



Brussels, 6.7.2021
SWD(2021) 183 final

COMMISSION STAFF WORKING DOCUMENT

Article 8 of Taxonomy Regulation

Accompanying the document

Commission Delegated Regulation (EU) .../...

supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation

{C(2021) 4987 final}

Contents

1. Introduction to and purpose of the Delegated Act under Article 8 of the Taxonomy Regulation	2
1.1. Context of the initiative	2
1.2. Purpose of the Delegated Act under Article 8 of the Taxonomy Regulation.....	3
1.2.1. Clarity and transparency	3
1.2.2. Disclosure of trajectory towards sustainability	4
1.2.3. Utility of disclosures.....	4
1.2.4. Consistency	5
1.3. Preparatory work carried out by the Commission	5
1.3.1. Inception impact assessment	6
1.3.2. Call for advice to European Supervisory Authorities	6
1.3.3. Further public feedback	7
2. Presentation of specific key performance indicators for public disclosure	7
2.1. Non-financial undertakings.....	7
2.2. Financial undertakings	8
2.2.1. Asset managers.....	8
2.2.2. Credit institutions	9
2.2.2.1. Green asset ratio (GAR)	9
2.2.3. Investment firms	11
2.2.4. Insurers and reinsurers	11
2.2.5. Common rules for financial undertakings.....	12
2.2.5.1. Treatment of certain assets and investments in the KPIs.....	12
2.2.5.2. Accompanying qualitative information and presentation of KPIs	13
3. Estimated costs and benefits of the initiative	13
4. Implementation, monitoring and evaluation	18
4.1. Application date	18
4.2. Progressive implementation	18
4.3. Monitoring and evaluation	19
4.4. Review	19
ANNEX I – Call for advice to ESAs	20
ANNEX II – Additional specifications concerning the potential impacts of the Delegated Act under Article 8 of the Taxonomy Regulation	25
ANNEX III – Public feedback summary	33

1. Introduction to and purpose of the Delegated Act under Article 8 of the Taxonomy Regulation

1.1. Context of the initiative

A key objective of the European Commission's (**Commission**'s) action plan on financing sustainable growth¹ is to reorient capital flows towards sustainable investment and ensure market transparency. To achieve this objective, the Commission called for the creation of an EU classification system for sustainable activities, i.e. an EU taxonomy.

Regulation (EU) 2020/852 (the **Taxonomy Regulation**)² was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. It aims to define environmentally sustainable economic activities³.

The Taxonomy Regulation is an important piece of legislation for enabling and scaling up sustainable investment and thus implementing the European Green Deal including an economy that works for people and ensures a just transition that creates employment and leaves nobody behind⁴. Notably, by providing companies, investors and policymakers with definitions of the economic activities that can be considered as environmentally sustainable, it is expected to help shift investments to where they are most needed. The Taxonomy Regulation aims to channel capital towards activities that substantially contribute to reaching the objectives of the European Green Deal, such as climate neutrality, zero pollution, preservation of biodiversity, a circular economy and a high degree of energy efficiency. This framework is coherent with the European Green Deal, and will help mitigate the risk of 'greenwashing' and avoid the market fragmentation that can be caused by a lack of common understanding on environmentally sustainable economic activities.

The current COVID-19 pandemic has reinforced the need to make the EU economy, businesses and societies, in particular health systems, more resilient against climate and environmental risks. In light of the ongoing post-crisis fiscal stimulus⁵ and the EU-27's estimated financing needs after the crisis⁶, the European Green Deal will aid the European recovery strategy. The Taxonomy Regulation can be a valuable tool to help channel private and public funds towards the green recovery. It can also serve as an additional strong instrument to guide companies and investors in the transition towards environmental sustainability.

1 Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, Action plan: financing sustainable growth, 8 March 2018.

2 Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13–43).

3 Article 3 and 9 of the Taxonomy Regulation.

4 Europe's sustainable growth strategy and the translation of the EU's commitments to implement the Paris Agreement and the United Nations sustainable development goals.

5 The aggregate amount of Member States' discretionary fiscal measures amounts to 3% of EU GDP, Anderson et al. (2020); cf. also European Council (2020).

6 Identifying Europe's recovery needs, SWD(2020) 98 final.

The Taxonomy Regulation applies to financial market participants that offer financial products, financial and non-financial undertakings within the scope of Directive 2014/95/EU (the **NFRD**)⁷. It also applies to Member States and the EU in the context of introducing national and EU-level requirements regarding financial market participants or issuers for the purpose of labelling financial products or corporate bonds that are marketed as environmentally sustainable.

The Taxonomy Regulation identifies environmentally sustainable activities based on technical screening criteria set out in the Commission's delegated acts developed under this Regulation⁸. The first delegated act concerning the technical screening criteria for economic activities with substantial contribution to climate change mitigation and adaptation (the **Climate Delegated Act**)⁹ was formally adopted on 4 June 2021. Further delegated act, concerning the technical screening criteria for the remaining four environmental objectives (the **Environmental Delegated Act**), will be developed and adopted at a later date.

Article 8(1) of the Taxonomy Regulation requires certain large undertakings that are required to publish non-financial information under the NFRD (**relevant undertakings**)¹⁰ to disclose information to the public on how and to what extent their activities are associated with environmentally sustainable economic activities. Article 8(2) specifies the key performance indicators (**KPIs**) related to turnover, capital expenditure (**CapEx**) and operational expenditure (**OpEx**) that non-financial undertakings under the NFRD must disclose. But, it does not specify equivalent indicators for financial undertakings under the NFRD, mainly large banks, asset managers, investment firms and insurance undertakings. Article 8(4) of the Taxonomy Regulation requires the Commission to adopt by 1 June 2021 a delegated act to specify the content, methodology, and presentation of information to be disclosed by both non-financial and relevant financial undertakings (**Delegated Act**).

This staff working document accompanies and explains the context, purpose, content and impacts of this Delegated Act.

7 Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014, p. 1–9). On 21 April 2021, the Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), amending the NFRD.

8 Point (d) of Article 3 of the Taxonomy Regulation

9 COMMISSION DELEGATED REGULATION (EU) .../... supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (C/2021/2800 final).

10 The Commission proposed to extend the scope of undertakings that are required to publish non-financial information in its proposal to review the NFRD adopted on 21 April, Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (COM/2021/189 final).

1.2. Purpose of the Delegated Act under Article 8 of the Taxonomy Regulation

1.2.1. Clarity and transparency

The Delegated Act will specify the disclosure obligations under Article 8 of the Taxonomy Regulation. It will increase transparency in the market, and help clarify and avoid greenwashing by providing investors with information about the environmental performance of a company while also confirming the respect of minimum (social) safeguards defined in the Taxonomy Regulation.¹¹ It will also increase the potential for green finance by increasing transparency about companies' environmental performance.

Greater transparency related to sustainability is necessary for financial market participants to design financial products and portfolios. Without this clarity, financial intermediaries and investors do not have a commonly accepted way of determining when an undertaking is carries out environmentally sustainable economic activities or takes measures to transition in that direction.

1.2.2. Disclosure of trajectory towards sustainability

The disclosure obligations set out in the Delegated Act will help investors and the public-at-large to understand companies' trajectory towards environmental sustainability through the annual publication of their KPIs associated with environmentally sustainable economic activities.

The KPIs related to turnover will show how and to what extent the activities of a company are aligned with the EU taxonomy. The KPI related to CapEx and OpEx will signal a company's plans to upgrade its infrastructure, processes and production facilities to achieve better environmental performance in accordance with EU taxonomy-criteria. The increase of the share of sustainable economic activities over time shown in the KPIs will provide a clear indication of a company's transition towards sustainability. The improvement of KPIs over time may be used by companies to attract more capital and enable them to further finance their transition towards sustainability.

1.2.3. Utility of disclosures

Large financial and non-financial companies can use the Taxonomy Regulation to design green financial products such as green bonds or investment funds and, through the public disclosures under the Delegated Act, channel growing investor demand towards credible sustainable projects.

Market actors who are not covered by the NFRD can report some or all KPIs on a voluntary basis. Above all, such market transparency could help companies to raise financing for

¹¹ Article 18 of the Taxonomy Regulation, which clarifies as a key pre-condition for "environmentally sustainable activities" the "*alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.*"

sustainable activities. For example, companies that are not required to publish a non-financial statement, for instance SMEs, may decide to publish information regarding their alignment with the Taxonomy Regulation on a voluntary basis, which could help them raise (green) finance. They are not and may not be forced by regulators or financial institutions to provide such information in order to access traditional financial services where compliance with the Taxonomy Regulation is not required.

1.2.4. Consistency

The NFRD and the Regulation on sustainability-related disclosures in the financial services sector (i.e. Regulation (EU) 2019/2088, the **SFDR**), together with the disclosures required under the Taxonomy Regulation, are the central elements of the sustainability reporting regime that underpins the EU's sustainable finance strategy.

Under the Taxonomy Regulation, financial market participants covered by the SFDR and undertakings covered by the NFRD are required to disclose the extent to which their financial products or economic activities are environmentally sustainable. The Taxonomy Regulation, supplemented by the Delegated Act, therefore complements the NFRD and SFDR by providing for a common reference point for reporting requirements under these acts as regards the EU taxonomy. This Delegated Act has been developed in parallel notably with the regulatory technical standards developed under the SFDR for financial products, and is consistent with the rules on non-financial reporting provided by the NFRD.

The EU taxonomy-related reporting is also set to serve as a basis for various future and ongoing initiatives in sustainable finance. The disclosure obligations under this Delegated Act will facilitate the development of EU-wide standards for environmentally sustainable financial products and the creation of labels that recognise compliance with these standards. Notably, the Commission proposals on the EU green bond standard (**EU GBS**) and EU ecolabel for financial products are set to use the Taxonomy Regulation. The EU taxonomy-related disclosures will therefore help create an entire ecosystem of sustainable finance tools, including standards and labels, and will facilitate access to coherent and relevant sustainability data, which are necessary to channel capital towards the investments needed to reach the EU's environmental goals.

