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Call for feedback on technical report on EU taxonomy

Dear Mr Spolc,
dear Ladies and Gentlemen,

As organization of listed companies in Germany and other entities committed to the development of European capital markets, Deutsches Aktieninstitut follows the debate on the sustainable finance taxonomy with close interest. We would like to express our sincerest gratitude to both the European Commission and the Technical Expert Group on Sustainable Finance (TEG) for launching a call for feedback with respect to the TEG's technical report on taxonomy. Even though not targeted at issuing companies in the first place, the taxonomy-proposal is bound to greatly affect all corporate finance activities of them and is set to significantly shape and change capital markets-based corporate finance for the future.

From this perspective and as a horizontal trade association with members from different industries and sectors, Deutsches Aktieninstitut has encouraged its corporate members to respond to the feedback call in order to highlight both potential chances and shortcomings of the taxonomy from a practical industry- and operational business-perspective. Deutsches Aktieninstitut itself would like to limit its brief comments to the four following remarks:

1. A widely accepted and successful taxonomy requires all sectors and industries impacted by it to be involved in the debate

As mentioned at the beginning, the taxonomy is set to produce an entirely new dimension of capital markets-based corporate finance from an issuers' perspective. Determining the sustainability degree of economic activities for the benefit of enabling a redirection of capital flows towards more sustainable investments adds a new and complex dimension to the capital markets ecosystem affecting all market actors alike.

Against this background, Deutsches Aktieninstitut can only reiterate the importance of a balanced composition of any existing and potential new expert group assigned with the task to progress the taxonomy. Since the taxonomy is affecting issuers to a significant degree, a sufficient number of issuer-representatives has to be taken up in every expert group. This opportunity has been missed in the past. The composition of the TEG has shown a predominant representation of the financial sector. Involving company-representatives as observers only has not proved as sufficient since they were not able to impact the TEG's decisions. Deutsches Aktieninstitut kindly requests the European Commission to achieve a more balanced and diverse composition with respect to the yet to be established 'Platform on Sustainable Finance'.

2. Understanding the needs of and focusing on the perspective of companies is an essential precondition for the taxonomy to become operational

So far, the taxonomy has been developed from the perspective of investors in the first place. In order for the taxonomy to become widely accepted and operational, the companies' perspective has to be included. Up to now, companies are widely left unknown as regards the question of how to apply the taxonomy in practice. Especially the question of reporting or giving information on the taxonomy concerns companies at large. A sound guidance is strongly needed here. Furthermore, it has to be closely observed that the taxonomy maintains a sufficient level of flexibility and does not develop into a 'bureaucratic monster'. For this reason, a comprehensive field test of the taxonomy's practicability should be conducted prior to its entry into force. Such a field-test should involve companies of all industry-branches and economic sectors which the taxonomy is deemed to address.

3. A practicable taxonomy requires a wholistic and comprehensive approach fitting into the present European legal framework

The taxonomy proposal as presented by the European Commission follows the concept of a "positive classification" subject to a limited number of economic activities. This approach should not tempt potential users of the taxonomy to suspect that economic activities outside of the taxonomy's coordinates are automatically to be regarded as not sustainable. Any economic activity making a positive contribution to the protection of the climate or the environment - however ranging below an identified metric or threshold - should be regarded as sustainable, even if not entirely corresponding to the taxonomy. In this context it has to be mentioned that a number of technical emission thresholds as identified by the TEG surpasses present legal requirements under European law.

Moreover, the degree of sustainability of a company or a group of companies should never be measured exclusively by a single economic activity. An indication on the degree of sustainability should only be derived from a comprehensive perspective taking into account the full range of economic activities performed by the respective company or group.

A more wholistic or comprehensive approach is also needed as regards the sustainability of a product. In order to come to a reliable judgment beyond an approximate evaluation here, it is essential not only to take the

product's life cycle, as proposed in the TEG report, into account but the entire value chain as well as the interconnection of production steps, which the production process as a whole involves.

4. A successful taxonomy needs to cater for transition technologies

The goal of achieving a carbon-neutral economy by 2050 vastly depends on an immediate switch to transition technologies, which might itself not be carbon-neutral but provide for much lesser emissions than conservative fossil energy production sources, especially coal, which is still used at present in large parts of Europe. In this context, gas amounts to an indispensable transition technology as not only producing much lesser emissions than coal but also as guaranteeing reliable energy-supply until the alternative energy production has been progressed so far as being able to totally replace gas energy production.

In order to make the taxonomy as basis for future sustainable finance-activities a success, it should follow a practicable approach and avoid unrealistic and disproportionate expectations. Companies must be involved into the debate as they are the true drivers of technical innovation making a positive contribution and capable of delivering a perspective solution to many environmental and climate problems that we are confronted with.

We kindly ask you to take our remarks into consideration in the forthcoming legislative debate.

Yours sincerely



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Head of EU Liaison Office



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