

Panel on EU taxonomy



Nathan Fabian

*Chief Responsible Investment
Officer
Principles for Responsible
Investment*



Sirpa Pietikäinen

*Member of the European
Parliament
@spietikainen*



Mika Anttonen

*Founder and
Chairman
St1*



Katja Keitaanniemi

*President and CEO
OP Corporate Bank
@Kkeitaanniemi*



Jochen Krimphoff

*Deputy Director
Sustainable Finance & International Relations
WWF-France*

Greener
Finance for
Sustainable
Future



Technical Expert Group on
Sustainable Finance






EU TAXONOMY











Nathan Fabian: Chief Responsible Investment Officer, PRI
Rapporteur, Taxonomy, Technical Expert Group on Sustainable Finance

Background: Action Plan on Financing Sustainable Growth

Strategy

-  **1 Reorienting capital flows** towards sustainable investment
-  **2 Mainstreaming Sustainability** into risk Management
-  **3 Fostering transparency and Long-termism**

Actions

-  **1 Establish EU Sustainable Taxonomy**
-  **2 Create Standards and Labels**
-  **3 Foster Investment in Sustainable Projects**
-  **4 Incorporate Sustainability in Investment Advice**
-  **5 Develop Sustainability Benchmarks**
-  **6 Integrate ESG in Ratings and Market Research**
-  **7 Clarify institutional investors and asset managers duties**
-  **8 Incorporate sustainability in prudential requirements**
-  **9 Strengthen Sustainability Disclosure & Accounting**
-  **10 Foster Sustainable Corporate Governance**

Source: [European Commission: Action Plan on Financing Sustainable Growth \(2018\)](#).

What is the EU Taxonomy?

- ✓ **A list of economic activities**
- ✓ **With environmental and social performance criteria**

Example: Electricity generation criteria

Substantial contribution

Operate at
<100g CO₂e / kWh



Do no significant harm

Comply with EU
laws on water,
pollution, protecting
ecosystems



Minimum social safeguards

Comply with ILO
conventions

Improve transparency. Reduce transaction cost.

Current market

Different taxonomies

Lack of Transparency

Risk of greenwashing

Costs for real economy

Burdensome for investors



Intended impact

Certainty for economic actors

Protection of private investors

Easier for real economy / Supply








Reduce market fragmentation

Basis for further policy action


Six environmental objectives

- 1. Climate change mitigation**
- 2. Climate change adaptation**
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy, waste prevention and recycling
5. Pollution prevention and control
6. Protection of healthy ecosystems

Climate change mitigation: 67 economic activities in 7 sectors

| | |
|---|---|
|  | Agriculture and forestry |
|  | Manufacturing |
|  | Electricity, gas, steam and air conditioning supply |
|  | Water, sewerage, waste and remediation |
|  | Transport |
|  | Information and Communication Technologies (ICT) |
|  | Buildings |

What's in the Taxonomy?

| | | Do No Significant Harm criteria identified? | | | | |
|---|---|---|--------------|-------------------------|------------------|-------------------|
|  Agriculture and Forestry | Can climate change mitigation criteria change in future? | | | | | |
| | | Adaptation | Water | Circular economy | Pollution | Ecosystems |
| Growing of perennial crops | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Growing of non-perennial crops | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Livestock production | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Afforestation | | ✓ | ✓ | | ✓ | ✓ |
| Rehabilitation, Restoration | | ✓ | ✓ | | ✓ | ✓ |
| Reforestation | | ✓ | ✓ | | ✓ | ✓ |
| Existing forest management | ✓ | ✓ | ✓ | | ✓ | ✓ |

Supporting economic transition: 3 activity types

Already low carbon activities

Activities that **contribute to a transition**

Activities that **Enable emissions reductions**

Activities that undermine mitigation objectives are **not** included.

Supporting industry to transition

Example 1: Energy Company

- **Multiple energy sources**
- Allocates funds to a **new generation facility eligible under the taxonomy**
- **Issues a green bond, that meets Taxonomy criteria**

Example 2: Manufacturing company

- Aluminum manufacturer aims **to improve the performance of its facility**
- **Green loan from a bank** for the expenditure to meet taxonomy criteria
- Once meeting the taxonomy criteria, the shares of the company can be included in a green equity fund.

Who will use the Taxonomy and how?

