Sustainable Finance

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What is the EU Sustainable Finance Taxonomy

A list of economic activities with performance criteria for their contribution to six environmental objectives.

Environmental objectives

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy, waste prevention and recycling
5. Pollution prevention and control
6. Protection of healthy ecosystems

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Taxonomy Technical Screening Criteria (TSC)

Substantially contribute to at least one of the six environmental objectives as defined in the proposed Regulation

+

Do no significant harm to any of the other five environmental objectives as defined in the proposed Regulation

+

Comply with **minimum safeguards**

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The Taxonomy Regulation

- *The Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the establishment of a framework to facilitate sustainable investment:*
- Sets legal framework for Taxonomy including environmental objectives, users and uses;
- Empowers European Commission to develop delegated regulation containing technical screening criteria;
- Specifies minimum social safeguards; and
- Establishes ongoing governance (Platform on Sustainable Finance);

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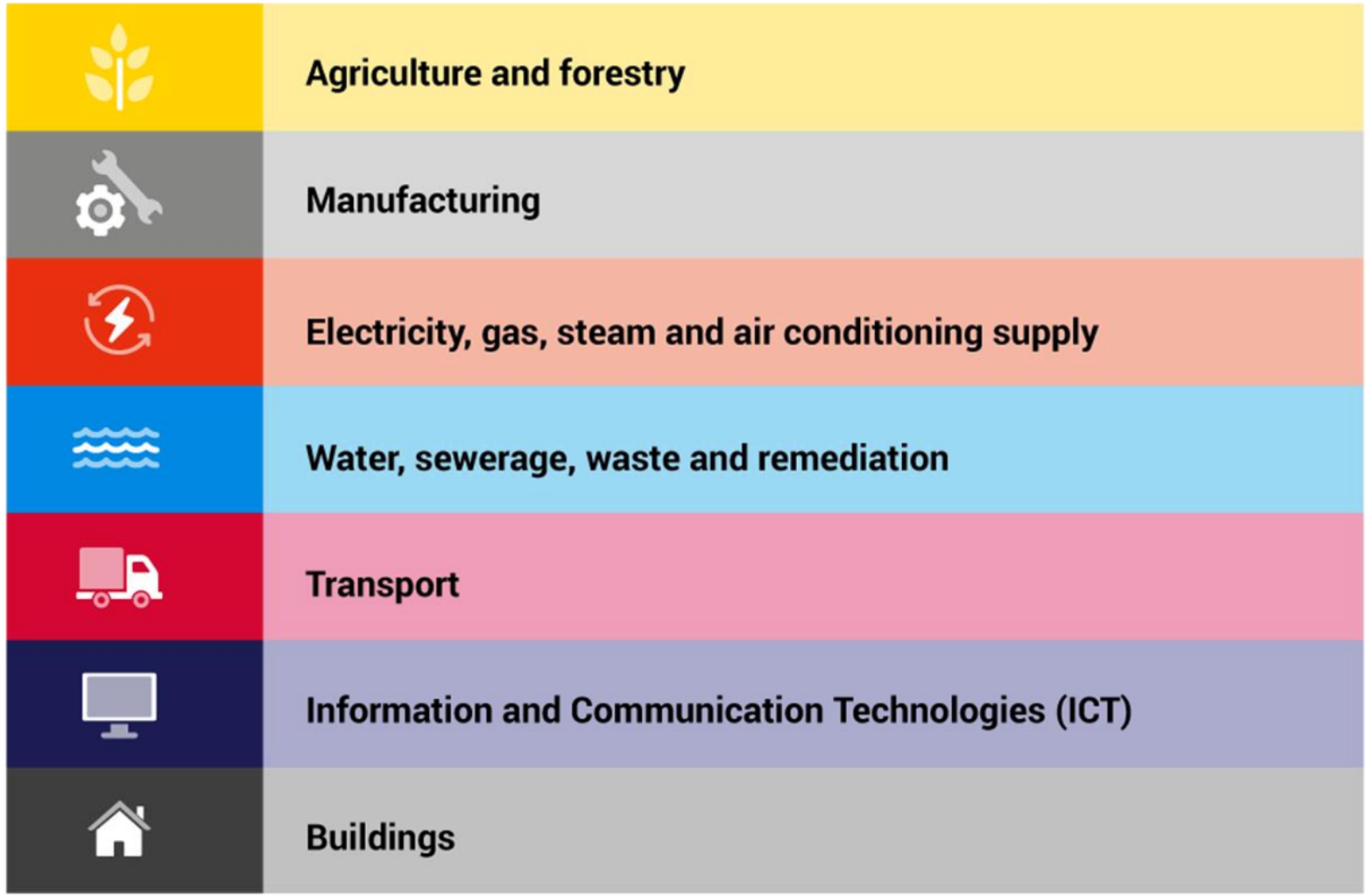
Selection of economic activity NACE sectors

