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# EU Taxonomy for sustainable activities in a nutshell

- The **EU Taxonomy** is a regulatory classification system and transparency tool which helps investors and companies identify to what degree an economic activity is environmentally sustainable.
- EU Taxonomy Regulation entered into force on 12 July 2020, but it will not start applying in practice until 1 January 2022 at the earliest.
- The EU Taxonomy is one of the 10 specific actions of the Action Plan on Financing Sustainable Growth helping to meet the **objectives of the European Green Deal**.
- The initial focus has been on defining what is sustainable in climate terms, but the intention is to develop rules on other environmental sustainability objectives, and to extend this to social objectives at a later stage.
- The Taxonomy Regulation does not require parties to invest in taxonomy-eligible activities

## The Taxonomy is...



### An “inventory” for the future

Provides clarity on what is an environmentally sustainable activity. **Provides the market and the public with the necessary confidence on environmental performance.**



### A reporting enabler

**Enables measuring the degree of environmental future-fitness** of an investment product and the share of environmentally future fit activities in a company.



### A transition tool

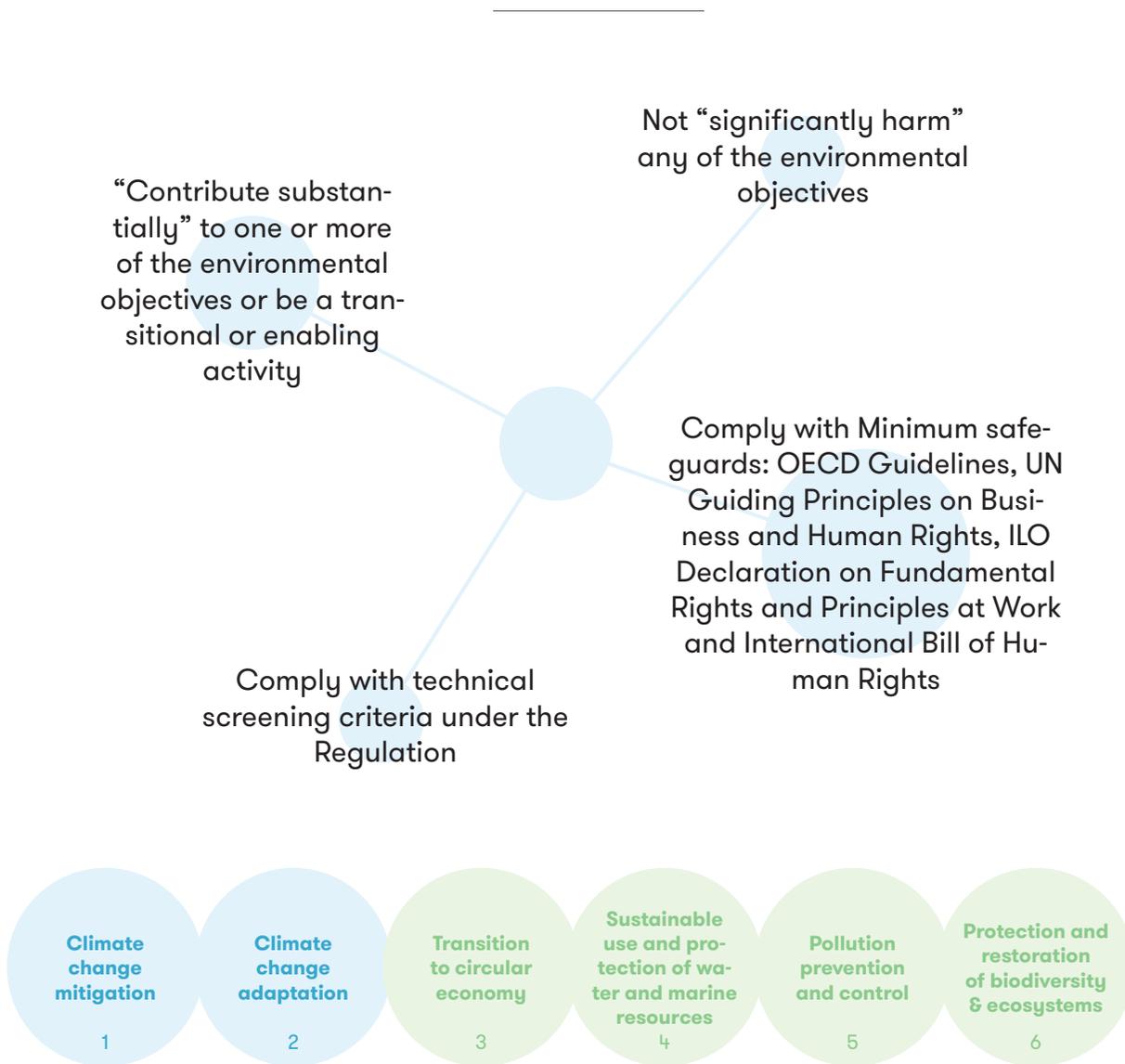
**Helps investors and companies to plan and report on the transition.** It sets the objectives and the direction of travel for different economic activities.



