

January 2021

DUFAS Position Paper on the EU Taxonomy Framework

Summary



DUFAS fully supports the
development
of the EU Taxonomy.

DUFAS welcomes the primary objective of the Taxonomy Regulation which is to redirect capital flows towards environmentally sustainable activities. We also support the work of the Technical Expert Group (TEG), the group of experts which developed technical screening criteria for 70 activities in 8 sectors of the economy contributing to climate change mitigation, as well as for 68 activities contributing to climate change adaptation.

We do believe that the Final TEG report on the EU Taxonomy as published in March 2020 is a big step forward and we are hoping the European Commission will adopt (most of) the recommendations of report in its further technical rules on the Taxonomy which are expected to be adopted by 31 December 2020. Furthermore, DUFAS supports all the activities from the other TEGs on various matters, such as TEG on the development of an EU Green Bond Standard. This will form the basis of further development withing the new established (EU) Platform on Sustainable Finance which Platform recently became operational.



EU taxonomy & transition: shades of 'green'

DUFAS supports the view that the EU Taxonomy includes and enables economic activities and any other global activities for that matter that are in transition.



Taxonomy should not be a tool that divides economic activities strictly in 'green' or 'brown'. To imply otherwise, would potentially be misleading given data would only cover a certain percentage of economic activities and may only relate to European investees, which does not reflect global economic reality. Moreover, setting up a brown taxonomy may lead to a too rigid mechanism, whilst the aim of the taxonomy should be focussed on the shift to a green economy.

However, at the same time we do realise that certain economic activities may be deemed as being detrimental for the transition to a sustainable society. Hence adding more flavour in shade of green in sustainable activities may likely to imply adding more shades of colours where certain economic activities may have a material negative environmental impact on society. In that context DUFAS has an open mind towards the further development of the EU Taxonomy that on one hand facilitates and distinguishes between shades of green and on the other hand identifies those activities that may have an undisputed material negative environmental impact on society.

In that context a development of such EU Taxonomy may also evolve in the context of further development of the "do no significant harm to environmental objectives criteria" as envisaged by the European Commission.

Voluntarily vs. mandatory basis

DUFAS supports the application of the Taxonomy as proposed by the TEG: as a 'comply or explain' framework for institutional investors and asset managers marketing investment products as environmentally sustainable. **Taxonomy should not be mandatory for investment products that are not marketed as environmentally sustainable.**

Useful tool

DUFAS believes that the Taxonomy is and can be a **useful supporting tool to inform the decisions of investors interested in pursuing sustainable investments.** The five steps to calculate Taxonomy exposure, as identified by the TEG, is a clear and pragmatic approach. Nonetheless, to a certain extent the Taxonomy approach may seem quite complex and hard to apply as all the data will also need to be coded into existing investment tools and platforms. Availability and translation of such data is therefore key. We therefore support initiatives that looks into the useability of the taxonomy.





Transitional regime

In overcoming the limitations of using the Taxonomy, mainly in terms of data, we strongly recommend some sort of transition period for corporate issuers, financial market parties, asset managers in particular, and data vendors to adapt their systems before the Taxonomy regulation enters into force. Similarly, a transitional regime should also deal with the issue whether financial market parties may still market investment products labelled as 'green', where it may be unclear whether or not they meet the Taxonomy criteria in the absence of appropriate and reliable data.

Questions or suggestions?

A lot is happening in the field of sustainability. We are constantly adapting our positions accordingly, where necessary. For questions or suggestions, or our latest opinions on sustainability, please feel welcome to contact Randy Pattiselanno, DUFAS manager strategy & regulatory affairs, at rp@dufas.nl.