

Comprehensively promoting broad-impact sustainability

Position statement on the negotiations concerning the taxonomy of sustainable economic activities under the EU's Sustainable Finance Action Plan

The classification system for sustainable economic activities, which is the cornerstone of the [EU Action Plan: Financing Sustainable Growth](#), is steadily taking shape. On 18 June 2019, the Technical Expert Group on Sustainable Finance (TEG), working on behalf of the European Commission, presented its second report on this – the [Taxonomy Technical Report](#) – as well as an initial [guideline](#) for subsequent application.

The TEG is implementing the draft regulation¹ on the taxonomy, which, amongst other things, sets six environmental objectives². To date, only the first two – climate change mitigation and climate change adaptation – have been addressed. In addition, there are further methodological and application-specific issues. The results of the TEG's work thus far are impressive in terms of attention to detail, methodological presentation and comprehensive preparation.

The aim of the EU Action Plan is to steer capital flows towards sustainability, to manage financial risks and to foster transparency and long-termism. The taxonomy has the potential to make substantial contributions in this regard and in the context of the relevant international frameworks - Agenda 2030, the Addis Ababa Action Agenda and the Paris Climate Agreement. The taxonomy offers, for the first time, a uniform framework for the evaluation of economic activities in relation to environmental objectives and thus helps to establish a common language for investors, issuers, politicians and supervisory bodies.

However, the Action Plan, like the EU Commission's taxonomy concept, had shortcomings right from the outset. In April 2018, the authors of this position paper therefore instigated or signed, respectively, an [open letter](#) to Brussels and Berlin and in September of the same year published a [position](#)³ on the taxonomy regulation. Negotiations between the EU Commission, Council and Parliament on the proposed regulation are ongoing. Results are expected by the end of the year.

The European Parliament, in particular, along with a number of other organizations have developed more far-reaching positions, some of which the authors of this position paper consider to be worthy of support.⁴ The outcome of the negotiations is still pending. The debate is at a critical point, as this ambitious project can succeed and have a really extensive impact only if key aspects are taken into account and if important suggestions are included. The following eight points are particularly significant:

1. Defining disclosure requirements for all financial products.
2. Incorporating binding social and governance-related objectives.
3. Developing a full taxonomy.
4. Ensuring diversity and scientific expertise in the *Platform on Sustainable Finance*.
5. Making reporting requirements and standards compatible with the taxonomy.
6. Ensuring ease of use and not disadvantaging small actors.
7. Not defining environmentally damaging electricity generation as sustainable.
8. Convincing and empowering people for the transition. Through education and information.

¹ Cf. also the [Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the establishment of a framework to facilitate sustainable investment](#).

² Climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, waste prevention and recycling, pollution prevention and control and protection of healthy ecosystems.

³ The position paper was entitled *Steering financial flows comprehensively towards sustainability. Joint statement on the legislative proposals for the EU Action Plan: Financing Sustainable Growth*. In March 2019, the authors of this position paper also wrote an [open letter](#) regarding the [Transparency Regulation](#) to the German Federal Ministry of Finance, with the aim of achieving disclosure for all financial products.

⁴ Cf. e.g. CRIC's summary [EU action plan: classification system for sustainable economic activities – List of questions regarding the taxonomy: current status, content, use, classification and next steps](#) (in German).

Re 1: Defining disclosure requirements for all financial products.

The EU Commission's draft regulation on the taxonomy envisages that exclusively *financial market participants offering financial products as environmentally sustainable investments, or as investments having similar characteristics*⁵ are obliged to disclose information relating to the taxonomy. This is not appropriate for three reasons:

- a. Providers of sustainable financial products are alone in being subject to this obligation, which could put them at a competitive disadvantage. This restriction therefore runs counter to the EU Action Plan's objective of facilitating sustainable investment.
 - b. It will mean that investors are deprived of crucial information. For example, as suggested by the EU Parliament, they should be clearly and comprehensibly informed if a financial product does not follow a sustainability approach and as a result there is an increased risk that what the taxonomy views as unsustainable economic activities will be fostered.
 - c. Sustainable investments still account for only a small segment of the market – 4.8 per cent in Germany and 12.8 per cent in Austria.⁶ Only if the entire market is included will it be possible to achieve the leverage necessary to transform the economy.
- **The restriction of the duty of disclosure to providers of environmentally sustainable financial products should be removed. The EU Parliament has drawn up specific and meaningful proposals regarding this in its position paper.⁷**

Re 2: Incorporating binding social and governance-related objectives.

