EU Taxonomy and relevance for EU Ecolabel on financial products

Webinar
20 March 2020
Agenda

- Action Plan on Sustainable Finance – context
- Taxonomy – overview and Regulation

1st Q&A (15 min)

- The Sustainable Finance Technical Expert Group (TEG)
  - Taxonomy recommendations
  - Green Bond Standard
- Link between EU Ecolabel and Taxonomy

2nd Q&A (30 min)
Content

1. Action Plan on Sustainable Finance
2. Taxonomy
3. Technical Expert Group
4. Link between Taxonomy and EU Ecolabel
Content

1. **Action Plan on Sustainable Finance**

2. **Taxonomy**

3. **Technical Expert Group**

4. **Link between Taxonomy and EU Ecolabel**
Financing the Green Transition

Ambition

Delivering on the **European Green Deal**, notably reaching climate neutrality by 2050 while ensuring that the transition is just and fair

Commission’s target = at least 25% of EU expenditure contributing to climate objectives for the 2021-2027 Multi-Annual Financial Framework

**Large-scale Investment**

**EU Budget**

InvestEU & European Fund for Sustainable Development (EFSD)

**Blended Finance**

**Private Finance**

Commission Action Plan on financing sustainable growth

**Reorient capital flow towards more sustainable investments**

1. Establish a **Taxonomy** of environmentally sustainability activities
2. Create **standards and labels** for green financial products
3. Fostering **investment in sustainable projects**
4. Incorporate **sustainability** in providing investment advice
5. Develop sustainability **benchmarks**

**Mainstreaming sustainability in risk management**

6. Better integrate sustainability in ratings and market research
7. Clarify institutional **investors’** and asset managers’ **duties**
8. Incorporate sustainability in **prudential requirements**

**Foster transparency & long-termism**

9. Strengthen corporate **sustainability disclosure**
10. ↑sustainable corporate governance and ↓ short-termism
## Action plan on financing sustainable growth - overview

### Commission’s actions stretch across the whole investment chain

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<th>Taxonomy</th>
<th>Standards and labels</th>
<th>Fostering investment in sustainable projects</th>
<th>Incorporating sustainability in financial advice</th>
<th>Developing sustainability benchmarks</th>
<th>Sustainability in research and ratings</th>
<th>Disclosures by financial market participants</th>
<th>Sustainability in prudential requirements</th>
<th>Strengthening sustainability disclosures and improving accounting</th>
<th>Fostering sustainable corporate governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Develop an EU classification system for environmentally sustainable economic activities</td>
<td>Develop EU standards (such as EU Green Bond Standard) and labels for sustainable financial products (via Ecolabel) to protect integrity and trust of sustainable finance market</td>
<td>Exploring measures to improve the efficiency and impact of instruments aiming at investment support. Mapping on investment gaps and financing.</td>
<td>Amend MiFID II and IDD delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment.</td>
<td>Develop climate benchmarks and ESG disclosures for benchmarks</td>
<td>Explore how credit rating agencies could more explicitly integrate sustainability in to their assessments. Study on sustainability ratings and research and exploring possible measures to encourage their uptake.</td>
<td>Enhance transparency to end-investors on how financial market participants consider sustainability</td>
<td>Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective)</td>
<td>Enhance climate and sustainability-related information provided by corporations</td>
<td>Collect evidence of undue short-term pressures from capital markets on corporations and consider steps for promoting corporate governance that is more conducive to sustainable investments.</td>
</tr>
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Content

1. Action Plan on Sustainable Finance

2. Taxonomy
   - 2.1 Overview, features and intended impact
   - 2.2 Taxonomy Regulation

3. Technical Expert Group

4. Link between Taxonomy and EU Ecolabel
EU Taxonomy - Overview

Objective

Provide a classification tool to help investors and companies to make informed investment decisions on environmentally sustainable activities for the purpose of determining the degree of sustainability of an investment.

We need a taxonomy that is robust, science-based, and ambitious, in line with our shared environmental objectives, including going towards climate neutrality in line with the Paris agreement.

What is it?

A list of economic activities that are environmentally sustainable. To be included in the Taxonomy, an economic activity must meet the following conditions:

- Substantially Contribute to one objective
- Do not significantly harm any of the other 5 objectives
- Minimum social* safeguards

Technical Screening Criteria

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use & protection of water
4. Circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

6 environmental objectives


Use: is it obligatory?

