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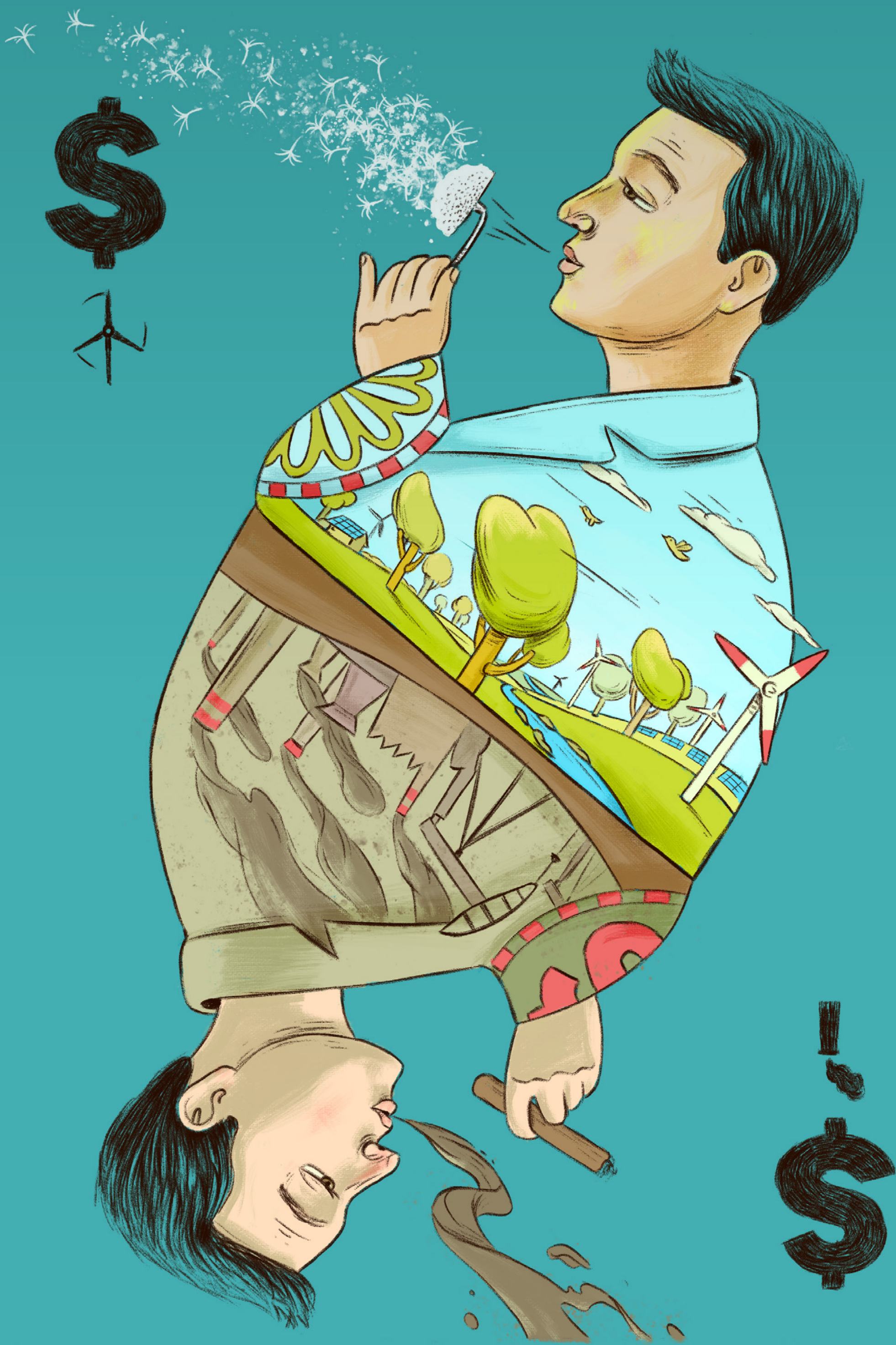

Discussion Paper

Bridging Environmental Frameworks Across Borders

Overview of the European Union's Green Taxonomy and its Relevance beyond Europe

Bridging Environmental Frameworks Across Borders

Overview of the European Union's Green Taxonomy and its Relevance beyond Europe

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Contents

01 **Introduction** — 4

02 **The European Union's Taxonomy for Sustainable Activities** — 5

- 2.1 Background — 5
- 2.2 Aims and Context of the EU Taxonomy — 6
- 2.3 Elements of the EU Taxonomy — 8
  - 2.3.1 Environmental Objectives and Assessments — 8
  - 2.3.2 Technical Screening Criteria — 8
  - 2.3.3 Disclosures — 9
- 2.4 Planned Expansion and Further Development of the Taxonomy — 10

03 **EU Taxonomy – Interaction with Other EU Legislation** — 12

- 3.1 Overview — 12
- 3.2 The Sustainable Finance Disclosure Regulation (SFDR) — 13
- 3.3 The Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD) — 13
- 3.4 The Corporate Sustainability Due Diligence Directive (CSDDD) — 15

04 **Regulatory, Supervisory, and Collaborative Dimensions of the EU Taxonomy** — 16

- 4.1 Regulatory Mechanisms — 16
- 4.2 Supervisory Mechanisms and Control Measures — 17
- 4.3 Stakeholder Engagement — 19
- 4.4 Internationalization — 20

05 **The EU Taxonomy in Practice: Achievements, Obstacles, and Lessons Learned** — 21

06 **Relevance of the EU Taxonomy for Non-EU Jurisdictions** — 23

07 **Conclusion and Outlook** — 25

Endnotes — 26

1. Introduction

The European Union's “Green Deal,” initiated by the 2019-elected EU Commission, stands as a symbol of Europe's resolute march towards sustainability.[1] Its ambitious goal aims to transform Europe into the first climate-neutral continent by redefining its economy to be both modern and "green". This strategy melds economic and environmental objectives, fostering a new ethos in business practices. Expected to ignite innovation within European companies, the Green Deal creates new competitive advantages to meet the burgeoning demand for sustainable solutions, potentially inspiring similar initiatives in other regions.

The unique significance of the Green Deal, as framed globally by EU Commission President Ursula von der Leyen, who likened it to a “man on the moon moment,”[2] has found resonance worldwide. Many jurisdictions have begun adopting similar sustainability programs, often in collaboration with European institutions, signaling a global shift towards greener economies.

At the heart of the Green Deal lies the EU Taxonomy, an intricate yet pivotal element. Emerging from the 2018 “Action Plan on Financing Sustainable Growth,” the Taxonomy serves as a classification system to steer and measure sustainable economic activities. It standardizes what constitutes sustainable investment, offering clarity and transparency for investors and companies alike. This system is critical for aligning financial flows with the Green Deal's objectives, ensuring that investments contribute to environmental sustainability. Despite its complexity, the EU Taxonomy stands as a cornerstone of the EU's shift towards a sustainable economy, influencing financial and business practices across the continent.

The EU Commission's pioneering efforts to enact legislation tied to the Action Plan and Green Deal have encountered numerous challenges, resulting in a mixed record of achievements and criticisms, particularly regarding the EU Taxonomy. Yet, the indispensable role of the EU Taxonomy in bolstering the Green Deal and enhancing its global influence is unmistakable. Reflecting on its shortcomings is crucial, not only for refining the EU's regulatory framework “at home” but also for inspiring and guiding similar initiatives outside the EU.