The proposed regulation has two mandatory users:

1. Financial market participants

2. EU Member States

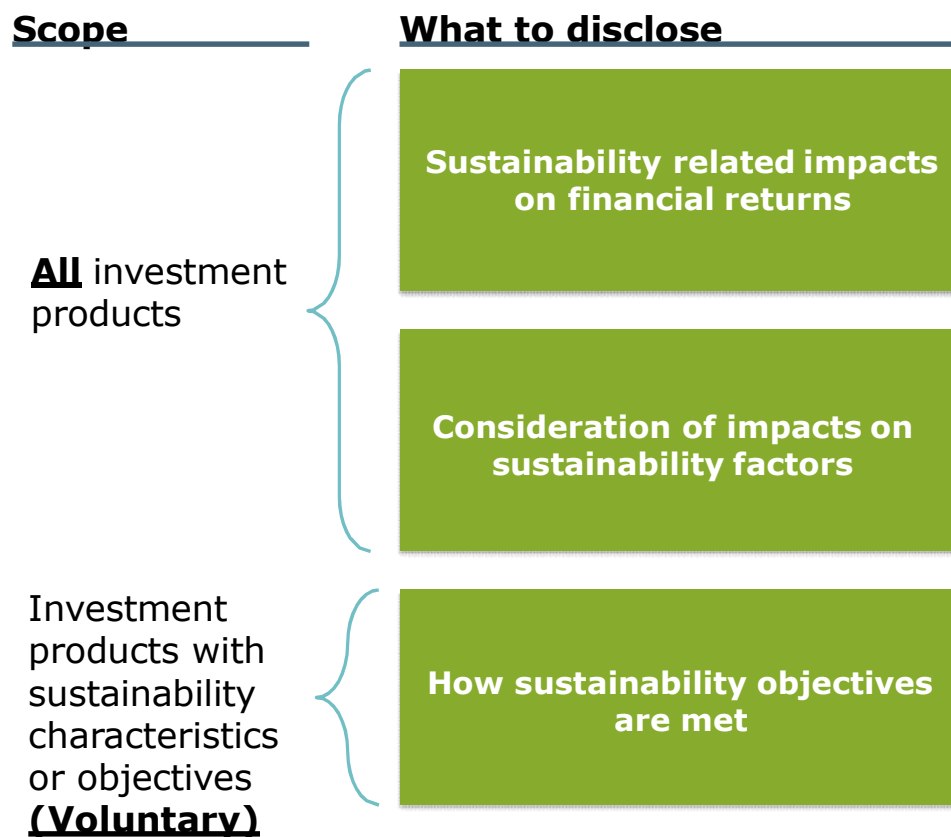
+

Companies under the Non-Binding Guidelines for the NFRD.

Voluntary use by investors

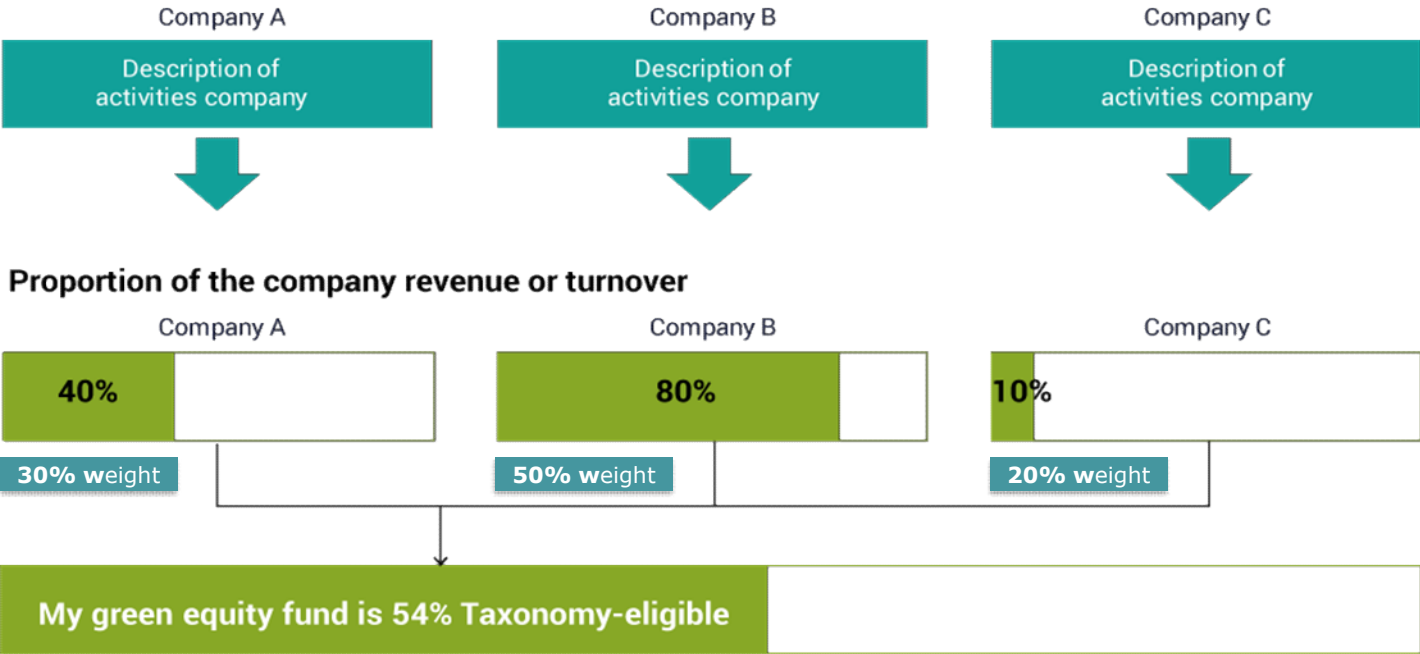
- Expressing investment preferences
- Selecting holdings
- Designing green financial products
- Measuring the environmental performance of a security or product
- Engaging with investees