### Evidence & science-based

Taxonomy is built using evidence and science. There is a **clear rationale** for the choices that have been made **on prioritization of activities and setting of criteria.**

**An economic activity is considered “environmentally sustainable” when it meets all of the following conditions:**



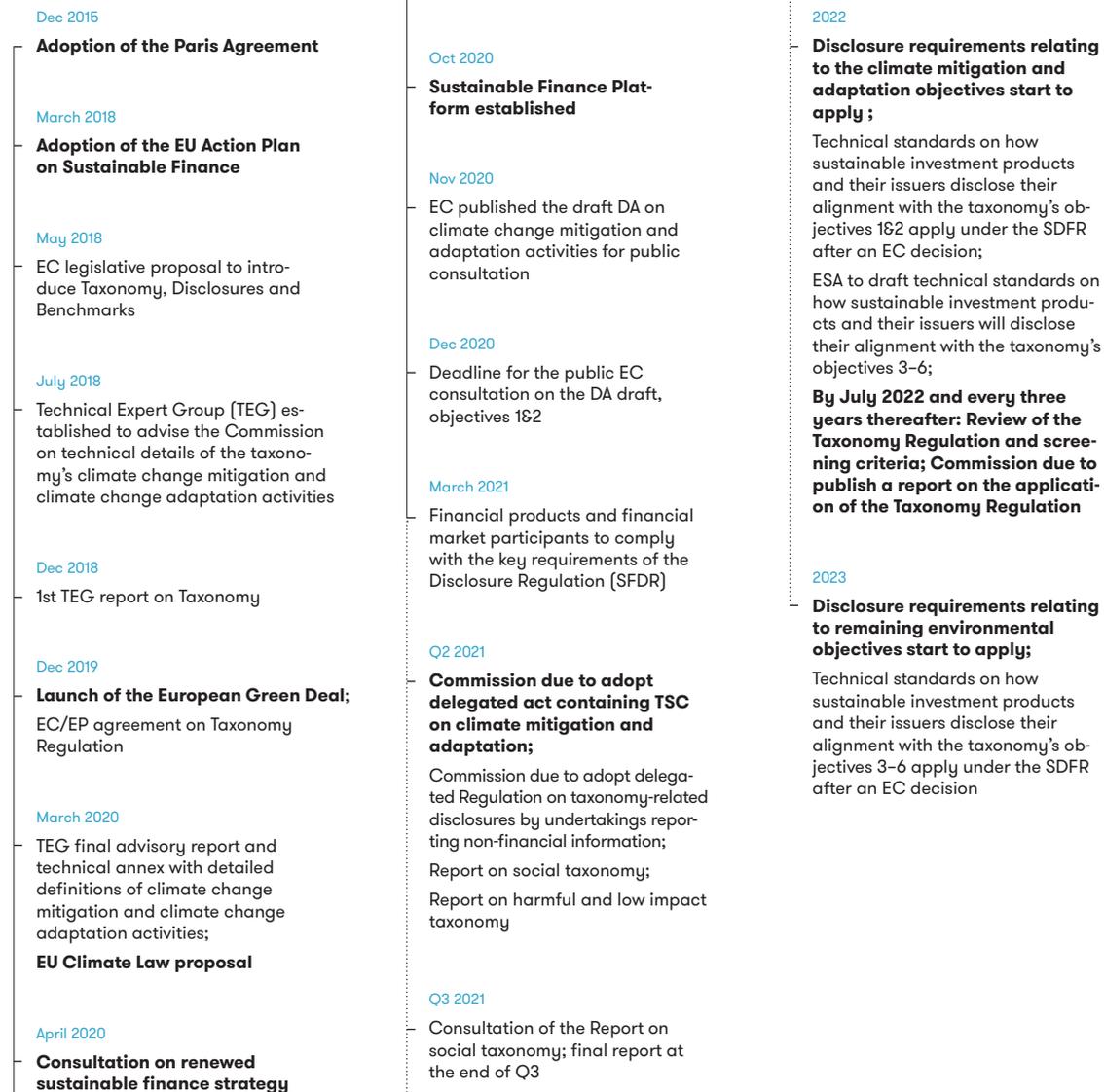
**Objectives**

- In practice, the taxonomy can apply if technical screening criteria (TSC) are adopted under delegated acts (DAs) for each of the six environmental objectives.
- A four-week public consultation on delegated acts (DA) for climate change adaptation and mitigation objectives was launched in November 2020. The DA will be accompanied by an impact assessment and should be adopted in the second half of April 2021.
- The 4-week public consultation on the DA for climate change adaptation and mitigation objectives was launched in November 2020. The DA will be accompanied by an impact assessment and should be adopted in the second half of April 2021. The first company reports and investor disclosures on climate change adaptation and mitigation objectives are due to start in 2022.
- The DA for the four other environmental objectives (biodiversity, circular economy, water systems, and pollution prevention and control), the taxonomy should be established and adopted by 31 December 2021 so that the taxonomy can start to apply to those objectives from 1 January 2023.