Against this backdrop, this discussion paper delves into the intricacies of the EU Taxonomy, exploring its background, regulatory context, lessons learned, and its potential and relevance for jurisdictions outside the EU.

2. The European Union's Taxonomy for Sustainable Activities

2.1. Background

In March 2018, the EU Commission launched the "Action Plan on Financing Sustainable Growth" in response to two pivotal 2015 events: the Paris Agreement and the UN 2030 Agenda for Sustainable Development. This plan, later to give rise to the EU Taxonomy, outlined ten initiatives aimed at achieving three key objectives:

- **Reorienting Capital Flows:** Steering capital towards sustainable investments to foster sustainable and inclusive growth.
- **Managing Financial Risks:** Addressing risks from climate change, resource depletion, environmental degradation, and social issues.
- **Promoting Transparency and Long-Termism:** Encouraging these principles in both financial and economic activities.[3]

Central to this action plan is the concept of sustainable finance, namely, the strategy of advancing sustainability through capital market mechanisms. This strategy is based on a scenario where companies engaging in activities aligned with political sustainability goals gain easier and potentially more favorable access to financing. Conversely, companies not adhering to sustainable practices risk losing access to funding. This approach is particularly crucial for sectors undergoing transition, requiring substantial investments to decarbonize and meet these sustainability objectives.

> *"A shift of capital flows towards more sustainable economic activities has to be underpinned by a shared understanding of what 'sustainable' means. A unified EU classification system - or taxonomy - will provide clarity on which activities can be considered 'sustainable'. It is at this stage the most important and urgent action of this Action Plan. Clear guidance on activities qualifying as contributing to climate change mitigation and adaptation, environmental and social objectives will help inform investors. It will provide detailed information on the relevant sectors and activities, based on screening criteria, thresholds and metrics. This is an essential step in supporting the flow of capital into sustainable sectors in need of financing. An EU taxonomy will be gradually integrated into EU legislation to provide more legal certainty."*[4]

The concept of sustainable finance was already a focal point at the UN Climate Change Conference in Paris (COP 21), culminating in the Paris Agreement. Following this, the EU Commission set up a High-Level Expert Group (HLEG) on Sustainable Finance to develop proposals, which ultimately contributed to the 2018 Action Plan.

The ten initiatives in the Action Plan primarily target the financial sector, as well as companies tasked with supplying crucial data to facilitate informed decision-making. Identifying activities eligible for enhanced financing requires a shared definition of sustainability within various sectors. Therefore, the Action Plan's initial step was to develop a "unified classification system for sustainable activities," essentially a sustainability taxonomy.

The EU Taxonomy Regulation, also known as Regulation 2020/852, was established in 2020. It represents a significant advancement in the EU's legal framework for sustainability. Other initiatives from the Action Plan were enacted prior to the EU Taxonomy Regulation, as its implementation required extensive preparatory efforts. The regulation officially became effective in July 2020. From 2022 onwards, companies subject to the Sustainable Finance Disclosure Regulation (SFDR) or the Non-Financial Reporting Directive (NFRD) have been mandated to incorporate the Taxonomy's stipulations into their reporting practices. While the regulation's core text remains unaltered, numerous delegated acts have been introduced and updated since its inception.

> **The EU Taxonomy is a green classification system that translates the EU's climate and environmental objectives into criteria for specific economic activities for investment purposes.**

In 2021, the EU Commission's "Strategy for Financing the Transition to a Sustainable Economy" reaffirmed the EU Taxonomy's role as a cornerstone in driving the real economy's shift towards sustainability – i.e. to integrate the principles of sustainability into the production and consumption of goods and services. This has led to the announcement of ongoing efforts to enhance and refine the EU Taxonomy Regulation, cementing it as a key focus for the EU Commission in the upcoming years.

2.2. Aims and Context of the EU Taxonomy

Many misunderstandings with regard to the importance and usefulness of the EU Taxonomy stem from a lack of knowledge about the regulation's aims. These aims are best laid out by a FAQ document published by the EU Commission in 2021:

> *"The EU Taxonomy is a green classification system that translates the EU's climate and environmental objectives into criteria for specific economic activities for investment purposes. […] It is a transparency tool that will introduce mandatory disclosure obligations on some companies and investors, requiring them to disclose their share of Taxonomy-aligned activities. This disclosure of the proportion of Taxonomy-aligned activities will allow for the comparison of companies and investment portfolios. In addition, it can guide market participants in their investment decisions."*[5]

At its core, the EU Taxonomy's objective is to categorize the economic activities conducted by a company. This classification relies on the principles of the NACE classification (Nomenclature statistique des activités économiques dans la Communauté européenne), a generic framework designed for the collection and analysis of economic data. It requires that a company's activities be mapped to specific NACE sectors and then classified according to the EU Taxonomy Regulation's green criteria for each sector.

The EU Taxonomy serves four primary purposes:

- Establishing a unified reference point for investors and companies;
- Aiding companies in planning and funding their transition towards sustainable practices;
- Combating greenwashing;
- Accelerating the financing of projects that are sustainable or crucial for transitioning to a climate-neutral economy.[6]

However, the EU Taxonomy does not encompass all economic activities in which companies might be engaged. The EU Commission’s initial run of the Taxonomy has begun with sectors prioritized due to their significant impact on climate change, especially those contributing substantially to greenhouse gas (GHG) emissions. Over time, this list of sectors is expected to be regularly updated and expanded to broaden the Taxonomy's scope. Activities included in the EU Taxonomy are prioritized for investment to achieve the EU’s environmental and climate goals. Nevertheless, exclusion from the EU Taxonomy does not mean companies will lose access to funding.

The EU Taxonomy’s classification system relies on a detailed framework involving various standards and entities engaging in ongoing collaborative work. This system was first introduced under the EU Taxonomy Regulation on June 22, 2020, which established the fundamental structure of the classification system. However, its detailed aspects are continually being developed through delegated acts and ongoing, non-binding FAQs. Additionally, numerous working papers and draft notices further contribute to the regulatory framework.

> *"[...] The EU Taxonomy is not a mandatory list of economic activities for investors to invest in. Nor does it set mandatory requirements on environmental performance for companies or for financial products. Investors are free to choose what to invest in. However, it is expected that over time, the EU Taxonomy will be an enabler of change and encourage a transition towards sustainability."*[7]

The responsibility for developing and maintaining the EU Taxonomy rests with the EU Commission, which receives support from the Platform on Sustainable Finance. Established in October 2020 under Article 20 of the EU Taxonomy Regulation, this platform is the successor to the High-Level Expert Group (HLEG) on Sustainable Finance. Its primary role is to provide advice to the EU Commission on both the implementation and practical application of the EU Taxonomy, as well as on the broader sustainable finance framework. The platform also issues reports and recommendations, which not only guide the EU Commission’s efforts but are also frequently referenced directly by companies, especially in the case of insights not yet officially incorporated by the EU Commission into its own declarations.

