accommodate its possible inclusion in the taxonomy later on – and of other activities that can make a substantial contribution to climate change mitigation or adaptation – the Commission could consider amending the delegated act on the climate objectives by the end of 2021, provided all conditions for inclusion are met.

Could you specify the concept of "lock-in carbon-intensive assets considering the economic lifetime of the asset"?

- The concept of preventing 'lock-in into carbon intensive assets' aims to ensure that investments are not harming the climate change mitigation objective by financing long-lived assets that might make a contribution to reducing emissions in the short-term, but are not compatible with a climate neutral economy by 2050.

How does the Taxonomy Regulation consider the incineration of waste?

- The Commission recognises the role of waste-to-energy, particularly for treating waste fractions containing hazardous substances that make their recycling problematic.
- At the same time, in line with the [Circular Economy Action Plan 2.0](#), the Commission aims to redirect efforts towards options higher up the waste hierarchy (i.e. waste prevention, product reuse and

recycling), where there are important investment gaps. Such efforts (eco-design, recyclability, less hazardous substances) will also decrease the amount of feedstock for incineration.

- In line with developments on the public funding side (Cohesion, EFSI, EIB), the Taxonomy Regulation is consistent with this shift in focus. It stipulates that minimising incineration is one of the means to make a substantial contribution to the circular economy (Article 13). The Taxonomy Regulation also considers that an activity that leads to a significant increase in the incineration of waste does ‘significant harm’ to the circular economy (Article 17 point d). Hence, such an activity cannot qualify as ‘environmentally sustainable’ under the Taxonomy Regulation. The only exception is incineration of non-recyclable hazardous waste, introduced as part of the political agreement between co-legislators. The politically agreed exception does not cover incineration of non-recyclable non-hazardous waste.

EU GREEN BOND STANDARD

Does the Commission intend to make the EU GBS mandatory? In particular for the Member States?

- The TEG recommends that the European Green Bond Standard (‘EU GBS’) should be a voluntary standard proposed to issuers that wish to align with leading best practices in the market. EU Green Bonds could be issued by any type of issuer, listed or unlisted, public or private. This includes Member States on a voluntary basis.
- The European Commission will explore the possibility of a legislative initiative for a voluntary EU Green Bond Standard through a public consultation to be launched soon. While the Commission cannot prejudge the results of the public consultation, it is nevertheless the Commission’s intention to keep the EU GBS voluntary. In this case, the issuance of green bonds that do not follow the EU GBS would still be possible in the future. However, these green bonds would not be able to call themselves EU Green Bonds.

Will the Commission work on transition bonds (aligned with the Taxonomy)?

- The Taxonomy Regulation explicitly identifies transitional activities as an eligible category of activities making a substantial contribution to climate change mitigation. The Taxonomy Regulation identifies three conditions for an activity to be included as a transitional activity: that it (i) has greenhouse gas emission levels that correspond to the best performance in the sector or industry; (ii) does not hamper the development and deployment of low-carbon alternatives; and (iii) does not lead to a lock-in of carbon-intensive assets, considering the economic lifetime of those assets.
- As for the EU GBS, the TEG proposes that use of proceeds is aligned with the EU Taxonomy. This therefore explicitly includes activities included in the EU taxonomy as transitional activities. There is no separate treatment of the taxonomy transitional activities for the purposes of the EU GBS. Given that, it is currently not planned that a separate EU Green Bond Standard should be established for transition bonds.

QUESTIONS TO THE TECHNICAL EXPERT GROUP ON SUSTAINABLE FINANCE

This section has been answered by the TEG. The TEG's recommendations and explanations provide valuable technical input to the Commission, but they do not prejudge the final decisions that the Commission will take concerning the technical screening criteria in the delegated act.

EU TAXONOMY

About using the Taxonomy

How do the TEG recommendations help the financial sector channel financing to the transition of the SME sector?

