

European Parliament adopts the Taxonomy Regulation

Insights - 29/06/2020

Another milestone on the EU's path to achieving the goal of a climate neutral union was reached on 18 June 2020, as the EU Parliament adopted new legislation on sustainable investments, one of the key features of the European Commission's action plan on sustainable finance in the domain of capital markets (including the ESG Disclosure Regulation^[1] and the ESG Benchmarks Regulation^[2]).

The Taxonomy Regulation^[3] establishes a detailed EU classification system – or taxonomy – intended to serve as a starting point for labelling economic activities as environmentally sustainable, should they contribute to at least one of the following objectives, without significantly harming another:

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Activities enabling other activities to make a substantial contribution to one or more of these objectives will also be considered as sustainable.

The classification will be further developed through technical screening criteria, which will be laid down by the Commission in the related delegated acts. These will supplement the principles set out in the regulation and determine in a precise manner if an economic activity may qualify for an environmental objective. The Platform on Sustainable Finance, an advisory body composed of stakeholders representing civil society, public bodies and academia, will assist the Commission in this task and provide advice on other sustainability objectives.

The Taxonomy Regulation will apply to member states when defining requirements for financial market

participants and issuers, to financial market participants making available financial products, and to undertakings subject to the obligation to publish non-financial statements, with a final purpose to raise more public and private funding and lay down clear green criteria to prevent greenwashing. Additional pre-contractual and periodic disclosures will also be in place for financial products that have sustainable investment objectives or promote environmental characteristics.

Adoption of the criteria linked to the first objective is set to occur by the end of this year, while the others will follow by the end of 2021. Application of the requirements laid down in the Taxonomy Regulation will follow accordingly, on 31 December 2021 for the first objective, and 31 December 2022 for the remaining ones.

[1] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

[2] Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks

[3] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

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