iGAAP in Focus
EU Taxonomy—corporate reporting requirements

Contents

- 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 Regulation 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 in the EU Taxonomy Regulation
- The EU Taxonomy Regulation also sets mandatory requirements on disclosure for those in scope of the Non-Financial Reporting Directive (NFRD)[1] (and the Corporate Sustainability Reporting Directive (CSRD)[2] once it comes into effect). Non-EU entities that have debt or equity securities traded on EU regulated markets may currently be in scope as a result of the rules of the specific EU regulated market. Once the CSRD comes into effect all such entities will be in scope
- The EU Taxonomy Regulation amends the disclosures financial market participants (such as asset managers, pension funds and insurance entities) are required to make under the EU Sustainable Finance Disclosure Regulation (SFDR). This will impact certain non-EU entities, 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 entities 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 entities[3] 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 entities in scope of the NFRD (and the CSRD when it comes into effect) must disclose, in particular in their non-financial statement[4], 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, 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 entities
- The timetable to report the required disclosures is challenging as there is a continued need to clarify definitions and the specific requirements to ensure consistent application of the rules. Entities need to ensure there are appropriate processes, systems, controls and expertise in place to gather the data required to meet the EU Taxonomy Regulation reporting requirements
- The European Securities and Markets Authority (ESMA) identified the disclosures required by Article 8 of the Taxonomy as an area of focus for the 2023 annual financial reports of listed entities and reminds entities that it is mandatory to use the latest reporting templates set out in the Article 8 Delegated Act without any adaptation or amendments.

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.

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). Entities[5] will have to report using European Sustainability Reporting Standards (ESRS). The scope of the CSRD is wider than the NFRD
- The EU Taxonomy Regulation (and supporting delegated acts) which sets out a system for classifying economic activities contributing to environmental objectives and requires an entity in scope to include information in its non-financial information statement (as part of the sustainability reporting in a dedicated section of the management report once the CSRD is in effect) on how and to what extent the entity's activities are associated with environmentally sustainable economic activities
- 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 publications:

iGAAP in Focus—European sustainability reporting—Worldwide reach of the Corporate Sustainability Reporting Directive

iGAAP in Focus—European sustainability reporting: European Sustainability Reporting Standards finalised

In this *iGAAP in Focus* we look at the EU Taxonomy Regulation in more detail, focusing on the disclosure requirements it introduces for entities within scope of the NFRD[6] (and the CSRD once it is effective).

3. As defined in Article 1(8) of the Disclosures Delegated Act
4. 'Non-financial statement' is a term used in the NFRD. Under the CSRD, the information is required to be provided as part of an entity's sustainability reporting
5. The EU taxonomy uses the term 'undertaking'. The term 'undertaking' has been replaced with 'entity' in this newsletter
6. Large public interest entities with more than 500 employees are in scope of the NFRD. Large entities 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. In its 2024 Work Programme, the EC proposes to increase the thresholds for balance sheet total to EUR 25m and net turnover to EUR 50m

The EU Taxonomy Regulation

The EU Taxonomy Regulation and delegated acts

The EU Taxonomy Regulation 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 Regulation aims to:

- Prevent greenwashing and enhance transparency for entities and investors
- Enable investors to reallocate 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 **Article 8 disclosure requirements** 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 amending the Climate Delegated Act (covering the environmental objectives of climate change mitigation and adaptation) and an Environmental Delegated Act addressing the remaining four environmental objectives (i.e. protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems) were published in the EU Official Journal on 21 November 2023.

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 and was amended on 27 June 2023. The EC has also published supporting FAQs (see **Observation: Guidance on initial reporting requirements** below). The rest of this *iGAAP in Focus* is focused on the required disclosures.

Disclosures

Article 8 of the EU Taxonomy Regulation requires entities in scope of the NFRD (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). Article 8 specifies defined KPIs for non-financial entities around turnover, capital expenditure (CapEx) and operating expenditure (OpEx) to indicate the proportion of their economic activities which are environmentally sustainable. Financial entities in scope need to disclose relevant ratios for their industry (see **Disclosure requirements: financial entities within scope of NFRD (and CSRD once in effect)** below).