The taxonomy regulation provides for minimum social standards based on the ILO's core labour standards. However, it does not contain separate social and governance-related objectives. This is, however, necessary in order to:

- a. Make it possible to bring the EU Action Plan and the taxonomy into line with Agenda 2030 and the Addis Ababa Action Agenda.
 - b. Support comprehensive sustainability analyses covering environmental, social and governance-related aspects.
 - c. Be able to take into account interactions between social and environmental aspects. The public support required for implementation of the transformation may be jeopardised if social aspects are disregarded during implementation.
 - d. Be able to carry out a comprehensive *Do No Significant Harm* analysis (DNSH)⁸ which also covers social issues, for example safety aspects.
 - e. Establish consistency with the disclosure requirements in the transparency regulation⁹, which is based on a comprehensive understanding of sustainability.
- **Social and governance-related objectives should be included in the taxonomy regulation separately from and on an equal footing with the environmental objectives, and a timetable should be set for drafting these. The EU Parliament's call for the minimum social standards to be based on the more stringent *UN Guiding Principles on Business and Human Rights*¹⁰ should be heeded.**

⁵ Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the establishment of a framework to facilitate sustainable investment, Article 4 para 2, page 26.

⁶ Cf. FNG Sustainable Investment Market Report 2019.

⁷ Cf. Establishment of a framework to facilitate sustainable investment *** European Parliament legislative resolution of 28 March 2019 on the proposal for a regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment (COM(2018)0353 – C8-0207/2018 – 2018/0178(COD)) in Article 1 para 2 (ba) on page 27 and Article 4 para 2 on page 33.

⁸ Do No Significant Harm (DNSH) means that economic activities in the taxonomy must be examined to determine whether they substantially damage one or more of the other five environmental areas or objectives.

⁹ Cf. in this regard the Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341.

¹⁰ Cf. Establishment of a framework to facilitate sustainable investment *** European Parliament legislative resolution of 28 March 2019 on the proposal for a regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment (COM(2018)0353 – C8-0207/2018 – 2018/0178(COD)) (COM(2018)0353 – C8-0207/2018 – 2018/0178(COD)) Page 51.

Re 3: Developing a full taxonomy.

Thus far, the taxonomy covers almost exclusively a small green segment of all economic activities. The fact that, in the section of the classification system which has already been drafted, the TEG includes activities which are not (yet) sustainable but which may contribute to the transformation, is to be welcomed as a first step in the right direction. Nonetheless, there is no systematic approach covering various gradations of sustainability and harmful economic activities. However, this is of crucial importance, because:

- a. Only a full taxonomy can establish transparency regarding the degree of the positive or negative sustainability impact of economic activities and thus make comparability possible.
 - b. Information on environmental or social economic activities that are harmful is particularly important from the point of view of sustainability and also crucial for investors due to risk considerations.¹¹ However, to date there are no plans for what is known as a *brown taxonomy*.
 - c. Companies which are involved in non-sustainable areas should be offered incentives to switch rapidly to transformation paths.
- **The regulation should incorporate as an objective a full taxonomy that makes sustainability gradations transparent and identifies activities that are harmful from the point of view of sustainability. As regards harmful economic activities, the international conventions that have been ratified by the EU and/or its member states should be used as a basis.**

Re 4: Ensuring diversity and scientific expertise in the *Platform on Sustainable Finance*.

From 2020 onwards, responsibility for the further development of the taxonomy is to pass from the TEG to the *Platform on Sustainable Finance*, which has yet to be established. Much will depend on its work, its recommendations and thus on its composition and the individual members, as:

- a. The platform's tasks are complex and the range of issues is broad.
 - b. The platform will ideally function as a driver of innovation. For this to happen, the members must be on top of the latest scientific and socio-political developments.
 - c. The screening criteria and threshold values will constantly be the subject of lobbying activities.
- **The platform should therefore be sufficiently independent and, above all, have sufficient scientific expertise, with importance also being attached to diversity and interdisciplinarity. In addition to the research community, civil society and the public sector, the real economy and the financial sector should also be represented – in each case by individuals with proven knowledge and experience in the area of sustainability.**

Re 5: Making reporting requirements and standards compatible with the taxonomy.

In order for the taxonomy to be fully effective, it is of key importance that reporting be correspondingly comprehensive. To this end, the current reporting standards would have to be adapted and consistency with other regulations established. Particularly important in this context are the *Regulation on disclosures relating to sustainable investments and sustainability risks*,¹² the CSR Directive¹³, and the (voluntary) *Guidelines on non-financial reporting*.¹⁴

- **Reporting standards and regulation should be optimally matched to the taxonomy and continuously adapted to future developments.**

¹¹ This may be one reason why the supervisory bodies and central banks involved in the *Network for Greening the Financial System* have declared themselves in favour of a full taxonomy. Cf. [Network for Greening the Financial System. First comprehensive report. A call for action. Climate change as a source of financial risk](#), page 35: *The NGFS identified a clear taxonomy around green, non-green, brown and non-brown products as a prerequisite for deepening its analytical work.*

¹² See footnote 9.