- The TEG believes that some SMEs (SMES as defined by the EU) will be called upon either to provide data to investors if listed, or to provide data to customers (NFRD companies) with reporting obligations under the Taxonomy Regulation. This will help them to demonstrate their performance relative to Taxonomy criteria. For investors who might invest in those companies or provide private debt to those companies, we recommend them to encourage these companies to consider providing information voluntarily to the market about their Taxonomy alignment.
- In this context, it should be noted that the scope of NFRD is also under revision, and that it might include all listed companies (including SMEs) and/or set the bar precisely at SMEs level (e.g. above 250 employees).

Why does the TEG give guidance on disclosure when the details of those requirements are to be developed by the ESAs?

- The TEG understands that investors want to start thinking about application of the EU Taxonomy right away. The guidelines are indicative and designed to help investors think through how to apply the criteria in a clear way. Ultimately, the ESAs will make their own decision about oversight of processes or methods to implement the Taxonomy disclosure obligations.

Can covered bonds, where only a percentage of the underlying assets are Taxonomy-aligned, be included when calculating the taxonomy-alignment of a portfolio?

- Yes, however, the TEG recommends that only the percentage of the covered bond that is taxonomy-aligned can be counted when making the portfolio alignment calculation.
- Note that in terms of the EU Green Bond Standard, covered bonds and other forms of securitised bonds are intended to be covered by the Standard. However, according to the proposal of the TEG, an EU GBS-aligned green bond should be fully aligned with the EU taxonomy for its use of proceeds. This means that for a covered bond, the underlying financial assets would need to be themselves taxonomy compliant, for the bond to be aligned with the EU GBS.

How does the TEG consider that Capex/Opex for improvement measures can be counted if they contribute to meeting the thresholds?

- The TEG recommends that Capex and Opex can be counted from the time those expenditures commence, as long as they contribute to an economic activity meeting the Taxonomy criteria over time. There must be a clear plan for how the expenditures contribute to meeting the criteria. Remember that the Taxonomy is an environmental performance benchmark to allow the market to understand the current and future performance of an economic activity. It is legitimate for companies or issuers to explain progress towards meeting criteria over time. Companies should refer to their obligations under the Non-Financial Reporting Directive

According to the TEG, will climate change adaptation activities that are financed by own funds (as opposed to bonds and loans) be taxonomy eligible?

- Yes, the Taxonomy criteria are relevant to all economic activities, regardless of the sources or type of financing. The company will be able to claim the expenditures as taxonomy-aligned in their annual disclosures as part of their non-financial reporting obligations. With regard to turnover, the TEG recommends that only turnover from enabling activities for adaptation can be counted. The turnover from adapted activities would not be taxonomy-eligible.

What does the TEG recommend should happen if the criteria change for an investment that lasts many years?

- As environmental performance criteria, the technical screening criteria will and should be reviewed to assess whether they need to be updated to maintain alignment with environmental objectives. According to the Taxonomy Regulation, the criteria will be reviewed every 3 to 5 years to assess whether changes are required. If an economic activity does not meet Taxonomy criteria in the future, the TEG believes they should not be claimed as being Taxonomy aligned.

How can the transitional activities category really help transition, as it only concerns companies that have already achieved their transition ("best performance in the sector")? Why has the TEG not proposed that the criteria simply reflect existing average industry performance?

- The technical screening criteria recommended by the TEG reflect the EU's climate change mitigation objectives for 2030 and 2050, which requires a level of performance in terms of emissions well below the average performance today.
- The inclusion of transitional activities helps the transition by allowing investments in sectors that are not yet low carbon to be considered green, if best performance in the sector is reached. For instance, a cement manufacturer may obtain a green loan or issue a green bond to update one of its plants to reach the level of performance required by the taxonomy technical screening criteria for cement manufacturing. Additionally, its shares would be considered green by investors for the proportion of its activities meeting the taxonomy criteria, creating an incentive for the cement manufacturer to increase such proportion.

Why do the Taxonomy criteria as proposed by the TEG not simply reflect existing regulation for all economic activities?

- Not all EU regulation reflects Europe's climate change mitigation goals or identify what is needed to make a "substantial contribution" towards them. The TEG's role was to set "substantial contribution" and "do not significant harm" criteria that provide a clear signal on environmental performance to investors and financiers.

