The EU Taxonomy and Taxonomy Regulation will transform green bond markets. Discover the requirements, timelines and opportunities you need to know – and how you can leverage the Nasdaq Sustainable Bond Network to prepare for what’s next.
The Basics

The EU Taxonomy is an EU-wide classification system used to identify environmentally- sustainable economic activities for investment. It was developed in the context of the European Green Deal in order to bring much-needed clarity and transparency to the green bonds market. Ultimately, it should lead to more efficient capital allocation towards the transition to climate neutrality and a sustainable economy.

The EU Taxonomy Regulation, introduced in June 2020, creates mandatory disclosure obligations on some companies and investors, while also establishing detailed criteria and performance thresholds to classify green activities in different sectors.
Goals of the EU Taxonomy and the Taxonomy Regulation:

- Prevent greenwashing and shift investments to where they are most needed
- Create a common language and common requirements for reporting
- Reduce market fragmentation in sustainable investment
- Provide reliable tools to measure progress

Understanding taxonomy-aligned and taxonomy-eligible activities

The EU Taxonomy and EU Taxonomy Regulation lay out a set of objectives and technical criteria for evaluating sustainability. These standards impact reporting requirements and form the basis for the more granular benchmarks used to assess specific activities, which are detailed in the EU Taxonomy Compass.

**Taxonomy-aligned activities** are those that make a substantial contribution to one of the six EU environmental objectives and do no significant harm to the other five objectives, while also meeting minimum social safeguards, and complying with technical screening criteria.

**Taxonomy-eligible activities** are those that meet the technical screening criteria and can be recognized as environmentally sustainable. However, they may not contribute to any of the EU's environmental objectives, or may do so only to a marginal degree.

The six environmental objectives are:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

Who does the EU Taxonomy impact?

For financial market participants and large companies operating in the EU, the EU Taxonomy creates new disclosure and reporting requirements (summarized in Table 1 below).

Beyond the mandatory requirements, the EU Taxonomy changes the behavior of all market participants by increasing transparency and comparability and providing a standard framework to evaluate green bond offerings against.

EU and Member States use the EU Taxonomy when setting public measures, standards, or labels for green financial products or green bonds.
How Investors and Asset Managers Can Prepare for the EU Taxonomy Changes
Understand which mandatory requirements apply

The EU Taxonomy creates specific reporting requirements for financial institutions and asset managers - as well as any large company operating in the EU. Some requirements have already come into effect, and some will gradually be introduced over the next few years.

Since the start of 2022, both financial and non-financial institutions have been required to report on Taxonomy-eligible activities. In the next few years, new disclosures will be introduced for Taxonomy-aligned activities:

### Table 1: Mandatory disclosure requirements in the EU Taxonomy Regulation

<table>
<thead>
<tr>
<th>Who it applies to</th>
<th>Mandatory disclosures</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial market participants (FMPs) offering financial products in the EU</strong>&lt;br&gt;Investment funds, portfolio managers, and occupational pension providers</td>
<td>Disclose the extent to which their financial products are environmentally sustainable in pre-contractual disclosures and periodic reports&lt;br&gt;Address sustainability-related principal adverse impacts (PAIs) in an investment portfolio&lt;br&gt;Report on the Green Asset Ratio and Green Investment Ratio KPIs, which show the degree to which a portfolio aligns with the Taxonomy</td>
<td>January 2024</td>
</tr>
<tr>
<td><strong>Companies subject to the NFRD or CSRD</strong>&lt;br&gt;Any company with over 500 employees, or which has been designated as a public-interest company.</td>
<td>Provide company-level reporting in their non-financial statements&lt;br&gt;Disclose the portion of their activities that qualify as “environmentally sustainable” under the EU Taxonomy Regulation&lt;br&gt;Report both Taxonomy eligibility and Taxonomy alignment annually</td>
<td>January 2023</td>
</tr>
</tbody>
</table>

(Note that both reporting regimes described above can apply to the same company – e.g., a larger financial institution might be an FMP as well as subject to the NFRD / CSRD)
Find opportunities to use the EU Taxonomy as a competitive advantage

The EU Taxonomy does not mandate investors to invest in any type of bond or asset, and does not mandate that companies pursue any type of sustainable activities. However, it can benefit firms that wish to achieve sustainability goals.

Prudent investors can leverage the new standards – and the wealth of data generated by disclosure requirements – to make more informed investment decisions and offer better sustainable investment products.

