

Ad. 3 Usability of the taxonomy

1. **Do you expect to use the Taxonomy in your business activities in the short term (1-3 years) or long term (4 years or more)? If yes, please indicate when (short term or long term) and specify the activities for which you will use the Taxonomy. If no, please explain why not?**

Answer: Don't know / no opinion / not relevant

2. **Can the Taxonomy be made more useful for disclosures related to your specific financial product? This question covers only financial products where disclosure obligations are foreseen by the Taxonomy proposal.**

Answer: Yes

Which specific financial product(s) did you have in mind?

Answer:

- X Portfolio management?
- X UCITS funds?
- X Alternative investment funds?
- X Insurance-based Investment Products
- X Pension products and pension schemes?

How could the Taxonomy be made more useful for Portfolio management?

Answer: Asset managers marketing investment products as environmentally sustainable could use the Taxonomy. If an asset manager decides to use it, it should be transparent about the investment methods and the use of the Taxonomy to select the holdings in the portfolio (e.g. the methodology to translate the company-level data into portfolio level data). Firstly, without reliable data from companies investors will not be able to calculate the alignment of investments with the Taxonomy. Therefore we believe that all EU listed companies should be required - via 'hard legislation' – to publish that information (we refer to our answer to question 5 of this section). Secondly, public equity is an important asset class for institutional investors. It is not clear to us how institutional investors should calculate the alignment of their equity investments with the Taxonomy in practice, in other words how should company-level be translated into equity investments? We believe it is desirable that this is clarified. Thirdly, the current scope of the Taxonomy is too narrow because it only focusses on the 'E' and the 'S'. Good governance within a company is in our view a necessary prerequisite for the fulfillment of the ecological and social aspects of entrepreneurship. The taxonomy should facilitate that poor performance on governance are treated in a similar manner as poor performance on environmental

and social criteria. Therefore, a set of (minimum) governance standards need to added to the Taxonomy (we refer to our answer to question 5 of this section).

How could the Taxonomy be made more useful for UCITS funds?

Answer: We refer to our answer on the question ‘How could the Taxonomy be made more useful for Portfolio management?’.

How could the Taxonomy be made more useful for Alternative investment funds?

Answer: We refer to our answer on the question ‘How could the Taxonomy be made more useful for Portfolio management?’.

How could the Taxonomy be made more useful for Insurance-based Investment Products?

Answer: We refer to our answer on the question ‘How could the Taxonomy be made more useful for Portfolio management?’. In addition we would like to make the following remark: the prime responsibility of an insurer is to secure the best possible return over the long term for its policyholders and beneficiaries, against the background of a sound risk management framework and within its own framework regarding the integration of environmental, social and governance factors into its investment process. The Solvency II Directive already requires that insurers invest their assets in accordance with the prudent person principle. It is not clear to us how the prudent person rule should be balanced with the Taxonomy. We believe it is desirable that this is clarified.

How could the Taxonomy be made more useful for Pension products and pension schemes?

Answer: We refer to our answer on the question ‘How could the Taxonomy be made more useful for Portfolio management?’ In addition we would like to make the following remark: the investment policy of IORPs must on the basis of existing laws and regulations be in accordance with the prudent-person rule. It is not clear to us how the prudent person rule should be balanced with the Taxonomy. We believe it is desirable that this is clarified.

3. Can the Taxonomy be made more useful for your investment decisions in different asset classes?

Answer: Yes

Which asset class(es) did you have in mind?

- X Public equity
- X Corporate bonds
- X Green bonds
- Private equity
- Real estate
- Project finance
- Green loans

X Other assets

How could the Taxonomy be made more useful for public equity? 2000 character(s) maximum

