

iGAAP in Focus

EU Taxonomy – corporate reporting requirements

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- The European Union (EU) created a Taxonomy (“the EU Taxonomy”) as part of its broader sustainable finance strategy to promote transparency and reorientate flows of financial capital towards sustainable investments, in response to the EU Green Deal and the Paris Agreement. By enabling investors to re-allocate investments towards more sustainable technologies and businesses, the EU Taxonomy is intended to be instrumental in making Europe climate-neutral by 2050.
- The EU Taxonomy is a classification system of economic activities that can be considered ‘environmentally sustainable’ with one (or more) of the six EU environmental objectives laid out by the [Taxonomy Regulation](#). Economic activities that can make the most relevant contribution to climate change mitigation and adaptation objectives have been prioritised.
- [The EU Taxonomy Regulation](#) also sets mandatory requirements on disclosure for those in scope of the Non-Financial Reporting Directive (NFRD)¹ (and the extended scope of the Corporate Sustainability Reporting Directive (CSRD)² once it comes into effect). Non-EU companies that have securities traded on EU regulated markets may currently be in scope if the specific EU regulated market requires it but will become in scope once the CSRD comes into effect.
- The Taxonomy Regulation amends the disclosure financial market participants (such as asset managers, pension funds and insurance undertakings) are required to make under the EU Sustainable Finance Disclosure Regulation (SFDR). This will impact certain non-EU companies, such as those offering financial products in the EU.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

1. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN>

2. The [CSRD](#) amends the existing reporting requirements introduced by the NFRD. It extends the scope significantly of undertakings that are required to publish sustainability information as well as the content to be reported. The CSRD needs to be transposed by EU member states. The earliest application of the CSRD is for financial years starting on or after 1 January 2024 for those currently in the scope of the NFRD.

- Financial undertakings³ in scope of NFRD (and CSRD once it comes into effect) need to disclose ratios relevant to their industry relating to the proportion of environmentally sustainable economic activities in their financial activities, such as lending, investment and insurance.
- Non-financial undertakings in scope of the NFRD (and the extended scope of the CSRD when it comes into effect) must disclose, in particular in their Non-financial statement, the proportion of their turnover, capital expenditure and operating expenditure associated with economic activities that qualify as environmentally sustainable. Taxonomy-aligned activities are those which make i) a substantial contribution to one or more of the six prescribed environmental objectives mentioned above, ii) do no significant harm to any other of those objectives, and iii) comply with minimum safeguards.
- The disclosure requirements are being phased in, with different rules for financial and non-financial undertakings. For reports in respect of periods beginning on or after 1 January 2021, and published as from 1 January 2022, only the proportion of taxonomy-eligible⁴ and taxonomy-ineligible activities in relation to two of the six environmental objectives was required.⁵ Disclosure for reports in respect of periods beginning on or after 1 January 2022 and published as from 1 January 2023 is much more extensive. Reporting on KPIs representing the proportion of taxonomy aligned activities for the two climate-related objectives and all the accompanying narrative information is required for non-financial companies for periods beginning on or after 1 January 2022. This disclosure is required for financial undertakings for periods beginning on or after 1 January 2023 that will be published as from 1 January 2024 except for credit institutions, which must disclose taxonomy-alignment for their trading book and non-banking activities from for periods beginning on or after 1 January 2025.
- The timetable to report the required disclosures is challenging as there is a need to clarify definitions and the specific requirements to ensure consistent application of the rules. Companies need to ensure there are appropriate processes, systems, controls and expertise in place to gather the data required to meet the EU Taxonomy reporting requirements.
- The European Securities and Markets Authority (ESMA) identifies the disclosures required by Article 8 of the Taxonomy as an [area of focus for the 2022 annual financial reports of listed companies](#) and emphasises that 2023 is an important year for this reporting given it is the first time non-financial undertakings will need to disclose taxonomy alignment of their economic activities with the climate change mitigation and climate change adaptation objectives.

Background

Climate change and environmental degradation require an immediate and urgent response globally, and the financial system plays a critical role. Achieving transparency in corporate reporting on climate-related and sustainability-related issues can help direct capital to long-term, resilient businesses as the world transitions to a low-carbon economy. There have been developments around the globe to respond to this.

In Europe, the European Commission (EC) presented the [European Green Deal](#) in December 2019, declaring its aim to reduce net greenhouse gas emissions to zero by 2050 and in April 2021 published its [Sustainable Finance Package](#) - a set of legislative measures aimed at supporting the transition to a carbon neutral economy and improving the flow of capital towards sustainable activities across the EU.

