

**PSF - Final Report on  
Taxonomy extension  
options and Methodological  
report on TSC for  
environmental objectives  
of the Taxonomy  
Regulation**



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# 1 Executive summary

## The PSF reports

The PSF has published the taxonomy extension options and the TSC for the objectives 3 to 6 of the Taxonomy Regulation which contains recommendations to the EC in order to develop the current Green Taxonomy

### 1-Regulatory context

- **Art. 26** of the TR mandates the EC to deliver a **report** on describing the provisions that would be necessary to **extend the scope** of the EU Taxonomy.
- Also, the EC shall elaborate the second Delegated Act for the **remaining objectives** of the TR.
- The **PSF** shall advise the EC in these matters.

### 2-Application

Both papers constitute an **input** on how the Taxonomy can and should develop in the near future but **might not be the final options that the EC will use.**

### 3-Next steps

- PSF was expected to deliver a **supplement of the report on Taxonomy extension** in May 2022<sup>1</sup>.
- EC to publish the report **on Taxonomy extension.**
- The EC, easy to adopt a new **DA on the four other environmental objectives** in **Autumn 2022.**

### 4- Subject matter of the documents



#### Final Report on Taxonomy extension options supporting a sustainable transition

1. The **framework** for extension: **Urgent action (red)**, **intermediate (amber)** performance activities, and **LEnVI activities.**
2. **Characteristics** of the activities and **recommendations** on how extension could be:
3. **Transitions and intermediate performance** levels of these activities.



#### Methodological report on TSC for environmental objectives of the TR<sup>2</sup>

1. **Requirements and principles** used to develop the TSC.
2. List of economic activities for **objectives 3 to 6 of the TR.**

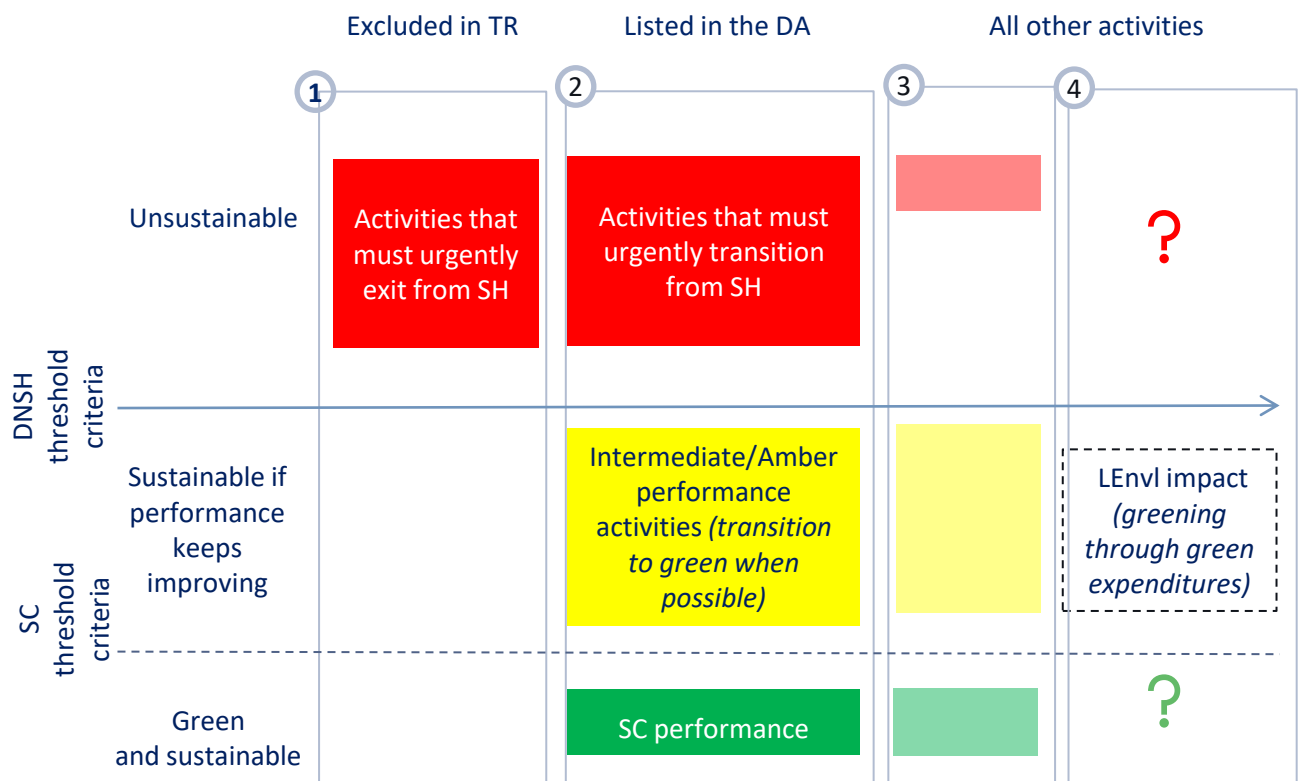
(1) The supplement report on recommendations and the revised conceptual framework for economic activities qualified as contributing substantially to one or more of the environmental objectives (enabling activities) set out in the TR.  
(2) This report is supplemented by a Technical Annex containing TSC for economic activities contributing to all six environmental objectives of the Taxonomy including the rationale for those criteria