1.3. Preparatory work carried out by the Commission

Originally, it was envisaged that an impact assessment would accompany this Delegated Act, which led to the publication of an inception impact assessment. Following an upstream meeting with the Regulatory Scrutiny Board (RSB), where the call for advice was discussed, a derogation from an impact assessment was granted, provided that the Delegated Act is accompanied by an analytical document in the form of a staff working document. This approach was considered more appropriate given that the content of the Delegated Act is based largely on the advice of the European Supervisory Authorities (ESAs) that carried out stakeholder-consultations and cost/benefit assessments. Before the inception impact assessment for this Delegated Act was published, the Technical Expert Group on Sustainable Finance already worked on data and usability and proposed some recommendations regarding

Article 8 disclosures¹². The Commission also sought the views of the Platform on Sustainable Finance, the ESAs, and the Member States Expert Group on Sustainable Finance about the content of the Delegated Act. The Commission will cooperate with those bodies to monitor the implementation of this Delegated Act.

1.3.1. Inception impact assessment

On 28 July 2020, the Commission published an inception impact assessment for a consultation over a period of six weeks. There were 78 respondents in total, of which 53.9% were business associations, 26.9% were companies/business organisations, 9% were non-governmental organisations and 6.4% were EU citizens.

The overall feedback received by the Commission indicated that the Delegated Act is perceived as a useful initiative that could help allocate capital to environmentally sustainable economic activities. Many respondents expressed a particular interest in the level of detail that future disclosures will be required to include.

The non-financial undertakings consulted considered that the three KPIs to be disclosed under the Taxonomy Regulation are appropriate. Financial undertakings highlighted that criteria should be consistent, comparable and publicly available.

Many respondents noted a need to avoid administrative burden and costs linked to data collection. Many also mentioned the challenge of collecting EU taxonomy compliance data within companies and groups, and assigning this data to specific business lines.

Some expressed the view that larger businesses and financial partners falling under the scope of the NFRD may still ask SMEs that do not fall under the scope of the NFRD to provide some EU taxonomy-related information in order to allow the former to fully comply with the disclosure obligations under this Delegated Act.

Several responses referred to the importance of ensuring the consistency of disclosure requirements under various legal acts, in particular the NFRD, SFDR and Taxonomy Regulation. Market participants also expressed some concerns on the tight timeframe for adoption and argued for a phased entry into force. Some also had questions about the international context and how to report on global activities in relation to the Taxonomy Regulation.

1.3.2. Call for advice to European Supervisory Authorities

In view of the preparation of the Delegated Act, the Commission addressed a call for advice to the ESAs on 15 September 2020 (see Annex I). It invited ESAs in particular to investigate the content and presentation of relevant KPIs and determine which methodology should be used by different financial undertakings under their remit, to disclose their degree of taxonomy alignment under Article 8 of the Taxonomy Regulation. In particular, the Commission asked the ESAs to consider how the three KPIs for non-financial undertakings included in Article 8(2) of the Taxonomy Regulation could be further specified and to

¹² The TEG final report is available at: https://ec.europa.eu/info/files/200309-sustainable-finance-teg-final-report-taxonomy_en

determine the most appropriate methodologies to use. Consistency and clarity in this field is important in order to prevent different interpretations of what can count as ‘taxonomy-aligned’, minimise the risk of greenwashing, and consolidate the overall usability and utility of the Taxonomy Regulation. In this respect, ESAs were invited to ensure consistency in the advice requested and in the draft technical standards under Articles 8(4), 9(6) and 11(5) of the SFDR.

The ESAs delivered their advice on 25 February and 15 March ¹³¹⁴¹⁵.

1.3.3. Further public feedback

The draft Delegated Act was published on the Better Regulation portal for a four-week feedback period between 7 May and 2 June 2021. In total, 162 stakeholders provided feedback. The draft Delegated Act was also discussed with the Platform on Sustainable Finance on 12 May 2021. Furthermore, it was presented to and discussed with the Member States’ Expert Group and with observers from the European Parliament on 28 April and 3 June 2021. The Commission also sought additional feedback from the ESAs. The public feedback is summarised in Annex III.

2. Presentation of specific key performance indicators for public disclosure

The main KPIs for non-financial undertakings relate to the proportion of environmentally sustainable economic activities in their turnover, CapEx and OpEx. The main KPIs for financial undertakings (banks, investment firms, asset managers, insurers) relate to the proportion of environmentally sustainable economic activities in their financial activities, such as lending, investment and insurance.

2.1. Non-financial undertakings

The Delegated Act largely follows ESMA’s advice to further specify the definitions and methodology for calculating the three KPIs based on turnover, CapEx and OpEx provided for non-financial undertakings in Article 8(2) of the Taxonomy Regulation.

The turnover KPI represents the proportion of an undertaking’s net turnover derived from products or services associated with environmentally sustainable economic activities (complying with the technical screening criteria). The CapEx KPI represents the proportion

13 The ESMA advice is available at:

https://www.esma.europa.eu/sites/default/files/library/esma30-379-471_final_report_-_advice_on_article_8_of_the_taxonomy_regulation.pdf

14 The EIOPA advice is available at:

<https://www.eiopa.europa.eu/sites/default/files/publications/advice/eiopa-21-184-sustainability-non-financial-reporting-advice-art8-taxonomy-regulation.pdf>

15 The EBA advice is available at:

https://www.eba.europa.eu/sites/default/documents/files/document_library/About%20Us/Missions%20and%20asks/Call%20for%20Advice/2021/CfA%20on%20KPIs%20and%20methodology%20for%20disclosures%20under%20Article%208%20of%20the%20Taxonomy%20Regulation/963616/Report%20-%20Advice%20to%20COM_Disclosure%20Article%208%20Taxonomy.pdf

of a non-financial undertaking's capital expenditure¹⁶ that is either already associated with environmentally sustainable economic activities or is part of a credible plan to extend such activities or for activities which are not yet taxonomy-aligned to reach environmental sustainability. The OpEx KPI represents the proportion of operating expenditure associated with environmentally sustainable economic activities or the above-mentioned CapEx plan. The operating expenditure¹⁷ covers essentially non-capitalised costs relating to the maintenance and servicing of company assets (plant, equipment) that are necessary to ensure the continued and effective use of such assets associated with taxonomy-alignment.

Non-financial undertakings should provide a breakdown of the KPIs based on the economic activity pursued, including transitional and enabling activities, and the environmental objective reached. In addition, to ensure greater transparency, a specific accompanying ratio should be provided for the share of taxonomy-eligible economic activities and the share of economic activities that are not covered by the EU taxonomy in a company's turnover, CapEx and OpEx. The combination of this ratio with the three KPIs is important as it allows a company to better show the relationship of its activities to the EU taxonomy (whether its activities are taxonomy-eligible in the first place) and thus help contextualise its ratio of taxonomy-alignment, as well as to show the transition of its taxonomy-eligible economic activities towards environmental sustainability¹⁸. The Delegated Act requires non-financial companies to provide for accompanying qualitative information that should help explain the calculation and the key elements for change of the three KPIs during the reporting period.

Finally, following ESMA's advice, the Delegated Act requires that each of the three KPIs be presented based on a standardised template.

2.2. Financial undertakings

The Commission agrees with the assessment of ESAs that the KPIs for non-financial undertakings based on turnover, CapEx and OpEx are not appropriate to show the level of environmental sustainability of the activities of financial undertakings, such as lending, investment and insurance. Hence, following the ESAs' advice, the Delegated Act defines specific KPIs and calculation methodologies to be used by financial undertakings.

¹⁶ Capital expenditure (CapEx) is defined as additions to tangible and intangible assets during the financial year, including those resulting from business combinations.

¹⁷ Operational expenditure (OpEx) is defined as direct non-capitalised costs that are accounted for research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditure relating to the day-to-day servicing of assets of property, plant and equipment that are necessary to ensure the continued and effective functioning of such assets.

¹⁸ The descriptions of activities in the delegated acts specifying technical screening criteria for environmentally sustainable activities serve as a reference point to identify the taxonomy-eligible activities. However, it should be noted that the descriptions e.g. in the first delegated act vary according to sector specificities. This might mean that activities in some sectors can disclose a narrower share of their activities to be taxonomy-eligible, in the first year and beyond (e.g. manufacture of low carbon technologies for transport), whereas activities in other sectors may disclose a broader share of taxonomy-eligible activities (e.g. cement manufacturing). In all cases, taxonomy-eligible activities do not represent the share of environmentally sustainable activities. Further, the descriptions in the delegated acts specifying technical screening criteria for environmentally sustainable activities define enabling and transitional activities only as those activities that are already taxonomy-aligned (e.g. "An economic activity in this category is a transitional activity as referred to in Article 10(2) of Regulation (EU) 2020/852 where it complies with the technical screening criteria set out in this Section"). Therefore, by definition, taxonomy-eligible activities cannot be transitional or enabling, and should not be disclosed as such.

2.2.1. Asset managers

Following ESMA's advice, the Delegated Act defines the KPI for asset managers. This KPI is defined as the proportion of environmentally sustainable investments managed by an asset manager in the value of all investments from both its collective and individual portfolio management activities (green investments ratio).

The weighted average of environmentally sustainable investments should be based on the share of environmentally sustainable economic activities of investee companies measured by:

- the turnover and CapEx KPI where investee companies are non-financial undertakings, and
- the relevant applicable KPIs described in the following sections where investee companies are financial undertakings (credit institutions, investment firms, insurers)¹⁹.

Asset managers must provide, in particular a breakdown by:

- each environmental objective and aggregated environmentally sustainable economic activities;
- a subset of transitional and enabling economic activities;
- type of investment (instrument).

This breakdown makes it possible for investors to identify the environmental performance of the assets managed (e.g. relevance for climate change mitigation or adaptation or other environmental objectives, the share of transitional or enabling activities in the assets).