- Obligatory disclosures for institutional investors, asset managers and companies covered by the NFRD.
- EU Member States are required to use the EU Taxonomy when creating public labelling schemes for ‘green’ investment products and corporate bonds.

Further voluntary use by a range of actors.

What is it not?

- A rating of good or bad companies
- A mandatory list to invest in
- Making a judgement on the financial performance of an investment
- Inflexible or static
Taxonomy design - selection of sectors and setting substantial contribution threshold (climate mitigation)

The universe of ‘economic activities’, classified into 1000+ sub-sectors

Selection/ Prioritisation*

- 70 priority ‘economic activities’, i.e. sub-sectors
- Likely a priority but not yet assessed...
- Lower footprint sub-sectors...
  - ...not prioritised for inclusion in the taxonomy

Sub-sector #1 (e.g. iron & steel production)
Sub-sector #67 (e.g. production of electricity from hydropower)

Sub-sectors that were looked at but not included
- No foreseeable technology that will allow the activities within the sub-sector to achieve low/zero GHG emissions
- Insurmountable DNSH issue

* Prioritisation on the basis of GHG emissions of (sub-)sectors, reduction potential, and/or enabling reductions
Illustration low-carbon vs transitional activities

**Low-carbon activity**
e.g. electricity production from wind power

- Electricity production from wind power
- High performance
  (zero GHG emissions)

**Transitional activity**
e.g. cement manufacturing

- Cement manufacturing with high GHG emissions
- Poor performance
  (high GHG emissions)

Substantial contribution threshold
How does the Taxonomy enable companies to transition?

• By defining green economic activities, not companies
• The Taxonomy enables companies to transition by gradually increasing their share of green activities
Content

1. Action Plan on Sustainable Finance

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   2.1 Overview, features and intended impact

   2.2 Taxonomy Regulation

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4. Link between Taxonomy and EU Ecolabel
The Taxonomy Regulation provides a framework for developing the Taxonomy itself (the list of economic activities and corresponding criteria), i.e. the principles, the governance and the disclosure obligation.

The Technical Screening Criteria defining what counts as substantial contribution and DNSH for each activity will be adopted through Delegated Acts ('DAs'):

- **DA on climate change**
  - Adopted by **31 December 2020** (entry into force one year later)

- **DA on the other environmental objectives**
  - Adopted by **31 December 2021** (entry into force one year later)
Taxonomy Regulation – Disclosures

Three types of financial products
1. Art.9 products (“pursuing environmental objectives”)
2. Art.8 products (“pursuing environmental / social characteristics”)
3. Mainstream products (i.e. all others)
   ■ Statement: “The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable investments”.

Disclosure by companies covered by the NFRD
• Taxonomy-aligned activities
  • Proportion of turnover
  • Proportion of CapEx and OpEx

“how and to what extent” the underlying investments support Taxonomy-compliant activities + DNSH (variable scope)
Taxonomy Regulation – enabling activities

Art.11a: “An economic activity shall be considered to contribute substantially to one or more of the environmental objectives set out in Article 5 by directly enabling other activities to make a substantial contribution to one or more of those objectives,

and where that activity:
(a) does not lead to a lock-in in assets that undermine long-term environmental goals, considering the economic lifetime of those assets;
(b) has a substantial positive environmental impact on the basis of lifecycle considerations.

Examples from TEG report
Manufacture, sale and installation of highly efficient boilers and micro-renewables.
Art.6.1a: “An economic activity for which there is no technologically and economically feasible low carbon alternative shall be considered to contribute substantially to climate change mitigation [...]”

where that activity:

(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 in carbon-intensive assets considering the economic lifetime of those assets.

Examples from TEG report

Electricity generation of <100g CO₂/kWh
Cars emitting <50g CO₂/km.
Thresholds will tend to zero over time.
Taxonomy Regulation – Governance

- **Platform on Sustainable Finance**
  - Advises on criteria, among other tasks (Art. 15.2)
  - To be established after formal adoption of Taxonomy Regulation (around Sept 2020)
  - Composition: EEA, ESAs, EIB, EIF, EU Agency for Fundamental Rights + experts representing
    - Private stakeholders (incl. financial and non-financial corporates and industry)
    - Civil society
    - Academia
    - + experts appointed in personal capacity.

