BUSINESSEUROPE
THE DIRECTOR GENERAL

To the attention of:
Trilogue negotiators from Council of the EU, European Parliament and European Commission

2 December 2019

Dear Madam,
Dear Sir,

Re: Trilogue on the Sustainable Finance Taxonomy

Making Europe climate neutral will require a massive amount of public and private investments. These investments must be channelled into a broad range of economic activities and help to underwrite risks that are unique to new business models for breakthrough technologies.

From the outset, BusinessEurope has supported the European Commission's approach to foster transparency and to give more clarity to financial markets through the establishment of a European classification framework. If well designed, it has the potential to channel capital flows towards activities that contribute to or enable this deep transformation process, in particular towards companies in transition. This can only be achieved if the taxonomy is designed in a proportionate and practicable manner and accommodates the needs of both the financial markets as well as the real economy.

After the fourth trilogue, we are deeply concerned about negotiations moving away from the original scope and purpose of the taxonomy proposal. We urge negotiators to design an enabling system that supports companies in their transition process, instead of moving towards exclusion strategies. We therefore call on you to:

Make transition and enabling activities fully taxonomy-compliant

- All activities or projects that contribute to or enable the transition, demonstrate a credible path towards long-term sustainability goals or lead to notable emission reductions should be fully taxonomy-compliant and not excluded ex-ante. This should include bridging activities that are considered by the IPCC report[1] and existing EU legislations as relevant for the on-going transition towards climate neutrality.

- The references to "temporary" and "lock-in" are highly problematic as there are no definitions in the EU *acquis* and therefore will be subject to a high degree of interpretation. The risk is to exclude activities and sectors from access to sustainable investments, which they need in order to finance their decarbonisation.

[1] IPCC, 2018. Special report: Global warming of 1.5 °C. Section C.

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- Imposing different disclosure requirements subject to categorisations like transition or enabling activities risks to create a second-class category of taxonomy-compliant activities. This could have negative impacts for affected actors to finance their transition while they would have the strongest impacts. It would further undermine the single taxonomy approach for the classification of environmentally sustainable activities, regardless of the questionable and disproportionate level of complexity such an approach would add to the use of the taxonomy.

Maintain the originally intended scope and disclosure requirements

- The taxonomy proposal is explicitly designed for application in the area of financial markets. Thus, the scope and disclosure requirements should be kept limited to financial market participants and on financial products marketed as environmentally sustainable.

- Extending the material scope and disclosure or disclaimer requirements to all financial products, including those that do not pursue environmental objectives, would lead to high administrative burden, without any evidences of added value for the investors regarding the sustainability of the investments.

- The taxonomy should not extend the personal scope beyond financial market participants and not introduce any disclosure obligations for companies. There is an ongoing fitness-check on corporate reporting, a planned review of the Non-Financial Reporting Directive and a dedicated EFRAG (European Financial Reporting Advising Group) Lab is currently assessing climate related disclosure requirements for companies. The taxonomy proposal should therefore be focused on the tools of the technical criteria needed to comply with the disclosure requirements and not duplicate requirements or prejudge outcomes of ongoing and planned assessments.

Ensure adequate industry representation in the Sustainable Finance Platform

- The technical screening criteria will primarily impact the ability of investee companies from the real economy to access sustainable finance. Despite efforts by the European Commission to involve the industrial sector, it remains strongly underrepresented in the Technical Expert Group. To make sure that future technical screening criteria are proportionate and workable, we ask for industry to represent 1/3 of the membership in the future Sustainable Finance Platform.

To conclude, we are convinced that a well-designed taxonomy can bring the necessary impulse and accelerate the deep transformation process. While acknowledging the need to act fast, it is crucial that speed does not prevail over quality in this crucial phase of negotiations. We therefore count on you to consider the above-mentioned points in your further deliberations and remain at your disposal should you require further information.

Yours sincerely,

Markus J. Beyrer