2.3. Elements of the EU Taxonomy

2.3.1. Environmental Objectives and Assessments

At the core of the EU Taxonomy are six environmental objectives defined in Article 9 of the regulation, each further elaborated upon in subsequent articles:

- Climate change mitigation (Article 10)
- Climate change adaptation (Article 11)
- Sustainable use and protection of water and marine resources (Article 12)
- Transition to a circular economy (Article 13)
- Pollution prevention and control (Article 14)
- Protection and restoration of biodiversity and ecosystems (Article 15)

The EU Taxonomy bases its classification system on three assessments that are outlined in Article 3 of the regulation. For an economic activity to be deemed "environmentally sustainable," it must:

- Significantly contribute to at least one of the six environmental objectives ("significant contribution");
- Not cause substantial harm to any of these objectives (Article 17) ("do not significantly harm," or: DNSH), and
- Comply with certain minimum social safeguards (Article 18) ("minimum social safeguards"). An economic activity that meets all three assessments is generally considered environmentally sustainable or "green."

2.3.2. Technical Screening Criteria

The first two assessments in the EU Taxonomy are operationalized by way of "technical screening criteria.". These criteria are detailed in delegated acts issued by the EU Commission, pursuant to Articles 10(3), 11(3), 12(2), 13(2), 14(2), and 15(2) of the EU Taxonomy Regulation. To date, three key delegated acts that contain technical screening criteria have been published:

- **Climate Delegated Act:** Announced on December 9, 2021, and effective from January 1, 2022. This act focuses solely on the first two environmental objectives: climate change mitigation and climate change adaptation;
- **Complementary Climate Delegated Act:** Announced on July 15, 2022, and effective from January 1, 2023. This act expands the list of potentially sustainable activities for the first two environmental objectives, specifically including certain nuclear and gas energy activities;
- **Environmental Delegated Act:** Announced on November 21, 2023, and effective from January 1, 2024. This act introduces technical screening criteria for the remaining four environmental objectives and is accompanied by further amendments to the Climate Delegated Act.

According to the terms of the EU Taxonomy Regulation, the third of the three EU Taxonomy criteria above ("compliance with minimum social safeguards"), in contrast to the first two, cannot be altered under delegated acts of the EU Commission. Consequently, the most authoritative sources for interpreting this aspect of the regulation are the recommendations by the Platform on Sustainable Finance from July 2022[8] and the FAQs released by the EU Commission in June 2023.[9] However, there are considerable discrepancies in the content of these two documents, creating difficulties that are discussed later in this paper.

The delegated acts, in addition to applying to the first two assessments in general, also relate to two distinct types of economic activities within this framework:

- **Transitional Activities:** Specifically related to the environmental objective of climate change mitigation, activities are classified as transitional if they represent the best available option in the absence of technologically and economically feasible low-carbon alternatives, and if they support the transition to a climate-neutral economy, as stated in Article 10(2) of the EU Taxonomy Regulation;
- **Enabling Activities:** These include activities that are not inherently environmentally sustainable but play a crucial role in facilitating other activities to substantially contribute to one or more of the environmental objectives, which are outlined in Article 16 of the EU Taxonomy Regulation.

> The EU Taxonomy obliges companies to categorize all their economic activities according to its mechanism. This allows for the calculation and disclosure of the extent to which these activities align with the EU Commission's definitions of "environmentally sustainable."

Specific technical screening criteria are established for both transitional and enabling economic activities under the EU Taxonomy. Notably, transitional activities are expected to be gradually phased out from the EU Taxonomy's scope over time, for which there are specific disclosure requirements.

2.3.3. Disclosures

In terms of disclosure, Article 8 of the EU Taxonomy Regulation outlines the necessary information to be included in the non-financial statements of companies under the Non-Financial Reporting Directive (NFRD). To detail these requirements, the EU Commission issued the Disclosures Delegated Act on December 10, 2021. Moreover, additional disclosure obligations for companies within the scope of the Sustainable Finance Disclosure Regulation (SFDR) are detailed in Articles 5, 6 and 7.

The Disclosures Delegated Act introduced a crucial differentiation within the EU Taxonomy, distinguishing between taxonomy-eligible and taxonomy-aligned activities:

- **Taxonomy-Eligible Activities:** These are activities that are identified in the delegated acts containing technical screening criteria, but do not necessarily meet said criteria. A taxonomy-eligible activity has the potential to qualify as environmentally sustainable if performed in a specific manner, which promotes environmentally sustainable practices as laid out in the technical screening criteria;
- **Taxonomy-Aligned Activities:** These activities are part of a company's activities that are classified as taxonomy-eligible; taxonomy-aligned activities fulfill all the technical screening criteria, and are synonymous with "environmentally sustainable" as defined by the EU Taxonomy.

The EU Taxonomy obliges companies to categorize all their economic activities according to its mechanism. This allows for the calculation and disclosure of the extent to which these activities align with the EU Commission's definitions of "environmentally sustainable." It is, however, important to note that activities deemed non-aligned are not necessarily unsustainable. Rather, they are activities for which compliance with all the requirements of the technical screening criteria cannot yet be demonstrated; so they simply fall outside the scope of the Taxonomy's specific aims and objectives, as detailed in Section 2.2. Due to the often unclear nature of these activities, they are commonly referred to as "grey activities." Disclosures on the extent to which economic activities are taxonomy-eligible or taxonomy-aligned distinguish between financial and non-financial undertakings (see Section 3.3).

> The EU Taxonomy, initially designed with a focus on environmental assessments, has been subject to criticism for its omission of social issues intricately linked to the green transition.

2.4. Planned Expansion and Further Development of the Taxonomy

The EU Taxonomy, initially designed with a focus on environmental assessments, has been subject to criticism for its omission of social issues intricately linked to the green transition. While prioritizing environmental sustainability appeared to be a prudent approach in alignment with the political directives of the Green Deal, and considering that environmental criteria for sustainable activities are more straightforwardly delineated than social criteria, the Covid-19 pandemic, alongside subsequent global crises and economic downturns have underscored the imperative need to integrate environmental concerns within a wider socio-economic framework. Moreover, critics have pointed out that the Taxonomy's binary classification of environmental activities lacks the subtlety required to effectively motivate companies to progressively enhance their practices. Consequently, there is an ongoing discourse regarding the potential expansion of the EU Taxonomy to address these concerns more comprehensively.

One significant proposed extension is the "social taxonomy." Evolving from the existing "green taxonomy", the social taxonomy aims to categorize economic activities based on their social impacts. This new taxonomy, outlined in the February 2022 proposal by the Platform on Sustainable Finance,[10] is intended to incorporate existing regulatory frameworks such as the European Pillar of Social Rights, the EU Charter of Fundamental Rights, the European Convention on Human Rights, and other globally significant documents, including the Universal Declaration of Human Rights and the OECD Guidelines for Multinational Enterprises.

> One significant proposed extension is the "social taxonomy." Evolving from the existing "green taxonomy", the social taxonomy aims to categorize economic activities based on their social impacts.

However, two primary conceptual differences distinguish the social taxonomy as suggested by the Platform on Sustainable Finance, from the green taxonomy:

→ **Basis of Assessments:** While the green taxonomy is grounded in scientific evidence to determine its priorities and technical screening criteria, the social taxonomy would be based on regulatory frameworks and political priorities;

- **Focus of their Objectives:** The green taxonomy's technical screening criteria are designed to prevent environmental harm while the social taxonomy aims to promote social benefits for specific groups.

