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LMA response to the European Commission consultation on amendments to the Taxonomy Delegated Acts

We welcome the Commission's overarching goal of addressing complexity in, and enhancing the interoperability of, sustainability-related regulation.

The EU Taxonomy (EUT) has provided the first consistent sustainable classification system. Although it has been somewhat successful, there have been well-documented usability challenges with the EUT which we believe must be addressed to unlock the full potential of the EUT.

We support the Commission's aim of simplification in principle as market participants have experienced administrative burdens in relation to disclosure requirements. It is however also important to ensure that any amendments to the EUT enhance, and do not impede, the interoperability of existing legislation. In particular, the computation of KPIs of financial undertakings will depend on the provision of information from companies and relevant counterparties. We therefore welcome the exclusion of exposures to undertakings other than large undertakings (exceeding the employee threshold in the EU Omnibus Package) from the denominator of relevant KPIs until the Commission's review is finalised.

Building on these overarching points, we would like to share the following key considerations:

- We welcome the Commission's approach to introduce a *de minimis* threshold with the intention of reducing the administrative burden on financial and non-financial undertakings. However, further clarification around the application to non-bank financial undertakings would be helpful - in particular whether specific guidance is intended to be provided regarding the consideration and analysis of non-material activities of their underlying assets.
- We strongly recommend that the Green Asset Ratio (**GAR**) is reviewed and that its inclusion be carefully considered. GAR requires the collection and analysis of granular information and is a significant burden on the resources of financial institutions as well as their counterparties. Evidence also suggests that investors are not requesting, relying on or using GAR in the manner intended.
- Given the significant administrative burden and questionable value, we therefore recommend that GAR is removed entirely. To the extent that GAR is retained, we recommend a substantive review of the analysis and methodology of GAR calculations and the availability of relevant data and information in order to address well documented limitations and ensure that GAR reporting is functioning as intended. In particular:

- the denominator and numerator should be carefully considered and aligned (particularly in light of proposed changes of the EU Omnibus Package) in order to ensure symmetry of the ratio;
- further guidance regarding calculation methodology is required to improve comparability given the variation of business models between banks; and
- taking into account the aims of GAR reporting, it is not clear why the trading book and fees and commission KPI is included at all and we would recommend the removal (or urgent suspension) of this KPI.
- We support the Commission's proposals to reduce reported data points financial undertakings compute for their own EUT KPIs. From a compliance perspective, the introduction of the reporting of one activity per row may alleviate costs and administrative burdens.
- We understand the need to start by reviewing one taxonomy activity (chemicals); however, revising and simplifying the DNSH criteria is important. This has been a source of confusion, and further clarification is required.

Market participants are dealing with significant uncertainty at present, with multiple proposals to change legislation. We would like to emphasise the need for careful consideration of the impact of the EU Omnibus Package to ensure that the proposals do not inadvertently add complexity, undermine the legal certainty needed to drive investment decisions and/or lead to an erosion of the quality or ambition of the underlying legislative and economic aims.