(1) High-emitting macro sectors

(2) Enabling sectors



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Why Have a Taxonomy

- Help translate commitments to the Paris Agreement and Sustainable Development Goals (SDGs) for investors;
- Provide clarity via a common language for investors, issuers, policymakers and regulators;
- Put environmental data in context;
- Save time and money for investors and issuers;
- Support different investment styles and strategies;
- Avoid reputational risks;
- Deepen the conversation; and
- Reward companies.

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The Taxonomy:

IS	IS NOT
A list of economic activities and relevant criteria	A rating of good or bad companies
Flexible to adapt to different investment styles and strategies	A mandatory list to invest in
Based on latest scientific and industry experience	Making a judgement on the financial performance of an investment – only the environmental performance
Dynamic, responding to changes in technology, science, new activities and data	Inflexible or static

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Who will use the Taxonomy?

- The proposed regulation has two mandatory users;
  1. Financial market participants offering financial products as environmentally sustainable; and
  2. EU Member States or the EU when adopting measures or setting requirements on market actors in respect to financial products or corporate bonds that are marketed as environmentally sustainable.

- Under the Non-Binding Guidelines for Non-Financial Reporting, Companies are also encouraged to disclose in line with the Taxonomy.

- The Taxonomy can be used on a voluntary basis by credit institutions and other issuers, such as local authorities.

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How Can the Taxonomy be Used by Investors?

The Taxonomy can be used for:

- expressing investment preferences;
- selecting holdings;
- designing green financial products;
- measuring the environmental performance of a security or product; and/or
- engaging with investees.

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Taxonomy -Investment Uses

Uses and users of the Taxonomy		
	Disclosure obligations	Optional additional uses

Asset Management	• **UCITS funds:**
	  • **equity funds;**
	  • **exchange-traded funds (ETFs);**
	  • **bond funds**
	• **Alternative Investment Funds (AIFs):**
	  • **fund of funds;**
	  • **real estate funds;**
	  • **private equity or SME loan funds;**
	  • **venture capital funds;**
	  • **infrastructure funds;**
	• **Portfolio management.**	

Insurance	• **Insurance-based investment products (IBIP)**	• Insurance
Corporate & Investment Banking	• **Securitisation funds*** • **Venture capital and private equity funds** • **Portfolio Management** • **Indices funds**	• Securitisation • Venture capital and private equity • Indices • Project finance and corporate financing
Retail banking		• Mortgages • Commercial building loans • Car loans • Home equity loans

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Disclosure Obligations

For each relevant product, investors would disclose:

- if and how the Taxonomy has been used to determine the sustainability of an investment; and
- the proportion of investments funding Taxonomy-eligible activities.

This disclosure obligation is intended to align with the requirements of the recently approved Regulation on Disclosures Relating to Sustainability Risks and Sustainable Investments.