## Challenges

- The European Commission was meant to have adopted the DA on climate change adaptation and mitigation under the Taxonomy Regulation by 31 December 2020.
- Over 46 000 replies were received in the public consultation on the DA that needed to be analyzed. There have been 4 types of criticism:
  - Taxonomy is too tight or too loose
  - Taxonomy goes beyond existing EU legislation
  - More work is needed on the Taxonomy usability
  - Taxonomy is too binary in its current design
- The European Commission has mandated the Platform on Sustainable Finance (PSF) until mid-March, to provide “**advice on the existing and potential use of the EU taxonomy framework for enabling the financing of the transition towards a sustainable economy**”.

## Timeline of the EU Taxonomy



## Platform on Sustainable Finance (PSF)

- Creation of the Platform on Sustainable Finance is a significant step forward towards the implementation of the “renewed sustainable finance strategy”.
- The Platform is a permanent expert group of the European Commission established under the Taxonomy Regulation which will expand the work done by the Technical Expert Group (TEG) whose mandate expired in September 2020.
- The establishment of the Platform is an important component assisting the EC in developing its sustainable finance policies, notably:

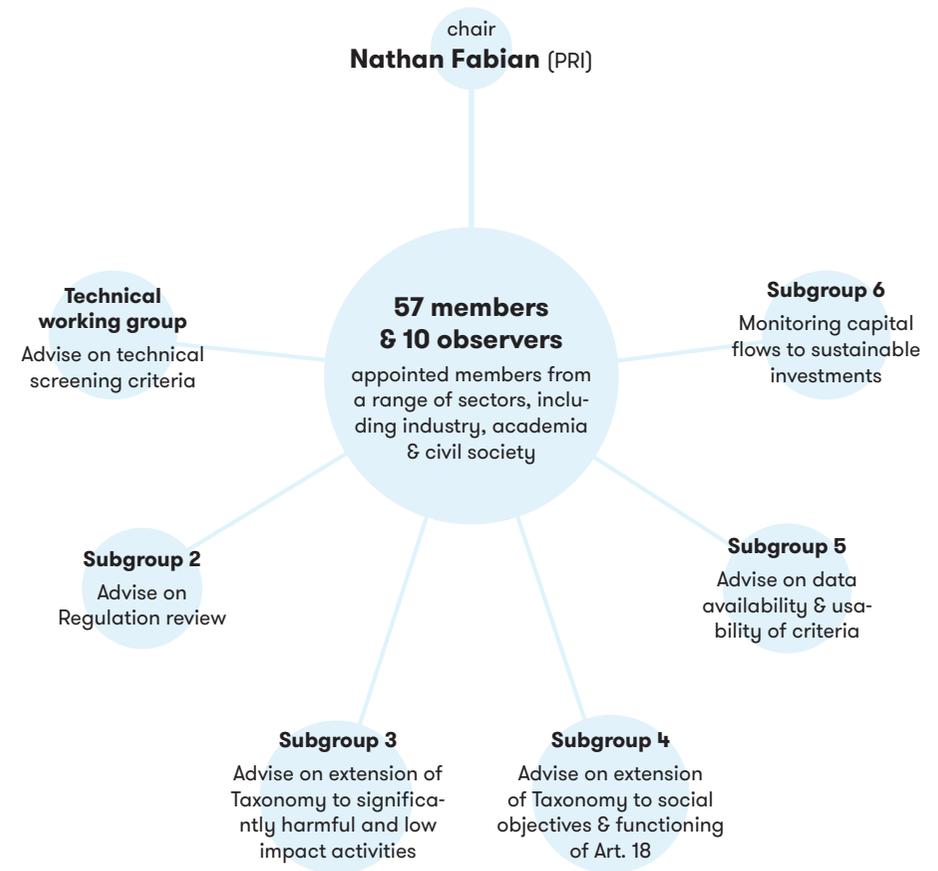
**Advise** the Commission on **technical screening criteria** for the EU Taxonomy, **including** on **usability** of the criteria.

**Advise** the Commission on **review of the Taxonomy Regulation** and on covering **other sustainability objectives**, including **social objectives** and **activities that significantly harm the environment**.

**Monitor** and **report on capital flows** towards sustainable investments.

**Advise** the Commission on **sustainable finance policy more broadly**.

## Platform structure



*This material was compiled by Štěpánka Králíková within the Climate Policy Change project. The information used here is based on Technical Expert Group on Sustainable Finance, Presentation on EU Taxonomy; Platform on Sustainable Finance, Presentation: Webinar on enabling transition finance; Platform on Sustainable Finance, Consultation Response; The new EU Taxonomy on sustainable activities, World Business Council for Sustainable Development; Platform on Sustainable Finance, Presentation - Webinar on social taxonomy; Platform on Sustainable Finance, Presentation - Webinar on enabling transition finance. Design by Jaroslav Kopriva.*

