



**PLATFORM ON
SUSTAINABLE FINANCE**

Platform Recommendations on Data and Usability

October 2022

Platform Usability Report

Platform recommendations on Data and Usability
as part of Taxonomy reporting

12 October 2022

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Executive Summary

The attached summary of recommendations has been prioritised high, medium, low based on the urgency with which they are addressed to support upcoming and implemented Sustainable Finance reporting obligations. These recommendations are not prioritised based on importance or impact. All recommendations should be considered valuable in the usability and application of the Taxonomy Regulation.

This report does not address the application of the EU Taxonomy to Small and Medium-sized Enterprises (SMEs) or the treatment of SMEs within financial institutions reporting obligations be it at entity-level or at financial product level. This is because the Platform is preparing a separate report on SMEs as part of its work on data and usability.

The considerations below are compiled under the aegis of the Platform on Sustainable Finance and cannot be construed as official guidance by the European Commission or by the European Supervisory Authorities (ESAs). As a result, the views and recommendations do not purport to represent or anticipate any future official guidance and views issued by the ESAs which may differ from the contents of this report.

Table 1: Summary List of Taxonomy Usability Recommendations

	High priority: a recommendation that requires attention from the European Commission or European Supervisory Authorities to support near-term Taxonomy implementation in the market
	Medium priority: a recommendation related to the development of the legislation, including considerations for the 2024 review period
	Lower priority: a recommendation that requires further analysis or work from the European Commission, ESAs, or Platform before implementing

Table 2: Summary of Platform Recommendations

Recommendations		Description	Priority
Non-Financial Undertakings Taxonomy Reporting (Article 8 Delegated Act)			
Item 1	Section 3.0	Further implementation guidelines for Taxonomy-alignment reporting are needed, in the shape of: - Supplementary FAQ for Article 8 reporting; and/or - Level 3 implementation guidelines by the ESAs.	High
Item 2	Sections 3.0.5 to 3.0.8	The Platform recommends the European Commission to update reporting Annexes to ensure consistency in reporting obligations amongst user groups.	High

Recommendations		Description	Priority
Item 3	Section 3.0	The Platform recommends the European Commission to set up an online channel that allows the industry to suggest revisions to the existing criteria in the EU Taxonomy on the basis of implementation or usability issues.	High
Item 4	Section 2.4	The Platform recommends the European Commission to: • Explicitly include Article 8 Taxonomy-regulation disclosures in the mandatory list of information to be submitted to the ESAP. • Ensure the EFRAG digitalisation project updates the CSRD requirement of ESEF format for Taxonomy-related information. • Confirm that ESMA will issue an ITS to address such developments. • Place particular care on the uploading module of Taxonomy data in the ESAP in order deliver consistent data and keep a historical trail of the different versions submitted to ESAP. • Give ESMA the necessary means to carry out data validation checks to ensure high quality reliable and usable information and the authority to reject data failing to comply with the minimum requirements. • Have Platform 2.0 follow up these developments with ESMA and EFRAG to ensure the desired level of granularity of Taxonomy reporting data is reached.	High
Financial Undertakings Taxonomy Reporting (Article 8 Delegated Act)			
Item 5	Section 3.0	Further implementation guidelines for Taxonomy-alignment reporting are needed, in the shape of: • Supplementary FAQ for Article 8 reporting; and/or • Level 3 implementation guidelines by the ESAs.	High
Item 6	Section 2.3	The Platform requests that the Article 8 Delegated Act Article 7(7) allows for the use of 'equivalent information' as defined in Articles 5 & 6 reporting by the ESAs. The Platform further reinforces its recommendation that where estimates are used, they comply with the precautionary principle.	High
Item 7	Section 3.0.5	Updates are needed to the reporting Annex II, to remove the requirement to report enabling/transitional activities by environmental objective for financial firms or to allow for breakout of eligibility, enabling and transitional by environmental objective by the non-financial reporting firm.	High
Item 8	Section 3.1	The Platform recommends the inclusion of all use-of-proceeds financial instruments (loans, bonds, issued by SMEs, large corporates and by SSAs) in all numerators and denominators throughout all legislative texts.	High

Recommendations		Description	Priority
Item 9	Section 3.0.8	The Platform recommends the European Commission and ESAs to clarify the context of disclosures in Annex VI using clear descriptions of the values required in each cell and how Annex VI relates to Annex XI. The Platform recommends that formulas linking all relevant parts of the Annex VI spreadsheet are added into Annex VI templates 3-5, in accordance with the first draft published in May 2021. This would enhance the usability of the Annex VI for credit institutions and ensure consistency and significantly reduce the risk for errors or misinterpretations in how the template is applied in the market. There's a note in Annex VI (Sheet 3-5) with reference to formulas, which are however not included in the final Annex VI spreadsheet.	High
Item 10	Section 3.0 and 5.1.1	The Platform recommends the European Commission to adopt a common approach to defining numerators and denominators across the Taxonomy reporting obligations. The Platform requests a clear and common list of assets to be excluded from the Green Asset Ratio (GAR) and Green Investment Ratio (GIR). Financial institutions ratios should follow the same approach when determining the denominator and numerator.	High
Financial Market Participants Taxonomy Reporting (Article 5 & 6)			
Item 11	Section 2.3	The Platform recommends that 'equivalent information' is clearly defined by the ESAs to ensure consistently high environmental standards are applied to companies not obliged to report under Article 8, as estimated by the Financial Market Participant (FMP).	High
Item 12	Section 2.6	The Platform further reinforces its recommendation that the precautionary principle should be applied where estimates and 'equivalent information' is used. For the purpose of Taxonomy-alignment estimations, the Platform would caution against the use of carbon estimates in determining substantial contribution (SC) by third parties.	High

Recommendations	Description	Priority
	Section 2.3 The Platform highlights usability issues with DNSH both for companies subject to NFRD/CSRD and the use of ‘equivalent information.’ The Platform asks for a review on the usability of DNSH criteria and supplementary guidance on their use internationally. • Ensure all testing criteria have clear Yes/No outcomes that can be objectively determined • Minimise subjective language in technical screening criteria • Ensure guidance is given on what a suitable Yes/No outcome is for process-based tests, in the form of supplementary guidance • Allow for international application of EU legislation referenced in the Climate Delegated Act • Maintain Environmental Integrity and Performance level of the tests	High
Item 13	Section 5.1 The Platform encourages the European Commission to: • eliminate justifications for the use of capital expenditure (Capex) or operating expenditure (Opex) by deleting Article 15 (3a); or • ask for an explanation of why the KPI was chosen by FMPs irrespective of the choice by replacing “in respect of investee companies that are non-financial undertakings, whether the degree to which the investments are in environmentally sustainable economic activities is measured by turnover, or whether, due to the features of the financial product, the financial market participant has decided that a more representative calculation is given when that degree is measured by capital expenditure or operating expenditure and the reason for that decision, including an explanation of why that decision is appropriate for investors in the financial product” to “in respect of investee companies that are non-financial undertakings, whether the degree to which the investments are in environmentally sustainable economic activities is measured by turnover, capital expenditure or operating expenditure and the reason for that decision, including an explanation of why that decision is appropriate for investors in the financial product”.	High
Item 14	Section 5.1 The Platform recommends the European Commission to eliminate the requirement for FMPs to calculate Taxonomy-alignment of their portfolios using Opex, given that the information will not be readily available and add little value to end-investors.	High

Recommendations		Description	Priority
Climate Delegated Acts			
Item 15	Section 3.0.1	The Platform recommends the European Commission to apply clear and consistent numbering and naming conventions to economic activities across the Delegated Acts.	High
Item 16	Section 3.0.2	The Platform recommends the European Commission to continue providing at least 12-month implementation timelines from setting any new technical screening criteria (TSC) until their effective date in reporting.	High
Item 17	Section 3.0.1	The Platform requests the European Commission to: • Eliminate use of imprecise criteria, that could be subjectively applied. Where subjective language is used, clear guidance on how to interpret SC or harm should be provided; • Provide alternative mapping tables for EU legislation referenced within the technical screening criteria; • Create a clear and consistent understanding of value chain use cases; • Create further technical guidance on meeting the TSC criteria within the Delegated Acts, particularly with regard to the broader testing criteria under Mitigation; and • Create better alignment between the technical guidance on adaptation for enabling activities.	High
Item 18	Section 3.1.5.6	The Platform recommends the European Commission to consider providing detailed guidance on how emerging technologies and venture capital (VC) can consider alignment with the Climate Delegated Act, notably under: • 3.1. Manufacture of renewable energy technologies • 3.3. Manufacture of low carbon technologies for transport • 3.5. Manufacture of energy efficiency equipment for buildings • 3.6. Manufacture of other low carbon technologies • 8.2. Data-driven solutions for greenhouse gas (GHG) emissions reductions • 9. Professional, scientific, and technical activities • 9.1. Close to market research, development, and innovation	High

Recommendations		Description	Priority
Credit Institutions			
Item 19	Section 3.1.5.2	The Platform recommends to the European Commission that further in-depth analysis of the Trading Book KPI is conducted in conjunction with the review of derivatives regarding Taxonomy reporting and related financial undertakings KPIs. The aim will be to determine whether a KPI can be meaningful in reflecting the contribution of credit institutions through their Trading Book. The Platform recommends that this review is conducted ahead of the 2024 review period. Such a review could be commissioned to an ad hoc expert group overseen by the Platform 2.0.	Medium
Item 20	Section 3.1.5.1	The Platform recommends the European Commission to welcome the inclusion of Fees and Commissions that encourage the credit institution to offer Taxonomy-aligned products and services to its clients. Where such Fees and Commissions are generated from activities that have the capacity to influence capital flows towards sustainable outcomes, they should be included in both numerator and denominator. In order to allow comparison between banks, the Platform recommends that the denominator reflects only those Fees and Commissions considered eligible for Taxonomy reporting (and not all fees and commissions, as currently written.)	Medium
Item 21	Section 3.1.5.3	The Platform requests the European Commission to: • Review and strengthen the EPC framework and NZEBs so that it is equally and timely applied across Europe. • Allow investors, lenders, and certifying bodies to have direct access to the EPC and NZEB databases. Develop an EU-wide framework of unique identifiers, e.g., based on geo coordinates, such that lenders are in a position to conduct automated checks to identify when EPC or updated EPC are available. • Work with the IPFS members to create a list of “EPCs and NZEBs” international equivalences by mapping the quality and the level of implementation of energy efficiency and green buildings labelling schemes outside of Europe. • For a transitional period, while the EPC framework is being strengthened, allow banks and mortgage lenders to use existing green building certification systems as proxies.	Medium
Item 22	Section 3.1.5.4	The Platform requests to the European Commission to include the numerator and denominator using an approved estimation methodology for DNSH until the information is made available to credit institutions for mortgages, other building renovation loans and car loans.	Low

Recommendations		Description	Priority
Public Sector Financing			
Item 23	Section 3.1.1	The Platform encourages the consideration of the Taxonomy Regulation in a consistent fashion in the context of the development of new public policies in support of sustainable finance, when developing standards for environmentally sustainable financial products and instruments. The Platform recommends the development of a framework, including a set of principles for the use of the Taxonomy in public spending, when it is intended to protect the environment, that determine for which types of expenditures these investments may deviate from it, why and how. It also encourages the European Commission and member-states to explore the use of the Taxonomy to define their green procurement practices. The Platform supports the European Commission in its efforts to further integrate the Taxonomy substantial contribution criteria into the EU climate tracking methodology and encourages the European Commission to work towards tracking EU budget's contribution to the other environmental objectives. Due consideration should be given in all instances to the proportionate implementation of the Taxonomy and DNSH principles in case of non-CSR entity support measures.	High
Item 24	Section 3.1.1.2	The Platform advises the European Commission to examine and review how the Taxonomy could be applied to general-purpose sovereign debt and more broadly to the public sector beyond green bonds and use of proceeds. The Platform notes that this will require further study and a full impact assessment.	Low
Item 25	Section 3.1.1.2	The Platform does not recommend the inclusion of general-purpose sovereign debt exposures in the numerator of financial undertakings' ratios for the time being.	Medium
Item 26	Section 3.1.1.3	The Platform calls for the inclusion of SSAs green bonds into both the numerator and denominator of financial undertakings Taxonomy disclosures.	High
Item 27	Section 3.1.1.3	The Platform strongly supports the proposed EU GBS, which seeks to establish an official EU (voluntary) guideline for green bonds aligned with the Taxonomy. We further welcome the scope of the proposed regulation, which includes SSA issuers as well the specific adjusted provisions granting flexibility to such issuers when leveraging on the EU GBS. Such provisions would be of particular importance to ensure widespread adoption of the EU GBS by SSA issuers.	High

Recommendations		Description	Priority
Item 28	Section 3.1.1.4	The Platform recommends to the European Commission a shortening of the 2025 review period on green bonds issued by SSAs and green loans to SMEs given the pace with which the sustainable finance market is developing.	High
Item 29	Section 3.1.1.4	The Platform recommends financial undertakings report their exposures on SSA green instruments as part of their voluntary reporting for the proportion of their proceeds that are aligned with the TSC and MS of the Taxonomy, with the breakout on the included activities of gas and nuclear, until SSA green bonds are included in the numerators and denominators of their ratios.	High
Green Debt			
Item 30	Section 3.1.2	The Platform advises the European Commission to consider working towards defining 1.5° trajectories (67% probability of reaching 1.5°) with no or limited overshoot to the extent possible, based on science. For transitional activities, it should include clear time frames and pathways on how their criteria will tighten and when their status as a transitional activity expires (sunset clauses) wherever possible.	Medium
	Section 3.1.2	The Platform suggests the European Commission to: - Review the application of full TSC grandfathering to allocated and/or committed proceeds (within 5 years of the date of issuance) of green and sustainability bonds (including EU GBS aligned bonds) for Article 5, 6 and 8 Taxonomy Reporting when: - Taxonomy-alignment is fully reported - Verified by a third party registered and supervised by ESMA or an official authority if non-EU - The proceeds are invested in low-carbon and enabling activities. For transitional activities, and until trajectories are set for these activities, the Platform would favour full grandfathering until maturity for green bonds whose lifespan does not exceed of those bonds to a maximum of 10 years in order to minimise lock-in risks. The Platform acknowledges that there are a few cases linked to large infrastructure and building projects for which bonds might require a longer lifespan and that could be exceptionally granted after thorough examination. - Consider the necessary legislative amendments to implement grandfathering as proposed.	Medium

Recommendations		Description	Priority
Item 31	Section 3.1.2.3	The Platform recommends the European Commission that: • “Equivalent information” is applied to the legacy debt market, as recommended in section 2.3; and that there is • Consistency in reporting green bonds for Article 5, 6 and 8 of the Taxonomy.	High
Item 32	Section 3.1.2.4	The Platform recommends the European Commission to develop a practical methodology for converting complex green projects into economic activities, for Taxonomy assessment.	Low
Derivatives			
Item 33	Section 3.1.3	The working group was unable to reach a consensus on the way forward for derivatives within Taxonomy reporting and as such, recommends the European Commission mandate further work to the Platform 2.0 to research the consequences of the following three favoured approaches: • Removing derivatives from both numerator and denominator in Taxonomy reporting; • Including only single name derivatives instruments in both numerator and denominator; or • The “delta” approach (notional position x hedge ratio % using underlying asset.) The working group concluded that the mark to market (MTM) value of the derivative instruments should be used in the calculation of the denominator until such a time as a thorough review of the inclusion of derivatives in numerator is concluded.	Low
Verification and Assurance			
Item 34	Section 4.1.2	The Platform asks for clear requirements on equivalent information to be set by the European Commission and ESAs that conform to a framework by which assurers can certify such reporting. The Platform encourages investors to adopt the precautionary principle in their own disclosures and seek verification on the aggregated overall Articles 8 and 9 reporting under the Sustainable Finance Disclosure Regulation (SFDR).	High

Recommendations		Description	Priority
Item 35	Section 4.1.3	The Platform recommends the European Commission to require issuers of green bonds and similar use-of-proceeds financial instruments to: • report against the Taxonomy; • get their allocation and impact reports by a third-party; and, • for the verifier to be registered and supervised by the ESMA or an official authority for non-EU issuances.	High
Item 36	Section 4.2	The Platform calls for an EU accreditation scheme on sustainability-reporting assurance for all verifiers and auditors to ensure they have the right level of knowledge and expertise and a level playing field across the EU.	Medium
Item 37	Section 4.3.1	The Platform believes the European Commission should assess whether ISAE 3000 is fitted as an assurance standard for the Corporate Sustainability Reporting Directive (CSRD) and the sustainability reporting requirements within the EU. Depending on the assessment result, the European Commission should consider assessing whether a new assurance standard framework ought to be developed and/or how ISAE 3000 should be adjusted to the EU sustainability reporting framework, including the new European Sustainability Reporting Standards (ESRS).	Low
Item 38	Section 4.3.2	The Platform recommends the European Commission to develop guidelines on how to conduct verification and assurance, including how to avoid multiple layers of verification and optimise costs.	Medium
Item 39	Section 4.3.2	The Platform suggests the European Commission to assess whether sustainability data used in Taxonomy reporting provided by data service providers ought to be verified, and which level or requirement of external verification should be applied as part of its ongoing work on a normative framework for ESG/sustainability data providers.	Low

Recommendations		Description	Priority
Corporate Sustainability Reporting Directive (CSRD)			
Item 40	Section 5.2.1	The Platform recommends to the European Commission to work with the Platform 2.0, EFRAG, and the ESAs on ensuring that: 1. All terminology that is used in the CSRD / ESRS and the Taxonomy Regulation / Delegated Acts is fully consistent, and identical where appropriate, with adequate references provided; 2. Sustainability indicators follow the same underlying methodology for their calculation even if the scope differs; 3. All environmental impacts that are a subject of substantial contribution or DNSH criteria of the Taxonomy are analysed for inclusion in the sector agnostic and respective sector specific ESRS, and included where relevant; 4. All Taxonomy-related information or information that is also relevant for Taxonomy purposes is clearly identified in the sustainability statement, and appropriate explanations are provided; 5. Ensure policy coherence across MS, CSRD and CS3D when it comes to human rights and corporate governance criteria using UNGPs and OECD Guidelines as the common reference point.	High
Sustainable Finance Disclosure Regulation (SFDR)			
Item 41	Section 5.2	The Platform recommends the European Commission to seek greater alignment between the SFDR and the Taxonomy Regulation by: • Considering the use of Taxonomy metrics and the underlying methodologies (even if the scope of application differs) to define environmental PAIs. • Aligning social and governance PAIs and minimum safeguards of the Taxonomy Regulation. • Including a short list of always significant harmful social and environmental activities as “always principally adverse” in the absence of a Taxonomy addressing always significantly harmful activities (or until such Taxonomy exists.)	High
Item 42	Section 5.2.2.2	The Platform recommends to the European Commission that a clear distinction is made between environmental ‘do no significant harm’ in reference to the Taxonomy and ‘do no significant harm’ of SFDR, which is captured through Principle Adverse Impacts.	High

