

## Regulatory News Alert

### EU Council endorses 'green finance taxonomy'

30 September 2019

#### Context and objectives

On 25 September 2019, EU ambassadors **approved the Council's position on creating a 'green finance taxonomy'**. This opens the negotiations with the European Parliament in order to achieve the final version of the text.

As part of the Sustainable Finance Action Plan, on 24 May 2018, the Commission submitted to the Council a package of legislative proposals, among which a proposal for a regulation to establish a framework to facilitate sustainable investment ("**Taxonomy Regulation**").

At present, there is no common classification system at EU or global level that defines what meets the definition of an environmentally sustainable economic activity. Taxonomy Regulation is therefore meant to address two challenges:

- **reduce fragmentation** resulting from market-based initiatives and national practices;
- **reduce "greenwashing"**, in other words the practice of marketing financial products as "green" or "sustainable", when in fact they do not meet basic environmental standards.

As set out in the Council's position, the proposal identifies and defines six EU environmental objectives:

- 1) climate change **mitigation**;
- 2) climate change **adaptation**;
- 3) sustainable use and protection of **water and marine resources**;
- 4) transition to a **circular economy**, including waste prevention and recycling;
- 5) **pollution** prevention and control; and
- 6) protection and restoration of **biodiversity and ecosystems**.



In order to qualify as environmentally sustainable, economic activities would have to fulfil the following requirements:

- contribute substantively to at least one of the **environmental objectives** introduced by the regulation;
- **not** significantly **harm** any of the environmental objectives;
- be carried out in compliance with **minimum social and governance safeguards**;
- comply with specific **technical screening criteria**.

On this basis, the Commission would then be tasked with establishing the actual classification by defining "technical screening criteria" for each relevant environmental objective.

The Council suggests the taxonomy should be **established by the end of 2021**, in order for it to be **applied by the end of 2022**.

## Next Steps

The European Parliament voted on its position on this case in March 2019. Negotiations between the Council and the Parliament are therefore ready to start.

## How can Deloitte help?

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