- **Member State Expert Group** - role formalised by Taxonomy Regulation

- **Commission adopts Delegated Acts**
Taxonomy Regulation – Fossil fuels, nuclear and incineration

- **Solid fossil fuels** – Explicitly excluded by the text of the Taxonomy Regulation

- **Nuclear**
  - Art.12.d on DNSH: an activity causes significant harm “where the long term disposal of waste may cause significant and long-term harm to the environment”
  - To be assessed at the level of DA – for transition activities, “the Commission shall assess the potential contribution and feasibility of all relevant existing technologies” (art.6.1a).

- **Incineration of waste**
  - Art.12.d on DNSH: “where that activity leads to a significant increase in the generation, incineration or disposal of waste, with the exception of incineration of non-recyclable hazardous waste”
Content

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The Technical Expert Group on Sustainable Finance

The TEG assists the Commission in implementing four specific actions.

- Established in June 2018
- Mandate extended until Sept 2020
- 35 experts (17 women) selected from 240 qualified candidates

<table>
<thead>
<tr>
<th>Working Groups</th>
<th>Mandate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxonomy</td>
<td>Technical screening criteria for economic activities SC to climate change mitigation</td>
</tr>
<tr>
<td>EU Green Bond Standard</td>
<td>Recommendations for an EU Green Bonds Standard</td>
</tr>
<tr>
<td>Benchmarks</td>
<td>Minimum standards for climate benchmarks and benchmarks’ ESG disclosures</td>
</tr>
<tr>
<td>Corporate Disclosures</td>
<td>Metrics allowing improving corporate disclosure on climate-related information</td>
</tr>
</tbody>
</table>

Stakeholder inclusion and transparency

- Meeting minutes **publicly available** at the Register of Commission expert groups
- **Workshops** and targeted interviews to inform TEG work
- **Open feedback** on TEG reports
The TEG subgroups

- Taxonomy
- Green Bond Standard
- Benchmarks
- Disclosures
The TEG final report on taxonomy – March 2020

TEG
Composed of 35 experts from civil society, academia, business and the finance sector, as well as 10 additional members and observers from EU and international public bodies

7 macro-sectors, 70 activities
- highest-emitting macro sectors (represent 93.2% of GHG emissions in the EU)

Screening criteria
- Substantial contribution to one environmental objective (for climate change mitigation \(\rightarrow\) e.g. GHG emission thresholds)
- Do no significant harm to any of the other environmental objectives

- All assessments made by TEG were based on scientific evidence, literature and international practice
- TEG report deals with activities substantially contributing to climate change mitigation and adaptation

- Agriculture and forestry
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water, sewerage, waste and remediation
- Transport
- Information and Communication Technologies (ICT)
- Buildings
## Substantial contribution to climate change mitigation

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Type of activity</th>
<th>Criteria</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution related to own</td>
<td><strong>Already low carbon</strong> (very low, zero or net negative emissions). Compatible</td>
<td>Likely to be stable and long term</td>
<td>Electricity generation from solar PV</td>
</tr>
<tr>
<td>performance</td>
<td>with net zero carbon economy by 2050.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Contribute to a transition</strong> to a zero net emissions</td>
<td>Likely to be revised regularly and tightened over time</td>
<td>Manufacturing of steel</td>
</tr>
<tr>
<td></td>
<td>economy in 2050 or shortly thereafter, but are not currently close to a net zero</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>carbon emission level.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enabling activities</td>
<td>Activities that <strong>enable emissions reductions</strong> in either of the two previous</td>
<td>Some likely to be stable and long term, some likely to be revised</td>
<td>Manufacturing of wind turbines</td>
</tr>
<tr>
<td></td>
<td>categories.</td>
<td>regularly</td>
<td></td>
</tr>
</tbody>
</table>

Activities that undermine the climate change mitigation objective are **not** included.
### Example – Climate Change Mitigation

#### Sector classification and activity

<table>
<thead>
<tr>
<th>Macro-Sector</th>
<th>D - Electricity, Gas, Steam and Air Conditioning Supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>NACE Level</td>
<td>4</td>
</tr>
<tr>
<td>Code</td>
<td>D.35.1.1</td>
</tr>
<tr>
<td>Description</td>
<td>Construction and operation of electricity generation facilities that produce electricity from Hydropower</td>
</tr>
</tbody>
</table>

#### Mitigation criteria

**Principle**
- Support a transition to a net-zero emissions economy
  - Avoidance of lock-in to technologies which do not support the transition to a net-zero emissions economy
  - Ensure that economic activities meet best practice standards
  - Ensure equal comparability within an economic activity with regards to achieving net-zero emissions economy target
  - Where necessary, incorporating technology-specific considerations into secondary metrics and thresholds

**Metric & Threshold**

[...]