Recommendations		Description	Priority
Item 43	Section 5.2.2.2	The Platform recommends the European Commission to enhance consistency of the PAIs with the Taxonomy by aligning the measurement of PAI indicators to the measurement of DNSH criteria under the Taxonomy.	High
Item 44	Section 5.2.2.2	The Platform recommends only to keep the reporting of the breakdown on transitional and enabling activities for periodic disclosures to foster the use of the Taxonomy.	High
Item 45	Section 5.2.2.2	The Platform recommends replacing the “good governance” check in SFDR with Minimum Safeguards as described in Article 18 of the Taxonomy Regulation as they include both social and governance safeguards. The Platform, in order to align the two regimes, recommends replacing the sentence “with respect to sound management structures, employee relations, remuneration of staff and tax compliance” by “with respect to minimum safeguards” which include European Commission good governance practices and labour rights. The Platform recommends using the guidance on the application of minimum safeguards. The Platform recommends amending SFDR RTS to replace UN Global Compact with UN Guiding Principles of Business and Human Rights. Align ESRS and PAI social indicators with the Taxonomy’s minimum safeguards by referring to the UN Guiding Principles for Business and Human Rights instead of the UN Global Compact principles. Noting that SFDR PAI reference “or” instead of “and” with regard to OECD and UNGC requirements.	High
Item 46	Section 5.2.2.2	The Platform recommends the European Commission to develop a simplified and easy to understand pre-contractual template which is tailored to the sustainability preferences.	High
Item 47	Section 5.2.2.2	The Platform recommends the European Commission to consider the use of PAIs as the tool to set minimum criteria for Article 8 products. The Platform recommends setting very low maximum tolerance thresholds for the “always principle adverse” indicators, and the rest of PAIs to measure good practice and/or progress over time.	Medium
Item 48	Section 5.2.2.2	The Platform advises the European Commission to consider additional base reporting requirements for non-environmentally/socially sustainable financial products.	Low

Recommendations		Description	Priority
Benchmark Regulation (BMR)			
Item 49	Section 5.2.3.1	The Platform suggests the European Commission to consider sustainability disclosures within the Benchmarks Regulation (BMR) when modifying SFDR PAIs. Specifically: - ESG-based benchmarks disclosure requirements are updated to fully align with SFDR PAI disclosures; - ESG-based benchmark disclosures should include Taxonomy alignment; - SFDR PAI on fossil fuel indicators should be updated to follow the same breakout as exclusions for Paris-aligned Benchmarks (PABs); - SFDR PAI and PABs/Climate Transition Benchmarks (CTB) exclusions should align (e.g., both should consider reporting against Tobacco).	High
Item 50	Section 5.2.3.1	The Platform recommends the European Commission to include exposure to tobacco as a PAI and to replace UN Global Compact by UN Guiding Principles on Business and Human Rights (UN GPs) to gain consistency between both regulations.	High
Item 51	Section 5.2.3.1	CTBs should align with the SFDR definition of “harm” in that they should ‘consider’ PAI indicators in their construction, with clear explanations as to how PAIs are considered. Although PABs are already consistent with PAIs in the vast majority of cases as outlined above, a similar alignment is recommended for the sake of consistency between PABs and CTBs.	Medium
Item 52	Section 5.2.3	The Platform suggests the European Commission to consider the development of an “always significant harmful activities” Taxonomy and, until then, including a short list of “always principally adverse” social and environmental activities as part of PAIs to use it as screening criteria for BMR. The Platform advises the European Commission to consider the development and implementation of similar SFDR objective aligned benchmarks for the remaining mandatory SFDR principal adverse impact (PAI) indicators.	Low
Item 53	Section 5.2.3.2	The Platform recommends the European Commission to align SFDR PAIs metrics more closely with those required in the BMR once PAIs are reviewed. In concrete, the Platform recommends the European Commission consider the inclusion of energy consumption, discrimination incidents, executive diversity, and CEO compensation to the benchmarks’ sustainability disclosure requirements to greater align SFDR and BMR.	Medium

Recommendations		Description	Priority
Item 54	Section 5.2.3.2	The Platform recommends the European Commission to consider, where an ESG rating or score product is used in BMR reporting, making mandatory to report on the formal methodology used to create such a rating or score.	Medium
Item 55	Section 5.2.3.3	The Platform recommends the European Commission to consider revising the EVIC inflationary adjustment to account for each investee company within the index.	Medium
Item 56	Section 5.2.3.4	The Platform recommends the European Commission to consider revising the Delegated Regulation EU 2020/1818 (e.g., minimum standards for CTBs and PABs) to ensure that either the base year is 2020, and 7% YoY is evidenced thereafter, or that Year 1 requirements for any new CTB or PAB is calculated with the 7% trajectory back to 2020.	Medium
Item 57	Section 5.2.3.5	The Platform recommends the European Commission to consider revising the Delegated Regulation (EU) 2020/1818 to allow benchmark providers to choose whether to treat the financial and insurance sector equities as high or low impact sector constituents.	Low
MiFID II and IDD Suitability			
Item 58	Section 5.2.4.1	With respect to the new suitability requirements under the second Markets and Financial Instruments Directive (MiFID II), the Platform requests the European Commission and the ESAs: • To clarify in the MiFID and IDD Guidelines and Regulations that point (c) on consideration of PAIs does cater for the need of those investors that express their desire not to invest in certain activities. • Firms and advisors should ask what their clients do not want to invest in. • To align MiFID's and IDD PAIs with the reviewed SFDR list of PAIs. The activity-based PAIs should be used to ask which activities or sectors clients do not want to invest such as in fossil fuels, nuclear, controversial weapons. • To consider minimum acceptable thresholds only for activity-based PAIs (e.g., controversial weapons, thermal coal, or tobacco) but no Capex investments for these activities should be allowed. • To enhance the consistency of ESG reporting between funds and their benchmarks. • To consider developing an accessible Sustainability training programme for firms and financial advisors to be deployed across Europe.	High

Recommendations		Description	Priority
International Considerations			
Item 59	Section 6.1.3	The Platform invites the International Platform for Sustainable Finance (IPSF) to consider developing equivalence tables between regional certification and labelling schemes and propose a practical checklist for international projects with the minimum prerequisites for proof of alignment. The Platform recommends the Platform 2.0 and the European Commission to translate EU regulation criteria into quantitative and/or process-based criteria to facilitate its application outside of the EU especially by non-EU actors and have the role to assess the relevance of any proposed alternative. For usability purposes, it is possible that such criteria that intentionally diverge from the scope of the existing Taxonomy be complemented by the provision of guidance / criteria (as already developed) that offer separate non-binding information, with a purely environmental benchmark. Such technical, science-based criteria would be a way to guide those parts of the market seeking policy-neutral information.	Medium
Item 60	Section 6.2.4	The Platform recommends the European Commission to develop mappings between EU-based technical criteria and labelling schemes to the most widely used international standards include reference to international standards within technical screening criteria, building on the work done by European and other DFIs – EIB, EDFIs, MDB Climate Finance Tracking criteria and OECD Rio Markers, and IFC standards -, for development finance, blended finance, and more broadly, investments in developing countries. The Platform would welcome a balanced approach to environmental and social investments in developed markets. The Platform recommends the European Commission to define the type of investments (e.g., development finance, blended finance, SMEs, etc) and the geographical scope (e.g., least-developed, developing, or emerging markets) that should benefit from the application of such standards. This may include specific lists of exemptions, drawing on analysis determining for criteria and applicable geographic and sectoral areas, and to indicate whether a common approach can be taken. The Platform recommends the European Commission to perform in-depth analysis on the technical criteria of DNSH and their applicability in developing countries. • The Platform recommends the European Commission to work with EDFIs in conducting such analysis, as EDFIs are already starting to deploy or test the Taxonomy in developing countries. • In this process, the IPSF could play a pivotal role.	Low

Recommendations		Description	Priority
Item 61	Section 6.2.5	The Platform stresses the need of studying the context of data gaps for developing countries and to consider potentially building in transition language where necessary (for example, if the data is not available because of historic/contextual reasons, proxies will be provided that are based on expert opinion/available tools.) The Platform calls for funding Technical Assistance to plug shortfall in capacity and resources in developing countries, notably to improve reporting of relevant data and application of Taxonomies.	Medium
Item 62	Section 6.2.5	The Platform advises the European Commission to provide technical support to developing countries so that they strengthen and build capacity on sustainability-related verification with a focus on the Taxonomy. Financial and technical support should be directed to local providers, local market participants, including issuers, to make a more lasting impact. Some initiatives in this regard may be possible under forthcoming initiatives from the European Commission (e.g., HLEG by DG INTPA), and it is important that such initiatives are well designed and coordinated. Numerical requirements under DNSH should be kept.	Medium
Item 63	Section 6.2.5	The Platform recommends the European Commission to ensure close collaboration between the Platform 2.0 and the new HLEG on sustainable finance for low and middle-income countries, given the relevance of the forthcoming strategy on sustainable finance in low and middle-income countries.	Medium
Item 64	Section 6.2.6	The Platform encourages the European Commission, as co-chair of the IPFS, to continue promoting the development of a “common ground framework” by: • widening the base for identified commonalities between taxonomies. • mapping the standards, metrics and labels included in taxonomies gradually developing equivalence mechanisms to assess and accept local laws/standards/labels. • working with data providers to develop and validate “officially recognised mapping” between statistical systems. • developing a common understanding for key environmental metrics and the methods to calculate them. • Incentivising other regions to incorporate the principle of DNSH and minimum safeguards in their taxonomies.	Medium

PART 1: Introduction

1.0 Understanding the Taxonomy

The EU Taxonomy (the Taxonomy) is a classification system covering six environmental objectives and minimum safeguards. The Taxonomy provides investors, companies, and policymakers with a harmonised and uniform approach to identifying sustainable economic activities. The Taxonomy measures significant contribution to the EU's targets to transition to a climate neutral, circular, and more sustainable economy that preserves and restores biodiversity, as well as activities that, while not yet low carbon, nonetheless make a substantial contribution (SC) to climate change mitigation, and thus, contribute to the transition towards a sustainable economy.

While the Taxonomy can be useful for multiple purposes, it has two main objectives.

First, the Taxonomy is Europe's official reference and common measurement tool against which the market will benchmark green financial products that also conform with a baseline social standard. The Taxonomy provides clarity to the market and gives end investors the ability to make informed decisions regarding sustainable investments. The Taxonomy represents the first-ever common measurement tool for green investments. Through measurement of the turnover and expenditures (Capex/Opex) linked to sustainable economic activities as defined by the Taxonomy, companies can measure the degree of sustainability of their operations, and investors can determine how environmentally sustainable their underlying investments are. The Taxonomy allows for consistent reporting and comparability as everyone will calculate and measure "sustainability" using the same definitions and metrics.

Second, the Taxonomy has been designed as a tool to help increase additional investments in green, enabling, and transitional activities needed to finance Europe's transition to a climate neutral, circular, and more sustainable economy. It aims to contribute to the reorientation of capital flows to more sustainable activities and narrow the investment gap that exists in the EU to finance the transition, respectful of minimum safeguards. Europe will need an estimated EUR 350 billion in additional investment per year over this decade to meet its 2030 emissions-reduction target in energy systems alone, alongside the EUR 130 billion it will need for other environmental goals.¹

In Europe, the Taxonomy has become the official reference against which green funds and financial products², including those claiming to have environmental characteristics, will benchmark the "greenness" or level of sustainability of the underlying investee companies. The marketers of these products are required to report the products' percentage alignment with the Taxonomy, ensuring consistency in reporting and allowing for market comparability.

The Taxonomy's uniqueness lies in the fact that it is a serious effort by financial regulators to mandate disclosure against an EU sustainability target. The Taxonomy does not oblige an investor to invest in any particular product even if it is marketed as green. Furthermore, there is no legal requirement for a minimum percentage of alignment. Whether a product is 0.1% aligned with the Taxonomy or 100% aligned, it can be marketed as an environmental thematic fund. However, the accompanying transparency on the share of Taxonomy-aligned activities will likely have implications on the depiction of the degree of sustainable exposure offered by the investment, in order to avoid misrepresentation. This said, the only obligation linked to the Taxonomy is one of

¹ European Commission Strategy for Financing the Transition to a Sustainable Economy, based in turn on the Communication 'Stepping up Europe's 2030 climate ambition Investing in a climate-neutral future for the benefit of our people', SWD/2020/176 final, 17.9.2020. In addition, there is a significant need for investments to ensure the reskilling and upskilling and support labour market transitions to achieve the energy and climate targets. See, e.g., the analysis in the 2020 Employment and Social Developments in Europe (ESDE) review.

² A 'financial product' is defined in the Taxonomy Regulation with reference to SFDR Article 2 (12) [EUR-Lex - 32019R2088 - EN - EUR-Lex \(europa.eu\)](#)

reporting by corporates and financial market participants subject to the Non-Financial Reporting Directive³ (NFRD) as detailed in Figure 1.

	Non Financial Company	Investment Manager (incl Pensions & Insurance)	Credit Institution
Article 8	Scope: Large Listed companies subject to NFRD/CSRD		
	Annually report Taxonomy eligibility and alignment of 3 KPIs (Turnover, Capex, Opex)	Annually report Taxonomy eligibility and alignment of 2 KPIs (Turnover, Capex) based on the underlying investee companies within the Entity's full AUM (Assets Under Management)	Annually report Taxonomy eligibility and alignment of 2 KPIs (Turnover, Capex) based on exposure in Phases to key balance sheet derived KPI
Article 5 & 6	Scope: Financial Products with Sustainability preferences, as defined by article 8 and 9 of SFDR		
	Not applicable	Report Taxonomy Alignment of qualifying financial products in pre-contractual and periodic reporting	Credit institutions as per Article 2(1) SFDR are also in scope

Figure 1: Landscape of Taxonomy Reporting Obligations⁴

The Taxonomy is at the heart of a series of policy and regulatory measures which are being developed to incentivise private and public sector institutions to invest in more sustainable economic activities and the transition, including the obligation to ask clients for their Environmental Social Governance (ESG) preferences.⁵

The final recommendations to the client should reflect both the financial objectives and, where expressed, the ESG preferences of that client. Investment firms providing investment advice and portfolio management should consider each client's individual ESG preferences on a case-by-case basis. Moreover, investment firms should disclose, where relevant, information on the ESG criteria of each financial product offered to clients before providing investment services, in accordance with the new suitability requirements under the second Markets in Financial Instruments Directive (MiFID II) and Insurance Distribution Directive (IDD).⁶

1.1 Mandate of the Platform

The Platform is an advisory body subject to the European Commission's horizontal rules for expert groups. Its main purpose is to advise the European Commission on several tasks and topics related to further developing the Taxonomy and support the European Commission in the technical preparation of delegated acts to support implementation of the rules. The usability and data subgroup (Subgroup 5, or SG5)⁷ was tasked to advise the European Commission in the development of reporting standards, and to facilitate reporting efforts of Taxonomy users.

³ The European Commission published in April 2021 the Corporate Sustainability Reporting Directive, which will revise and eventually replace NFRD. The CSRD will also expand the original NFRD scope of companies having these Taxonomy reporting requirements under Article 8.

⁴ Insurance companies are expected to report on both their assets and liabilities (under-writing business lines.)

⁵ Incentives might range from defining default options for pension and savings schemes to the inclusion of Environmental, Social and Governance (ESG) preferences to suitability tests. For example, the amendments to the Delegated Regulation 2017/565 will oblige investment firms providing investment advice and portfolio management to introduce questions into their suitability assessment that would help identify the client's investment objectives, including ESG preferences.

⁶ [ESMA consults on the review of MiFID II suitability guidelines \(europa.eu\)](https://esma.europa.eu/press-material/press-conferences/esma-consults-on-the-review-of-mifid-ii-suitability-guidelines)

⁷ [Platform on Sustainable Finance \(europa.eu\)](https://platform-on-sustainable-finance.europa.eu/)

Subgroup 5's mandate included four main deliverables:

- Advise on data quality, availability, and market preparedness for the disclosure obligations under the Taxonomy Regulation and notably under Article 8;
- Advise on the possible role of sustainability accounting and reporting standards in supporting the application of the technical screening criteria (non-financial and reporting standards);
- Advise on usability of the criteria; and
- Advise on the evaluation and development of sustainable finance policy issues.

The Platform consulted with user groups, industry associations, practitioner groups as well as with Platform members and observers. Details of the extent of our outreach are included in Appendix A. Strategic stakeholder outreach is key to ensure adoptability of the Taxonomy. There are varying degrees of knowledge base across stakeholders and overarching complexities inherent to implementing the framework. The range of audiences differ not only by knowledge base, but also by the type of institutions; this is because applicability will not be the same across the board, whether it be by corporates, banks, or asset managers.

1.2 Scope of the Report

To support the usability of the Taxonomy, it is important to map out a complete list of Taxonomy users and uses. It is also key to understand the primary challenges that these users are faced with when applying the Taxonomy to their respective use cases.

The Platform approached this work in the following key areas:

1. Identifying a complete list of Taxonomy users and uses;
2. Identifying key challenges for these users when applying the Taxonomy; and
3. Identify potential solutions to these usability challenges.

The Taxonomy Regulation sets users' obligations for Financial Market Participants (FMPs), large companies reporting under NFRD (Corporate Sustainability Reporting Directive, or CSRD, in the future) and, the EU and Member States. The first two user groups can be broken down into five:

1. **Financial Market Participants (FMPs)** in the shape of investment or asset managers offering financial products in the EU (the legislation refers to the same financial products and market participants specified under the Sustainable Finance Disclosure Regulation, or SFDR⁸) including occupational pension providers and insurance-based asset management.
2. **Asset Managers and Pension Funds**, which are required to provide a Green Investment Ratio (GIR) calculation of their assets' alignment with the Taxonomy in accordance with Article 8 Disclosures Delegated Act as part of their non-financial statement under the NFRD (and CSRD in the future).
3. **Credit Institutions**, which are required to provide a Green Asset Ratio (GAR) calculation in accordance with Article 8 Disclosures Delegated Act and Pillar III reporting requirements across their balance sheet of activities and who provide portfolio management or investment advice.
4. **Insurance Providers**, which are required to report separately on their liabilities' alignment with the Climate Delegated Act and their assets' alignment with the Green Investment Ratio (GIR).
5. **Non-Financial Companies (NFCs)**, which are required to provide a non-financial statement under the original NFRD, and later CSRD.

⁸ EUR-Lex - 32019R2088 - EN - EUR-Lex (europa.eu)

Outside of the current scope of Taxonomy reporting, but subject to a 2024 review period, would be Small- and Medium-sized Enterprises (SMEs)⁹ and the public sector. The Platform has considered approaches for Taxonomy use within these user groups as part of our recommendations in this report.

Recommendations made by the Platform in this report, relate to the following key themes:

- Proposed changes to Level 1 or 2 legal guidance on Taxonomy reporting, to support both the 2024 review period (within the Article 8 Delegated Act¹⁰) and consider key usability challenges with the current proposals around sustainable finance disclosures;
- Recommendations for supplementary guidance from the European Commission to user groups;
- Recommendations for supervisory guidance from the European Supervisory Authorities (ESAs) to user groups;
- Proposed recommendations on policy consistency across the sustainable finance framework; and
- Proposed recommendations on Taxonomy usability.

1.3 Thematic Usability Issues Identified

In summary, this report identifies the following main themes of usability issues:

- **Misalignment**, between the sustainable finance reporting requirements across the regulatory framework including differing definitions of ‘sustainable investment’, ‘do no significant harm’ (DNSH), ‘good governance’ and risk approaches;
- **Sequencing issues across the reporting framework**, ensuring that the data is available to financial institutions¹¹ in order to satisfy their own reporting obligations;
- **Regulatory overload**, ensuring that the regulatory reporting requirements are evenly distributed and proportional to FMPs, financial undertakings, non-financial corporates, public sector actors and SMEs use cases;
- **Interpretive issues**, ensuring reporting requirements are clearly understood by all user groups (what needs to be reported, how and by when); and
- **Regulatory and data gaps**, filling any regulatory gap or addressing any regulatory hurdle that might hinder the use of the Taxonomy and fostering the availability and accessibility of data.

⁹ Please note that listed SMEs are included in the scope of the CSRD.

¹⁰ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](#)

¹¹ Financial Institutions collectively captures financial companies subject to Articles 5, 6 and 8 TR (i.e., “financial market participants” (as defined in SFDR) for Articles 5 and 6 and “financial undertakings” (as defined in the Article 8 DA) for Article 8).

