

Sustainable Finance Advisory Committee of the German Federal Government

The EU Taxonomy: implementation challenges and proposed solutions

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List of abbreviations

CSRD	Corporate Sustainability Reporting Directive
DNSH	Do no significant harm
EIA	Environmental impact assessment
EPC	Energy performance certificate
ESAP	European Single Access Point
EU	European Union
FAQ	Frequently asked questions
GAR	Green asset ratio
ICS	Internal control system
IPSF	International Platform on Sustainable Finance
KPI	Key performance indicator
LCA	Life-cycle assessment
OECD	Organisation for Economic Cooperation and Development
PSF	EU Platform on Sustainable Finance
SFB	Sustainable Finance Advisory Committee
SMEs	Small and medium-sized enterprises
SPV	Special purpose vehicle
UNGP	UN Guiding Principles on Business and Human Rights

Introduction / Executive Summary

The European Commission's introduction of reporting requirements for sustainable activities and a taxonomy to define sustainable economic activities are key building blocks for the sustainable transformation of the economy. The financial sector should support this by providing capital for sustainable economic activities.

The Sustainable Finance Advisory Committee of the German Federal Government (*Sustainable-Finance-Beirat*, SFB) endorses this approach and wants to contribute to its effective implementation. As a multi-stakeholder body, the SFB offers practical insights from the perspective of the real economy and the financial sector, as well as from the perspective of civil society and academia. On this basis, the following analysis by the SFB provides perspectives on challenges and solutions relating to the application of the Taxonomy Regulation.

The initial application of the Taxonomy Regulation by reporting entities has revealed a variety of challenges that also have an impact on auditors' reviews of the corresponding reporting and the use of taxonomy disclosures. This paper describes some of these problems as well as possible solutions from the perspective of practitioners, auditors and users of the Taxonomy Regulation.

Users are increasingly asking themselves how to deal with the scope and level of detail of the requirements and in some cases the vagueness of the criteria in order to meet the requirements of the Taxonomy Regulation. Furthermore, there has been considerable discussion about whether the so far limited coverage of sectors by the Taxonomy Regulation is sufficient to cover all key areas of sustainable economic activities.

In order for sustainability reporting and the information in line with the Taxonomy Regulation to be suitable as an information basis for sustainable investors, it must be reliable. Ensuring the reliability of sustainability reporting and minimising greenwashing risks requires an independent and high-quality audit. Even if an external audit is not yet mandatory, it is advisable for such an audit to be carried out by the statutory auditor.

The core statements of this paper are, among others, that...

- the data necessary for reporting in line with the Taxonomy Regulation is not (yet) fully available and it must be ensured that this data can be provided by companies, public databases and external service providers in the necessary quality,
- significant legal ambiguities and all contradictions in the Taxonomy Regulation must be clarified quickly, unequivocally and with the necessary binding force, and the relevant information must be easily accessible to those affected, and
- further economic activities should be added to the Taxonomy Regulation, taking into account the difficulties described.

This paper identifies three sets of problems, providing examples and proposing solutions in each case:

1. Structural challenges
2. Content-related challenges
3. Challenges in the practical initial application

Where appropriate, this paper refers to recommendations and solutions from the EU Platform on Sustainable Finance’s¹ report on Data and Usability² published in October 2022.

It must be ensured that the proposed solutions do not lead to a dilution and lowering of the level of ambition of the European standards.

The following table gives an overview of challenges that have been identified in the application of the Taxonomy Regulation and proposes possible solutions. Unless otherwise stated, the SFB recommends that the German government advocates for the implementation of the listed solutions with the Commission. Solutions in the category “Structural challenges”, in particular, need to be developed as soon as possible.

Implementation problems	Proposed solutions
Structural challenges	
Time-frame issues with the Regulation (cf. 1.1)	<ul style="list-style-type: none"> • Increase transparency with regard to planned publications by the Commission. • Determine intervals between publication of regulation and the application period that allow for a relevant and timely implementation.
Legal ambiguity and lack of a contact point to clarify issues (cf. 1.2)	<ul style="list-style-type: none"> • Establishment of a contact point or formalised process at the Commission to compile and respond to questions regarding interpretation as quickly, comprehensively and directly as possible. • Instructions on how to fill in the individual cells of the Annex VI table of the Taxonomy Regulation. • Provision of application guidelines and online tools.
Lack of international compatibility (cf. 1.3)	<ul style="list-style-type: none"> • Establish international compatibility of the taxonomy and promote globally comprehensive sustainability reporting in a timely manner.
References to EU requirements and directives (cf. 1.4)	<ul style="list-style-type: none"> • Reviewing whether the respective references provide and increase process reliability or, if necessary, amending them. • Regarding applicability outside the EU: development of tables of equivalence and mapping tables as well as a framework (in the context of the International Platform on Sustainable Finance, IPSF and G20).

¹ https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance/platform-sustainable-finance_en#activities

² https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf

Limitations in calculating the Green Asset Ratio (cf. 1.5)	<ul style="list-style-type: none"> • It should be made possible for financial market participants to use information on taxonomy eligibility provided voluntarily by special purpose vehicles (SPVs). • This voluntary opt-in solution should be strictly limited to SPVs.
Content-related challenges	
Unclear definitions (cf. 2.1)	<ul style="list-style-type: none"> • Unclear definitions and terms must be clarified in a clear and binding manner.
Inconsistencies relating to economic activities (cf. 2.2)	<ul style="list-style-type: none"> • Checking the consistency of requirements at the interfaces of value chains. • Comparison and examination of the criteria of the Taxonomy Regulation in order to correct inconsistencies.
Inconsistencies and ambiguities regarding minimum safeguards (cf. 2.3)	<ul style="list-style-type: none"> • Clarification as to whether the minimum safeguards generally refer to the entity level or to the economic activity. • Clarification/adjustment with regard to compliance with the minimum safeguards. • Determining the consequences resulting from amendments to external documents without a binding legal character (e.g. OECD).
Lack of clarity of “do no significant harm” (DNSH) criteria (cf. 2.4)	<ul style="list-style-type: none"> • Systematic examination of how to make the criteria more specific without weakening them. • For criteria regarding compliance with EU regulations and standards, an internationally applicable equivalent should always be specified.
Incomplete catalogue of economic activities (cf. 2.5)	<ul style="list-style-type: none"> • Swiftly finalise legislation for the non-climate related environmental objectives. • Method-based systematic inclusion of further enabling activities. • Development of a “transitional taxonomy”. • Development of a social taxonomy which avoids the problems described in this report is desirable.
Pressure of high alignment ratios (cf. 2.6)	<ul style="list-style-type: none"> • It should be pointed out that comparisons of companies within one sector are more informative than cross-sector comparisons. Similarly, comparing turnover with taxonomy-eligible and taxonomy-aligned