Disclosures by financial entities



The Taxonomy in equity funds

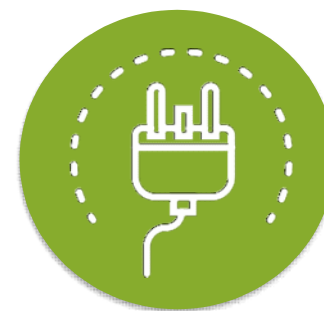
How to apply the taxonomy to an equity portfolio



Add each company's weighting in the portfolio


Key points for Finnish investors

1. Sustainable finance is a broad trend built on fundamental changes.
2. Markets at scale need trust, transparency, efficiencies.
3. Clarity on *what is sustainable* to be the new norm.
4. Data matters.
5. Taxonomy is an opportunity for markets to work.



END


What's in the Taxonomy?

|  Manufacturing | Can climate change mitigation criteria change in future? | Do No Significant Harm criteria identified? | | | | |
|--|---|--|--------------|-------------------------|------------------|-------------------|
| | | Adaptation | Water | Circular economy | Pollution | Ecosystems |
| Manufacturing of low carbon technologies | ✓ | ✓ | | ✓ | ✓ | |
| Manufacture of Cement | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Manufacture of Aluminium | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Manufacture of Iron and Steel | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Manufacture of hydrogen | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Manufacture of other inorganic basic chemicals | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Manufacture of other organic basic chemicals | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Manufacture of fertilizers and nitrogen compounds | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Manufacture of plastics in primary form | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |


What's in the Taxonomy?

| Do No Significant Harm criteria identified? | | | | | | |
|---|--|------------|-------|------------------|-----------|------------|
|  Electricity, gas, steam and air conditioning supply | Can climate change mitigation criteria change in future? | Adaptation | Water | Circular economy | Pollution | Ecosystems |
| Production of Electricity from Solar PV | ✓ | ✓ | | ✓ | | ✓ |
| Production of Electricity from Concentrated Solar Power | ✓ | ✓ | ✓ | | | ✓ |
| Production of Electricity from Wind Power | ✓ | ✓ | ✓ | ✓ | | ✓ |
| Production of Electricity from Ocean Energy | ✓ | ✓ | | | ✓ | ✓ |
| Production of Electricity from Hydropower | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Production of Electricity from Geothermal | ✓ | ✓ | ✓ | | ✓ | ✓ |
| Production of Electricity from Gas Combustion | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Production of Electricity from Bioenergy | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Transmission and Distribution of Electricity | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Storage of Energy | ✓ | ✓ | | ✓ | | ✓ |
| Manufacture of Biomass, Biogas or Biofuels | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Retrofit of Gas Transmission and Distribution Networks | | ✓ | ✓ | ✓ | ✓ | ✓ |
| District Heating/Cooling distribution | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Installation and operation of Electric Heat Pumps | | | | Not yet assessed | | |
| Cogeneration of Heat/Cool and power from Concentrated Solar Power | ✓ | ✓ | ✓ | | | ✓ |
| Cogeneration of Heat/Cool and power from Geothermal Energy | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Cogeneration of Heat/Cool and power from Gas Combustion | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Cogeneration of Heat/Cool and power from Bioenergy | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Production of Heating and Cooling from Concentrated Solar Power | ✓ | ✓ | ✓ | | | ✓ |
| Production of Heating and Cooling from Geothermal Energy | ✓ | | | Not yet assessed | | |
| Production of Heating and Cooling from Gas Combustion | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Production of heating and cooling from Bioenergy | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Production of Heating and Cooling using Waste Heat | ✓ | | | Not yet assessed | | |


