IIGCC consultation response

22nd February 2019

Feedback on the usability of the EU taxonomy

Question 1: Do you believe the taxonomy will provide a clear indication of what economic activities should be considered environmentally sustainable?

IIGCC welcomes the EU's efforts to establish a harmonised and objective taxonomy for determining which activities qualify as environmentally sustainable, and we see the current deliberations as a positive first step. However, without clear guidance on some of the issues below, how the taxonomy is to be applied and used in practice is likely to vary across investor organisations which risks undermining its success and credibility. This is related to the current lack of clarity around the overall purpose of the taxonomy, with views varying across investor organisations.

A major specific challenge which features throughout this consultation response is around access to data, where without improvements to company disclosure the objectives of the taxonomy risk remaining unfulfilled. Additional concerns that may hinder the ability of the taxonomy to provide a clear indication of what economic activities should be considered environmentally sustainable relate to gaps in its scope: sub-sector and project-level disclosure is not captured; and it is not obvious if the taxonomy recognises the technical enablers of environmental solutions as well as the activities themselves.

Question 2: Do you expect any practical challenges within your organisation to classify an economic activity according to the taxonomy?

As with any new legal requirement, there will be a period of adjustment where there is the potential for the classification exercise to be time-consuming and (potentially, depending on any guidance issued) initially varied in its implementation. Time may be needed to determine who within an organisation is best placed to use the taxonomy, and the implications of an activity being classed as environmentally sustainable.

The main specific challenges identified relate to data, and the taxonomy's link to corporate disclosure requirements (where currently there only exist non-binding guidelines at the EU level).

The level of information specified in the taxonomy may be challenging to acquire from companies – it will be important to ensure that the information is easy to find (by supporting and educating companies on the need for consistent and comparable data), as well as setting out clearly what the implications will be should investors not be able to acquire the information.

Investors are facing similar challenges when seeking to establish e.g. their carbon footprint, as even so-called "green" sectors do not always hold this information. Investors see that the taxonomy will help to resolve this challenge over time, but there will necessarily be a transition as companies become better versed in this kind of reporting.

Additional questions also remain about how to manage the companies not caught in scope, or non-EU companies.

The [MSCI](#) have developed a series of tools to help organisations understand the importance of these issues.

Question 3: Will the proposed structure and format of the taxonomy enable you to comply with potential future disclosure obligations? What changes would you propose?

Without a clear sense of what future disclosure obligations will be, it is difficult to comment. Investors identify a current lack of clarity relating to the links between the taxonomy and company data – particularly with regards to labelling and broader disclosure. As noted above, there exist challenges currently for investors in relation to gathering company data. With regards to any potential future overlap between the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), EU disclosure obligations and the taxonomy, it should be noted that the TCDF recommendations are aimed at identifying risk, whereas the taxonomy is aimed at identifying sustainable activities.

Question 4: Is the proposed taxonomy approach sufficiently clear and usable for investment purposes? What changes would you propose?

Given that the taxonomy has not been developed with any direct link to existing taxonomies in the market[1], we see merit in guidance setting out how the EU taxonomy could be used in a way which builds on and/or complements this best practice.

Investors identify a potential problem in focusing just on the percentage or proportion of a company or activity which falls within the scope of the taxonomy – while in theory this could encourage a "race to the top", it will depend also on the type of company. There could be challenges in establishing if a company or activity fully meets the minimum requirements.

Linked to this, investors are keen to explore how the taxonomy could apply not just to the activity or company in question, but to the whole value chain; otherwise, there is a risk that companies are categorised as "sustainable" when in fact the focus has just been on their "green" focus areas.

In addition, there is some concern that the taxonomy will be too restrictive for green bond issuance, which could result in only the largest firms (with the necessary resources) deciding to issue green bonds.

Investors are keen to aim for more company disclosure across the piece, and to use the taxonomy as a tool in their corporate engagement activities. Given the challenges outlined above relating to company data, while organisations are getting used to the taxonomy consideration should be given to the merits of allowing worst-case estimates to be submitted, in order to manage the risk of greenwashing via e.g. qualitative explanations regarding the lack of data. This would ensure a precautionary approach which should provide an incentive to report or ask for the

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[1] For example, Green Bond Principles, Green Loan Principles, Equator Principles, Recommendations of the TCFD, UN Sustainable Development Goals, Global Sustainable Investment Alliance definitions, and the Principles for Responsible Investment definitions

correct data. In parallel, we would support the acceleration of measures to implement company disclosure.

Opinions have been divided as to whether a deeper level of granularity would be helpful. On the one hand, this would in theory provide more clarity and support better disclosure while still allowing organisations to deviate from the taxonomy if they are able to explain their choices. On the other hand, some investors see risks of further granularity being overly prescriptive and workable at this early stage in implementing the taxonomy, and would prefer to see a more gradual increase in the level of detail to allow the taxonomy to evolve over time.

Finally, a question remains over how the taxonomy will be able to adapt nimbly to new technologies, or market / scientific developments. It will be important to balance any review provisions to ensure that the taxonomy remains relevant and up-to-date without becoming bogged down in constant rounds of legislative amendments.

Question 5: Would the use of the taxonomy require any additional resources? Please specify what additional resources and if possible, give an indication of the expected costs.

It is likely that for the majority of organisations in scope, using the taxonomy will require internal interpretation and subsequent training. As access to data improves, so will the cost burden. As with the integration of all ESG (environmental, social and governance) elements into the investment process, there will be additional resource required in new systems and processes, at least in the short to medium term.

Question 6: Please provide any additional comments on the design and/or usability of the taxonomy, including proposals for improvement.

We would welcome greater clarity over how the taxonomy links to the EU's 2030 climate and energy targets and the development of its 2050 decarbonisation strategy. The taxonomy has come under some criticism for the fact that it does not recognise activities such as active stewardship of "brown" assets which in practice can support the low-carbon transition; guidance which mapped the taxonomy onto the EU's key policy areas which support this transition would therefore be welcome.

Looking beyond the EU, it will be important for the Commission to work closely with third countries with a view to ensuring that any broader global rollout of the taxonomy can be done in a way which works in other jurisdictions.

This response was submitted to the European Commission on behalf of IIGCC on 22.02.19