

FAQ: What is the EU Taxonomy and how will it work in practice?

The purpose of this FAQ document is to answer some of the questions that stakeholders often ask Commission services about the EU Taxonomy and its draft Delegated Act. It is not legal advice and it contains only the views of Commission services, which does not bind the College of Commissioners. The EU Taxonomy is relevant for many stakeholders, whose questions might not be covered in this FAQ. An earlier [FAQ on the EU Taxonomy & EU Green Bond Standard](#) contains further answers to specific questions often raised by stakeholders.

Based on feedback received from stakeholders on the EU Taxonomy Delegated Act, Commission services issued a [request for advice](#) to the [Platform on Sustainable Finance](#). The Platform's [report on transition finance](#) delivered on 19 March represents an important complement to some of the questions addressed in this FAQ. This FAQ will be updated as work progresses on the EU Taxonomy framework. Its date of first publication is 23 March 2021. Last updated: 23 March 2021.

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Part I – The EU Taxonomy

1. What is the EU Taxonomy?

The EU Taxonomy is a **green classification system** that translates the EU’s climate and environmental objectives into criteria for specific economic activities for investment purposes. The EU Taxonomy recognises as green, in other words “environmentally sustainable”, those economic activities that make a substantial contribution to at least one of the EU’s climate and environmental objectives, while not significantly harming any of these objectives and meeting minimum social safeguards. Taxonomy delegated acts will establish and maintain **clear criteria** for activities to define what it means to make a **substantial contribution** and what it means not to **do no significant harm**.

Economic activities that are not recognised by the EU Taxonomy as contributing substantially to an environmental objective are not necessarily environmentally harmful or unsustainable. And not all activities that can make a substantial contribution to the environmental objectives are yet part of the Taxonomy. It is a living document that will be added to over time and updated as necessary. For example, agriculture is not included in this delegated act, but will be included in the next delegated act.

The EU Taxonomy is also a **transparency tool**. It will introduce mandatory disclosure obligations on some companies and investors, requiring them to **disclose** their share of Taxonomy-aligned activities. The **mandatory** disclosure of the proportion of Taxonomy-aligned green activities will allow the comparison of companies and investment portfolios based on this proportion. It can guide market participants in their investment decisions. Companies, if they wish, can reliably use the EU Taxonomy to **plan their climate and environmental transition and raise financing** for this transition. Financial companies, if they wish, can use the EU Taxonomy to **design credible green financial products**.

The EU Taxonomy **is not a mandatory list of economic activities for investors** to invest in. Nor does it set mandatory requirements on environmental performance for companies or for financial products. There is no obligation for companies to be Taxonomy-aligned, and investors are also free to choose what to invest in. However, it is expected that over time, the taxonomy will be an enabler of change and encourage a transition towards sustainability.

2. Relationship between the Taxonomy Regulation and the Delegated Act

The EU Taxonomy provides a **common understanding of economic activities** that make a substantial contribution to the EU’s environmental goals, by providing consistent, objective criteria in delegated acts.

The first delegated act sets criteria for economic activities in the sectors that are most relevant for achieving climate neutrality and delivering on climate change adaptation. This includes sectors such as energy, forestry, manufacturing, transport and buildings.

Criteria for other environmental goals will follow in a later delegated act.

3. Why do we need an EU Taxonomy?

We need reliable tools to support companies in the transition to climate neutrality and a sustainable economy. The EU Taxonomy is one such tool, translating the climate and environmental objectives into clear criteria, to create a common language around green activities. It will create a frame of reference for investors and companies. It will support companies in their efforts to plan and finance their transition, help mitigate market fragmentation, protect against greenwashing and accelerate financing of those projects that are already sustainable and those in transition, to deliver on the objectives of the European Green Deal.

The EU Taxonomy is an important element of a much broader sustainable finance framework that will deliver a complete toolkit for financing the transition. Within that broader framework, the added value of the EU Taxonomy is that it can help scale up investment in green projects that are necessary to implement the European Green Deal.

