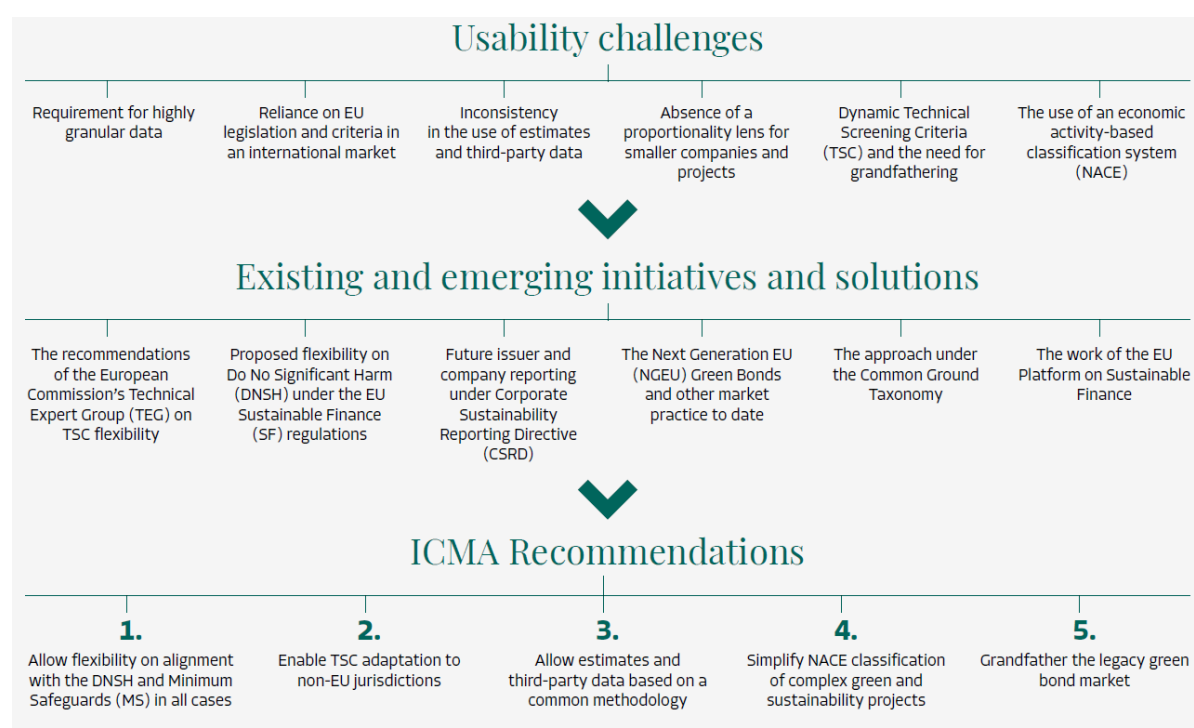


Ensuring the usability of the EU Taxonomy

The EU Taxonomy is remarkable in its ambition, complexity, and comprehensive design, and for its incorporation into financial legislation as a metric for reporting and product alignment. The application of the Taxonomy in these two latter instances raises, however, significant practical challenges in a market and real-world context. These are being referred to as “usability” issues and they are of concern for ICMA members and market participants generally. ICMA published a [paper](#) on this topic on 14 February 2022 with the aim of furthering the debate in the market and making key recommendations to EU co-legislators and regulators.

The implementation of reporting requirements under the related [Taxonomy Regulation](#) is now under way with disclosures applying to both non-financial and financial entities and being phased in from January 2022. These involve, among other things, the reporting of Taxonomy eligibility and alignment information under the requirements of Article 8 of the Taxonomy Regulation, the related [Delegated Regulation](#) and the [Sustainable Finance Disclosure Regulation](#) (SFDR). While not imminent in their application, the legislative proposals for the future [Corporate Sustainability Reporting Directive](#) (CSRD) and the [EU Green Bond Standard](#) will also both require reporting of Taxonomy alignment information.



We identify in our publication important usability issues that are likely to impair the ability of all concerned parties to provide the Taxonomy alignment information and metrics. These are especially: (i) the requirement for highly granular data for technical Screening Criteria, (ii) the reliance on EU legislation and criteria in an international market, and (iii) inconsistency in the use of estimates and third-party data.

We also discuss existing and emerging solutions. These include the past recommendations of the European Commission's Technical Expert Group; flexibility in DNSH evaluations proposed in EU sustainable finance regulations; reporting under the future Corporate Sustainability Reporting Directive; the precedents set by the EU NGEU Green Bonds and other issuers; the international approach of the Common Ground Taxonomy of the International Platform on Sustainable Finance; and the work to date of the Commission's [Platform on Sustainable Finance](#) (PSF) of which ICMA is a member providing especially feedback on market usability issues.

Finally, we make five key recommendations to EU co-legislators and regulators. The first three recommendations are designed to address broad usability concerns for both product alignment and sustainable reporting, while the last two address issues that are more specific to assessing the Taxonomy alignment of green and sustainability bonds. These are:

- Allow flexibility on alignment with the DNSH and Minimum Safeguards in all cases.
- Enable TSC adaptation to non-EU jurisdictions to facilitate international usability.
- Allow estimates and third-party data based on a common methodology to assess Taxonomy-alignment.
- Simplify NACE classification for complex green and sustainability projects.
- Grandfather the Taxonomy alignment of the legacy green bond market for Green Asset Ratio/Green Investment Ratio and the SFDR disclosures.

(NB: the original version of this article was published on 6 April 2022 in ICMA's [Quarterly Report](#))