

Swiss Sustainable Finance consultation response to EU Commission’s proposal for an extended taxonomy to support economic transition

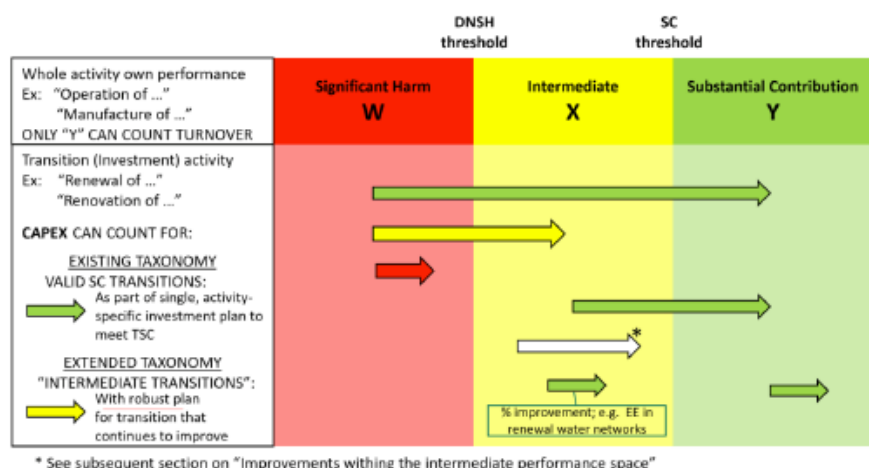
1. Introduction and background

On 12 June 2021, the EU Commission published its [draft proposal for an extended taxonomy to support economic transition](#). The report sets out the proposal to go “beyond green” to include significantly harmful (SH) and no significant impact (NSI) activities. The aim of this endeavour is to extend the taxonomy beyond the current “binary classification” in order to deliver more support and guidance in identifying investments that will aid the transition to a greener economy.

The report contains:

- Framework for extension of the taxonomy to incorporate significant harm (SH), no significant impact (NSI) and intermediate performance, including a discussion of how taxonomy activities are not directly comparable to NACE activities;
- A discussion of Significantly Harmful activities and the various performance levels applied to an economic activity as well as their ability to be reclassified that has been included in the Taxonomy (i.e “Substantially Contributing to environmental objective”, “Significant harm” and “Do no significant harm”) and guidance on the implementation of the transition;
- And an examination of the arguments of using NSI activities and a clarification of their definition.

The questions are based on the refined scheme of “red” (significantly harmful), “yellow” (intermediate) and “green” (substantial contribution) categorisations depicted in Figure 4: *Performance levels and transitions* (see below from page 25 of the report).



In August 2021, The *Platform on Sustainable Finance* collected [further feedback on this draft](#).

This report represents a work in progress and is published to gather feedback which will further inform the Platform as it continues to work on these topics, aiming to publish a Final Report later in the year.

SSF has drafted a response to the EUs 15 Questions including **feedback from its members**.

2. SSF feedback on the extended taxonomy

Question 1: Which environmental performance levels should the taxonomy distinguish, with a view to help the environmental transition? (multiple answers possible)

- Substantial Contribution
- Intermediate performance
- Significantly harmful - but can improve to sustainability
- Significantly harmful - but can improve not to do significant harm
- Significantly harmful - but cannot improve sufficiently to avoid doing no significant harm
- No significant impact

Question 2: How could policies ensure that recognising the transition from significantly harmful to intermediate performance will not slow down the transition to green activities (that evidence shows we need to accelerate)? (multiple answers possible)

- Not relevant
- Distinguish different levels of environmental performance clearly throughout the taxonomy and in other instruments
- Recognise only improvements from and to a well-defined level of environmental performance, rather than recognising activities sitting in a given level of performance below substantial contribution
- Require continued improvement beyond the relevant investment plan
- Require associated entity level transition strategy to understand the credibility of the intermediate transition.
- Recognise multiple ways of transition depending on type of Technical Screening Criteria
- Other safeguards would be needed

Question 3: Do you consider that recognising/naming the significant harm performance level would be important?

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

'Significantly harmful' taxonomy

Question 4: In your view what would be the advantages and disadvantages of a 'significantly harmful' taxonomy as designed by the Platform (i.e. accompanied by an assessment of the existing and needed EU policy and legislative initiatives aimed at incentivising finance for urgent transition away from significantly harmful activities, for building climate-resilience and to support greening of the whole economy)? (multiple answers possible)

Advantages – a 'significantly harmful' taxonomy would:

- increase the transparency of environmental performance levels of activities
- improve the communication of transitions and transition plans on activity level
- help companies to develop strategies and investment plans for moving away from significantly harmful performance levels and meeting environmental objectives
- help markets define and develop instruments for financing the transition
- enhance risk management frameworks
- help policymakers to provide subsidies for decommissioning
- other

Disadvantages – a 'significantly harmful' taxonomy would:

- be a departure from the positive spirit of the green taxonomy
- negatively impact the ability of companies to raise finance for transition
- accelerate transition risks and risks creating "stranded asset by legislation"
- negatively impact banks with high shares of lending to certain companies both among retail customers and on the wholesale markets
- disadvantage EU companies vs non-EU jurisdiction
- increase complexity, reporting burden and affect usability of the taxonomy
- other