	activities provides information on the sustainability of companies.
Challenges in the practical initial application	
Need to build expertise and structures among implementers (cf. 3.1)	<ul style="list-style-type: none"> • Ensure comprehensive capacity building through appropriate education and training. • This recommendation is addressed to both the European Commission and the German government.
Insufficient data availability (cf. 3.2)	<ul style="list-style-type: none"> • In general: push for the establishment of the European Single Access Point (ESAP). • Life-cycle assessments: establish public LCA databases at product category level. • Regional and national comparative data on buildings: check whether the requirement to provide this data can be implemented in a timely manner and then initiate a corresponding requirement. If this is not possible, alternative criteria must be developed. This recommendation is addressed to the German government. • Regulation of data providers to establish minimum standards that ensure reliable data generation.
Difficulties in the acquisition and verification of data by financial companies (cf. 3.3)	<ul style="list-style-type: none"> • "Best effort" approach by banks to obtain information should end with borrowers. • If adequate documentation is not provided, the taxonomy alignment review by the credit institution should be negative.

The EU Taxonomy: implementation challenges and proposed solutions

The implementation of new reporting requirements by companies applying the Taxonomy Regulation is naturally associated with additional costs and resources. This applies in particular to collating and reporting a new information category, such as sustainability data, which played no or only a subordinate role in previous reporting. Hence, part of the additional work and expense resulting from the implementation of the Taxonomy Regulation is not Taxonomy-specific and can be seen as a necessary investment from the perspective of the reporting companies.

Nevertheless, the Taxonomy Regulation also poses specific challenges that have to be addressed partly by the Commission and partly by the market. With regard to implementing the requirements of the Taxonomy Regulation, companies that are already subject to reporting requirements, as well as those that will be subject to reporting requirements in the future, have perceived that the implementation involves relatively high costs and the need for additional staff. This additional burden is attributed not only to the high degree of interdisciplinarity that the implementation activities require. Rather, a large number of inconsistencies and regulatory gaps in the Taxonomy Regulation and the associated Delegated Acts have been identified by companies as the main cause of the challenges in implementing the Taxonomy Regulation.

In order to continuously improve the framework for the definition of environmentally sustainable activities, the SFB considers it necessary to identify and specify deficits and inconsistencies in the provisions of the Taxonomy Regulation and to propose initial solutions.

The points presented below are based on information the SFB has compiled from German non-financial companies, financial companies and auditors. This information was collected by means of individual surveys. Although these surveys are not entirely representative, the information and the following points derived from them reflect, in our opinion, the most important fields of action with regard to the Taxonomy Regulation.

The following part of this paper outlines key areas of action based on the practical implementation experiences of the SFB stakeholders. It is divided into three sections corresponding to the problem areas “Structural challenges”, “Content-related challenges” and “Challenges in the practical initial application” and is illustrated with examples.

1. Structural challenges

The structural challenges in relation to the application of the Taxonomy Regulation relate to regulatory-administrative processes associated with the Taxonomy Regulation and how they are integrated in these processes in higher-level structures.

Structural challenges	Proposed solutions
Time-frame issues with the Regulation (cf. 1.1)	<ul style="list-style-type: none"> • Increase transparency with regard to planned publications by the Commission. • Determine intervals between publication of regulation and the application period that allow for a relevant and timely implementation.
Legal ambiguity and lack of a contact point to clarify issues (cf. 1.2)	<ul style="list-style-type: none"> • Establishment of a contact point or formalised process at the Commission to compile and respond to questions regarding interpretation as quickly, comprehensively and directly as possible. • Instructions on how to fill in the individual cells of the Annex VI table of the Taxonomy Regulation. • Provision of application guidelines and online tools.
Lack of international compatibility (cf. 1.3)	<ul style="list-style-type: none"> • Establish international compatibility of the taxonomy and promote globally comprehensive sustainability reporting in a timely manner.
References to EU requirements and directives (cf. 1.4)	<ul style="list-style-type: none"> • Reviewing whether the respective references provide and increase process reliability or, if necessary, amending them. • Regarding applicability outside the EU: development of tables of equivalence and mapping tables as well as a framework (in the context of the International Platform on Sustainable Finance, IPSF and G20).
Limitations in calculating the Green Asset Ratio (cf. 1.5)	<ul style="list-style-type: none"> • It should be made possible for financial market participants to use information on taxonomy eligibility provided voluntarily by special purpose vehicles (SPVs). • This voluntary opt-in solution should be strictly limited to SPVs.

1.1. Time-frame issues with the Regulation

User perspective

Reporting companies continue to be confronted at short notice with publications containing new requirements and interpretation guidelines. The first Delegated Act and the Commission's FAQ documents were perceived by reporting companies as being made available at too short notice considering the mandatory implementation date. Since reporting companies do not know when

further relevant documents will be made available, there is also a lack of plannability. This lack of planning can further delay the establishment of new reporting processes and a corresponding internal control system (ICS) and its anchoring in companies' IT infrastructures. Furthermore, the short notice leads to unnecessarily heterogeneous reporting in practice, as no sufficient exchange can take place in advance to develop "best practice" approaches.

Auditor perspective

Auditors also find the publication of new requirements and interpretation guidelines shortly before the requirements need to be fulfilled challenging. For example, the provision of FAQ documents by the Commission in December of a reporting year coincides with the already ongoing audit of disclosures under the Taxonomy Regulation. Any adjustments that need to be made on the part of companies delays the audit process. Developing a uniform approach within the profession requires a certain lead time.

Example

Relevant documents, such as the two Draft Commission Notices on the Taxonomy Regulation of 19 December 2022, were only published in the last quarter of the respective reporting year.

Proposed solution

We consider it necessary to increase transparency with regard to planned publications by the Commission. Auditors are also of the view that more transparency and plannability with regard to planned publications by the EU are necessary.