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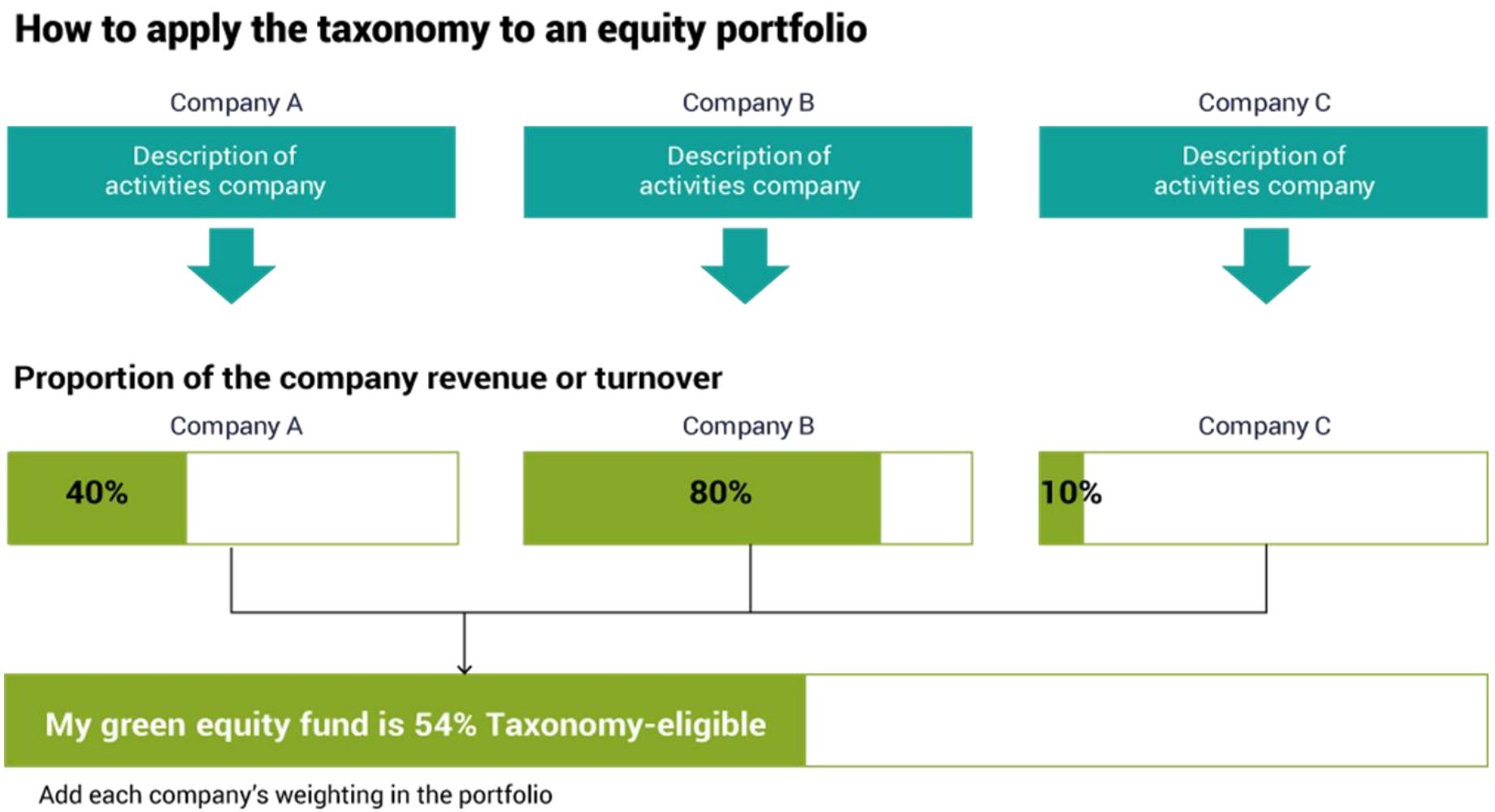
Taxonomy in Practice: Equities



Substantial Contribution to Mitigation

Type of activity	Technical screening criteria	Examples
1) Activities that are already low carbon. Already compatible with a 2050 net zero carbon economy	Likely to be stable and long-term	• Zero emissions transport • Near to zero carbon electricity generation • Afforestation
2) Activities that contribute to a transition to a zero net emissions economy in 2050 but are not currently operating at that level.	Likely to be subject to regular revision, tending towards zero emissions.	• Building renovation; • Electricity generation <100g CO2/kWh • Cars <50g CO2/km
3) Activities that enable those above.	Likely to be stable and long-term (if enabling activities that are already low carbon) or subject to regular revision tending to zero (if enabling activities that contribute to transition but are not yet operating at this level).	• Manufacture of wind turbines • Installing efficient boilers in buildings

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Low Carbon Transition

- The Taxonomy is a Low Carbon Transition Tool!