Declining threshold: Facilities operating at life cycle emissions lower than 100gCO2e/kWh, declining to 0gCO2e/kWh by 2050, are eligible
- This threshold will be reduced every 5 years in line with a net-zero CO2e in 2050 trajectory
- Assets and activities must meet the threshold at the point in time when taxonomy approval is sought

For activities which go beyond 2050, it must be technically feasible to reach net-zero emissions.
### Example – Climate Change Mitigation

#### Do no significant harm assessment

The main environmental impacts associated with hydropower installations are:

- Emissions to water and generation of waste during construction;
- Impacts on biodiversity associated with fragmentation of ecosystems and changes to habitat, to hydrological and hydrogeological regimes, water chemistry, and interference with species migration pathways as a result of the establishment of the installation and its operation

<table>
<thead>
<tr>
<th>(2) Adaptation</th>
<th>Refer to the screening criteria for DNSH to climate change adaptation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3) Water</td>
<td>For new projects:</td>
</tr>
<tr>
<td></td>
<td>Ensure implementation of a River Basin Management […] and ensure that an appropriate cumulative impact assessment or equivalent study has been undertaken […]</td>
</tr>
<tr>
<td></td>
<td>Ensure that the conditions outlined in article 4(7) of the WFD are met based on ground evidence. […]</td>
</tr>
<tr>
<td></td>
<td>Construction of new hydropower should not lead to increase fragmentation of rivers, consequently refurbishment of existing hydropower plant and rehabilitation</td>
</tr>
<tr>
<td>(4) Circular Economy</td>
<td>Establishing a River Basin Management Plan (as outlined in the EU Water Framework Directive) and ensure compliance with applicable EU regulations.</td>
</tr>
<tr>
<td></td>
<td>Reference for outside EU: IFC’s and World Bank Group’s environmental and social standards.</td>
</tr>
<tr>
<td></td>
<td>Parameters and acceptable limits/ranges and necessary sampling and measuring frequency are contained in EU Directive 2006/44/EC […]</td>
</tr>
<tr>
<td>(5) Pollution</td>
<td>Ensure an Environmental Impact Assessment (EIA) has been completed in accordance with […] Ensure any required mitigation measures for protecting biodiversity/ecosystems have been implemented.</td>
</tr>
<tr>
<td></td>
<td>For sites/operations located in or near to biodiversity-sensitive areas […] ensure that an appropriate assessment has been conducted in compliance with the provisions of the EU Biodiversity Strategy (COM(2011) 244), the Birds (2009/147/EC) and Habitats (92/43/EEC) Directives or in the case of activities located in non-EU countries, other equivalent national provisions or international standards […]</td>
</tr>
</tbody>
</table>
Defining substantial contribution to climate change adaptation

- **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.
## Example – Climate Change Adaptation

### Sector classification and activity

<table>
<thead>
<tr>
<th>Macro-Sector</th>
<th>Professional, scientific and technical activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>NACE Level</td>
<td>3</td>
</tr>
<tr>
<td>Code</td>
<td>NACE code: 72.1</td>
</tr>
<tr>
<td></td>
<td>CPA codes: 72.1</td>
</tr>
<tr>
<td>Description</td>
<td>Engineering activities and related technical consultancy dedicated to adaptation to climate change for activities and/or assets that are Taxonomy aligned. This class includes: • engineering design […] • machinery, industrial processes and industrial plant […] • water management projects</td>
</tr>
</tbody>
</table>

### Adaptation criteria

Depending on the primary objective of the activity, refer to:

- Screening criteria for adapted activities
- Screening criteria for an activity enabling adaptation

Users of the Taxonomy should identify and explain which criteria they are responding to.

### Do no significant harm assessment

The specific activity or activities which are the subject of the engineering or related consultancy service must meet the DNSH criteria for those activities.