2.2.2. Credit institutions

The Delegated Act follows the EBA's advice in defining three KPIs for credit institutions: a main KPI for on-balance-sheet assets related to financing activities, KPIs for off-balance-sheet assets and a KPI for commissions and fees related to other activities than financing. Where relevant, credit institutions should also disclose information related to their trading portfolios. However, only the main KPI and the KPI for off-balance sheet exposures apply initially while the KPIs for commissions and fees, and for trading activities, apply at a later date.

2.2.2.1. Green asset ratio (GAR)

The main KPI for credit institutions is the **green asset ratio (GAR)**, which is defined as the proportion of a credit institution's assets invested in environmentally sustainable economic activities as a share of total relevant assets.

The GAR should be calculated based on the on-balance-sheet exposures (assets) based on the prudential scope of consolidation for the types of assets. Credit institutions should disclose the aggregate GAR for total on-balance-sheet covered assets and provide a breakdown by:

¹⁹ With a specific treatment when an asset manager or other financial undertaking holds green bonds issued by the investee undertaking to recognise them as fully taxonomy-aligned, including an adjustment to avoid double counting.

- the environmental objective pursued by environmentally sustainable assets,
- type of counterparty, and
- the subset of transitional and enabling activities.

The main GAR should cover the stock of credit institutions' existing on-balance assets. An additional GAR is provided for the flows (e.g. new loans and advances).

The definition of the KPIs is based on the following components where:

- the numerator covers the loans and advances, debt securities, equities held, specific retail and real estate loans and repossessed collaterals financing environmentally sustainable economic activities, thus capturing total environmentally sustainable exposures;
- the denominator covers the total loans and advances, total debt securities, total equities and total repossessed collaterals, thus capturing total relevant assets.

In addition to GAR, institutions must disclose the percentage of their total assets that is covered by the GAR (relevant assets) to put the ratio into perspective and enhance comparability.

2.2.2.2. KPIs for off-balance-sheet exposures

Credit institutions should disclose a complementary ratio on the level of alignment with environmentally sustainable economic activities of their off-balance-sheet exposures.

The green ratio for financial guarantees to corporates (**FinGuar KPI**) is defined as a proportion of financial guarantees supporting debt instruments to corporates financing environmentally sustainable economic activities compared to all financial guarantees supporting debt securities to corporates. The green ratio for assets under management (**AuM KPI**) is defined as a proportion of assets under management (equity and debt instruments) from corporates financing environmentally sustainable economic activities, compared to total assets under management (equity and debt instruments) from corporates. The methodology for calculating the FinGuar KPI follows the methodology for loans and advances, debt securities and equity holdings of the GAR, but is applied to the underlying loans and advances, debt securities and equity holdings that the credit institution supports or manages. The calculation of the AuM KPI follows the methodology for asset managers under the Delegated Regulation.

2.2.2.3. KPIs on services other than lending – fees and commissions (F&C KPI) and trading book KPI

The KPI for fees and commission income linked to services associated with environmentally sustainable economic activities is defined as a proportion of the institution's fees and

commission income from corporates, derived from products or services other than lending²⁰ associated with environmentally sustainable economic activities, compared to total fees and commissions from corporates from products or services other than lending.

This KPI should be determined by weighting the fees and commission income from each counterparty with the proportion of turnover KPI associated with environmentally sustainable economic activities of the undertaking contributing to the relevant environmental objective. For financial undertakings, the ratio from the counterparty is the relevant KPI for those undertakings.

The trading book KPI is intended to show how a credit institution's trading activities are associated with taxonomy-aligned activities. To this effect, it sets out the weighted amount of securities purchased and/or sold from each counterparty with the proportion of turnover and CapEx associated with environmentally sustainable activities of the undertaking contributing to the relevant environmental objective. For financial counterparties, the relevant ratio is the KPI for these undertakings.

2.2.3. Investment firms

Investment firms must disclose a KPI for their core investment services and activities²¹ dealing on own account and a KPI for those services and activities not dealing on own account. For both KPIs, investment firms should disclose the:

- proportion of assets in the case of the activity of dealing on own account (or revenue and fees from other investment services) associated with eligible economic activities within total assets (or total revenue);
- proportion of assets (or revenue and fees from investment services) associated with environmentally sustainable economic activities within assets associated with eligible economic activities (or total revenue), and
- proportion of assets (or revenue and from fees investment services) associated with environmentally sustainable economic activities within total assets (or total revenue) (GAR).

20 Non-lending services and activities cover: issuance or other services related to third party securities; reception, transmission and execution on behalf of customers of orders to buy or sell securities; merger and acquisition corporate advisory services; corporate finance services related to capital market advisory for corporate clients or other; private banking; clearing and settlement services; custody and other related services; payment services; distribution of products issued by entities outside the prudential group to its current customers; loan servicing activities; foreign exchange services and international transactions.

21 This includes services and activities listed in Section A of Annex I of Directive 2014/65/EU (MiFID), such as: reception and transmission of orders in relation to one or more financial instruments; execution of orders on behalf of clients; dealing on own account; portfolio management; investment advice; underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis; placing of financial instruments without a firm commitment basis; operation of an MTF; operation of an OTF.

To calculate the GAR for investment firms' services and activities dealing on own account, investment firms should rely on the underlying investee companies':

- turnover and CapEx KPIs for each environmental objective, where the investee companies are non-financial undertakings;
- relevant KPIs for each environmental objective, where the investee companies are financial undertakings (credit institutions, investment firms, insurers).

2.2.4. Insurers and reinsurers

Insurance or reinsurance undertakings must disclose the KPIs related to their investments and underwriting activities. The first KPI relates to the investment policy of insurers and reinsurers. The second KPI relates directly to their underwriting activities.

The KPI related to investments should be calculated as the proportion of the investments of insurance or reinsurance undertakings that are associated with environmentally sustainable economic activities in relation to their total relevant investments. As for asset managers, this proportion should be determined based on:

- turnover and CapEx KPIs for each environmental objective, where the investee companies are non-financial undertakings, or
- relevant KPIs for each environmental objective, where the investee companies are financial undertakings (credit institutions, investment firms, insurers).

The KPI related to underwriting activities should be calculated as the proportion of the 'non-life gross premiums written' corresponding to environmentally sustainable insurance activities as defined in [Climate Delegated Act]²² in relation to total non-life gross premiums written.

2.2.5. Common rules for financial undertakings

2.2.5.1. Treatment of certain assets and investments in the KPIs

Sovereign and central bank exposures and investment in sovereign debt. In the absence of a robust methodology for assessing the share of taxonomy alignment of sovereign and central bank exposures, the Delegated Act does not include them in the numerator or denominator of the KPIs of financial institutions. The Commission will assess at a later stage whether and how to develop a methodology for assessing the environmental performance of sovereign exposures.

Derivatives. Derivatives are generally excluded from the numerator of KPIs of financial undertakings in view of their use to mitigate counterparty risk rather than for financing or investment.

Non-NFRD companies and certain non-EU companies. These are smaller companies, including SMEs, or companies based in non-EU countries that are not under the obligation to

²² Insurance related to climate adaptation

report their KPIs under Article 8 of the Taxonomy Regulation and the Delegated Act since they do not fall under the scope of the NFRD. Since there is a great number and variety of such companies, the ESAs are essentially proposing to use industry average-based coefficients in the absence of information provided voluntarily by the relevant companies in the initial two-year phase of application of the Delegated Act.

The Commission recognises the technical challenges and underlying costs of obtaining accurate and robust information about the taxonomy alignment of non-NFRD companies and certain companies from non-EU countries. For this reason, the Delegated Act foresees a review clause on whether to include the information submitted by these undertakings voluntarily in the numerators of the KPIs of financial undertakings from 1 January 2025. Such exposures could be included in the numerator of the KPIs subject to the outcome of an impact assessment. In parallel, the Commission will work on the development of specific guidelines for simplified voluntary provision of taxonomy-related data by non-NFRD and certain non-EU country companies as part of a broader project relating to non-financial voluntary reporting by companies that do not fall under the scope of the NFRD.

2.2.5.2. Accompanying qualitative information and presentation of KPIs

The Delegated Act requires all financial undertakings to present their quantitative KPIs in the form of templates provided in the specific annexes.

Financial undertakings are also required to provide qualitative contextual information to help, investors understand, in particular:

- the quantitative indicators including, at least, the scope of assets and activities covered by the KPIs, information on data sources and limitations; and
- the nature and objectives of environmentally sustainable economic activities and their evolution.

3. Estimated costs and benefits of the initiative

This part of the document discusses the potential broader costs and benefits of Article 8. It provides an overview of findings concerning the potential impacts on entities subject to the Delegated Act. It draws on the assessment conducted by the ESAs in their advice ²³ and reports on the feedback received through outreach and dialogue with external stakeholders, notably from the EU Platform for Sustainable Finance.

Article 8 of the Taxonomy Regulation applies to companies subject to the NFRD, requiring financial and non-financial undertakings to disclose information associated with environmental sustainable economic activities.

²³ https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/200915-sustainable-finance-taxonomy-call-for-advice_en.pdf

A number of direct and indirect costs and benefits do not arise from the Delegated Act itself, but rather from the overarching Taxonomy Regulation that sets out specific public disclosure requirements. Companies and financial market participants must bear the administrative costs related to collecting and disclosing taxonomy-relevant information.

The impact assessment accompanying the Climate Delegated Act²⁴ included an illustrative

Administrative costs under the EU taxonomy: Administrative costs include all costs resulting from the obligation to disclose against the taxonomy, such as for the companies under the NFRD's scope. This refers to: any data collection (such as for water consumption etc.); system upgrading, such as for accounting systems; and disclosing information in a report/on a website.

estimation of disclosure costs for companies currently covered by the NFRD²⁵. This assessment resulted in an approximate magnitude of aggregate taxonomy-related administrative costs in the range of EUR 280-875 million for one-off costs and recurring costs in the range EUR 140-350 million per year²⁶. This estimate nevertheless comes with a certain degree of uncertainty and could be influenced by a number of factors. Costs are also likely to vary greatly by company.

