

Spotlight: EU Taxonomy

What is the EU Taxonomy?

The EU Taxonomy is a regulatory framework that identifies which economic activities can (and cannot) be termed “sustainable.” It facilitates the transformation of business, finance, and sustainable investing by creating a classification system and incentives.

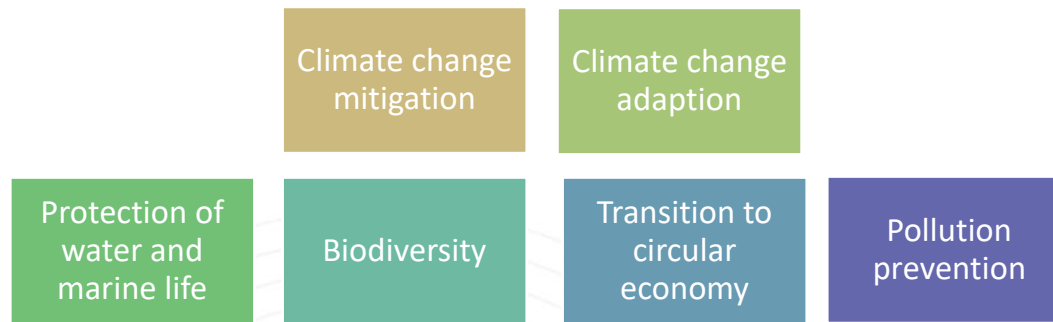
The Taxonomy addresses greenwashing by enabling market participants to identify and invest in sustainable assets with more confidence. Businesses can access attractive “green” financing opportunities. However, the Regulation also places new disclosure obligations on companies and financial market participants.

The taxonomy looks at several major sectors including agriculture, manufacturing, transportation, energy, construction, and communications. For each sector, it provides a list of industry-relevant activities that could be considered sustainable.

The Six Objectives of the EU Taxonomy

The Taxonomy defines environmentally sustainable activities as **economic activities that make a substantial contribution to at least one of the EU’s six environmental objectives, while at the same time, not significantly harming any of these objectives and meeting minimum social safeguards.**

For an activity to be considered eligible, it only needs to meet the substantial contribution criteria for one of the six objectives. For it to be taxonomy aligned, it has to meet the substantial contribution criteria for at least one of the six, comply with the Do No Significant Harm (DNSH) criteria for all six, and meet minimum social and governance safeguards (in accordance with OECD, UN, and ILO issued guidelines).



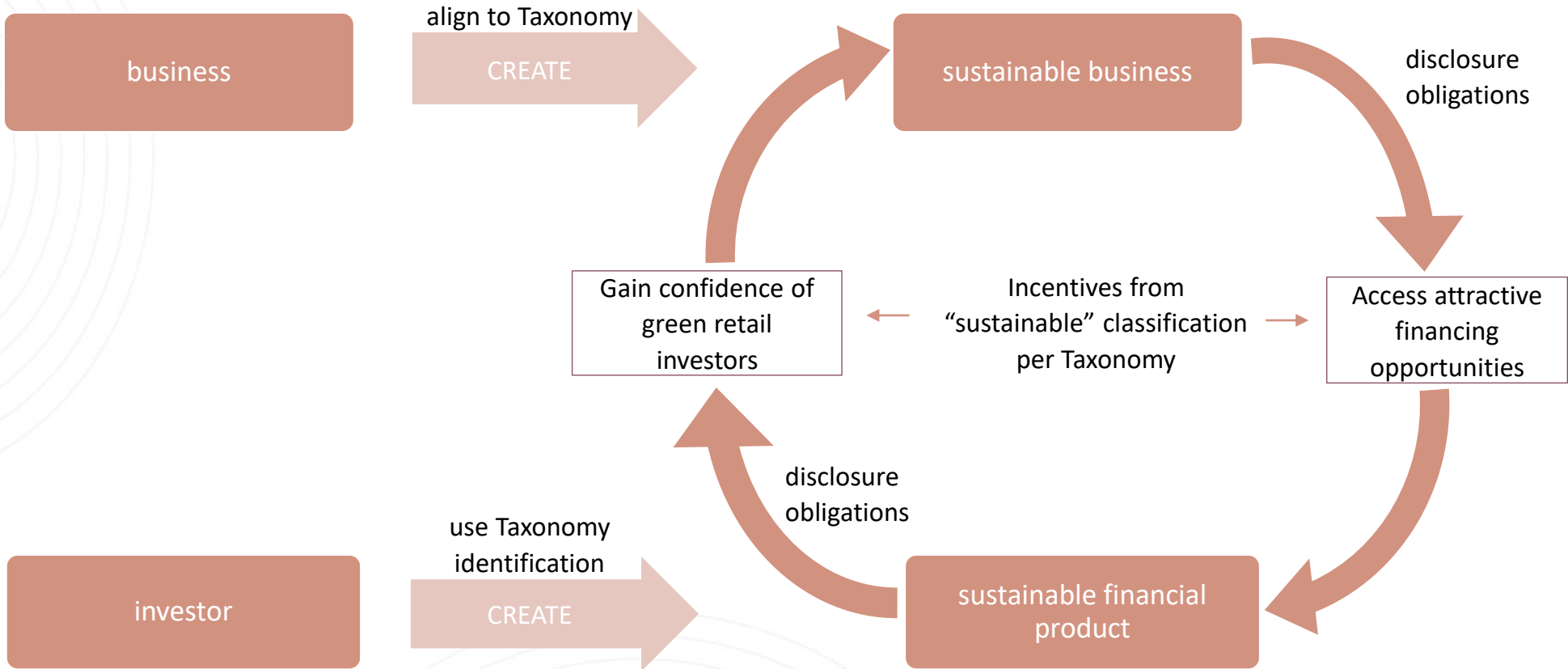
The Taxonomy currently provides technical screening criteria for 70 climate change mitigation and 68 climate change adaptation activities.

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Practical Case Studies on Taxonomy Application

See [here](#) for businesses and [here](#) for investors.

Key Takeaways



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Promoting investments in green businesses: Disclosure Requirements

- **For Businesses:** When businesses comply with the new reporting rules as per the Taxonomy framework, it provides data for investors to evaluate and make informed decisions.

Larger companies will be required to report alignment to taxonomy categories as a percentage of their Turnover and Operating (OpEx) or Capital (CapEx) Expenditure that goes to climate change mitigation or adaptation. These companies are further eligible for EU Green Bonds, an attractive financing opportunity.

- **For Investors:** Investors are expected to report (per fund/portfolio) how and to what extent they use the Taxonomy, the environmental issues it is contributing to mitigating, and the percentage of investments that are Taxonomy aligned.

2022	Financial institutions and non-financial companies within the scope of the Non-Financial Reporting Directive (NFRD) are required to report on eligible activities for climate change mitigation and climate change adaption.
2023	Non-financial NFRD companies will then have to start reporting their own taxonomy alignment.
2024	Financial institutions only need to start reporting their taxonomy alignment beginning in 2024, based on necessary data reported by portfolio companies in 2023.

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