

EU Taxonomy Aligned with Inrate

The EU Taxonomy and its significance for the financial industry

The EU Taxonomy is one of EU's key tools for sustainable finance. It is a groundbreaking development towards defining environmentally sustainable investments and will also affect Swiss financial institutions. It is developed with the aim of identifying "green investments" and helping market participants to invest in truly green opportunities. The EU Taxonomy will be developed gradually and become effective in the upcoming years. With its ESG Impact and Climate Impact Assessments, Inrate enables financial market participants to prepare for and to align with the EU Taxonomy.

What is the EU Taxonomy?

The EU Taxonomy is a classification system to help investors make informed investment decisions. It lists environmentally friendly economic activities with technical screening criteria that define the contribution to six environmental objectives:

- I. **Climate change mitigation**
- II. **Climate change adaptation**
- III. Sustainable use and protection of water and marine resources
- IV. Transition to a circular economy, waste prevention and recycling
- V. Pollution prevention and control
- VI. Protection of healthy ecosystems

Taxonomy compliant economic activities

For an economic activity to be considered environmentally sustainable under the Taxonomy, it must fulfill the following expectations:

- + **contribute substantially to one of the six environmental objectives**
- + **do no significant harm (DNSH) to the other five environmental objectives**
- + **meet technical screening criteria (see example below) related to the environmental objectives**
- + **comply with minimum social safeguards**

Key Benefits

- With its ESG and Climate Impact Methods, Inrate has an approximation of the EU Taxonomy in place.
- The Inrate Methods are objective, scientifically founded, pragmatic and have been successfully used for many years.
- Our Impact Matrix assess more than 440 economic activities. It evaluates not only climate impacts, but also other environmental and social impacts along entire value chains. The EU Taxonomy is not (yet) able to tackle these.
- Inrate also assesses minimum social and environmental safeguards and if a company does any significant harm.
- We ensure that our Methods stay in line with the EU Taxonomy and its further developments. This prepares our clients for EU Taxonomy compliance.

Implications for financial and non-financial companies

Reporting

New guidelines for the Non-financial reporting Directive encourage companies to publish their turnover and capital expenditure for Taxonomy aligned activities.

Disclosure

Financial market participants will need to disclose the extent to which portfolios or financial products promoted as "green" align with the Taxonomy. Other financial products need a statement that they do not align with the Taxonomy.

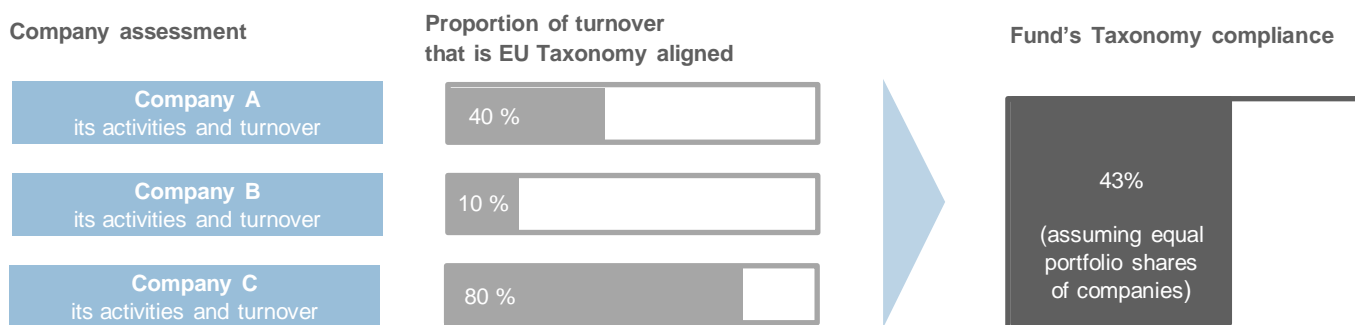
Ecolabel and Green Bond Standard

The European Commission plans to introduce an ecolabel and a Green Bond Standard based on the EU Taxonomy.

Benchmarks

For most benchmarks, providers and administrators are required to disclose ESG considerations, presumably based on the EU Taxonomy. This is also true for the new EU Climate Transition and EU Paris-aligned Benchmarks.

How to apply the EU Taxonomy to an equity portfolio



Example of technical screening criteria

The Taxonomy considers cement manufacturing to substantially contribute to climate change mitigation if its emissions are below 0.498 tCO₂eq/t of cement. In case a cement manufacturing company emits 0.6 tCO₂eq/t of cement, the revenues generated therewith cannot be considered EU Taxonomy eligible.

Current limitations to apply the EU Taxonomy

A major challenge for applying the EU Taxonomy is data availability. There will be a time lag in reporting of turnover per economic activity that fulfil the technical screening criteria. Another challenge is the EU Taxonomy's complexity. The technical report on climate change mitigation and adaptation alone is over 400 pages long. Last but not least, the EU Taxonomy is subject to change in the coming years.

Gradual development of the EU Taxonomy

A Technical Expert Group has identified 67 economic activities that can make a substantial contribution to climate change mitigation and adaptation in seven sectors. However, crucial sectors such as aviation and mining have not been analyzed, yet. Integration of the remaining four environmental objectives (see above) will follow. In addition, technical screening criteria that set quantitative or qualitative thresholds for the performance of economic activities will be regularly updated.

- Inrate already provides a well-founded, pragmatic approximation of the EU Taxonomy.
- Inrate assesses environmental and social impacts along entire value chains and therefore goes beyond the current EU Taxonomy focus on climate change.
- Inrate ensures that its ESG and Climate Impact Methods stay in line with the EU Taxonomy and its further developments.

Timeline



About inrate

Inrate is a leading independent sustainability ratings provider based in Switzerland. Since 1990, we link our in-depth sustainability analysis with innovative investment solutions for the financial markets. Our ratings are a measure of the impact companies have with their behavior and products on society and the environment as well as their willingness and ability to effectively tackle the corresponding challenges.

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