

EU Taxonomy & Sustainability reporting

Brief description and main aims:

Since 2017/2018, the European Commission has been keen to encourage sustainable investments. It is in the framework of its 2018 *Action Plan on Sustainable Finance* that it launched the "EU taxonomy", a classification system that provides all economic and financial actors with a common understanding of what should be considered as a "sustainable" economic activity in the EU. By creating this harmonised classification system, the Commission aims to help investors, companies, issuers etc. channel investments into "environmentally friendly" activities.

The Taxonomy Regulation was published in *the Official Journal of the European Union* on 22 June 2020 and entered into force on 12 July 2020. In the framework of the Taxonomy Regulation, a dedicated *Platform on Sustainable Finance* (PSF) was set up in October 2020. Its main objective was to advise the European Commission in drafting the so-called technical screening and *Do-No-Significant-Harm* criteria of the taxonomy for environmentally sustainable economic activities, including for activities carried out by construction companies.

Pekka Vuorinen (RT/FIN) represented FIEC in the *Platform on Sustainable Finance's* Technical Working Group (TWG) from October 2020 to October 2022.

Why FIEC is dealing with this topic:

In light of the EU ambitious environmental and sustainability policies, such as, for example, the EU taxonomy and the "*Fit for 55*" package, and considering the attitude of clients towards sustainability, construction companies cannot continue with "business as usual". Sustainability will not just be an "added-value" or a "nice-to-have". FIEC expects that it will soon become a "licence to operate" for contractors.

The Taxonomy Regulation is one of the cornerstones of EU sustainability and sustainable finance policies. It establishes the basis for the EU taxonomy by setting out overarching conditions (six environmental objectives, so-called *Do-No-Significant-Harm* criteria, and minimum social safeguards) that an economic activity must meet to qualify as environmentally sustainable. Under this Regulation, the European Commission had to come up with the actual list of environmentally sustainable activities by defining technical screening criteria for each environmental objective through so-called delegated acts, the first of which, defining criteria for the first two environmental objectives, was published in the *Official Journal* on 9 December 2021 and is applicable since January 2022. Several construction activities - with potential to mitigate climate change - are covered by the *Climate Delegated Act*.

A second draft delegated act ("Environmental Delegated Act", with technical criteria for the remaining four environmental objectives) was published in April 2023. It contains new technical criteria for the transition to a circular economy. To ensure that the criteria for construction activities are realistic and usable, it was of crucial importance that FIEC was represented in the Technical Working Group of the PSF. FIEC will continue following the work of "Platform 2.0" that is mandated to advise the Commission from Q1 2023 until Q4 2024.

Under the taxonomy, all undertakings within the scope of the Non-Financial Reporting Directive (NFRD) must report on their share of their taxonomy-eligible activities (since 1 January 2022). From January 2023, companies in scope must also report on their taxonomy alignment. The NFRD has been amended by the Corporate Sustainability Reporting Directive (CSRD). According to the CSRD, more companies, even listed small and medium-sized companies, will have to report detailed sustainability information according to new European sustainability reporting standards (ESRS).

Actions and key dates:

12/07/2020 → Entry into force of Taxonomy Regulation.

October 2020 → Beginning of mandate of *Platform on Sustainable Finance*.

21/04/2021 → Proposals for Climate Delegated Act (environmental objectives 1-2) and for Corporate Sustainability Reporting Directive (CSRD) published.

January 2022 → Entry into force of Climate Delegated Act, reporting on Taxonomy eligibility for companies within scope of Non-Financial Reporting Directive.

30/03/2022 → Recommendations of *Platform on Sustainable Finance* on technical screening criteria for environmental objectives 3-6 (Environmental Delegated Act).

23/06/2022 → [FIEC's reaction](#) to the recommendations of the Platform for objectives 3-6.

18/10/2022 → *Construction 2050 Alliance* Webinar on “Sustainable Finance”.

October 2022 → End of mandate of the Platform.

December 2022 → [FIEC' reaction](#) to the “TWG Supplementary Report”.

January 2023 → Entry into force of Corporate Sustainability Reporting Directive, development of SME-proportionate standards and sector-specific standards starts. Reporting on taxonomy alignment with environmental objectives 1-2.

February/March 2023 → First meeting of new *Platform on Sustainable Finance*.

05/04/2023 → Publication of draft Environmental Delegated Act.

03/05/2023 → FIEC provides [feedback](#) on the Environmental Delegated Act.

June 2023 → New Sustainable Finance package, adoption of Environmental Delegated Act and publication of first set of European sustainability reporting standards. [FIEC observations](#) on sustainable finance package.

December 2023 → Conference on Sustainable Finance at FIEC Conference in Paris.

January 2024 → Expected entry into force of Environmental Delegated Act.