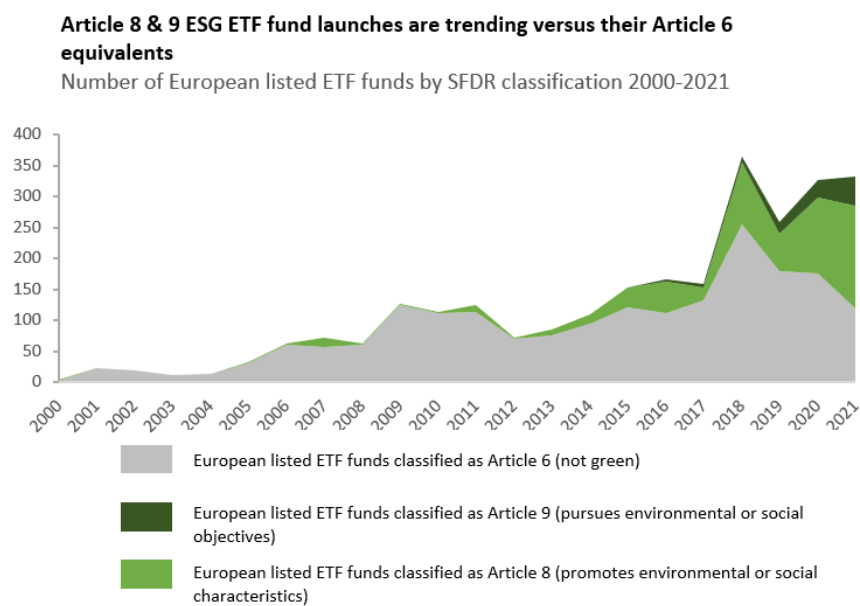
	Non Financial Company	Investment Manager (incl Pensions & Insurance)	Credit Institution
Article 8	• Definition of Economic Activity • Scoping of Capex and Opex activities • Interpretation of technical screening criteria • Proof required on meeting technical screening criteria (e.g. non EU operations compliant with EU legislation-based testing criteria) • Verification requirements • Sources of technical usability advice (help line)	• International application • Application of existing green debt instruments • Application to debt instruments, where technical screening criteria change over the lifetime • Inclusion of Derivatives • Inclusion of Sovereigns • Inclusion of SME investment via private equity or debt	• International application • Application of existing green debt instruments • Application to debt instruments, where technical screening criteria change over the lifetime • Inclusion of Derivatives • Inclusion of Sovereigns • Inclusion of SME financing • Inclusion of Retail products, such as Mortgages and Car Loans • Applicability to Fees & Commissions or Trading Book activities • Verification requirements
Article 5 & 6		• Interpretation of "equivalent information" • Treatment of Derivatives • Treatment of Sovereign investment • Treatment of green debt investment • Suitability of data products	

Figure 2: Landscape of Taxonomy Usability Concerns

PART 2: Data

2.0 Data Availability and Treatment

Under SFDR¹², financial market participants have to provide transparency for products (under Article 8, promoting social or environmental characteristics, or under Article 9, promoting social or environmental having sustainable investments as objectives). Products that do not fall under the transparency requirements of Article 8 or 9 are often referred to as Article 6 products. Noting that this is not a labelling regulation, but a transparency regulation. Any product that is classified as an Article 8 or 9 product manufactured in Europe or distributed to European clients, would need to explain the environmental sustainability of the product using the Taxonomy. There has been a sharp rise in the offering of Article 8 or 9 products, including reclassification of existing ESG products, as shown in Figure 3.



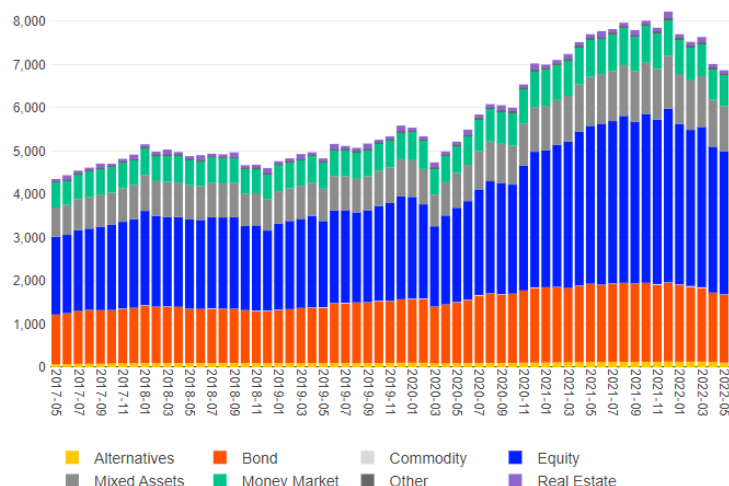
Source: Bloomberg

Figure 3: Trends in European Listed ETF Classification 2000-2021

Whilst the assets under management (AUM) in non-ESG products remain high, at around 75% of the European Exchange-Traded Fund (ETF) market, we see a trend in flows to Article 8 or 9 labelled funds. Reviewing the data from 2021, Article 8 or 9 products took 51% of the inflows. With this rising demand for ESG products, comes the need for clear and consistent labelling of environmental standards. Most of the net new money for May was attracted by mixed-assets funds, accounting for USD 2.2 billion, followed by equity funds and real estate funds, at USD 1.0 billion and USD 1.0 billion of net inflows, respectively, as shown in Figure 4.¹³

¹² [EUR-Lex - 32019R2088 - EN - EUR-Lex \(europa.eu\)](#)

¹³ [Refinitiv Lipper Global Responsible Investments Snapshot May 2022](#)



Source: Mutual Funds (including Fund of Funds) and Exchange Traded Funds (USD Billion) Refinitiv Lipper on 31 May 2022

Figure 4: Global Responsible Investments Fund Market by Asset Type

2.1 Non-Financial Reporting of Taxonomy-Eligibility and Alignment

Reporting of eligibility by financial and non-financial undertakings started in January 2022, as covered under the Article 8 Delegated Act of the Taxonomy Regulation.¹⁴ The first reporting period covers the climate change mitigation and adaptation objectives within the Climate Delegated Act.¹⁵ From January 2023, non-financial companies subject to the NFRD¹⁶ will also need to report eligibility to the remaining four environmental objectives (subject to the publication of associated Delegated Acts) as well as alignment to the adaptation and mitigation objectives. From January 2024, non-financial companies will need to report alignment to all environmental objectives, subject to the publication of the Delegated Acts in the Official Journal.

From January 2023, non-financial companies should be disclosing their values using an XHTML version of the Annex II template found in the Article 8 Delegated Act (Figure 5).

¹⁴ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](#)

¹⁵ [EUR-Lex - 32021R2139 - EN - EUR-Lex \(europa.eu\)](#)

¹⁶ [EUR-Lex - 32014L0095 - EN - EUR-Lex \(europa.eu\)](#)

ANNEX II

TEMPLATES FOR THE KPIs OF NON-FINANCIAL UNDERTAKINGS

Template: Proportion of turnover from products or services associated with Taxonomy-aligned economic activities – disclosure covering year N

Economic activities (1)	Codes (2)	Absolute turnover (3)	Proportion of turnover (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	DNSH criteria ('Does Not Significantly Harm')							Minimum safeguards (17)	Biodiversity and ecosystems (16)	Pollution (15)	Circular economy (14)	Water and marine resources (13)	Climate change adaptation (12)	Climate change mitigation (11)	Taxonomy-aligned proportion of turnover, year N (18)	Taxonomy-aligned proportion of turnover, year N-1 (19)	Category (enabling activity or) (20)	Category '(transition al activity)' (21)
A. TAXONOMY-ELIGIBLE ACTIVITIES																	Percent	Percent	E	T							
A.1. Environmentally sustainable activities (Taxonomy-aligned)																											
Activity 1 ⁽¹⁾				%	%	%	%	%	%		Y	Y	Y	Y	Y	Y						%		E			
Activity 2				%	%	%	%	%	%	Y	Y		Y	Y	Y	Y					%						

Figure 5: Extract from the Annex II Reporting Template¹⁷

2.1.1 Observations in Non-Financial Taxonomy Reporting

According to a European Commission study on the NFRD,¹⁸ there are about 2,000 companies (excluding exempted subsidiaries) in the EU27 within the scope of the NFRD, and subsequently companies that would need to report Taxonomy-eligibility and alignment under Article 8 of the Taxonomy Regulation. In Figure 6 below, they list the breakout of Limited Liability Companies in the EU. Their number of large, listed companies (> 500 employees), without subsidiaries, comes in at 1,956 reporting firms for whom we would expect to see Taxonomy disclosure.

"Companies within the scope of sustainability disclosure requirements. The total population of companies within the scope of the NFRD in the EU27 is 1,956 (excluding exempted subsidiaries), made up of 1,604 listed companies (excluding listed banks and listed insurance companies), 278 banks and 74 insurance companies."

¹⁷ EUR-Lex - 32021R2178 - EN - EUR-Lex (europa.eu)

¹⁸ Study on the non-financial reporting directive - Publications Office of the EU (europa.eu)

Table A3.1 Number of EU Limited Liability Companies in the EU27

Number		Companies (excl. Banks and Insurance)	Banks	Insurance Companies	Mixed Banks and Insurance Companies	Total
With Shares Listed	Large Total	1 716	56	6	0	1 778
	Large above 500 Empl. Total	1 208	40	3	0	1 251
	Large above 500 Empl. (excl. Exempted Subsidiaries)	866	29	3	0	898
	Not Large Total	858	20	6	0	884
LLCs with Shares Listed Total		2 574	76	12	0	2 662
With Bonds Listed	Large Total	296	140	10	0	446
	Large above 500 Empl. Total	148	104	3	0	255
	Large above 500 Empl. (excl. Exempted Subsidiaries)	77	44	2	0	123
	Not Large Total	1 208	87	1	0	1 296
LLCs with Bonds Listed Total		1 504	227	11	0	1 742
With Bonds and Shares Listed	Large Total	453	69	15	0	537
	Large above 500 Empl. Total	368	60	15	0	443
	Large above 500 Empl. (excl. Exempted Subsidiaries)	301	53	13	0	367
	Not Large Total	47	2	0	0	49
LLCs with Bonds and Shares Listed Total		500	71	15	0	586
LLCs Listed Total		4 578	374	38	0	4 990
Not Listed	Large Total	71 788	617	697	0	73 102
	Large above 500 Empl. Total	22 398	223	97	0	22 718
	Large above 500 Empl. (excl. Subsidiaries)	14 616	126	55	0	14 797
	Not Large Total	13 571 914	3 785	2 437	0	13 578 136
LLCs Not Listed Total		13 643 702	4 402	3 134	0	13 651 238
Listed outside of the EU	Large Total	35	5	1	0	41
	Large above 500 Empl. Total	26	3	0	0	29
	Large above 500 Empl. (excl. Subsidiaries)	23	2	0	0	25
	Not Large Total	527	2	0	0	529
LLCs Listed Outside EU Total		562	7	1	0	570
LLCs Total		13 648 842	4 783	3 173	0	13 656 798

Figure 6: Extract from the European Commission's Study on the Non-Financial Reporting Directive

Some EU countries have transposed this into local legislation, which causes the scope of NFRD to grow. However, the Taxonomy Regulation applies the directive-level obligation and thus Taxonomy reporting is expected for the 2,000 companies clarified above.

"If also the companies that are added through national transposition of the Accounting Directive and NFRD are considered, the total number of companies within the scope is six-fold higher, or about 11 500"¹⁹

As of June 2022, according to data aggregated by Bloomberg, a large number of companies have already started to report their eligibility to the Taxonomy, and in some cases voluntarily report their alignment to the Taxonomy. Not all companies who report eligibility do so across all three Key Performance Indicators (KPIs) – turnover, Capex and Opex – nor does the Platform observe consistency between percentage and amount disclosures across all KPIs. Disclosures not made using the Annex II template of the Article 8 Delegated Act will frequently provide narrative or pictorial disclosures of their Taxonomy eligibility and/or alignment.

- **285 companies** have reported the percentage of their turnover that is eligible to the Taxonomy Climate Delegated Act, with slightly less reporting their Capex and Opex numbers;

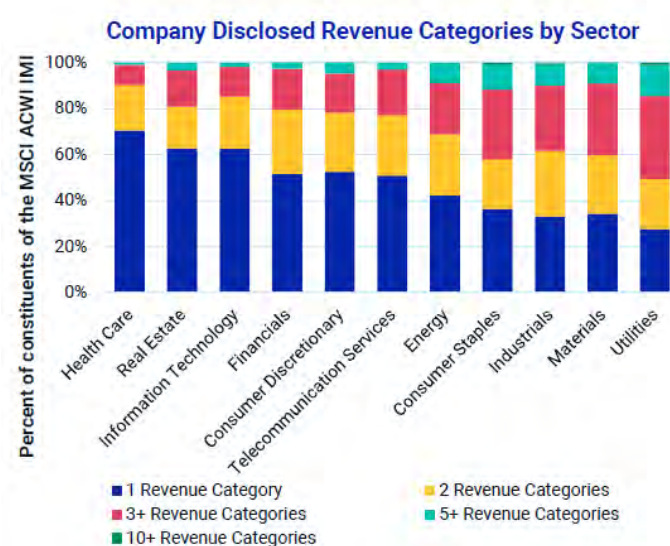
¹⁹ Study on the non-financial reporting directive - Publications Office of the EU (europa.eu)

- **65 companies** have voluntarily reported alignment data against one or multiple KPIs (turnover, Capex or Opex);
- **22 of them** have used the Annex II template to provide their reporting.

Table 3: Taxonomy Disclosure Rates

Source: Bloomberg, as of June 2022

Data Point	Observed Reporting (count of companies)
Eligible Turnover Percent	285
Eligible Capex Percent	279
Eligible Opex Percent	257
Eligible Turnover Amount	213
Eligible Capex Amount	198
Eligible Opex Amount	188
Aligned Turnover Percent	59
Aligned Turnover Amount	52
Aligned Opex Percent	45
Aligned Opex Amount	42
Aligned Capex Percent	35
Aligned Capex Amount	31



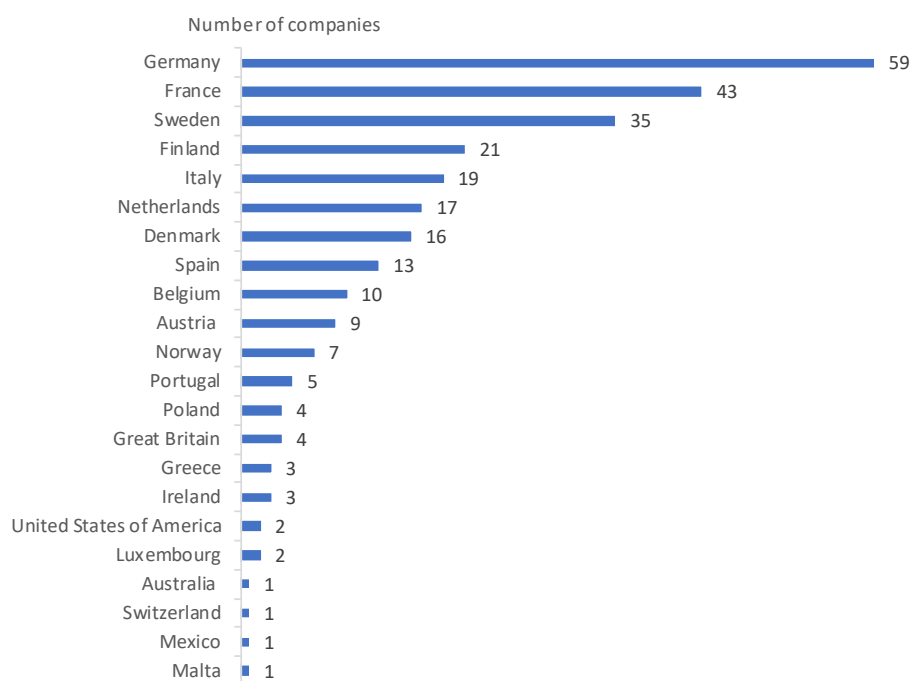
Source: Source: MSCI ESG Research. As of June 16, 2022, for constituents of the MSCI ACWI IMI Index with available, reported 2020 revenue data. Revenue data categorized by Standard Industrial Classification (SIC) codes.

Figure 7: Taxonomy Reporting per Sector

Observations on revenue disclosure of MSCI ACWI Investable Market Index (IMI) constituents as of June 2022:

- The median number of revenue segments reported by companies was two, with 49% of companies disclosing revenue under one segment alone.
- While a proportion of these companies may be pure play businesses, MSCI observed a general lack of detailed revenue data availability when considering disclosed data alone.
- Reported revenue data disclosure by category varied by sector, with utilities companies more likely to differentiate their revenue streams.

Most companies providing Taxonomy reports are domiciled in the EU, but certain international companies not subject to mandatory reporting have produced a proxy report to the Taxonomy as of May 2022.



Source: Bloomberg count of companies that have quantitative-based Taxonomy reporting. Data as of May 24, 2022.

Figure 8: Taxonomy Reporting per Country of Domicile

Most companies reporting eligibility and/or alignment with the Taxonomy have more than 500 employees, though there are 11 reporters who have less than the NFRD threshold employee limit. This and the reporting from non-EU companies show an encouraging start for the expansion on the use of the Taxonomy in voluntary reporting.

2.1.2 Key Usability Issues Observed in Taxonomy Reporting

Despite the uptake in Taxonomy reporting, the Platform has witnessed some key usability issues that are recapped in

	Structural Issues	Interpretive Issues	Technical Issues
Non-Financial & Financial	- Minimal uptake on Annex II - Mixed reporting of eligibility percentage and total amount of revenue/Capex/Opex (not consistently both) - Companies sometimes report an approximate number or an interval ('~ 20%', 'less than 5%' or a range 15-20%) - Inconsistent with the reporting of the turnover, with use of language: 'sales', 'revenues', 'gross rental income', 'gross sales', 'net revenues', etc. - Inconsistent treatment of joint ventures - No observed reporting of GIR - Reporting of GAR is not within the designated Annexes yet	- The 'comply or explain' clause around Opex has not been fully integrated - Companies use different terms to refer to their Taxonomy alignment and eligibility values such as 'green share of revenues' - Use of 'investments' instead of Capex - Use of 'business expenses' instead of Opex - Divergence of reporting for non-EU operations under group reporting - Confusing eligibility with alignment - Disclosing alignment to the Taxonomy without share of eligibility	- Confusion defining economic activities; the best reporting lays out assumptions when linking business activities with NACE codes. - Reporting of DNSH as "Y/N"

Figure 9 below. Usability issues can be broken into:

- **Structural Issues:** the use of correct reporting templates, number formatting and naming conventions;
- **Interpretive Issues:** the correct understanding of the Article 8 Delegated Act on disclosure standards; and,
- **Technical Issues:** the interpretation of the Climate Delegated Act for what constitutes eligible activities and technical screening criteria.

	Structural Issues	Interpretive Issues	Technical Issues
Non-Financial & Financial	- Minimal uptake on Annex II - Mixed reporting of eligibility percentage and total amount of revenue/Capex/Opex (not consistently both) - Companies sometimes report an approximate number or an interval ('~ 20%', 'less than 5%' or a range 15-20%) - Inconsistent with the reporting of the turnover, with use of language: 'sales', 'revenues', 'gross rental income', 'gross sales', 'net revenues', etc. - Inconsistent treatment of joint ventures - No observed reporting of GIR - Reporting of GAR is not within the designated Annexes yet	- The 'comply or explain' clause around Opex has not been fully integrated - Companies use different terms to refer to their Taxonomy alignment and eligibility values such as 'green share of revenues' - Use of 'investments' instead of Capex - Use of 'business expenses' instead of Opex - Divergence of reporting for non-EU operations under group reporting - Confusing eligibility with alignment - Disclosing alignment to the Taxonomy without share of eligibility	- Confusion defining economic activities; the best reporting lays out assumptions when linking business activities with NACE codes. - Reporting of DNSH as "Y/N"

Figure 9: Taxonomy Usability Observations, as of June 2022

2.1.3 Good Reporting Practices Witnessed by the Platform

The Platform observes some good reporting practices implemented by European non-financial companies worth highlighting.