Many economic activities compete on global markets. How to harmonise taxonomies if DNSH criteria differ across jurisdictions?

- The TEG acknowledges that different countries will have different performance standards on DNSH criteria. The TEG's recommendation to address these differences is to encourage two disclosures where different DNSH standards have been used in relation to some economic activities. If the DNSH standards in third countries differ substantially from the Taxonomy screening criteria, full alignment with the EU Taxonomy could not be claimed. If all countries took a similar approach, the methodologies of different Taxonomies could be harmonised, even where DNSH criteria are not the same.

The TEG proposes different limits than agreed EU law. Does this create economic risks?

- The TEG's recommendations and the EU Taxonomy generally reflect Europe's environmental (at this stage climate change mitigation and climate change adaptation) objectives. The Taxonomy is not an economic risk assessment tool. Investors can, however, use the Taxonomy to make assessments about levels of potential financial risk faced by their investees, if their environmental performance is materially different to the Taxonomy criteria.

Does the TEG recommend that Life Cycle Assessment is required for all activities?

- Yes, the TEG recommends that impacts over the whole life cycle are considered and that technical screening criteria are based on life cycle assessment for all activities for which there is sufficient data available. Where available data makes full life cycle assessment too challenging today to allow objective assessment of the performance of economic activity performance, the proposed criteria have focused on some life cycle phases only, and, while in general being coherent with life cycle considerations, do not require full life cycle assessments.

Can you explain the level of disclosure on Capex and Opex that is required?

- The TEG's Taxonomy Summary Report provides guidance on how to prepare disclosures using the EU Taxonomy.

What does the TEG recommend in terms of economic activities that enable substantial contributions in sectors not yet covered by the Taxonomy?

- Activities that enable substantial contributions to emissions reductions or climate resilience in other sectors are called enabling activities. The TEG has identified a number of enabling activities in its recommendations so far, including for the building and manufacturing sectors. The TEG recommends that further enabling activities should be added in the future.
- The TEG also makes recommendations on how companies can report their exposure to these activities until they are covered by the Taxonomy; please see section 3.2.6 'Disclosure on economic activities not yet covered by the Taxonomy' on page 36 of the Taxonomy report.

What opportunities and limitations does the TEG see to apply this taxonomy in emerging economies?

- The EU Taxonomy does not seek to bind third countries. However, the TEG believes that investors in emerging economies could use the Taxonomy criteria to benchmark or compare the environmental performance of local economic activities in those countries. Investment products issued and sold in the EU making investments in emerging economies still need to disclose their alignment with the EU taxonomy, although additional disclosures are welcomed by the TEG to explain where different local performance criteria have been used in third countries.
- In some cases, the TEG has identified technical screening criteria that have global relevance. The performance level in the criteria is designed to be consistent with a net zero by 2050 goal. The performance level is not tied specifically to EU regulations, though cross-reference is made where possible to those regulations to assist EU users. Companies and investors completing their disclosure in order to fulfil EU disclosure obligations should use these thresholds as the basis of their disclosure irrespective of the location of the underlying economic activity.
- The TEG also recognises that locally relevant standards may reasonably be applied in countries outside the EU, when considering either substantial contribution or DNSH performance. This may be due to the local economic development context, lack of available data or reporting systems, or lack of access to technology solutions. In cases where a locally relevant threshold has been used to assess the environmental performance of an economic activity, including on DNSH, companies and investors may wish to provide an additional, second disclosure setting out the details and rationale for variation from the TEG standard.

What does the TEG recommend in terms of how an investor should think about applying the adaptation criteria in practice? Is a risk assessment sufficient?

- As an investor, the TEG would like companies not only to have conducted or commissioned a complete risk assessment of their assets and activities, but also to know that the material risks identified have been addressed or are being properly managed and reduced. The TEG would appreciate having a good overview of what those risks were, how the company is managing them, and the cost of the measures undertaken.

Why are Capex and Turnover considered to explain environmental performance?

