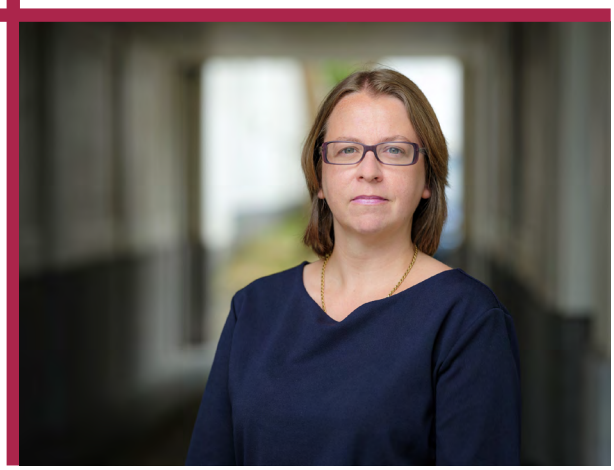

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Taxonomy: how a financial market tool becomes the backbone of the EU Green Deal

Known in Brussels jargon as the "Taxonomy Regulation", EU Regulation 2020/852, adopted on 18 June 2020, aims to establish a system for classifying economic activities considered "sustainable". Piloted by DG FISMA, this legislation has its origins in the UN Convention on Sustainable Development (2015), the Paris Climate Accord (2016) and the Commission's action plan for financing sustainable growth (2018). But most importantly, it is **a tool designed to orient the European economy towards carbon neutrality by 2050** under the banner of the European Green Deal.

Regulation 2020/852 is an overall framework which requires further adoption of legal acts to provide it with a practical and operational dimension. A series of **delegated acts** will emerge in the coming weeks and months. The first of them has been adopted by the EU Commission and concerns the adoption of technical screening criteria for climate change adaptation and mitigation. It is now under scrutiny by the European Parliament and the Council of Ministers who are assessing whether they wish to veto the measure. The other delegated acts will focus on the **circular economy, biodiversity, pollution reduction, assessment of damage and potential sanctions**. The most adequate way of describing delegated acts is that they are the flesh to the bone, without them taxonomy is nothing more than a general concept without any tangible effect.

Voluntary scheme or the de facto steering mechanism for a sustainable economy?

Presented by some as a voluntary, non-binding scheme, the EU Taxonomy and its delegated acts are in reality intended to become a **unique compass for investors, companies, consumers and public authorities** which need clear objectives and orientations on the pathway towards climate-neutrality. Its ultimate impacts will eventually have a larger outreach than the purely financial sphere. For example, the inclusion of the 'Do No Significant Harm' criteria within the Recovery and Resilience Facility and the upcoming revision of non-financial reporting legislation will reinforce taxonomy's impact on other sectorial policies as well as state aid rules, monetary policy, public investments.

Among the more divisive issues in terms of content is **the question of electricity generation from natural gas and nuclear sources**, whether they contribute to climate change adaptation or mitigation and to what extent. Beyond the technical or financial dimension of these points, they are first and foremost a highly politically sensitive issue, that

notably divide the EU Member states. DG FISMA has indicated it will address this in a separate delegated act to be developed after the 2021 summer break. The approach, content, and timing of this delegated act are at this point not entirely clear.

Involving stakeholders: an absolute must to generate buy-in

If Taxonomy is to be an accepted and workable mechanism, the true backbone of the EU Green Deal, the buy-in and support from industry sectors and financial market operators must be guaranteed. This buy-in was intended to be instrumentalized via the **Platform on Sustainable Finance**. Composed of financial experts, industry stakeholders and NGO representatives, the Platform is involved in the preparation of the delegated acts. There is however, an overall feeling that business stakeholders from various industrial sectors have not been sufficiently involved and/or listed to.

Given the importance of the system and its far-reaching consequences for the EU economy, getting the governance right is crucial and the involvement of the economic stakeholders is a fundamental part of it. **Taxonomy could well become the single most impactful topic for economic operators in concretising the EU Green Deal**. Now is the time therefore, to engage and to weigh in on the discussion to shape a taxonomy that is a support tool and not a hurdle for achieving the Green Deal ambitions in practice.