Table 4: Good Reporting Practices

Good Reporting Practices Observed
• Non-financial undertakings disclosures have a comprehensive approach and breakdown their eligibility disclosure following the Annex II template. • Explanation of eligibility mapping within the context of the existing financial statement of the firm. • Including an explanation on the extent to which assumptions and estimates are used for both classification and adherence to technical screening criteria.

Clarification on economic activities is critical. The Platform has observed situations where similar companies are interpreting their eligibility to the Taxonomy differently. See Figure 10 for a breakdown of five car manufacturers. In this, Car Manufacturer 4 includes their supply chain activities (the manufacture of aluminium and steel) as a contributor to the Taxonomy eligibility, whereas the majority has opted for the revenue-generating activity of 3.3 “Manufacture of low carbon technologies for transport.” Car Manufacturer 5 has included research and development (R&D), whilst the other manufacturers have not disclosed R&D expenditures.

		Car 1	Car 2	Car 3	Car 4	Car 5
Turnover	Taxonomy eligible	82.9%	99%	95%	99%	91%
CapEx	Taxonomy eligible	99.7%	100%	100%	100%	99.2%
OpEx	Taxonomy eligible	100%	100%	100%	99%	99.2%
Reported Activities		3.3 "Manufacture of low carbon technologies for transport" 6.5 "Transport by motorbikes, passenger cars and LCV"	3.3 "Manufacture of low carbon technologies for transport" 6.5 "Transport by motorbikes, passenger cars and LCV"	3.3 "Manufacture of low carbon technologies for transport" 6.5 "Transport by motorbikes, passenger cars and LCV"	3.3 "Manufacture of low carbon technologies for transport" 3.8 "Manufacture of aluminium" 3.9 "Manufacture of steel"	3.2 "Manufacture of equipment for the production and use of hydrogen" 3.3 "Manufacture of low carbon technologies for transport" 3.6 "Manufacture of other low carbon technologies" 9.1 "Close to market research, development and innovation"

Figure 10: Taxonomy Reporting of Car Manufacturers

2.2 Observations on Taxonomy Reporting by Asset Managers, Credit Institutions, and Insurers

Asset managers and insurers have two main sets of Taxonomy reporting to comply with, one at entity-level (covered under Article 8 of the Taxonomy Regulation) and another one at product-level (covered under Articles 5 and 6 of the Taxonomy Regulation). **Asset managers and insurers in scope for reporting under the Article 8 Delegated Act must report their 'Green Investment Ratio' (GIR) covering eligibility and alignment to activities in the Climate Delegated Acts.**

Table 5: Mandatory Disclosures from Financial Undertakings Under Article 8 of Taxonomy Regulation

Who?	What do they need to report?	Disclosure Type	What should reporting look like?	When?
Asset managers and insurers in scope for NFRD/CSRD reporting	Need to report their Green Investment Ratio (GIR) Ratio of alignment of underwriting business (for insurers)	Entity level disclosure	Refer to Article 8 Delegated Act of the Taxonomy regulation	From January 2022: Taxonomy eligibility reporting to mitigation & adaptation From January 2023: eligibility reporting to all environmental objectives* From January 2024: Taxonomy alignment reporting

**Subject to finalisation of the Environmental Delegated Acts for the remaining four environmental objectives*

Only a few asset managers and insurers have produced entity-level reporting as of June 2022. This is mainly because there are not many that have to report against the NFRD, especially among asset managers. Those that reported included their Taxonomy-eligibility as part of their integrated financial reporting for fiscal year 2021. Table 6 below describes the main observations from the reporting available to date.

Table 6: Main Observations from Asset Management and Insurance Taxonomy Reporting

Some of the best practices witnessed so far	Recurring issues in reporting witnessed so far
• Taxonomy reporting has its own section in the non-financial report • Use of estimates and proxies are explicitly laid out and financial undertaking marks which sections used them • Eligibility is broken down per section of the balance sheet • Clear breakout of use of estimates and use of reported data	• Terminology used to present the ratios is inconsistent between financial undertakings • Inconsistency in the definitions or clarity in the use of estimates and proxies • Lack of granularity in the extent and the methodologies followed for estimates and proxies • Lack of reporting

2.2.1 Observations on Use of the Taxonomy Made by Insurers on Their Underwriting Business

Insurance companies also must report on the eligibility and will have to report on the alignment of their underwriting business.

Insurers delivered on the requirements and made use of qualitative/descriptive information to complement the quantitative data. They tend to provide explanations regarding the Taxonomy Regulation associated with both the legal requirements, as well as the information they are presenting.

Different approaches have been taken to present the information requested under Article 10 (3) of the Article 8 Delegated Act. Divergences have been observed regarding:

- The Lines of Business (LoBs) that insurers have considered as eligible (all eligible LoBs as per the Climate Delegated Act vs. a subset thereof, depending on implicit vs. explicit coverage).
- The investment KPIs disclosed where the (insurance) parent is conducting one financial business activity (i.e., insurance) but one or more material subsidiaries of the Group conduct another (material) financial business activity (e.g., asset management).
- The shape of these eligibility disclosures varies, with some insurers providing a simple percentage breakdown, a table specifying all of the relevant information or indicating the results within the text.

Voluntary disclosures have been used to provide further insights by (re)insurers into the information they are managing, complementing information.

As they work internally to prepare themselves for reporting alignment, there are still various open questions remaining for insurers, both on the underwriting and investments KPIs, and both relating to eligibility and alignment. Insurers perceive 2022 as a critical year to receive further guidance on remaining unclarities, to ensure consistency and to allow their internal reporting systems and their products to adapt before January 2023, and especially January 2024 FY 2023 when alignment should be reported.

2.2.2 Observations on Taxonomy Reporting for Investment Firms Under Article 8

This disclosure is made at entity-level, covering the assets under management by the legal entity including investment firms that are subject to Annex VII and VIII of the Disclosure Delegated Regulation²⁰ and asset managers that are subject to Annex III and IV. From January 2022, the financial players in scope only have to disclose the proportion of Taxonomy-eligible economic activities and investments related to climate change mitigation and climate change adaptation objectives. From January 2023, eligibility reporting will be extended to include the remaining four environmental objectives subject to the publication of the Delegated Acts. From January 2024, it is expected that reporting will be for alignment to all six environmental objectives, dependent on the publication of the Delegated Acts.

The lack of available data from investee companies prompted most of investment management firms to use estimates or their own version of 'equivalent information' in their own GIR reporting. The level of detail regarding the methodology used when applying 'equivalent information' varied significantly in the samples reviewed. Until 2025, financial reporting under Article 8 of the Taxonomy Regulation should only be made with direct reference to the data provided by non-financial and financial investee companies and assets; any use of estimates or proxies should be classified as 'voluntary' and reported separately.

Due to the expected low level of reporting by financial undertakings so far, only a few observations could be made as of now. However, some good practices have already been witnessed. In the reporting example provided in Figure 11, the insurer specified where estimates had been used in their reporting, in addition to providing a clear breakdown of eligibility for each category of their balance sheet in accordance with the reporting annexes for the Article 8 Delegated Act. Whilst we observed no direct use of Annexes IV, VI and VIII in financial reporting, most content from the annexes was provided in table format.

²⁰ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2178&from=EN>

Breakdown of eligible investments	Eligibility per investment class covered			Eligibility determined based on actual information (part of mandatory disclosure)	Eligibility determined based on estimates (part of voluntary disclosure)
	Eligible (absolute value) (EUR million)	Total value of investment class covered (EUR million)	Percentage of investment class covered		
General Account investments in scope:					
- Shares	71	644	11%	No	Yes
- Debt securities	10,595	62,956	17%	No	Yes
- Mortgage loans	40,624	40,624	100%	Yes	No
- Private loans	1,910	4,886	39%	No	Yes
- Policy loans	-	1,893	0%	No	Yes
- Real estate	2,643	2,643	100%	Yes	No
- Other ¹⁾	55	5,681	1%	No	Yes
Total eligible General Account investments (numerator)	55,898	119,326	47%		
Investments for account of policyholders in scope:					
- Shares	2,155	15,604	14%	No	Yes
- Debt securities	581	6,098	10%	No	Yes
- Unconsolidated investment funds	89	208,976	0%	No	Yes
- Real estate	563	563	100%	Yes	No
- Other ¹⁾	-	6,344	0%	No	Yes
Total eligible investments for account of policyholders (numerator)	3,388	237,586	1%		
Total eligible Real estate assets for own use (numerator)	185	185	100%	Yes	No

¹⁾ Mainly includes deposits with financial institutions and money market funds which do not qualify for eligibility.

Source: Aegon 2021 Integrated Annual Report

Figure 11: Taxonomy Disclosure by an Insurance Undertaking

2.2.3 Observations on Taxonomy Reporting for Financial Market Participants Under Article 5 and 6

Table 7: Mandatory Disclosures for Article 8 and 9 SFDR Funds from the Taxonomy Regulation

Who?	What do they need to report?	Disclosure Type	What should reporting look like?	When?
Financial Market Participants providing Article 8 and 9 SFDR products	Share of Taxonomy alignment of their funds	Product level disclosure	Refer to Delegated Regulation published on April 6, 2022	From January 2022: Share of alignment must be reported using numerical values for the mitigation and adaptation objectives From January 2023, Regulatory Technical Standards applies for alignment reporting From January 2024, alignment reporting for all six environmental objectives*

**Subject to finalisation of the Environmental Delegated Acts for the remaining four environmental objectives*

On April 6, 2022, the European Commission adopted a Delegated Regulation²¹ which lays out the content of disclosure that FMP financial products need to comply with if they are covered by Article 5 and 6 of the Taxonomy Regulation.²² These Articles specify the Taxonomy reporting required from FMPs who provide Article 8 and 9 funds, as defined under SFDR.

Articles 5 and 6 of the Taxonomy Regulation stipulate that Article 8 and 9 SFDR products need to disclose *"how and to what extent"* their product aligns with the Taxonomy. In the European Commission's Q&A,²³ they clarify that *"to what extent"* needs a numerical disclosure of Taxonomy alignment, not Taxonomy eligibility. However, since alignment reporting is not mandatory for financial and non-financial undertakings until 2023, fund providers do not have access to reported data for now. Therefore, within the same European Commission Q&A, it is specified that the disclosure can be 0% in the first year.

Alongside the Taxonomy disclosure, sustainable investment products are expected to disclose the proportion of "Sustainable Investment" the financial product contains. "Sustainable investment," as defined under Article 2(17) of the SFDR, shall contribute to an "environmental or social objective," provided that the said investment "does not significantly harm" any of those objectives and follows "good governance" practices. This contribution to an environmental or social objective shall be measured on the basis of key indicators (e.g., by key resource efficiency indicators.) Some templates (like the European ESG Template or EET²⁴) are emerging from the industry to clarify the data points to be used, in particular to help determine MiFID sustainability preferences (applicable since August 2022), as well as future SFDR disclosures in line with the relevant Regulatory Technical Standard (RTS) set to apply as of January 2023. Those indicators shall always be adapted to the nature of the environmental or social characteristics or objectives of the product. Among other things, these indicators shall

²¹ [C 2022 1931 1 EN ACT part1 v6 \(1\).pdf \(europa.eu\)](#)

²² [EUR-Lex - 32020R0852 - EN - EUR-Lex \(europa.eu\)](#)

²³ [ESMA Q&A : c 2022 30Anecd51 f1 annex en v3 p1 1930070.pdf \(europa.eu\)](#)

²⁴ [FinDatEx](#)

include a calculation of the percentage of alignment with the EU Taxonomy. To that effect, according to Article 15.3(b) of the SFDR RTS,²⁵ financial market participants can obtain “equivalent information” directly from investee companies or from third-party providers.

Whilst there has been a growth in Article 8 and 9 SFDR fund classification, there has not yet been evidence of quantitative Taxonomy alignment reporting (as of June 2022). Anecdotally, fund providers closed no specified percentage (prior to publication of the aforementioned clarifying European Commission Q&A) stating that they await better corporate reporting of Taxonomy-alignment and guidance on suitable use of ‘equivalent information’.²⁶ For product-level disclosure, there is no mandatory requirement to disclose the Taxonomy-eligibility of the fund, but some providers may choose to, in order to explain the maximum achievable alignment figure based on the diversification of the investment.

Whilst FMPs are reliant on the information disclosed to them by non-financial companies, it is recognised that non-financial companies are themselves still learning how to apply and report on Taxonomy disclosure. A high number of companies make reference to the Taxonomy in their latest non-financial disclosure, but only a fraction of them is offering quantitative metrics and even fewer reporting using the Annex II template from the Article 8 Delegated Act. It is therefore accepted that FMPs may choose to draw upon estimates to supplement their reporting of Taxonomy-alignment. On this basis, the Platform provides the European Commission and ESAs with its recommendations on acceptable use of equivalent information and estimates. The Platform encourages the ESAs to base their advice on the guidance of the Platform and inform FMPs as soon as possible on the official framework for the use of equivalent information and to clarify the calculation methodology for “sustainable investments.”

2.2.4 Observations on Use of the Taxonomy by Credit Institutions

The content of this section is based on information provided to the Platform by seven leading EU credit institutions and complemented by desk research for another eight annual reports of the largest EU credit institutions (see Appendix A for contributors).

Commonalities found in banks’ reporting (surveyed sample) were:

- Presentation of mandatory disclosures (Article 10 of the Article 8 Delegated Act [DA]²⁷) are generally easily accessible and understandable.
- In their reporting, all credit institutions explained the Taxonomy upfront, and the requirements with which they must comply. This tends to match the information required by Annex XI of the Article 8 Delegated Act.
- Taxonomy-eligibility information is presented in tables. Around half of the institutions surveyed provided a simple table indicating the percent of eligibility against their assets, in the majority of cases providing monetary values linked to the percent. The other half of the institutions provided tables with clear portfolio breakdowns of their assets, including one institution providing a graph of the split. Different levels of granularity are provided.
- At times, calculations were found non-conclusive due to lack of full information on NFRD clients and potential mismatches between information held on banks’ internal records and activities undertaken by counterparties.

²⁵ [C 2022 1931 1 EN ACT part1 v6 \(1\).pdf \(europa.eu\)](#)

²⁶ For more information on “equivalent information,” see section 2.3

²⁷ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](#)

Discrepancies found in banks reporting identified were:

- Some institutions do not clearly disclose the scope of exposures used in the denominator (covered assets) or the numerator. A clear identification of the scope of assets and a like-for-like comparison is not possible against banks that disclose that information. This is compounded by the lack of precise disclosures of monetary amounts.
- Three institutions have used their “total assets” instead of “covered assets” to calculate their eligibility ratio, generating results that are not comparable and not in line with the regulatory requirements.
- This discrepancy may stem from the indications of Article 10 of the Taxonomy Article 8 Delegated Act which specifies that *“From 1 January 2022 until 31 December 2023, financial undertakings shall only disclose: (a) the proportion in their total assets of exposures to Taxonomy non-eligible and Taxonomy-eligible economic activities”*; and the indications included in the answer to Question 21 on the Draft European Commission notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of Taxonomy Regulation,²⁸ on the reporting of eligible economic activities and assets which reads:

“Financial undertakings should use a scope of covered assets for their eligibility reporting disclosures that is similar to the scope of covered assets for their alignment reporting. This would make it easier to compare Taxonomy-eligibility reporting and Taxonomy-alignment reporting. This means that the financial undertaking should clearly indicate:

- *the assets that are excluded from the denominator of the Taxonomy-eligible assets ratio (e.g., exposures to central governments, central banks and supranational issuers; the trading portfolio of credit institutions); and*
- *the percentage of covered assets that are Taxonomy-eligible over total assets.”*

Concerning **voluntary disclosures** made by banks, the Platform noted the following points:

- Several banks attempted to estimate their eligibility using different methods. Only a few institutions disclosed the methodology used to find that information. For instance:
 - One bank indicated they estimated the Taxonomy eligibility of their exposures to NFRD clients solely based on NACE (Nomenclature des Activités Économiques dans la Communauté Européenne) codes per activity, thereby excluding eligible activities not mapped to a NACE code; whilst
 - Another bank combined the use of NACE codes where available with the use of the Taxonomy Alignment Tool of the European Commission Joint Research Centre (JRC) where no NACE codes are available to assess eligibility for those activities without a corresponding NACE code.
- Voluntary disclosures were used to estimate the future alignment of assets in the mandatory disclosures.
- Voluntary disclosures were also used to estimate the Taxonomy-eligibility of their non-mandatory exposures (e.g., non-NFRD exposures) using different methods.

Finally, banks spoken to indicated that they have received little external feedback or questions on their reporting. The main feedback received focused on the comparability of the ratio among banks and its interconnection with other information released to the market.

2.2.4.1 Taxonomy Adoption in Decision Making by Banks

Some credit institutions indicate they are beginning to integrate the Taxonomy in their internal policies and frameworks, including formulating sectoral strategies, integrating relevant considerations into their internal

²⁸ Draft Commission notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of Taxonomy Regulation, on the reporting of eligible economic activities and assets [Frequently asked questions: How should financial and non-financial undertakings report Taxonomy-eligible economic activities and assets in accordance with the Taxonomy Regulation Article 8 Disclosures Delegated Act? | European Commission \(europa.eu\)](#)

classification systems, including references into group-wide risk policies and building up environmental and social risk portfolio analysis capabilities (though the latter is likely mainly driven by Pillar III requirements.)

Credit institutions are starting to integrate the Taxonomy into NFRD client engagement as a common language to facilitate the dialogue on sustainability performance, support clients in their transition journeys, and facilitate disclosure.

More than half of the institutions surveyed started to incorporate published technical screening criteria into their loan assessment processes and in their relevant risk, finance, and front-office systems to eliminate data discrepancies and raise awareness of the Taxonomy in decision-making or new product offerings.

Integrating the Taxonomy into product design is seen as an interesting commercial opportunity to support customers in their transition journey. Some institutions are aligning internal offerings by directly adding Taxonomy considerations to their existing products. The Platform observed new product development incorporating Taxonomy considerations in the retail, corporate banking (project finance) as well debt equity (green bonds and transition bonds, especially) business lines. To support this product growth, banks would welcome an extended Taxonomy to capture a broader array of the activities financed.

Finally, the banks surveyed are aware of the need to match product development with portfolio decarbonisation strategies. They do this via the introduction of specific KPIs on the business side, using Taxonomy thresholds as an important element in their decision-making process. However, some institutions note that the Taxonomy needs to be complemented by tools like the Paris Agreement Capital Transition Assessment (PACTA) in order to match it with the decarbonisation commitments made by institutions and/or other publicly known science-based open-source models/initiatives (e.g., OS-Climate).

2.3 Equivalent Information and Estimates

The considerations below are compiled under the aegis of the Platform on Sustainable Finance and cannot be construed as official guidance by the European Commission or by the ESAs. As a result, the views and recommendations do not purport to represent or anticipate any future official guidance and views issued by the ESAs which may differ from the contents of this report.

FMPs are dependent on the self-reported Taxonomy values from their European investee companies to inform their own reporting. However, financial market participants are permitted to use 'equivalent information' in the reporting of their financial products according to the 6 April 2022 Delegated Regulation.²⁹

Article 15(3)(b) ... where information about the degree to which the investments are in environmentally sustainable economic activities is not readily available from public disclosures by investee companies, details of whether the financial market participant obtained equivalent information directly from investee companies or from third party providers;

An investor can apply 'equivalent information' to determine Taxonomy-alignment of a company or asset where the value is not self-disclosed. The provision in the current draft allows for use of 'equivalent information' where sourced from the investee company directly or by means of a third-party provider.

²⁹ Publications Office (europa.eu)

2.3.1 What is an Estimate?

Estimates are often used to refer to data that has been proxied or derived from a third-party source. For the purpose of this report, it is worth clarifying that some estimates are permitted whilst others are not. Please read the European Commission's Q&A³⁰ for further clarification.