3. As defined in Article 1(8) of the Disclosures Delegated Act

4. Taxonomy-eligible economic activity' is an economic activity that is described in the EU Taxonomy delegated acts, irrespective of whether that economic activity meets any or all the technical screening criteria laid down in those delegated acts

5. The first two objectives are climate change mitigation and climate change adaptation

The key pieces of legislation that will restructure corporate reporting requirements include:

- the [Corporate Sustainability Reporting Directive \(CSRD\)](#) which enhances existing sustainability disclosures in annual reporting as set out under the Non-Financial Reporting Directive (NFRD). The EC recognises that the CSRD is an essential foundation for a consistent flow of sustainability information through the finance chain. Undertakings will have to report using European Sustainability Reporting Standards (ESRS) which are currently in draft form. The CSRD also widens the scope considerably to include large private companies and small and medium-sized listed companies.
- the [EU Taxonomy Regulation](#) (and supporting delegated acts) which sets out a system for classifying economic activities contributing to environmental objectives and requires an undertaking in scope to include information in its Non-financial information statement on how and to what extent the undertaking's activities are associated with environmentally sustainable economic activities; and
- the [Sustainable Finance Disclosure Regulation \(SFDR\)](#) which requires financial market participants and advisors to be more transparent around the environmental, social and governance (ESG) qualities of products offered.

For more information on the CSRD and ESRS read our publication:

[iGAAP in Focus—European sustainability reporting – Worldwide reach of the Corporate Sustainability Reporting Directive](#)

[iGAAP in Focus—European sustainability reporting - EFRAG submits first set of draft ESRS to the European Commission](#)

	EU Taxonomy Regulation	Corporate Sustainability Reporting Directive (CSRD)	Sustainable Finance Disclosure Regulation (SFDR)
What is it?	Defines the activities substantially contributing to environmental sustainability and imposes some disclosure requirements. It also updates elements of SFDR for financial market participants	Enhances sustainability disclosures in the annual reporting and supersedes the requirements of the Non-Financial Reporting Directive (NFRD)	Requires sustainability reporting by financial market participants and advisors and transparency on the ESG qualities of the financial products offered to their clients as part of existing pre-contractual and periodic disclosure obligations, and subsequently on their websites
Scope	All companies within scope of NFRD, and CSRD once in effect to report alignment with the EU Taxonomy	All EU large companies and all listed companies (except listed micro enterprises); followed by small and medium listed companies later Also applies to non-EU undertakings not listed on a regulated market in the EU, which generate more than EUR 150 million net turnover in the EU (for each of the last two consecutive financial years) and that have at least one EU subsidiary (large or listed on an EU regulated market) or EU branch (more than EUR 40 million net turnover in the preceding financial year). See our iGAAP in Focus for more detail.	Financial market participants offering investment products in the EU, and financial advisors who guide EU consumers

<p>Impact on non-EU entities?</p>	<p>Applicable to:</p> <ul style="list-style-type: none"> • Non-EU companies offering financial products in the EU • EU subsidiaries of non-EU companies (if in scope of NFRD/CSRD) • Non-EU subsidiaries of EU parent companies that may need to provide required information to their parent • Non-EU companies that are listed on EU regulated markets may be in scope if the specific EU regulated market requires it and may be in scope once the CSRD comes into effect 	<p>Applicable to:</p> <ul style="list-style-type: none"> • Non-EU companies that are listed on EU regulated markets • EU subsidiaries of non-EU companies • Non-EU undertakings not listed on a regulated market in the EU that meet the criteria in the scope box above • Subsidiaries of EU parent companies that may need to provide required information 	<p>Applicable to:</p> <ul style="list-style-type: none"> • Non-EU financial institutions operating in the EU or transacting with EU-based clients
<p>When?</p>	<p>For periods beginning on or after 1 January 2021. See Effective dates below in respect of new disclosures for those currently in scope of the NFRD (and CSRD once in effect)</p>	<p>Becomes effective in stages, for financial years starting on or after:</p> <ul style="list-style-type: none"> • 1 January 2024 for those currently in scope of NFRD • 1 January 2025 for other EU large undertakings and non-EU undertakings on EU regulated markets • 1 January 2026 for EU and non-EU small and medium-sized entities listed on an EU regulated market • 1 January 2028 for non-EU undertakings not listed on EU regulated markets that meet the criteria in the Scope box above 	<p>The main provisions were effective from 10 March 2021. The more detailed disclosure requirements for periodic reports of ESG-focused products are expected to apply from 1 January 2023</p>

In this *iGAAP in Focus* we look at the EU Taxonomy Regulation in more detail, focusing on the disclosure requirements it introduces for companies within scope of the NFRD⁶ (and the CSRD once it is effective).

6. Large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year.

The EU Taxonomy Regulation

The Taxonomy Regulation and delegated acts

The EU Taxonomy Regulation⁷ was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. Developed after consultations with over 200 industry specialists and scientists, it aims to create a ‘green list’ – a classification system for environmentally sustainable economic activities. By creating common definitions for sustainable activities and investment practices and establishing the degree of “environmental sustainability” of an investment, the EU Taxonomy aims to:

- prevent greenwashing and enhance transparency for companies and investors
- enable investors to re-allocate investments towards more sustainable technologies and businesses and thereby be instrumental in making Europe climate-neutral by 2050

The EU Taxonomy Regulation is intended to play an essential role in the EU’s objective to enhance the quality and consistency of sustainability information. It establishes a framework to determine whether an economic activity qualifies as environmentally sustainable i.e. those activities which make a substantial contribution to one or more of the six prescribed environmental objectives ([see below](#)), that in addition, do no significant harm to any other of those environmental objectives and that comply with minimum social and governance safeguards.