Underpins other legislative initiatives

The EU Taxonomy Regulation 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, and individual portfolio management. The EU 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 can also be used as the basis of labels for green corporate bonds or financial products that fall under scope of the SFDR. The EU Green Bond Standard uses the Taxonomy as the benchmark for eligibility. Furthermore, the EU Ecolabel for retail financial products includes taxonomy-defined thresholds for minimum investment in environmentally sustainable economic activities

Scope of the EU Taxonomy Regulation

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

1. All entities currently subject to the NFRD and those that will be in scope of the CSRD when it comes into effect. The scope of the CSRD will include all large entities and all entities having debt or equity securities traded on EU regulated markets except micro entities
2. Financial market participants offering ESG financial products in the EU
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 the EU and Member States

This scope includes entities not established in the EU that have debt or equity securities traded on EU regulated markets and large EU subsidiaries of non-EU entities.

The EU Taxonomy Regulation does not impose new requirements on small and medium-sized enterprises (SMEs), except SMEs that have debt or equity securities traded on EU regulated markets. SMEs with transferrable securities admitted to trading on SME growth markets or multilateral trading facilities would not be included.

Observation: Impact on non-EU entities

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

Non-EU entities 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 the SFDR. The 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

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

Disclosure of KPIs

Non-financial entities 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
	CapEx
	OpEx

Reporting these KPIs (along with the required contextual information) is meant to provide insight into how an entity's current and planned activities contribute to environmental goals. 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 entities and Annex I to the Disclosures delegated act requires alternative disclosures.

Observation: Taxonomy-eligible vs taxonomy-aligned
A 'taxonomy-eligible economic activity' is an activity that *could* make a potential contribution to one or more of six environmental objectives in line with the EU Taxonomy Regulation'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 EU Taxonomy Regulation delegated acts.

A 'taxonomy-aligned economic activity' is considered to be environmentally sustainable if it meets the relevant technical screening criteria (i.e. 'substantially contribute' and 'do no significant harm') included in the EU Taxonomy Regulation delegated acts 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 entity (more information below).

The Climate Delegated Act and the Environmental Delegated Act detail 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 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, and 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, entities with economic activities in sectors not covered in the Climate Delegated Act or Environmental Delegated Act will be unable to report on alignment to the EU Taxonomy Regulation.

Observation: Nuclear and natural gas activities
EU member states sparked debate over the exclusion of nuclear and natural gas from the EU Taxonomy Regulation's original 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 Regulation, was published in July 2022 and applies 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 entity's value chain as in most cases the descriptions of the activities in the Climate Delegated Act do not contain value-chain references. Likewise, entities 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.

Qualitative and quantitative technical screening criteria for each activity are defined in the EU Taxonomy Regulation delegated acts. The criteria must be met to consider an activity as sustainable under the EU Taxonomy Regulation.

Eligible activities must meet three conditions:

Substantially contribute to at least one of the six environmental objectives	+	**Do no significant harm** to any of the other five environmental objectives	+	Comply with **minimum safeguards**

Substantially contribute to at least one of the six enviromental objectives

1. The eligible activities must make a substantial contribution to one or more of six stipulated environmental objectives defined in the EU Taxonomy Regulation:

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

To support implementation of the requirements, the EC has created the EU Taxonomy Navigator which includes the following:

- The EU Taxonomy Compass—a visual representation of sectors, activities and criteria included in the EU Taxonomy Regulation
- The EU Taxonomy Calculator—a step-by-step guide on reporting obligations
- The FAQs repository—an overview of questions and answers on the EU Taxonomy Regulation and its delegated acts
- The EU Taxonomy User Guide—a simple guide on the Taxonomy for non-experts

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

2. The activities identified by the entity 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.

Comply with **minimum safeguards**

3. Activities identified by the entity 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.

A report by the EU Platform on Sustainable Finance finalised its advises on the application of minimum safeguards in relation to the EU Taxonomy Regulation. The report is designed to help entities 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:

- 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")
- Final liability of entities in respect for breaches of any of these topics as a sign of non-compliance with MS
- 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
- 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 entities are:

1. **Turnover—**the proportion of net turnover derived from products or services that are taxonomy-aligned ("net turnover" is defined in Article 2(5) of the Accounting Directive; entities applying IFRS Accounting Standards should use "revenue" determined in accordance with IAS 1:82(a))
2. **CapEx—**the proportion of total CapEx (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 within a period of five years (that can be extended in specific circumstances to ten years). 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. The CapEx plan should be approved by the administrative body or another appropriate corporate function
3. **OpEx—**the proportion of OpEx associated with taxonomy-aligned activities or as part of the CapEx 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 Disclosures Delegated Act specifies the disclosure obligations under Article 8 of the EU Taxonomy Regulation. Annex I to that Act provides non-financial entities with the content of the KPIs to be disclosed, narrative information to accompany the KPIs and the methodology for reporting the KPIs.

