



A&L Goodbody

WGBW SCSi Sustainability CPD Series

Overview of the EU Taxonomy

Lorena Dunne

14 September 2023

Background

- EU Action Plan on Sustainable Finance (2018)
 - > Aim = to reorient capital to sustainable investment and support EU's target of climate neutrality
- Introduced:
 - > Taxonomy Regulation
 - > Sustainable Finance Disclosures Regulation (**SFDR**)

Taxonomy Regulation



Establishes a classification system for determining whether an economic activity is environmentally sustainable



Amends SFDR to require additional disclosures in pre-contractual disclosures and periodic reports on Taxonomy alignment



Requires those entities subject to Non-Financial Reporting Directive to include additional disclosures in their financial statements

Relevance of Taxonomy Regulation to Property Sector

- Investor demand (e.g. Article 8 and 9 funds - see next slide)
- Lending
- Valuations

= no legal requirement to be Taxonomy-aligned, but significant incentive to do so

What the EU Taxonomy is	What the EU Taxonomy is not
A classification system to establish clear definitions of what is an environmentally sustainable economic activity	It's not a mandatory list to invest in
Tool to help investors and companies to make informed investment decisions on environmentally sustainable activities for the purpose of determining the degree of sustainability of an investment	It's not a rating of the "greenness" of companies
Reflecting technological and policy developments: The Taxonomy will be updated regularly	It does not make any judgement on the financial performance of an investment
Facilitating transition of polluting sectors	What's not green is not necessarily brown. Activities that are not on the list, are not necessarily polluting activities. The focus is simply on activities that contribute substantially to environmental objectives.
Technology neutral	
Fostering Transparency by disclosures for financial market participants and large companies related to the Taxonomy	

<https://ec.europa.eu/sustainable-finance-taxonomy/home>

SFDR

- SFDR *de facto* created two green financial product labels:
 - > Article 8 (“**Light Green**”)
 - Promote environmental and/or social characteristics
 - > Article 9 (“**Dark Green**”)
 - Have a sustainable investment objective
- Significant investor appetite for these financial products drives demand for “green” underlying investments
- Article 8 and 9 financial products required to make substantial disclosures to investors regarding their E/S characteristics/objectives, including disclosures around the extent of their investments’ alignment with the EU Taxonomy
- Ability to disclose Taxonomy-alignment = competitive advantage

Taxonomy-eligible Construction and Real Estate Activities

- 1. Acquisition and ownership of buildings**
2. Construction of new buildings
3. Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)
4. Installation, maintenance and repair of energy efficiency equipment
5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings
6. Installation, maintenance and repair of renewable energy technologies
7. Renovation of existing buildings

Taxonomy Alignment

Criteria to be used to determine whether an economic activity is environmentally sustainable (i.e. Taxonomy-aligned)

- Economic activity shall qualify as environmentally sustainable where that economic activity:
 - A. **contributes substantially** (see **technical screening criteria**) to one or more of **environmental objectives**:
 1. climate change mitigation
 2. climate change adaptation
 3. the sustainable use and protection of water and marine resources
 4. the transition to a circular economy
 5. pollution prevention and control
 6. the protection and restoration of biodiversity and ecosystems
 - B. **does not significantly harm** (see **technical screening criteria**) any of the environmental objectives
 - C. is carried out in compliance with **minimum safeguards** (e.g. Declaration of the ILO on Fundamental Principles and Rights at Work)
- Taxonomy Compass

Taxonomy Compass - Introduction

<https://ec.europa.eu/sustainable-finance-taxonomy/taxonomy-compass/the-compass>

EU Taxonomy Navigator

Home EU Taxonomy Compass ▾ **Activities by sector ▾** EU Taxonomy Calculator FAQ

All sectors	Education	Forestry	Professional, scientific and technical activities
All activities	Energy	Human health and social work activities	Transport
Arts, entertainment and recreation	Environmental protection and restoration activities	Information and communication	Water supply, sewerage, waste management and remediation
Construction and real estate	Financial and insurance activities	Manufacturing	

Taxonomy Compass – Construction and real estate

Construction and real estate

Search for an activity

Search

Acquisition and ownership of buildings



Buying real estate and exercising ownership of that real estate. The economic activities in this category could be associated with NACE code L68 in accordance with the statistical classification of eco...

Construction of new buildings



Development of building projects for residential and non-residential buildings by bringing together financial, technical and physical means to realise the building projects for later sale as well as t...

Taxonomy Compass – Example

Acquisition and ownership of buildings

Contributing to climate mitigation ∨

Contributing to climate adaptation ∨

Minimum safeguards ∨

Taxonomy Compass – Example

Acquisition and ownership of buildings

Contributing to climate mitigation ^

Description ^

Buying real estate and exercising ownership of that real estate.

The economic activities in this category could be associated with [NACE](#) code L68 in accordance with the statistical classification of economic activities established by [Regulation \(EC\) No 1893/2006](#).