The Platform on Sustainable Finance has offered a further concept, namely the "Brown Taxonomy", which serves as an extension of the current green taxonomy. The purpose of the additional taxonomy is to identify activities that are significantly harmful to environmental sustainability, effectively serving as a "blacklist" for investors and motivation for companies to shift away from such activities. The specifications of these harmful activities are expected to be determined by forthcoming regulations.

A further suggestion that builds on the logic of the "Brown Taxonomy" and goes even further, is the "Extended Environmental Taxonomy," which proposes a "Traffic Light Taxonomy", i.e. a more nuanced classification system for economic activities (green/amber/orange/yellow/red). This classification system would replace the binary green/non-green classification with a graded scale, offering a more comprehensive coverage of economic activities and clearer incentives for companies to transition and improve their practices. In March 2022, the Platform on Sustainable Finance published a "Final Report on Taxonomy Extension Options Supporting a Sustainable Transition," which delves into these possibilities.[11]

Despite the discussions regarding the different options to further expand the current taxonomy, no concrete regulatory measures have materialized as of yet. Each of the proposals described above has specific disadvantages: The development of a social taxonomy has been particularly challenging due to the fragmented legal framework in the European Union and varying perceptions of social standards and outcomes among EU member states. Many believe that the "minimum social safeguards" in the green taxonomy already provide a pragmatic baseline. The potential labeling of activities as "brown" or "red" is controversial due to concerns that it may not sufficiently incentivize improvements in those areas. Also, introducing a traffic light rationale in the classification system of the EU Taxonomy raises questions with regard to the underlying labelling scheme and its incentives for companies.

> The development of a social taxonomy has been particularly challenging due to the fragmented legal framework in the European Union and varying perceptions of social standards and outcomes among EU member states.

While these discussions have so far not led to any concrete measures due to the numerous controversial viewpoints, there have been significant advancements in the regulatory context of the EU Taxonomy, which move in a similar direction. In October 2021, the EU Commission revised EU banking rules, including the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV), integrating Environmental, Social, and Governance (ESG) risk management and other measures into banking supervision. This led to the introduction of two key performance indicators (KPIs), the Green Asset Ratio (GAR) and the Banking Book Taxonomy Alignment Ratio (BTAR) in the CRR. There is an ongoing debate about whether and how to adjust capital requirements for ESG-related assets based on these and other KPIs; nevertheless, new regulatory initiatives are anticipated in the near future.

3. EU Taxonomy – Interaction with Other EU Legislation

3.1. Overview

The EU Taxonomy is a key component of the EU Commission's 2018 Action Plan, aimed at promoting sustainable finance and, consequently, transforming the European Union’s economy. While being an independent mechanism, the EU Taxonomy is intricately linked to various other legislative acts stemming from this Action Plan. It not only forms the basis for many of these acts but also derives its effectiveness from its integration with them.

> **Since the effectiveness of investment allocation relies on data from non-financial companies regarding the extent of their taxonomy alignment, the NFRD/CSRD also obligates disclosures from all types of companies, not just financial sector entities.**

Among the numerous initiatives that have evolved from the Action Plan and the European Green Deal, three stand out in relation to the EU Taxonomy:

- **The Sustainable Finance Disclosure Regulation (SFDR),** which governs transparency requirements for financial market participants;
- **The Non-Financial Reporting Directive (NFRD),** which sets transparency standards for companies and is set to be replaced by the Corporate Sustainability Reporting Directive (CSRD), a new directive focusing on corporate sustainability reporting;
- **The Corporate Sustainability Due Diligence Directive (CSDDD),** which focuses on mandating companies to identify, address, and mitigate their impact on human rights and the environment throughout their supply chains and operations. It aims to ensure that businesses conduct due diligence to prevent adverse sustainability impacts and hold them accountable for their actions and those of their global partners.

The EU Commission’s action plan “Financing Sustainable Growth” aims to redirect capital flows towards sustainable investments. Since data availability is crucial to meeting this objective, it is primarily achieved through disclosure requirements set forth in the Sustainable Finance Disclosure Regulation (SFDR) and the Non-Financial Reporting Directive (NFRD)/Corporate Sustainability Reporting Directive (CSRD).

The SFDR, targeting asset managers, mandates transparency in their investment products, requiring disclosures aligned with the EU Taxonomy. This approach encourages investment allocation consistent with sustainable practices. The NFRD/CSRD extends beyond asset managers, encompassing credit institutions as well. This broader scope ensures transparency in both equity investments and debt financing, covering the full spectrum of financing options for companies.

Since the effectiveness of investment allocation relies on data from non-financial companies regarding the extent of their taxonomy alignment, the NFRD/CSRD also obligates disclosures from all types of companies, not just financial sector entities. Asset managers and credit institutions, in turn, must report on the taxonomy alignment of their investment portfolios, guided by this information.

Going beyond mere disclosure requirements, the Corporate Sustainability Due Diligence Directive (CSDDD) will require companies that fall under its scope to establish mechanisms protecting human rights and the environment.

3.2. The Sustainable Finance Disclosure Regulation (SFDR)

The SFDR, established as Directive 2019/2088 in 2019, sets disclosure requirements for EU financial market participants, including investment firms, pension funds, asset managers, insurance companies, and banks. These entities must regularly disclose:

- → How sustainability risks are factored into investment decisions or advisories, and their potential impact on product returns;
- → Consideration of principal adverse impacts;
- → Alignment of remuneration policies with sustainability risk integration.

Additionally, financial market participants must specify if their products promote environmental or social characteristics ("Article 8 funds") or have sustainable investments as their objective ("Article 9 funds"), with further information required for these products.

The SFDR is linked to the EU Taxonomy Regulation, which outlines specific transparency requirements. Financial market participants must disclose the degree to which a product supports environmental characteristics, providing additional descriptions and establishing a connection to the EU Taxonomy. This is necessary both pre-contractually and in regular company reporting.

In practice, the SFDR has faced some challenges. Intended as a disclosure regime, it has often been used as a labeling scheme, particularly for Article 8 and 9 funds. However, it lacks comprehensive guidance for such a purpose. Consequently, the EU Commission has announced a thorough reassessment of the SFDR framework, indicating significant changes in the future.[12]

3.3. The Non-Financial Reporting Directive (NFRD) and the Corporate Sustainability Reporting Directive (CSRD)

The Non-Financial Reporting Directive (NFRD), established as Directive 2014/95/EU in 2014, has mandated certain European companies – based on their size and status as "public-interest entities" (defined in Article 2 of Directive 2013/34/EU) – to publish non-financial statements since the 2017 financial year. Its goal is to enhance the transparency of companies' environmental, social, and other non-financial performances.

> **The SFDR, sets disclosure requirements for EU financial market participants, including investment firms, pension funds, asset managers, insurance companies, and banks.**

Article 8 of the EU Taxonomy Regulation imposes specific reporting requirements on companies obligated to publish non-financial statements. These companies must provide detailed qualitative and quantitative disclosures related to the EU Taxonomy:

- → **Non-Financial Companies:** These companies are required to disclose the proportion of their turnover ("green revenue"), capital expenditures ("green CapEx"), and operating expenditures ("green OpEx") associated with taxonomy-eligible and taxonomy-aligned economic activities;

→ **Financial Companies:** Entities such as credit institutions or insurance companies must disclose key performance indicators (KPIs) reflective of their business models. For instance, credit institutions need to report the Green Asset Ratio (GAR).

