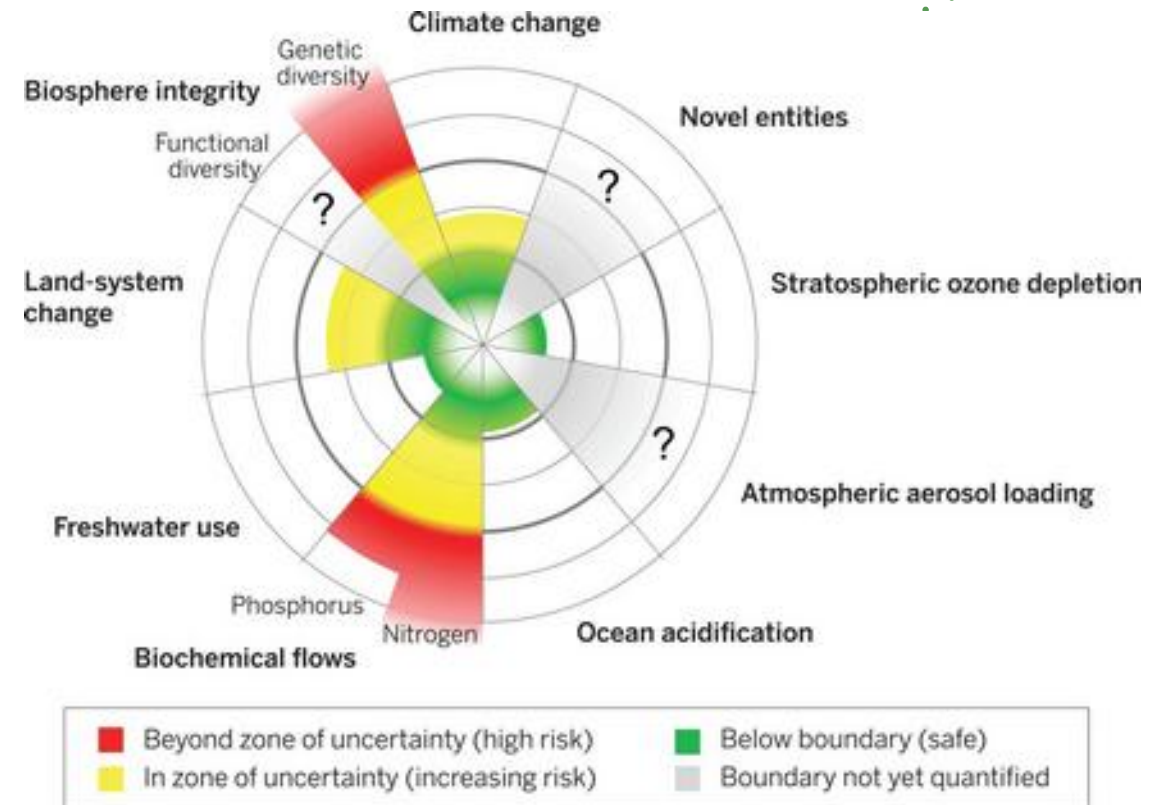
A photograph of a golden wheat field at sunset. The sky is a mix of orange, yellow, and purple, with the sun low on the horizon. In the background, there are silhouettes of trees and a farm building. The foreground shows the detailed texture of the wheat stalks.

Santeri Suominen
Confederation of Finnish Industries EK Brussels
Office

EU Sustainable Finance & Taxonomy

Getting financial markets behind the climate battle

- Climate and eco crisis
 - sustainability going mainstream
 - Physical risks
 - Regulatory risks
- In Brussels strong corporate responsibility agenda
 - Piercing all policy sectors / areas
- EK: Using the best market mechanisms to transform
 - Market-based instruments needed
 - EU ETS one of the best





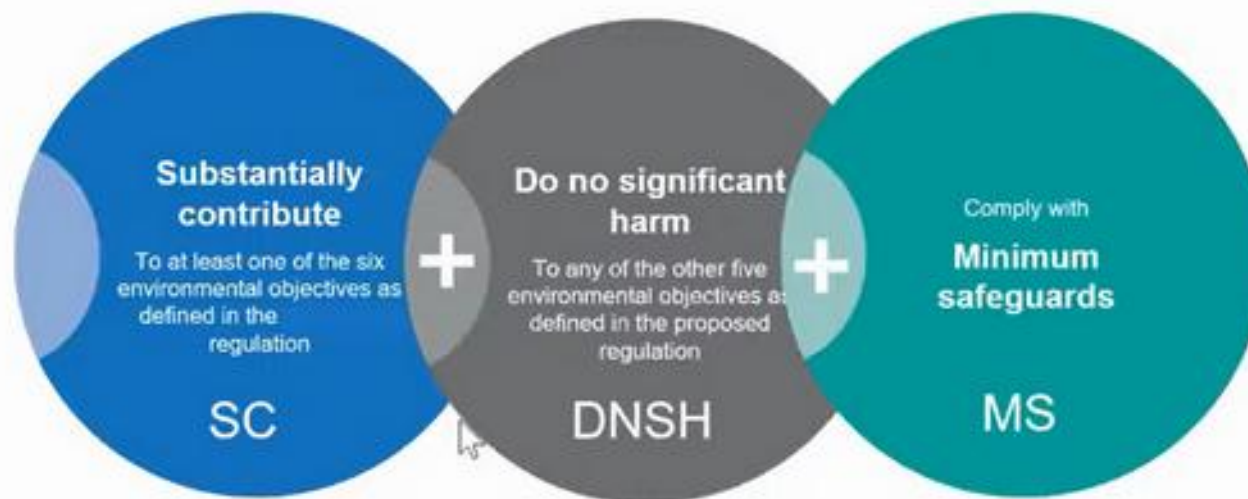
The Renewed Sustainable Finance Strategy