Non-financial entities 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 entity or group
- Disclose the KPIs for each environmental objective and the total KPIs for all environmental objectives at the level of the entity or group across all environmental objectives, avoiding double counting
- Identify:
  - The proportion of taxonomy-aligned economic activities
  - The proportion of taxonomy-eligible economic activities that do not meet technical screening criteria
  - The proportion within a taxonomy-eligible economic activity that is taxonomy-aligned
  - 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 entity or group
- Provide the KPIs at the level of the individual entity where that entity prepares only individual non-financial statements or at the level of the group where the entity 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.

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 follows[7]:

Financial Year N	Year			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activities	Code	Turnover	Proposition of turnover, Year N	Climate change mitigation	Climate change adaptation	Water	Pollution	Circular economy	Biodevirsity	Climate change mitigation	Climate change adaptation	Water	Pollution	Circular economy	Biodevirsity	Minimum safeguards	Proportion of taxonomy-aligned or eligible turnover Year N - 1	Category enabling activity	Category transitional activity
Text		Currency	%	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y; N; N/EL	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	%	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Enviromentally sustainable activities (taxonomy-aligned)																			
Activity 1			%							Y	Y	Y	Y	Y	Y	Y	%		
Activity 1(d)			%							Y	Y	Y	Y	Y	Y	Y	%	E	
Activity 2			%							Y	Y	Y	Y	Y	Y	Y	%		T
Turnover of environmentally sustainable activities (taxonomy-ligned) (A.1)			%	%	%	%	%	%	%	Y	Y	Y	Y	Y	Y	Y	%		
Of which enabling			%	%	%	%	%	%	%	Y	Y	Y	Y	Y	Y	Y	%	E	
Of which transitional			%	%						Y	Y	Y	Y	Y	Y	Y	%		T
A.2 Taxonomy-eligible but not enviromentally sustainable activities (not taxonomy-aligned activities)																			
				EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL	EL; N/EL										
Activity 1(e)			%	EL	EL			EL										%	
Turnover of taxonomy-eligible but not enviromentally sustainable activities (not taxonomy-aligned activities) (A.2)			%	%	%	%	%	%	%									%	
A. Turnover of taxonomy-eligible activities (A.1+A.2)			%	%	%	%	%	%	%										
B. TAXONOMY-NON-ELIGBLE ACTIVITIES																			
Turnover of Taxonomy-non-eligible activities			%																
Total			100%																

7. See Annex V to the Environmental Delegated Act for more detail on how to complete the template

Observation: Definitions
The delegated acts use specific definitions for otherwise commonly used terms, such as economic activity, turnover, CapEx and OpEx. Entities 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 OpEx within the meaning of the EU 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 for which a right-of-use asset is recognised under IFRS 16 *Leases* should be included in CapEx 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:

- An accounting policy explaining the calculation of "environmentally sustainable" turnover, OpEx and CapEx, 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 double counting has been avoided in the allocation in the numerator of turnover, CapEx and OpEx KPIs across economic activities, how economic activities that contribute to multiple objectives have been accounted for 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
  - The plan on which the KPIs are based

While entities are not required to disclose technical screening criteria assessments for economic activities that are not taxonomy-aligned, 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 the NFRD (and CSRD once in effect)

Disclosure requirements for financial entities vary by type of entity (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 entities have reported. The KPIs required to be disclosed by financial entities 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 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
  Investment firms need to disclose a KPI in relation to green activities for core investment services and activities dealing on own account (Green Asset Ratio—GAR) and a KPI for those services and activities not dealing on own account. Investment firms will need to rely on the underlying investee entities' 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. In addition, asset managers need to 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 entities for the funds resulting from their underwriting activities. The underwriting KPI relates directly to their underwriting activities.

Derivatives are excluded from the numerator of KPIs of financial entities 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.

