22 October 2019

Joint comments for the upcoming trilogues on the taxonomy proposal (*2018/0178(COD)*)

SMEunited, AECM and EUROCHAMBRES appreciate the efforts undertaken at EU level to develop a common understanding of what can be defined and advertised as sustainable investment. It is crucial to set up a comprehensive and simple-to-use framework that ensures common standards and comparability. For the trilogue negotiations ahead of us, our associations appreciate most of the provisions adopted by the Council. In our point of view, its approach is very pragmatic and ensures legal certainty. Please find a number of comments and recommendations below.

Ensure proportionality in scope and disclosure

It is of utmost importance that the design and the scope of the taxonomy continue to **respect the principle of proportionality**. Expanding the scope to include every financial product and all financial market participants (including banks and investee companies) would ultimately create substantial administrative burden on multiple levels in the form of additional reporting requirements. The ensuing bureaucracy would contradict the strategy of *better regulation* and the added value of these very costly disclosures is too small to justify such an extension in scope.

The principle of proportionality shall be ensured especially with regard to the calculation of the degree of sustainability. Products with SME final beneficiaries/"disclosers" shall be subject to a simplified calculation requirement in order not to discourage SMEs from seeking external finance and thereby aggravating the already existing market failure in SME finance[1].

Micro, small and medium-sized enterprises, as well as small financial institutions would be most affected, since they often lack the resources to comply with additional reporting obligations. A **loss of competitiveness** of these actors would be the consequence, as well as a **deterioration of access to finance** through a rise in the cost of debt.

New disclosure requirements should thus remain limited to those financial products that are advertised as sustainable and should only apply to large, institutional investors, as envisaged by the European Commission.

Pursue an incentive-based approach instead of brown-listing

The taxonomy should focus on providing clarity over what can be considered as a sustainable investment and on mobilising additional capital to finance environmental and sustainability objectives of the EU. This goal can best be achieved through a positive incentive structure. Provisions such as a "brown list" aim at penalising investments that do not fulfil the defined sustainability criteria. **This negative approach would have considerable detrimental effects on the financing conditions of the real economy, especially sectors in transition.** It might also have unintended consequences and slow down the transition towards a more sustainable economy. This is therefore in sharp contradiction with the Commission's proposal for a long-term climate strategy, which indicates unprecedented investment needs in all sectors of the economy.

[1] For an overview of market failures in SME lending and mitigation techniques: OECD (2018). *Financing SMEs and entrepreneurs 2018. An OECD Scoreboard*, OECD Publishing, Paris.

In light of the above, we ask you to take into account the following recommendations:

	Row	Proposal	Article	Justification
support	102	EP	Art. 1 para 2 a (new)	Proposal calls to *"avoid excessive administrative burden"* and for *"simplified provisions for small and non-complex entities"*, which is one of our core demands.
reject	99, 100, 101	EP	Art. 1 para 2 - ba (new) - i	The EP actually proposes to have all financial products ("other products") included. This proposal contradicts the ESG Disclosure Regulation.
reject	109	EP	Art. 1 para 2 ba (new)	The EP proposes the extension to all credit institutions which contradicts the ESG Disclosure Regulation
reject	146, 147	EP	Art. 3 a (new) - title & para 1	We strongly reject any provisions that "brown list" economic activities. Such a negative approach would have considerable detrimental effects on the financing conditions of the real economy, especially sectors in transition.
reject	317	EP	Art. 14 para 1 fa (new)	Taking into account the cost of non-action is highly complex if not impossible.
reject	97, 98	Council	art. 1 para. 2 a & b	We would like to keep the scope in the meaning as initially proposed by the European Commission, meaning that only products that are actively "marketed" as sustainable, shall be covered.
support	111	Council	Art. 2 para 1 c	The proposal seeks to align the scope of financial products with the ESG Disclosure Regulation.
support	142	Council	Art. 3 para 1 a	We explicitly welcome the inclusion of activities that *"enable another economic activity to substantially improve its environmental performance"*. Businesses have to be encouraged to invest in activities that enable the transition towards a low carbon economy.
support	196	Council	Art. 6 para 1 a (new) **partially**	Businesses have to be encouraged to invest in activities that enable the transition towards a low carbon economy. **However, the wording *"carbon-intensive lock-in during the economic lifetime of the financed economic activity"* should be deleted. The term "lock-in" is not clearly defined and thus bears the risk of thwarting the original intention of the proposed provision.**
support	206, 222, 239, 264, 279, 294	Council	Arts. 6-11 para 5 (new)	We explicitly welcome the postponed deadlines for the development of technical screening criteria. More intensive work and exchange with all stakeholders, also from industry, will be necessary to set up robust und workable criteria.
support	318	Council	Art. 14 para 1 g	Businesses have to be encouraged to invest in activities that enable the transition towards a low carbon economy.
support	392	Council	Art. 17 para 1 - introd. part	The report on the application of the Regulation should be in line with the development and entry into force of the technical screening criteria.

About SMEunited, AECM and EUROCHAMBRES:

SMEunited (formerly UEAPME) is the association of Crafts and SMEs in Europe with around 70 member organisations from over 30 European countries. SMEunited reassembles national cross-sectoral Craft and SME federations, European SME branch organisations and other associate members, which support the SME family. Combined, SMEunited represents more than 12 million enterprises with around 55 million employees across Europe. SMEunited is also a recognised employers' organisation and European Social Partner. We are a not-for-profit and non-partisan organisation.

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The 48 members of the **European Association of Guarantee Institutions (AECM)** are operating in 29 countries in Europe. They are either private sector guarantee schemes or public promotional institutions or banks. Their mission is to support SMEs in getting access to finance. They provide guarantees to SMEs that have an economically sound project but do not dispose of sufficient bankable collateral. AECM's members operate with counter-guarantees from regional, national and European level. At the end of 2018 AECM's members had around EUR 125 billion of guarantee volume in portfolio, thereby granting guarantees to more than EUR 3 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counter-guarantees, handling EU guarantees from the very beginning in 1998.

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Established in 1958 as a direct response to the creation of the European Economic Community, **EUROCHAMBRES** acts as the eyes, ears and voice of the business community at EU level. EUROCHAMBRES represents over 20 million businesses in Europe through 45 members (43 national associations of chambers of commerce and industry and two transnational chamber organisations) and a European network of 1700 regional and local chambers. More than 93% of these businesses are small and medium sized enterprises (SMEs). Chambers' member businesses employ over 120 million.

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