What's in the Taxonomy?

|  Water, Waste and Sewerage remediation | Can climate change mitigation criteria change in future? | Do No Significant Harm criteria identified? | | | | |
|---|--|---|------------------|------------------|-----------|------------|
| | | Adaptation | Water | Circular economy | Pollution | Ecosystems |
| Water collection, treatment and supply | ✓ | ✓ | ✓ | | | ✓ |
| Centralized wastewater treatment systems | ✓ | ✓ | | | ✓ | |
| Anaerobic digestion of sewage sludge | ✓ | ✓ | | | ✓ | |
| Separate collection and transport of non-hazardous waste in source segregated fractions | ✓ | ✓ | | ✓ | ✓ | |
| Anaerobic digestion of bio-waste | ✓ | ✓ | | | ✓ | |
| Composting of bio-waste | ✓ | ✓ | | | ✓ | |
| Material recovery from waste | ✓ | ✓ | | ✓ | ✓ | |
| Landfill gas capture and energetic utilization | ✓ | ✓ | | | ✓ | |
| Direct Air Capture of CO ₂ | | | Not yet assessed | | | |
| Capture of anthropogenic emissions | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Transport of CO ₂ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Permanent Sequestration of captured CO ₂ | | ✓ | ✓ | ✓ | ✓ | ✓ |


What's in the Taxonomy?

| | | Do No Significant Harm criteria identified? | | | | |
|---|--|---|-------|------------------|-----------|------------|
|  Transport | Can climate change mitigation criteria change in future? | Adaptation | Water | Circular economy | Pollution | Ecosystems |
| Passenger Rail Transport (Interurban) | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Freight Rail Transport | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Public transport | ✓ | ✓ | | ✓ | ✓ | |
| Infrastructure for low carbon transport | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Passenger cars and commercial vehicles | ✓ | ✓ | | ✓ | ✓ | |
| Freight transport services by road | ✓ | ✓ | | ✓ | ✓ | |
| Interurban scheduled road transport | ✓ | ✓ | | ✓ | ✓ | |
| Inland passenger water transport | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Inland freight water transport | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Construction of water projects | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

