Finance Norway – Comments on the TEG taxonomy consultation

Finance Norway, the industry organization for the financial industry in Norway, welcomes the European Commission's legislative proposal on the establishment of a framework to define sustainable investments. We agree that a lack of clarity as to what constitutes "sustainability" is a key obstacle for increasing and directing capital flows towards sustainable investments, and as such the proposal from the TEG represents a positive step towards establishing a sustainability taxonomy. Finance Norway is a member of the European Banking Federation, the European Savings and Retail Banking Group, and Insurance Europe, and we support their comments and input to this consultation. Below, we would like to draw attention to some issues of particular importance to the Norwegian financial industry.

<u>Need for flexibility and proportionality</u>
In our view, the taxonomy should be a common language for identifying green/sustainable characteristics, to be used as a tool by all market participants to all relevant activities. As a framework or classification system, the taxonomy should be designed in a way that will enable an unambiguous identification of all relevant sustainable activities, companies and assets. However, we agree with the TEG that the taxonomy is not, and should not be, a mandatory list of activities in which to invest or finance. Also, the definition of sustainability should not be so narrow that the taxonomy cannot be used as a screening device for mainstream investments, and/or excludes companies needed to support the transition to a greener economy.

At the same time, it needs to be recognized that natural science is outside the normal scope of skills for finance professionals. The detailed criteria for assessing contribution and potential harm to environmental objectives makes the taxonomy very complex and data intensive, requiring investors to have a thorough knowledge of each economic activity. The definition of "significant harm" needs to be unambiguous, so that the assessment of this criteria can be done objectively.

The principle of proportionality is vital to make sustainable finance work in practice, and it is thus important that the taxonomy is simple enough to be understood by those who are supposed to incorporate it in their decision making and does not limit the use in smaller companies who does not have access to highly specialized personnel. This is particularly important in the Norwegian market, where 95 per cent of the companies are SMEs.

Also, flexibility within the legislation will be key, as this will allow for new and emerging issues to be taken under consideration without requiring regulatory changes. As science progresses and new environmental challenges arise, the framework will require continuous review to allow for incorporation of new technologies, mitigation, measurements and knowledge.

<u>Compatibility and balance</u>
It is also important to align the taxonomy with existing standards, systems and frameworks as well as other legislative proposals, market practices and initiatives, such as the ongoing green finance project "Energy Efficient Mortgages Initiative", led by the EMF-ECBC. A narrow taxonomy will not

be a suitable base for other regulations, such as for example the Disclosure regulation, where sustainable investments are defined more broadly.

We would also like to point out that more clarity is needed with regards to the territorial scope. The draft regulation does not clearly specify whether the Taxonomy also applies to economic activities outside of the EU. The purpose of the Taxonomy is to enable classification of economic activities but neglects to define whether the geographical location(s) of these activities is relevant for its application for a specific company. Given the global scope of environmental issues, it is important that the taxonomy is adaptable to economic activities and investments on a global basis, without creating an uneven playing field for EU entities operating in third-countries and vice versa. Thus, the taxonomy should be designed in a way that easily can be replicated by third-countries.

We also note that the taxonomy does not differentiate between activities that do not contribute to any objective and those that are harmful. This may be restricting, for example, in the context of social objectives, as sociably responsible investment is about making sure that certain unacceptable behaviors and practices, such as violation of human rights or working conditions, do not happen at all.

Furthermore, it is important to find the right balance within the framework and ensure that activities related to mitigation do not have negative impacts on other sustainability goals, e.g. negatively impacting social and governance issues while purely focusing on green impact. We believe that the Commission should try to develop criteria, in parallel, for all three components of the ESG (environment, social and governance) as all three of them are considered in the assessment of the sustainability of a product.

In closing, Finance Norway would like to express our full support for the important work the Commission has set out to undertake. We remain at your disposal should further input or clarification be needed.

Sign.
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