Disclosure of the KPIs are intended to indicate the extent to which a company's activities are aligned with the EU Taxonomy. The specifics of these KPIs are further detailed in the Disclosures Delegated Act, published in 2021.

Considering the interdependencies of disclosure requirements between non-financial and financial companies and acknowledging the challenges in implementation, a phased approach was adopted. The reporting requirements a company must meet are based on the previous reporting year's data.

> **Article 8 of the EU Taxonomy Regulation imposes specific reporting requirements on companies obligated to publish non-financial statements.**

Table 1.
Reporting requirements according to Art. 8 of the EU Taxonomy Regulation

	Non-Financial Companies		Financial Companies	
	Environmental objectives 1-2 (climate change mitigation, adaptation)*	Other environmental objectives	Environmental objectives 1-2 (climate change mitigation, adaptation)*	Other environmental objectives
As of January 2022	Limited reporting on taxonomy eligibility	-	Limited reporting on taxonomy eligibility	-
As of January 2023	Full reporting on taxonomy alignment	-	Limited reporting on taxonomy eligibility	-
As of January 2024	Full reporting on taxonomy alignment	Limited reporting on taxonomy eligibility	Limited reporting on taxonomy alignment	Limited reporting on taxonomy eligibility
As of January 2025	Full reporting on taxonomy alignment	Full reporting on taxonomy alignment	Limited reporting on taxonomy alignment incl. estimates for third-countries	Limited reporting on taxonomy eligibility
As of January 2026	Full reporting on taxonomy alignment	Full reporting on taxonomy alignment	Full reporting on taxonomy alignment	Full reporting on taxonomy alignment

*For economic activities falling under environmental objectives 1-2 introduced by the Environmental Delegated Act, the reporting requirements are the same as for "other environmental objectives" as listed above.

Starting from the 2024 financial year, the Non-Financial Reporting Directive (NFRD) will be superseded by the Corporate Sustainability Reporting Directive (CSRD). This transition will notably expand the scope of the EU Taxonomy Regulation:

- **Extended Scope for Disclosure:** Like under the NFRD, companies falling under the CSRD will be required to disclose information in line with Article 8 of the EU Taxonomy Regulation as part of their sustainability reports. This encompasses information related to minimum social safeguards and the necessary processes for assessing taxonomy alignment. Most importantly, the CSRD will require all large corporations in the EU and also certain non-EU companies to publish such sustainability reports;
- **Enhanced Reporting Guidance:** The CSRD will provide more detailed guidelines on how to present information in sustainability reports. This will help standardize and clarify reporting practices;
- **Mandatory Digital Format:** The CSRD mandates that all reported information must be published in a digital format. This requirement aims to improve the accessibility and comparability of sustainability information;
- **Mandatory Third-Party Assurance:** For the first time, information disclosed under the CSRD, including that related to Article 8 of the EU Taxonomy Regulation, will require mandatory verification by independent third-party assurance providers. This step is intended to enhance the credibility and reliability of the reported data.

These changes under the CSRD signify a step forward in the EU's efforts to integrate sustainability considerations into corporate reporting, ensuring greater transparency and accountability in the assessment of corporate activities against environmental and social standards.

> **Dialogue and close cooperation among a wide range of stakeholders from the public and private sector are crucial.**

3.4. The Corporate Sustainability Due Diligence Directive (CSDDD)

The Corporate Sustainability Due Diligence Directive (CSDDD) is a legislative proposal under negotiation in the trilogue process,[13] involving the EU Commission, the EU Council, and the EU Parliament. The EU member states have reached a tentative agreement at the end of December 2023, but the final version of the directive was subject to further changes until it was formally finished in April 2024[14]

Initially envisioned as part of a broader "sustainable corporate governance" initiative, the CSDDD proposal has been refined to focus on specific elements that focus on due diligence requirements for companies concerning:

- Human rights and environmental matters;
- Company operations and substantial parts of their value chain.

The CSDDD's applicability is limited to certain companies that typically also fall under the Corporate Sustainability Reporting Directive (CSRD). Notably, these companies are now legally obligated to adopt specific practices, such as Greenhouse Gas (GHG) reduction targets, going beyond mere transparency requirements in sustainability. The directive also addresses mandatory transition plans and imposes significant penalties and liabilities for non-compliance.

In relation to the EU Taxonomy, the CSDDD has a direct connection to the assessment of minimum social safeguards. Companies within the scope of the CSDDD are expected to implement these safeguards due to the legal obligations regarding due diligence as outlined in the directive. Furthermore, the CSDDD aims to significantly strengthen the emphasis on the social aspects of sustainability, thereby fortifying the role of social considerations within the broader sustainable finance framework.

4. Regulatory, Supervisory, and Collaborative Dimensions of the EU Taxonomy

Implementing the EU Taxonomy involves intricate regulatory and supervisory mechanisms that ensure adherence and uniformity across member states. This is complemented by a robust stakeholder engagement process, vital for the framework's evolution and alignment with market realities. Additionally, the Taxonomy's design and application carry significant implications for international cooperation, setting standards that resonate beyond the EU. This section examines the mechanisms that operationalize the Taxonomy, the collaboration between various actors in refining it, and its role in shaping global sustainable finance practices.

> **The CSDDD aims to significantly strengthen the emphasis on the social aspects of sustainability, thereby fortifying the role of social considerations within the broader sustainable finance framework.**

4.1. Regulatory Mechanisms

The EU Taxonomy, established to ensure a consistent understanding of environmentally sustainable activities across the EU, utilizes regulatory instruments aimed at uniform application of its provisions. As a regulation, the EU Taxonomy is directly applicable, bypassing the need for EU member states to incorporate it into their respective national laws, unlike other legal acts (discussed in Section 3) which are directives and require implementation at the national level. Nevertheless, the EU Taxonomy Regulation had to undergo the trilogue process, subjecting it to scrutiny by EU member states and their representatives.

Furthermore, the EU Commission is empowered to define the mechanism's finer details through delegated acts, eliminating the need for these rules to be transposed into national laws. These acts, not subject to the trilogue process, are governed by Article 23 of the EU Taxonomy Regulation and can be revoked. The EU Council and Parliament also have the right to object to any delegated act within four months of its publication.

In addition to these acts, the EU Commission uses FAQ documents to clarify the EU Taxonomy Regulation and related delegated acts. However, these documents sometimes extend beyond the scope of the legal acts they address or contain conflicting provisions. Considered non-binding guidelines, these FAQs lack formal procedural requirements, leading to transparency concerns regarding their development and content. As of end-2023, not all FAQs were formally published in the Official Journal of the European Union, with some only available as "Draft Notices" on the EU Commission's website.

The advisory process for the EU Taxonomy is primarily conducted by the Platform on Sustainable Finance, with the EU Commission also considering insights from the European Supervisory Authorities (ESAs), which include:

- The European Banking Authority (EBA)
- The European Insurance and Occupational Pensions Authority (EIOPA)
- The European Securities and Markets Authority (ESMA)

In addition to providing advice, these ESAs are entrusted with the responsibility of collaboratively developing regulatory technical standards (RTS). These standards are intended to amend the Sustainable Finance Disclosure Regulation (SFDR) and to further detail the requirements of the EU Taxonomy. The EU Commission retains the ultimate authority to adopt these RTS.

