



BANKING AND FINANCE

# Feedback on the usability of the taxonomy

Fields marked with \* are mandatory.

## Introduction

### Disclaimer:

This invitation for feedback is part of DG FISMA, DG ENV, DG CLIMA and DG ENER ongoing work to develop the taxonomy, for which the Commission has set up the TEG. The [action plan on financing sustainable growth](#) – action 1 – requests the group to develop the taxonomy on the basis of broad consultation of all relevant stakeholders. This feedback process is not an official Commission document nor an official Commission position. Nothing in this feedback process commits the Commission nor does it preclude any policy outcomes.

The proposed regulation (in Article 4 on use of the criteria for environmentally sustainable economic activities) envisages two specific uses of the taxonomy:

1. **Member States** when setting out “requirements on market actors in respect of financial products or corporate bonds that are marketed as 'environmentally sustainable'”;
2. **Financial market participants** “when marketing financial products as environmentally sustainable investments, or as investments having similar

characteristics, will have to disclose how and to what extent the criteria have been used to determine the sustainability of the product.” To comply with the regulation, the information disclosed by financial market participants should enable investors to identify:

- “the percentage of holdings pertaining to companies carrying out environmentally sustainable economic activities”; and
- “the share of the investment funding environmentally sustainable economic activities as a percentage of all economic activities”.

For financial market participants, these are disclosure requirements. The taxonomy is not a mandatory list of activities in which to invest. Funds targeting environmental objectives are not limited to investing in taxonomy-compliant activities. Moreover, the taxonomy can also be used on a voluntary basis by any financial institution. The taxonomy should also encourage companies to raise funds for projects that meet the criteria of the taxonomy.

Considering the above, and also the wider aims and objectives of the taxonomy ([see taxonomy approach explained](#)), potential users of the taxonomy are invited to respond to the feedback questions.

**The deadline for providing feedback is 22 February 2019 cob.**

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More information:

- [on this feedback process](#)
- [on the protection of personal data regime for this workshop registration form](#)

## 1. Information about you

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\* Are you replying as:

- a private individual
- an organisation or a company
- a public authority or an international organisation

\* Name of your organisation:

aba Arbeitsgemeinschaft für betriebliche Altersversorgung

Contact email address:

The information you provide here is for administrative purposes only and will not be published

info@aba-online.de

\* Is your organisation included in the Transparency Register?

(If your organisation is not registered, [we invite you to register here](#), although it is not compulsory to be registered to reply to this feedback process. [Why a transparency register?](#))

- Yes
- No

\* If so, please indicate your Register ID number:

2170743761-61

\* Type of organisation:

- |   |   |
|---|---|
| <input type="radio"/> Academic institution                        | <input type="radio"/> Media                         |
| <input type="radio"/> Company, SME, micro-enterprise, sole trader | <input type="radio"/> Non-governmental organisation |
| <input type="radio"/> Consultancy, law firm                       | <input type="radio"/> Think tank                    |
| <input type="radio"/> Consumer organisation                       | <input type="radio"/> Trade union                   |
| <input checked="" type="radio"/> Industry association             | <input type="radio"/> Other                         |

\* Where are you based and/or where do you carry out your activity?

Germany

\* Field of activity (*if applicable*):

*at least 1 choice(s)*

- Accounting
- Auditing
- Banking
- Credit rating agencies
- Insurance
- Pension provision
- Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- Social entrepreneurship
- Other
- Not applicable

\* Sector (*if applicable*):

*at least 1 choice(s)*

- A Agriculture, forestry and fishing
- B Mining and quarrying
- C Manufacturing
- D Electricity, gas, steam and air conditioning supply

- E Water supply; sewerage, waste management and remediation activities
- F Construction
- H Transportation and storage
- I Accommodation and food service activities
- J Information and communication
- K Financial and insurance activities
- L Real estate activities
- M Professional, scientific and technical activities
- N Administrative and support service activities
- O Public administration and defence; compulsory social security
- P Education
- Q Human health and social work activities
- Not applicable



## Important notice on the publication of responses

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\* Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?

([see specific privacy statement](#))

- Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- No, I do not want my response to be published

## 2. Questions

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**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 1<sup>st</sup> round climate mitigation activities, screening criteria and questions](#)
- Yes
  - No
  - Don't know / no opinion / not relevant

**Please explain your answer to question 1:**

2000 character(s) maximum

IORPs ensure together with sponsoring employers the occupational pensions of millions of people across Germany and the EU. The given pension promises regularly run over several decades, rendering IORPs long-term investors in the financial markets. The IORP II Directive (EU 2016/2341), introduced for the first time prudential requirements for IORPs regarding the treatment of ESG factors and risks. On this backdrop we support the objective to foster transparency in this area. ESG awareness should be increased but not separated from other risks.

Regarding the taxonomy approach chosen by the TEG, we would like to stress that the choice of principles for sustainable investment is always based on beliefs and convictions. This is often true for thresholds as well. We support an ESG framework which requires IORPs to have in place an ESG policy and inform their members about it. A taxonomy supporting such a system would have to be much more principles-based than the current approach.

Second, a strict distinction between what is sustainable according to the taxonomy and what is not might be problematic: this could lead to a situation where economic activities without this label would be considered inferior, which would be very similar to a black list. If the taxonomy was used in a prudential framework (e.g. the EIOPA stress test for IORPs), it would create supervisory pressure on certain investments; investors would then divest/not buy them anymore, which de facto would have similar consequences as a black list. The taxonomy should therefore not be the basis for prudential requirements for IORPs.

In the light of the before mentioned considerations, the proposed taxonomy is not helpful. An ESG framework for IORPs should entail putting in place a statement on how they incorporate ESG factors – however, the way they carry out their ESG policy should be up to them. This could be supported by a principle-based taxonomy.