4. How does the EU Taxonomy fit within the broader sustainable finance framework?

The EU Taxonomy provides a common understanding of green economic activities that make a substantial contribution to our environmental goals, by providing consistent, objective criteria.

Another important tool in the sustainable finance policy framework is the [Non-Financial Reporting Directive \(NFRD\)](#). It is currently being revised, with the aim of delivering a **comprehensive corporate reporting framework** with qualitative and quantitative information to facilitate the assessment of companies' sustainability impacts and risks. Therefore, investors will be able to see – in the case of large companies falling under the scope of the NFRD – not only information about a company's Taxonomy-aligned economic activities, but also the environmental performance information of a company reported under the revised NFRD.

A third cornerstone of the EU sustainable finance toolkit is the [Sustainable Finance Disclosure Regulation \(SFDR\)](#). It applies from 10 March 2021 and creates a comprehensive reporting framework at the level of financial products and financial entities. The regulation creates a disclosure framework, and compliance with sustainability-related disclosures is expected to have considerable behavioural effects on financial firms, and indirectly on business models of companies that are being invested in. Different investment strategies may entail investments in economic activities with different levels of environmental performance. For this reason, the SFDR distinguishes disclosure requirements for:

- (1) financial products that claim to have 'sustainable investment' as their objective (in the case of environmental objectives these are often referred to as 'dark green' financial products)
- (2) financial products that claim to be promoting social or environmental characteristics (often referred to as 'light green' financial products)

The SFDR requirements are linked with those under the EU Taxonomy by including 'environmentally sustainable economic activities' as defined by the Taxonomy Regulation in the definition of

‘sustainable investments’ in the SFDR. But neither the SFDR nor the Taxonomy Regulation provide criteria and define eligible investments or strategies for so-called ‘light green’ financial products. Therefore, the ESG ambition of ‘light green’ financial products may vary: for example, certain ‘light green’ financial products may partially pursue sustainable investments. Regulatory technical standards jointly developed by ESMA, EBA and EIOPA further specify disclosure requirements for ‘dark green’ and ‘light green’ financial products in terms of substance as well as presentation of information by means of standardised templates across the financial services sectors.

5. How does the EU Taxonomy define green economic activities?

[The Taxonomy Regulation](#) lays out six EU environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

It sets out **four conditions** that an economic activity has to meet to be recognised as **Taxonomy-aligned**:

- making a substantial contribution to at least one environmental objective;
- doing no significant harm to any other environmental objective;
- complying with minimum social safeguards;
- complying with the technical screening criteria.

Technical screening criteria are **developed in delegated acts**. For each economic activity considered, the technical screening criteria specify environmental performance requirements that ensure the activity makes a substantial contribution to the environmental objective in question and does no significant harm to the others.

The technical screening criteria for ‘**substantial contribution**’ to an environmental objective ensure that the given economic activity either has a substantial positive environmental impact or substantially reduces negative impacts on the environment, e.g. substantially reduced level of greenhouse gas emissions. The technical screening criteria for ‘**do no significant harm**’ ensure that the economic activity does not impede the other environmental objectives considered from being reached, meaning it has no significant negative impact on them. Both sets of criteria together ensure coherence between the objectives in the EU Taxonomy and **guarantee that progress towards one objective is not made at the expense of another**.

The performance thresholds in these criteria are **science-based** and developed on the basis of a **robust methodology** and an **inclusive process**. They will identify criteria for economic activities that can set sectors on a path consistent with the EU’s climate and environmental goals, based on currently available technologies.

Substantial contribution to climate change mitigation, for example, means levels of performance that are aligned with climate neutrality and limiting the increase in temperature to 1.5 degrees

globally. For climate change adaptation this means the implementation of solutions to substantially reduce the most significant identified climate risks to a particular activity such as wildfires, storms or droughts. The Taxonomy Regulation calls such activities “environmentally sustainable”: but this does not mean that activities that do not meet these four conditions are “unsustainable”.