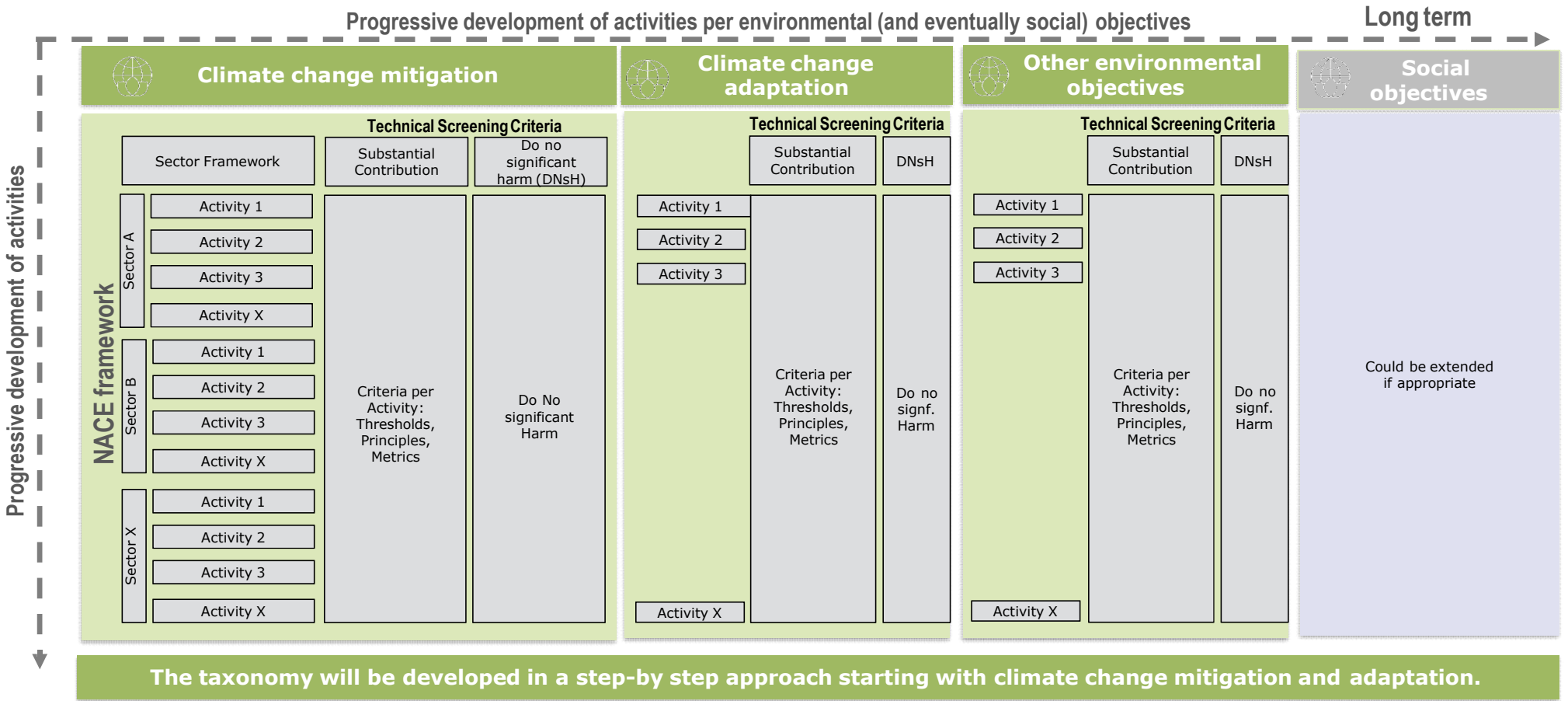
What's in the Taxonomy?

| | | Do No Significant Harm criteria identified? | | | | |
|--|--|---|-------|------------------|-----------|------------|
|  Information and Communication Technologies (ICT) | Can climate change mitigation criteria change in future? | Adaptation | Water | Circular economy | Pollution | Ecosystems |
| Data processing, hosting and related activities | ✓ | Not yet assessed | | | | |
| Data-driven solutions for GHG emissions reductions | | Not yet assessed | | | | |

What's in the Taxonomy?

|  Buildings | Can climate change mitigation criteria change in future? | Do No Significant Harm criteria identified? | | | | |
|---|---|--|--------------|-------------------------|------------------|-------------------|
| | | Adaptation | Water | Circular economy | Pollution | Ecosystems |
| Construction of new buildings | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Renovation of existing buildings | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Individual renovation measures, installation of renewable on-site and professional, scientific and technical activities | ✓ | ✓ | | ✓ | ✓ | ✓ |
| Acquisition of buildings | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Taxonomy - What could it look like?



Investment uses

| Uses and users of the Taxonomy | | |
|---|---|--|
| | Disclosure obligations | Optional additional uses |
| Pensions and Asset Management | <ul style="list-style-type: none"> • UCITS funds: <ul style="list-style-type: none"> • equity funds; • exchange-traded funds (ETFs); • bond funds • Alternative Investment Funds (AIFs): <ul style="list-style-type: none"> • fund of funds; • real estate funds; • private equity or SME loan funds; • venture capital funds; • infrastructure funds; • Portfolio management. | |
| Insurance | <ul style="list-style-type: none"> • Insurance-based investment products (IBIP) | <ul style="list-style-type: none"> • Insurance |
| Corporate & Investment Banking | <ul style="list-style-type: none"> • Securitisation funds* • Venture capital and private equity funds • Portfolio Management • Indices funds | <ul style="list-style-type: none"> • Securitisation • Venture capital and private equity • Indices • Project finance and corporate financing |
| Retail banking | | <ul style="list-style-type: none"> • Mortgages • Commercial building loans • Car loans • Home equity loans |