Regarding accountability, Article 26 of the EU Taxonomy Regulation mandates that the EU Commission publish a report every three years, starting from 2022. This report is tasked with evaluating the effectiveness of the EU Taxonomy mechanism and assessing the progress of its practical implementation. It includes an examination of how well the definitions of environmental sustainability, as outlined in the EU Taxonomy, have been integrated and applied.

4.2. Supervisory Mechanisms and Control Measures

The EU Taxonomy Regulation includes limited supervision and control requirements, mainly referring to the Sustainable Finance Disclosure Regulation (SFDR) and its amendments under the EU Taxonomy. This EU Taxonomy Regulation's strategy, therefore, is to embed its specific mandates within the broader regulatory framework for financial market participants as defined by the SFDR and other capital market regulations.

Member states are responsible for ensuring that their national competent authorities monitor adherence to the EU Taxonomy Regulation's provisions, particularly concerning the amendments to the SFDR. These authorities are also expected to collaborate in fulfilling their supervisory duties. Additionally, member states are obligated to define specific measures and penalties to address violations of the EU Taxonomy Regulation.

Regarding the reporting obligations linked with the Non-Financial Reporting Directive (NFRD)/Corporate Sustainability Reporting Directive (CSRD), there are no explicit guidelines for supervision and control. The main reason for this absence is that the NFRD/CSRD requirements are also meant to apply to the reporting obligations under the EU Taxonomy Regulation. Since disclosures as per Article 8 of the EU Taxonomy Regulation form a part of European companies' non-financial statements, they fall under the corresponding regulatory mechanisms.

Under the current regulation, based on the NFRD, there are notable gaps in supervision and control. For instance, there is no mandatory third-party assurance for non-financial statements, including disclosures under Article 8 of the EU Taxonomy Regulation. Companies may opt for voluntary assurance, but the scope and thoroughness of these audits vary significantly. Furthermore, while the European Securities and Markets Authority (ESMA) views the EU Taxonomy disclosures as part of its enforcement activities, the legal incorporation of the NFRD into some member states' laws restricts national authorities from conducting comprehensive enforcement. This results in limited and inconsistent control mechanisms.

Since the beginning of the financial year 2024, the CSRD has aimed to resolve these issues by mandating the audit of all disclosures in future sustainability reports. This includes the disclosures required under Article 8 of the EU Taxonomy Regulation. Initially, the CSRD will require only "limited assurance," a lower level of reliability compared to full audits of financial statements. The CSRD also clarifies enforcement activity requirements, subjecting its required disclosures to increased scrutiny across different member states.

Additionally, specific assurance services related to companies' sustainability reports may be applicable to certain financial products. This includes the assurance of financial product reporting under Articles 5 and 6 of the EU Taxonomy Regulation and assurance in the context of issuing financial instruments, such as green bonds. While such assurance is not mandatory, it is encouraged by the Regulatory Technical Standards (RTS) of the SFDR.

At the regulatory level, the responsibility for the supervision and control of the EU Taxonomy primarily rests with the European Supervisory Authorities (ESAs) and national competent authorities of each member state. In the future, the role of external assurance is set to expand, encompassing responsibilities for third-party assurance providers. However, when it comes to the technical screening criteria (TSC) in the EU Taxonomy Regulation, certain economic activities require external verification to be classified as environmentally sustainable. For these activities, companies under the regulation's scope must obtain verification, though the specifics regarding the nature, scope, and intensity of this verification remain undefined.

> ***"** This is the case where the criteria rely on elements that require specialist knowledge. The accuracy of such information would be difficult to check for investors. Therefore, the TSC for specific activities include external verification requirements for activities where such concerns are present. Where the Climate Delegated Act requires verification for certain activities, the report by the external verifier would constitute the evidence of compliance with those criteria. External verifiers can be either the relevant national competent authorities or an independent third-party verifier having no conflict of interest with the operator of the activity nor be involved in the development or operation of the activity. […] Where required, details of the verification of the criteria should form part of the disclosure of Taxonomy-alignment. Taxonomy-verification requirements are set to evolve together with other sustainability-reporting under the CSRD, once it enters into application.**"*** [15]

In summary, the current control regime on the EU Taxonomy distinguishes between three interconnected levels:

- → Verification as required by various technical screening criteria for the economic activities of companies, which are part of the delegated acts of the EU Taxonomy Regulation;
- → Assurance of information provided by companies as per Article 8 of the EU Taxonomy Regulation in non-financial statements or sustainability reports;
- → Assurance for financial instruments that include companies whose sustainability levels are being assessed, such as green bonds.

Finally, neither the NFRD, nor the CSRD nor the EU Taxonomy Regulation specify concrete rules on penalties or liabilities for infringements. The responsibility for defining these sanctions falls to individual member states, leading to national variations. Until now, most member states have established only limited sanctions, but this is expected to change with the transposition of the CSRD from 2024 onwards.

4.3. Stakeholder Engagement

While the European Commission bears primary responsibility concerning the EU Taxonomy, significant efforts are being made in stakeholder engagement and transparency, particularly through the work of its main advisory body, the Platform on Sustainable Finance. The Platform's founding principle emphasizes that "dialogue and close cooperation among a wide range of stakeholders from the public and private sector are crucial to deliver on the aims of the EU Taxonomy Regulation and, ultimately, the European Green Deal and the EU climate targets for 2030 and 2050."[16]

Several mechanisms underpin this engagement:

- **Composition of the Platform:** The Platform on Sustainable Finance comprises 35 members and 14 observers, chosen through public calls for applications and direct invitations. It includes public agencies and NGOs, but its limited size means it cannot be entirely representative;
- **Technical Work:** The Platform invites experts to participate in its work, particularly in subgroups, on an ad hoc basis, bringing in specific expertise relevant to the EU Taxonomy;
- **Outreach Activities:** These include calls for feedback, educational webinars, and targeted outreach sessions aimed at garnering input from all interested stakeholders;
- **Stakeholder Request Mechanism:** Introduced in October 2023, this mechanism allows stakeholders to submit suggestions for developing or revising technical screening criteria for economic activities, provided these suggestions are grounded in scientific evidence.

The framework of stakeholder engagement processes has not been without friction. Notably, several non-governmental organizations (NGOs) suspended their participation in the EU Sustainable Finance Platform in 2022 due to concerns over what they perceived as "unscientific" technical screening criteria for bioenergy and forestry in the EU Taxonomy. As a result, some of these NGOs began working on an "Independent Science-Based Taxonomy" in January 2023, with the aim of preserving the integrity of the EU's official list of green investments.[17]

The outcomes of these stakeholder activities inform the recommendations made to the EU Commission. However, the Commission retains discretion over how much it takes these recommendations into account and is not bound by transparency requirements to justify any deviations from the Platform on Sustainable Finance's advice.

4.4. Internationalization

The EU Taxonomy, although focused on the EU, requires engagement not only with its member states, but also with non-EU jurisdictions. At the member state level, the EU Taxonomy builds upon pre-existing frameworks and definitions. In a 2020 report, the OECD identified several key frameworks that predated and informed the EU Taxonomy:[18]

- **Netherlands (1995):** Adopted a legislative approach to green lending with the Green Funds Scheme;
- **France (2015):** Introduced the GreenFin label for retail investment funds;
- **China (2015):** The People's Bank of China issued its Green Bond Endorsed Project Catalogue, often referred to as the "Chinese Taxonomy";
- **Japan (2017):** The Ministry of the Environment launched Japan's green bond guidelines.

