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*To the Economic and Monetary Committee (ECON) and to the Committee on Environment, Public Health and Food Safety (ENVI) of the European Parliament*

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ECON/ENVI Draft Report on the Commission's Proposal for a Regulation on the Establishment for a Framework to facilitate Sustainable Investment (Taxonomy)

Dear Member of Parliament,

You will soon vote on the Parliamentary Draft Report on the establishment of a framework to facilitate sustainable investments (taxonomy). As the taxonomy-proposal is deemed to act as fundament of all future initiatives on sustainable finance and will thus vastly affect issuers, your vote will have a massive impact not only on the direction that sustainable finance will take but on the development and the future shape of corporate finance as such.

It is from this perspective that Deutsches Aktieninstitut, the organization of German exchange-listed and capital markets-oriented companies, takes great interest in the legislative proceedings on the taxonomy. Listed companies throughout Europe and across all industries are not only well aware of their responsibility in terms of sustainability but are willing to make a positive contribution, which is demonstrated by the broad spectrum of voluntary corporate initiatives among others on climate and environment-protection. While these efforts deserve to be acknowledged and respected, corporate concerns arising from the present parliamentary debate ahead of the Committees' vote deserve to be taken seriously. In particular, enterprises fear that an extensive scope of application of the taxonomy threatens to seriously curtail corporate finance while having severe detrimental impacts on the competitiveness of the European economy. Please allow us to illustrate our concerns with the subsequent remarks:

1. **Taxonomy-Scope:**
   The Commission's approach of limiting the taxonomy to setting out requirements for investments/financial products marketed as environmentally sustainable should be preserved. The taxonomy was explicitly designed for sustainable financial products and addressed at issuers of the latter. An extension of the scope to substantially all issuers and financial products will not prove as practicable and will likely expose issuers with a conventional/traditional – while entirely legal - business model to unrealistic expectations and heavy burdens as regards corporate finance. This threatens not only to discriminate traditional business models compliant with the law but also to

produce serious disruptive impacts on the European economy as creating severe competitive disadvantages vis-à-vis third country competitors not addressed by similar standards. Sustainable Finance is meant to serve as an investment alternative without penalizing or discriminating traditional corporate finance. Due to the complexity of Sustainable Finance, the taxonomy should exclusively be addressed to sutainable products in order to explore its practicability.

2. **New taxonomy-criteria (social objectives)**
While the sustainability-degree of an economic activity should in the long-run be assessed on a wholistic basis taking into account different features also beyond climate- and environmentally relevant issues, a premature extension of the taxonomy should be avoided. The Commission's approach of assessing the question/the degree of sustainability in accordance with climate and environmentally relevant objectives should be preserved as a starting point. From there, it should gradually be progressed in the future by the Technical Expert Group on Sustainable Finance (TEG). A premature extension of the taxonomy to social objectives as currently proposed in the parliamentary negotiations threatens to not only ignore the responsibility of the TEG but to cause serious confusion since social objectives identified might potentially collide with the environmental and climate-objectives identified by the European Commission.

3. **"Green" vs. "Brown" Approach**
The Commission's intention to qualify certain economic activities as sustainable without explicitly classifying others not meeting the envisaged standards as environmentally harmful, should be retained. On the contrast, the approach of classifying companies or financial products either as "sustainable" or "green" on one side or as having a negative environmental impact on the other side according to few and theoretically developed criteria will be a misleading. Not every activity, which does not explicitly classify as sustainable will automatically be environmentally harmful. The evaluation of sustainability is always complex. Diverse facets exist - even within one business model - making a uniform approach the wrong choice. Brand-marking whole sectors or specific technologies as "brown" or "black" will discourage sustainable investments in and developments by companies of the respective sector. In this context, it has to be taken note of that the issue of a financial product frequently does not correspond to a specific project but rather serves horizontal funding purposes. From this perspective, a clear distinction between "sustainable" or "environmentally harmful" would hardly be feasible.

4. **Detailed Climate Reporting Requirements** An implementation of detailed climate reporting requirements in the short or medium term will hardly prove as feasible. Companies need sufficient time to adapt to such a system. This applies foremost to scope 3-disclosures with respect to greenhouse gas emissions along the entire value chain. At present, scope 3-information is extremely hard to collect, especially for companies with a complex multinational production and value chain, as considerably lower or even no standards of sustainability/CSR-reporting exist in many non-EU countries. This problem needs to be solved ahead of any introduction of Scope 3-reporting requirements. The Commission's present effort to integrate the voluntary recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) into the non-binding guidelines on CSR-reporting should be given time to work and not be overtaken by false ambitions.

In order to achieve a maximum level of credibility and public acceptance, all efforts undertaken on sustainable finance should be realistic and proportionate. They should neither overburden nor discriminate companies delivering growth, jobs and innovation for the benefit of a prosperous while sustainable European economy. Companies have to be heard in the debate and their concerns need to be understood as ultimately, companies are the true drivers of sustainability and therefore part of the solution rather than the problem. We kindly ask you to take our thoughts into consideration ahead of the forthcoming vote.

Yours sincerely

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