Furthermore, a sufficient amount of time between publication and the application period should be provided to allow for an appropriate and timely implementation. The timetable for the publication of FAQ documents should also take into account companies' audit season ("calm period").

1.2. Legal ambiguity and lack of a contact point to clarify issues

Legal ambiguities are perceived within the framework of the Taxonomy Regulation itself, but also in connection with interpretation guidelines for the Regulation such as the FAQs of the EU Commission and the reports of the PSF. In addition, the lack of an information and contact point that can provide binding answers to implementation questions is perceived as a major challenge.

Proposed solution

In view of the many questions of interpretation and legal uncertainties in the application of the Taxonomy Regulation, users need a contact point that can provide reliable interpretations. Documents such as the Commission's FAQ and the reports of the Platform on Sustainable Finance already provide valuable information.

Ultimately, only the Commission can make reliable statements regarding the interpretation of the Taxonomy Regulation. It would be desirable to have a contact point or a formalised process at the Commission for compiling and responding to questions regarding interpretation as quickly, comprehensively and directly as possible. Such a contact point should take into account the perspective of the real economy as well as sustainability and

financial market perspectives. It should be ensured that the interpretations are relatively consistent in different EU countries.

Aside from the creation of such a contact point, further assistance is needed to help with the application of the Taxonomy Regulation. For example, we explicitly support the recommendation made in the PSF's Data and Usability report³ (item 9, section 3.0.8) to clarify the context of disclosures and to use clear descriptions of the values required in each cell of the Annex VI table. Likewise, we support the PSF report's recommendation to provide implementation guidelines and online tools (items 1 + 5, section 3.0).

The Taxonomy Compass is currently still perceived as an insufficient tool for conclusively resolving ambiguities. It is also unable to resolve contradictions, for example regarding minimum safeguards. This tool, which is useful in principle, should be further developed.

1.3. Lack of international compatibility

From the point of view of internationally active companies, in particular, the European focus of the reporting requirements makes it more difficult for them to report on their environmentally sustainable economic activities on an international level. The requirements these companies face can lead to competitive disadvantages if a level playing field is not created.

Proposed solution

We consider it necessary that the international harmonisation efforts already being driven by the EU, i.e. the EU's commitment to an international expansion of the Taxonomy and to regulate sustainability reporting, be further advanced in a timely manner. In doing so, it must be ensured that the provisions are also implemented consistently within the EU and that the level of ambition of the European standards is not lowered.

1.4. References to EU requirements and directives

The references to European regulations and directives included in the Taxonomy Regulation present two types of problem. First, these references do not always lead to the necessary clarity and unambiguity which is needed to interpret the criteria. Second, they are unclear in relation to activities outside the EU.

Proposed solution

With regard to the problem of lack of clarity and unambiguity in the interpretation of the criteria, it is necessary to review whether the respective references increase process reliability and contribute to more clarity of interpretation and, where this is not the case, whether they should be amended accordingly.

Regarding the lack of clarity for activities outside the EU, the PSF report on Data and Usability⁴ proposes the following solutions:

³ https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf

⁴ https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf

1. **Development of equivalence tables to better contextualise the Taxonomy Regulation in comparison to other regional certification and labelling systems (item 59, section 6.1.3.)**
2. **Creation of mapping tables to make it easier to compare the taxonomy criteria with those of other financial institutions (item 60, section 6.2.4)**
3. **Establishment of a “common ground framework” in the context of the International Platform on Sustainable Finance (IPSF) (item 64, section 6.2.6)**

1.5. Limitations in calculating the Green Asset Ratio

Finance companies are confronted with particular challenges with regard to taxonomy disclosures. For example, the conflicting goals of keeping reporting requirements for SMEs to a minimum on the one hand and generating more capital for climate-friendly activities via the Taxonomy Regulation on the other means that these activities are only counted if they are not carried out by SMEs.

In concrete terms, this provision leads to the following situation: the Green Asset Ratio (GAR) of banks, which shows the taxonomy-aligned share of total assets, can only inadequately show climate-friendly activities. The GAR involves complex KPIs, each with its own individual calculation methodology (approx. 450 individual data entries for a GAR). The numerator of the GAR cannot include taxonomy-aligned activities for companies that are not subject to non-financial reporting obligations (or that in the future will not be subject to sustainability reporting obligations according to the CSRD, i.e. SMEs). However, such positions must be included in the denominator of the GAR. Hence banks' GARs are dependent not only on their investment in environmentally sustainable economic activities, but also and in particular on the size of their borrowers. The same applies to the investment KPI of insurance companies. The already low ratios due to the insufficient coverage of economic activities of non-financial companies (see section 2.1.2) are thus further reduced. This is particularly disadvantageous in the case of financing wind or solar parks. These are often implemented by special purpose vehicles, which are considered SMEs due to their small number of employees.

Another conflict of objectives is that other asset classes, such as government bonds, are not taken into account sufficiently. Governments have a considerable influence on climate change mitigation. However, the activities they undertake in this area cannot be included in the corresponding quotas of banks and insurance companies. An inclusion of governments activities is hindered by the fact that states often do not carry out the corresponding economic activities themselves, but pursue climate change mitigation in other ways, e.g. through building regulations. The fact that sovereign debt is not included in the Taxonomy Regulation leads to low ratios in the capital investment KPI, especially for insurers. For example, German primary insurers alone have invested around €500 billion in government bonds and comparable assets (approx. 30% of total investments based on data as of 31 December 2021). Since no valuation methodology is available for these, they also cannot be included in the numerator of the taxonomy ratios of financial companies but have to be taken into account in the denominator, which results in lower taxonomy ratios. This considerable investment potential is thus not represented under the Taxonomy Regulation.

Proposed solution

Such conflicts of objectives need to be resolved in a way that makes it possible for banks and insurance companies to represent the ratio of their climate friendly assets in a coherent and appropriate way.

For example, it should be made possible for financial market participants to use information on taxonomy eligibility provided voluntarily by SPVs. This voluntary opt-in solution should be strictly limited to SPVs.

2. Content-related challenges

Content challenges relate to the Taxonomy Regulation itself.