Non-Financial Undertakings Use of Estimates in Reporting

For a non-financial company, the need for estimate or proxy models is recognised for some of the environmental data they report, notably for metrics like Scope 3 emissions, which look at the emissions profile of the value chain where not all companies in the value chain may themselves report Scope 1 or 2 emissions. Where possible, a non-financial company should attempt to measure their environmental metrics in preference to using estimates or modelling. For the purpose of Taxonomy reporting, the financial metrics (turnover, Capex, Opex) should mirror the figures reported in the financial statement of the firm for the same fiscal period. In order to determine alignment, a non-financial company will be required to test its activities and assets against the Technical Screening Criteria (TSC) within the Taxonomy Climate Delegated Act.³¹ In order to do so, some key environmental metrics – like emissions, water use, and waste managed – will need to be used in order to ascertain alignment. Supplementary information like life-cycle emissions may draw on estimates or proxy data. It is recommended that all data used to support Taxonomy alignment reporting is accompanied in the non-financial or corporate sustainability reporting disclosure of the firm. The Platform would recommend that data used to support Taxonomy-alignment reporting, wherever possible, is derived from financial or non-financial data sources that are themselves subject to third-party assurance (see PART 4: Verification.)

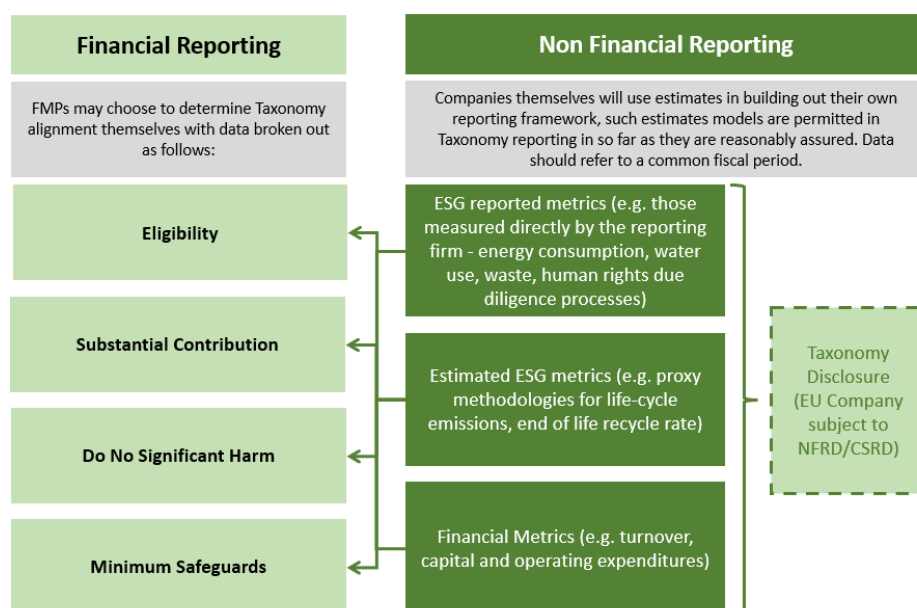


Figure 12: Reporting by Financial Market Participants and Use of Data

Financial Company Use of Estimates in Reporting

For the purpose of Taxonomy Reporting, this report will draw on the term 'equivalent information' as regards to permitted Taxonomy-estimates. The ESAs introduced the term 'equivalent information' in product-level reporting.³² 'Equivalent information' is only permitted for companies who are not subject to the Article 8

³⁰ https://www.esma.europa.eu/sites/default/files/library/c_2022_3051_f1_annex_en_v3_p1_1930070.pdf

³¹ [EUR-Lex - 32021R2139 - EN - EUR-Lex \(europa.eu\)](#)

³² [Publications Office \(europa.eu\)](#)

Delegated Act³³ requirements within the Taxonomy Regulation³⁴ according to Article 15(3)(b) of the Delegated Regulation.³⁵ This would be companies not subject to the NFRD and CSRD thereafter.³⁶ Therefore, ‘equivalent information’ may be used by investors for non-EU or European SME investee companies. The Platform requests the European Commission and ESAs consider applying ‘equivalent information’ where self-reported Taxonomy-eligibility and alignment has not been provided. From a usability perspective, this will help in the first year with sequencing financial reporting with non-financial reporting and then also apply in the year when CSRD comes into effect. In all cases, where company reported Taxonomy-eligibility and alignment is provided, this is used in preference to ‘equivalent information.’

Within the Article 8 Delegated Act Article 7(7), FMPs and financial undertakings are permitted to use estimates for the Do No Significant Harm (DNSH) Taxonomy assessment of third country companies that form part of their GIR or GAR subject to the 2024 revision of the Article 8 Delegated Act. For the purpose of this paper, we will refer to these estimates or proxies as ‘equivalent information.’ **The Platform recommends that the treatment of derived data for fund-level reporting (under Articles 5 and 6) aligns with the reporting of derived data in Article 8 entity-level reporting of the Taxonomy Regulation.**

It is important that ‘equivalent information’ does not favour non-EU over EU companies in terms of applying a lower reporting burden to evidence compliance with the Taxonomy. Advice given in this paper refers to FMPs using a robust estimate or proxy model to determine if a company’s operations meet the technical screening criteria of the Taxonomy. **The Platform would not expect ‘equivalent information’ to apply to environmental objectives not yet in Delegated Acts or to sectors not considered eligible within such published Delegated Acts.**

The Platform recognises that the legislation provides more guidance in Recital 21³⁷ and the European Commission's Q&A under SFDR from May 2022 gives supplementary guidance recognising the need for FMPs to use “assessments and estimates”³⁸ where the Taxonomy information required for their own reporting is not readily available. The Platform’s subsequent recommendations in this paper comply with the prudential outcome requested in this recital. If in any doubt, investors should err on the side of the planet.

(21) “Regarding economic activities carried out by undertakings that are not required to disclose information under this Regulation, there could be exceptional cases where financial market participants cannot reasonably obtain the relevant information to reliably determine the alignment with the technical screening criteria established pursuant to this Regulation. In such exceptional cases and only for those economic activities for which complete, reliable and timely information could not be obtained, financial market participants should be allowed to make complementary assessments and estimates on the basis of information from other sources. Such assessments and estimates should only compensate for limited and specific parts of the desired data elements, and produce a prudent outcome. In order to ensure that the disclosure to investors is clear and not misleading, financial market participants should clearly explain the basis for their conclusions as well as the reasons for having to make such complementary assessments and estimates for the purposes of disclosure to end investors.”

The Platform's recommendations should not be used for the purposes of any disclosures under SFDR or the Taxonomy Regulation. The Platform's recommendations are directed to the European Commission and the ESAs to consider improvements to the current rules.

³³ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](#)

³⁴ [EUR-Lex - 32020R0852 - EN - EUR-Lex \(europa.eu\)](#)

³⁵ [Publications Office \(europa.eu\)](#)

³⁶ [Corporate sustainability reporting | European Commission \(europa.eu\)](#)

³⁷ [EUR-Lex - 32020R0852 - EN - EUR-Lex \(europa.eu\)](#)

³⁸ [c_2022_3051_f1_annex_en_v3_p1_1930070.pdf \(europa.eu\)](#)

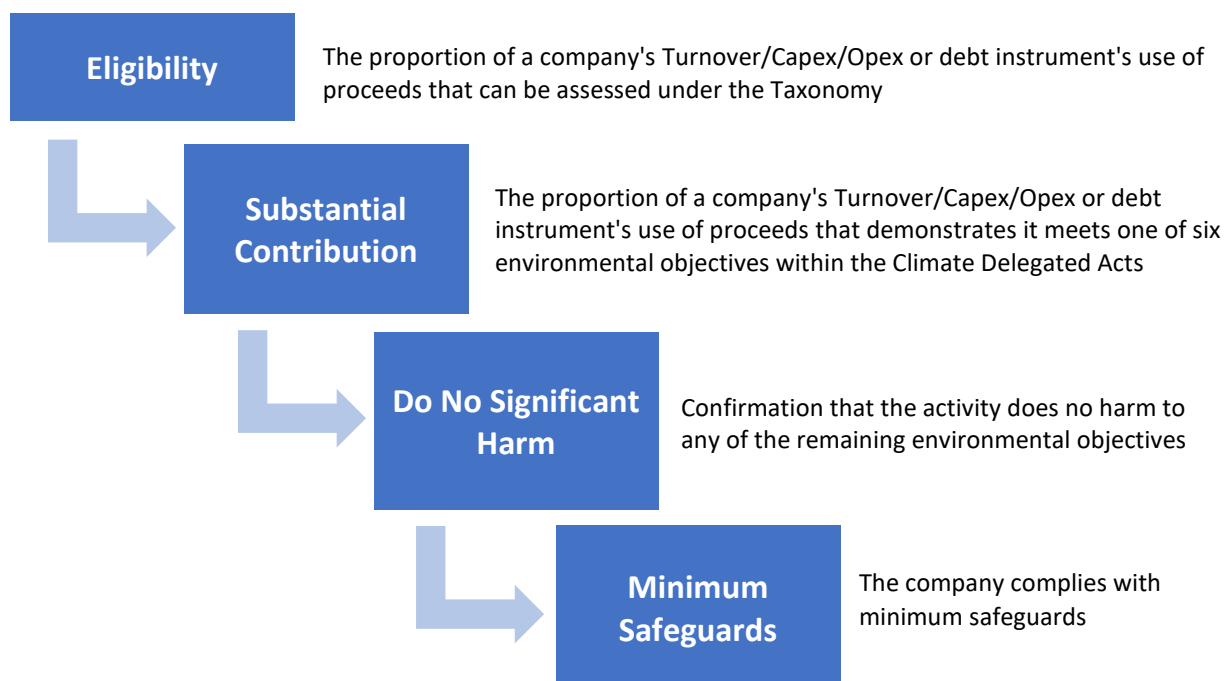


Figure 13: Taxonomy Assessment Model

Whilst the Technical Expert Group (TEG) report³⁹ recommends the above sequencing of the Taxonomy process, the Platform acknowledges that investors may perform minimum safeguards and do no significant harm due diligence before engaging an investee company. Therefore, these steps are illustratively marked one to four but can be conducted in any order.

Step One: Determine Eligibility

Disclosure of eligibility is not required as part of Article 5 and 6 disclosures within the Taxonomy Regulation⁴⁰ or associated RTS.⁴¹ Should the FMP wish to explain the eligibility values of their product to indicate the cap or maximum Taxonomy-alignment value the product has the ability to achieve, they can do so as part of their periodic disclosures when answering the question “what was the share of sustainable investment with an environmental objective that were not aligned with the Taxonomy.” The FMPs could disclose the percent of revenues, Capex and Opex that is Taxonomy-eligible but not aligned. It is worth noting that eligible but not aligned investments should ensure they cause no harm in line with Article 2 (17) of Regulation (EU) 2019/2088.⁴²

The Platform provided detailed guidance on how to estimate eligibility, when not self-reported by the investee firm or issuer, within the voluntary guidance of December 2021. This information was provided within the Platform’s voluntary guidance, December 2021. Such guidance would only be relevant to reporting under the Article 8 Delegated Act (entity-level): Platform on Sustainable Finance: Considerations on voluntary information as part of Taxonomy-eligibility reporting | European Commission (europa.eu)

³⁹ TEG final report on the EU Taxonomy (europa.eu)

⁴⁰ EUR-Lex - 32020R0852 - EN - EUR-Lex (europa.eu)

⁴¹ jc 2021 50 - final report on Taxonomy-related product disclosure rts.pdf (europa.eu)

⁴² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019R2088>

Step Two: Determine Substantial Contribution

The Platform draws upon guidance within the Article 8 Delegated Act⁴³ with respect to substantial contribution. Under Article 7 (7) use of estimates are only permitted with respect to Article 3 of Regulation (EU) 2020/852 point (b) “*does not significantly harm any of the environmental objectives;*” On this basis, an investor would need to see evidence from the reporting company that they are in compliance with Article 3 (a) “*contributes substantially to one or more of the environmental objectives*”.

How does the Platform interpret this guidance?

Investors or their data providers would need to use environmental metrics disclosed by the investee company or issuer in order to determine substantial contribution. Guidelines on substantial contribution approach include the following approaches:

1) If a company has not reported or provided key metrics required to determine substantial contribution, an FMP or data vendor should not estimate those values. For example, looking at the mitigation objective, a manufacturing company would need to disclose the tonnes of production within the reporting fiscal period, and the associated carbon dioxide equivalent emitted within the production process. For most manufacturing activities, the thresholds for mitigation refer to the EU Emissions Trading System (ETS) method of calculation. In most cases, this method looks at direct carbon emissions also known as Scope 1 in the Greenhouse Gas (GHG) Protocol⁴⁴, and for some manufacturing processes that require electrolysis (such as aluminium) looks at indirect or Scope 2 emissions. If a company does not disclose their production values, they cannot be estimated via revenue reporting. Similarly, if a company does not disclose its emissions, they cannot be estimated based on peer comparison or other methodologies.

2) If a company has not reported or provided activity-level information, but has reported or provided entity-level metrics, these can be used to estimate alignment under the precautionary principle. For example, if a company only discloses total GHG (Scope 1 + Scope 2) relative to its production values, then this figure can be used to determine substantial contribution, even if only Scope 1 emissions are required, as this over-reported value would comply with the precautionary principle. Similarly, if the company only reports entity-level carbon rather than activity-level, the value can be taken under the precautionary principle (i.e., “If in doubt, err on the side of the planet.”) Entity-level emissions reporting should be larger than the activity level, noting that the denominator (e.g., tonnes of cement / aluminium / steel or kWhs of energy) should remain consistent to the eligible activity. This will then satisfy the precautionary principle.

3) Top-down or bottom-up approaches can be used to estimate substantial contribution. When companies report their own alignment with the Taxonomy, they are advised to have a bottom-up approach. This means that companies can count how many of their plants or how much of their production process meets the criteria and count the revenues generated by them. For example, a company has three power generation plants. Instead of using the average carbon intensity of the three plants, the company might examine the carbon intensity of each plant, and whether each meets the substantial contribution and DNSH, and then count the revenues generated from those plants that actually meet the criteria. However, it is not common that companies disclose the carbon intensities and other environmental criteria by plant or facility. For those companies that do not report against the Taxonomy, or in the lack of plant or asset-level reporting, FMPs ought to use the carbon intensity of the entire activity. In short, FMPs are advised to have a top-down approach.

⁴³ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](#)

⁴⁴ [Greenhouse Gas Protocol | \(ghgprotocol.org\)](#)

In Summary: Only company reported environmental metrics should be used to determine substantial contribution. A top-down approach might be more feasible.

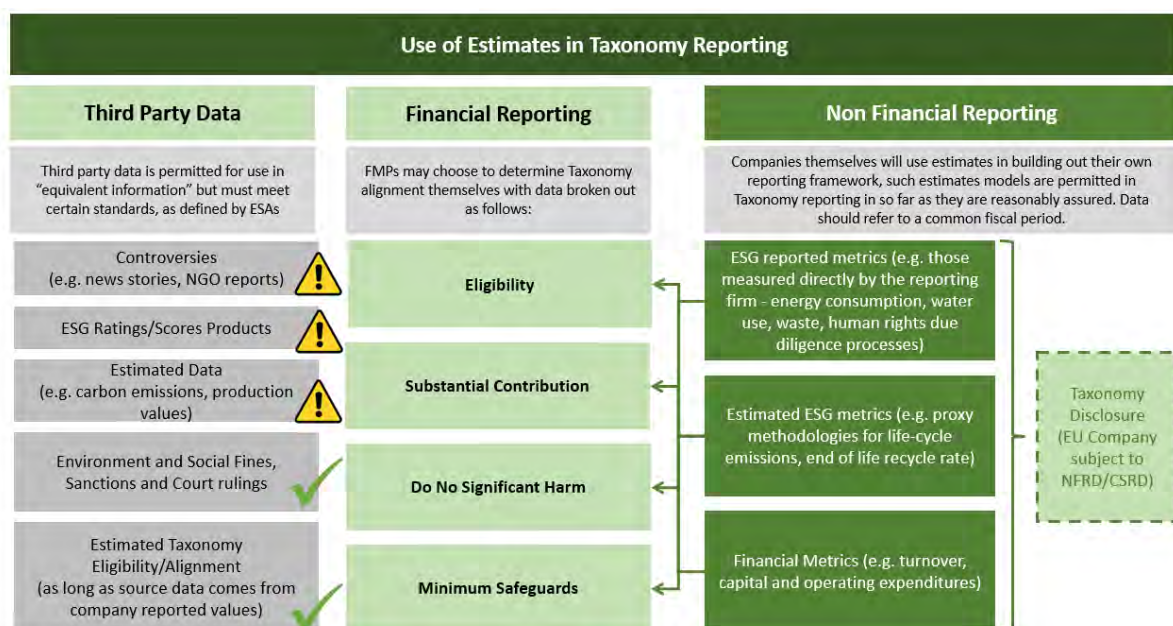


Figure 14: Use of Estimates in Taxonomy Reporting

Figure 14 shows the different sources of data to build each component part of the Taxonomy. On the right-hand side this shows some cases, where estimates may be required. On the left-hand side of the diagram, where third-party data is used, estimates, ratings, scores, and controversies are cautioned by the Platform, with detailed explanations provided in this section of the report.

Step Three: Determine Compliance with 'Do No Significant Harm'

DNSH covers qualitative, quantitative, and process-based criteria as mapped out in Figure 15 below. The substantial contribution criteria combined with the DNSH criteria seeks to ensure a baseline environmental performance in that progress towards one objective is not made at the expense of another.

Types of DNSH criteria

The Platform has conducted analysis on the existing criteria for DNSH and the types of assessment required for each category. This exercise included DNSH criteria for all environmental objectives and identified five categories under which the criteria can be classified. The first category of Type A criteria are second thresholds, such as an absolute emission level per kWh as found within the climate change mitigation DNSH within the energy sector. Type A is quantitative and the most recommendable from a usability point of view. The second-best category from a usability perspective, Type B, contains process measures. For example, within DNSH for ecosystems a criterion is that mitigation measures have been implemented to avoid wildlife collisions. These can be assessed quantitatively or qualitatively but are still readily assessable. Should ex ante assessment of DNSH criteria not be possible, one remedy can be to contractually impose step-up coupon penalties.⁴⁵ This is already common practice for Sustainable Development Goal (SDG) linked bonds.

⁴⁵ Where financial penalties are contractually imposed for companies who do not meet their commitments to remedy issues identified in their Do No Significant Harm due diligence, or where projects do not meet DNSH requirements on completion.

The following category, Type C, revolves around International Standards and EU Legislation. Assessment can be quantitatively or quantitatively. For example, within Pollution DNSH criteria, there is reference to the Biocidal Products Regulation (EU) 528/2012, which implements the International Convention on the control of Harmful Anti-Fouling Systems on Ships. Whilst having International Standards is very useful in terms of interoperability, it gives significant control to issuing entities, and trustworthiness needs to be assured. The Type C criteria in some cases do present usability challenges, as detailed later in this section of the report.

The remaining two Types are not recommendable from a usability perspective. Type D criteria depend on EU-only legislation. This is problematic for use cases in the non-EU context. A further distinction between reference to EU regulation and EU directives can be made. Directives may pose a usability challenge as it is up to Member States to transpose the EU text, who may have diverging interpretations. Also, it creates an issue in cases where Directives have not yet been implemented in some countries but are referenced for DNSH.

Lastly, Type E criteria state ambitions, which cannot be assessed. An example is found within Circular Economy DNSH criteria, where peat extraction is to be *minimised*. Minimisation is not a clear definition as it lacks benchmarking values and reference points. Theoretically, a small increase can be called minimisation if an alternative option would lead to a bigger increase.

The different Types of DNSH criteria and their assessment is summarised in Figure 15. The first column gives the name of the respective DNSH Type, the second column provides an example from one of the six environmental objectives and the last column identifies how assessment can be carried out.

