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The sustainability taxonomy: an additional tool against greenwashing

The Regulation on the establishment of a framework to facilitate sustainable investment (the "Taxonomy Regulation") is an important part of the EU sustainable finance plan drawn up by the European Commission. The Taxonomy Regulation, together with the Regulation on sustainability-related disclosures in the financial services sector, is not only an important enabler for scaling up sustainable investment but also a powerful tool to protect investors from greenwashing. Indeed, by stating what economic activities are sustainable from an environmental perspective and requiring manufacturers to disclose in their pre-contractual documentation the share of the portfolio invested in such activities, the Taxonomy Regulation offers an easily readable and comparable indicator of a product's level of greenness. However, it still faces many challenges to ensure its effective implementation. In order to provide accurate information on the products, the information about the sustainability of activities should be easily accessible for all financial market participants, and tools should exist to measure the environmental performance of activities carried out by companies. It will also be essential to take account of proportionality in the implementation, especially in the current economic situation.

The EU cannot achieve the green transition alone, and hence global cooperation is key. Taxonomies, if developed in isolation, might lead to greater fragmentation of practices and could inhibit the growth of global sustainable finance markets. It is therefore important to limit undue fragmentation, e.g. via the International Platform on Sustainable Finance.

For national authorities, the entry in force of disclosure requirements based on the Taxonomy Regulation will entail the evaluation of environmental information published by regulated entities. Moreover, market participants and financial advisers will have to take into account the sustainability preferences of their consumers, and regulators will then have to ascertain that the proposed products adequately reflect investors' ESG concerns. In this respect, it will be of crucial importance for financial market participants to have access to standardised ESG information from investee companies.

It is therefore to be welcomed that the EU is working on a review of the NFRD, in order to enhance the delivery of high-quality sustainability related reporting by corporates. This will facilitate the gathering of information by financial market participants when developing, managing and marketing their products.

In the face of the need for a global response to climate change, the ultimate goal should be to foster coherence and consistency between the EU and global sustainability reporting. In this respect, it is encouraging that the EU is open to working with global initiatives such as the initiative of the IFRS Foundation, which aims, in close cooperation with IOSCO, to develop new global standards for sustainability disclosures by companies.