Content-related challenges	Proposed solutions
Unclear definitions (cf. 2.1)	<ul style="list-style-type: none"> • Unclear definitions and terms must be clarified in a clear and binding manner.
Inconsistencies relating to economic activities (cf. 2.2)	<ul style="list-style-type: none"> • Checking the consistency of requirements at the interfaces of value chains. • Comparison and examination of the criteria of the Taxonomy Regulation in order to correct inconsistencies.
Inconsistencies and ambiguities regarding minimum safeguards (cf. 2.3)	<ul style="list-style-type: none"> • Clarification as to whether the minimum safeguards generally refer to the entity level or to the economic activity. • Clarification/adjustment with regard to compliance with the minimum safeguards. • Determining the consequences resulting from amendments to external documents without a binding legal character (e.g. OECD).
Lack of clarity of “do no significant harm” (DNSH) criteria (cf. 2.4)	<ul style="list-style-type: none"> • Systematic examination of how to make the criteria more specific without weakening them. • For criteria regarding compliance with EU regulations and standards, an internationally applicable equivalent should always be specified.
Incomplete catalogue of economic activities (cf. 2.5)	<ul style="list-style-type: none"> • Swiftly finalise legislation for the non-climate related environmental objectives. • Method-based systematic inclusion of further enabling activities. • Development of a “transitional taxonomy”. • Development of a social taxonomy which avoids the problems described in this report is desirable.
Pressure of high alignment ratios (cf. 2.6)	<ul style="list-style-type: none"> • It should be pointed out that comparisons of companies within one sector are more informative than cross-sector comparisons. Similarly, comparing turnover with taxonomy-eligible and taxonomy-aligned activities provides information on the sustainability of companies.

2.1. Unclear definitions

The Annexes to the Taxonomy Regulation contains unclear terms and definitions. Examples include “essential for the society” (Appendix C: Generic Criteria for DNSH to pollution prevention and control regarding use and presence of chemicals); “comparable information”; “best performing alternative ... on the market” (in 8.2: Data-driven solutions for GHG emissions reductions and 3.6: Manufacture of other low carbon technologies); and “construction/installation” and “operation” (in 4.9: “Transmission and distribution of electricity”).

Proposed solution

We recommend compiling and providing clear definitions of important terms that have not yet been defined.

2.2. Inconsistencies relating to economic activities

User perspective

Inconsistencies occur particularly in relation to 3.6 of the Taxonomy Regulation, which allows certain “enabling” activities to be reported under the Taxonomy Regulation. The technical screening criteria for determining the conditions under which activity 3.6 “Manufacture of other low carbon technologies” in Annex I of the Taxonomy qualifies as contributing substantially to climate change mitigation contain further unclear definitions.

According to these criteria, the economic activity must manufacture technologies that are aimed at and demonstrate substantial life-cycle CHG emission savings compared to the best performing alternative technology/product/solution available on the market. This requirement is also referred to as the “best performing alternative” criterion. How this “best performing alternative” criterion should be applied and demonstrated is not further defined and therefore leads to significant challenges in implementation by companies. The EU’s Draft Commission Notice on Climate Taxonomy of 19 December 2022 also only insufficiently clarifies these application ambiguities (questions 42 to 44).

Further inconsistencies arise as a result of activities being treated differently at different stages of the value chain of the same product (e.g. producer/user).

Auditor perspective

From the point of view of auditors, inconsistencies in the provisions of the Taxonomy Regulation and the related delegated acts need to be corrected very promptly. Deficiencies in the reporting standards cannot be remedied in an audit.

The audit assesses a company’s taxonomy-related information against the provisions of the Taxonomy Regulation. The provisions of the Regulation need to contain clear and consistent definitions not only to ensure the legally compliant implementation of the reporting requirements by the reporting companies, but also to facilitate the audit.

Too many regulatory gaps and the resulting leeway for interpretation make it harder to compare sustainability reporting and thus complicate the auditing process. If a provision is not clearly defined, companies are responsible for defining further criteria and including these in their sustainability reporting e.g. in the case of questions of interpretation, analogous to the accounting methods that

must be stated in the annex. This complicates the evaluation of the reporting for the addressees. When clarifying the reporting requirements, the experiences from the initial application or the audit should be drawn on.

Examples

One example of an inconsistency relates to the manufacture of electric drive systems for vehicles by automotive suppliers. Reporting this activity under economic activity 3.3 “Manufacture of low carbon technologies for transport” is, according to the current interpretation, only possible for car manufacturers, but not for the supplier industry such as manufacturers of electric motors for electric cars. This puts car manufacturers that manufacture the electric motors for their vehicles themselves at an advantage. They can count this revenue under point 3.3 as taxonomy-aligned. However, if the motors are manufactured by a supplier and only installed by the OEM, they are classified as an enabling activity under 3.6, where they have to demonstrate substantial GHG emission reductions in the value chain with an LCA to meet the SC criteria, which they would not have to demonstrate in 3.3.

In addition to the preferential treatment of car manufacturers that manufacture their own electric motors, this situation leads to a distorted picture with regard to sustainable revenue in the automotive industry, since car manufacturers that do not manufacture their own electric motors can report their products as taxonomy-eligible revenue on the basis of precisely these drives. However, for suppliers who make a substantial contribution to clean mobility with the development of electric drives, the current Taxonomy Regulation would lead to financial flows being diverted past them to the car manufacturers, as they are generally unable to meet the requirement of an LCA for their products (see the following example).

Example

Another example of an inconsistency is the different treatment of activities depending on which stage of the value chain they take place. For example, battery electric vehicles (BEV) always make a substantial contribution to the environmental goal of “climate change mitigation” (CO₂ emissions of 0g CO₂/km; always below the legal threshold of <50g CO₂/km). The manufacture of a vehicle should be classified under economic activity 3.3 “Manufacture of low carbon technologies for transport”; if the vehicle is leased/financed by the client, it should be classified under the economic activity 6.5 “Transport by motorbikes, passenger cars and light commercial vehicles”. However, the DNSH criteria for both economic activities are different in key aspects, as in relation to manufacturing (3.3) and use (6.5) a different scope of responsibility is assumed. For example, specific requirements for the efficiency class of tyres can have a negative impact on the taxonomy alignment of economic activity 6.5, because here it is assumed that users have a responsibility for the vehicle’s tyres for their entire lifespan. However, the specific requirements for the efficiency class of tyres are not taken into account in economic activity 3.3, because the manufacturer is only responsible for the initial tyres.