¹³ Cf. [DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.](#)

¹⁴ On 18 June, the EU Commission also published the [Supplement on reporting climate-related information](#), based on the work of the TEG.

Re 6: Ensuring ease of use and not disadvantaging small actors.

The taxonomy can have the desired effect only if it is widely applied. This means that user-friendliness and ease of use are of great importance. This can partly be achieved through standardisation. At the same time, flexibility in the way it is managed and openness to different approaches are essential. As regards smaller actors, proportionality must be observed in order to establish fair competitive conditions, which in turn are a prerequisite for a diverse investment portfolio.

- **The aim should be to make application of the taxonomy as simple, flexible and user-friendly as possible, for example by adopting easily manageable standards and at the same time being open to alternative approaches. Where necessary, reporting requirements should be lowered for smaller actors, in order to prevent competitive disadvantage.**

Re 7: Not defining environmentally damaging electricity generation as sustainable.

Electricity generation using solid fossil fuels which has intensive carbon lock-in effects or results in non-recoverable waste is environmentally damaging and should therefore not be regarded as sustainable economic activity. In the TEG's latest report, this type of economic activity is largely defined, based on DNSH analyses, as not sustainable. However, there is reason to fear that the underlying criteria are being watered down. It would also damage the reputation of sustainable investments in the eyes of the public if this type of economic activity were to be identified as sustainable.

- **In accordance with the demand of the EU Parliament¹⁵, the taxonomy regulation should explicitly state that electricity generation which has lock-in effects, results in non-recoverable waste or is based on solid fossil fuels should not be regarded as sustainable.**

Re 8: Convincing and empowering people for the transition. Through education and information.

Beyond the narrower framework of the regulation, in order for the taxonomy, the EU Action Plan and, ultimately, sustainable development to be successful, it is crucially important to identify and attract the people and stakeholder groups who are key to the transition and to empower them to drive the necessary changes forward. In addition to providers and investors, financial advisers, together with experts from the media, civil society and academia, are also particularly important here, as is ultimately also the general public. The key starting points here are science and education. However, sustainability aspects have to date rarely if ever been taken into account in either general education or finance-related training and study programmes.

- **The introduction of the taxonomy and the implementation of the EU Action Plan as a whole should be supported through additional measures such as the targeted integration and reinforcement of sustainability aspects in education and training, together with information and awareness-raising campaigns aimed at key actors as well as the general public.¹⁶ The public sector should play a much more active role than hitherto in sponsoring relevant projects and initiatives in academia, civil society and business.**

In order for the EU Action Plan to succeed in its entirety, it is extremely important that the points mentioned above be taken into account when the taxonomy is introduced and implemented. It is only through a broad, comprehensive, clear and transparent approach that motivates, engages and empowers people and key actors alike and prevents the emergence of unnecessary bureaucracy and disincentives that the financial sector can make its contribution to the necessary societal transformation.

In order to push ahead with the necessary economic restructuring process, it is not only the financial sector that is important. Even a perfectly implemented EU action plan cannot replace policy measures, such as fiscal or tax-related measures, which create incentives for the real economy to make sustainable investments. A sustainable financial system cannot solve everything, but it can actively

¹⁵ Cf. [European Parliament legislative resolution of 28 March 2019 on the proposal for a regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment \(COM\(2018\)0353 – C8-0207/2018 – 2018/0178\(COD\)\)](#), Article 14 2a, 2b, 2c, page 53f.

¹⁶ Financial advisory services are particularly important here. The fact that in the future the issue of sustainability will be mandatory within the framework of the EU Action Plan due to MiFID II is very much to be welcomed. However, to date sustainability is not a compulsory component in the training of financial advisers.

support key courses of action. In order for this important contribution to be made, it is essential that bold and comprehensive action is taken, which is what we are advocating in this position paper.

