



## **The EU Taxonomy: implementation challenges and proposed solutions**

**The Sustainable Finance Advisory Committee of the German Federal Government (*Sustainable-Finance-Beirat*, SFB) emphasizes the importance of transparency and thus of sustainability reporting regulation. However, the SFB sees companies facing major challenges in the practical application of the Taxonomy Regulation. In its current recommendation, the SFB has developed approaches to solving structural and content-related challenges and overcoming practical hurdles in the Taxonomy's initial application. In addition, the Advisory Committee emphasizes the enormous importance of the taxonomy for the necessary transformation and warns against weakening or deprioritizing it.**

**Berlin, 21. March 2023** - The Sustainable Finance Advisory Committee of the German Federal Government (*Sustainable-Finance-Beirat*, SFB) supports the introduction of reporting requirements for sustainable economic activities as defined by the Taxonomy Regulation. The SFB also supports the provision of capital for sustainable economic activities. At the same time, the additional resources associated with the application of the Taxonomy Regulation must remain reasonable. The SFB has drafted first proposed solutions from the perspective of practitioners, auditors and users hoping for regulators to address the identified challenges in a timely manner.

*"We have identified three core areas of difficulty for companies in the practical initial application of the Taxonomy Regulation. This impacts the audit of reporting and the use of taxonomy disclosures,"* said Melanie Sack, Co-Chair of the SFB's *Reporting, Auditing and Measurement* working group.

Most substantive challenges are seen in legal ambiguities and inconsistencies in regulation. The SFB calls for closing definition gaps, cleaning up inconsistent taxonomy criteria, and clarifying minimum social safeguards. In addition, the EU Commission should establish a contact point and application tools for the taxonomy that would provide quick, comprehensive, and reliable answers to ambiguities. Furthermore, missing economic activities should be added to the Taxonomy Regulation, provided that the problems listed in the paper are clarified. This should be done as a matter of priority on the remaining four environmental targets, and in further steps on green transition economic activities and social activities.

One of the major challenges in the practical initial application is that the data required for reporting under the Taxonomy Regulation is not yet fully available. As a solution, the SFB proposes to push for the establishment of the European Single Access Point (ESAP) for company data and to build assistance in the form of public life cycle assessment databases at the product category level. In addition, minimum standards should be established for non-company data providers.

Structurally, the SFB points out that the time between publication of regulation and required application is too short for companies to adapt adequately. The intervals between publication and application should allow companies to implement the taxonomy properly and in good time. The EU

Commission should also ensure that the taxonomy is internationally compatible in order to prevent competitive disadvantages.

*"The solutions proposed by the SFB must not lead to a dilution or lowering of the ambition level of the European Standards. We support the Taxonomy and see its relevance for the transformation of our economy,"* clarifies Silke Stremlau, Chair of the SFB.

The full text in English and German can be found here:

<https://sustainable-finance-beirat.de/en/publications/>

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#### **The Sustainable Finance Advisory Committee**

The German Sustainable Finance Advisory Committee advises the German Federal Government on sustainability aspects in the financial system. Consisting of 34 experts from the financial sector, the real economy, civil society and academia, and supported by 19 observers, it acts independently. It supports the German Federal Government in the implementation and further development of the German Sustainable Finance Strategy and advises relevant stakeholders on how to position themselves.