By considering all economic actors across the financing chain, Article 8 supplemented by the Delegated Act brings consistency, transparency and a common set of environmental performance definitions to all economic players. It ensures that end investors, as well as banks, have access to the taxonomy-related KPIs of the companies and assets they invest in. It allows financial institutions to use a single ratio per company based on turnover and another on CapEx and OpEx to calculate the overall alignment of their portfolios through weighted aggregation.

Depending on uptake, the potential economic benefits of the improved transparency provided by the Delegated Act are likely to materialise in the shape of reduced costs. This will help investors, banks and insurers to identify environmentally sustainable economic activities, and corporates to seek funding for such activities.

24 This report is published in parallel with the Climate Delegated Act at https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en.

25 In total, approximately 11 700 companies are covered, which shows how Member States have transposed the Directive. These consist mainly of non-financial undertakings. Nevertheless, it is expected that some of these would have no or only negligible costs as they are not involved in activities listed in the Delegated Act.

26 Based on the new scope of the revised NFRD, the estimated additional costs would amount to: EUR 1 200 – 3 700 million one-off costs and EUR 600 – 1 500 million recurring costs per year.

Environmental and social benefits are likely to result from the increase in capital flows into environmentally sustainable economic activities, thereby helping the EU deliver on its climate and environmental objectives as expressed notably in the Taxonomy Regulation.

The following table presents a qualitative overview of expected benefits and costs related to the implementation of Article 8 and the Delegated Act. It attempts to distinguish between the benefits and costs that can be expected to arise directly from reporting obligations under Article 8 (direct) and those expected to arise as a result of the disclosures, including possible second-order effects of these obligations and uses (indirect).

	Benefits	Costs
Non-financial companies	<ul style="list-style-type: none"> • The KPI definitions build to a large extent on existing measures and definitions included in the Accounting Directive and IFRS (or national GAAP) standards that already apply to companies. Their reporting should be straightforward and proportionate (direct). • Taxonomy KPIs translate long-term climate transition and environmental objectives into more tangible objectives that can be taken up in business strategies, providing a clear path that companies can use as a reference for their transition and alignment with sustainability goals (direct). • Clearly communicates the degree of sustainability of their business to investors and other financial institutions and stakeholders (indirect). • Allows for peer comparability as all economic actors will calculate and measure environmental sustainability using the same metrics (indirect), including respect for minimum (social) safeguards. 	<ul style="list-style-type: none"> • One-off costs that would include preparation of IT systems, establishment of new reporting processes, training of staff etc. • Ongoing costs to comply with the disclosure obligations under Article 8, such as collection, compilation and storage of the data needed for the three KPIs as well as possible verification costs etc. • Through the ability to leverage on existing financial accounting and reporting practices, subsequent additional compliance costs involved for non-financial undertakings should be minimised. Costs would vary based on each company's size and countries of operations. • Disaggregation of revenue/CapEx/ OpEx by economic activities and environmental objectives may involve additional costs for companies to adjust their accounting systems.
Small and medium-sized companies (SMEs)	<ul style="list-style-type: none"> • Voluntary and simplified disclosures from non-listed SMEs could ensure a proportionate approach to smaller entities while improving market access for green financing (direct). 	<ul style="list-style-type: none"> • Reasonable costs (because of voluntary character of reporting) associated with collecting data and mapping business activities against taxonomy indicators, per requests of supply chain partners,

	<ul style="list-style-type: none"> • Incentivises the development of enabling frameworks by finance institutions and at EU level to adapt and simplify the requirements of the Taxonomy Regulation for smaller entities (indirect). 	<p>banks and investors. This will be a subject to the review.</p>
<p>Asset managers, insurers (as investors) and investment firms</p>	<ul style="list-style-type: none"> • Enables access to taxonomy-related KPIs from companies subject to the NFRD and those that report voluntarily. This will in turn help financial undertakings to comply with their own reporting obligation under the Taxonomy Regulation (direct). • Allows use of a single ratio per company based on turnover and another on CapEx and OpEx to calculate the overall alignment of their portfolios through weighted aggregation (direct). • CapEx information from companies will provide forward-looking visibility on business strategy, and support investors in making more informed investment decisions (direct). • Company transparency will help investors find a common language and engage with investee companies (indirect). • Potential to increase confidence in sustainable financial products over time and thus attract more end investors (indirect). 	<ul style="list-style-type: none"> • Costs associated with obtaining data across a wide range of products, in particular for investments that are not subject to any reporting requirement such as non-EU, small caps or unlisted investments may prove onerous. • IT infrastructure deployment and maintenance, hiring costs of new lawyers and consultants to deal with the new legislative framework.
<p>Credit institutions</p>	<ul style="list-style-type: none"> • Drives better data availability from corporates and banks' clients. • Use of a single GAR ratio brings consistency, transparency and peer comparability across the banking industry (direct). • Mitigates risk of greenwashing and subsequent reputational risk for banks and liability risk for all stakeholders (direct). • Provides a homogenous and rigorous 	<ul style="list-style-type: none"> • Costs associated with operational complexities in assessing and classifying multisector clients, managing increases in documentation requirements and upgrading IT processes to systematise assessments (direct). • Temporary/one-off cost increase to streamline evaluations of 'do no significant harm' criteria, particularly when segmenting alignment by turnover/revenue and in the alignment of SMEs and

	<p>evaluation of clients' environmental performance (direct).</p> <ul style="list-style-type: none"> Increased business opportunities through progressive uptake of the Taxonomy Regulation from banks' clients. 	<p>non-EU based assets (direct). This will be a subject to the review.</p>
Insurers and reinsurers as underwriters of non-life insurance policies	<ul style="list-style-type: none"> The underwriting ratio provides strategic visibility and insights into current underwriting practices and the development of future premium income (direct). The asset ratio enables comparability of taxonomy alignment with investment firms and asset managers (indirect). 	<ul style="list-style-type: none"> Reasonable costs associated with screening insurance products against the criteria of the Taxonomy Regulation for adaptation from existing data sources. One-off costs, time and other resources for appropriate staff training and competence development.
Retail investors	<ul style="list-style-type: none"> It will be easier for retail investors to compare financial products on environmental characteristics based on taxonomy-relevant product disclosures (indirect). Increased transparency and coherence amongst metrics will reduce search costs and can limit the risk of greenwashing to which investors are exposed (indirect). 	<ul style="list-style-type: none"> Disclosure-related costs faced by intermediaries could be passed on into the cost of investment products with sustainability objectives (indirect).
Civil society and other stakeholders	<ul style="list-style-type: none"> Information on taxonomy alignment of companies, banks, insurers and asset managers' portfolio could help civil society to hold companies accountable for their environmental impacts (indirect)²⁷ and respect for minimum (social) safeguards.. This information as part of corporate disclosures could also help to reduce negative impacts over time (indirect). 	<ul style="list-style-type: none"> For certain specific stakeholders only: potential marginal additional costs in relation to preparers using different accounting standards that will apply measures and definitions in a slightly different way, implying that consistency and comparability will be impacted. However, costs will be mitigated by leveraging on existing accounting knowledge, especially IFRS standards.
Public authorities	<ul style="list-style-type: none"> Article 8 and the Delegated Act will make it easier to monitor the capital flows and stocks of banks, of underwriting practices aligned with the Taxonomy Regulation, keeping track 	<ul style="list-style-type: none"> EU regulators and supervisors who have developed their own taxonomies could face costs when adapting their systems (direct/indirect depending on use

²⁷ While EU taxonomy focuses on best environmental performance, a low degree of alignment for a company with activities that would be expected to meet significant contribution criteria could indicate that the company may not sufficiently safeguard potential harm to other environmental objectives or does not uphold minimum social standards.

	<p>of progress towards long-term climate and environmental objectives. It will also make corporate environmental information more available to relevant authorities.</p> <ul style="list-style-type: none"> Public authorities could leverage the Taxonomy Regulation as a potential basis for further policy action, to design and implement initiatives to scale up green investment at a lower cost. 	<p>relation to Article 4 of the Taxonomy Regulation).</p> <ul style="list-style-type: none"> Monitoring and enforcement of compliance with the Taxonomy Regulation (direct)²⁸.
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A further analysis of the ESAs’ work on possible impacts related to financial institutions, large companies, and SMEs is included in Annex II.

4. Implementation, monitoring and evaluation

4.1. Application date

The Taxonomy Regulation requires the Commission to adopt the Climate and Environmental Delegated Acts to set technical screening criteria for determining under which conditions a specific economic activity is considered to contribute substantially to one or more of the environmental objectives while not causing significant harm to any of the other environmental objectives. The Climate Delegated Act will be complemented by this Delegated Act, which will specify the requirements for relevant financial and non-financial undertakings to publish information on how and to what extent their activities are associated with the Taxonomy Regulation.

In order to collect and process all relevant data, and taking into account feedback received regarding the inception impact assessment of this Delegated Act, and the public consultation, the Commission agrees that undertakings should have sufficient time to disclose information associated with environmentally sustainable economic activities under this Delegated Act. The Commission is of the view that the non-financial undertakings must fully apply this Regulation as of 1 January 2023, for the financial year 2022 and financial undertakings as of 1 January 2024 for the financial year 2023. Nevertheless, as of 1 January 2022 for the reporting period 2021, undertakings may provide only qualitative information as well as information on the proportion of taxonomy-eligible and taxonomy non-eligible economic activities in their total activities.

4.2. Progressive implementation

In view of the time needed to correctly implement the Delegated Act and in view of the planned entry into force of the Climate Delegated Act by end of 2021, the following time sequence is provided in the Delegated Act for the application of disclosures:

²⁸ As part of existing enforcement under relevant legislation.