- Transition activities ("Activities that contribute to a transition to a net-zero emissions economy in 2050 but are not currently close to a net-zero carbon emissions level")
  - must significantly **enhance their performance beyond the industry average**,
  - **no lock-in to carbon intensive assets or processes**.
  - Thresholds will **trend to zero** over time.
  - Examples in the current TEG report include electricity generation of <100g CO2/kWh and cars emitting <50g CO2/km .

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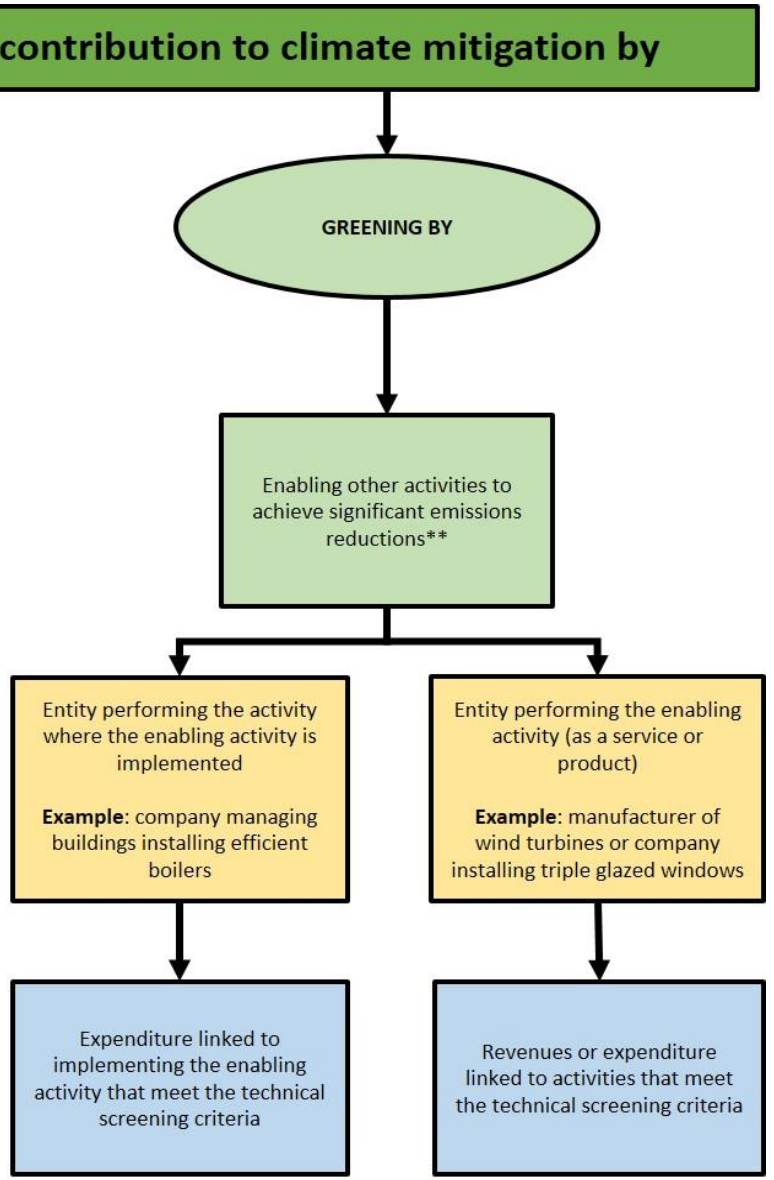
Enabling Activities

- Enabling activities ("greening by" activities): these enable improved environment performance in other sectors of the economy. They are evaluated on a sector by sector basis. Examples in the current TEG report include manufacture, sale and installation of highly efficient boilers and micro-renewables.



