

# DUFAS response to the call for feedback on the Platform on Sustainable Finance's draft proposal for an extended taxonomy to support economic transition

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To EU Platform for Sustainable Finance  
From DUFAS (the Dutch Fund and Asset Management Association)

Date 6 September 2021  
Subject **EU extended taxonomy to support economic transition**  
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**DUFAS (the Dutch Fund and Asset Management Association) welcomes the opportunity to respond to the public consultation of the EU Platform for Sustainable Finance call for feedback on the Platform on Sustainable Finance's draft proposal for an extended taxonomy to support economic transition, as published by the PSF on 12 July 2021.**

## Executive Summary

DUFAS supports extending the taxonomy if it contributes to the sustainability transition of companies and markets. However, we believe the cost of turning the taxonomy into a too comprehensive classification system would outweigh any benefits. Therefore, the included extensions should be relatively simple and clearly support the transition to a sustainable economy.

### *Significant harm*

DUFAS supports including the significant harm performance level in the taxonomy extension under the condition that its usage is clearly linked to improving the sustainability of activities. The significant harm performance level risks creating a blacklist. This could steer capital away from efforts to eliminate significant harm. We believe this can be avoided by only distinguishing significant harmful activities that can improve to meet the 'do no significant harm' or significant contribution criteria. This category can help identify companies and markets in need of capital to move from significant harm to substantial contribution. It also simplifies the extension and allows for easier harmonization with other pieces of legislation, e.g., SFDR.

Proposal: DUFAS proposes that only significant harmful activities that can improve are included in the extension. Inclusion on such a list could enable companies and markets to attract the necessary capital to improve the sustainability of their activities.

### *No significant impact*

Although DUFAS understands the motivation to distinguish activities with 'no significant impact' from significantly harmful ones, we believe that the costs likely outweigh the benefits. It would be challenging to comprehensively codify and update all activities falling into this category. It also risks indirectly creating a blacklist of activities not on this list. We believe that extending the taxonomy should focus on elements that help improve the sustainability of activities. If 'no significant impact' is included in the extension, we encourage it to be voluntary and based on existing minimum performance standards. The latter could be linked to existing

best practice frameworks to reduce complexity. The suggestion of using a certification scheme to ensure minimum performance is interesting but might be of limited benefit if it is only applicable to EU companies.

Proposal: DUFAS proposes to exclude 'no significant impact' from the extension. The cost of maintaining a comprehensive list of activities in this category likely outweighs the benefits. However, if it is implemented, we suggest that the 'no significant impact' category should be voluntary and based on ensuring minimum performance. The latter could be achieved by linking minimum standards to existing best practice frameworks.

6 September 2021

DUFAS

## RESPONSE TO QUESTIONS:

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### Introduction

#### **Question 1. Which environmental performance levels should the taxonomy distinguish, with a view to help the environmental transition?**

Please select all of those that you would prioritise:

*Please select as many answers as you like*

- Substantial contribution
- Intermediate
- performance
- Significantly harmful - but can improve to sustainability
- Significantly harmful - but can improve not to do significant harm
- Significantly harmful - but cannot improve sufficiently to avoid doing no significant harm
- No significant impact

#### **Question 2. How could policies ensure that recognising the transition from significantly harmful to intermediate performance will not slow down the transition to green activities (that evidence shows we need to accelerate)?**

Please select all that you agree with:

*Please select as many answers as you like*

- Not relevant
- Distinguish different levels of environmental performance clearly throughout the taxonomy and in other instruments
- Recognise only improvements from and to a well-defined level of environmental performance, rather than recognising activities sitting in a given level of performance below substantial contribution
- Require continued improvement beyond the relevant investment plan
- Require associated entity level transition strategy to understand the credibility of the intermediate transition.
- Recognise multiple ways of transition depending on type of Technical Screening Criteria.
- Other safeguards would be needed

#### **Question 3. Do you consider that recognising/naming the significant harm performance level would be important?**

- Yes
- No
- Don't know / no opinion / not applicable

#### **Question 3.1 Please select the answer you agree with:**

- voluntary disclosures and guidance are sufficient
- voluntary reporting is not effective, the mandatory solution is needed urgently

- agree with the staged approach in the report to first work with voluntary disclosures/ guidance and in a later stage introduce mandatory reporting
- Don't know / no opinion / not applicable

### **'Significantly harmful' taxonomy**

**Question 4. In your view what would be the advantages and disadvantages of a 'significantly harmful' taxonomy as designed by the Platform (i.e. accompanied by an assessment of the existing and needed EU policy and legislative initiatives aimed at incentivising finance for urgent transition away from significantly harmful activities, for building climate-resilience and to support greening of the whole economy)?**