- As of 1st January 2022 for the reporting period 2021, only qualitative information and information on taxonomy-eligible activities in relation to total activities set out in the Delegated Act must be disclosed.
- As of 1 January 2023 for the reporting period 2022, the Delegated Act will apply fully to non-financial undertakings and as 1 January 2024 for the reporting period 2023 to financial undertakings with the understanding that certain exposures and investments of financial institutions, including in NFRD companies may not have been fully available.
- As of 1 January 2026 for the reporting period 2025, the Delegated Act will apply for the KPIs of credit institutions for the trading book and non-banking services.

4.3. Monitoring and evaluation

Article 20 of the Taxonomy Regulation sets up the Platform on Sustainable Finance. Part of the platform's role is to advise the Commission on data quality, availability, and market preparedness for the disclosure obligations under Article 8 of this Regulation, and in particular on the possible need to develop further measures to improve data availability and quality. Access to data on companies' taxonomy alignment is often cited as a key challenge. Corporates have also cited difficulty in gathering the data required for disclosing taxonomy-mandated data. The data should be consistent with the data other financial market participants will need to comply with their disclosures and to do their risk assessments and calculation of impacts, as well as with other EU initiatives such as the ecolabel, which is based on criteria linked to the Taxonomy Regulation. The Platform on Sustainable Finance should report on first experiences with the roll-out of this Regulation, taking account of possible developments related to EU sustainability reporting standards.

In the context of monitoring and evaluation, the Commission and the ESAs will also work closely together to address possible challenges related to disclosure obligations. Depending on the role that the European Financial Reporting Advisory Group (EFRAG) plays in the development of possible European sustainability reporting standards, close coordination with the EFRAG is also likely.

Another important element of monitoring and evaluation will be discussions between the Commission and Member States through the Member States Expert Group on Sustainable Finance.

4.4. Review

The Delegated Act could be reviewed after an appropriate time following its application (by 2025). The review should take into account: (i) the application and development of the technical screening criteria, including any possible revisions of the Taxonomy Regulation; (ii) the regulatory technical standards related to product disclosures, and; (iii) the NFRD.

The Commission will assess in particular the need for any further amendments to this Delegated Act with regard to the provision of relevant information by non-financial undertakings, including SMEs, to asset managers, credit institutions, investment firms,

insurance and reinsurance undertakings and the treatment of sovereign exposures with the view of applying this Regulation.

ANNEX I – Call for advice to ESAs

CALL FOR ADVICE TO THE EUROPEAN SUPERVISORY AUTHORITIES ON KEY PERFORMANCE INDICATORS AND METHODOLOGY ON THE DISCLOSURE OF HOW AND TO WHAT EXTENT THE ACTIVITIES OF UNDERTAKINGS UNDER THE NFRD QUALIFY AS ENVIRONMENTALLY SUSTAINABLE AS PER THE EU TAXONOMY

With this Call for Advice, the European Commission invites the European Supervisory Authorities (ESAs) to develop advice determining key performance indicators (KPIs) and associated methodology that undertakings subject to the Non-Financial Reporting Directive (NFRD)²⁹ should use to disclose information on how and to what extent their activities are aligned with those that qualify as environmentally sustainable under the EU taxonomy, in line with Article 8 of the Taxonomy Regulation³⁰. In order to achieve this, the ESAs should investigate with the relevant stakeholders appropriate metrics and data analysing the impacts these might have on undertakings, including in terms of costs. The content of the advice should be adequate to form the basis for an impact assessment for a delegated act based on the Taxonomy Regulation that the Commission will adopt by June 2021.

The request is made in accordance with the founding Regulations establishing the ESAs³¹, which set the obligation to protect the public interest by contributing to the short-, medium- and long-term stability and effectiveness of the financial system, including by ensuring the integrity, transparency, efficiency and orderly functioning of financial markets.

The advice should be based on qualitative and, when feasible, quantitative sources. The evidence discussed in the advice should be based on data samples from public and commercial databases, data submitted to the ESAs by the supervised entities and qualitative sources of information, which might include a review of the most relevant literature, where available. It may also include, but should not be limited to, specific examples or case studies, based on the experience of the ESAs in their supervisory capacity.

The need for this request and the scope of the work have been agreed between Commission staff and the ESAs. Commission staff kindly request the delivery of the final advice by February 2021. The Commission, in close cooperation with the ESAs, may revise and/or supplement this request and revise the timetable accordingly.

The European Parliament and the Council will be informed about this request, which will be available on the website of the Directorate-General for Financial Stability, Financial Services and Capital Markets Union once it has been sent to the European Supervisory Authorities.

²⁹ Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, OJ L 182, 29.06.2013, page 19, as subsequently amended.

³⁰ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198, 22.06.2020, page 13.

³¹ Regulations (EU) No 1093/2010, 1094/2010, 1095/2010 and 2019/2175 of the European Parliament and of the Council.

1. CONTEXT

By June 2021, the Commission will complement the recently adopted Taxonomy Regulation with a Delegated Act setting forth requirements for undertakings subject to the NFRD (i.e. large listed undertakings, large banks and large insurance undertakings with more than 500 employees). These requirements will specify the content and presentation of information on how and to what extent the undertakings' activities are associated with the EU taxonomy, including the methodology to be used. The Delegated Act should take into account the specificities of both financial and non-financial undertakings subject to the NFRD.

Article 8 of the Taxonomy Regulation states that non-financial undertakings under the NFRD must disclose the proportion of their turnover, capital expenditure (CapEx) and operating expenditure (OpEx) associated with environmentally sustainable economic activities, as per the EU taxonomy. Article 8 does not specify equivalent indicators on taxonomy alignment for financial undertakings under the NFRD (i.e. mainly large banks and large insurance undertakings), leaving this task to the Delegated Act.

The Commission's guidelines on reporting climate-related information³² provide a useful starting point, since in their annexes they identify KPIs that both banks and insurance companies could use to report sustainability-related data. However, the scope of KPIs to be developed under Article 8 has to be narrower, since it needs to focus solely on taxonomy alignment. For example, the following KPIs based on the guidelines have been modified to refer to the EU taxonomy, and could be considered by the ESAs as a starting point for their analysis.

For banks:

- Proportion of total assets invested in taxonomy-compliant economic activities.

For insurance and reinsurance undertakings:

- Proportion of total assets invested in taxonomy-compliant economic activities.
- Proportion of total non-life insurance underwriting exposure associated with taxonomy activities.
- Proportion of total reinsurance underwriting exposure associated with taxonomy activities.

The Commission invites the ESAs to consider whether to further refine these indicators for financial undertakings, for example to exclude certain assets from the calculations (e.g. derivatives, trading book exposures, central bank reserves, for banks) and to assess the need of having different indicators for taxonomy-compliant financial services (e.g. climate risk insurance as a proportion of total insurance underwriting activities/gross written premiums) and for investments into taxonomy-compliant economic activities. The ESAs should also analyse whether all existing activities should be covered retroactively or only those relevant to the time period as of when the disclosure rules start to apply³³. Some activity-level

32 Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information OJ C 209, 20.6.2019

33 The disclosures under Article 8 apply as of 1 January 2022 for the environmental objectives of climate change mitigation and adaptation, and as of 1 January 2023 for the other four. The obligations relate to the previous financial year, respectively (the disclosure obligation for 1 January 2022 covers the financial year 2021, the disclosure obligation for 1 January 2023 covers the financial year 2022).

information on taxonomy alignment may also be hard to come by, suggesting the need to think of possible proxy indicators.

2. SCOPE OF THE EXERCISE

The Commission invites the ESMA, EBA and EIOPA to investigate and determine the content and presentation of relevant KPIs and associated methodology that should be used by different financial undertakings under their remit, in order for these undertakings to disclose their degree of taxonomy compliance under Article 8 of the Taxonomy Regulation. Further, the ESAs are asked to consider how the three indicators for non-financial undertakings in Article 8(2) of the Taxonomy Regulation could be further specified and to determine the most appropriate methodologies to use in their case.

In developing their advice, the ESAs are invited to take into account the fact that clarity is needed on how undertakings ought to determine whether their investments are associated with economic activities considered environmentally sustainable under the EU taxonomy. Namely, as set out in Article 8 and as proposed by the Technical Expert Group (TEG), whose recommendations constitute the basis for the Commission’s draft delegated act on technical screening criteria for selecting economic activities to qualify as environmentally sustainable, both turnover resulting from an undertaking’s investment and capital/operational expenditure constituting the investment itself should count³⁴. However, the conditions can vary for different types of investments and environmentally sustainable activities. Therefore, the TEG proposed that eligible taxonomy-aligned turnover should vary depending on the environmental objective that the economic activity from which the turnover is derived contributes to, as set out in the table below, whereas for capital expenditure and operational expenditure it should not.

Financial metric	Climate change mitigation	Climate change adaptation
Turnover	Can be counted where economic activity meets the taxonomy technical screening criteria for substantial contribution to climate change mitigation and relevant DNSH criteria.	Turnover can be recognised only for activities enabling adaptation. Turnover cannot be recognised for adapted activities at this stage ³⁵ .
CapEx/OpEx	Can be counted where costs incurred (CapEx and, if relevant, OpEx) are part of a plan to meet the taxonomy technical screening criteria for substantial contribution to climate change mitigation and relevant DNSH criteria.	Can be counted where costs incurred (CapEx and, if relevant, OpEx) are part of a plan to meet the taxonomy technical screening criteria for substantial contribution to climate change adaptation and relevant DNSH criteria.

34 Turnover reflects where a company currently is relative to the taxonomy and can be used by investors as a proxy for assessing how green a company is for equity exposures. Expenditure, in contrast, gives investors a good sense of a company’s direction of travel and is a key variable for investors assessing the credibility of a company’s strategy in terms of improving its environmental performance.

35 Allowing for turnover from adapted activities to count could be misleading: once the ‘substantial contribution’ to adaptation of an activity is made (i.e. it is made resilient to climate change), it is questionable if the turnover associated with that activity (which may or may not have environmental benefits) should count as sustainable.