## 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 to question 2:

2000 character(s) maximum

Without doubt using the taxonomy would create additional costs for IORPs. When investing in AIFM or UCITS, the fund managers are likely to carry out the additional work – and charge the IORPs accordingly. When investing directly, IORPs could also buy the needed expertise externally or hire additional personnel, both to increase their capacity and to build up expertise in this area.

To us it seems a significant burden for IOPRs to individually assess all their direct holdings, e.g. real estate. We would like to emphasise that care should be taken not to make it disproportionately expensive for IORPs to invest directly.

Regarding the NACE classification in particular, we see a danger that the practical application of the classification will be a huge administrative burden for all financial market participants because it is very complex and currently not used by financial market participants. An automatic use of the classification is not possible. We therefore call on the involved experts to consider in their choice of classification its practicability and resulting implementation costs.

### 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 character(s) maximum*

It is difficult to answer this question without knowing exactly what the future disclosure requirements will be. The integration of ESG aspects into the investment processes and risk management of IORPs is generally to be supported. Better data availability would facilitate this. IORPs should be transparent for the national supervisory authority and the beneficiaries and disclose whether and how they take sustainability factors into account. The primary objective of every IORP is to meet the promised benefits through an appropriate, risk-controlled investment policy. ESG criteria are just one of several factors to consider in the investment process. In some cases, ESG guidelines of the sponsoring company also have to be taken into account; IORPs cannot be required to implement an ESG policy going against their own sponsor. The IORP II Directive already contains sensible rules regarding ESG factors and risks, which are now being transposed by the Member States and will then be integrated by the IORPs. Should the evaluation and review of the existing rules show that changes are necessary, these should be made within the framework of the IORP II Directive - and under no circumstances via delegated acts.

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

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

### What changes would you propose?

*2000 character(s) maximum*

Even though the Technical Expert Group is tasked with the developing the screening criteria, we would like to make some remarks of more general nature to be considered while developing the taxonomy: from our perspective the proposed taxonomy could only be applied to products which seek a green label in order to avoid greenwashing. From our perspective it is sufficient to require IORPs to have in place an ESG policy and inform their members about it. For IORPs, this requirement should be set out in the IORP II Directive. In particular we see severe consequences if the taxonomy approach was used as part of a prudential framework such as the EIOPA stress test for IORPs: economic activities without the taxonomy label could become seen as inferior, and being treated differently in the stress test. This would create supervisory pressure on certain investments, leading investors to divest/not buy them anymore. De facto, this would have similar consequences as a black list. The taxonomy should therefore not be the basis for prudential requirements for IORPs.

A taxonomy that de facto leads to a "blacklist" can trigger herding in the capital markets, resulting in large systemic risks (and damage to economies and markets). In addition it could remove capital from companies that have the greatest possible potential for improvement.

## 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 (e.g. as a % of turnover or operating costs):

*2000 character(s) maximum*

Without doubt using the taxonomy would create additional costs for IORPs. When investing in AIFM or UCITS, the fund managers are likely to carry out the additional work – and charge the IORPs accordingly. When investing directly, IORPs could also buy the needed expertise externally or hire additional personnel, both to increase their capacity and to build up expertise in this area. In addition, internal capacity has to be built up as well to ensure an adequate integration of ESG factors/risks in the investment decision making process, in governance, risk management and disclosure.

Regarding an estimation of the expected costs, it is difficult to assess this with the information available: it is not clear to us what compliance exactly would entail; in addition, some costs (e.g. for the data on economic activities) might change after the proposed regulation is in place. We therefore cannot provide an estimate at the moment.

On a general note we would like to point out that for IORPs using a percentage of turnover as a specification is not an adequate measure, because it is not a relevant measure. Much more adequate would be to measure the cost as a percentage of the premiums earned or in bps of the AuM of a given IORP.

## 6. Please provide any additional comments on the design and/or usability of the taxonomy, including proposals for improvement:

*2000 character(s) maximum*

The taxonomy should be principle-based which would allow investors to decide what they want to invest in and how they engage with their investee companies.

To ensure the usability of the taxonomy, we would like to point out that IORPs are mostly (end-) investors in financial instruments/products in the financial market. Very few IORPs compete at all, most IORPs neither with each other nor with financial service providers. In view of the intended EU standardisation, a differentiation in the definition or treatment of financial market participants is therefore sensible and absolutely necessary. Transparency rules have to take into account – as for example done in the Shareholder Rights Directive - whether they are directed at (end-) investors in financial instruments/products (e.g. IORPs) or sellers (asset managers) of financial products.

We disagree with the assessment of the Commission that harmonisation in this area is necessary for all financial market participants covered by the Action Plan on 'Financing sustainable growth' because of their regular cross-border activities – this is not the case for IORPs. From our perspective it is sufficient to require IORPs to have in place an ESG policy and inform their members about it.

A taxonomy that de facto leads to a "blacklist" can trigger herding in the capital markets, resulting in large systemic risks (and damage to economies and markets). In addition it could remove capital from companies that have the greatest possible potential for improvement.

## Useful links

[More on the Transparency register \(http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en\)](http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

[Feedback process details \(https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/sustainable-finance-taxonomy-feedback-and-workshops\\_en.pdf#usability\)](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-feedback-and-workshops_en.pdf#usability)

[Specific privacy statement \(https://ec.europa.eu/info/files/sustainable-finance-taxonomy-feedback-and-workshops-privacy-statement\\_en\)](https://ec.europa.eu/info/files/sustainable-finance-taxonomy-feedback-and-workshops-privacy-statement_en)

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