#### **Advantages – a 'significantly harmful' taxonomy would:**

*Please select as many answers as you like*

- increase the transparency of environmental performance levels of activities
- improve the communication of transitions and transition plans on activity level
- help companies to develop strategies and investment plans for moving away from significantly harmful performance levels and meeting environmental objectives
- help markets define and develop instruments for financing the transition
- enhance risk management frameworks
- help policymakers to provide subsidies for decommissioning
- other

**Please elaborate on your answer on the advantages of a 'significantly harmful' taxonomy. Could advantages be further enhanced? If so how?**

DUFAS is supportive of a taxonomy on significantly harmful activities. However, we believe that a 'significantly harmful' taxonomy should focus on helping companies transition away from significantly harmful performance levels. This could be achieved by only distinguishing significant harmful activities that can improve sufficiently. Markets can then provide the necessary capital for the transition. Furthermore, the current proposal needs to be simplified and be harmonized with other pieces of legislation, e.g., SFDR.

#### **Disadvantages – a 'significantly harmful' taxonomy would:**

*Please select as many answers as you like*

- be a departure from the positive spirit of the green taxonomy
- negatively impact the ability of companies to raise finance for transition
- accelerate transition risks and risks creating "stranded asset by legislation"
- negatively impact banks with high shares of lending to certain companies both among retail customers and on the wholesale markets
- disadvantage EU companies vs non-EU jurisdiction
- increase complexity, reporting burden and affect usability of the taxonomy
- other

**Please elaborate on your answer on the disadvantages of a 'significantly harmful' taxonomy. How could they be addressed?**

DUFAS believes a 'significantly harmful' taxonomy risks creating a blacklist. This could steer capital away from efforts to eliminate significant harm. The extension also risk creating an overly complex classification. We encourage aiming for a simpler extension that limits complexity and allows for easier harmonization with other pieces of legislation, e.g. SFDR.

### **Two types of significantly harmful activities**

The report distinguishes two types of significantly harmful activities

- those that are 'always significantly harmful' (no technical option to transition to an environmental performance not causing significant harm)
- and those that can transition out of causing significant harm

### **Question 5. Do you agree with the following statements?**

**Please check all boxes that you agree with:**

*Please select as many answers as you like*

- Always significantly harmful activities should be distinguished from those activities that have a potential to transition out of significant harm
- Criteria should be added under the green taxonomy to recognise as green the closure / decommissioning for such always significantly harmful activities
- Mandatory reporting on turnover from and capex/opex related to always significantly harmful activities should be introduced

### **Question 6. Do you consider recognising/naming the intermediate performance level useful to encourage mitigating significant harm?**

- Yes
- No
- Don't know / no opinion / not applicable

**Please explain your answer to question 6:**

We believe adding the intermediate performance level adds a lot of unnecessary complexity. It can also cause a lot of confusion with the 'no significant impact' activities.

### **Question 7. For activities that are in the intermediate performance space (in between significant harm and substantial contribution):**

- a) **should all turnover from such activities be recognised as intermediate turnover, and all opex as intermediate opex?**

- Yes  
 No  
 Don't know / no opinion / not applicable

**Please explain your answer to question 7. a):**

**b) should all capex be recognised as 'intermediate capex' irrespective of whether or not it improves environmental performance of the activity and by how much?**

- Yes  
 No  
 Don't know / no opinion / not applicable

**Please explain your answer to question 7. b):**

### Intermediate transition

The report recommends to recognise 'intermediate transition', differentiated from green transition.

**Question 8. What do you think are the essential conditions for recognising such intermediate transitions for activities that can make a substantial contribution to the given environmental objective:**

*Please select as many answers as you like*

- that the activity reaches the intermediate performance level, in other words does not do significant harm to that particular environmental objective
- in addition, that the activity continues to improve its environmental performance in order to stay in that intermediate performance level and not to do significant harm even if in the future the criteria are tightened.
- in addition, that the activity continues to improve its environmental performance in order to reach substantial contribution (green) in the future
- in addition, that the activity does no significant harm to other environmental objectives
- in addition, that the activity does no significant harm to any of the other environmental objectives, with the exception of adaptation (because failing to meet the do no significant harm criteria to adaptation means only a harm on the activity itself)

**You selected option b) in question 8:**

- **The criteria for ensuring that the activity will improve to reach substantial contribution should include to:**

*Please select as many answers as you like*

- have a transition plan in place set a deadline for the transition
- have the transition plan validated by the Board publish the transition plan
- audit the transition plan
- disclose how the intermediate transition fits within the entity level transition strategy
- other

- **Please specify to what else should the criteria include, in relation with option in question 8.:**

**You selected option c) in question 8.**

- **The criteria for ensuring that the activity will improve to reach substantial contribution should include to:**

*Please select as many answers as you like*

- have a transition plan in place set a deadline for the transition
- have the transition plan validated by the Board publish the transition plan
- audit the transition plan other