Proposed solution

Enabling activities:

We would like to point out that a suitable framework is required for the inclusion of enabling activities in the Taxonomy Regulation and that, following the establishment of this framework, the catch-all provision of activity 3.6 should be removed. Until this happens, we consider it necessary to re-examine the technical screening criteria with regard to how feasible it is for companies to fulfil them and, if necessary, to grant transitional periods for certain criteria. In view of the large number of products and their possible contribution to climate change mitigation and environmental protection, companies should be able to influence which products are considered to be enabling.

Value chains:

Interfaces should therefore be re-examined in light of experiences in practice and adjusted if necessary. It is desirable that consistent criteria apply to activities directly linked in the value chain.

It is important to distinguish between activities in this context. It must be clarified how far responsibility for a particular activity extends and, if necessary, how the required data can be obtained from third parties (EIA).

With regard to the need for environmental impact assessments, it should be clarified that such an assessment needs to be submitted only in relation to the activity itself and not to the use of the product in question.

2.3. Inconsistencies and ambiguities regarding minimum safeguards

The Taxonomy Regulation requires compliance with the following cumulative requirements:

- contributes substantially to one or more of the environmental objectives set out in Article 9 in accordance with Articles 10 to 16
- does not significantly harm any of the environmental objectives set out in Article 9 in accordance with Article 17
- is carried out in compliance with the minimum safeguards laid down in Article 18
- complies with technical screening criteria that have been established by the Commission in accordance with Article 10

There are contradictions especially with regard to minimum safeguards, but also with regard to the other points.

While Article 3(c) of the Taxonomy Regulation speaks of the economic activity being carried out in compliance with minimum safeguards, minimum safeguards according to Article 18 of the Taxonomy Regulation and the documents cited therein are procedures implemented by the undertaking that is carrying out an economic activity. The disclosure requirements to be presented in the tables of the Delegated Regulation on Article 8 of the Taxonomy Regulation in turn require an indication of compliance with minimum safeguards at the level of the economic activity.

Furthermore, Article 18 of the Taxonomy Regulation refers to various documents without binding legal character (e.g. OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights) when defining minimum safeguards.

Proposed solution

With regard to compliance with minimum safeguards, a clarification or adjustment is desirable. If the EU stipulates compliance with minimum safeguards within the meaning of Article 3(c) of the Taxonomy Regulation at the entity level, the relevant wording in Article 3(c) of the Taxonomy Regulation as well as the design of the annexes (reporting tables) to the Delegated Regulation on Article 8 would have to be adapted.

The standards referenced in Article 18 of the Taxonomy Regulation (UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises) refer to companies and their management. If implementation at the level of individual activities is meant, it would first need to be clarified how these documents can be related to individual activities. In addition, other EU legislative processes (EU Duty of Care Act, CSRD) refer to the same documents and require implementation at the entity level. For the sake of clarification and to reduce unnecessary bureaucracy, it is therefore desirable that the Commission clarifies that the minimum safeguards generally refer to the entity level. It should be implemented in such a way that the potentially taxonomy-aligned economic activity is actually covered by a corresponding company-wide system.

This is also recommended in the EU Platform on Sustainable Finance's report.⁵

With regard to these references in EU legislation to documents of other organisations, the consequences of changes to these external documents must be determined.

2.4. Lack of clarity of "do no significant harm" (DNSH) criteria

2.4.1. Imprecise definitions

The "do no significant harm" (DNSH) criteria in the annexes of the Taxonomy Regulation are in part imprecise ("best performing alternative", "essential", "comparable information", "best performing alternative on the market").

Example

Some DNSH criteria provide an example of ambiguities that could lead to problems in terms of application and in the procurement of external information. In order to comply with the DNSH criteria, the climate taxonomy refers to Appendixes A to D for many economic activities. Among other things, these require that a climate study or an environmental impact assessment be carried out. In this case, for example, is unclear whether the EIA has to be carried out only for the location of the taxonomy activity itself or also for the location where the product is used; or whether, for example, in the case of the manufacturing of a generator, an EIA needs to be carried out for the site(s) where the generator is manufactured or also for the site where the generator is used. The latter could be significant in terms of the environmental impact if, for example, the generator is used in a country with significantly lower environmental requirements. Should an EIA also be required for the place of use of the products, the procurement of data would be significantly more difficult, since the respective client, as the purchaser of the product, is not obliged to carry out an EIA or to provide the data to the producer. In this case, it would not be possible to comply fully with these annexes and thus with the DNSH criteria.

⁵ https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf

Proposed solution

To solve this problem, we propose using the approach set out in the EU Platform on Sustainable Finance’s report of October 2022. The report lists various types of DNSH criteria on pages 50 and 51. It classifies these types by degrees into quantitative, qualitative and process-based criteria from A to E, whereby type E is considered unusable. In order for the Taxonomy Regulation criteria to be precise enough to use for an assessment, the EU Platform on Sustainable Finance 2.0 should systematically examine which criteria can be converted into a higher type, preferably type A (quantitative), without weakening them. For type D criteria (compliance with EU regulations and standards), an internationally applicable equivalent should always be defined, e.g. by setting clear limits or rules, compliance with which satisfies the relevant EU regulation. Type E criteria should be reformulated in such a way that they can be used for the reporting company, i.e. they correspond to a type A to D criterion.

2.4.2. References to further documents

As with minimum safeguards, references in EU regulations to other documents are also made in relation to DNSH criteria (for example, reference in Appendix C “Generic criteria for DNSH to pollution prevention and control regarding use and presence of chemicals” to the RoHS Directive and the REACH Regulation). The problem here is that the requirements of the taxonomy go beyond this legally binding EU law.

Example

For activities 3.1 to 3.17 and 7.1 to 7.3, the DNSH criteria are defined in Appendix C of the climate taxonomy for the environmental goal “pollution prevention and control”. Appendix C, in turn, refers to the REACH Regulation (EC 1907/2006) with regard to substances and also includes substances that are not yet included in the candidate list. The EU Draft Commission Notice on Climate Taxonomy of 19 December 2022 also clarifies with regard to Appendix C that mere compliance with the EU regulations listed in Appendix C (e.g. RoHS Directive (2011/65/EU) and REACH Regulation) is not sufficient to meet the DNSH criteria of Appendix C. Rather, Appendix C only specifies the substances that are not yet on the candidate list. The requirements to be fulfilled in relation to these substances are defined in Appendix C and not in the mentioned EU legal acts. The requirements for the use of chemicals are thus not conclusively clarified.

