FAIR ALPHA

EU taxonomy: “Politics was too slow“

Luxembourg, 24 January 2022 – The EU’s intended classification of investments as ESG-compliant or sustainable will hardly change the investment decisions of institutional investors. “The market is already much further ahead than policymakers when it comes to setting standards, and the taxonomy is a step backwards in this regard”, said Tim Faltis, Board Member at FAIR ALPHA. “In its current form, it ultimately only benefits those who are not that serious about sustainability anyway.”

The consideration of the impact, the real effects of an investment decision, has become the standard for forms of sustainable investment. “Many standards and regulations organised by the private sector, including strict auditing mechanisms, are already much better positioned”, Faltis pointed out. In this respect, it is very unlikely that institutional investors will base their investment decisions on the less rigorous EU taxonomy.

This is at least true for those who are serious about their own sustainability standards. “The EU taxonomy, like the organic label, is the industry’s lowest common denominator”, said Faltis. And just as the organic label opened up access to the organic market for discounters, the taxonomy offers suppliers the opportunity to market their products as sustainable who shy away from the high standards.

“We see that the standard for Green Bonds, for example, which is controlled by ICMA, has gained acceptance in this segment”, added Faltis. “So we wouldn't issue green bonds for initiators who don’t operate according to the high standards.” Also, many institutional investors and corresponding industry associations such as the IIGCC (Institutional Investors Group on Climate Change) are willing to go further than the taxonomy dictates. “These companies and institutions are actively concerned with sustainability and speak out clearly against nuclear power or gas, for example”, said Faltis.

The actual purpose of the EU taxonomy is therefore not being achieved: to unify international standards and thus direct capital in such a way that the EU’s climate targets for 2030 and 2050 are met. “Politics was too slow”, Faltis explained. “Business needed clarity sooner, so they were quicker to create and establish standards that were way ahead of the taxonomy.” The way the taxonomy has been proposed and the ongoing discussion on how to assess nuclear power and gas as sustainable, the EU requirement will have little or no impact on investment behaviour.

“Nonetheless, it was the hope of many market participants to obtain a unification of standards and clear definitions for sustainable investments through the taxonomy”, Faltis highlighted. This would create clarity, transparency and thus extensive credibility, which the current version does not provide. “Perhaps the work can still be revised and improved, not in the first round, but then on an ongoing basis”, said Faltis.

More at www.fair-alpha.org.

About FAIR ALPHA

FAIR ALPHA offers financial market solutions for (semi-)institutional investors and asset managers through its subsidiaries. Investment ideas and trading strategies are implemented in investable and custodial securities. In addition, the company pursues digital approaches, which focus on creating and issuing crypto assets (tokens) that are held in specific wallets. With the help of customised issuance vehicles, structures are created that exclude issuer risk. In each case, FAIR ALPHA assumes the entire value creation process ranging from product set-up to administration and ongoing life cycle management.

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