That is, the service provider is required to validate that the activity and/or asset the service is being provided in relation to, is compliant with the relevant DNSH thresholds for the activity under cover.
Avoiding significant harm

“Do No Significant Harm” (DNSH) analysis has been completed for the 70 activities contributing to climate change mitigation. It also serves for activities contributing to climate change adaptation. Adaptation activities that are not included in the climate change mitigation list have their own DNSH criteria.

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.
## Five steps to calculate Taxonomy exposure
*(based on TEG recommendations)*

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Identify the activities conducted by the company or issuer or those covered by the financial product (e.g., projects, use of proceeds) that could be aligned, and for which environmental objective(s).</td>
</tr>
<tr>
<td>2</td>
<td>For each activity, assess whether the activity meets the relevant criteria for substantial contribution e.g. electricity generation &lt;100g CO₂/kWh.</td>
</tr>
<tr>
<td>3</td>
<td>Assess that the DNSH criteria are being met. Investors could use a due diligence-type process for reviewing the performance of investees and could rely on the legal disclosures by those investees.</td>
</tr>
<tr>
<td>4</td>
<td>Conduct due diligence to avoid any violation to the social minimum safeguards (Art.13 Taxonomy Regulation).</td>
</tr>
<tr>
<td>5</td>
<td>Calculate alignment of investments with the Taxonomy and prepare disclosures at the investment product level.</td>
</tr>
</tbody>
</table>
Taxonomy in practice: Equity

Company A
Description of company’s activities
12%
30% weight

Company B
Description of company’s activities
8%
50% weight

Company C
Description of company’s activities
15%
20% weight

My equity fund is 10.6% taxonomy-aligned
The TEG subgroups

- Taxonomy
- Green Bond Standard
- Benchmarks
- Disclosures
EU Green Bonds Standard (EU GBS)

### Proposed core components

- **Alignment with EU taxonomy**
- **Publication of a Green Bond Framework**
  - Explaining the voluntarily alignment and investment strategy
- **Mandatory Reporting**
  - Allocation report
  - Impact report
- **Mandatory Verification**
  - By external reviewer

### How would the EU-GBS work?

**BEFORE OR AT ISSUANCE**

- Publication of Green Bond Framework
- Issuer’s Green Bond strategy and alignment with the EU taxonomy
  - Description of types of Green Projects to be financed
  - Description of methodology and processes regarding allocation and impact reporting
  - Use of proceeds specified in the legal documentation

**GRADUAL ALLOCATION .......................... FULL ALLOCATION**

- **Annual Allocation Reports**
  - Confirmation of alignment with EU GBS
  - Breakdown of allocated amounts per project or portfolio
  - Geographical distribution of Projects

**ACCREDITATION OF EXTERNAL VERIFIERS**

**DOCUMENT VERIFIED BY ACCREDITED EXTERNAL VERIFIERS**

- **Final Allocation Report**
  - Impact reporting at least once (at full allocation), or annually

**IMPACT REPORT**
Key elements of the EU Green Bond Standard

| Green projects | • Alignment with the environmental objectives and technical screening criteria as defined in the **EU taxonomy**  
• Physical or financial assets, tangible or intangible: any capital expenditure and selected operating expenditure such as maintenance costs related to green assets that either increase the lifetime or the value of the assets, as well as research and development costs, and relevant public investments and public subsidies for sovereign and sub-sovereigns  
• Green assets qualify without a lookback period, and eligible green operating expenditure shall qualify with a maximum of three years lookback  
• The use of proceeds is specified either in the prospectus or in the final terms of the bond |
| Green bond framework | • Document explaining issuer’s alignment with the EU taxonomy and environmental objectives, green bond strategy, project selection, methodologies and processes for allocation and impact reporting of the Green bond or Green Bond program  
• The issuer must produce it when confirming the alignment with the EU Green Bonds standard |
| Reporting | • Allocation and Impact reporting become mandatory  
• Allocation report needs to be published annually until full allocation of the bond proceeds, and Impact report at least once at the full allocation, and both reports thereafter, in case of any material change. |
| Verification | • Issuers shall appoint an external verifier that needs to be accredited  
• Verification applies (i) to the Green Bond Framework and (ii) to the Allocation Reporting |
How will EU-GBS add clarity and credibility?

1. Reduce uncertainty by aligning with the EU taxonomy: proceeds of the EU Green Bonds should go to finance or refinance projects and investments that contribute substantially to one of the EU environmental objectives, while not significantly harming the other five objectives.