The issue of ‘what counts’ matters for accurate disclosures of taxonomy alignment throughout the investment chain: for undertakings carrying out sustainable economic activities under their disclosure obligation under Article 8, for financial market participants offering their services in relation to financial products under their disclosure obligations under Articles 5-7 of the Taxonomy Regulation³⁶ and for end investors themselves. Consistency and clarity will help prevent different interpretations of what can count as ‘taxonomy-aligned’, minimise the risk of greenwashing, and consolidate the overall usability and appeal of the EU taxonomy. Therefore, the ESAs are invited to ensure consistency in the advice requested here and in the draft technical standards under Articles 8(4), 9(6) and 11(5) of Regulation (EU) 2019/2088.

In gathering evidence, qualitative sources and relevant literature should be complemented, where feasible, by quantitative evidence, such as data from public and commercial databases. The Commission also expects the ESAs to engage with the most relevant stakeholders by means of an already planned or *ad hoc* stakeholder interaction or consultation, in order to develop the requested advice.

The three ESAs are asked to consider the following questions. In developing their advice, all ESAs are invited to provide data or estimates on the expected impacts, including costs, of the proposed disclosures and methodologies for relevant stakeholders.

EBA:

1. What information should banks and investment firms subject to the NFRD disclose (e.g. as part of their prudential and broader ESG disclosures) on how their financial or broader commercial activities align with economic activities identified as environmentally sustainable in the EU taxonomy, whether carried out in-house or performed by third parties? Which financial or commercial activities should be included/excluded?
2. If turnover, OpEx and CapEx were not considered appropriate, what alternative indicators would achieve the same purpose? What KPIs are best suited to disclose information identified in (1) above? What should constitute the numerator and the denominator for a specific KPI for banks and investment firms?
3. Could the green asset ratio be adapted to include taxonomy-related disclosures?

EIOPA:

1. What information should (re)insurance companies subject to the NFRD disclose (e.g. as part of their prudential and broader ESG disclosures) on how their insurance activities correspond to those identified as environmentally sustainable in the EU taxonomy? Should there be a difference between insurers and reinsurers, and between insurance and reinsurance activities?
2. Should they disclose how financial or commercial activities beyond insurance underwriting are directed at funding economic activities identified as environmentally sustainable in the EU taxonomy? If yes, what information should they disclose? Are turnover, CapEx and OpEx appropriate?
3. What should be included in (2)? Could something be excluded and if yes, what types of activities? What should constitute the numerator and the denominator of a possible specific KPI for (re)insurers?

³⁶ For which ESAs are preparing draft technical standards.

ESMA:

1. What information should any asset management companies subject to the NFRD, notably alternative investment fund managers or UCITS management companies, disclose on how their activities are directed at funding economic activities identified as environmentally sustainable in the EU taxonomy?

2. How should the three KPIs that non-financial undertakings are required to disclose under Article 8(2) of the Taxonomy Regulation be further specified? More specifically:

- Should non-financial undertakings make any further disclosures to accompany the KPIs?
- Should it be specified which KPI(s) is/are relevant for companies in a given sector?
- What methodology should non-financial undertakings use to report against the identified indicators (allocating turnover/expenditure within the undertaking or group to different economic activities; distinguishing between activities not covered by the taxonomy and activities covered by the taxonomy, but where the undertaking doesn't meet the thresholds/technical screening criteria)?

3. PRINCIPLES

The subject matter of this call for advice is highly focused. It is circumscribed by the requirement of Article 8 to further specify details of the information to be disclosed, and accompanying methodology, for undertakings in relation to the taxonomy. The legal requirement to adopt the delegated act is June 2021. Consequently, the ESAs are invited to consider the task as a targeted one. This may involve shortening some internal deadlines and procedures, e.g. on consultations.

The advice should be developed based on the following principles:

- **Autonomy:** The ESAs are free to choose working arrangements which they consider most efficient to reach the objectives described in this request, in line with better regulation principles. In particular, the ESAs are invited to utilise existing consultation channels and working formations e.g. on prudential disclosures, to develop the advice.
- **Reliable qualitative and quantitative data** should be considered to assess the merits of all recommendations. The advice should aim to build on diverse, but unbiased sources.
- **Justified solution:** The KPIs the ESAs will include in the advice will need to be assessed in terms of their possible impacts, and possible trade-offs with other EU objectives should also be considered. As appropriate, the ESAs should consider and justify choices e.g. regarding the need for information which is disclosed to be accurate, useful, usable, and cost-efficient.
- **Cooperation between the ESAs:** The ESAs are free to choose a cooperation arrangement that they consider most efficient to reach the objectives described in this request. While work on questions specific to undertakings in their remit can proceed independently, the ESMA, EBA and EIOPA are invited to closely coordinate their work on the advice to ensure consistent and coherent recommendations. The advice can be delivered in three separate reports, one from each ESA.
- **Cooperation with other EU bodies:** The ESAs are invited to cooperate with other EU bodies as relevant. Notably, they are encouraged to liaise with the European Financial

Reporting Advisory Group (EFRAG), which has been mandated to carry out preparatory work for possible EU non-financial reporting standards, as well as the Commission’s Joint Research Centre.

- **Absence of conflict of interest:** The ESAs must ensure a transparent and balanced engagement with stakeholders and require, as appropriate, disclosure of sources and avoidance of conflict of interest in the conduct of the discussions and in the development of their advice. Cases involving potential conflict of interest will be duly noted.

4. STEPS AND TENTATIVE TIMETABLE

The advice is expected by February 2021.

The ESAs can choose the best way to approach the exercise in line with the scope and principles defined above. A tentative timeline is suggested below.

Step 1	Formal request sent	September 2020
Step 2	Collecting evidence and stakeholder views and drafting the advice	September 2020 – February 2021
Step 3	Interim drafts and preliminary findings, including KPIs and associated methodology, discussed with the Commission	Continuous
Step 4	Advice finalised	February 2021

ANNEX II – Additional specifications concerning the potential impacts of the Delegated Act under Article 8 of the Taxonomy Regulation

Potential impacts for large non-financial companies

Some anticipated impacts on affected companies are discussed below and supplemented by mitigating measures where relevant. While the granularity of the Article 8 disclosures will have an impact on the costs incurred by entities, detailed reporting from non-financial undertakings will in turn provide the basis for other financial market participants to comply with their own disclosure obligations (via Articles 5, 6 and 8 of the Taxonomy Regulation).

Overall, costs identified largely refer to the application of the new disclosure regime under Article 8 of the Taxonomy Regulation³⁷ and are not expressly related to specifying the three KPIs set out in this Delegated Act. The assessment reveals that costs related to the implementation of obligations under Article 8 by non-financial companies will be largely incurred during the first reporting cycle, and should be subsequently mitigated as further described below.

Turnover

The proposed KPI for turnover aligns with the accounting figures disclosed in financial statements, which should reduce adjustment costs proportionately. ESMA reported overwhelming support for this definition of turnover by stakeholders in response to the consultation.

CapEx

Extending the defined period of plans to account for CapEx should bring flexibility to preparers and minimise costs accordingly. Capital expenditure will be counted within a defined period of time that does not exceed five years, unless a longer period can be justified by the undertaking on the basis of the features of the concerned investments. Having a plan is a necessary condition to ensure that companies are embarking on a trajectory aimed to make their economic activities environmentally sustainable. A credible plan will minimise companies' reputational risks, will support their target and develop strategic and forward looking business decisions, and will secure the overall integrity of the exercise.

³⁷ Already addressed as part of the impact assessment accompanying the EU taxonomy Level 1 regulation. Disclosures by companies will entail potentially large one-off and ongoing costs. These costs will vary depending on the extent to which entities are engaged in activities covered in the taxonomy, complexity of their operations, and their existing systems for collecting environmental and financial data at a granular level. Such costs can relate to internal data collection (set up or strengthen systems to gather information on their activities according to the taxonomy) and internal due diligence or environmental management analysis (set up or strengthen systems to assess and verify their performance levels with regard to the criteria of 'substantial contribution', 'do no significant harm', and minimum social safeguards). The costs need to be considered in the context of the anticipated benefits, which will be spread across a range of actors. As regards non-financial companies, the introduction of EU taxonomy could lead to better access to capital and diversification of the investor base (as green companies could attract both investors with higher sustainability preferences and more institutional investors). Positive benefits are likely in particular for those with taxonomy-aligned activities that were not recognised as green in the past (for instance steel and cement producers with outstanding environmental performance). Together with possible public incentives, this better access to finance for sustainable projects should make it provide incentives to make steps towards reducing the carbon footprint and improving climate resilience, preventing and reducing large long-term consequences of climate change. At the same time, companies which were previously considered sustainable by investors and will disclose a lower than expected share of taxonomy-aligned activities could become less attractive to investors.

In response to ESMA's consultation, stakeholders generally supported the proposal on this definition of CapEx.

OpEx

The OpEx KPI is considered as a category of costs which complements CapEx for investments and in this regard, together with CapEx, gives an indication of a company's strategy for maintaining or improving environmental performance and resilience. The approach retained to define OpEx takes account of concerns shared by stakeholders through ESMA's consultation. Consequently, the definition is simplified and removes the requirement that preparers should provide a reconciliation of the OpEx KPI with any alternative performance measures (APM) which are labelled in the same or in a similar way, since such reconciliation would not be meaningful. This should reduce costs associated with reporting preparation accordingly.

Flexibility in the format required for the provision of additional/qualitative information in the reporting framework will help limit potential additional costs. KPIs should be accompanied by information that helps users understand and interpret those prepared by non-financial undertakings. This is consistent with the overall objective of the Taxonomy Regulation. It also had strong stakeholder support in response to the ESMA consultation.

Additional costs may be incurred by the account preparers when combining environmental information with financial metrics. Disaggregation of revenue/CapEx/OpEx by economic activities and environmental objectives may be new for some companies. It is expected however that most of the necessary data should already be available at company level.