Example – Mitigation activity

Sector classification and activity

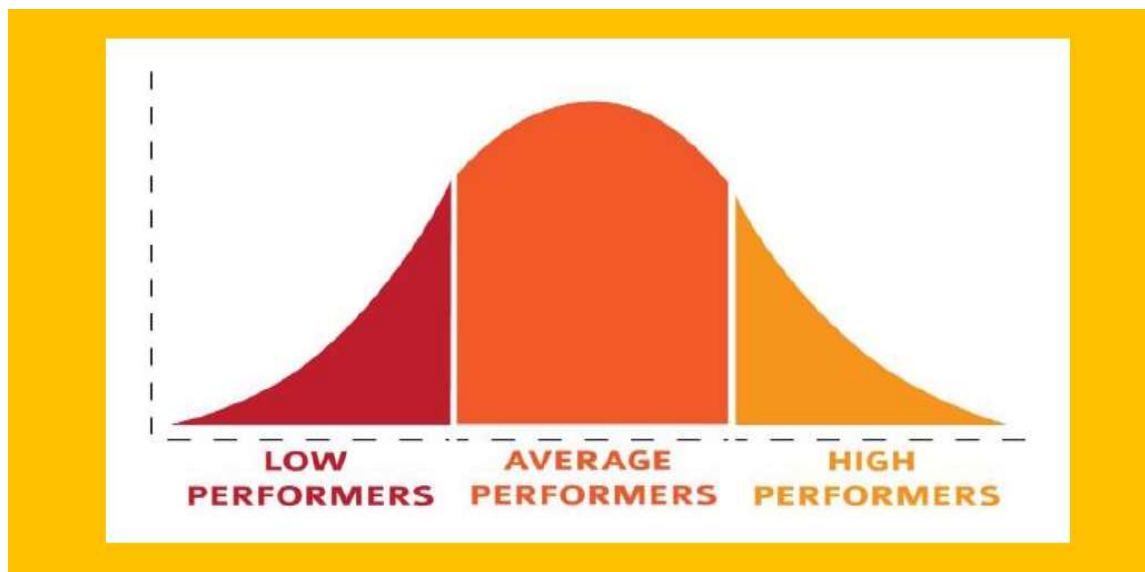
| | |
|----------------------------|---|
| Macro-Sector | C – Manufacturing |
| NACE Level | 3 and 4 |
| Code | C24.1, C24.2, C24.3, C24.5.1, C24.5.2 |
| Description | Manufacture of iron and steel |
| Mitigation criteria | |
| Principle | Manufacturing of iron and steel at the level of performance achieved by best performing plants is considered to make a substantial contribution to climate change mitigation. Additionally, secondary production of steel (i.e. using scrap steel) is considered eligible due to significantly lower emissions than primary steel production. |
| Metric | GHG emissions (tCO ₂ e) / t product GHG emissions must be calculated according to the methodology used for EU-ETS benchmarks. |
| Threshold | Manufacturing of iron and steel is eligible if the GHG emissions (calculated according to the methodology used for EU-ETS benchmarks) associated to the production processes are lower than the values of the related EU-ETS benchmarks. As of June 2019, the EU-ETS benchmarks values for iron and steel manufacturing are: <ul style="list-style-type: none">• Hot metal = 1.328 tCO₂e/t product• Sintered ore = 0.171 tCO₂e/t product• Iron casting = 0.325 tCO₂e/t product• Electric Arc Furnace (EAF) high alloy steel = 0.352 tCO₂e/t product• Electric Arc Furnace (EAF) carbon steel = 0.283 tCO₂e/t product Additionally, all production of steel in EAF using at least 90% of scrap steel is considered eligible. |

