

## Regulatory News Alert

### Sustainable Finance: TEG's recommendations for the final standards on EU taxonomy and EU green bond standard

11 March 2020

#### Context and objectives

On 9 March 2020, the Technical Expert Group on sustainable finance (TEG) issued a [final report](#) setting out the TEG's final recommendations to the **overarching design of the EU Taxonomy** as well as **guidance for its users**. In addition, there was also "[EU Green Bond Standard \(EU GBS\) Usability Guide](#)" published, which aims to support potential **issuers**, **verifiers** and **investors** of EU Green Bonds, with TEG's views on the **practical application** of the standard.

In June 2019, the TEG published the first version of its proposal for the **technical screening criteria** to determine whether an economic activity is environmentally sustainable. In accordance with this proposal, on [20 December 2019](#), the Taxonomy Regulation (TR), agreed at the political level between the European Parliament and Council of the EU, creates a **legal basis for the EU Taxonomy**. Considering the implications of these changes, this new report focusses on the obligations created under the Taxonomy Regulation, which apply to all three groups of Taxonomy users:

- **Financial market participants** offering financial products in the EU, including occupational pension providers;
- **Large companies** who are already required to provide a non-financial statement under the Non-Financial Reporting Directive; and
- **The EU and Member States**, when setting public measures, standards or labels for green financial products or green (corporate) bonds.

#### Taxonomy: TEG's recommendations for technical screening criteria

Supplemented by a technical information containing a full list of technical screening criteria for economic activities, which can substantially contribute to climate change mitigation or adaptation, the TEG provided commentary on the updated Regulation and implications for key following design criteria:

- **Sectors covered – and not covered yet – by the Taxonomy:** Not all economic activities will have a performance threshold for substantial contribution to climate change mitigation. In particular, with investment portfolios and financing decisions, not all investments or financing decisions will align with a substantial contribution threshold. In such cases, it would still be possible to **recognize improvement measures**.
- **EU climate change mitigation:** To establish transition pathways for heavily emitting sectors for which low-carbon solutions are not available, the TEG adopted **two principles**:
  1. Ensuring **no lock-in of assets** inconsistent with these goals, and
  2. **Environmental performance** well above the sector average.
- **EU climate change adaptation:** TEG considers that an activity can be considered as having a positive environmental impact if it meets both the substantial contribution criteria for adaptation and the “do no significant harm” (DNSH) criteria relating to other environmental objectives.

## EU GBS Usability Guide: TEG’s views on the practical application

In the context of the EU GBS, the guidance proposes that **the use of EU GBS remains voluntary**. Issuers of green bonds that **do not want to use** the term ‘EU Green Bond’ and **prefer opting** for other market practices **are not obliged** to follow the four components of the EU GBS. However, **to use this standard for its bond or program**, an issuer must **follow all of the EU GBS requirements**. This Guide endeavors to clarify what is required as opposed to recommended or desirable in a Green Bond Framework (“GBF”):

- The issuer should **explain how the EU Green Bond issuance contributes** to their overall strategy, and specific environmental objectives to be associated with the bond or bond program.
- Companies are encouraged to **disclose overall corporate information**, notably a breakdown by activities and environmental objectives.
- Companies, who **wish to exhibit best practices**, are also encouraged to describe to **what extent all their business areas have environmental impacts**, and how they manage them.
- When companies are subject to the **Non-Financial Reporting Directive (NFRD)** and wish to issue an EU Green Bond, they should **include information on their overall EU Taxonomy alignment** in the GBF as well.

## Next steps

The Taxonomy requirements will apply at various dates, depending on the group of Taxonomy users:

- **Financial market participants** will be required to complete their first set of disclosures against the Taxonomy, covering activities that substantially contribute to climate change mitigation and/or adaptation, by **31 December 2021**.



- **Companies** will be required to disclose in the course of **2022**.

However, the TEG recognizes that the timeline presents challenges to implementation, as corporate disclosures may not be available for financial market participants to use in their 2021 disclosures.

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