- In a nutshell: no big news
- Further development of projects started in 2018, e.g. Taxonomy and Disclosure Regulation
 - New initiatives such as standardisation of debt and investment instruments, digital technology in sustainable development, and further transparency and comparability of sustainability ratings
 - Amending the risk management framework to ensure companies assess sustainability factors in their risk management
- Positive: abandonment of the “undue-short-termism” agenda by the Commission

Taxonomy

Key features

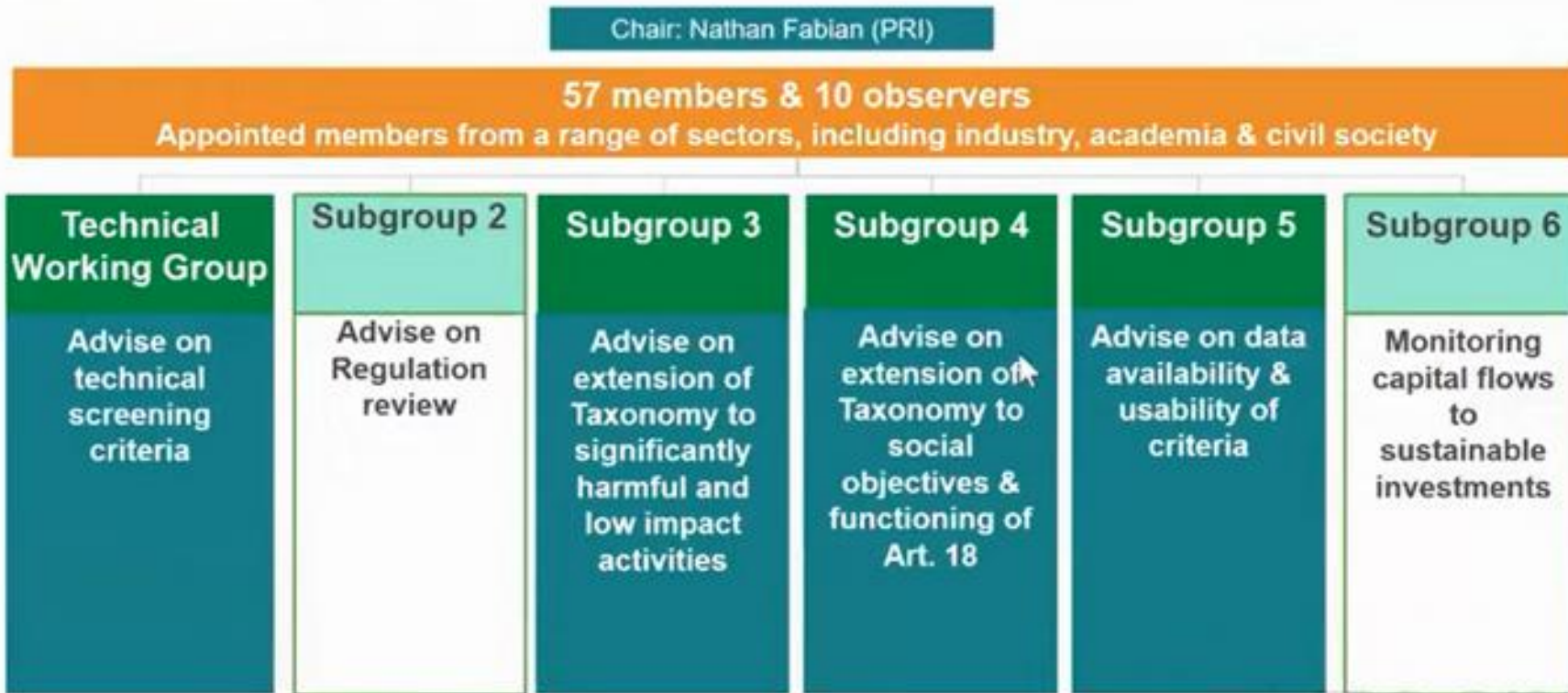
- **Science-based**
- Leverage existing work
- Dynamic
- All types of finance
- **Easy to use**



Minimum Safeguards = UN Guiding Principles and OECD Guidelines

Sustainable Finance Platform

Platform structure



5





Taxonomy: Climate criteria given 21.4.