The EU Taxonomy Regulation is supported by subsequently published delegated acts which establish the technical screening criteria (TSC) for determining the conditions under which a specific economic activity qualifies as contributing to each of the environmental objectives. The first delegated act concerning the technical screening criteria for economic activities with significant contribution to climate change mitigation and adaptation (the [Climate Delegated Act](#)) was adopted on 4 June 2021. A [complementary Climate Delegated Act](#) concerning certain nuclear and gas activities followed on 9 March 2022. A delegated act addressing the remaining four environmental objectives will follow.

A separate delegated act (the [Disclosures Delegated Act](#)) specifying the content and presentation of the information required by Article 8 of the EU Taxonomy Regulation and the methodology to comply with that disclosure obligation, was published on 6 July 2021. The EC has also published supporting FAQs ([see below](#)). The rest of this *iGAAP in Focus* is focused on the required disclosures.

Disclosures

Article 8 of the EU Taxonomy Regulation requires undertakings in scope of the NFRD⁸ (or the CSRD when it comes into effect) to disclose information on how and to what extent their activities are associated with environmentally sustainable economic activities (referred to as Taxonomy-aligned economic activities) according to technical screening criteria. Article 8 specifies defined KPIs for non-financial undertakings around turnover, capital expenditure and operating expenditure to indicate the proportion of their economic activities which are environmentally sustainable. Financial undertakings in scope need to disclose relevant ratios for their industry (see below).

Underpins other legislative initiatives

The EU Taxonomy also underpins other legislative measures:

- Under the SFDR, financial market participants need to report the extent to which their financial product aligns with the EU Taxonomy. This includes investment and mutual funds, insurance-based investment products, private and occupational pensions, individual portfolio management, and both insurance and investment advice. The Taxonomy Regulation amends the SFDR and supplements the rules for financial market participants on transparency in pre-contractual disclosures and in periodic reports.
- The EU Taxonomy must also be used as the basis of any labels for green corporate bonds or financial products that fall under scope of the SFDR. The EU proposal for an EU Green Bond Standard uses the Taxonomy as the benchmark for eligibility. Furthermore, the proposed EU Ecolabel for retail financial products includes Taxonomy defined thresholds for minimum investment in environmentally sustainable economic activities.

7. [Regulation \(EU\) 2020/852 of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment, and amending Regulation \(EU\) 2019/2088](#)

8. The scope of the undertakings that are required to publish non-financial information in accordance with the CSRD is much wider than that for the NFRD

Scope of the EU Taxonomy

The EU Taxonomy applies to the following, in different ways:

1. All companies currently subject to the Non-Financial Reporting Directive (NFRD)⁹ and those that will be in scope of the Corporate Sustainability Reporting Directive (CSRD) when it comes into effect. The scope of the CSRD (see [scope box above](#)) will include all large companies¹⁰ and all companies having securities traded on the EU regulated markets except listed micro entities;
2. Financial market participants offering financial products in the EU; and
3. Financial market participants or issuers in respect of financial products or corporate bonds that are made available as environmentally sustainable, as per measures adopted by EU and Member States.

This scoping includes companies not established in the EU that are listed on EU regulated markets and large EU subsidiaries of non-EU companies.

The regulation does not impose new requirements on small and medium-sized enterprises (SMEs), except SMEs that are listed on EU regulated markets. SMEs with transferrable securities listed on SME growth markets or multilateral trading facilities would not be included.

Observation: Impact on non-EU companies

Non-EU companies that have debt or equity securities traded on EU regulated markets may be required to report alignment with the EU Taxonomy now if the specific EU regulated market requires it. If not they will be brought into scope once the CSRD comes into effect.

Non-EU companies that are subsidiaries of EU companies, that are captured by the NFRD (or CSRD when it comes into effect), may also need to provide relevant information to EU parent companies to help the parent meet its reporting obligations according to Article 8 of the EU Taxonomy Regulation.

Non-EU companies offering financial products in the EU will need to provide certain disclosures as part of existing pre-contractual and periodic disclosure obligations, and subsequently on their websites, as part of the broader requirements arising from the EU Sustainable Finance Disclosure Regulation (SFDR). SFDR was updated by the EU Taxonomy Regulation to add new financial disclosure requirements for products based on the EU Taxonomy Regulation.