2. Clarify and expand the definitions of eligible green projects, costs and expenditures.

3. Ensure transparency and accountability by requiring mandatory publication of the green bond framework, allocation and impact reporting.

4. Improve comparability by providing templates for the green bond framework and reporting.

5. Create credibility by mandatory verification by accredited verifiers.
Next steps on EU GBS


- In March 2020, the TEG provided to Commission
  - A user guide on EU GBS for market participants that i.a. provides information on link between EU GBS and EU Taxonomy
  - recommendations providing i.a. for a set-up of a voluntary interim market-based registration scheme for verifiers (VIRS)

- These recommendations will be carefully considered as a basis for next steps taken by the Commission.

- It will inform the work on the content of possible related legislative initiatives or amendments.
1. Action Plan on Sustainable Finance
2. Taxonomy
3. Technical Expert Group
4. Link between Taxonomy and EU Ecolabel
EU Ecolabel criteria refer to Taxonomy-aligned activities

1. Minimum investment
   - Under the proposed EU Ecolabel criteria, **Criterion 1 requires minimum investments in Taxonomy-aligned activities**. For example:
     - For **equity funds**, a certain proportion of AuM must be in equity of green companies, i.e. companies with a sufficient share of revenues from Taxonomy-aligned activities
     - For **bond funds**, 70% of AuM must be in green bonds that comply with the EU Green Bond Standard (which itself refers to Taxonomy)
     - For **savings accounts**, 70% of the deposits must be used to make green loans or invest in green bonds.

2. **Engagement** notably to grow a company’s Taxonomy-aligned activities.
Minimum investment in Taxonomy-aligned activities

**Economic Activities**

- **Not classified**
- **Taxonomy-compliant**

**Companies**

- **Company A**
  - 60% of its revenue from green activities (e.g., "Manufacture of energy efficiency equipment for buildings")

- **Company B**
  - Carries out 20% taxonomy compliant activities (such as "Passenger Rail Transport")

**Investable Financial Assets**

**Equity Fund** (here: 100€ invested in 9 co’s / other assets)

- Shares of companies with > 50% of green revenue:
  - 98%
  - 50%
  - 60%
- Shares of companies with 20-49% of green revenue:
  - 50%
  - 20%
  - 30%
- Shares of companies with < 20% of green revenue and/or other assets:
  - 5%

**Bond Fund**

- 30% other bonds
- 70% Green bonds (complying with EU GBS)

**Financial products**

- Min 20€
- Min 60€
- Max 40€
- 100€ AuM

**Example:**

- **Company B** issues **Green Bond** (here counted as 100% Green) for taxonomy compliant activities

**Note:**

- 2% of the activities in the fund compliant with the taxonomy
- 70% of the activities in the fund compliant with the taxonomy
Non-inclusion in Taxonomy vs. Exclusions under EU Ecolabel

- EU Ecolabel criteria defines a list of excluded activities. If a fund invests in a company undertaking an excluded activity (with a 5% revenue threshold), it cannot receive the EU Ecolabel.
- The Taxonomy defines ‘green’ activities.

=> **Non-inclusion in Taxonomy does not necessarily imply the activity should be part of the EU Ecolabel exclusion list.**

<table>
<thead>
<tr>
<th></th>
<th>Included in Taxonomy</th>
<th>Not included in Taxonomy nor excluded under EU Ecolabel</th>
<th>Excluded under EU Ecolabel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examples</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Electricity production from hydropower with &lt;100g CO2e/kWh</td>
<td>Electricity production from hydropower with &gt;100g CO2e/kWh</td>
<td>Electricity production from coal</td>
</tr>
<tr>
<td></td>
<td>Agriculture enhancing soil carbon stocks</td>
<td>Production of pesticides approved for use in EU</td>
<td>Production of pesticides not approved for use in EU</td>
</tr>
</tbody>
</table>
Timelines of Taxonomy DAs vs. Decision on EU Ecolabel

- Difference in timelines imply a **transitory period**, during which the investment universe for EU Ecolabel criteria is smaller (climate-only)

* Adoption date – entry into force is one year later, but not relevant for EU Ecolabel criteria

† This second DA could be an update / amendment to the first, resulting in a single DA.
2nd Q&A
Thank you for your attention

Contact
susproc.jrc.ec.europa.eu/financial_products
jrc-b5-financial-products@ec.europa.eu