Type	Name		Example	Assessment
A	Second Threshold		<i>Climate Change Mitigation:</i> "The direct GHG emissions of the activity are lower than 270g CO ₂ e/kWh."	Quantitative
B	Process Measure		<i>Ecosystems:</i> "Where relevant, maintenance of vegetation along road transport infrastructure ensures that invasive species do not spread. Mitigation measures have been implemented to avoid wildlife collisions."	Quantitative & Qualitative
C	International Standards & EU Legislation		<i>Pollution:</i> "Measures in place to minimise toxicity of anti-fouling paint and biocides as regulated in the Biocidal Products Regulation: (EU) 528/2012, which implements (in the EU) the International Convention on the Control of Harmful Anti-fouling Systems on Ships, which was adopted on 5 October 2001."	Quantitative & Qualitative
D	EU Only Legislation	D1.1 EU Regulation	<i>Pollution:</i> "The activity complies with Regulation (EU) 2019/1009 or national rules on fertilisers or soil improvers for agricultural use."	Quantitative & Qualitative
		D1.2 EU Directive	<i>Ecosystems:</i> "An Environmental Impact Assessment (EIA) or screening has been completed in accordance with Directive 2011/92/EU."	
E	Non-assessable Ambition		<i>Circular Economy:</i> "Peat extraction is minimised."	Not possible

Figure 15: Classifying EU Green Taxonomy Do No Significant Harm (DNSH) Criteria

Considerations on Technical Screening Criteria in the Climate Delegated Acts for Harm

In its current form, some of the DNSH testing criteria create substantial interpretation and usability challenges. If left unaddressed, this could impact the goal of generating complete, comparable, and reliable disclosure.

Some companies subject to reporting under the Taxonomy Regulation Article 8 Delegated Act, note that references to the EU legislation within the DNSH annexes can be complex. Some examples provided to the Platform include:

Example 1

Specific concerns within appendix C⁴⁶ of the Climate Delegated Act, related to generic criteria for DNSH to pollution prevention and control regarding use and presence of chemicals:

Concern relates to the following points:

1. Points (f) and (g) prematurely reference “essential use.” This obliges companies to conduct an essentiality test on Substances of Concern (SoC) used during the manufacturing process of products. Criteria for essentiality of chemicals will not be formalized for Financial Year 2022 Taxonomy-alignment reporting. This creates fragmented interpretation, generates legal uncertainty, and may prevent companies from complying with these provisions.
2. The Commission has committed to using the Montreal Protocol as a basis for defining essential uses; however, there is acknowledgement that the chemicals covered by the EU chemicals regulatory framework is much broader than the specific scope of the chemicals covered by the Montreal Protocol.
3. Substances of Concern will also not be legally defined for Financial Year 2022 Taxonomy-alignment reporting.

Example 2

Biocidal Product Regulation does not require corporates to put in place measures to minimize toxicity of anti-fouling paint and biocides, which contradicts how testing criteria are written. Instead, Biocidal Product Regulation requires the European Commission, European Chemicals Agency (ECHA) and Member States to put in place a process for authorising the placement on the market of certain products. This impacts the understanding of what the corporate has to put in place to comply with the criterion. If the corporate indeed has to put in place measures, the criteria would not be applicable internationally.

However, Regulation 2019/1009⁴⁷ puts in place very specific product-level requirements (e.g., Annex 1 of the regulation setting out maximum levels of certain nutrients/contaminants per product category.) These requirements could be understandable internationally and thus more applicable within Do No Significant Harm.

Example 3

Directives who set a requirement for Member States to reach particular environmental objectives and therefore to adopt processes/systems (e.g., permit-issuing processes) that are consistent with the objectives: Water Framework Directive (WFD), Marine Strategy Framework Directive (MSFD), Habitats and Birds Directives. For criteria based on these directives, assessing compliance depends almost completely on the permit-issuing authorities’ decisions. Directives designed to require activities not to pollute more than a certain amount such as IED or Regulation 2019/2009, where clear pollutants thresholds are defined for each activity (BREF), are more usable.

Whilst it is acknowledged in the introduction of this report that the environmental ambition of the Taxonomy is high and there are very few companies today who demonstrate substantial contribution to the mitigation or adaptation objective, when applying the DNSH tests, we see even lower alignment levels. In part, this is down to disclosure, where companies do not report in their existing ESG or Corporate Sustainability Reporting (CSR) non-financial statements enough information to determine adherence to the technical screening tests. DNSH technical screening criteria account for just under 300 unique tests across the existing Delegated Acts, but with more than 700 individual DNSH requirements with repeated variations for different Taxonomy activities. These DNSH requirements are not evenly distributed across objectives or activities; some economic activities are subject to many more requirements than others. The number of unique DNSH requirements, the specifics, and nuances within each DNSH requirement, and the variations in applying DNSH requirements to economic

⁴⁶ [Microsoft Word - 1 EN annexe acte autonome part1 v16 \(europa.eu\)](#)

⁴⁷ [EUR-Lex - 32019R1009 - EN - EUR-Lex \(europa.eu\)](#)

activities make it challenging for companies to assess the Taxonomy alignment of their activities, and even more challenging for investors to assess the Taxonomy alignment of their investee companies and assets.

Type A criteria requires a straightforward approach given its quantitative nature. It is the easiest to be applied and requires the company to disclose the environmental metric, e.g., carbon intensities. Process-based criteria require the investor or financial actor to verify that the company has set up the required process. Qualitative criteria are harder to assess and require a judgement call from investors.

Roughly 48% of DNSH in the Climate Delegated Act refer to existing EU legislation and International Standards, the former being the most prevalent.

Table 8: Distribution of Technical Screening Criteria in DNSH

Screening Criteria Type	Count of Tests	% of Total
D	325	41%
B	298	38%
E	68	9%
C	54	7%
A	47	6%
Grand Total	792	

Availability of Data

The Platform has observed the following data availability when proxying ESG or CSR disclosures to the Taxonomy DNSH tests.

Company Level

Companies were broken into Taxonomy eligible activities, and the ESG data were mapped to the technical screening criteria for each activity relative to the substantial contribution to mitigation requirements. Where a company passed all or a portion of its turnover as substantially contributing, these activities were then tested for compliance with DNSH. DNSH tests were mapped to available data in the company's ESG or CSR disclosures.

For 2,843 companies sampled who made turnover from activities that were substantially contributing to the mitigation objective, only 19 companies were able to demonstrate full compliance with the DNSH testing requirements. Of the 19 which passed DNSH with 100% evidence of compliance, five were EU27-based companies, four other European, and 10 rest of world.

Table 9: Sample of Companies Passing DNSH When They Meet SC to Mitigation for Fiscal Year 2020

Meet 100% DNSH test threshold	19/2843 (0.6%)
Meet 75% DNSH test threshold	33/2843 (1.1%)
Meet 50% DNSH test threshold	106/2843 (3.6%)

Beta test covered 2,843 companies with >0% estimated eligibility and >0% estimated substantial contribution to mitigation

A comparison was made for DNSH to each environmental objective, for a sample of companies/sectors, with the results detailed in Table 10. This table shows very low disclosure levels and data availability for proxying DNSH accurately. 1,056 companies were tested against the DNSH criteria for mitigation relative to the Taxonomy-eligible activity or activities they conducted and none passed 100% of the DNSH test criteria, 12 passed 50% of the DNSH test criteria and the same 12 passed at the 75% threshold. For Pollution, 2,269 companies were tested against the pollution based DNSH test criteria and 44 companies showed evidence of meeting all tests, which rose to 522 companies who met 50% of the DNSH test criteria. Most companies sampled did not pass the tests because they were missing the necessary disclosures, rather than evidence of any harm in their process.

Table 10: Sample of Companies Passing DNSH per Environmental Objective, as of June 2022

Objective	Score 100%	Score 75%+	Score 50%+
Mitigation	0/1056 (0%)	12/1056 (1%)	12/1056 (1%)
Pollution	44/2269 (2%)	301/2269 (13%)	522/2269 (23%)
Waste	88/2764 (3%)	482/2764 (17%)	1378/2764 (50%)

Similarly, research by FTSE Russell looked at the correlation between companies who claim 'Green Revenue' vs. Taxonomy eligibility and the use of controversies as a screening tool versus DNSH and Minimum Safeguard tests. Their results are documented in Figure 16: Examples of Calculating Taxonomy-Alignment Percentage

Source: *FTSE Russell September 2021*. This chart demonstrates the Taxonomy alignment for the FTSE All Cap, and indices designed to capture green companies, including the FTSE Environmental Opportunities All-Share Index (EOAS)⁴⁸ and FTSE Environmental Technologies Index Series – ET100 Index (ET100).⁴⁹ Taking into account the DNSH and Minimum Safeguards (MS) requirements, 3.4% passes controversies screening, and 0.4% passes both controversies screening and all the Taxonomy technical screening criteria in the FTSE Russell model. This is similar to the Platform's results above.

⁴⁸ Companies must have at least 20% of Green Revenues derived from environmental products and services to be eligible for the FTSE Environmental Opportunities Index Series. <https://www.ftserussell.com/products/indices/env-markets>.

⁴⁹ Five Companies must have at least 50% of Green Revenues derived from transformational environmental technologies to be eligible for the FTSE Environmental Technology Index Series. The FTSE Environmental Technologies Index Series includes the FTSE ET100 Index, which comprises the 100 largest pure play companies globally by full market capitalization. <https://www.ftserussell.com/products/indices/env-markets>.



Figure 16: Examples of Calculating Taxonomy-Alignment Percentage

Source: FTSE Russell September 2021

The Platform recognises that DNSH poses significant usability challenges to preparers of Taxonomy reporting and therefore recommends that the European Commission reviews provide supplementary guidance to reporters. The Platform reiterates recommendations made in the report on an environmental transition Taxonomy, where some DNSH criteria are missing and some need clarity on thresholds and/or trajectories.⁵⁰

Recommendations

The Platform recommends the European Commission to ensure all testing criteria have clear Yes/No outcomes that can be objectively determined.

- Minimise subjective language in technical screening criteria.
- Ensure guidance is given on what a suitable Yes/No outcome is for process-based tests, in the form of supplementary guidance.
- Allow for international application of EU legislation referenced in the Climate Delegated Act.
- Maintain Environmental Integrity and Performance level of the tests.

Market Practice

The Platform has observed the following market practices to estimate DNSH under 'equivalent information':

- 1) **Use of Environmental Controversies:** If a company is not in violation of a common, global environmental standard then they 'pass' DNSH.
- 2) **Compliance with Local Environmental Laws or Official Standards:** If a company complies with the local environmental laws and standards associated to its operations, then they 'pass' DNSH. Violation of local environmental laws or standards evidenced with fines or sanctions would 'fail' DNSH.

⁵⁰ Platform on Sustainable Finance's report on environmental transition Taxonomy (europa.eu)

- 3) **Use of ESG scores for Environmental Criteria.** For investments in private markets, FMP use specific due diligence questionnaires prior to investing in a certain project. In addition, they include in the contractual framework reporting duties for the investee company. ESG scores are built by the FMP themselves based on a set of environmental, social and governance criteria or ESG scores can be bought from a third-party provider. They self-define a tolerance on an ESG score or rating in order to proxy to DNSH.
- 4) **Grading a Company's Compliance with the DNSH Tests in the Taxonomy and/or Conducting Due Diligence:** If a company demonstrates, within their corporate sustainability reporting practices, that they meet some but not all testing criteria in the Climate Delegated Act then the proportion of pass vs fail is delivered in a score; this can be reported as a percentage (%) value or as a meets/partially meets/does not meet result.

Assessing the four options, the Platform has the following observations:

1) **Use of Environmental Controversies**

The more broadly called “environmental controversies” are typically entity-level assessments of a company to a common environmental baseline. They tend to be based on a myriad of events ranging from court cases, to press articles or NGO campaigns.

They are useful as input for investors when engaging with companies and to deal with reputational risk management. However, they are not a comprehensive source to assess compliance with the Taxonomy DNSH tests. Some are backward looking and do not consider the remedial efforts that have gone into correcting environmental issues. Typically, controversies are at the extreme end of environmental standards and set DNSH at a lower bar than the Climate Delegated Act. Important metric-based thresholds, such as energy performance within 270g CO₂e/kWh, or relevant processes would be ignored by a controversy-based estimate model (e.g., ‘the physical climate risks that are material to the activity have been identified’ - DNSH to adaptation.) This would create a lighter reporting burden and lower levels of environmental due diligence.

The TEG's view, in the March 2020 report, is that using controversies exclusively is not a robust approach for demonstrating that even modest climate change mitigation and adaptation objectives have been met. For an economic activity to be Taxonomy-aligned, it should demonstrate consistency with environmental objectives, which are the basis of the technical screening criteria.

In Summary: The Platform is not in favour of using controversies alone to estimate compliance with DNSH due to low alignment with the technical screening tests and entity versus activity level differences in approach.

2) **Compliance with Local Environmental Laws or Official Standards for Operations Outside the EU**

The concern with this approach would be that if a company operates in a jurisdiction with lower standards or no environmental laws, then the company would automatically pass DNSH without needing to apply the same due diligence and rigour as their European counterparts. The Platform is not in favour of applying this asymmetrical approach to estimating compliance with DNSH on its own. The Platform notes, that creating unachievable high standards in developing countries might discourage Financial Institutions (FIs)⁵¹ from investing. We recognise the concern that this could lead to certain projects to not get access to green finance or finance at all. The right balance between not giving undue advantage to non-EU companies over EU-companies while at the same time encouraging any financing of Taxonomy-aligned activities throughout the world should be sought. That said, the baseline requirements of DNSH cannot be compromised as a result of lacking local environmental standards or laws. For operations in the EU, when DNSH criteria refers to EU legislation, financial market participants can effectively check if there are breaches of law have been found and issues subsequently remediated.

⁵¹ Financial Institutions collectively captures financial companies subject to Articles 5, 6 and 8 TR (i.e., “financial market participants” (as defined in SFDR) for Articles 5 and 6 and “financial undertakings” (as defined in the Article 8 DA) for Article 8.)

In Summary: The Platform is not in favour of only using compliance with environmental laws to estimate compliance with DNSH. However, compliance with local environmental laws is a key input to a DNSH assessment. A company not meeting local laws (i.e., by final conviction) should be flagged as not meeting DNSH unless they can demonstrate remedial measures have been implemented.

3) Use of ESG Scores Models

Environmental scores models can vary in their composition, data use and output. If environmental scores are used as proxies to DNSH, such scores need to evidence their extent of compliance with the DNSH quantitative and qualitative or process-based tests and compliance with local environmental laws. A detailed methodology document that explains how the environmental score aligns with the Taxonomy DNSH tests should be produced to accompany use of such scores in a proxy model. Where a score is less than the top range, a due diligence process should be performed to justify the view that the company complies with DNSH.

In Summary: Environmental scores can be used where they can demonstrate alignment with DNSH quantitative and qualitative tests and that they consider compliance with local environmental laws. Supplementary due diligence is encouraged.

4) Grading a Company's Compliance with the DNSH Tests in the Taxonomy: DNSH tests can be assigned 5 Types A>E, as explained in Figure 15.

Proxies to test types A>C are possible through reviewing an EU and a non-EU company's disclosure of environmental metrics and standards reported in their Corporate Sustainability Report (CSR). Types D and E are not possible to proxy in all cases for international operations, as evidenced in Figure 16.

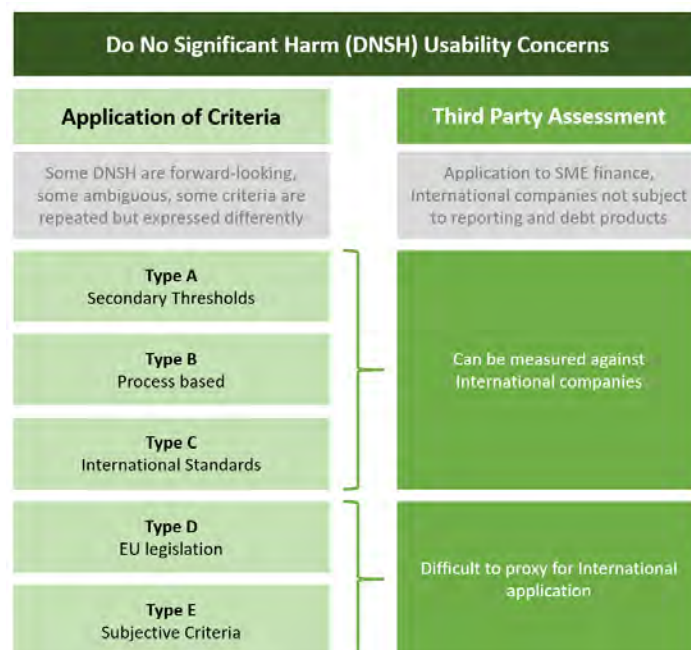


Figure 17: Do No Significant Harm Usability Challenges

The Platform is in favour of a model to proxy DNSH tests to existing corporate sustainability reporting, as this creates a more even set of requirements between EU and non-EU firms. Evidence of compliance with the quantitative thresholds in DNSH should be mandatory, following the same guidelines as provided in Substantial Contribution. Qualitative assessment may not be fully evidenced in a company's sustainability report, therefore financial market participants could look at or request the proportion of process steps evidence in a company's ESG disclosure, assigning this a value up to 100%. A company

with no evidence of disclosure in line with the DNSH process-based tests would score 0%. Where a company does not demonstrate 100% compliance, the Platform would encourage the FI to complete a supplementary due diligence process or direct engagement with the investee company to ascertain full compliance with DNSH before determining Taxonomy-alignment.

Proxies to European legislation and imprecise test criteria can be problematic for non-EU companies. The Platform recommends the creation of equivalent tables that would establish equivalent quantitative or qualitative criteria, wherever possible, based on international standards for all EU legislation-based criteria to enhance the international operability of the Taxonomy. The Platform recommends that the European Commission should take further steps to identify the gaps between existing EU, international standards and national legislation referenced in the Delegated Acts.

In Summary: Company-reported environmental metrics as well as the existence of adequate due diligence processes that map to the technical screening requirements in the Climate Delegates Act (reviewing company's policies, managements systems, monitoring, reporting, etc.) should be used to determine compliance with the qualitative process-based tests of DNSH. A grading-based approach to accepting companies adequately meet do no significant harm is permitted so long as it is backed by a due diligence approach by the data provider or within the investment management firm.

Due Diligence

An FI can complement the percentage pass rate DNSH result with appropriate due diligence and company engagement. Process-wise, such due diligence could be conducted through audits, questionnaires and/or analysis of evidence-based information. It should help the FI to understand the risks of the contributing activities to significantly harm any environmental objective. This could also comprise an analysis of the investee companies existing policies, management systems and governance set-up. For the due diligence, the approach should be proportionate and risk-based: The more the company and/or activity is exposed to the risk of causing a significant harm, the more detailed the investigation and the more diverse due diligence measures should be applied. Such due diligence should be properly documented and be accessible for internal and external audit reviews in connection with audits/assurances of the Taxonomy disclosure.

For private markets, a due diligence would be the centric approach. Private market investments include a large range of sustainable investments such as investments in renewable energy. For such investments, however, data is generally not available. Data providers will focus rather on publicly listed company data. This is facilitating a divergence from smaller, unlisted companies. Both the technical screening criteria and the DNSH criteria can be challenging to confirm if the relevant company is not measuring a particular metric and has no internal capacity to do so. For instance, investment activities in emerging markets often apply other taxonomies, for instance those of the Multilateral Development Bank or the International Finance Corporation (IFC) Performance Standards (see Part VI). In the investment process, FIs need to investigate the alignment of such frameworks to the Taxonomy. For private market investments and investments in smaller companies, FMPs may choose to gather the information themselves through questionnaires and engagement.