The Initiators

- CRIC e.V. – Association for the Promotion of Ethical and Sustainable Investment
- FNG e.V. – Forum Nachhaltige Geldanlagen
- ÖGUT – Austrian Society for Environment and Technology
- ökofinanz-21 e.V. – Network for Sustainable Investment Counselling

Supporters (organizations and companies)

- Bank für Kirche und Caritas
- Bank für Kirche und Diakonie eG – KD-Bank
- Bank im Bistum Essen eG
- Bankhaus Schelhammer und Schattera AG
- Bethmann Bank AG
- BNU Beratung für Nachhaltige Unternehmensführung
- Bundesverband Finanz-Planer e.V.
- Concordia Versicherungs-Gesellschaft a.G.
- Erste Asset Management GmbH
- Evangelische Bank eG
- Fair Finance Institute
- fair-finance Vorsorgekasse AG
- FHM – Nachhaltige Finanzberatung
- FiNet Asset Management AG
- Forma Futura Invest AG
- Geneon Vermögensmanagement AG
- GLS Gemeinschaftsbank eG
- GOOD GROWTH INSTITUT für globale Vermögensentwicklung mbH
- Grüne Sachwerte GmbH
- Grimm Unternehmensberatung. GemeinwohlFinanzen.Anders.Denken.
- Hannoversche Kassen
- Hauck & Aufhäuser (Schweiz) AG
- imug | rating
- Institute for Social Banking
- Investabel
- Jesuitenmission
- KEPLER-FONDS Kapitalanlagegesellschaft m.b.H.
- Lebensart VerlagsGmbH
- LKM – Gesellschaft für Beratung und Vermittlung von Finanzdienstleistungen und Immobilien mbH
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- mainfinanzcoach Martin Koch
- Missionszentrale der Franziskaner GmbH
- nestbau AG
- Oikocredit Deutschland
- Pax-Bank eG
- PRIMA – Fonds Service GmbH

- Qualitates
- Raiffeisen Capital Management
- Ralf Lemster Financial Translations GmbH
- Ralf Petit – nachhaltige Anlageberatung
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CRIC (Corporate Responsibility Interface Center) is a charitable association for promoting ethics and sustainability in capital investment and sees itself as an information platform and a centre of competence in equal measures. The aim of CRIC's activities is for companies and the economy to give greater weight to environmental, social and cultural aspects. With over 100 members, predominantly in Germany, Austria and Switzerland, CRIC is the largest investors' association for ethical sustainable investment in the German-speaking countries. Its work focusses on awareness-raising, dialogue with business (also known as engagement) and scientific research. CRIC was founded in 2000. The association is based in Frankfurt am Main.

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FNG (Forum Nachhaltige Geldanlagen e.V.) is the industry association promoting sustainable investment in Germany, Austria, Liechtenstein and Switzerland. It represents more than 190 members from the German-speaking countries which are working to promote sustainability in the financial sector. These include banks, investment companies, insurance companies, financial advisers, rating agencies, academic institutions and private individuals. FNG promotes dialogue and the exchange of information between the worlds of business, academia and politics and has been working to improve quality assurance and the legal and political framework for sustainable investments since 2001. It awards the Transparency Logo for sustainable investment funds (since 2008), publishes the FNG Sustainability Profiles (since 2012) and has also developed the FNG Label, the SRI quality standard for sustainable investment funds (since 2015). Together with ÖGUT, FNG offers the Sustainable Investment Training Course for financial advisers. FNG also publishes an annual Sustainable Investment Market Report, which is used as a reference by industry insiders, journalists, academics and politicians who need up-to-date data on sustainable investment. FNG is also a founding member of the European umbrella organisation Eurosif.

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ÖGUT - Austrian Society for Environment and Technology is an independent non-profit organisation working for sustainable economic and social development. As a platform for sustainable development, ÖGUT links up around 90 organisations and institutions from business, government, academia and the environment and is thus ideally placed to develop and implement innovative solutions to meet the challenges of our times. ÖGUT's six thematic areas are: energy, gender & diversity, green investment, innovative construction, participation and resources & consumption. In the area of green investment, ÖGUT is working to strengthen and shape a sustainable financial market. ÖGUT's main objective is to raise awareness of sustainable investment and to bring about the necessary structural changes, thus further raising the quantity and quality of these types of investment. ÖGUT engages in information and PR work, produces application-based studies, offers training courses and is an advocate for a supportive institutional framework. Another important element of its work is the awarding of certificates and quality seals.

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Ökofinanz-21 e. V. is a nationwide network of freelance consultants. We see ourselves as a lobby for sustainability at the interface between product providers and people who want someone to help them to invest their money usefully and to make a lasting impact. In order to prevent our world being ruined any further, if our children and grandchildren are to have a future worth living in, we need to make many changes. And to use money to make a difference. To this end, we network among ourselves and with other committed individuals and associations.

Further information is available at www.oekofinanz-21.de.

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