- Investors allocate capital to individual entities which are not solely responsible for meeting national or global emissions budgets. Reporting changes in emissions footprint at the entity level only provides part of the information that investors need to understand the relative performance of an entity. Revenues and capex information linked to the EU taxonomy allows the translation of environmental performance into financial variables, which in turn are the base for making investment decisions.
- Revenues generated from taxonomy-aligned activities gives a good picture of where a company is, and capex investments gives a good picture on what their strategy is and where they aim to be. Intensity metrics at the economic activity level give useful information to investors about the alignment of environmental performance with environmental goals. Corporations should only report Capex and Opex as Taxonomy aligned if the expenditures contribute to the meeting of the Taxonomy criteria. In addition, the TEG has proposed buildings measures for climate change mitigation that are designed to be cross-cutting and apply across the economy. More work is needed to clarify how this reporting should be undertaken in practice. Furthermore, work is also needed to identify further measures that substantially contribute to climate change mitigation and adaptation across the economy.

How should large companies and financial market participants that need to disclose against the taxonomy deal with activities that result in products used in both sustainable and non-sustainable uses, such as components used in both wind turbines and military equipment?

- Although desirable, tracking products use (by user type) is very challenging at this stage for several emissions intensive sectors. Requiring this analysis and disclosure would have presented a substantial barrier to Taxonomy implementation at this stage. Therefore, the TEG considers this is an area the future Platform on sustainable finance should consider further.

Has the TEG done any testing on what the assignment of turnover will look like for a company (as the criteria are currently not reflected in SAP Systems)?

- Yes, as part of developing its recommendations, the TEG has conducted some tests on turnover/revenues alignment with the Taxonomy. Turnover or revenues assignment is what the financial industry currently uses to assess the greenness of companies' products and services. They are the base for selecting constituents in all equity green funds. Note though that TEG has not tested individual accounting systems.

On specific taxonomy-activities or sectors

Why is the manufacturing of ammonia threshold proposed by the TEG not based on EU ETS benchmarks?

- The TEG did not propose the ETS benchmark because it did not consider it ambitious enough. Therefore, a “discount factor” was applied to take into account the percentage of emissions that could be captured by CCS (in line with several reports published on the transition pathway for the ammonia sector) or avoided by producing the ammonia with low carbon hydrogen (another way to reduce emissions from the manufacturing of ammonia).

- Therefore, the TEG required that for the manufacture of ammonia to be taxonomy-aligned, it must meet the two following thresholds:
 - Scope 1 emissions lower than 1 tCO₂/t Ammonia; and
 - Combined CO₂ emissions (scope 1 emissions and scope 2 emissions, from electricity consumed) lower than 1,3 tCO₂/t Ammonia.
- For the calculation of the emissions from the manufacturing process of ammonia, both the production of the intermediate product hydrogen and synthesis of the ammonia are considered. Scope 1 emissions include both emissions. GHG emissions must be calculated according to the methodology used for EU-ETS benchmarks.

Why does the TEG consider chemical recycling under the manufacture and not waste sector activities?

- Chemical recycling was considered by the TEG in relation to defining the criteria for the manufacture of plastics in primary form. However, this was a specific case and most cases of recycling will be dealt with under the circular economy objective, which will be part of the next phase of the development of the EU taxonomy. Please see page 200 (section 3.9) of the technical annex for the technical details

According to the TEG, should manufacturing a green hydrogen-ready gas turbine be considered an "enabling activity"? Should operating it be considered only if it meets the threshold?

- The TEG proposes only manufacturing of renewable energy equipment and hydrogen electrolysis equipment as enabling activities under 'manufacture of low-carbon technologies'. The manufacture of green hydrogen-ready turbines is currently not recognised, but the TEG believes this could be considered by the future Platform.

Has the TEG considered system integration related environmental impact issues of renewable energy deployment for the assessment in the electricity sector?

- The TEG has considered environmental impacts of individual economic activities under the DNSH criteria where relevant and material according to science.