Economic activities can make a substantial contribution through specific means listed in Articles 10 to 15 of the Taxonomy Regulation. Based on these provisions, the draft Delegated Act contains a number of activities that can make a substantial contribution and defines criteria for those activities to qualify as green under the Taxonomy. The methodology used by the Commission is based on the work by the [Technical Expert Group](#). It considers that activities can make a substantial contribution because:

- they have a low impact on the environment and have the potential to replace high impact activities (e.g. renewable energy);
- they reduce impact from other activities (e.g. wastewater treatment);
- or they make a positive environmental contribution (e.g. restoration of wetlands).

These are not types of activities explicitly listed in the Taxonomy Regulation. Instead, they are ways to understand and frame the concept of ‘substantial contribution’, based on Articles 10 to 15 of the Taxonomy Regulation.

In addition, the Taxonomy Regulation explicitly recognises two specific types of activities that also make a substantial contribution. First, for the climate change mitigation objective, it recognises “**transitional activities**”. These are activities for which low-carbon alternatives are not yet available and that have greenhouse gas emission levels that correspond to the best performance in the sector or industry. For example, this might include best-in-class cement manufacturing. Nevertheless, there are two conditions: (i) they should not hamper the development and deployment of low-carbon alternatives and (ii) they should not lead to a lock-in of carbon-intensive assets, considering the economic lifetime of those assets.

The second specific type of activity recognised as making a substantial contribution is referred to as “**enabling activities**”. These are activities that directly enable others to make a substantial contribution to an environmental objective. For example, this could include manufacturing of renewable energy technologies, installation of energy efficiency equipment in buildings, research into materials for stronger flood defences, or use of cover crops that reduce the risk of flooding for an area.

6. What are the specific environmental performance requirements and thresholds that must be met for an activity to be Taxonomy aligned?

The Taxonomy Regulation tasks the Commission with establishing technical screening criteria through delegated acts. The first delegated act will cover the first two environmental objectives, climate change mitigation and climate change adaptation. The [draft of the first delegated act](#) was published for public feedback on 20 November 2020, with the feedback period ending on 18 December. The Commission plans to adopt the first Delegated Act in the second half of April 2021.

The Commission is currently preparing an IT tool to facilitate the use of the Taxonomy by allowing users to find the criteria more easily, for example by selecting the type of economic activity they are interested in. The tool will be available at the beginning of 2022.

On how such performance requirements and thresholds have to be set, see the answer to question 5.

7. What is the level of ambition of the EU Taxonomy ‘substantial contribution’ criteria? Why is it sometimes higher than EU sectoral legislation?

The EU Taxonomy recognises as ‘green’ those activities that make a substantial, rather than a marginal, contribution to reaching EU environmental objectives. The EU Taxonomy sets the criteria based on a level of ambition that strengthens the EU’s credibility and signals the activities that can substantially contribute to the goals of the EU Green Deal. Given the huge investment needs and the necessary broad transformation of the EU economy, marginal improvements on the current levels of environmental performance – while important in their own right – will in themselves not be sufficient to reach our green objectives.

Alignment with EU sectoral policies is an important consideration. But there are good reasons why the Taxonomy criteria might both integrate and go beyond sectoral policies. There is a particular difference between requirements for a ‘substantial contribution’ and requirements for ‘doing no significant harm’.

8. Why are some sectors not covered by the EU Taxonomy criteria?

EU co-legislators have prioritised those economic activities that can make the most relevant contribution to the environmental objectives under consideration. The first Delegated Act focuses on the climate objectives (climate change mitigation and climate change adaptation) and so includes activities that are most relevant for reductions in greenhouse gas emissions and for improving climate resilience. It was not possible to develop criteria for all sectors where activities could conceivably make a substantial contribution. However, the Taxonomy will expand over time and more economic activities will be included. For example, agriculture will be included in the next delegated act and take account of legislative changes of the Common Agricultural Policy.