# 2 Final Report on Taxonomy extension options

## Framework for extension

The PSF has recommended to extend the EU Taxonomy framework ‘beyond green’ to classify activities as: i) unsustainable performance requiring an urgent exit/transition to avoid SH; ii) intermediate (or Amber) performance and LEnvl activities

Classification of the activities in the real economy



- ① Activities **excluded from the green Taxonomy** as they are SH to one or more of the six environmental objectives and are unable to transition.

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- ② Existing green Taxonomy for activities:
  - **Activities that need to be improved urgently** and could qualify for Taxonomy-recognised investment as part of a transition plan to avoid their current SH performance and move to intermediate performance levels.
  - **Intermediate performance space activities** that operate between SH and SC performance levels and could qualify for Taxonomy-recognised investment as part of an intermediate/amber transition plan under which they continue to improve to stay out of SH performance.
  - **Taxonomy-aligned activities**, which are economic activities that achieve performance levels making a SC to at least one of six environmental objectives whilst ensuring that the activity will DNSH to any of the other 5 objectives and also meet minimum safeguards.

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- ③ Environmentally impactful (positive or negative) activities that have the potential to make a SC to one of the objectives but are **not yet included in the Taxonomy\***.

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- ④ **Residual activities that have low impact** across the six environmental objectives that may be candidates for a category of activities with a LEnvl. They may need to have some minimum environmental safeguards in place and **may want to make and report green investments**; hence the green and red “?” symbols.

# 2

## Final Report on Taxonomy extension options

### Activities causing significant harm and amber transition activities



The PSF proposes the inclusion of 2 types of activities into the existing economic activities with environmental performance levels in the SH space and 1 type of activities in the space between SC and SH space

	Activities that must urgently exit from SH	Activities that must urgently transition from SH to environmental objectives	Activities that must urgently exit from SH
Characteristics	SH is <b>the same concept</b> whether it requires urgent transition and urgent exit		
	<b>No technological possibility</b> of improving their environmental performance	<b>Technological possibility</b> of improving their environmental performance.	<ul style="list-style-type: none"> <li>Does <b>not SH</b> any of the environmental objectives.</li> <li>Does <b>comply with TSC</b> that have been established by the Commission</li> <li>Complies with <b>minimum safeguards</b>.</li> </ul>
	<b>Only be decommissioned or exited</b>	Either be <b>decommissioned</b> or undergo an <b>investment plan</b> aimed at improving their environmental performance.	
How extension could be?	Power-generation activity using fossil fuel is the unique activity identified at in the TR. PSF recommends: <ul style="list-style-type: none"> <li><b>Identification of further activities</b> (supported by PSF work on NACE codes<sup>1</sup>)</li> <li><b>Development of TSC</b> for potential closure /decommissioning of these activities X</li> </ul>	<b>Review the existing DNSH criteria</b>	
		<b>Identification of further activities</b> (supported by PSF work on NACE codes <sup>1</sup> )	Develop and publish <b>non-binding guidelines</b> to encourage stakeholders to test the extended Taxonomy using the existing DNSH criteria