Step Four: Determine Compliance with 'Minimum Safeguards'

The minimum safeguards clause (Taxonomy Regulation Article 18⁵²) specifies that minimum safeguards *"shall be procedures implemented by an undertaking that is carrying out an economic activity to ensure the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental*

⁵² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>

conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.”

Practically, this means that undertakings whose economic activities are to be considered as Taxonomy-aligned have to align with the standards for responsible business conduct mentioned in:

- The Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises (OECD MNE Guidelines);
- The UN Guiding Principles on Business and Human Rights (UNGPs), 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.⁵³

The Platform has published a report following the European Commission’s mandate to provide recommendations to the European Commission on the interpretation of Article 18 on minimum safeguards and their implementation.⁵⁴ The report has identified four areas as the most relevant for the application of minimum safeguards:

- 1) Human Rights (including labour and consumer rights and a fair transition);
- 2) Combating Bribery, Bribe Solicitation and Extortion;
- 3) Fair Competition; and
- 4) Taxation.

The report provides detailed recommendations to the European Commission on how FIs should assess compliance. FIs should verify the existence of adequate human rights due diligence processes as the most important proof of compliance. The Platform also recommends using other proxies for compliance.⁵⁵

In Summary: Company-reported social and governance policies, management systems, metrics, and remediation processes should be used to determine compliance with the qualitative process-based tests of minimum safeguards. The Platform would discourage a controversy-only based approach and would highlight the importance of having adequate human rights due diligence processes.

⁵³ https://ec.europa.eu/finance/docs/level-2-measures/Taxonomy-regulation-delegated-act-2021-4987_en.pdf

⁵⁴ Platform’s report on Minimum Safeguards

⁵⁵ For further information, please read the Platform’s report on Minimum Safeguards. https://finance.ec.europa.eu/publications/call-feedback-draft-report-platform-sustainable-finance-minimum-safeguards_en

2.3.2 Conclusion on Company Assessment of 'Equivalent Information'

Table 11: Recommendations on 'Equivalent Information'

Assessment Step	Recommendation
1) Eligibility	Eligibility reporting is not required at a fund or product level but may be provided in periodic disclosures. Estimating eligibility under Article 8 is only permitted in voluntary reporting.
2) Substantial Contribution	Only company reported environmental metrics should be used to determine substantial contribution. A top-down approach might be more feasible where the company does not report their own Taxonomy-alignment.
3) Do No Significant Harm	Estimating DNSH requires assessment of a company's compliance with local environmental laws <u>and</u> adherence to the quantitative and process-based tests laid out in the Climate Delegated Act. A grading system is permitted, so long as it is backed with an FI due diligence approach to ensure full compliance with DNSH. Usability support in the form of supplementary guidance and equivalence tables is needed to allow for an accurate 'equivalent information' testing approach.
4) Minimum Safeguards	Company reported social and governance policies, management systems, metrics, and remediation processes should be used to determine compliance with the qualitative process-based tests of Minimum Safeguards. The Platform would discourage a controversy-only based approach and would highlight the importance of having adequate human rights due diligence processes.

2.3.3 Treatment of Use of Proceeds Within Future Green Use-of-Proceeds Securities

The Platform encourages issuers, particularly European, to:

1. Adhere to the EU Green Bond Standard (EU GBS) where and when possible;
2. Follow the recommendations within the EU GBS to use the Taxonomy as a reference where and when possible;
3. To disclose the proportion of alignment of their use-of-proceeds with the Taxonomy;
4. Provide an impact report to investors based on the metrics and criteria of the Taxonomy, including how DNSH and MS have been respected; and
5. Seek third-party verification of Taxonomy alignment information and, where possible, by a verifier supervised by the European Securities and Markets Authority (ESMA).

In the absence of Taxonomy-based reporting, an FI should be able to assess the Taxonomy alignment of its green and sustainability bond based on the recommendations made previously on 'equivalent information'.

A third-party data provider, external reviewer or FI should also be able to make Taxonomy assessment based on the principles stated for 'equivalent information.' Not all financial entities have the same access to direct data or engagement capacity. Banks may get the data more easily thanks to their closer relationship with counterparties, for instance, during the loan origination process. Even within the investor community, small asset managers may be at disadvantage versus. big asset managers with much larger resources. The need for third-party data will therefore be more pronounced in the case of the latter.

In any case, the principle of proportionality should be applied across the board when it comes to estimating alignment with the DNSH and minimum safeguards. The principle of proportionality, which includes the size of the company and the local context, applies to all companies, but it is particularly relevant to SMEs, and small FMPs, and for operations in some geographies, namely in least-developed countries.

Looking at the emerging practice in the green and sustainability bond markets,⁵⁶ the initial list of potential proxies to determine the DNSH and minimum safeguards for the purposes of ‘equivalent information’ can include the following:

- The presence of issuer-level ESG risk processes and mechanisms to identify / prevent / manage / mitigate / remedy social and environmental risks related to green projects.

Under such issuer-level ESG processes and mechanisms; the assessment of parameters such as (i) the level of disclosure on ESG practices, (ii) the disclosure of information on risk coverage, (iii) the pertinence of the information provided by the issuer framework to the relevant DNSH TSC; and (iv) the pertinence of the green project type to be funded for the relevant DNSH in question;⁵⁷

- Assessment of the stringency of and compliance with the applicable environmental and social laws and regulations;
- Implementation of international environmental and social standards and management systems such as International Standards for Organization (ISO), Task Force on Climate-Related Financial Disclosures (TCFD), IFC standards;
- Presence of an environmental impact assessment (EIA). Where an EIA has been carried out, the required mitigation and compensation measures for protecting the environment are implemented;
- Presence of regulatory authorisations and permits for the green project(s) in question;
- Imposition by the issuer of “social clauses” to its suppliers;
- Conduct of climate and environmental proofing in infrastructure investments;
- More specific and ad hoc actions implemented by the issuer regarding any specific ESG issue.

In current market practice, the ESG risk management disclosure level may depend on the green project type. For instance, in case of refurbishment of existing buildings for energy efficiency, most environmental and social risks may be less relevant compared to new building construction projects. Therefore, a proportionate approach where the DNSH assessment can take a ‘simplified form’ if a project has no or insignificant foreseeable impact for a specific project type or as a result of the location of the project might be advisable.

We note that external reviewers of green and sustainability bond frameworks already use these proxies/tools/proofs to opine on the relevant environmental and social risk management of issuers, either strictly in connection with issuers’ green projects under their frameworks or more broadly, across their operations. In most cases, external reviewers also provide transparency on the past controversies involving the issuer and future “areas for improvement” on ESG risk management. We therefore believe that a positive opinion by an external reviewer confirming the alignment of an issuer’s framework could serve as a strong indicator of DNSH/MS compliance. As a baseline, any metric assessment of the bond’s use of proceeds delivering a substantial contribution needs to be clearly evidenced. If a framework has determined a bond to be ‘green’ or ‘sustainable,’ this would not suffice as a proxy to Taxonomy alignment alone.

2.3.4 Conclusion on Debt ‘Equivalent Information’

The Platform recognises that divergent application/interpretation of ‘equivalent information’ by all concerned parties may present a risk as it could reduce the reliability of Taxonomy assessments if it leads to fragmentation. The Platform therefore proposes that the Commission determines a non-exhaustive but common list of criteria

⁵⁶ Ensuring the Usability of the EU Taxonomy, ICMA, 2022. <https://www.icmagroup.org/News/news-in-brief/icma-makes-proposals-to-address-usability-concerns-over-the-eu-taxonomy/>

⁵⁷ Idem.

- evidence/tools/proofs and disclosures - upon which investors/third-party data providers/external reviewers can rely.

As a minimum the metric-based thresholds within substantial contribution or DNSH need to be met. Qualitative or process-based assessments of the project can rely on the verification or due diligence carried out in compliance with a pre-approved green bond framework.

Recommendation

The Platform recommends the European Commission to create equivalent tables that would establish equivalent quantitative or qualitative criteria, wherever possible, based on international standards for all EU legislation-based criteria to enhance the international operability of the Taxonomy. The Platform recommends the European Commission should take further steps to identify the gaps between existing EU, international standards and national legislation referenced in the Climate Delegated Act.

2.4 Database and Tools

On 25 November 2021, the European Commission adopted a legislative proposal on the European Single Access Point (ESAP).⁵⁸ In order to fully leverage the Taxonomy and to reinforce its role as a cornerstone regulation for the EU Sustainable Finance Action Plan and in connection with the Capital Market Union (CMU) objectives, financial market participants need a centralised, easy, and free access to the Taxonomy data via ESAP. This single access point will provide centralised access to all relevant information disclosed to the public by companies within the EU.

The information to be covered aims to reflect the desires of all stakeholders, including investors, financial intermediaries, and broader civil society. Financial undertakings may use it in their analysis prior to investment and/or lending decision-making as well as to be in a position to engage with investee companies. Duly, the ESAP will provide financial and sustainability-related information in comparable digital formats. In order to minimise adding to the reporting burden of companies, the ESAP will be built upon existing EU infrastructure as much as is feasible.

The establishment of a single access point is the first action of the first objective of the Capital Markets Union 2020 Action Plan which aims to make financing more accessible to companies and thus support a sustainability-driven, inclusive, and resilient economic recovery post-COVID-19. The action of establishing the ESAP contributes to this objective by increasing the accessibility of data that stakeholders use in their analysis prior to investment decision-making. Improved accessibility of sustainability-related data, in particular, disclosures under EU Taxonomy requirements, will help steer investment towards sustainable activities.

However, accessibility does neither equal quality of information nor verification. Simply because data is available through the ESAP, it does not mean that any assessment of data content has taken place.

Once CSRD enters into force all entities will have to get their disclosures verified (see PART 4: Verification) in addition to ensure the accuracy of the information they submit to collection bodies. National competent authorities will supervise sustainability reports which may result in a revision of the information provided. In those cases, a significant amount of time may pass from initial until final reporting. We therefore recommend that a coherent and transparent restatement process through the ESAP.

In addition, ESMA, which has been tasked with establishing and operating ESAP, will be required to perform automated validations to verify the compliance of all information submitted meets minimum format

⁵⁸ [Financial transparency – single EU access point for company information \(europa.eu\)](https://european-council.europa.eu/media/en/press-summaries/Pages/2021/11/2401212.aspx)

requirements, such as having a qualified electronic seal, basic mathematical checks⁵⁹ or data extractability. It is important to grant more power to ESMA to enable quality checks on the format of each data point submitted. This includes equipping ESMA with the necessary means to react to submissions which do not meet minimum requirements on format. Data submitted should be available in a machine-readable format, with clear legal entity identifiers for the submitting organisation. Generally, the ESAP would benefit from leaving room for innovation and future regulatory and disclosure developments.

In the European Commission's targeted consultation on the ESAP, respondents expressed a desire for data quality checks of uploaded information, citing incomplete/inaccurate data in disclosures, particularly in the area of ESG information. In ESMA's response to the consultation, ESMA highlighted the operational complexities associated with developing and running large-scale data quality checks. Furthermore, ESMA is of the opinion that such checks should instead ideally be performed by the preparer at the time of submission. Therefore, it is not clear how the ESAP will improve data quality standards, if at all.

Data should be granular and extractable into reportable data sets. As a first step, all Taxonomy data that non-financial companies (NFCs) and FIs report should be available in an XBRL or XHTML electronic format at the field level allowing easy bulk extraction. For making the ESAP data machine readable, data will be required in such an indexed electronic format. Priority should be placed on ensuring data quality, including a user-friendly uploading module using unambiguous terms to make it easy for market participants to upload the right data in the right field into the ESAP. Furthermore, the ESAP should ensure the availability of an audit trail (time at which data was downloaded- traceability, time stamps and historical data) and allow for previous downloads to be replicated and that any Taxonomy statements made are visible to users.

Current Expectations

Level 1 requirement for the ESAP project refers to data searchable format. This means that data only need to be downloadable in pdf format and information can be located within the PDF document thanks to meta data inclusion.

Such requirements will not allow to meet the needs described above. The Platform also understands that moving to the required level of granularity (i.e., direct access to the Taxonomy reporting KPIs) requires ESMA⁶⁰ to issue an Implementing Technical Standard (ITS), which is a legal act involving a public consultation period.

CSRD disclosures requirements will include the disclosure of sustainability information (which includes the Taxonomy reporting in relation to the climate change objectives with the extension to the other environmental objectives when applicable) in the European Single Electronic File (ESEF) format.⁶¹ The reporting of such information in ESEF format, which is the required format for issuers of financial and sustainability information, will therefore become mandatory and implemented by CSRD scope companies. The Platform welcomes and supports this requirement, which will enable the development of the desired granularity data. It should however be confirmed in the final CSRD text that will allow ESMA to proceed with such ITS and the resulting development.

⁵⁹ It is worth noting that basic mathematical checks are currently missing in case of key climate data access routes <https://www.bloomberg.com/news/newsletters/2022-01-12/corporate-greenhouse-gas-data-doesn-t-always-add-up>

⁶⁰ ESMA is tasked to implement and manage the ESAP.

⁶¹ <https://www.esma.europa.eu/policy-activities/corporate-disclosure/european-single-electronic-format>

Recommendations

The Platform recommends the European Commission to:

- Explicitly include Article 8 Taxonomy-regulation disclosures in the mandatory list of information to be submitted to the ESAP.
- Ensure the EFRAG digitalisation project updates the CSRD requirement of ESEF format for Taxonomy-related information.
- Confirm that ESMA will issue an ITS to address such developments.
- Place particular care on the uploading module of Taxonomy data in the ESAP in order deliver consistent data and keep a historical trail of the different versions submitted to ESAP.
- Give ESMA the necessary means to carry out data validation checks to ensure high quality reliable and usable information and the authority to reject data failing to comply with the minimum requirements.
- Have Platform 2.0 follow up these developments with ESMA and EFRAG to ensure the desired level of granularity of Taxonomy reporting data is reached.

2.5 Data Availability and Treatment

In order to gain an understanding of the current state of affairs for data availability and quality as offered by data vendors and consultants on Taxonomy-related data, the Platform carried out a market-wide survey study.⁶² Vendors were approached in October 2021 to provide input via a 12-question survey based on the draft Climate Delegate Act.⁶³ Conclusions of the study were that vendors offer a wide variety of Taxonomy-eligibility estimates with low levels of correlation to one another.

Please note that results and conclusions are to be taken carefully because the survey was conducted before the Climate Delegated Act was endorsed and before companies have started reporting.

Based on the findings the following recommendations are made:

- Analyse the drivers of the large variation in vendor correlations (i.e., between 4% and 73%).
- Understand the role the Platform can play in supporting clearer vendor understanding of eligibility and mapping of eligible activities to the Taxonomy.
- Survey the numbers of vendors planning to offer Taxonomy Alignment services based on Capex, Opex and turnover.

⁶² Hoepner, A. G. F., & Schneider, F. (2022) 'EU Green Taxonomy: a vendor survey of eligibility and alignment' The paper will be available via Prof. Hoepner's author page as of the day of publication of this report. https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=704585

⁶³ The survey was conducted before the Climate Delegated Act was entered into the official journal.

2.5.1 Data

The universe covered in this survey included the largest 50 securities from four categories:

- Large and Mid-Cap firms in the EU, and
- Large and Mid-Cap firms outside of the EU

Nine vendors provided responses, given assurance that their Taxonomy-eligibility calculations would remain anonymous and would not be identified by outsiders. These nine vendors are:

- Bloomberg
- Clarity AI
- Iceberg
- Impact Cubed
- ISS
- London Stock Exchange Group (LSEG)
- Moody's
- MSCI
- Sustainalytics

2.5.2 Results

Taxonomy-Eligibility

The first question asked data vendors for their estimated percentage (%) turnover eligibility to the Taxonomy as per the draft Climate Delegate Act. The overall mean eligibility came to just below 22%. Mean, median, minimum and maximum as well as standard deviation are displayed in the following figure. The Y-axis constitutes percentage of Taxonomy Eligibility, the X-axis represents each of the firms, sorted from highest mean to lowest mean.

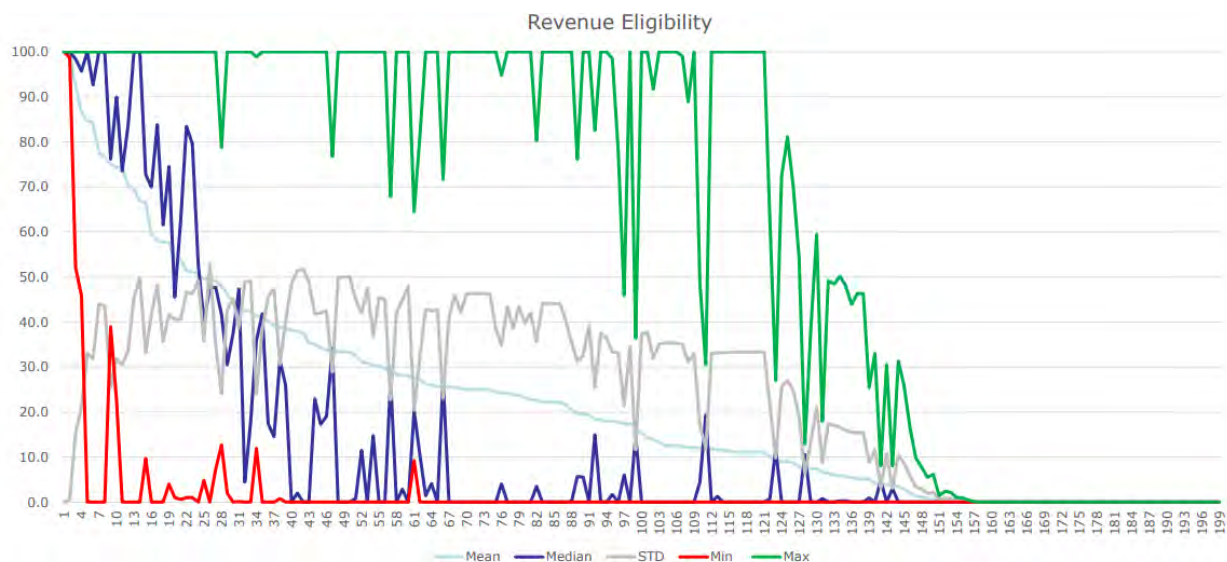


Figure 18: Percentage of Each Entity's Revenue that is Taxonomy-Eligible

This analysis takes a further deep dive to distinguish between different groups. Classifications are made for EU vs. non-EU, and also for mid vs. large cap entities. The following graphic shows results for EU large (mean: 16.6), EU mid (mean: 26.1), non-EU large (mean: 17.0), non-EU mid (mean: 27.3) from left to right. Again, firms on the X-axis are sorted from highest mean to lowest mean.