Proposed solution

Such references must define clear rules of application. We consider it necessary that the references to EU regulations explain which specific requirements are associated with them. In addition, reference should be made to the respective status of the documents and there should be a regulation clarifying how to deal with changes to these documents.

2.5. Incomplete catalogue of economic activities

In order to facilitate the intended transformation of the economy by creating transparency with regard to environmentally sustainable economic activities, the Taxonomy Regulation must make it possible for companies to convey a realistic and appropriate picture of their activities.

However, reporting companies consider the list of economic activities covered by the Taxonomy Regulation and the associated Delegated Acts to be incomplete. The economic activities defined in the legislation do not cover the necessary range of economic activities performed by the reporting companies. As a result, it is not possible for them to provide full disclosure of their environmentally sustainable activities. In principle, it is understandable that a certain prioritisation must take place in the initial selection of the economic activities listed in the Delegated Acts of the Taxonomy Regulation. However, this causes confusion especially for industries whose main activities are not taxonomy-eligible, because it is unclear how stakeholders will react, particularly in terms of financing.

Example

An example of environmentally sustainable economic activities that are not clearly covered is the area of “electrical equipment manufacturers”, which should also include the construction and operation of transmission systems that transport electricity on the extra high-voltage and high-voltage interconnected system as well as distribution systems that transport electricity on high-voltage or medium-voltage systems (Activity 4.9, “Transmission and distribution of electricity”). The Platform on Sustainable Finance’s recommendation in the above-mentioned report to include this activity is an important first step, but inclusion in the climate taxonomy is essential to create legal certainty for reporting companies.

Proposed solution

First, it is crucial to include those activities that serve the goals of the environmental taxonomy. This applies to environmentally sustainable activities per se as well as to enabling activities. A further solution to this problem could be to develop taxonomies for activities in the green transition and for social activities. A “transition taxonomy” would appropriately expand the understanding of a “meaningful” contribution to the transformation and would give companies an opportunity to demonstrate that even if they are not extensively “green” today, they are still making an important contribution to the transformation. Closing these definitional gaps could also counteract greenwashing and at the same time ensure the extremely important financing of these transitional activities. Any expansions to the catalogue of activities covered by the Regulation should be proportionate and practical.

2.5.1. Enabling activities

The EU climate taxonomy targets those (nine) sectors that account for over 90% of CO₂ emissions in Europe, such as electricity, the building sector, agriculture and transport. Initially, those activities were selected that directly lead to a reduction of CO₂ emissions – so-called “own-performance” activities – such as the production of renewable energy and electric vehicles. Article 16 of the Taxonomy Regulation also includes “enabling activities” in the taxonomy. However, this has so far only been done inadequately, for example via activity 3.6, which has the disadvantage of criteria (life-

cycle assessments) that are difficult to fulfil. This means that numerous economic activities are not included that contribute substantially to the reduction of CO₂ emissions by own-performance activities and without which such emissions reductions are not possible.

Proposed solution

A significant expansion of the activities covered by the Taxonomy Regulation to include these enabling activities is urgently needed so that relevant companies can adequately represent their contribution to climate change mitigation. At the same time, only those enabling activities should be included in the Taxonomy Regulation that are essential in order for own-performance activities to contribute to climate change mitigation, and not those enabling activities that are merely essential for the general functioning of own-performance activities. For example, the production of rotor blades for wind turbines should be considered an enabling activity, but not the production of screws, which are also used in the construction of wind turbines but are not specific to this activity and/or are used in many other activities. Similarly, motors for electric cars should be considered enabling, but not car tyres, which are used on both electric cars and cars with internal combustion engines.

We endorse the framework set out in the EU Platform on Sustainable Finance’s report of October 2022⁶ in the sense that enabling activities should have a direct link to the substantial contributions of own-performance activities. However, given the great diversity of products and their potential contribution to climate change mitigation and environmental protection, companies should be able to give input regarding the products that are designated as enabling.

2.5.2. Non-climate-related environmental targets 3-6

Currently, the Taxonomy Regulation does not yet cover economic activities related to taxonomy objectives 3-6.

Proposed solution

Legislation on the already elaborated proposals for the remaining four environmental objectives would significantly expand the activities and sectors covered by the Taxonomy Regulation. We therefore advocate the swift implementation of legislation that avoids the problems specified in this paper.

2.5.3. Transitional activities

Currently, the Taxonomy Regulation covers a number of activities that are necessary for the transition to a carbon-neutral economy but are not sustainable at present (these are referred to as “transitional activities”). However, no criteria-based framework for these activities exists yet. While green Taxonomy Regulation activities currently account for only a very small share of economic activity, these transitional technologies are widespread and thus encompass a larger set of potential investment objects. At the same time, it is difficult for investors to discern which activities actually

⁶ https://finance.ec.europa.eu/document/download/a16d1111-dbf6-4316-a05f-3cb76d86d407_en?filename=221011-sustainable-finance-platform-finance-report-usability_en_1.pdf

make a valuable contribution to the transition and which activities are insufficiently ambitious or even impede greater progress.

Proposed solution

These transitional activities require their own framework for the development of suitable criteria. Such a framework should be created to provide companies and investors with guidance on activities that make a substantial contribution to the transition to a sustainable economy.⁷

2.5.4. Social activities

Activities that deliver major social benefits but no direct environmental benefits (such as the provision of social housing, health products, services for disadvantaged groups, and company-based training for the equitable transition to a sustainable economy) are not covered in an environmental taxonomy or a transition taxonomy.

Proposed solution

We advocate the development of a social taxonomy, taking into account the problems associated with the application of the environmental taxonomy as well as the problems described in this report. Such a social taxonomy could be based on the already existing practices of development banks.

2.6. Pressure of high alignment ratios

User perspective

The development of sustainable investment in recent decades, and in particular the Commission's approach to supporting sustainable development through financial market regulation, has shown that combining the prospect of profitable investment with a contribution to sustainability exerts a powerful attraction. This causes, among other things, market participants to have unrealistically high expectations regarding the taxonomy alignment of companies, financial service providers and products. These often unrealistic expectations have the effect – especially where the above-described ambiguities exist regarding implementation of the Taxonomy Regulation – that any resulting leeway might be used to report inflated taxonomy alignment ratios, which can damage the credibility of reporting companies and the Taxonomy Regulation as a whole.

