Ensuring the Usability of the EU Taxonomy

Originally designed as a classification system to identify sustainable economic activities, the role of the EU Taxonomy has been expanded by legislation to serve both as a metric for sustainable reporting and as a benchmark for sustainable financial products, as well as a way to measure progress towards the policy objective of a sustainable financial and economic system in the EU.

Usability challenges

- Requirement for highly granular data
- Reliance on EU legislation and criteria in an international market
- Inconsistency in the use of estimates and third-party data
- Absence of a proportionality lens for smaller companies and projects
- Dynamic Technical Screening Criteria (TSC) and the need for grandfathering
- The use of an economic activity-based classification system (NACE)

Existing and emerging initiatives and solutions

- The recommendations of the European Commission’s Technical Expert Group (TEG) on TSC flexibility
- Proposed flexibility on Do No Significant Harm (DNSH) under the EU Sustainable Finance (SF) regulations
- Future issuer and company reporting under Corporate Sustainability Reporting Directive (CSRD)
- The Next Generation EU (NGEU) Green Bonds and other market practice to date
- The approach under the Common Ground Taxonomy
- The work of the EU Platform on Sustainable Finance

ICMA Recommendations

1. Allow flexibility on alignment with the DNSH and Minimum Safeguards (MS) in all cases
2. Enable TSC adaptation to non-EU jurisdictions
3. Allow estimates and third-party data based on a common methodology
4. Simplify NACE classification of complex green and sustainability projects
5. Grandfather the legacy green bond market