Article 8 disclosure requirements: companies within scope of NFRD

Disclosure requirements: Non-financial companies within scope of NFRD (and CSRD once in effect)

Disclosure of KPIs

Non-financial companies in scope of Article 8 of the Taxonomy Regulation must disclose three KPIs:

Proportion of activities that are deemed to be environmentally sustainable economic activities, as a percentage of:	turnover
	capital expenditure (CapEx)
	operating expenditure (OpEx)

Reporting these KPIs (along with the required contextual information) should result in insight into how an undertaking’s current and planned activities contribute to environmental goals, and how they are extending the scope of current taxonomy-aligned economic activities or aiming for taxonomy-alignment within a maximum period of five years. The disclosure required by Article 8 is not subject to a materiality assessment and should always be provided. However, there is a materiality exemption relating to OpEx for non-financial undertakings and Annex I to the Disclosures delegated act requires alternative disclosures.

In the first year the Taxonomy Regulation was effective (periods beginning on or after 1 January 2021), the proportion was based only on taxonomy-eligible activities and non-eligible activities. In subsequent years, it is also based on taxonomy-aligned activities. More information on how the KPIs are calculated is below, as are the [effective dates](#).

9. <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN>

10. Large companies exceed the limits of at least two of the three following criteria: balance sheet total: EUR 20m; net turnover: EUR 40m; average number of employees during the financial year: 250

Observation: Taxonomy-eligible vs Taxonomy-aligned

A 'Taxonomy-eligible economic activity' is an activity which *could* make a potential contribution to one or more of six environmental objectives in line with the EU Taxonomy's list of economic activities. Eligibility is not an indicator of environmental performance as an economic activity can be eligible irrespective of whether it meets any or all the technical screening criteria laid down in the delegated acts.,

A 'Taxonomy-aligned economic activity' is considered to be environmentally sustainable if it meets the relevant technical screening criteria included in the EU Taxonomy delegated acts, i.e if it substantially contributes to at least one of the six environmental objectives, does no significant harm to the other five, and complies with the minimum safeguards.

Each of the three KPIs must meet certain criteria and may be calculated in three steps.

Step 1 – Identify eligible activities

The first step is to identify the taxonomy-eligible economic activities of the undertaking (more information below).

The Climate Delegated Act details a range of economic activities which include the following industries: forestry; environmental protection and restoration activities; manufacturing; energy; water supply, sewerage, waste management and remediation; transport; construction and real estate activities; electricity, steam and air conditioning; information and communication technologies; and professional, scientific and technical activities.

It should be noted that the Annex II to the Climate Delegated Act regarding climate change adaptation includes additional economic activities such as financial and insurance, education, human health and social work, residential care and arts, entertainment and recreation activities.

Observation: Coverage of sectors and activities

The Climate Delegated Act does not include criteria for all sectors where activities could contribute significantly to climate change mitigation or adaptation. The EU Taxonomy is being developed over time and further delegated acts, or revisions of existing ones, may include additional economic activities or sectors. Criteria for the agricultural sector, for example, might be included in the next delegated act given ongoing inter-institutional negotiations on the Common Agricultural Policy. In the meantime companies with economic activities in sectors not covered in the Climate Delegated Act will be unable to report on alignment to the EU Taxonomy Regulation.

Economic activities that can make the most relevant contribution to climate change mitigation and adaptation have been prioritised, as opposed to considering how 'environmentally sustainable' they currently are. Priorities include sectors that significantly contribute to CO2 emissions, as well as activities that enable their transformation: this reflects the important role that transforming sectors such as energy and manufacturing play in reaching the EU's climate objectives.

Observation: Nuclear and natural gas activities

EU member states sparked debate over the exclusion of nuclear and natural gas from the EU Taxonomy's list of economic activities. It is considered by some that such activities accelerate the move away from more harmful energy sources, e.g. coal and facilitate the transition towards low carbon, renewable energy. A complementary Climate Delegated Act, incorporating certain nuclear and natural gas activities into the list of economic activities falling under the EU Taxonomy, was published in July 2022 and will apply from 1 January 2023.

Observation: value chain considerations

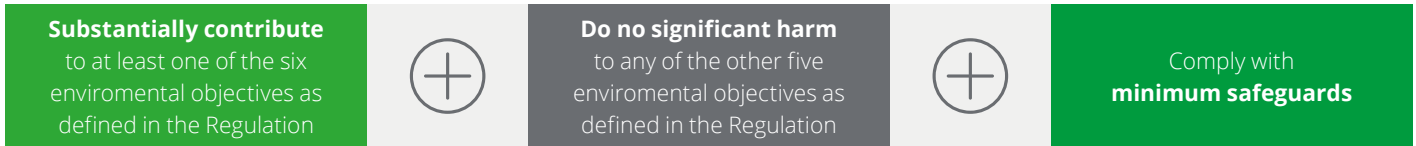
The EC has confirmed in its [FAQs](#) (FAQ 8) that generally, reporting on Taxonomy eligible activities does not entail an assessment of an undertaking's value chain as in most cases the descriptions of the activities in the Climate Delegated Act do not contain value-chain references. Likewise, companies are not expected to assess the sustainability of their suppliers in particular in the phase of eligibility reporting. There is further detail in the FAQ.