To foster international cooperation, the EU Commission launched the International Platform on Sustainable Finance (IPSF) in 2019. The EU acknowledges the necessity of international harmonization, especially since many EU-based companies operate globally. These companies often face the challenge of complying with extra-European reporting requirements and collecting data from international investees. A globally consistent classification of environmental sustainability could reduce complexity and costs for these companies, potentially enhancing the effectiveness of the regulations.

As of now, the IPSF comprises 20 member jurisdictions, including the UK, Switzerland, and Canada, and twelve observer organizations including the International Monetary Fund (IMF) and the IFRS Foundation. The IPSF's efforts have influenced recent taxonomic initiatives in its member jurisdictions as well as in other jurisdictions.[19] The global adoption of frameworks similar to the EU Taxonomy also highlights that this type of instrument has become accepted as a prerequisite for establishing any sustainable finance agenda on capital markets.

> To foster international cooperation, the EU Commission launched the International Platform on Sustainable Finance (IPSF) in 2019.

A significant outcome of the IPSF's work is the Common Ground Taxonomy (CGT), a comparative analysis between the EU Taxonomy and China's green taxonomy. The CGT aims to facilitate cross-border investment activities and legislative harmonization. It is guided by core principles, including science-based methodologies and the use of the International Standard Industrial Classification (ISIC) as a starting point.[20] This approach underscores the EU Taxonomy's expanding global impact and its role in shaping a unified, international understanding of environmental sustainability.

5. The EU Taxonomy in Practice: Achievements, Obstacles, and Lessons Learned

Since its introduction in 2020, the EU Taxonomy has attracted widespread public interest, highlighting its importance in the discourse on sustainable finance. Nevertheless, while it has been lauded as a foundation for Europe's sustainability goals, its complexity and far-reaching implications have also attracted criticism.

In June 2023, the EU Commission released key findings on the Taxonomy's effectiveness:[21]

- **Widespread Adoption:** The Taxonomy is extensively utilized by European companies, particularly those that are publicly listed. This trend suggests an increasing recognition of the importance of demonstrating environmental sustainability compliance, even among companies not yet under the Taxonomy's regulatory umbrella;
- **Shift in Investment Patterns:** Companies applying the EU Taxonomy are progressively redirecting their investments towards more sustainable activities, indicating a transition in their business models;
- **Impact on Financial Markets:** Financial market participants are also adjusting their investments, favoring companies that showcase a higher level of sustainability;
- **Usability Challenges:** A primary obstacle to broader acceptance and implementation of the EU Taxonomy are challenges with applying the necessary assessments, especially the technical screening criteria. These challenges might include difficulties in understanding and applying the requirements of the EU Taxonomy or in implementation and/or localization problems such as lacking or inconsistent data, in part due to different national requirements in EU member states. Additionally, the SFDR's classification system, particularly for Articles 8 and 9 funds, lacks clarity. There is a need for more precise guidelines to aid in the classification process. As a consequence, the EU Commission has already started a process to update the SFDR in the coming years.

Data availability remains a critical challenge for financial market participants. A recent MSCI report revealed that of 6,603 assessed Article 8 and 9 funds under the SFDR, only 126 disclosed EU taxonomy-aligned revenue, with 114 reporting zero. Additionally, most funds indicated no intent to align with the EU taxonomy,[22] possibly due to data accessibility issues or the taxonomy's general applicability.

Gathering relevant data from non-EU companies is a significant challenge, not just regarding financial market participants but for all companies. This highlights the importance of the IPSF's efforts in developing a Common Ground Taxonomy (CGT), as discussed in Section 4.4. The issue of data availability applies to the EU as well. The CSRD stands as a crucial legislative step to require more companies to adopt the EU Taxonomy's mechanisms and report accordingly. The work on the European Single Access Point (ESAP) is a key initiative in this regard, designed to provide EU-wide access to detailed information about company activities and products. This central hub aims to facilitate data access for financial market participants and other stakeholders, incorporating digital information as per the new CSRD reporting requirements (see Section 3.3). The ESAP pronouncements comprise two regulations and a directive, which were published in the Official Journal of the European

Union in December 2023. The ESAP should be available by mid-2027, but its full implementation will require time. Therefore, it should be viewed as a medium to long-term solution for the outlined data accessibility challenges.

> **Data availability remains a further critical challenge for financial market participants.**

The issue of proportionality is closely related to data availability. The EU Commission faces a challenge in balancing two conflicting objectives. While the EU Taxonomy Regulation demands comprehensive classification of a company's economic activities, the CSRD's expanded scope for sustainability reporting (as per Article 8 of the Taxonomy Regulation) highlights the complexity of this issue. Financial market participants and NGOs believe the extension is not ambitious enough, whereas European small and medium-sized enterprises (SMEs) have expressed concerns about further expansions. This has led to a challenging situation for financial market participants dealing with SMEs, creating a tendency to shift capital towards larger firms. Key performance indicators like the Green Asset Ratio (GAR) fail to capture sustainable financing activities of companies not reporting under Article 8, regardless of their actual sustainability practices. To address this, the European capital market regulation introduced additional disclosure requirements. Article 449a of the Capital Requirements Regulation (CRR), for example, introduced a Banking Book Taxonomy Alignment Ratio (BTAR) that includes EU and non-EU companies not covered by Article 8 (refer to Section 2.4). However, to implement this, the regulation had to allow for estimations, which compromises the reliability of the reported information.

The flexibility allowed in assurance and verification, as detailed in Section 4.2, has generated some challenges as well. The Platform on Sustainable Finance, in its "Platform Recommendations on Data and Usability," addressed these challenges, particularly the risk of "taxonomy washing" due to inadequate assurance practices. The Platform provides guidance on selecting suitable service providers for assurance services and how these services should be conducted. This underscores the need for additional regulatory measures by the EU Commission, building on the initial steps in the CSRD for mandatory sustainability report assurance.[23] Historically, the "Big 4" auditing firms have predominantly provided these services. However, there is still a need to develop further expertise in both the EU Taxonomy framework and the technical screening criteria assessments.

From the initial two years of mandatory reporting under Article 8 of the EU Taxonomy Regulation, it is evident that disclosure practices are greatly influenced by benchmarks. The first year was marked by significant heterogeneity in both methodologies and outcomes. In the second year, however, practices began to align more closely. This shift indicates a learning process among companies, likely driven by the need to overcome shortcomings in the regulatory framework, particularly the absence of concrete guidance. The growing importance of benchmarks, although from an investor's perspective, was also highlighted when the Platform on Sustainable Finance published a report in the introduction of "EU Taxonomy-Aligning Benchmarks (TABs)" in December 2023.[24]

In 2023, the EU Commission launched the "EU Taxonomy Navigator" website, to address the growing demand for practical guidance and a comprehensive summary of the extensive information and updates regarding the EU Taxonomy. Its aim is to collect and present official information about the EU Taxonomy via "a user-friendly website that offers a series of online tools to help users better understand the EU Taxonomy in a simple and practical manner, ultimately facilitating its implementation and supporting companies in their reporting obligations."[25]

The ambitious timeline of the EU Taxonomy, coupled with a lack of guidance, has been a subject of criticism. Frustration has been exacerbated by the delayed and uncertain release date of key documents and frequently updated FAQs, often occurring mid-reporting period. Such publications compel companies to modify their existing practices and reevaluate previously made classifications, disrupting their preparation processes and breeding uncertainty. On the flip side, delays are often unavoidable, due to the emergence of new questions as companies begin their implementation efforts, necessitating the European Commission to address these practical queries as they arise.