**Priority given to an extension towards these activities**



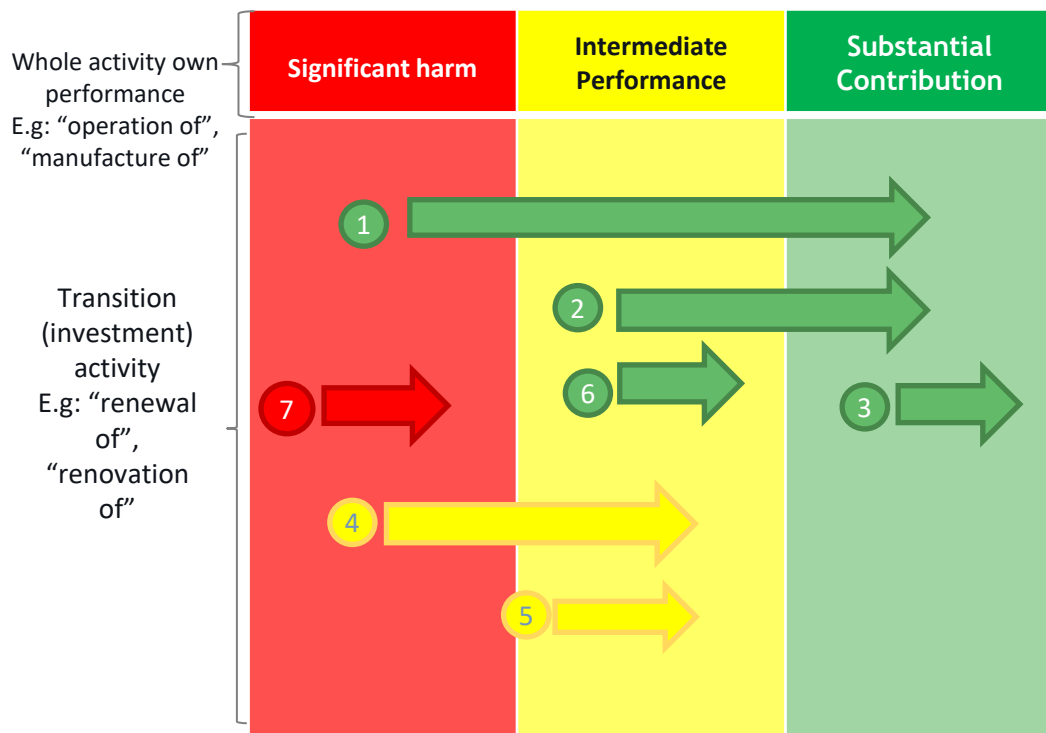
# 2

## Activities causing significant harm Transitions and Intermediate Performance levels



An extended Taxonomy opens up a broader approach to describing transition opportunities by recognising activity-specific improvements out of the SH performance and into the intermediate performance space

Types of transitions between different levels of performance to absolute performance



- (1) PSF proposes a revision of DNSH criteria so that can be used to assess intermediate performance and thus define improvements that do not lead all the way to an SC during the financing period
- (2) E.g., restoration of historic buildings which cannot meet SC criteria for new buildings. Already included in the Climate DA Section 7.2.

### EXISTING TAXONOMY



#### REQUIREMENTS FOR A VALID SC TRANSITION:

- ✓ Any movement into SC levels of performance can count as green **once SC levels of performance are reached.**
- ✓ Includes **CAPEX and the turnover** associated with the activity.
- ✓ Subject to **rules about activity-specific investment plans and reporting** to meet TSC.

### EXTENDED TAXONOMY

#### REQUIREMENTS FOR A VALID INTERMEDIATE TRANSITION:



- ✓ Any **movement out of performance levels that define a damaging level** of environmental performance if it is ensured that an activity is continuously staying out of the previous performance level.
- ✓ Includes **CAPEX** associated with the activity.
- ✓ Subject to **disclosure requirements proposed by the PSF** for activity-specific intermediate capex plans as well as requirements based on **different types of DNSH criteria<sup>1</sup>**, in order to qualify for intermediate transition capex.



- ✓ If it starts in the **intermediate space** is subject to the existence of a robust activity- and entity specific plan for transition and continuing to improve.



- ✓ Improvement already included in the DA as a SC when SC criteria for the whole activity cannot be met<sup>2</sup> or the SC criteria for the whole activity have not been defined. TSC for a specific improvement activity might be included.



#### NOT VALID TRANSITION

- ✗ Any improvement in performance **staying within the SH space** is **not a valid transition** since despite the relative improvement, the activity is still causing SH and hence undermining that objective (through its absolute impact).

## 2 | LEnvl activities (NSI on environmental sustainability)



### Characteristics and recommendations for LEnvl Taxonomy extension

The availability of the LEnvl classification would provide the means to tag those economic activities that are not aligned with the green EU Taxonomy but that are not environmentally unsustainable

#### What is a LEnvl?



LEnvl activities are those economic activities that fulfil 3 characteristics :

- Do **not have the potential to make a SC** to any one of the six EU environmental objectives, **with the exception of climate adaptation**<sup>1</sup>
- Are **not at risk of causing SH** to any one of the six EU environmental objectives
- **Meet minimum safeguards.**

E.g: **professional, scientific and technical activities** (NACE M69–M75), **education** (NACE P85) and **residential care activities** (NACE Q87).