Step 2 – Review of alignment with technical criteria

The second step is to identify whether the eligible activities (from step 1) are taxonomy-aligned.

Technical screening criteria for each activity, which are both qualitative and quantitative, are defined in the EU Taxonomy delegated acts. The criteria must be met to determine if an activity is considered sustainable under the Regulation.

There are three technical criteria which the eligible activities must align with.



Substantially contribute
to at least one of the six environmental objectives as defined in the Regulation




1. *The eligible activities must make a substantial contribution to one or more of six stipulated environmental objectives:*

- a. **Climate change mitigation**
- b. **Climate change adaptation**
- c. **Protection of water and marine resources**
- d. **Transition to a circular economy**
- e. **Pollution prevention and control**
- f. **Protection and restoration of biodiversity and ecosystems**

Disclosures required to be reported from 1 January 2022 relate to the first two climate-related environmental objectives which are defined in the Taxonomy Regulation as:

- **Climate change mitigation:** Process of maintaining the increase in the global average temperature at well below 2°C and pursuing efforts to limit it to 1.5°C above pre-industrial levels, as laid out in the Paris Agreement
- **Climate change adaptation:** Process of adjusting to actual and expected climate change and its impacts

Activities may be aligned if they make a substantial contribution to one or more of the six environmental objectives. For climate change mitigation this could include:

- **Low-carbon activities** – compatible with a carbon neutral economy by 2050
- **Transitional activities** – contributing to a carbon neutral economy but are not yet carbon neutral
- **Enabling activities** – directly enabling other activities to make a substantial contribution, for example enabling reduction of CO2 emissions

For climate change adaptation this could include:

- **Adaptation activities** – measures to adapt to climate change after performing a climate risk vulnerability assessment to identify material issues
- **Enabling activities** – activities that directly enable other activities to adapt by providing solutions that prevent and/or limit the negative impact of climate change

For activities that are not eligible but are considered to contribute substantially to one of the climate objectives, it is possible to request the European [Platform on Sustainable Finance](#), which advises the EC on the TSC for the EU taxonomy, to review their potential inclusion in future versions of the delegated acts.

The EC has also published the [EU Taxonomy Compass](#) to facilitate the review of eligibility of activities and the screening of corresponding criteria.



Do no significant harm
to any of the other five environmental objectives as defined in the Regulation



Comply with **minimum safeguards**

2. *The activities identified by the undertaking must also do no significant harm to any of the remaining five environmental objectives in the EU Taxonomy Regulation.*

The do no significant harm (DNSH) criteria included in the EU Taxonomy Regulation and specified in the delegated acts set out the rules for determining whether an activity does significant harm to any of the EU's six environmental objectives. These criteria can be specific to an environmental objective or include generic requirements such as for example a climate risks and vulnerability assessment or an environmental impact assessment.

3. *Activities identified by the undertaking must comply with minimum safeguards as defined by the EU.*

Activities should be carried out in accordance with minimum human and labour safeguards, including 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.

The EU Platform on Sustainable Finance finalised its [report](#) advising on the application of minimum safeguards in relation to the Taxonomy Regulation, in October 2022. The report is designed to help companies and investors to navigate the requirements in practice.

Through analysis of the standards referred to above (e.g. OECD Guidelines, UN Guiding Principles), the report identifies four core topics for which compliance with minimum safeguards should be defined. These are:

- **Human rights, including workers' rights**
- **Bribery/corruption**
- **Taxation**
- **Fair competition**

The report also recommends that the following should be considered:

1. inadequate or non-existent corporate due diligence processes on human rights, including labour rights, bribery, taxation, and fair competition as a sign of non-compliance with Minimum Safeguards ("MS").
2. final liability of companies in respect for breaches of any of these topics as a sign of non-compliance with MS.
3. the lack of collaboration with a National Contact Point – "NCP" (agencies established by OECD countries to support the implementation of the OECD guidelines), and an assessment of non-compliance with OECD guidelines by an OECD NCP as a sign of non-compliance.
4. non-response to allegations by the Business and Human Rights Resource Centre as a sign of non-compliance.

Step 3 – Calculate the degree of taxonomy alignment - KPIs

The three KPIs to be disclosed for non-financial undertakings are:

- 1. Turnover** - the proportion of net turnover derived from products or services that are taxonomy-aligned (“Net turnover” is prescribed in Article 2(5) of the Accounting Directive; companies applying IFRS Standards should present “revenue” according to IAS 1 paragraph 82(a)).
- 2. Capital expenditure** - the proportion of total capital expenditure (both tangible and intangible assets) incurred on an economic activity that is either already taxonomy-aligned or part of a credible plan to extend or reach taxonomy-alignment. CapEx relating to the purchase of output from taxonomy-aligned activities and certain individual measures such as energy efficiency equipment and charging stations for electric vehicles are also included provided such measures are implemented and operational within 18 months.
- 3. Operating expenditure** – the proportion of operating expenditure associated with taxonomy-aligned activities or as part of a plan (direct costs relating to research and development, building renovation, short-term leases, and maintenance and repair). OpEx relating to the purchase of output from taxonomy-aligned activities and certain individual measures leading to greenhouse gas reductions are also included provided such measures are implemented and operational within 18 months. The capital and operating expenditure plan should be approved by the administrative body or another appropriate corporate function.