Proposed solution

For this reason, in addition to ensuring clarity and swiftly expanding the Taxonomy Regulation, it is important for the Commission to emphasise the Taxonomy Regulation's high sustainability standards and to clearly counter expectations of high taxonomy alignment ratios, especially for the turnover KPI, at this point in time.

In this respect, it is important to point out that comparisons between companies in one sector are more meaningful than cross-sectoral comparisons. Similarly, comparisons of

⁷ https://finance.ec.europa.eu/system/files/2022-03/220329-sustainable-finance-platform-finance-report-environmental-transition-taxonomy_en.pdf

turnover with taxonomy-eligible and taxonomy-aligned activities yield insights into the sustainability of companies.

Auditor perspective

Auditors are experiencing intensified exchanges with their clients regarding audits of disclosures under the Taxonomy Regulation. On the one hand, auditors of taxonomy disclosures that companies are under pressure to show high taxonomy alignment ratios already at the start of the mandatory reporting process. This poses the risk that existing loopholes in the Taxonomy Regulation and associated Delegated Acts will be used to report the highest possible alignment ratios, thereby potentially impeding the shift towards sustainable investment intended by the Taxonomy Regulation. Furthermore, this pressure to some extent also impedes constructive exchanges between auditors and reporting companies. On the other hand, auditors are also seeing that companies tend to report low alignment ratios due to legal uncertainties. However, this tendency could ease over time with better data availability and more legal certainty.

Proposed solution

In our view, it is important for the EU to communicate clearly that, due to the long-term orientation of the Taxonomy Regulation’s objectives, the addressees of the reporting process can initially expect low alignment ratios in the initial application phase. In addition, we underline the need to expand the catalogue of activities covered by the Taxonomy Regulation.

3. Challenges in the practical initial application

This section describes practical and operational challenges and possible solutions regarding the initial application of the Taxonomy Regulation.

Challenges in the initial application	Proposed solutions
Need to build expertise and structures among implementers (cf. 3.1)	<ul style="list-style-type: none"> • Ensure comprehensive capacity building through appropriate education and training. • This recommendation is addressed to both the European Commission and the German government.
Insufficient data availability (cf. 3.2)	<ul style="list-style-type: none"> • In general: push for the establishment of the European Single Access Point (ESAP). • Life-cycle assessments: establish public LCA databases at product category level. • Regional and national comparative data on buildings: check whether the requirement to provide this data can be implemented in a timely manner and then initiate a corresponding requirement. If this is not possible, alternative criteria must be developed. This recommendation is addressed to the German government. • Regulation of data providers to establish minimum standards that ensure reliable data generation.

Difficulties in the acquisition and verification of data by financial companies (cf. 3.3)	<ul style="list-style-type: none"> • "Best effort" approach by banks to obtain information should end with borrowers. • If adequate documentation is not provided, the taxonomy alignment review by the credit institution should be negative.
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3.1. Need to build expertise and structures among implementers

3.1.1. Internal structures and data systems

User perspective

To implement the Taxonomy Regulation’s requirements, reporting companies have to establish new reporting processes and a corresponding internal control system (ICS). This ensures that the company bodies can fulfil their reporting obligations. The establishment of new processes is necessary in particular because the relevant internal data is not available – either at all or in the desired form (i.e. more granular) in financial reporting systems. This is also due to the fact that reporting requirements under the Taxonomy Regulation are largely at the level of the economic activity (and thus, on the one hand, below the segment level set out in IFRS 8 and, on the other hand, different from the product or project level). The creation of robust and traceable methods for generating the necessary data therefore requires extensive adjustments to IT infrastructures. Until these adjustments are implemented, a large number of manual activities are required. When collecting internal data, regardless of whether this is done manually or on the basis of IT tools, the documentation requirements necessary for an external audit must be observed.

Example

An example of the need for new reporting processes and corresponding internal control systems are the requirements for demonstrating the avoidance of significant harm to environmental objectives for activity 7.1 (“Construction of new buildings”). These requirements specify limit values for the flow rates of installed water fittings in order to comply with the DNSH criteria. Since this data (if it is available to the reporting company) is not included in financial reporting systems, manual collection is necessary.

Auditor perspective

In order to audit sustainability reporting, it is imperative (as it is for any other type of audit) that the reporting companies are able to provide adequate and appropriate documentation. As a rule, the audited companies will only be able to do this if they have an adequate and effective internal control system (ICS) in place for the preparation of sustainability reporting.

Proposed solution

The establishment of an appropriate ICS requires not only sufficient time but also clear guidelines on the content of sustainability reporting.

3.1.2. Building up qualified staff

User perspective

Given the complex and detailed design of the Taxonomy Regulation's provisions, appropriately qualified staff are necessary in order to implement the Regulation properly. This necessity is reinforced by the high degree of interdisciplinarity ("integrated thinking") that is involved in embedding the sustainability concept throughout the entire company. However, the necessary expertise is often not yet available in companies, and the market for skilled workers has not yet been able to develop sufficiently in the area of sustainability. As a result, companies may have to resort to external consulting services.

Proposed solution

We consider it necessary to ensure the comprehensive development of skills through appropriate training and advanced education programmes. In this context, both the German government and the EU can facilitate the comprehensive development of skills through appropriate advanced training measures.

Auditor perspective

Auditors already audit the non-financial reporting of companies on a voluntary basis, or on a mandatory basis pursuant to the Disclosure Regulation. Nevertheless, auditors (like the companies subject to reporting requirements) must come to terms with the new sustainability reporting rules and develop the relevant expertise and skills. Therefore, the new rules will also have an impact on the auditing profession. The auditing profession has a quality assurance infrastructure (such as professional principles, an internal quality assurance system and supervision by the Chamber of Public Accountants (Wirtschaftsprüferkammer) that guarantees the quality of its work and thus increases reliability.

3.2. Insufficient data availability

User perspective

In addition to the above-mentioned challenges, many companies report availability and comparability problems when collecting external information. In particular, companies whose business models are highly integrated within value chains are confronted with the challenge of obtaining high-quality external data. When using external data, it is necessary to ensure the quality of the data and, where required by the Taxonomy Regulation, to ensure the use of actual data.