Not to be confused with the **amber activities**, since these ones have the possibility to make a **substantial positive contribution** to an objective.

#### How material are LEnvl activities?



Applying the definition for LEnvl PSF preliminary analysis of economic activities defined at the NACE-2 level found that the scope of activities likely to qualify as LEnvl represents a **significant portion of the EU economy**:

- **30-40%** of the EU economy activities may potentially be included in LEnvl.
- Potential LEnvl economic activities account for (**> 90%**) of SME and micro-enterprises.

#### How the extension could be?



- PSF recommends to extend the Taxonomy to include LEnvl activities using **non-binding guidance** and **reassessing after 3 years of experience and practice, as well as with NACE code** (supported by PSF **NACE code work**, which has already started).
- To avoid confusion between SC and LEnvl, it will be important to **clearly differentiate SC and LEnvl** in any reporting, disclosure or other use cases of an extended Taxonomy.
- As part of such a guidance document, **LEnvl-related sectoral DNSH checklists** should be established **to avoid SH** by otherwise LEnvl impact activities<sup>2</sup>.
- In order to develop this guidelines approaches on **how LEnvl economic activities could be identified** should be considered. PSF proposes two of them: a. By means of negative screening and b. By means of positive inclusion, leaving some economic activities unclassified.

(1) In case the capex and expenditures (but not the turnover) of Taxonomy-eligible activities regarding the climate change adaptation objective are covered by the green Taxonomy, the turnover, capex and opex from the core business can still qualify as LEnvl-related economic activities

(2) LEnvl economic activities could be linked to upstream or downstream economic activities that themselves might have different environmental performance profiles. Identifying those profiles will be needed to avoid indirectly causing SH. The PSF gives three possible approaches but does not choose any one of them and ask for a future clarification on this matter.

# 3

## Methodological report on TSC for environmental objectives of the Taxonomy Regulation

### Approach overview

This document explains the methodology and contains several recommendations to the EC relating to the TSC for objectives 3 to 6 of the Taxonomy Regulation

#### 1- Explaining Methodology for developing TSC



- **Brief description of seven possible approaches** to assess the contribution of an economic activity:
  - Impact-based approach;
  - Performance in relation to the environmental target;
  - Best-in-class performance;
  - Relative improvement;
  - Practice-based;
  - Process-based;
  - Nature of the activity.

#### 3- Understanding Environmental Objectives



- **Resolution of doubts** arising from the elaboration of the TSC for objectives 3-6 through different examples.



#### 2- Defining headline ambition levels for environmental objectives



- Defining substantial contribution to the Taxonomy environmental objectives requires an understanding of what the objectives are in terms of their end-state targets: **headline ambition levels**.
- **Three principles** stated for setting a headline ambition level of the four remaining objectives:
  - Be science-based.
  - Be based on international agreements that EU supports.
  - Reflect EU's response to international agreements or EU's leadership on an objective.

#### 4- Recommendations and reflections for future work



- Ensuring **synergy and consistency** between criteria as the Taxonomy evolves.
- **Review the existing DNSH criteria** in the climate delegated act.
- Undertaking **analysis of adaptation approaches** to climate.
- Clarifying for the using audience and future taxonomy developers understanding around the **scope of economic activities and the link with assets**.
- Development of measures to allow **Taxonomy alignment** below the level of an activity.