This situation highlights a further critical issue, namely deficiencies in stakeholder engagement. The development and maintenance of the EU Taxonomy fundamentally rely on comprehensive stakeholder engagement mechanisms, as detailed in Section 4.3. This approach was a key aspect of the initial set of technical screening criteria. However, the recognition of the importance of this work, and consequently the participation in this project, has been slow to develop. Additionally, company investment in necessary resources, such as personnel and IT infrastructure, to both comply with the new requirements of the EU Taxonomy and to contribute to its ongoing development, has meanwhile not met the pace of demand.

6. Relevance of the EU Taxonomy for Non-EU Jurisdictions

The EU Taxonomy has emerged as a groundbreaking instrument for steering the global economy towards sustainability, encouraging the development of similar frameworks beyond European borders. Its application has prompted a shift in investment strategies, a reevaluation of lending practices, and a transformation in corporate business models worldwide. However, the introduction and implementation of the EU Taxonomy also surface complex challenges for a diverse array of stakeholders, including businesses, financial institutions, policy makers, and regulatory authorities. These challenges underscore the necessity for nuanced understanding and strategic adaptation across the board. Drawing on the EU's pioneering journey, several crucial insights emerge, offering valuable lessons for global adoption and adaptation of sustainability taxonomies:

1. Global Data Considerations: In an era of globalized financial markets, jurisdictions adopting a taxonomy akin to the EU's must address the challenge of global data availability. The International Platform on Sustainable Finance (IPSF) has emerged as a pivotal entity in promoting global harmonization. Engaging with, or contributing to, the IPSF's work and its recommendations, particularly regarding the Common Ground Taxonomy (CGT), is crucial. Furthermore, integrating insights from the detailed frameworks of other jurisdictions is highly beneficial;

2. Legislative Dynamics: Jurisdictions using the EU Taxonomy as a primary reference should take into account the rapid pace of legislative changes. Incorporating dynamic references or establishing mechanisms to quickly adapt to new requirements and interpretations is necessary. A concomitant awareness of the need to address specific legal constraints that may limit the extent of such dynamic referencing is also necessary;

3. Corporate Challenges and Support: Implementing a taxonomy presents significant challenges for companies. Recognizing the extensive implications and the need for substantial investments is critical. Early support in this area, acting as a 'push factor,' has been vital. Similarly, provision of educational materials and easily accessible compilations of relevant resources, delivered in a timely fashion, has so far proven invaluable;

4. Taxonomy within Legal Frameworks: A taxonomy functions effectively only within a well-developed, broader legal framework. This requires a detailed and comprehensive application scope, including supervision, control, and broader verification aspects. The taxonomy's effectiveness hinges on maintaining high standards in these areas. This extends to defining which service providers are authorized to issue certifications, on which methodologies certifications should be based, and how to develop their capacities;

5. Regulations and Public Oversight: Regulations for public oversight of company reports must be explicitly defined and consistently applied. Relevant authorities should be engaged early in the process and develop relevant capacities accordingly. Their role begins with integrating a taxonomy into the existing legal framework, identifying gaps, further development needs, and issuing necessary guidelines and pronouncements;

6. Legal Processes and Pronouncements: From a legal standpoint, important announcements should be made through robust legislative processes and clearly defined legal terms. This avoids relying on frequently used but potentially inconsistent FAQ documents or other institutional pronouncements. Establishing an interpretative mechanism that aligns with the regulatory framework is one possible solution for enhancing clarity;

7. Timeline and Transparency Considerations: While the global sustainability and sustainable finance agenda faces urgent timelines, overly ambitious schedules can be challenging and burdensome for companies preparing to comply. A balanced, ambitious yet achievable timeline is essential. Transparency in the process, actively involving affected stakeholders, and promptly informing them about the new taxonomy are crucial steps, requiring dedicated efforts.

> The EU Taxonomy has played a foundational role in steering the European economy towards greater sustainability, underpinning the ambitious goals of the EU Green Deal.

In summary, the EU Taxonomy, as a trailblazer for sustainability, has already significantly influenced economic practices by fostering sustainable investment strategies and corporate transformations. While its adoption presents opportunities for non-EU jurisdictions to align with sustainability goals, it also introduces complex challenges that necessitate strategic adaptation and a deep understanding across various stakeholders, including businesses and regulatory bodies. Key lessons from the EU's experience highlight the importance of addressing global data challenges, adapting to legislative changes, supporting corporate transitions, ensuring a taxonomy fits within comprehensive legal frameworks, establishing clear regulatory oversight, and managing timelines and stakeholder engagement with transparency. These insights are crucial for the effective global adoption and adaptation of sustainability taxonomies, emphasizing the need for a collaborative approach to overcome obstacles and enhance the taxonomy's effectiveness in driving the global shift towards sustainability.

7. Conclusion and Outlook

The EU Taxonomy plays a foundational role in steering the European economy towards greater sustainability, underpinning the ambitious goals of the EU Green Deal. Its development and implementation have not only marked a significant advancement in sustainable finance but have also set a precedent for global efforts in this direction. Despite facing challenges related to complexity, data availability, and stakeholder engagement, the Taxonomy already has achieved notable successes in fostering a shift towards environmentally sustainable investments and practices.

The Taxonomy's impact extends beyond the EU, offering valuable insights and a framework for non-EU jurisdictions interested in developing similar systems. The lessons learned from the EU's experience emphasize the importance of global data considerations, the adaptability of legislative frameworks, corporate support, and the integration of taxonomies within broader legal and regulatory contexts. Moreover, they highlight the critical role of public oversight and the need for clear legal processes and transparency in the development and application of such frameworks.

Looking forward, the continuous evolution of the EU Taxonomy reflects the dynamic nature of sustainable finance and the global urgency to address environmental challenges. The planned expansions and refinements of the Taxonomy, including the more comprehensive integration of social factors, signal a move towards a more holistic approach to sustainability. This evolution, coupled with the increasing global collaboration through platforms like the IPSF, underscores the potential for the Taxonomy to contribute significantly to the international harmonization of sustainability standards.

> **The lessons learned from the EU's experience emphasize the importance of global data considerations, the adaptability of legislative frameworks, corporate support, and the integration of taxonomies within broader legal and regulatory contexts.**

Finally, it is imperative that the lessons from the EU Taxonomy inform future developments in sustainable finance, both within and outside the EU. The collaborative efforts of governments, regulatory bodies, corporations, and stakeholders worldwide are essential to ensure that sustainable finance frameworks effectively contribute to the transition towards a sustainable global economy. The journey of the EU Taxonomy, with its achievements and challenges, serves as a critical reference point for these endeavors, offering a path forward in the collective pursuit of sustainability goals.

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