According to the TEG's recommendations, does it matter what is the source of electricity in the transmission and distribution infrastructure for it to be included in taxonomy?

- In broad terms, the TEG proposes that all electricity transmission and distribution infrastructure and equipment in systems that are on the trajectory to full decarbonisation are considered eligible under the taxonomy. The TEG defines systems on trajectory to decarbonisation either through the use of an indicator for emissions from newly connected electricity generation or an indicator of the average grid emissions factor. Importantly, the TEG identifies the interconnected European electricity system as a system that is on a trajectory to full decarbonisation, qualifying all transmission and distribution infrastructure and equipment as taxonomy-aligned. The TEG recommendations also include a list of always-eligible activities on the network.

The TEG has only considered retrofitting TSO and DSO gas grids rather than possible extensions, does this risk foreclosing grid access to renewable gas production units?

- This is a good point; the TEG recommends that the Commission consider adding a new activity on the construction and operation of connecting pipelines/infrastructure from taxonomy-eligible gas production facilities to TSO/DSO networks.

Natural gas is still needed for the transition and hydrogen. How does the TEG take that into consideration?

- The TEG recommends that criteria are technology agnostic across different energy vectors. What matters is the emissions intensity of the asset. Furthermore, the TEG recommends that manufacture of hydrogen is eligible if it meets the criteria on page 180 of the Technical Annex.

Gas power plants can switch from natural gas to renewable gases, a key contribution to climate-neutrality: how has the TEG taken this into account?

- The TEG set a technology-neutral emissions threshold for electricity generation and heat production. An activity qualifies when performing below this threshold. The TEG considered that any economic activity that can transition to meet the Taxonomy technical screening criteria can report its plans to do so. Such reporting helps the market to understand precisely what performance level can be achieved by a particular asset and by when.

Does the 100gCO₂/kWh threshold for power generation also apply to "transitional activities" as per the Taxonomy regulation?

- Yes, the TEG recommends that all activities must meet the Taxonomy criteria to be considered Taxonomy aligned. Activities that do not meet the criteria but can improve their performance to meet the criteria over time, should disclose their plans to do so and can claim capital expenditures towards meeting the criteria as Taxonomy aligned.

According to the TEG proposal, to meet 'Manufacture of Biomass, Biogas or Biofuels' requirements, will solid biomass need to meet the 'mitigation' forestry criteria?

- Yes, the TEG recommends that biomass feedstock used for the manufacture of biomass, biogas or biofuels meets the criteria for forestry and growing of crops (agriculture).

According to the TEG recommendations, can existing buildings be financed under the building criteria by green loans or bonds (except in acquisitions)?

- Yes, acquisition of existing buildings can be financed by green loans or bonds if the buildings meet the criteria for acquisition and ownership of buildings.

EU Green Bond Standard

Can only green companies issue EU Green Bonds?

- The TEG has proposed an EU GBS based on the use-of-proceeds approach, which allows any company to issue green bonds, regardless of their main business activity, as long as they finance eligible green projects. This approach also allows any company to use green bonds to finance its transition to an environmentally sustainable business model. For example, a utility company wishing to make its energy production more environmentally sustainable by constructing wind farms, to increase the share of renewable energy in its energy mix, could issue an EU Green Bond to finance this construction.
- That being said, the TEG also encourages issuing companies to take a holistic focus on their overall activities, by encouraging issuing companies to disclose overall corporate information - notably a breakdown by activities and environmental objectives – in their Green Bond Framework, which is to be published as part of any EU GBS-aligned green bond. Companies wishing to exhibit best practices are encouraged to also describe to what extent all their business areas have environmental impacts and how they manage them.

Has the TEG considered how green bonds will be priced compared to traditional bonds? What incentives will investors have to invest in green bonds? What thoughts have you given to traditional financial aspects of bonds, ie risk/reward issues or liquidity?