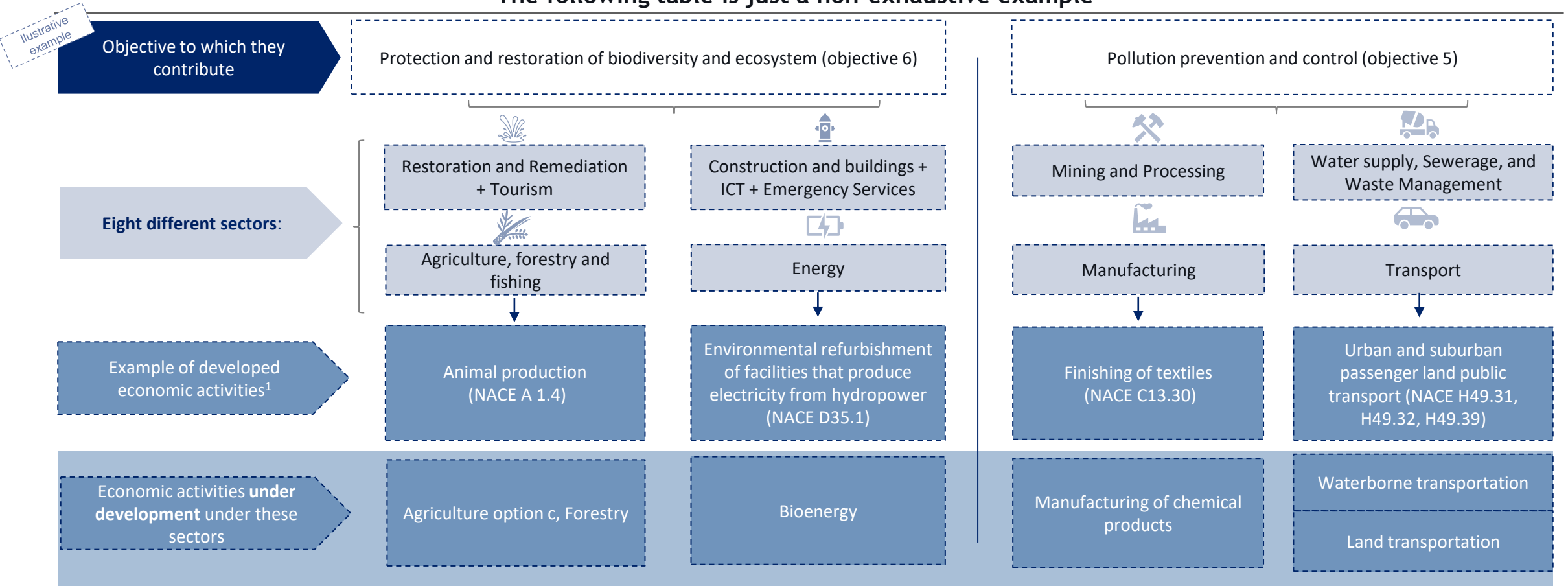
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## Methodological report on TSC for environmental objectives of the Taxonomy Regulation

### Economic activities

The document provides a list of priority economic activities for each of the objectives 3-6. These activities are allocated across 8 different economic sectors and there are a number of activities on which the PFS is continuing working.

The following table is just a non-exhaustive example



Beyond these activities, there are other **activities and criteria that have proven particularly challenging** and where evidence is lacking or the approach to delivering a substantial contribution is not yet clear. These activities are **not currently undergoing any further development work but** are being considered for future work. One such activity is land-based mining and quarrying of minerals (other than coal, lignite, crude oil/petroleum or natural gas) and supplementary 20 activities aimed at preparing the crude materials for marketing.

# 4

## Why Management Solutions Differential aspects

Management Solutions has extensive knowledge and experience in the field of sustainability

1

### Member of the Chair of Sustainability and Social Impact at ICADE

MS is a member of the Coordinating Council of the ICADE Social Impact Chair to promote training and development of social impact measurement methodologies.

2

**Detailed knowledge of the implications of Sustainability in industries and businesses** with a fundamental focus on diagnosis and development of strategic Sustainability plans, ESG risk measurement, ESG Risk Management - with a principal focus on integration in credit risk management and ESG reporting models, both in Spain and abroad. In addition, we have extensive experience in regulatory adaptation in Sustainability.

3

### Specialist ESG modelling capabilities (and proprietary tools)

MS has an R&D team specialised in defining and implementing methodologies for measuring climate risk and analysing physical and transition risk scenarios, as well as benchmarks for sustainability dissemination. In addition, it has produced several specialised publications and has participated as a speaker in different international forums. We also have databases and tools that we make available free of charge to the projects in which we collaborate.

4

### ESG Regulatory Experts

MS has a Regulatory Observatory that provides in-depth knowledge of the regulatory requirements of financial and non financial entities at the European level and, in particular, those specific to sustainability and climate change risks.

# Annex

## Abbreviations

Abbreviation	Meaning
CAPEX	Capital Expenditures
CDA	Climate Delegated Act
DA	Delegated Act
DNSH	Do Not Social Harm
EC	European Commission
ESG	Environmental, Social and Governance
EU	European Union
GHG	Greenhouse Gas
ICT	Information and Communication Technologies
IP	Intermediate Performance
LEnVI	Low Environmental Impact
NACE	Statistical Classification of Economic Activities in the European Community
NSI	No Significant Impact
OPEX	Operational Expenditures
PSF	Platform on Sustainable Finance
SC	Substantial Contribution
SH	Significant Harm
TR	Taxonomy Regulation
TSC	Technical Screening Criteria



# Management Solutions

Making things happen



International  
One Firm



Multiscope  
Team



Best practice  
know-how



Proven  
Experience



Maximum  
Commitment



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