Example – Mitigation activity

Do no significant harm assessment

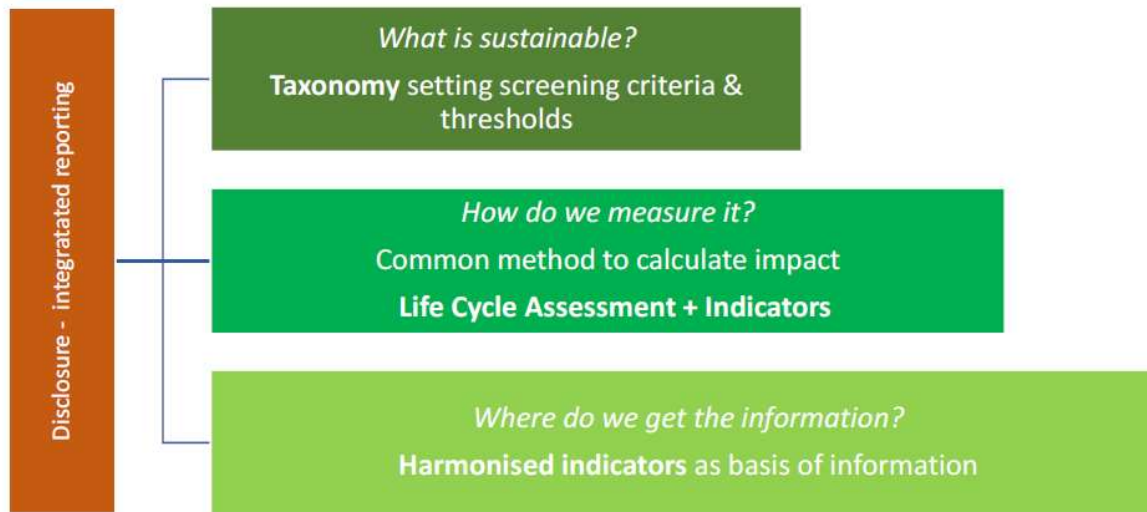
| | |
|-----------------------------|--|
| (2) Adaptation | The economic activity must reduce all material physical climate risks to the extent possible and on a best effort basis and the economic activity must not adversely affect adaptation efforts of others. |
| (3) Water | For operations situated in areas of water ensure that water use/conservation management plans, developed in consultation with relevant (local) stakeholders, exist and are implemented. |
| (4) Circular Economy | Appropriate measures are in place to minimise and manage waste and material use in accordance with BREF for iron and steel production. |
| (5) Pollution | Ensure emissions to water and air are within the BAT-AEL ranges set in the BREF for iron and steel production |
| (6) Ecosystems | Ensure an Environmental Impact Assessment (EIA) has been completed in accordance with the EU Directives on Environmental Impact Assessment (2014/52/EU) and Strategic Environmental Assessment (2001/42/EC) (or other equivalent national provisions or international standards) |

Indicators



Sirpa Pietikäinen, Greener Finance for Sustainable Future,
Bank of Finland & Ministry of Finance of Finland, 30 October 2019