The [Disclosures Delegated Act](#) specifies the disclosure obligations under Article 8 of the EU Taxonomy Regulation. Annex I to that Act provides non-financial companies with the content of the KPIs to be disclosed, narrative information to accompany the KPIs and the methodology for reporting the KPIs.

Non-financial undertakings should:

- identify each economic activity, including a subset of transitional and enabling economic activities;
- disclose the KPIs for each economic activity and the total KPIs for all economic activities at the level of the relevant undertaking or group;
- disclose the KPIs for each environmental objective and the total KPIs for all environmental objectives at the level of the undertaking or group across all environmental objectives, avoiding double counting;
- identify:
 - the proportion of Taxonomy-aligned economic activities; and
 - the proportion of Taxonomy-eligible economic activities that do not meet technical screening criteria.
 - Within a Taxonomy-eligible economic activity, identify the proportion of that activity that is Taxonomy-aligned;
- identify Taxonomy-non-eligible economic activities and disclose the proportion in the denominator of the turnover KPI of those economic activities at the level of the undertaking or group; and
- provide the KPIs at the level of the individual undertaking where that undertaking prepares only individual non-financial statements or at the level of the group where the undertaking prepares consolidated non-financial statements.

The KPIs must be presented in tabular form using templates from Annex II and provide a breakdown of the KPIs based on the economic activity pursued, including transitional and enabling activities, and the environmental objective reached. Annex I provides guidance for non-financial undertakings that apply national GAAP instead of IFRS.

As an example, the template to be used for disclosing the proportion of turnover from products or services associated with Taxonomy-aligned economic activities is as follows¹¹:

11. See Annex II to the Disclosures Delegated Act for more detail on how to complete the template.

			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')											
Economic activities	Code(s)	Absolute turnover	Proposition of turnover	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystem	Climate change mitigation	Climate change adaptation	Water and marine resources	Circular economy	Pollution	Biodiversity and ecosystem	Minimum safeguards	Taxonomy-aligned proportion of turnover year N	Taxonomy-aligned proportion of turnover year N - 1	Category (enabling activity or)	Category ('transitional activity)
																	Percent	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES			%																	
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Activity 1				%	%	%	%	%		Y	Y		Y	Y	Y	Y	%		E	
Activity 2			%	%	%	%	%	%		Y	Y		Y	Y	Y	Y	%			
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)				%	%	%	%	%									%			
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Activity 1			%																	
Activity 3			%																	
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)				%																
Total (A.1 +A.2)				%																
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities (B)				%																
Total (A+B)				%																

Observation: Definitions

The delegated acts use specific definitions for otherwise commonly used terms, such as economic activity, turnover, capital expenditure and operating expenditure. Companies should take care when applying these definitions in the calculations of the KPIs as it is not always possible to read across to a line in the financial statements. For example, the definition of operating expenditure within the meaning of the Taxonomy is much narrower than what is treated as an operating expense in IFRS Accounting Standards and essentially covers non-capitalised costs relating to maintenance and servicing of property, plant and equipment and excludes depreciation, amortisation and production related expenses. Only leases that lead to a recognition of a right-of-use asset under IFRS 16 should be included in capital expenditure calculations.

Observation: identifying economic activities

In order to be able to disclose the three KPIs, identification of eligible and aligned economic activities needs to be approached from not only the perspective of the reporting entity, but also in relation to the purchases and investments made by the entity. The latter entails considering the eligibility and alignment of the activities of another entity, the supplier of the products and services to the reporting entity. This can, for example, result in entities reporting aligned OpEx or CapEx without any aligned turnover.

Additional contextual information

In addition to the KPIs, Annex I to the Disclosures Delegated Act sets out the detailed contextual information that is required, including:

- Accounting policy explaining the calculation of “environmentally sustainable” turnover, operating expenditure and capital expenditure, including the allocation to the numerator of the KPI.
- An assessment of compliance with the EU Taxonomy Regulation, including a description of the nature of their taxonomy-aligned and taxonomy-eligible activities, how they avoided double counting in the allocation in the numerator of turnover, CapEx and OpEx KPIs across economic activities, how they accounted for economic activities contributing to multiple objectives and the basis of any disaggregation of the KPIs.
- Contextual information about the three KPIs such as:
 - the methodology used to calculate the KPIs;
 - an explanation of the figures for each KPI and reasons for any change in those figures in the reporting period;
 - the nature of the economic activities; and
 - the plan on which the KPIs are based.