The EU Taxonomy draft delegated act provides draft criteria for economic activities in sectors that are the most relevant to achieving climate neutrality. This includes sectors with the highest contribution to CO₂ emissions (energy, manufacturing, transport, buildings), as well as activities enabling their transformation, because the transformation of activities in these sectors is necessary in order to reach the EU’s climate objectives. The sectors covered in the draft delegated act represent a significant proportion of the EU’s greenhouse gas emissions, and activities that reach the criteria set out in the delegated act are considered to contribute “substantially” to the climate objectives.

The EU Taxonomy will be developed gradually over time, and further delegated acts, or revisions of existing ones, will likely include other economic activities from different sectors and sub-sectors of the economy, as these become relevant and feasible to integrate into the Taxonomy. Stakeholders will have an opportunity to notify the Platform on Sustainable Finance about activities they believe should be covered in the EU Taxonomy. The assessment of further economic activities will also be based on

scientific evidence and broad stakeholder input. The second delegated act in particular will address other sectors that are relevant for the remaining environmental objectives. Gradually, additional sectors will be considered and additional activities will be included.

For more information on the EU Taxonomy, including information on the gradual inclusion of economic sectors and activities, please see the [FAQ](#) previously prepared by the Commission and Technical Expert Group on Sustainable Finance on EU Taxonomy & EU Green Bond Standard.

Part II – Use of the EU Taxonomy

9. How will companies use the EU Taxonomy?

There are some mandatory disclosure rules defined in the Taxonomy Regulation. Alongside those, companies can also use the EU Taxonomy voluntarily.

Mandatory use: disclosure

The EU Taxonomy Regulation sets mandatory requirements in terms of disclosure, in line with the aim to provide transparency on environmental performance.

Firstly, **large financial and non-financial companies** that fall under the scope of the Non-Financial Reporting Directive will have to **disclose** to what extent the activities that they carry out meet the criteria set out in the EU Taxonomy. Likewise, **financial market participants** (such as asset managers) will have to **disclose** to what extent the activities that their financial products finance economic activities that meet the Taxonomy criteria. Companies will be able to disclose the extent to which they invest, for example through capital expenditures, in either expanding or strengthening their activities which are already Taxonomy-aligned, or to upgrade other activities to make them Taxonomy-aligned. Disclosure on green revenue and green expenditure will provide the market with information on (1) companies whose activities comply with the EU Taxonomy criteria (through disclosure of share revenue from Taxonomy-aligned activities) and (2) companies that are taking steps to get there (through disclosure of green expenditure).

For more information on reporting obligations, please see the [FAQ](#) previously prepared by the Commission and Technical Expert Group on Sustainable Finance on the EU Taxonomy & EU Green Bond Standard. The details of these reporting requirements will be further specified in an upcoming Delegated Act under Article 8 of the Taxonomy Regulation and in Regulatory Technical Standards to be adopted under Articles 8, 9 and 11 of the Sustainable Finance Disclosure Regulation.

Voluntary use: Guide for investments

The EU Taxonomy sets requirements in terms of **disclosure**, in line with the aim to provide **transparency on environmental performance**.

At the same time, there are many possible voluntary uses of the EU Taxonomy by market participants, which are not defined in any policy instruments. For example, companies can use the criteria of the EU Taxonomy as an input for **their environmental and sustainability transition strategies and plans**. Companies and project promoters can choose to meet the criteria of the EU Taxonomy with the

aim of **attracting investors** interested in green investment opportunities. Investors can choose to use the EU Taxonomy criteria in their due diligence for screening and identifying sustainable **investment opportunities** aiming to achieve a positive environmental impact.