Sirpa



Sirpa

Panel on EU taxonomy



Nathan Fabian

*Chief Responsible Investment
Officer
Principles for Responsible
Investment*



Sirpa Pietikäinen

*Member of the European
Parliament
@spietikainen*



Mika Anttonen

*Founder and
Chairman
St1*



Katja Keitaanniemi

*President and CEO
OP Corporate Bank
@Kkeitaanniemi*



Jochen Krimphoff

*Deputy Director
Sustainable Finance & International Relations
WWF-France*

Greener
Finance for
Sustainable
Future



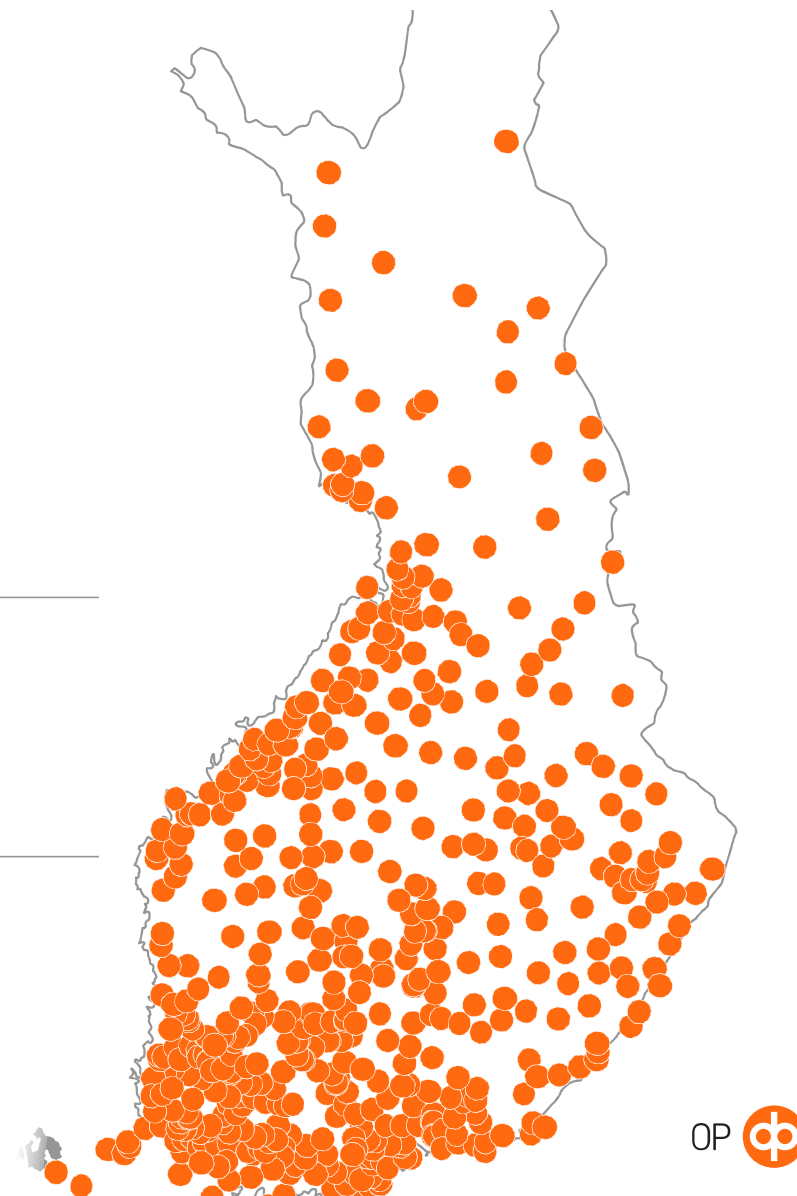
Financial industry driving sustainable development

Katja Keitaanniemi
President and CEO, OP Corporate Bank
@KKeitaanniemi

OP is a financial services group owned by its customers

Key figures Q3/2019 (*FY 2018)

| | | |
|--------------------------|--|---------------------|
| No. of employees* | No. of owner-customers | Total deposits |
| 12,200 | 1.95m | €62,6bn |
| Loan portfolio | CET1 ratio | EBT (€)* |
| €91bn | 19.6% | 1,017m (€1,031m) |
| Market share in deposits | Market share in home and corporate loans | Total assets |
| 40% | 40% | 147 bn |



Not just regulation - why is the financial industry interested in sustainable development?

- 1 Responsibility**
- The financial industry is based on trust
 - To foster this trust, we must act responsibly

- 2 Risk management and profit**
- Rising risk and cost of climate change
 - High demand for green investment products from investors

- 3 Reputation**
- Associates' expectations
 - Employee expectations
 - Customer expectations

- 4 Regulation**
- EU taxonomy
 - Proactiveness with regards to future regulation

OP's sustainable finance initiatives



Sustainable Investments



OP Green Bond



Green & Sustainability
linked corporate loans

A photograph of a forest with tall, thin trees and a misty atmosphere. Sunlight filters through the trees, creating a warm, golden glow. The ground is covered in green undergrowth. The text "Thank you!" is centered in the middle of the image.

Thank you!

Panel on EU taxonomy



Nathan Fabian

*Chief Responsible Investment
Officer
Principles for Responsible
Investment*



Sirpa Pietikäinen

*Member of the European
Parliament
@spietikainen*



Mika Anttonen

*Founder and
Chairman
St1*



Katja Keitaanniemi

*President and CEO
OP Corporate Bank
@Kkeitaanniemi*



Jochen Krimphoff

*Deputy Director
Sustainable Finance & International Relations
WWF-France*

Greener
Finance for
Sustainable
Future

Panel on Green Investing



Nathan Fabian

*Chief Responsible Investment
Officer
Principles for Responsible
Investment*



Sirpa Pietikäinen

*Member of the European
Parliament
@spietikainen*



Mika Anttonen

*Founder and
Chairman
St1*



Katja Keitaanniemi

*President and CEO
OP Corporate Bank
@Kkeitaanniemi*



Jochen Krimphoff

*Deputy Director
Sustainable Finance & International Relations
WWF-France*

Greener
Finance for
Sustainable
Future

Greener Finance for Sustainable Future



MINISTRY OF FINANCE

SUOMEN PANKKI
EUROJÄRJESTELMÄ



FINLANDS BANK
EUROSYSTEMET