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 entities within scope of the NFRD (and CSRD once in effect)

Entities 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 entity'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: entities within scope of NFRD (and CSRD once in effect)

Reports published in	Reporting period beginning on or after 1 January -	Requirements
1 January 2022[8]	2021	*Non-financial entities* disclose qualitative information and proportion of taxonomy-eligible and taxonomy non-eligible economic activities (of their total turnover, CapEx and OpEx) 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. *Financial entities* disclose only certain disclosures as specified in paragraph 2 of Article 10 of the Disclosures Delegated Act.
1 January 2023	2022	*Non-financial entities:* Disclosures Delegated Act applies in full for the first two environmental objectives. Required to disclose qualitative information and proportion of both taxonomy-aligned and taxonomy-eligible economic activities (in their total turnover, CapEx and OpEx) in relation to total activities and in the tabular format prescribed in that Act. *Financial entities:* The disclosure requirements are consistent with the previous period.
1 January 2024	2023	*Non-financial entities:* Disclosures Delegated Act applies in full for the first two environmental objectives. Required to disclose qualitative information and proportion of both taxonomy-aligned and taxonomy-eligible economic activities (in their total turnover, CapEx and OpEx) in relation to total activities and in the tabular format prescribed in that Act. With regard to the remaining four environmental objectives (i.e. protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems) and the new activities introduced by amendments to the Climate Delegated Act, disclosure of only the proportion of taxonomy-eligible and taxonomy non-eligible economic activities in total turnover, CapEx and OpEx and the qualitative information relevant for that disclosure. Note that information about taxonomy-alignment of these activities is not required. *Financial entities:* Disclosures Delegated Act applies in full for the first two environmental objectives [with the understanding that certain exposures and investments of financial institutions, including in sovereign debt and in non-NFRD entities, may not have been fully reflected in their KPIs]. With regard to the remaining four environmental objectives and the new activities introduced by amendments to the Climate Delegated Act, financial entities are only required to disclose the proportion in their covered assets of exposures to taxonomy non-eligible and taxonomy-eligible economic activities and the qualitative information relating to economic activities for that disclosure.
1 January 2025	2024	*Non-financial entities:* Disclosures Delegated Act applies in full, i.e. the first two climate objectives (including new activities introduced by amendments to the Climate Delegated Act) and the remaining four environmental objectives. Required to disclose qualitative information and proportion of both taxonomy-aligned and taxonomy-eligible economic activities (in their total turnover, CapEx and OpEx) in relation to total activities and in the tabular format prescribed in that Act. *Financial entities:* The disclosure requirements are consistent with the previous period.
1 January 2026	2025	*Non-financial entities:* The disclosure requirements are consistent with the previous period. *Financial entities:* Disclosures Delegated Act applies in full, i.e. the first two climate objectives (including new activities introduced by amendments to the Climate Delegated Act) and the remaining four environmental objectives. Disclosures Delegated Act applicable for KPIs of credit institutions for the trading book and non-banking services.

8. The Taxonomy Regulation and the Delegated Acts refer to publication dates, rather than reporting periods (i.e. for an entity which has the calendar year as the reporting period, the requirements would apply for FY21 reports, as the report for FY21 will be published on or after 1 January 2022).

Observation: Data collection challenges

Collating the data will require significant time and resources for some entities. Entities 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 Regulation. Controls will need to be implemented to ensure accuracy, completeness and traceability of the data.

Entities 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 entity (financial reporting, sustainability team, technical subject matter experts, etc.) or input from external experts.

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? (July 2021)
- FAQs published in December 2021 (and updated in January 2022) aim to help entities report taxonomy-eligible economic activities and apply the requirements of the Disclosures Delegated Act
- Two FAQs published in April 2021 discuss What is the EU Taxonomy and how will it work in practice? and Taxonomy Climate Delegated Act and Amendments to Delegated Acts on fiduciary duties, investment and insurance advice
- FAQs published in the Official Journal in October 2022 aim to clarify the content of the Disclosures Delegated Act to aid its implementation
- FAQs published in the Official Journal in October 2023 address issues related to the technical screening criteria of the two climate-related environmental objectives and issues related to taxonomy reporting

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
- ESMA identified the disclosures required by Article 8 of the Taxonomy as an area of focus for the 2023 annual financial reports of entities that have debt or equity securities traded on EU regulated markets in its Statement of Common Enforcement Priorities

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, CapEx and OpEx for corporates). This is confirmed in new sub-paragraph (aa) of Article 34 (1) of the Accounting Directive
- The process carried out by the entity 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*.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature. iGAAP on DART allows access to the full IFRS Standards, linking to and from:

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