Answer: Although we support the underlying objectives of a Taxonomy, we have some reservations regarding the proposed approach. Firstly, without reliable data from companies investors will not be able to calculate the alignment of investments with the Taxonomy. Therefore we believe that all EU listed companies should be required - via 'hard legislation' – to publish that information (we refer to our answer to question 5 of this section). Besides that we believe that it should be clarified how alignment at the individual company-level should be translated into measuring the alignment of an equity portfolio. Secondly, we believe that the scope of the Taxonomy is too narrow. Eumedion believes that environmental, social and governance factors cannot be seen separately. To be included in the EU Taxonomy, an economic activity must contribute substantially to at least one environmental objective and must do no significant harm to the other five and must meet minimum social safeguards. As a consequence economic activities of a company can be labeled as green on the basis of the Taxonomy, while that company has flagrant deviations from accepted corporate governance standards (e.g. minimum shareholder rights, disclosure, risk management and independence of the board). This is for example the case at Tesla; this is rather a green company, but has material weaknesses in its corporate governance structure. The taxonomy should facilitate that a poor performance on governance is treated in a similar manner as poor performance on environmental and social criteria. To avoid this risk, a set of (minimum) governance standards need to be added to the Taxonomy. Good governance within a company is in our view a necessary prerequisite for the fulfillment of the ecological and social aspects of entrepreneurship. Thirdly, it is the question whether all companies have the capabilities to use the technical screening criteria. Fourthly, we believe that innovation should not be hindered by the Taxonomy. Against this background we wonder whether the process to include new new/additional economic activities in the Taxonomy is fast enough.

How could the Taxonomy be made more useful for corporate bonds? 2000 character(s) maximum

Answer: We refer to our answer on the question How could the Taxonomy be made more useful for public equity?

How could the Taxonomy be made more useful for green bonds?

Answer: We refer to our answer on the question How could the Taxonomy be made more useful for public equity?

How could the Taxonomy be made more useful for other assets?

Answer: We refer to our answer on the question How could the Taxonomy be made more useful for public equity? In addition we would like to make the following remark. Investors will have to calculate the alignment of their investments with the Taxonomy and prepare disclosures at investment product level. It is not clear to us how this should be calculated in case of financial products referenced to a basket of shares or an index. This should be clarified.

4. Is it sufficiently clear when the entire activities of a company or other entity should be considered as Taxonomy eligible (revenues or turnover) and when only expenditures by companies or other entities should be considered Taxonomy eligible?

Answer: No

If no, it is not sufficiently clear, please specify how this could be made clearer.

2000 character(s) maximum

Answer: We would like to note that the mentioned measures are very different in nature. Companies that report a percentage of revenues cannot be compared with companies that report a percentage of investment. There appears to be no guidance that fosters similar companies to use the same measurement. We would also like to note that operating expenses generally include the depreciation of assets, which would include assets resulting from Capital Expenditures (CAPEX) in previous years. Including both depreciation and CAPEX would lead to double counting: in the first year the CAPEX is included, and in subsequent years the depreciation of the same CAPEX as well. The definition of qualifying operating expenses should therefore exclude depreciation expenses, if the related CAPEX already has been included in the past. The taxonomy should make it clear that it is not allowed to aggregate, mix, or average percentages that do not have the same type of numerator and denominator. Else it will be impossible to assess whether the outcomes are meaningful or not. This uncertainty would affect the credibility of the output of all companies, even those that do not mix different percentages.

5. What practical tools or measures could be developed to facilitate the implementation of the taxonomy by financial actors? Please specify what these tools would be used for and provide sufficient explanation on how they can help to implement the taxonomy:

2000 character(s) maximum

Answer:

The Non-financial reporting directive and the accompanying non-binding guidelines are in our view a step in the right direction. Nevertheless, the level of standardisation of and assurance on non-financial information is not yet the same as that on and of financial information. This will become an increasing pressing issue for institutional investors when the EU Sustainable Finance legislative package enters into force. Only with 'hard legislation' the European Commission can ensure that all companies must disclose certain non-financial information. Eumedion believes that the new European Commission should appoint an independent, authoritative, international standard setter for establishing non-financial reporting standards. The European Commission should also establish a Regulation to require all EU listed companies to prepare their management report and non-financial KPIs in accordance with a single set of international non-financial reporting standards and to require that this information is externally verified. Furthermore we believe that the taxonomy should be made more accessible (e.g. less pages). Additionally, we are in favour of a single central European database. Such database allows for automated electronic mass downloads by interested investors. The alternative of putting the data somewhere on the company's website will be a major hurdle in making all the work done

accessible for investors. A conversion tool/download option that allows investors to import and view the data in Excel will also significantly increase the usability of the data provided. Lastly we notice that representatives of companies are underrepresented in the expert group that develops the technical screening criteria. Eumedion attaches importance to that representatives of companies are involved in the development of the technical screening criteria, or that they are allowed to share their vision during the process.

6. What practical tools or measures could be developed to help non-financial companies assess what share of their economic activities is taxonomy-eligible?

Answer: This question falls outside the scope of the activities of Eumedion.