10. Will the EU Taxonomy be used elsewhere too?

Green standards and labels

The Taxonomy Regulation requires **Member States and the EU** to use the EU Taxonomy as the basis of any EU or national (public) **labels** for green corporate bonds or financial products that fall under the scope of the SFDR. The EU Taxonomy therefore provides a good basis for the development of further sustainable finance tools, including the EU [Ecolabel for Retail Financial Products](#) and future EU standards for [green bonds](#) (all under development) as well as green mortgages.

Ongoing EU policy initiatives will link standards and labels to Taxonomy aligned economic activities:

- In the current **draft EU Ecolabel** criteria for financial products, there is a requirement for a certain share of underlying activities invested in to be Taxonomy aligned. Thus, the EU Ecolabel will be awarded to financial products only if the companies they invest in carry out Taxonomy-aligned activities. It will be useful to have an ecolabel for financial products especially for retail investors who have corresponding sustainability preferences.
- The **EU Green Bond Standard (GBS)** will define requirements for entities wishing to issue green bonds and claim compliance with this standard. These standards will include a requirement for companies to ensure that the proceeds raised through the bond issuance are used to finance Taxonomy-aligned activities.
- The **EU Climate Benchmarks Regulation** lays down minimum standards for the creation of two types of climate benchmarks – EU Climate Transition and EU Paris-aligned Benchmarks. These are to be made consistent with the EU Taxonomy by the end of 2022. The Commission will reflect on how to implement this obligation in practical terms and what obligation will be put on benchmark administrators for the selected companies or entities to form part of such benchmarks. It could be that benchmark administrators have to select companies that have a certain percentage of their activities classified as green as per the taxonomy or that companies are excluded because they do not meet certain thresholds. The two EU Climate Benchmarks are largely used by market participants for the allocation of assets and should contribute to showcasing companies that have an impact on tackling climate change.

EU instruments making reference to the EU Taxonomy

In addition to the mandatory uses set out in the Taxonomy Regulation discussed above, there are **other EU (or national) policies** that may refer to the Taxonomy Regulation. Such uses are not defined or

mandated in the Taxonomy Regulation itself, but in other policy instruments. One area where the EU Taxonomy framework might be used, if deemed appropriate, is the design of financial support schemes or financial products. National Promotional Banks or Institutions may make reference to the EU Taxonomy framework to provide financial support to green investments at national level, or when proposing financing for green projects under the [InvestEU Programme](#).

Another important example is the use of the “do no significant harm” principle of the Taxonomy Regulation in the [Recovery and Resilience Facility \(RRF\)](#). Here, the “do no significant harm principle” is applied within the meaning of Article 17 of the Taxonomy Regulation but without requiring the use of the delegated acts and related technical screening criteria. Instead, the Commission published on 12 February 2021 a technical guidance document, providing more detail on how to apply the “do no significant harm” principle for the purposes of the RRF.

Similarly, based on the political agreement reached between the Council and the European Parliament on new rules for **EU regional, cohesion and social funds** for the period of 2021-2027, the budget expenditure as part of those funds will also need to respect the “do no significant harm” principle within the meaning of Article 17 of the Taxonomy Regulation. For the 2021/2022 Work programme, the “do no significant harm” principle was introduced when setting the Call topics under the new **EU Research Framework Programme [Horizon Europe](#)**.

11. How can companies benefit from having Taxonomy-aligned activities?

Companies that fall under the scope of the NFRD will be disclosing to the financial markets whether or not they have taxonomy aligned activities. Investors will have access to this information and can make investment decisions accordingly. Companies with Taxonomy aligned activities will benefit from institutional investors, retail investors and banks interested in green investments, as they will be looking to finance Taxonomy-aligned economic activities.

Investors that want to make a positive environmental impact will be interested in Taxonomy-aligned economic activities because they will know the given activity lives up to the established gold standard, i.e. has a high level of environmental performance and makes a substantial contribution.

Institutional investors can design their financial products in such a way as to fund some Taxonomy-aligned activities. Those under the scope of the SFDR will have to comply with mandatory disclosures whereby they also need to show to what extent, if any, there are underlying Taxonomy-aligned investments in the financial products they offer.