In their general feedback to ESMA's consultation, stakeholders expressed concerns that, due to national transposition of the Accounting Directive, in some Member States smaller entities may fall within the scope of the disclosure requirements under Article 8. However, the three KPIs set out in Article 8 are basic metrics and their calculation could be a relatively straightforward matter, if environmental data could be reconciled with the financial metrics (KPIs). Inevitable implementation efforts will be necessary in order to meet the requirements of the Taxonomy Regulation, for example, to derive and track information at the level of economic activities and environmental objectives. Such efforts are necessary to give effect to the classification regime envisaged by the Taxonomy Regulation. One should note finally that smaller companies with a smaller number of economic activities would likely face fewer challenges in complying with the disclosures required under Article 8 and the Delegated Act, although they may lack expertise in the initial phase.

Lastly, the proposal to disclose the information required under Article 8 in a standardised format is proportionate to allow the Taxonomy Regulation to deliver on its objectives, and aligns with the need of financial market participants to access information in a simplified

manner for their own reporting purposes. It is also a useful step towards making taxonomy-related information digitally accessible in the future³⁸.

Global applicability

By virtue of globally integrated capital markets and economic supply chains, Article 8 and the Delegated Act creates implications for international companies held in EU-based investors' portfolios. For competitiveness purposes, it is important that the proposed KPIs under Article 8 uniformly apply regardless of whether an economic activity is carried out in the EU or in a non-EU country. This is fundamental to avoid unfair treatment of EU company investors against non-EU peers, who will not be subject to the EU (or any) taxonomy regulation in their own jurisdiction.

Evolution of the taxonomy

The Commission takes note of the potential costs associated with companies having to adapt to the expected evolution of the requirements through tightening thresholds of the criteria of the Taxonomy Regulation in the coming years, and consequently takes note of the need to make such changes in a predictable manner and with stakeholder involvement, to the extent possible. This will be further assessed by the EU Platform on Sustainable Finance and as part of the review mechanism set for this Delegated Act.

Potential impacts on financial undertakings

It is expected that the introduction of taxonomy regulation and relevant disclosures will help asset managers, insurers and banks to make more informed investment and lending decisions. This is likely to trigger behavioural changes among financial institutions that will help channel more money from investors and banks into sustainable economic activities. For instance, the new information provided by companies will allow investors and banks to assess the degree to which their portfolios capture companies with lower expected transition risks and greater resilience towards physical risks of climate change or providing solutions that deliver enabling solutions.

The reporting requirements for financial undertakings will differ from those for non-financial companies given the very nature of their activities. The Taxonomy Regulation makes a clear distinction between non-financial corporates and financial undertakings.

Overall, the costs of implementing the mandatory ratios for financial undertakings will heavily depend on: 1) the availability of data from underlying companies and assets, and 2) the adaptation of internal processes and IT systems in particular for credit institutions.

³⁸ For instance through the European single access point (ESAP), pending the outcome of the related impact assessment.

Asset managers, investment firms and insurers (as investors)

Asset managers and insurers will disclose the green proportion of their portfolios; the proposal provides simple methodological considerations and guidance to calculate this metric. Considering the reliance of investors on data provided by their portfolio underlying counterparties, asset managers and insurers may face difficulties in meeting their reporting obligations during the first accounting year, due to the current lack of sustainability data from non-financial entities. Costs associated with accessing data from companies should however resolve rapidly as companies under the scope of the Non-Financial Reporting Directive will report the three KPIs required under Article 8 of the Taxonomy Regulation.

The exclusion of derivative portfolios will minimise the complexity of portfolio assessments and associated potential costs. This exclusion is generally welcomed by stakeholders, as seen in responses to ESMA's consultation.

Costs associated with setting up the reporting and disclosure for investors should be mitigated partially after the first year, given that non-financial undertakings will use a standardised template that facilitates data gathering.

In their response to ESMA's consultation, stakeholders largely indicated that undertakings would have to set up new reporting processes, potentially implement or adjust IT systems, as well as create and maintain new reporting structures. The cost of introducing new data sets and methodologies through IT systems should be mitigated after the first year at least, as data becomes systematically and publicly available and is reported via centralised data mechanisms.

Credit institutions

The Taxonomy Regulation provides a common set of definitions that should support banks' approach to managing all aspects of sustainability, including how they interact with clients. Using the taxonomy framework will bring consistency and transparency to the industry, as well as reputational benefits by mitigating potential perceptions of greenwashing. It will provide guidance for banks seeking to identify green assets, set targets and align their long-term business strategies and models with the sustainability transition³⁹.

To comply with Article 8 and the Delegated Act, credit institutions will disclose their green asset ratio (GAR) to show the extent to which the financing activities in their banking book are associated with economic activities aligned with the EU taxonomy. In response to the EBA's consultation, stakeholders agreed that disclosure should differentiate between information on stocks of loans and flows, which should provide a good view of the transitioning part. No significant difference should be observed in the costs associated with respect to new exposures versus existing exposures. One reason given by the stakeholders for the costs related to new and existing exposures being equal was that the assessment would require the same level of effort in the build-up phase. However, it can be assumed that, taking into account the volume of existing exposures, overall costs (in terms of time) may be

39 <https://www.unepfi.org/wordpress/wp-content/uploads/2021/01/Testing-the-application-of-the-EU-Taxonomy-to-core-banking-products-Final-v2.pdf>

assessed as somewhat higher for existing exposures since data for more counterparties will need to be collected and assessed.

The costs for credit institutions of implementing the assessment and KPIs of taxonomy alignment are likely to be significant at the outset, notably in terms of adjusting IT infrastructure and systems. Small institutions in particular have not started or are at the initial stages of incorporating sustainability considerations into their strategies and risk management, which is likely to lead to initial uptake costs for them.

Accessing data from company clients and assets will incur costs in the early phase of implementation of disclosures, in particular to access information from SMEs, retail clients and non-EU exposures, or counterparties not covered by the NFRD in general. Therefore, this Delegated Act proposes to exclude non-NFRD exposures from the numerator of the GAR until the review. For retail mortgages in particular, stakeholders, in response to the EBA's consultation, generally agreed on the use of energy performance certificates for mortgage portfolios as the best estimate in residential real estate, acknowledging problems with information on (particularly older) stocks of loans.

Stakeholders expressed a need to delimit the exposures to be considered under the GAR and strongly supported the exclusion of the trading portfolios (given the short-term nature of the holdings), as well as exposures to central banks and sovereigns for the time being. The Commission considered these concerns justified and followed the ESAs' advice to exclude them.

Non-life insurers and reinsurers

Non-life insurance and reinsurance undertakings must disclose the KPIs related to their underwriting activities.

In their responses to EIOPA's consultation, stakeholders highlighted the need for convergent and consistent disclosure of mandatory key performance indicators and expressed strong agreement to limit the ratio to non-life gross written premiums relating to underwriting activities that strictly match the technical screening criteria of the Climate Delegated Act, which should be compared to the total non-life gross written premiums. The recommended ratio has the benefit of providing insights into current underwriting practices.

Stakeholders also highlighted that the technical screening criteria provided in Annex II of the Climate Delegated Act may be challenging to apply and that the required disaggregation of non-life underwriting activities will require substantial efforts as well as input from consultancy firms to complement internal resources. It is expected that this will present additional, yet reasonable, research and data management-related costs to insurance institutions.

The approaches and ideas that EIOPA consulted upon and that have been taken up entirely in this proposed Delegated Act have been well received by the vast majority of respondents. In particular, the choice of key performance indicators to fairly reflect on insurers' and reinsurers' business models were deemed relevant and appropriate.

Cross-cutting consideration: Addressing timing mismatch of disclosure obligations across the financing chain

In response to the ESAs' consultation, stakeholders expressed legitimate concerns regarding the general timing mismatch of the disclosure obligations imposed on investors, preceding actual disclosures from non-financing undertakings i.e. underlying portfolio companies.

Accessing information from non EU-based assets/companies

Financial institutions invest in the assets of issuers outside the EU, who may not provide taxonomy-related disclosures, or at least are not subject to the Taxonomy Regulation. The Commission takes note of stakeholders' feedback in this area and will consider providing further guidance to investors on how to deal with such situations, e.g. (i) by providing that institutions should engage with such companies to encourage them to produce taxonomy-related disclosures on a voluntary basis; and (ii) by providing examples of disclosures of the proportion of assets on which investors could not obtain the necessary data.

Potential impacts on SMEs

SMEs as defined in NFRD are not subject to the reporting obligations proposed in the Delegated Act. While the NFRD, through its review process, will extend its scope of application to include SMEs listed on regulated markets, smaller entities are not subject those disclosure requirements⁴⁰. SMEs may choose to use the Taxonomy Regulation on a voluntary basis to help guide their business strategies and operations towards environmental sustainability, increase their visibility among investors and banks, and tap into green finance opportunities. Therefore, the potential costs or burdens on SMEs will be mainly for the voluntary uptake of obligations related to access specific finance or supply channels.

Feedback provided by the EU Platform on Sustainable Finance suggests that SMEs are generally not accustomed to collecting the type of information required by the Taxonomy Regulation, as they typically focus on conforming to local legislation and permits. They also generally lack the resources, expertise, and often also incentives to produce the data necessary for others to conduct sustainability assessments for them.

Consequently, the Commission didn't consider appropriate nor proportional to extend the scope of the Taxonomy Regulation and disclosure requirement to SMEs.

