Finance Watch

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SUBJECT | Response to the Commission's consultation on the amendment of the Taxonomy delegated acts

Brussels, 26 March 2025

The Commission published on 26 February 2025 its first omnibus package amending the CSRD (Corporate Sustainability Reporting Directive), the CSDDD (Corporate Sustainability Due Diligence Directive), the Taxonomy Regulation and the CBAM (Carbon Border Adjustment Mechanism) with the intention to simplify the current legislative framework. The Commission's package also includes proposed adaptations to the Taxonomy delegated act, including:

1. The introduction of a 10% de minimis threshold
2. A revision of the Green Asset Ratio formula
3. The reduction of data points in the Taxonomy reporting templates.

Finance Watch supports the principle of streamlining the current legislative framework, fixing some inconsistencies and simplifying the application of certain criteria. However, Finance Watch warns that the current proposal goes beyond mere simplification, increases legislative uncertainty and introduces the foundations for a deregulation agenda. In this response, Finance Watch shares key concerns on the amendments to the Taxonomy Regulation and the related delegated acts.

- **The Taxonomy is the best tool to assess corporate sustainability, and making it voluntary for companies with under 450m turnover would severely weaken possibilities to improve the SFDR framework.**

In the context of the revision of SFDR, the Platform on Sustainable Finance (PSF) proposed to focus the definition of sustainable investment on activities that are not covered by the Taxonomy and on socially sustainable activities, with the intention to avoid multiple definitions of whether and how an economic activity can be deemed sustainable. This approach will prevent contradicting portfolios with a high percentage of sustainable investment and low Taxonomy alignment. Ultimately, it may reinforce companies' interest in increasing their percentage of Taxonomy alignment, as it would be deemed to fully replace the notion of sustainable investment.

Finance Watch warns the Commission that the proposal on the EU omnibus could affect the PSF's approach. Making largely voluntary the Taxonomy alignment disclosure (as currently proposed by the European Commission) would have multiple negative effects:

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1. Raising legislative challenges to treat eligible economic activities for companies that would opt out of disclosing their Taxonomy alignment
2. Diverting investments away from economic activities that can substantially contribute to environmental objectives
3. Increasing the concentration risk of portfolios due to an investment focus on opting in companies and economic activities that are not (yet) covered by the Taxonomy.

Ultimately, the consideration of sustainability preferences of investors would also be negatively affected.

- **The introduction of a 10% de minimis threshold will lead to an uneven treatment of sectors due to the current segmentation of eligible economic activities.**

The Climate and Environmental delegated acts provide a list of economic activities with **different granularity levels** depending on the sectors. For example, the energy sector is segmented into 25 economic activities for the climate change mitigation objective while the information and communication sector is segmented into 2 economic activities. Energy companies active in multiple economic activities are therefore more likely to consider most of their activities as 'non material'. Finance Watch therefore considers that a threshold should not apply at the level of the economic activity and that materiality should rather be considered at sectoral level.

The materiality principle should also consider the **absolute amounts** resulting from the economic activities as very large companies should not apply the same relative materiality percentage.

- **The adaptations to the KPIs for financial institutions will not resolve comparability limitations.**

Finance Watch recognizes that the current KPIs for financial institutions could be more favorable for certain business models than others. Yet, excluding the undertakings other than large undertakings which, on their balance sheet dates, exceed the average number of 1000 employees during the financial year from the denominator of KPIs of financial undertakings will not resolve the issue. In fact, it could artificially increase the KPIs of financial institutions that have very low exposures to companies falling under the scope of the Taxonomy Regulation. The proposed changes should therefore not replace the current KPIs but, at most, complement them.