Substantial contribution criteria ^

1. For buildings built before 31 December 2020, the building has at least an Energy Performance Certificate (EPC) class A. As an alternative, the building is within the top 15% of the national or regional building stock expressed as operational Primary Energy Demand (PED) and demonstrated by adequate evidence, which at least compares the performance of the relevant asset to the performance of the national or regional stock built before 31 December 2020 and at least distinguishes between residential and non-residential buildings.
2. For buildings built after 31 December 2020, the building meets the criteria specified in Section 7.1 of this Annex that are relevant at the time of the acquisition.
3. Where the building is a large non-residential building (with an effective rated output for heating systems, systems for combined space heating and ventilation, air-conditioning systems or systems for combined air-conditioning and ventilation of over 290 kW) it is efficiently operated through energy performance monitoring and assessment⁽³¹⁴⁾.

Taxonomy Compass – Example

Acquisition and ownership of buildings

Contributing to climate mitigation ^

Description v

Substantial contribution criteria v

Do no significant harm criteria ^

Climate adaptation ^

The activity complies with the criteria set out in [Appendix A](#) to this Annex.

Taxonomy Compass - Example

APPENDIX A: GENERIC CRITERIA FOR DNSH TO CLIMATE CHANGE ADAPTATION

I. Criteria

The physical climate risks that are material to the activity have been identified from those listed in the table in Section II of this Appendix by performing a robust climate risk and vulnerability assessment with the following steps:

- (a) screening of the activity to identify which physical climate risks from the list in Section II of this Appendix may affect the performance of the economic activity during its expected lifetime;
- (b) where the activity is assessed to be at risk from one or more of the physical climate risks listed in Section II of this Appendix, a climate risk and vulnerability assessment to assess the materiality of the physical climate risks on the economic activity;
- (c) an assessment of adaptation solutions that can reduce the identified physical climate risk.

The climate risk and vulnerability assessment is proportionate to the scale of the activity and its expected lifespan, such that:

- (a) for activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using climate projections at the smallest appropriate scale;
- (b) for all other activities, the assessment is performed using the highest available resolution, state-of-the-art climate projections across the existing range of future scenarios³²⁰ consistent with the expected lifetime of the activity, including, at least, 10 to 30 year climate projections scenarios for major investments.

The climate projections and assessment of impacts are based on best practice and available guidance and take into account the state-of-the-art science for vulnerability and risk analysis and related methodologies in line with the most recent Intergovernmental Panel on Climate Change reports³²¹, scientific peer-reviewed publications, and open source³²² or paying models.

For existing activities and new activities using existing physical assets, the economic operator implements physical and non-physical solutions ('adaptation solutions'), over a period of time of up to five years, that reduce the most important identified physical climate risks that are material to that activity. An adaptation plan for the implementation of those solutions is drawn up accordingly.

For new activities and existing activities using newly-built physical assets, the economic operator integrates the adaptation solutions that reduce the most important identified physical climate risks that are material to that activity at the time of design and construction and has implemented them before the start of operations.

The adaptation solutions implemented do not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of cultural heritage, of assets and of

³²⁰ Future scenarios include Intergovernmental Panel on Climate Change representative concentration pathways RCP2.6, RCP4.5, RCP6.0 and RCP8.5.

³²¹ Assessments Reports on Climate Change: Impacts, Adaptation and Vulnerability, published periodically by the Intergovernmental Panel on Climate Change (IPCC), the United Nations body for assessing the science related to climate change produces, <https://www.ipcc.ch/reports/>.

³²² Such as Copernicus services managed by the European Commission.

Taxonomy Compass – Example

other economic activities; are consistent with local, sectoral, regional or national adaptation strategies and plans; and consider the use of nature-based solutions³²³ or rely on blue or green infrastructure³²⁴ to the extent possible.

II. Classification of climate-related hazards³²⁵

	Temperature-related	Wind-related	Water-related	Solid mass-related
Chronic	Changing temperature (air, freshwater, marine water)	Changing wind patterns	Changing precipitation patterns and types (rain, hail, snow/ice)	Coastal erosion
	Heat stress		Precipitation or hydrological variability	Soil degradation
	Temperature variability		Ocean acidification	Soil erosion
	Permafrost thawing		Saline intrusion	Solifluction
			Sea level rise	
			Water stress	
Acute	Heat wave	Cyclone, hurricane, typhoon	Drought	Avalanche
	Cold wave/frost	Storm (including blizzards, dust and sandstorms)	Heavy precipitation (rain, hail, snow/ice)	Landslide
	Wildfire	Tornado	Flood (coastal, fluvial, pluvial, ground water)	Subsidence
			Glacial lake outburst	

Taxonomy Compass – Example

Minimum safeguards ^

1. The minimum safeguards referred to in point (c) of Article 3 shall be procedures implemented by an undertaking that is carrying out an economic activity to ensure the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.
2. When implementing the procedures referred to in paragraph 1 of this Article, undertakings shall adhere to the principle of 'do no significant harm' referred to in point (17) of Article 2 of Regulation (EU) 2019/2088.

Contact Us



Lorena Dunne

Partner

*Asset Management & Investment Funds &
ESG & Sustainability Team*

+353 1 649 2142

lodunne@algoodbody.com



Andrew Ion

Partner

*Real Estate &
ESG & Sustainability Team*

+353 1 649 2643

aion@algoodbody.com