SSF Response	Other: Create fundamental opposition on the taxonomy by sectors considered as SH and thereby weaken the whole taxonomy.
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Question 5: The report distinguishes two types of significantly harmful activities: those that are 'always significantly harmful' (no technical option to transition to an environmental performance not causing significant harm) and those that can transition out of causing significant harm. Do you agree with the following statements? (multiple answers possible)

- Always significantly harmful activities should be distinguished** from those activities that have a potential to transition out of significant harm
- Criteria should be added under the green taxonomy to **recognise as green the closure / decommissioning** for such always significantly harmful activities
- Mandatory reporting** on turnover from and capex/opex related to always significantly harmful activities should be introduced

Question 6: Do you consider recognising/naming the intermediate performance level useful to encourage mitigating significant harm?

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

Please explain your answer to Question 6: (1000 characters maximum)

SSF Response	We see a clearer delineation between causing significant harm (red), intermediate (yellow) and significant benefit (green) as a positive step in encouraging mitigation of significant harm. Once significant harm as a category has been segregated into what is only and significantly harmful (red) and what has the potential to serve humanity in the transition toward a green future (yellow and green), we can better exclude those activities that are not feasible for a climate aligned future. This approach is less binary than a purely green and brown taxonomy approach and therefore likely allows more space for innovation and adaptation and a realistic transition.
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Question 7: For activities that are in the intermediate performance space (in between significant harm and substantial contribution):

a) should all turnover from such activities be recognised as intermediate turnover, and all opex as intermediate opex?

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

Please explain your answer to question 7. a): (1000 characters maximum)

SSF Response	We are not sure if we fully understand this recommendation. If not all, then which share of turnover and opex of such activities would you count as intermediate? Based on which criteria?
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b) should all capex be recognised as 'intermediate capex' irrespective of whether or not it improves environmental performance of the activity and by how much?

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

Please explain your answer to question 7. b): (1000 characters maximum)

SSF Response	We are not sure if we fully understand this recommendation. If not all, then which share of turnover and opex of such activities would you count as intermediate? Based on which criteria?
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Intermediate Transition

Question 8: What do you think are the essential conditions for recognising such intermediate transitions for activities that can make a substantial contribution to the given environmental objective: (multiple answers possible)

- a) that the activity reaches the intermediate performance level, in other words does not do significant harm to that particular environmental objective
- b) in addition, that the activity continues to improve its environmental performance in order to stay in that intermediate performance level and not to do significant harm even if in the future the criteria are tightened.
- c) in addition, that the activity continues to improve its environmental performance in order to reach substantial contribution (green) in the future
- d) in addition, that the activity does no significant harm to other environmental objectives
- e) in addition, that the activity does no significant harm to any of the other environmental objectives, with the exception of adaptation (because failing to meet the do no significant harm criteria to adaptation means only a harm on the activity itself)

Question 9. Do you have other suggestions for extending the taxonomy framework for significantly harmful activities, intermediate performance, intermediate transition? (1000 words)

SSF Response	No
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'No significant (environmental) impact' taxonomy

Question 10: In your view what would be the advantages and disadvantages of a 'no significant (environmental) impact' taxonomy? (multiple answers possible)

Check all that apply and add any you think are missing

Advantages – a 'no significant environmental impact' taxonomy would:

- help the ESG analysis
- be beneficial for SME's to access finance
- be beneficial for SME's to access green finance (if it can allow for / incentivise greening even within the NSI space, where there is such possibility)
- ensure banks can report green lending to SMEs and continue to develop these markets
- allow easier access to finance for larger companies in these sectors
- other

Disadvantages – a 'no significant environmental impact' taxonomy would:

- be too complex to manage, as a framework
- imply burdensome reporting obligations
- risk disadvantaging 'no significant impact activities' vis-à-vis intermediate contribution activities that are likely to be more polluting
- other

Question 11: Can you give examples of activities which you think would be considered as NSI? (1000 characters)

SSF Response	No
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Question 12: If there was to be an extension of the taxonomy to address NSI activities, should it be a requirement for companies or investors wishing to report activities under the NSI taxonomy to first participate in an environmental labelling or certification scheme (such as [EMAS](#)) to validate minimum levels of environmental performance? (1000 characters maximum)

SSF Response	No
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Question 13: Do you consider it would be helpful if the Platform prepared non-binding guidance on NSI activities which could be published by the Commission for voluntary use by taxonomy users?

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

Question 14. Are you in favour of a phased approach where NSI could be recognised as a generic category (through guidance) without L1 change?

- Yes. It's a priority
- Yes but it should be done in future only
- No
- Don't know / no opinion / not applicable

Please explain your answer to Question 14: (1000 characters maximum)

SSF Response	N/A
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Question 15: Prior to any L1 change (if at all), do you consider that the Platform should recommend to include some NSI activities in the taxonomy by e.g. creating a generic category for 'green' service providers under the adaptation or other objectives?

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

Please explain your answer to Question 15: (1000 characters maximum)

SSF Response	N/A
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3. Further information

Links to important documents

Documents linked to the consultation can be found at: https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-reports_en

Zurich, Friday, 27 August 2021