

PRI SUPPORTS THE PUBLICATION OF FINAL TAXONOMY DELEGATED ACT

London, 21st April 2021

The European Commission has [published](#) its final EU Taxonomy Climate Delegated Act (DA) for adoption. This establishes technical screening criteria to define whether an economic activity is Taxonomy aligned under the first two of six environmental objectives (i.e. substantially contributes to climate change mitigation or adaptation while doing no significant harm to the other four environmental objectives and meets minimum social safeguards). The PRI welcomes this publication as a significant step forward for capital markets.

As the world's leading proponent of responsible investment, the PRI advocates for global sustainable financial systems, supported by Taxonomies of sustainable economic activities defined by common, science-based, technology neutral technical screening criteria¹. Investors need a credible Taxonomy to make informed, long-term investment decisions aligned with the Paris Agreement goals. The Taxonomy enables investors to identify how companies can invest in green activities and encourages investors to redirect capital flows toward sustainable activities through disclosure incentives.

Positive aspects of the Commission decision include:

■ **Clarity on the role of the Taxonomy**

The Taxonomy has a very specific role and purpose, that is to help investors identify, report on and ultimately finance activities with sustainable levels of environmental performance. The Taxonomy is part of a whole legislative package of measures to support the EU Green Deal and achieve the EU's 2050 climate goal. Uncertainty and reluctance towards the Taxonomy often originate from misunderstandings about its role and purpose. We strongly support the Commission's work in its communication to clarify that:

- The Taxonomy does not prohibit investment or block funding in any activity.
- If an activity is not addressed in the DA, it doesn't necessarily mean it is environmentally "unsustainable".
- The Taxonomy is a living document which will be added to over time. The criteria are dynamic and will be subject to regular review. New sectors and activities, including further transitional and enabling activities, may be added to the scope over time by amending the DA².

¹ See PRI's and the World Bank's policy toolkit: [How policy makers can implement reforms for a sustainable financial system | Reports/Guides | PRI \(unpri.org\)](#)

² The Commission is required to review criteria established for transitional activities at least every 3 years.

■ Better alignment with scientific evidence

To ensure the Taxonomy allows for an objective assessment of the environmental sustainability of economic activities and prevents greenwashing, it should be based on the best available scientific evidence, and no exceptions should be included. This final DA makes improvements to the original draft DA proposal in November 2020 and is a good starting point to help to better align the Taxonomy with the scientific advice of the Technical Expert Group (TEG) and Platform on Sustainable Finance (PSF).

We acknowledge challenges surrounding natural gas and nuclear technologies, and their contribution to decarbonisation. Clearly more work needs to be done to develop, and gain political support for, environmentally robust criteria for these economic activities. We agree with the Commission that there is a need for transparency in this debate and clarity for investors on how to treat such investments. The Commission will put forward separate DA on these issues. It is right that we wait until there are robust criteria in place before counting these technologies as green. In the meantime, these activities will not count as Taxonomy aligned.

Maintaining the credibility of the Taxonomy criteria is vital. The scientific basis of the Taxonomy criteria should not become the hostage of political negotiations or become compromised by tight deadlines. We welcome the clarity in the current DA as it allows investors to start preparing in earnest for disclosures in January 2022. Above all, investors need a robust, science-based framework so they can effectively reallocate capital to green assets with confidence.

■ Transparency around how the Taxonomy supports the transition

Much of the opposition and debate around the upcoming DA centred on transition activities and whether they are sufficiently captured by the Taxonomy. The Commission has clarified that the Taxonomy already recognises transition activities within some sectors and emphasised the role the Taxonomy will play in incentivising and inspiring investors and companies to transition. The PRI supports this work, recognising that *communicating (more) about how the taxonomy already supports transition finance* was one of the recommendations of the PSF in their advice to the Commission on transition financing³ (March 2021).

Other policy instruments, including real-economy policy reforms, carbon pricing etc. are also needed to support the transition. The PRI welcomes the Commission's acknowledgement of the PSF's recommendations around transition, and its commitment to provide further clarity on how sustainable finance will foster the transition to a sustainable and climate-neutral economy as part of its updated sustainable finance strategy in June.

³ https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/210319-eu-platform-transition-finance-report_en.pdf

The Taxonomy will strongly shape financial markets for years ahead. Furthermore, since the EU has sought to lead the global dialogue on sustainability and taxonomies it is crucial to ensure the credibility of its own taxonomy which is inspiring other jurisdictions.

This DA is an important step forward and its improved scientific grounding will help many investors direct capital towards sustainable activities and support the goals of the Paris Agreement. The European Commission and co-legislators must maintain the integrity and ambition of the Taxonomy by ensuring the separate legislative proposal later this year is consistent with TEG recommendations and scientific evidence. This will be challenging, but investors need a clear and credible Taxonomy as a foundation to build up trust in the overall sustainable finance system.

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