

Response to EC Consultation on Feedback on the usability of the taxonomy

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Questions on the usability of the taxonomy

1. Do you believe the taxonomy will provide a clear indication of what economic activities should be considered environmentally sustainable?

Please refer to:

- example sheet: Energy production (geothermal)
- full list of 1st round climate mitigation activities, screening criteria and questions

Yes No Don't know / no opinion / not relevant

Please explain your answer (2000 characters maximum):

The proposed TEG work represents a positive step towards a sustainability taxonomy. However, more work still needs to be done to improve its usability from an investment perspective. The detailed criteria for assessing contribution and potential harm to environmental objectives make the taxonomy very complex and data intensive, requiring investors to have a thorough knowledge of each economic activity. The taxonomy purpose should also be further clarified.

The framework can be improved. Specifically:

- Since several activities/companies will not be able to fulfil its requirements, it is unlikely that the taxonomy will be used as a screening device for mainstream investments.
- A value-chain aspect needs to be incorporated in the framework so that unwanted trade-offs are avoided, ie that companies that are crucial to support the transition to a greener economy are not covered.

- More clarity is needed on how the taxonomy stands in relation to other **legislative proposals** and regulations. A narrow taxonomy will not be a suitable base for other regulations (eg for the Disclosure regulation where sustainable investments are defined broadly).

More clarity in the proposed criteria will also facilitate the identification of sustainable activities. Specifically:

- Too detailed thresholds risk being counterproductive. Moreover, criteria setting out **relative thresholds** need to consider the varying "starting point" and avoid over-compensation. For example, with respect to % reduction in GHG emissions per unit of production (section 10.1), a company with high GHG emissions will reduce its relative emissions more easily than a company with low GHG emissions.
- The criteria for climate adaptation seem to be more targeted towards **own company investments rather than its production process**. In this case, it should be clear how contribution is measured.

2. Do you expect any practical challenges within your organisation to classify an economic activity according to the taxonomy?

- Yes No Don't know / no opinion / not relevant

Please explain your answer (2000 characters maximum):

The main challenges relate to:

- the **availability of data** to perform the screening of the business activities. Data at this level of detail are often not readily available and they can only be produced by the investee company itself. Direct disclosure of information by investee companies would improve comparability across investors, especially for listed assets.
- the **data quality and reliability**, as well as their verification. In this respect, reporting requirements on companies (eg the EU non-financial disclosure directive) can hardly be tightened to require companies to report data with the level of accuracy required in the taxonomy. Therefore, the information received might not allow institutional investors with a diversified global equity and bond portfolio to perform a thorough sustainability classification.
- the **proposed criteria**. Some of the criteria are not quantitative and not specific enough to make an objective assessment. The assessment of these criteria should not be the result of a subjective assessment as this would hinder the creation of a harmonised taxonomy.
- the **complexity of the framework**. The classification is data intensive and requires a thorough knowledge of the economic activities which is far exceeding the knowledge of institutional investors. It will likely push investors to buy research and data analysis from external providers, rather than developing expertise and data resources by itself. This will make the taxonomy hard to use in practice and might end up hindering its intended purposes.

3. For financial market participants: will the proposed structure and format of the Taxonomy enable you to comply with potential future disclosure obligations?

- Yes No Don't know / no opinion / not relevant

What changes would you propose? (2000 characters maximum)

Since sustainability disclosure obligations are still under development and the political discussions on the sustainable finance package are ongoing, it is not clear what kind of future disclosure obligations will be in place. Therefore, it is very hard to assess whether the current taxonomy proposal enables compliance.



In addition, if the taxonomy ends up being very narrow, there will not be very much to disclose in relation to the environmental sustainability of the investment, eg if an investor invests in 2 000 companies, and only 10 of these companies qualify as environmentally sustainable, the value of the taxonomy will be limited.

4. Is the proposed taxonomy approach sufficiently clear and usable for investment purposes?

- Yes No Don't know / no opinion / not relevant

Please explain (2000 characters maximum)

A regulatory framework should not allow divergent interpretations and expose financial market actors to unnecessary liability risks.

The current proposal as fit for purpose for the application in project finance where a certain and concrete economic activity is financed, e.g. the financing of a wind park, a solar park or public transport. Here, a more static definition of "green" is acceptable. However, this form of investment only represents a very small part of the financial industry investments. With respect to the financing of entire companies or even conglomerates, eg as a portfolio investor through a plain vanilla bond or an equity investment, the described static approach does not adequately capture the transition of companies towards a more sustainable business model. Due to shifts in activities and strategy in the regular course of business or as a result of mergers and acquisitions the footprint of a company could materially change.

5. Would the use of the taxonomy require any additional resources (for example in human resources or information technology)?

- Yes No Don't know / no opinion / not relevant

Please specify what additional resources and if possible, give an indication of the expected costs (eg as a % of turnover or operating costs) (2000 characters maximum):

Given the currently insufficient transparency of sustainability information across jurisdictions, the use of the taxonomy and the disclosures at portfolio level will likely require proprietary third-party (estimated) data and the use of experts and professionals.

In addition, the fact that the taxonomy is complex and data intensive will likely drive investors to buy the research and data analysis from external providers, even when already having some expertise in house. This is because the complexity of the technical criteria requires additional resources. Consequently, in such cases the realization of investments would be conditioned to the recruitment of specific expertise.

Exact estimates of these costs are hard to provide as they will depend on the final taxonomy, as well as on the purpose of the analysis for the investor. However, costs might be substantial, especially for smaller and medium-sized companies.

6. Please provide any additional comments on the design and/or usability of the taxonomy, including proposals for improvement (2000 characters maximum):

The insurance industry believes that it would be valuable for the TEG to perform an extensive and comprehensive test of the taxonomy using real company data. For example, the TEG could try screening a number of companies included in a broad global equity, such as the MSCI World Index (or a bond index), to assess the usability of the taxonomy. This would give a practical indication of:

- the extent to which is possible to comply with the disclosure requirements set out in Article 4 (2) and (3) of the Taxonomy Regulation.
- whether required data and information are readily accessible or not.
- how a company with several NACE codes should be treated and how information disclosed.
- what classification systems should be used for companies outside the EU.
- how to use the qualitative screening criteria in practice.



The industry also notes that the taxonomy does not differentiate between 1) activities that do not contribute to any objective and 2) those that are harmful in themselves. This is particularly relevant for the S factor.

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