Note that companies are not required to disclose technical screening criteria assessments for economic activities that are not taxonomy-aligned, but they may wish to do so to help investors understand how they plan to reach taxonomy-alignment over time.

Disclosure requirements: financial companies within scope of NFRD (and CSRD once in effect)

Disclosure requirements for financial companies vary by type of undertaking (banks, investment firms, asset managers, insurers/reinsurers) and activity (lending, investment and insurance). Many of the metrics reported rely on KPIs that the underlying investee companies have reported. The KPIs required to be disclosed by financial companies within the scope of the NFRD (and CSRD once in effect) relate to the proportion of taxonomy-aligned economic activities in their financial activities and are specified in the Disclosures Delegated Act as follows:

- **Credit institutions (banks)** – Annexes V and VI - Green Asset Ratio (GAR)

The main KPI for credit institutions is the Green Asset Ratio (GAR) which is defined as the proportion of the credit institution's assets invested in taxonomy-aligned activities as a share of total covered assets (on-balance sheet exposures according to the prudential scope of consolidation of the types of assets).

A breakdown for the environmental objectives pursued by environmentally sustainable assets, the type of counterparty and the subset of transitional and enabling activities should also be provided. Institutions must also report KPIs for off-balance sheet assets and, subject to a phase-in period, a KPI for commission and fees related to other non-financing activities and, where relevant, a KPI for their trading book.

- **Investment firms** – Annexes VII and VIII

Firms need to disclose a KPI in relation to green activities for core investment services and activities dealing on own account (GAR) and a KPI for those services and activities not dealing on own account. Investment firms will need to rely on the underlying investee companies' KPIs to compute the GAR for investment firms' services and activities dealing on own account.

- **Asset managers** – Green Investment Ratio (GIR) – Annexes III and IV

GIR is defined as the proportion of taxonomy-aligned investments managed by an asset manager in the value of all covered assets under management from both collective and individual portfolio management activities. Asset managers need to rely on the underlying investees' KPIs to compute their own GIR. Asset managers shall in addition provide a breakdown for each environmental objective and, for aggregated environmentally sustainable economic activities, a subset of transitional and enabling economic activities and the type of investments.

- **Insurers and reinsurers** – Annexes IX and X

Insurers and reinsurers need to disclose KPIs related to investment and underwriting activities which finance green activities. The investment KPI relates to the investment policy of insurers and reinsurance undertakings for the funds resulting from their underwriting activities. The underwriting KPI relates directly to their underwriting activities.

Note that derivatives are excluded from the numerator of KPIs of financial companies in view of their primary use in mitigating counterparty risk rather than to finance an asset or an economic activity. Derivative exposures are, however, included in the denominator of the green ratios of financial institutions as they should cover the total assets of financial institutions.

In the first and second years the Taxonomy Regulation is effective (periods beginning on or after 1 January 2021 and 2022), only certain disclosures are required to be made by financial undertakings, as specified in Article 10(2) of the Disclosures Delegated Act. More information on the effective dates is below.

The Disclosures Delegated Act sets out the detailed rules for complying with the Article 8 disclosure obligations, with the content, methodology and presentation of the KPIs being set out in a number of Annexes.

Information about the calculations should be disclosed, in accordance with the Disclosures Delegated Act.

Additional contextual information

In addition to the KPIs, Annex XI to the Disclosures Delegated Act sets out the detailed contextual information that is required for financial institutions, including:

- Contextual information about the KPIs (e.g. scope of assets and activities and data sources)
- Explanations of the nature and objectives of Taxonomy-aligned economic activities and the evolution of these activities over time
- Description of compliance with the EU Taxonomy Regulation

Location of disclosures: all companies within scope of NFRD (and CSRD once in effect)

Companies should make the disclosure in a non-financial statement within the annual report or separate report, depending on jurisdiction. Once the CSRD is in effect, the taxonomy disclosures will be included in the company's sustainability reporting which will be a dedicated section in the management report. [Annexes to the Disclosures Delegated Act](#) provide reporting templates that are mandatory to use.

Effective dates: companies within scope of NFRD (and CSRD once in effect)

There is a phased application of the Disclosures Delegated Act, with initial disclosures being required in reporting published from 1 January 2022 based upon activities in 2021. The initial requirements set out below are for disclosure of the first two climate-related environmental objectives only (climate change mitigation and climate change adaptation). Reporting against the remaining objectives will be introduced a year after the delegated regulations containing the technical screening criteria for those objectives have been adopted.¹²

12. [Article 8\(5\) of the Disclosures Delegated Act](#)