- **Please specify to what else should the criteria include, in relation with option in question 8.:**

**Question 9. Do you have other suggestions for extending the taxonomy framework for significantly harmful activities, intermediate performance, intermediate transition?**

### **'No significant (environmental) impact' taxonomy**

**Question 10. In your view what would be the advantages and disadvantages of a 'no significant (environmental) impact' taxonomy? Check all that apply and add anything you think is missing:**

***Advantages – a 'no significant environmental impact' taxonomy would:***

*Please select as many answers as you like*

- help the ESG analysis
- be beneficial for SME's to access finance
- be beneficial for SME's to access green finance (if it can allow for / incentivise greening even within the NSI space, where there is such possibility)
- ensure banks can report green lending to SMEs and continue to develop these markets
- allow easier access to finance for larger companies in these sectors other

- **Please elaborate on your answer on the advantages of a 'no significant (environmental) impact' taxonomy. Could advantages be further enhanced? If so how?**

***Disadvantages – a 'no significant environmental impact' taxonomy would:***

*Please select as many answers as you like*

- be too complex to manage, as a framework
- imply burdensome reporting obligations
- risk disadvantaging 'no significant impact activities' vis-à-vis intermediate contribution activities that are likely to be more polluting
- other

- **Please elaborate on your answer on the disadvantages of a 'no significant (environmental) impact' taxonomy. How could they be addressed?**

Although DUFAS understands the motivation to distinguish activities with 'no significant impact' from significantly harmful ones, we believe that the costs likely outweigh the benefits. It would be challenging to comprehensively codify and update all activities falling into this category. It also risks indirectly creating a blacklist of activities not on this list.

**Question 11. Can you give examples of activities which you think would be considered as NSI?**

It will be hard to comprehensively codify (and update) all activities falling into this category. Might be more practical to set clear lines between significant harm and substantial contribution and leave un-codified activities in between.

**Question 12. If there was to be an extension of the taxonomy to address NSI activities, should it be a requirement for companies or investors wishing to report activities under the NSI taxonomy to first participate in an environmental labelling or certification scheme (such as [EMAS](#)) to validate minimum levels of environmental performance?**

- Yes, reporting of activities should stay voluntary but conditional upon such a certification/labelling
- No, reporting of activities should stay voluntary but there should not be any certification/labelling as a condition
- Don't know / no opinion / not applicable

- **Please explain your answer to question 12:**

DUFAS finds it interesting to use a certification scheme to ensure minimum performance interesting. However, it would be of limited benefit if the certification scheme only applies to EU companies.

**Question 13. Do you consider it would be helpful if the Platform prepared non- binding guidance on NSI activities which could be published by the Commission for voluntary use by taxonomy users?**

- Yes
- No
- Don't know / no opinion / not applicable

**Question 13.1 If you consider it would be helpful, what should be the scope of such guidance, for instance in relation to minimum standards of environmental performance?**

If 'no significant impact' is included in the extension, we encourage it to be *voluntary* and based on existing minimum performance standards. The latter could be linked to existing best practice frameworks to reduce complexity. Setting minimum standards that are linked as much as possible to existing industry standards/best practice frameworks may be helpful.

- **Please explain your answer to question 13:**

**Question 14. Are you in favour of a phased approach where NSI could be recognised as a generic category (through guidance) without L1 change?**

- Yes, it is a priority
- Yes but it should be done in future only
- No
- Don't know / no opinion / not applicable

- **Please explain your answer to question 14:**

If NSI is included in the extension, DUFAS is in favor of a phased approach in the future only. This allows monitoring the impact of implementation. In addition, a future implementation would benefit from lessons learnt from implementing the current taxonomy. We again encourage the NSI to be voluntary.

**Question 15. Prior to any L1 change (if at all), do you consider that the Platform should recommend to include some NSI activities in the taxonomy by e.g. creating a generic category for 'green' service providers under the adaptation or other objectives?**

- Yes  
 No  
 Don't know / no opinion / not applicable

- **Please explain your answer to question 15:**

#### **More information**

Would you like to respond, or should you have any questions? I would be pleased to hear from you. Please feel welcome to e-mail Randy Pattiselanno, DUFAS, manager strategy & regulatory affairs, at [rp@dufas.nl](mailto:rp@dufas.nl).

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#### **DUFAS: Dutch Fund and Asset Management Association**

Since 2003, DUFAS has been committed to a healthy asset management sector in the Netherlands. DUFAS has more than 50 members: from large asset managers who invest Dutch pension and insurance assets to smaller, specialist asset managers. DUFAS increases awareness of the social relevance of investing, helps to develop sector standards and represents the sector in the implementation of new laws and regulations. In addition, DUFAS is committed to a single European market with equal regulations.