- EU Council and Parliament can only reject or accept the DA on climate change adaptation & mitigation
 - During 2021
 - Finnish government's position: against
 - Finnish Parliament to vote
- Energy sector crucial!
 - Nuclear power to be included
 - Joint Research Center
 - + 2 other bodies
 - **Bio Energy far from perfect**

Complementary Delegated Act draft

31.12.2021

- To include nuclear & natural gas into Taxonomy TSC
- In a very limited way – transitional activity
- Platform set against
- Commission's official proposal for CDA remains to be seen



Environmental criteria under the Taxonomy

- **The sustainable use and protection of water and marine resources;**
- **The transition to a circular economy;**
- **Pollution prevention and control;**
- **The protection and restoration of biodiversity and ecosystem**
 - Technical Screening criteria, TSCs
- Very strict criteria. May be too strict (logistics, maritime etc.)
- Platform proposals handed out for public consultation, dl. 24.9.2021
 - Platform will digest the given feedback and finalise the proposal for the EC during November
 - EC is not formally legally bound to the given feedback or to the Platform proposal...
 - The proposal of the EC (DA/DAs) comes during 2021 or early 2022
 - The co-legislators can approve or reject
- Platform proposal is a 1100-page technical document...
 - Link:
https://ec.europa.eu/info/publications/210803-sustainable-finance-platform-technical-screening-criteria-taxonomy-report_en

"Extended Taxonomy" & "Social Taxonomy"

- 12.7.2021 Platform's reports "Call for feedback on Sustainable Finance on a social taxonomy and on an extended taxonomy in environmental objectives to support economic transition"
 - Social investments (social impact bonds, affordable housing, health care, just green transition etc.
 - "Significantly harmful activities" ja "No significant impact activities"
 - Consultations by the Platform in August
https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-report_s_en
- EK: Social Taxonomy – the fundamental market-driven need still unproven. Overlaps with EU Social Rights Pillar
- EK: Extended Taxonomy – how to avoid de facto brown- or black-listing? Red list?
 - Environmentally "harmful" activities that **investors should refrain** from funding?
 - Platform to publish a separate proposal for a "red list"?
 - Risk for severe market disruptions?
 - In September, the European Court of Auditors backed the idea of creating a red list of activities



EK's general remarks on Taxonomy

- Towards de facto regulatory tsunami?
- Use of DAs troublesome - nevertheless understandable
- Drafting process in parallel increases ambiguity of the big picture
- Taxonomy's core idea is under a threat
 - Technology-neutrality, market-led model?
 - Why not focus **first** on Climate objectives and gradually develop further?
- Practical implications in the field of corporate finance? Timeline very ambitious...
- Huge leverage: linking the Taxonomy to the EU post-pandemic RRF
 - Significant public financing sources, such as the EIB
 - Linking to Climate efforts, EU Circular Economy Action Plan etc

Taxonomy: Reporting / Disclosure

Santeri Suominen



Corporate Reporting / Disclosure

- Taxonomy Regulation: article 8
 - “undertaking -- shall include in its non-financial statement or consolidated non-financial statement **information on how and to what extent the undertaking’s activities are associated with economic activities that qualify as environmentally sustainable--**”
- Reference to EU NFRD which was implemented in Finland via general accounting act
 - Commission proposed 21.4.2021 the new “NFRD” – Corporate Sustainability Reporting Directive, CSRD -> the scope expansion is significant
- Commission’s DA for corporate reporting July 2021
 - specifying the content and presentation of information to be disclosed by undertakings subject to Taxonomy; --concerning environmentally sustainable economic activities



Corporate Reporting / Disclosure (II)

- EK: severe reservations raised in preliminary consultation
- Some of the problems fixed later in the Commission's proposal...but not all
 - Risk of over-reporting remains. Some main concepts under gray area (turnover, capex, opex)...
 - Timetable for application? From 1 January 2022 until 31 December 2022, non-financial undertakings shall only disclose the proportion of *Taxonomy-eligible* and Taxonomy non-eligible economic activities
 - Risk of getting very general and generic reporting from companies - at least first
 - link:
https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12440-Sustainable-finance-obligation-for-certain-companies-to-publish-non-financial-information_en
 - Commission gave guidelines (FAQs) -
https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/docum

EU Green Bond Standard (GBS)

Santeri Suominen



EU GBS proposal given 6.7.2021 by the

- The basis of the EU GBS is in the Taxonomy
- Standard voluntary instead of mandatory
 - Corporations or governments have to abide by the requirements “only” if they want to call their bonds ‘European green bonds’
- Standard requires proceeds are used for investments that are 100 percent aligned with the Taxonomy
 - Also, issuers will execute checks by external auditors to make sure the money is really being funneled to the desired green projects
 - ESMA’s role in line with EU capital market objectives
- **A possible problem: bond losing the EU GBS status during bond maturity due to changes in Taxonomy TSC? This may hinder the green bond market development.**
- Timeline – depends on the co-legislators. Proposal:
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0391>
- **Side note - Covid green bonds** as a part of the EU post-pandemic recovery / RRF



Santeri Suominen
Senior Legal Adviser, LL.M.
Capital Markets & Sustainable Finance
Confederation of Finnish Industries EK Brussels
Office

+358504637822

Santeri.Suominen@ek.fi