Large banks might also have an incentive to finance Taxonomy-aligned economic activities, for example through lending. This means that a company applying for a bank loan may be able to get a better interest rate if the purpose of the loan is to reach Taxonomy alignment of a given activity, or to fund taxonomy-aligned activities.

Retail investors are increasingly interested in investing in green financial products. Given the upcoming amendments to the requirements for portfolio management and investment advice, those providing investment services need to consider the client’s sustainability preferences as well as their risk profile. This opens a channel for retail investors to state whether they prefer to invest in financial

products that have positive environmental impacts or to avoid investing in those that do not, so that they can be offered financial products that match their preferences. Taking into account retail investors' sustainability preferences when they are given financial advice creates better opportunities for companies with Taxonomy-aligned activities to reach retail investors.

While it is not mandatory for companies to ensure their economic activities meet the criteria of the Taxonomy, it provides **motivation for companies** to strive to reach that level of environmental performance that financial markets recognise as green. The Taxonomy Regulation, along with the SFDR, NFRD, and ongoing policy initiatives such as the EU Ecolabel for retail financial products and the EU Green Bond Standard, will ensure that Taxonomy-aligned activities are visible and recognised when making investment decisions. Companies that wish to make a substantial contribution to reaching the climate and environmental objectives can **voluntarily decide to use these criteria** when planning their transition to sustainability.

12. How does the EU Taxonomy help companies' transition towards sustainability?

The EU Taxonomy criteria provide a reference point for companies in their decision-making regarding their green transition. Companies can use the EU Taxonomy **to improve** their overall environmental performance (either by upgrading current activities or starting new activities) and **to attract** investors.

The EU Taxonomy **criteria are defined at the level of economic activities**. Therefore, assessing the degree of alignment of a company with the EU Taxonomy requires checking the performance of its activities against the criteria.

In practice, the reporting procedures and resource planning will likely be organised at the level of the legal entity(ies) of a given company. Legal entities would assess and report the percentage of their activities that are Taxonomy-aligned, expressed as the **share of their Taxonomy-aligned turnover or expenditures** (capital and operational). This information would then be aggregated across legal entities for the company as a whole.

By focusing on the activity level, the Taxonomy supports companies in their transition. It provides incentives to gradually increase their share of green economic activities to attract more investors or possibly new and different types of investors.

Knowing the current environmental performance at the level of an activity will encourage companies to make transition plans and implement measures that get their activities to meet the Taxonomy criteria. By also covering capital expenditure linked to the transition plans, the EU Taxonomy can help attract investors searching for Taxonomy-aligned investments to finance the transition, helping both companies and investors to accelerate the transition to sustainability.

13. When can turnover and expenditure be counted as Taxonomy-aligned?

The specific details for when company turnover and expenditures count as Taxonomy-aligned will be set out in the upcoming Delegated Act under Article 8 of the Taxonomy Regulation, notably for companies subject to the Non-Financial Reporting Directive. The draft delegated act will be published

for public feedback. This FAQ will be updated to answer this question once the delegated act is adopted.

14. My company is an SME. Can my company also benefit from the EU Taxonomy?

Businesses of any size, including small companies, can use the EU Taxonomy to explain to investors or stakeholders in general whether they carry out or plan to carry out Taxonomy-aligned green activities. Disclosures are only mandatory for large companies in the scope of the NFRD, but many small companies and businesses could find it useful to disclose the Taxonomy alignment of their activities on a voluntary basis.

Those SMEs whose business model is focused on one green activity covered by the EU Taxonomy will have only one set of criteria applicable to their business model. For instance, a small manufacturer of energy-efficient windows could check relatively easily what share of its turnover, capital expenditure or operating expenditure is related to the sale of windows that comply with the taxonomy criteria.