However, SMEs are indirectly impacted as they seek and receive funding from investors and banks, who in turn have to report on their portfolio taxonomy alignment, including for their portfolios exposed to SMEs. While banks and investors may seek taxonomy-related information from their SME clients and portfolio companies, there is no obligation on SMEs

⁴⁰ 'Smaller entities' include most SMEs in the EU. According to the Commission's Annual Report on European SMEs 2018/2019, in 2018, there were slightly more than 25 million SMEs in the EU-28, the vast majority (93%) being micro-SMEs, employing fewer than ten people. Together, SMEs make up 99.8% of all non-financial enterprises, employing around 98 million people (66.6% of total employment) and generating 56.8% of total added value (EUR 4.357 billion). Out of those, only about 3000 companies are listed on stock exchanges.

to provide such information, and this will not result in SMEs not being able to access funding from investors or banks⁴¹.

Box 4: EU initiatives that can foster taxonomy uptake by SMEs⁴²

Several EU initiatives could make it easier for companies and SMEs in particular to adopt the practices discussed in the technical screening criteria, become taxonomy-aligned and provide relevant disclosures for banks and investors. Some of these are presented below.

Business-relevant climate information and risk analysis

SMEs typically lack adequate resources to access the information needed to guide their decision-making under new climate conditions, but targeted weather and climate information can help them understand particular business risks and opportunities. This information may be made available through different channels: (i) community-led adaptation with national, sectoral and local adaptation plans in place¹, (ii) open datasets and open modelling platforms¹ or (iii) partnerships and cooperation, which are a cost-effective way for SMEs to overcome resource limitations. These tools not only enable SMEs to pool resources and funding, they also help them to insure themselves against weather-related shocks.

Technical assistance and training

The public sector can help SMEs by sharing information, conducting research and development and building skills to understand adaptation options that can help them become more resilient. An adaptation framework and governance system are in place in all EU Member States now, and examples of good adaptation practices are starting to emerge (see e.g. *RESIN interactive risk map*)¹.

EU data policy

The Open Data Directive 2019/1024 (EU) sets out minimum harmonisation rules on the re-use of public sector information and introduces high-value datasets (HVDs), defined as documents whose re-use is associated with important benefits for society, the environment and the economy. No specific action seems to be warranted to promote open access and re-use of these datasets as long as climate and disaster loss data are listed as HVDs within the meaning of the Open Data Directive. HVDs must be made available for re-use free of charge, in machine-readable formats, provided via APIs and, where relevant, as a bulk download. Annex I to the Directive lists six categories of HVDs: 1) geospatial, 2) Earth observation and environment, 3) meteorological, 4) statistics, 5) companies and company ownership, and 6) mobility. Climate-related disaster loss datasets could fit into each of the first four categories. The European strategy for data of 19 February 2020 incorporates the HVDs as a common data layer, which, in conjunction with data coming from the private sector, facilitates the rollout of sectoral data spaces including a Green Deal European data space.

41 Any non-negligible impact in this regard would be unlikely, including because it is expected that taxonomy alignment in the EU economy will be rather low, at least in the first years. Preliminary studies on taxonomy alignment summarised in the impact assessment accompanying the first taxonomy DA provide early evidence of this expectation being correct. Any imaginable disadvantage for non-aligned companies would hence be spread across many entities and impact on any single company would be marginal.

42 Adjusted from the impact analysis provided for the taxonomy delegated acts.

Improving the resolution of climate change risk information

To improve support to local climate change risk assessment and adaptation action, it is essential to increase the availability, reliability and accessibility of climate change information with the ‘right’ spatial resolution. This directly relates to improving the downscaling processes applied to climate data under climate change scenarios. Useful and ‘urgent’ research initiatives should systematically test the performance of statistical versus dynamic downscaling techniques used across the EU to understand when/where the former can be a good substitute for the latter. Investigation should prioritise heat waves, which are projected to be nearly twice as frequent, and severe heat waves for which the expected increase is even larger. Another priority is extreme precipitation (and link to precise flash floods models), which is likely to almost double in occurrence for each degree of further global warming.

EU renewed sustainable finance strategy

A successful and inclusive transition can only be achieved with the participation and support of the real economy, notably of SMEs. If it is adopted, the renewed sustainable finance strategy should provide additional tools and supportive measures targeted at SMEs to help with their voluntary disclosure under the EU taxonomy rules.

Potential impact for other stakeholders

Improved disclosure of information along the investment chain can be expected to help investors obtain the information they need. Such disclosures will also complement other non-financial information from companies, making it easier for civil society to hold companies accountable, and for public authorities to monitor the situation and design future policies. They could also spur new areas of research and innovation.

ANNEX III – Public feedback summary

Of the 162 responses received on the draft delegated act, 45% were from companies/businesses, and another 40% from business associations, covering both financial sector institutions and non-financial undertakings. NGOs represented just over 5%, with the remainder composed of public authorities, academic and research organisations, and private citizens. Two thirds of the replies were from Belgium, Germany and France, with the remainder split between other Member States and a small number of third countries.

Non-financial undertakings

Nearly all respondents welcomed the 1 year phase-in period of disclosures. However, several requested a further delay, including to align with product-level disclosures under the Sustainable Finance Disclosures Regulation ('SFRD'). Many asked for further clarification on how to express the share of taxonomy-eligible activities in the 1st year of disclosure in 2022. A large majority noted that disclosures over the previous 5 years should not amount to retroactive application, and should be reduced to the previous 1-2 years.

While broadly agreeing with the KPIs for expressing taxonomy-alignment in terms of turnover, CapEx and OpEx, several respondents commented that elements of the KPIs as well as the accompanying contextual information seemed excessive, going beyond the strict scope of Article 8 of the Taxonomy Regulation. Several comments were made that notably the KPI for OpEx lacked precision. A number of respondents urged recognising taxonomy-aligned joint ventures in the turnover KPI, and broadening the turnover ratio to accounts prepared under local generally accepted accounting principles (GAAP). Various views were expressed in favour of more flexibility for CapEx plans (more principles-based, no approval by Board, longer timeframe than max. 7 years), and that companies should not divulge commercially sensitive information, for instance in the form of forward-looking targets for the KPIs and too granular disclosures of CapEx plans. Some comments requested clarification on the boundary of CapEx related to the purchase of outputs from taxonomy-aligned activities.

Some comments were made on greater technical alignment of the templates for disclosures with the narrative requirement of the KPIs. Other comments suggested that the templates should be simplified, namely to remove the breakdown per environmental objective and economic activity, or that other specific data-fields should be deleted.

Many stakeholders said that accompanying disclosures for the KPIs should be permitted to 'comply by reference', so that they can present accompanying information elsewhere in the non-financial statement other than in the immediate vicinity of the KPIs.

Based on the feedback, the flexibility for the first year of reporting was confirmed, together with a rule for a one-year delay between the entry into force of technical screening criteria and corresponding disclosures. It was clarified that the financial industry should use the latest available information (KPIs of non-financial companies) as the basis for their own KPI which effectively means they will be required to report for the first time their full quantitative KPIs in 2024 after the KPIs of non-financial companies become fully available in 2023. Regarding the KPIs, the maximum timeframe for CapEx plans was raised to 10 years where justified, and it was clarified that they should be disclosed at economic activity-aggregated level (and

not at the level of individual projects (geographic location, individual facilities etc.) to avoid disclosing commercially sensitive information. Additional recognition is also introduced for expenditures into joint ventures, and flexibility for when to disclose the OpEx KPI when OpEx is not material. Further, detailed reporting would not be mandatory concerning the assessment related to taxonomy eligible, but not aligned activities (i.e. granular information about the failure to meet substantive contribution or DNSH). Finally, mandatory requirements to set targets for the KPIs, as well as the provision of historical comparative data beyond the last reporting year were removed.

Horizontal points for financial undertakings

Comments generally insisted that disclosures under the Taxonomy Regulation for undertakings on the one hand and under the Sustainable Finance Disclosures Regulation for financial products on the other should be coherent. Many commented that account should be made for the time-lag for financial market participants to obtain information from investee-undertakings for the purposes of their disclosures both under the taxonomy and for financial products under the SFDR.

There was broad, but not unanimous, agreement that the treatment of SMEs and sovereigns should be considered separately after an initial phase-in period, but several comments urged that this should be brought forward from 2025. A large number of responses also recommended to clarify that reliable taxonomy-alignment information submitted voluntarily by SMEs, otherwise obtained on exposures to non-EU undertakings and for use-of-proceeds instruments regarding sovereigns should not be excluded from the numerator of the green asset ratio (GAR) for banks until 2025.

Overall, the exclusion of derivatives from the KPIs for financial undertakings was supported by most, yet criticised by some. Most agreed that the denominator for financial undertakings KPI should be based on all assets/exposures/investment (except sovereigns), but some (mostly banking industry) urged that it should be restricted to taxonomy-eligible exposures only.

Based on the split feedback, the treatment of sovereigns and non-CSR companies was confirmed.

Credit institutions

Overall, banks were supportive of the GAR as their main KPI, together with separate KPIs for their asset management, financial guarantee as well as any insurance business. However, KPIs for fees and commissions and for the trading book were seen as less relevant. Many commentators advocated for a narrowly defined GAR including essentially exposures to large EU undertakings subject to the reporting under Article 8 of the Taxonomy Regulation (non-CSR companies). Some comments were made on distinguishing between new loans, which should feature in the GAR, and the stock of all loans, which could be phased in. Many also wanted to allow loans issued under taxonomy-criteria applicable at the time to maintain their status in the GAR until their maturity (grandfathering). Some requested clarity on whether and how proxies could be used, in the absence of full data on taxonomy-alignment, e.g. for exposures to non-CSR and non-EU undertakings. Likewise, some saw the need to waive some criteria e.g. on DNSH data at the level of residential real estate loans.

Based on the feedback, it was decided to focus the GAR on the banking book, with a transitional period for the implementation of additional secondary KPIs for the trading book and non-banking services.

(Re)insurance undertakings

(Re)insurers commented that exposures where policyholders decide the investment should be excluded from the insurer's own green investment ratio. For (re)insurers' KPI for underwriting activities, some commented that the denominator should be limited to taxonomy-eligible climate-related insurance. Specifically reinsurers noted that the DNSH criteria pose problems for the business they write on a portfolio basis.