- The TEG has indeed considered pricing differences between green bonds and traditional bonds. The TEG concluded in the June 2019 report that pricing advantage from issuing a green bond, if any, appears to be small to date and not universal. The TEG also noted that research in this area is inconclusive. A study by Schiereck (2018) shows that there are no significant price differences between green and similar conventional bonds. The same conclusion is reached from various banks on a selected number of corporate issuers. Another research piece by CBI (2018), Zerbib and Baker (2018) find a moderate green bond pricing advantage for the issuer (few bps). Karpf and Mandel (2017) find a lower green bond yield in secondary markets in comparison to conventional bonds of the same issuer. A JRC research comes to a similar conclusion for primary markets. The pricing advantage is heterogeneous across types of non-governmental issuers. Recent research also seems to suggest that there is evidence that issuing a green bond could lead to lower long-term financing costs and could have a positive impact on share prices in the short term
- Moreover, there are many other benefits of issuing a green bond for companies. It leads to enhanced corporate visibility, it enlarges and diversifies the investor base, strengthens stakeholder relations, and enables corporate transitions.
- Furthermore, the European Commission intends to launch an online public consultation on the EU Green Bond Standard, which should be published in June (and be open for 15 weeks). This consultation will aim to obtain feedback on a range of issues relating to a future EU Green Bond Standard based on the work of the TEG. Among other questions, stakeholders will be asked for input on the financial benefits of issuing green bonds, as well as the additional costs incurred by green bond issuers.

When and how will external review providers be able to apply for the interim registration process for verifiers of EU Green Bonds?

- The TEG has recommended that external reviewers of EU Green Bonds should be authorised and or supervised, ideally via a centralised system organised by the European Securities and Markets Authority (ESMA). However, as such a potential ESMA-led supervision would require legislation and therefore time, the TEG suggests the set-up of a market-based, voluntary interim registration process for verifiers of EU Green Bonds for a transition period of up to three years. Whether such a market-based scheme will be set up by market participants, depends in part on the final decision of the Commission on how to take the EU GBS forward, which will be made in the fall of 2020.

To what extent would international issuers have to comply with an EU GBS? How to ensure a global coordination on green bond standards?

- The EU Green Bond Standard was designed to be globally relevant and accessible to issuers located in the EU as well as to issuers located outside the EU. Issuers from outside the EU are welcome to use the EU GBS for their Green Bond issuance, with the same criteria as EU issuers.
- For projects located outside the EU, the TEG recommends that issuers will need to meet in principle the same requirements as EU projects, which includes the alignment with the EU Taxonomy. Some elements of the EU Taxonomy criteria may require more detailed assessment and verification. Note that the recommended flexibility in terms of EU Taxonomy alignment includes the ‘location’ of the project as a factor for potentially deviating from the EU Taxonomy criteria, and as such, this could apply to non-EU projects. However, where the TEG has identified that technical screening criteria are internationally relevant, it should be understood that these must be applied internationally and there should be no flexibility to deviate from the EU Taxonomy criteria. For more information, please see the TEG report “Usability Guide for the EU Green Bond Standard.”

- Finally, in order to promote the integration of markets for green financial products globally, the EU has launched together with seven other countries the International Platform on Sustainable Finance (IPSF) in October 2019. The aim of the IPSF is to ensure a global coordination of efforts on initiatives and approaches to environmentally sustainable finance, in particular standards and labels for sustainable financial assets, including green bonds. In addition, please note that on green bond standards the EU GBS builds on international market best practices such as the Green Bond Principles (GBP).

The EU Taxonomy Technical Screening Criteria will be periodically reviewed, especially in the transition activities. Will EU Green Bonds with such use-of-proceeds maintain their status as EU Green Bond for the entire term to maturity regardless of later changes to the EU Taxonomy criteria?

- The TEG recommends that Green Bonds issued under earlier Technical Screening Criteria be grandfathered for their entire tenor, as there would otherwise lead to uncertainty and unpredictability for both issuers and investors.
- Note however that the Commission will conduct a public consultation on the EU Green Bond Standard, which will determine how the Commission will take the standard forward. As part of this consultation, the Commission will also gather input on grandfathering. The Commission may ultimately decide a different approach to grandfathering than what the TEG recommends.