15. My company's activity is not covered in the EU Taxonomy. What does that mean for my company?

As the answer to question 7 explains, not all economic activities are covered by the Taxonomy Regulation and its delegated acts. But this does not mean that the EU Taxonomy will be irrelevant to companies active in those sectors that are not covered.

As has been pointed out in the answer to question 10, the [TEG in its report](#) suggested that companies active in a sector that the EU Taxonomy does not cover could use the EU Taxonomy for some of their expenditures into output of other activities that are Taxonomy-aligned (for example a hospital purchasing and installing solar panels, an energy efficient heating system or energy efficient windows from manufacturers that comply with Taxonomy criteria for these activities). The [request for advice](#) issued to the Platform on Sustainable Finance and the Platform's [report on transition finance](#) also cover this question.

16. My company's activity is not Taxonomy aligned. Can this activity's environmental performance still be recognised somehow?

Even though the EU Taxonomy only reveals whether companies have Taxonomy-aligned activities or not, the revised NFRD is expected to require more detailed reporting on a broad range of sustainability issues, including on environmental performance indicators. Based on that information, financial market participants can **recognise different degrees of environmental performance that have not been categorised by law as Taxonomy aligned.**

Nevertheless, it is important to recall that (1) what does not qualify as a green economic activity under the Taxonomy is not necessarily unsustainable given the need to make a “substantial contribution” and (2) the Taxonomy **does not constitute a mandatory list for investors** to invest in. Thus, financial market participants can choose to invest in companies that carry out activities that have **different degrees of environmental performance**, including activities that do not comply with the Taxonomy

criteria. In terms of further policy work, Article 26 of the Taxonomy Regulation calls for a **Commission report** by the end of 2021 which will analyse **whether the Taxonomy Regulation should be extended to cover economic activities with no significant impact on the environment as well as economic activities that do significant harm to the environment**. The Platform on Sustainable Finance, following the Commission's [request for advice](#), delivered its [report on transition finance](#) on 19 March that will feed into that report.

17. My company is taking steps to reduce the harmful impact on the environment of its activities. Will this improvement be recognised?

Significant improvements in environmental performance are important and financial markets should be able to recognise them.

Under the EU Taxonomy such improvements can only be qualified as Taxonomy-aligned if they lead to the substantial contribution threshold for at least one environmental objective being reached (without doing significant harm to any other objectives and if they comply with the minimum social safeguards). The Taxonomy Regulation identifies those environmental performances that go further than simply refraining from doing significant harm.

Article 26 of the Taxonomy Regulation calls for a **Commission report** by the end of 2021 which will analyse **whether the Taxonomy Regulation should be extended to cover economic activities with no significant impact as well as economic activities that do significant harm to the environment**.

The Platform on Sustainable Finance, following the Commission's [request for advice](#), delivered its [report on transition finance](#) on 19 March that will feed into that report. In its report the Commission could look into, among other issues, the question of whether and how to **recognise improvements in the environmental performance** of activities that are causing significant harm to the environment, even if that improvement does not meet the criteria established for substantial contributions in the EU Taxonomy, but the improvement leads to performance levels better than significant harm.

18. How about companies without any Taxonomy-aligned activities? Will they lose access to finance?

No. The mere fact that a company does not have Taxonomy-aligned activities does not mean that conclusions can be drawn regarding the company's environmental performance or its ability to access finance.

There is also no obligation on companies to have activities aligned with the EU Taxonomy and there is no obligation on investors to invest in Taxonomy-aligned activities. Overall, there is likely to be a higher interest in Taxonomy-aligned activities from investors who are seeking green investments.

There are several reasons why a company might not have economic activities that are aligned with the criteria of the EU Taxonomy: its economic activities might simply not be covered by the EU Taxonomy, or it may be covered but not make a substantial contribution to an environmental objective; or it might make a substantial contribution but not meet the do no significant harm criteria or the minimum social safeguards. So, without knowing the exact reasons why a company has no

Taxonomy-aligned activities, market participants cannot make investment decisions purely on the basis of Taxonomy-related disclosures of companies, because not having Taxonomy-aligned activities does not, in itself, reveal the company's exact environmental performance. Instead, other disclosures, such as the company's disclosures under the NFRD will help inform markets about the company's environmental performance and the company's direction of travel on environmental matters.