Reports published in	Reporting period beginning on or after 1 January -	Requirements
1 January 2022	2021	<p><i>Non-financial undertakings</i> disclose qualitative information and proportion of taxonomy-eligible and taxonomy non-eligible economic activities¹³ (of their total turnover, capital expenditure and operating expenditure) in relation to total activities for the first two environmental objectives: climate change mitigation and climate change adaptation. Note that the taxonomy-alignment of these activities is not required in this year.</p> <p><i>Financial undertakings</i> disclose only certain disclosures as specified in paragraph 2 of Article 10 of the Disclosures Delegated Act.</p>
1 January 2023	2022	<p><i>Non-financial undertakings</i>: Disclosures Delegated Act applies in full for the first two environmental objectives¹⁴. Required to disclose qualitative information and proportion of both taxonomy-aligned and taxonomy-eligible economic activities (in their total turnover, capital expenditure and operating expenditure) in relation to total activities and in the tabular format prescribed in that Act.</p> <p><i>Financial undertakings</i>: disclosures are consistent with the previous period (see above).</p>
1 January 2024 ¹⁵	2023	<p><i>Financial undertakings</i>: Disclosures Delegated Act applies in full [with the understanding that certain exposures and investments of financial institutions, including in sovereign debt and in non-NFRD undertakings, may not have been fully reflected in their KPIs].</p>
1 January 2026	2025	Disclosures Delegated Act applicable for KPIs of credit institutions for the trading book and non-banking services.

Observation: Historical comparative disclosure

Both financial undertakings and non-financial undertakings must include comparative KPIs, but this is not required for the 2021 and 2022 reporting periods. Companies will first need to disclose comparatives in the 2023 reporting period, providing comparatives in relation to 2022 information (for non-financial undertakings).

Observation: Data collection challenges

Collating the data will require significant time and resources for some companies. Companies will need to plan processes and systems to gather the data required to meet the criteria and definitions as set out by the EU Taxonomy. Controls will need to be implemented to ensure accuracy, completeness and traceability of the data.

Companies may require specialist knowledge and expertise to understand the information required to be reported. Depending on the activity in question, the evaluation of eligibility and alignment may involve complex considerations and need involvement from experts from multiple areas from within the company (financial reporting, sustainability team, technical subject matter experts etc.) or input from external experts.

13. A 'Taxonomy-eligible economic activity' is an activity which could make a potential contribution to one or more of six environmental objectives in line with the EU Taxonomy's list of economic activities

14. Reporting against the remaining 4 objectives will be introduced 12 months after the delegated regulations containing the technical screening criteria for those objectives have been adopted. Currently it is not clear when this will be.

15. The CSRD legislation becomes effective in stages, with earliest application for financial years starting on or after 1 January 2024

Observation: Guidance on initial reporting requirements

The EC has published various FAQ documents on the Disclosures Delegated Act:

- [What is the EU Taxonomy Article 8 delegated act and how will it work in practice?](#)
- A [second set of FAQs](#) was published in December 2021 (and updated in January 2022) to help companies report Taxonomy-eligible economic activities and apply the requirements of the Disclosures Delegated Act. This includes, for example, the phased timeline for application of the Disclosures Delegated Act, clarification of definitions, and the reporting of mixed groups (both financial and non-financial undertakings).
- A further [FAQs document](#) was published in February 2022 (and later in October 2022 published in the Official Journal) aiming to clarify the content of the Disclosures Delegated Act to aid its implementation. The FAQs cover non-financial undertakings; financial undertakings; asset managers; insurers; credit institutions; debt market; general queries; and queries on how the Act interacts with other regulations.

In addition:

- the Platform on Sustainable Finance has published an [Appendix](#) to support entities disclosing voluntary information as part of their Taxonomy-eligibility reporting and help them prepare for the transition to mandatory Taxonomy-alignment reporting.
- The European Commission has issued additional FAQs:
 - [What is the EU Taxonomy and how will it work in practice?](#)
 - [Taxonomy Climate Delegated Act and Amendments to Delegated Acts on fiduciary duties, investment and insurance advice](#)
- ESMA identifies the disclosures required by Article 8 of the Taxonomy as an area of focus for the 2022 annual financial reports of listed companies in its [Statement of Common Enforcement Priorities](#), and discusses the requirements in the EU Taxonomy Regulation that ESMA is focusing on.

Assurance

The EU Taxonomy Regulation itself does not mention formal verification of disclosures. However, some EU member states already require assurance of non-financial information. Once an entity is in scope of the CSRD, their sustainability reporting will be subject to mandatory limited assurance of sustainability reporting. This reporting includes:

- the indicators to be reported in the management report under the EU Taxonomy Regulation (i.e. “green” turnover, capital expenditure and operating expenditure for corporates). This is confirmed in new (aa) of Article 34 (1) of the Accounting Directive.
- the process carried out by the undertaking to identify the information to be reported. This is to help ensure that reported information is accurate and reliable.

The EC will consider at a later stage whether to move towards a reasonable assurance requirement.

Note that there are existing due diligence obligations for pre-contractual and periodic reporting by financial market participants, and auditors are required to read the other information contained in the annual report for consistency with the financial statements and knowledge obtained in the audit.

Further information

If you have any questions about the contents of this publication, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

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