Maximizing impact from sustainable bond portfolios. The Taxonomy criteria can be used to identify and screen sustainable investment opportunities, as well as to track portfolio performance over time.

Reducing risk. The Taxonomy enables more effective due diligence, effectively de-risking green bond purchasing decisions and helping to ensure that capital is allocated appropriately.

Increasing transparency and comparability. Investors now have reliable benchmarks and standardized reporting requirements – allowing them to compare between issuers and avoid greenwashing attempts.

Building trust. When offering new financial products or services, adherence to the EU Taxonomy can differentiate offerings and increase trust among customers or investors.
The Nasdaq Sustainable Bond Network

The Nasdaq Sustainable Bond Network provides tools for investors to evaluate impact and make informed decisions on green and social bonds through structured, standardized, and actionable data.

In the context of the EU Taxonomy, the Sustainable Bond Network empowers investors to:

- Modify or evaluate investment strategies in light of the EU Taxonomy criteria
- Understand the impact of their portfolio by understanding how issuers have committed to the EU Taxonomy objectives

Using the Nasdaq Sustainable Bond Network, investors can have transparency on the EU Taxonomy commitments made by issuers of green and sustainable bonds. Taxonomy alignment is mapped based on the information presented in the issuers’ frameworks – meaning it aligns with the use of proceeds generated by each issuing (rather than on a revenue level).

Each NACE activity presented in the framework is mapped to a primary objective. Alignment towards the primary objective is mapped as pass/fail, based on the substantial contribution criteria in the EU Taxonomy Compass. Alignment with the do no significant harm criteria is also presented as a binary field for each objective, excluding the primary objective.
## Renewable Energy

### Description

Renewable energy production and storage units including: Wind power · Solar PV · Bioenergy (Biomass, Biogas and Biofuels) · Hydrogen production, storage and distribution infrastructure. Electricity Generation using Solar PV, Wind Power, and Bioenergy, Storage of Electricity Manufacture and storage of Hydrogen Transmission and distribution networks for renewable and low-carbon gases (NACE: D.35.1.1 NACE: C20.11)

### SDGs

**SDG 7, SDG 13**

### SDGs Targets

**SDG Target 7.2, SDG Target 13.1**

### EU Taxonomy

<table>
<thead>
<tr>
<th>Primary Objective</th>
<th>NACE Activity</th>
<th>Total Alignment (%)</th>
<th>DNSH Criteria Alignment per Objective (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Substantial Contribution</td>
<td>Climate Mitigation</td>
</tr>
<tr>
<td>Climate Change Mitigation</td>
<td>Electricity generation from wind power</td>
<td>100.0 100.0</td>
<td>100.0 100.0</td>
</tr>
<tr>
<td>Climate Change Mitigation</td>
<td>Electricity generation using solar photovoltaic technology</td>
<td>100.0 100.0</td>
<td>100.0 100.0</td>
</tr>
<tr>
<td>Climate Change Mitigation</td>
<td>Electricity generation from bioenergy</td>
<td>100.0 100.0</td>
<td>100.0 100.0</td>
</tr>
<tr>
<td>Climate Change Mitigation</td>
<td>Manufacture of hydrogen</td>
<td>100.0 100.0</td>
<td>100.0 100.0</td>
</tr>
<tr>
<td>Climate Change Mitigation</td>
<td>Storage of hydrogen</td>
<td>100.0 100.0</td>
<td>100.0 100.0</td>
</tr>
<tr>
<td>Total Alignment</td>
<td></td>
<td>100.0 100.0</td>
<td>100.0 100.0</td>
</tr>
</tbody>
</table>

### Potential NACE Codes

**D35.1.1, C20.11**

### Input Source

**Issuer Report**
This data is combined with allocation towards the project categories and can give a portfolio-level overview on the extent to which proceeds have financed taxonomy-aligned projects.

By making use of the extensive data available in the Sustainable Bond Network, investors can effectively prepare for the EU Taxonomy changes – and use the new standards to ensure their portfolio is driving real-world environmental impact.

To learn more, visit [www.nasdaq.com/solutions/nasdaq-sustainable-bond-network-investors](http://www.nasdaq.com/solutions/nasdaq-sustainable-bond-network-investors) or contact: Eudatasales@nasdaq.com

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1 The 500 employee threshold is set by the Non-Financial Reporting Directive (NFRD). The Corporate Sustainability Reporting Directive (CSRD), which will gradually come into effect between 2024-2028 and replace the NFRD, expands this to any company with more than 250 employees, €40 million in turnover, or €20 million in total assets.

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