Substantial Contribution (SC) to Adaptation: Principles

Climate change adaptation is location and context specific. The TEG recommends high-level principles and qualitative technical screening criteria to assess an activity's contribution.

Investors should look for implementation of three principles to understand whether an activity makes a substantial contribution to climate change adaption:

- Principle 1: The economic activity reduces all material physical climate risks to the extent possible and on a best effort basis.
- Principle 2: The economic activity does not adversely affect adaptation efforts by others.
- Principle 3: The economic activity has adaptation-related outcomes that can be defined and measured using adequate indicators.

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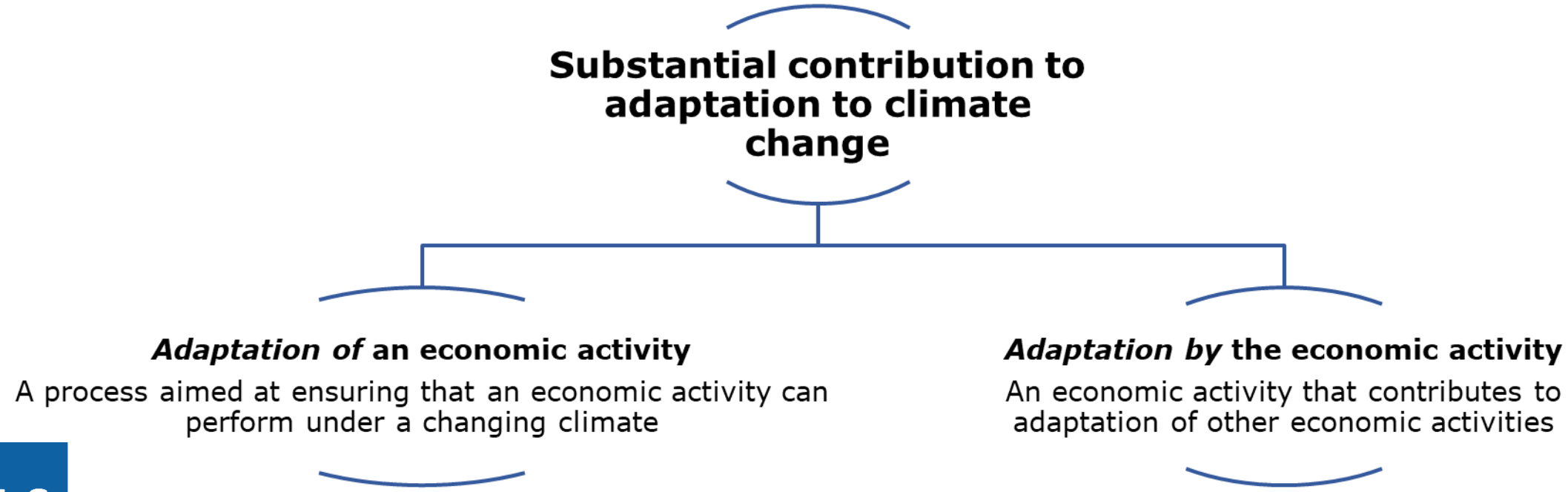
Defining SC to Adaptation

- A substantial contribution to adaptation can be delivered through
  - Adaptation of an economic activity, and
  - Adaptation by an economic activity



Do No Significant Harm (DNSH)

"Do No Significant Harm" (DNSH) analysis has been completed for most of the 67 activities contributing to climate change mitigation. It will also be developed for activities contributing to climate change adaptation.

Why assess significant harm?

- To ensure that the technical screening criteria and the Taxonomy itself does not include economic activities undermining any of the environmental objectives.
- In cases where the TEG could not identify practices or criteria to mitigate potential harm, the activity was not included in the Taxonomy.

What are the criteria?

- The vast majority of the screening criteria build from existing EU regulations.
- The remaining DNSH criteria supplement regulatory requirements, taking the form of quantitative or qualitative thresholds.

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