The specifications of some criteria necessitate a life-cycle assessment (LCA), which at present would still often have to be carried out with the support of external parties, e.g. suppliers. This may prove difficult in practice, as there is currently no obligation to provide taxonomy users or reporting companies with the relevant data. Furthermore, the requirements for meeting the DNSH criteria in particular pose challenges for companies (see also the above discussion on Appendix C of the climate taxonomy). This also presents credit institutions with the challenge of data availability when checking the taxonomy properties of real estate financing, especially in the case of refurbishments (DNSH requirements for circular economy and sustainable use of water resources).

Regional or national comparative data, as required in certain cases for buildings, are not yet always available.

Example

Activity 3.3 offers the possibility to classify as sustainable the motors essential for electric mobility under the Taxonomy Regulation. Activity 3.3 reads: "Manufacture of low carbon technologies for transport". However, this 'enabling activities' clause requires the provision of a CO₂ life-cycle assessment (LCA) for each product reported under 3.3.

Producing an LCA, which follows from 3.3, is a very resource-intensive manual process with only limited options for automation. As specific data from the supply chain is often not available, it is necessary to rely on calculation models that have to be purchased from service providers. The creation of a single LCA for a complex product can take several months. In addition, the ISO standards for the preparation of LCAs still allow room for interpretation in terms of application and there is still no generally accepted methodology within certain industry sectors that can be reliably used for all areas of application, including e.g. making them available to customers. Under these circumstances, producing LCAs for all products and product variants that enable a taxonomy activity within a given economic activity is possible for most companies only if they invest a significant amount of resources.

As there are currently few automotive suppliers worldwide that can provide an LCA for each of their e-mobility-enabling products, and as the data for making a comparison with alternative technologies is not available, suppliers that manufacture electric drives have predominantly refrained from reporting them under the Taxonomy Regulation.

Another example of missing external data comes from the buildings sector: Activity 7.7 ("Acquisition and ownership of buildings") requires that buildings constructed before 31 December 2020 have at least a Class A EPC or, alternatively, are within the top 15% of the national or regional building stock in terms of operational primary energy demand. However, a publicly accessible database that can be used to define the 15% benchmark does not exist in Germany.

Proposed solution

We believe it would be useful for the EU to provide information in the short term on possible reliable data sources. In the transitional period, equivalent information should also be allowed for certain data requirements. In addition, the establishment of the European Single Access Point (ESAP) must be expedited with urgency. To ensure the reliability of data from external providers, we recommend (in addition to clarifying the problems described in this paper) regulating these data providers through the establishment of minimum data reliability standards.

One solution is LCA databases. So far, these are usually subject to a fee, and neither the coverage of products/activities nor the quality of data always meet the requirements of the Taxonomy Regulation. To facilitate the use of LCA data for taxonomy reporting, we recommend the development of public LCA databases at the level of product category, i.e. to provide information on the average life cycle effects in producing the respective product category. In the future, this would also significantly facilitate reporting by SMEs. Positive deviations from this data by the company would have to be proven by a company-specific

LCA. To fill taxonomy-relevant gaps in the available databases, relevant LCAs should be commissioned by the public sector.

For requirements that rely on regional and national comparative data, it should be checked whether the obligation to provide this data (energy efficiency class or regional/national data) can be implemented promptly, and a corresponding obligation should be initiated. If this is not possible, alternative criteria must be developed. Analogous to the ESAP, data such as EPC labels should also be collected in public databases and made accessible in order to improve data availability and advance the implementation of the Taxonomy Regulation.

The Commission could draw up a list of the DNSH criteria that are particularly susceptible to data availability problems and develop proposals for a secure, standardised, practicable and efficient transfer of data to the financial sector.

Auditor perspective

Especially when auditing first-time reporting, auditors face the challenge that the reporting systems of the reporting companies are not (yet) sufficiently aligned with the new disclosures. If reporting entities use data from external providers to determine the taxonomy-eligibility of their investments, further auditing may be required if the data providers do not yet have a methodology or well-tested processes for deriving the data. As in “regular” audits, assessing the reliability of data is part of the audit. In addition to the challenges that face audits of first-time reporting, other challenges that are not attributable to the initial application will also have impacts on audits in subsequent years.

From the perspective of auditors, it would therefore also be welcome if the EU were to provide relevant information in the short term on possible reliable data sources.

User perspective

Financial companies look at taxonomy reporting from the perspective of both (a) reporting entities and (b) users of taxonomy disclosures. Thus, in their efforts to implement the rules, financial companies face the same challenges in terms of data availability and clarity as other sectors of the economy. Financial companies rely on the taxonomy disclosures of other financial and non-financial firms for their own taxonomy disclosures. Thus, the availability of external information is also of key importance for financial companies.

Proposed solution

The establishment of a European Single Access Point (ESAP) proposed by the Commission is an important step in this direction and should therefore be expedited. The ESAP should function as an EU-wide access point for already published company data.

3.3. Difficulties in the acquisition and verification of data by financial companies

Unlike for non-financial companies, the determination of taxonomy KPIs for financial companies is based on counterparty information. For example, credit institutions assess the taxonomy alignment of the financed economic activities, not the bank’s own operations.

Taking the example of lending operations, Delegated Regulation (EU) 2021/2178, Annex V, 1.2.1.1 clearly states that, when lending to non-financial companies with a known use of proceeds, credit institutions should base their assessments “on information provided by the counterparty on the project or activities to which the proceeds will be applied”.

Unlike lending with unknown use of proceeds, where assessments rely on reported counterparty-level KPIs, counterparty non-financial reporting is an insufficient means of assessment for individual loans with known use of proceeds.

Examples

- 1. A corporate loan to (re)finance an object associated with an economic activity that is not included in the company’s non-financial reporting or is included only at the aggregate level*
- 2. A corporate loan to finance a greenfield project that does not yet appear in the current reporting (incl. CAPEX plan) because it was still in an early planning phase at the time of reporting.*

At the same time, the legislation does not provide any guidance on the extent to which the “information provided” must be (re)examined by credit institutions in the context of mandatory taxonomy reporting. Depending on the requirement, this would involve significant cost and effort and possibly multiple audits. There are no indications that credit institutions themselves are responsible for collecting the required data.

Proposed solution

It should therefore be made clear that the obligation to provide appropriate documentation lies with the client and that the required “best effort” approach of the banks ends with the attempt to obtain appropriate information from the client, especially since it can be assumed that the client will also use the information for taxonomy reporting. This also avoids redundant verification processes. If appropriate documentation cannot be provided, the taxonomy alignment review by the credit institution would reach a negative conclusion.