Just as companies need to manage their portfolio of activities and should aim to gradually increase the share of green activities, similarly investors manage portfolios of investments and it can be expected that most investors will aim to gradually increase the share of green investments of their portfolios.

It is also important to keep in mind that financial market participants making decisions about allocating capital within the economy will take into account more than just the information about Taxonomy alignment (indicating green activities). For all companies within the scope of the NFRD even for companies not undertaking economic activities that are Taxonomy aligned, investors will have at their disposal both (i) Taxonomy disclosures and (ii) the information reported according to the (revised) NFRD. Aside from legally binding disclosures, companies can also make voluntary disclosures. Investors will use all of these disclosures to make their investment decisions and put together their financial products. **Investors are free to design their investments as they wish and will continue to make investment decisions taking into account a large number of factors.**

Those companies with economic activities with little or no room to reduce their emissions to levels in line with the pathway to climate neutrality by 2050 will need to find ways to manage this transition (gradually switching to more environment friendly economic activities) to avoid cliff-edge effects on the company, its workers, investors and other stakeholders.

Article 26 of the Taxonomy Regulation calls for a **Commission report** by the end of 2021 which will analyse **whether the Taxonomy Regulation should be extended to cover economic activities with no significant impact as well as economic activities that do significant harm to the environment.** The Platform on Sustainable Finance, following the Commission's [request for advice](#), delivered its [report on transition finance](#) on 19 March that will feed into that report.

Part III – Process and further policy developments

19. What will the process for adopting the Delegated Act with the criteria for climate change mitigation and adaptation be? And as of when will it apply?

Concerns that are best addressed outside the scope of the Delegated Acts will be taken into account in the upcoming Renewed Sustainable Finance Strategy and future policy work. Based on the feedback received from stakeholders the Commission issued a [request for advice](#) to the Platform on Sustainable Finance in January 2021, to explore and give advice on the existing and potential future use of the EU Taxonomy to facilitate the transition towards a sustainable economy. The Platform on Sustainable Finance delivered its [report on transition finance](#) on 19 March.

The Commission plans to adopt the Delegated Act in the second half of April 2021. Once the Commission adopts the Delegated Act, the European Parliament and the Council will have a scrutiny period of 4 months that can be extended by an additional 2 months. The European Parliament and the Council cannot amend the proposed technical screening criteria: the EU co-legislators only have a right to reject the act in its entirety.

Financial entities and companies are already using or considering using the EU Taxonomy framework and will be able to report voluntarily as soon as the first delegated act is adopted. For companies under the scope of the NFRD mandatory reporting under the Taxonomy Regulation will apply from **January 2022** for the climate change mitigation and adaptation objectives, and from **January 2023** for the other four objectives.

This timeline was agreed by the European Parliament and the Council in the Taxonomy Regulation. The Commission will explore, including with input from the Platform on Sustainable Finance, appropriate guidance and options for how companies and financial market participants can meaningfully report in the first year of their reporting obligations, taking into account certain data gaps.

20. Where can I find further information about the process for implementing the EU Taxonomy framework?

The European Commission [website on sustainable finance](#) contains further information about the process of defining the details of the EU Taxonomy framework through delegated acts. In addition, in October 2020 the Commission established the Platform on Sustainable Finance to advise it on several tasks and topics related to developing the EU Taxonomy further. The Platform consists of world-leading sustainability and industry experts representing a wide range of stakeholders, including financial market participants, industry, civil society and academia. The Platform will gather feedback from market participants on the technical screening criteria that need to be met if an economic activity is to be considered Taxonomy-aligned. Information about its work is available on the website of the [Platform on Sustainable Finance](#).