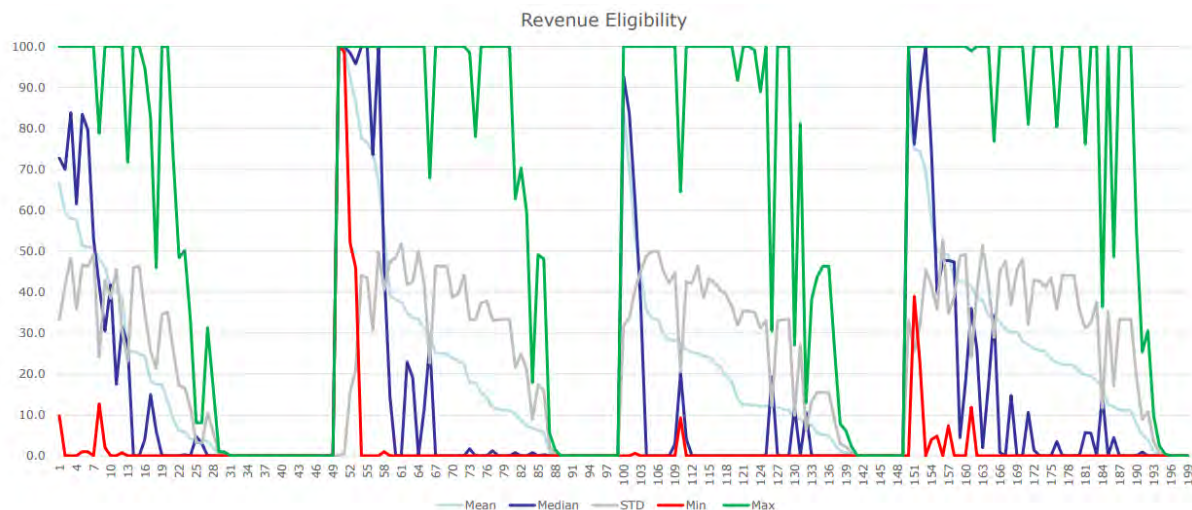


Figure 19: Percentage of Each Entity's Revenue that is Taxonomy-Eligible by Group

These results show a significant difference in the eligibility offering by data vendors. The Platform subsequently worked with vendors on the following usability points:

- Ensuring a common understanding of how their proprietary classification system matches the published Climate Delegated Act. The results of this mapping exercise are available on the European Commission website.⁶⁴
- A description on how to estimate eligibility using the source information available from a company's public filing of their financial statements. This guidance can be found on the European Commission website.⁶⁵

With data vendors now able to ensure a common understanding of Taxonomy-eligible activities and how to treat non-disclosure, the Platform expects the correlation between products will improve. The Platform observes three main issues with the estimate system used by investors or data vendors:

- Taxonomy disclosure of eligible turnover under Article 8 is not required to meet the 10% minimum threshold under International Financial Reporting Standards (IFRS) 8.⁶⁶ This creates a disconnect between the financial statement of the firm (observing the 10% minimum) and their more granular Taxonomy disclosure.
- Eligibility is not an indicator of environmental performance; it is an indicator that an activity is in scope for testing and has the potential to be Taxonomy-aligned. Therefore, applying the precautionary principle⁶⁷ would see the estimated eligibility be larger than the true amount. Estimations should not be smaller than the true reported value.

⁶⁴ https://ec.europa.eu/info/files/sustainable-finance-Taxonomy-nace-alternate-classification-mapping_en

⁶⁵ https://ec.europa.eu/info/files/sustainable-finance-Taxonomy-eligibility-reporting-voluntary-information_en Question: Is it possible to estimate turnover as Taxonomy-eligible in a voluntary report? Pg.6

⁶⁶ Regulation (European Commission) No 1606/2002 requires all listed companies to prepare their consolidated financial statements in accordance with a single set of international standards. Under IFRS 8, Operating Segments requires particular classes of entities (essentially those with publicly traded securities) to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Under IFRS, reportable segments are segments where reported revenue, from both external customers and inter-segment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments. If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75% of the entity's revenue is included in reportable segments.

⁶⁷ https://ec.europa.eu/environment/integration/research/newsalert/pdf/precautionary_principle_decision_making_under_uncertainty_F B18_en.pdf

- “It should be noted that such segmentation reporting from financial and non-financial companies with securities admitted to trading on regulated markets may not be as granular as the Taxonomy activity. In those cases, it is recommended that the value of the segment that could contain a Taxonomy-eligible activity is taken.”⁶⁸ Therefore, in its turnover reporting, if an energy company combines both fossil fuel and renewable energy, the estimate should take the total value. Noting this would include fossil fuels as eligible “until such a time as the company discloses a more granular breakout in accordance with the Taxonomy classification” or that renewable revenues exceed the 10% minimum threshold.

Full Taxonomy Alignment

The survey also subsequently investigates Substantial Contribution as per the draft Climate Delegate Act. Question 10 specifically surveyed the percent of an entity’s revenue estimated to make a Substantial Contribution to Climate Change Mitigation or Adaptation and completely pass the relevant Do No Significant Harm and Minimum Social Safeguards criteria.

The means of the different vendors submitting question 10 responses range from 0 to 5.4; the overall mean came to 2.9.

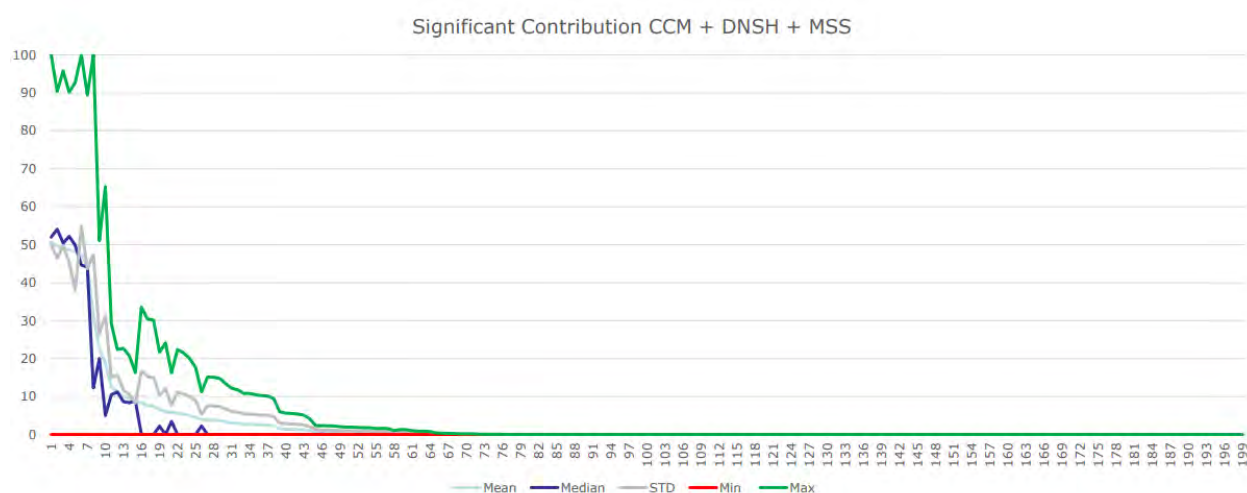


Figure 20: Percentage of Each Entity's Revenue Estimated Aligned To Mitigation

As for eligibility, the alignment analysis includes a distinct analysis for the four groups: EU large (mean: 0.7), EU mid (mean: 5.8), non-EU large (mean: 1.9), non-EU mid (mean: 3.2). Figure 21 below visualises result for the groups as listed above from left to right.

⁶⁸ https://ec.europa.eu/info/files/sustainable-finance-Taxonomy-eligibility-reporting-voluntary-information_en Question: Is it possible to estimate turnover as Taxonomy-eligible in a voluntary report? Pg.6

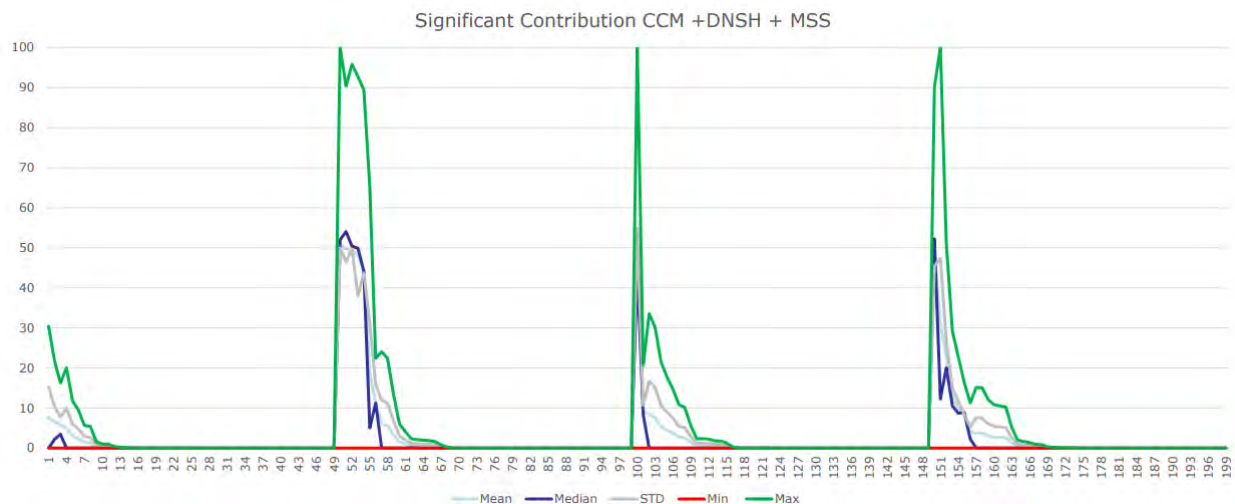


Figure 21: Percentage of Each Entity's Revenue Estimated as Taxonomy-Aligned

While there is considerable divergence between the vendors on full Taxonomy alignment, albeit somewhat lesser than on Taxonomy-eligibility, the Platform expects that the correlation between products will improve. The Platform identifies three potential issues with the estimate system used by investors or data vendors as well as corporate incentives to acquire green credentials:

- Taxonomy alignment is an indicator of environmental performance. Therefore, applying the precautionary principle⁶⁹ would see the estimated alignment be smaller than the true reported amount. Estimations should not be larger than the true reported Taxonomy-alignment value of a company.
- Corporations have an incentive to look for the vendor which issues them an assessment with the highest possible alignment. Such search for a high Taxonomy alignment number could result in a corporate “shopping for greenness” exercise. Following the precautionary principle, the European Commission might want to introduce a mechanism to constrain such behaviours.
- The Taxonomy-alignment results indicate that mid cap firms may receive structurally higher results than large cap firms. The Platform recommends the European Commission to conduct further research into this phenomenon to avoid any structural bias against either type whenever possible.

2.6 Data Quality

Data quality is major issue for GHG emissions, particularly with reporting credibility and estimation by third-party data providers. Voluntary disclosure to intermediaries is common practice. Yet there are several studies highlighting inconsistencies with the reported data.

One recent study of a prominent voluntary disclosure initiative found that the sum of reported emissions broken down into categories such as business lines, region and type of greenhouse gas did not add up to the total reported footprint for 30% of companies, and that quality did not improve over time.⁷⁰ This is echoed by findings

⁶⁹https://ec.europa.eu/environment/integration/research/newsalert/pdf/precautionary_principle_decision_making_under_uncertainty_F B18_en.pdf

⁷⁰ Garcia Vega, S., Hoepner, A., Rogelj, J. & Schiemann, F. (2022), , Corporate Carbon Disclosure Consistency: Can Companies Add Up CO₂e Emissions?, Working Paper. (See also <https://www.bloomberg.com/news/newsletters/2022-01-12/corporate-greenhouse-gas-data-doesn-t-always-add-up>)

from Callery & Perkins (2021)⁷¹ who state that firms routinely provide false accounts in intermediated voluntary disclosure, thus undermining institutional and societal goals.

Given the low data availability, estimations play a key role in the emission data context. Regarding the quality of emissions estimates by third-party data vendors, Busch et al. (2020)⁷² compare data from Bloomberg, CDP, ISS Ethix, MSCI, Sustainalytics, Thomson Reuters, and Trucost and find that data on direct emissions are more consistent than data on indirect Scope 2 and 3 emissions, and they are especially inconsistent for Scope 3. They remark that most data providers rely on input-output analyses to calculate their estimates.⁷³ The big downside to this approach is that the resulting estimates are industry averages which do not distinguish good from bad performers. The authors expect third-party estimates to continue to play an important role and call for more transparency in estimation methodologies.

Recommendations

The Platform recommends to the European Commission that where estimates are used, they comply with the precautionary principle.

For the purpose of Taxonomy-alignment estimations, the Platform cautions against the use of carbon estimates in determining substantial contribution.

⁷¹ Callery, P. J., & Perkins, J. L. (2020). Detecting False Accounts in Intermediated Voluntary Disclosure (SSRN Scholarly Paper No. 3520704). Social Science Research Network. <https://doi.org/10.2139/ssrn.3520704>

⁷² Busch, T., Johnson, M., & Pioch, T. (2020). Corporate carbon performance data: Quo vadis? *Journal of Industrial Ecology*, 26(1), 350–363. <https://doi.org/10.1111/jiec.13008>

⁷³ Note: Not all vendors listed apply input-output methodologies in their carbon estimates approach.

PART 3: Reporting under Articles 5, 6 and the Article 8 Delegated Act

3.0 Usability Considerations on Article 8 Delegated Act Reporting

The Platform has worked with industry associations, market practitioners and auditors to uncover key usability issues with reporting under the Taxonomy framework. Should a non-financial or financial corporate reporting firm wish to find more support in their Taxonomy Disclosure, the Platform encourages the European Commission to provide further supporting materials and hotlines in order to assist the disclosing firm.

Recommendation

The Platform recommends the European Commission to develop an online tool that guides non-financial undertakings through the steps that are needed to determine the Key Performance Indicators for Article 8 reporting.

Article 8 Eligibility Disclosures

The Platform welcomes the supplementary guidelines provided to support financial and non-financial firms with the information required in order to accurately understand and report on their eligibility disclosures.

- [How should financial and non-financial undertakings report Taxonomy-eligible economic activities and assets in accordance with the Taxonomy Regulation Article 8 Disclosures Delegated Act? \(europa.eu\)](#)
- [Draft Commission notice on the interpretation of certain legal provisions of the Taxonomy Regulation Article 8 Disclosures Delegated Act on the reporting of eligible economic activities and assets \(europa.eu\)](#)
- [Platform on Sustainable Finance: Considerations on voluntary information as part of Taxonomy-eligibility reporting | European Commission \(europa.eu\)](#)

Note: Taxonomy eligibility disclosures are a fundamental part of Taxonomy-related reporting under Article 8 at entity-level, but they are not the object of financial-product level disclosures.

Article 8 Alignment Disclosures

The Platform encourages the European Commission and the ESAs to continue to provide guidelines and advice to market practitioners on completing their Taxonomy-alignment disclosures starting in January 2023 (for real economy) and January 2024 (for financial market participants).

Article 5 and 6 Alignment Disclosures

The Platform encourages the European Supervisory Authorities to continue to provide guidelines and advice to market practitioners for crucial questions on completing their Taxonomy-alignment disclosures starting in January 2022.

As mentioned in section 2.3, the ESAs are in the process of further defining and detailing the use of 'equivalent information' in their reporting for non-NFRD corporate investments and use-of-proceeds instruments and other assets. The considerations on 'equivalent information' in this paper are compiled under the aegis of the Platform on Sustainable Finance and cannot be construed as official guidance by the European Commission or by the ESAs. As a result, the views and recommendations do not purport to represent or anticipate any future official guidance and views issued by the ESAs which may differ from the contents of this report.

Climate Delegated Act and Interpretation of Technical Screening Criteria

The Platform would encourage the European Commission to consider providing further supplementary guidelines and advice to market practitioners on completing their Taxonomy-alignment disclosures starting in January 2023. The Platform encourages the European Commission to provide further supporting materials and a permanent and competent technical "helpdesk" function or institute established in order to assist the disclosing firm and support the effective implementation of the Taxonomy. Alternatively, the European Commission should consider providing supporting materials via the Taxonomy Compass function to allow users to understand how to apply tests and build their reporting annexes correctly.

The Platform is happy to assist the European Commission in providing on-going webinars and teach-ins to support Corporate Disclosure. Any such event will be published on the Platform for Sustainable Finance web page.⁷⁴

Recommendation

The Platform recommends the European Commission to continue to provide usability guidance on reporting under the Taxonomy Regulation.

3.0.1 Recommendations on Updates to the Climate Delegated Act

The Platform has conducted a review of the TSC within the Climate Change Mitigation and Adaptation Delegated Acts. The following is a list of recommendations for future improvements.

⁷⁴ [Platform on Sustainable Finance | European Commission \(europa.eu\)](#)

Recommendations

The Platform recommends the European Commission to consider the following recommendations for future improvements:

- Eliminate use of imprecise criteria that could be subjectively applied, such as those that encourage ‘minimise’ / ‘reduce’ / ‘improve’ without quantifiable measurements on the extent to which reductions / improvements should be made. Where subjective language is used, clear guidance on how to interpret substantial contribution or harm should be provided.
- Provide alternative mapping tables for EU legislation referenced within the technical screening criteria, supporting non-EU corporates with their own adoption of the Taxonomy. This is particularly relevant because the CSRD scope has been expanded to include all companies who list securities on a European regulated market, thus broaden the scope beyond the parameters of the EU environmental legislation referred to in the Climate Delegated Act.
- Create a clear and consistent understanding of value chain use cases, relevant to technical screening criteria within the Delegated Act and an appreciation for how enabling activities can be understood and covered with the Climate Delegated Acts.
- Create further technical guidance on meeting the substantial contribution and DNSH criteria within the Delegated Acts, particularly with regard to the broader testing criteria under Mitigation for:
 - 3.1. Manufacture of renewable energy technologies
 - 3.2. Manufacture of equipment for the production and use of hydrogen
 - 3.3. Manufacture of low carbon technologies for transport
 - 3.5. Manufacture of energy efficiency equipment for buildings
 - 3.6. Manufacture of other low carbon technologies
 - 8.2. Data-driven solutions for GHG emissions reductions
 - 9. Professional, scientific and technical activities
 - 9.1. Close to market research, development and innovation
- Create better alignment between the technical guidance on adaptation for Education, Health services, Broadcasting, Arts and Entertainment as enabling activities – where the description of the activity does not correlate to the description of the substantial contribution criteria as an enabler to the climate change adaptation objective.

3.0.2 Recommendations on Timeline for Adoption of the Delegated Acts for the Remaining Four Environmental Objectives

Article 8 (5) of the Disclosures Delegated Act grants a “grace period” of 12 months after the date of application of the Environmental Delegated Act. From our understanding, the Environmental Delegated Act should be applicable from 1 January 2023 in eligibility reporting (e.g., Article 12 (5) of the Taxonomy Regulation: “*The Commission shall adopt the delegated act referred to in paragraph 2 by 31 December 2021, with a view to ensuring its application from 1 January 2023*”). Should the Delegated Acts be pushed out beyond the end of 2023, the Platform requests that the market is still given a 12-month implementation window to adopt the reporting framework.

Article 10 of the delegated act grants financial undertakings a one-year timeframe between their first alignment reporting and non-financial undertakings first alignment reporting. It should be clarified that the one-year

timeframe between financial undertakings' first alignment reporting and non-financial undertakings' first alignment reporting is also applicable for the four other objectives.

Recommendation

The Platform recommends the European Commission to continue providing at least 12-month implementation timelines from setting any new technical screening criteria until their effective date in reporting.

3.0.3 Recommendations on the Use of Estimates by Financial Market Participants (FMPs) and Financial Undertakings in Taxonomy Reporting

As discussed in section 2.3 of this report, the Taxonomy permits use of estimates or proxies ('Equivalent information') in financial product reporting (Articles 5 and 6 of the Taxonomy Regulation); and in Article 8 (entity-level) disclosures within Article 7(7) of the Delegated Act, effective from 2025 (subject to the 2024 review period). The Platform recognises that as disclosure improves and international Taxonomies are developed, FIs⁷⁵ will have more data available to them to make appropriate decisions on the Taxonomy-eligibility and Taxonomy-alignment of their investee companies or counterparties. However, many FIs in the first few years of reporting will have limited data sets available to them and thus their reporting of eligibility and alignment will be low. Some FIs may wish to supplement their EU-only based disclosure of Taxonomy eligibility/alignment with non-EU, SME or Sovereign proxied eligibility/alignment. The Platform suggests that FIs wishing to show the Taxonomy's application of their full investment universe under Article 8 should be able to use voluntary reporting in the meantime. The Platform would discourage voluntary reporting under Article 5 and 6 (fund-level) as there are already provisions for investors to disclose their full Taxonomy alignment including for companies who themselves do not have to report Taxonomy metrics.

Advice on voluntary reporting is therefore only relevant to Article 8 disclosures. For credit institutions, this would be the GAR and for investment management firms (incl. insurance providers) this would be the GIR. These figures both aim to indicate the level of green investment of activities related to the full legal entity of the financial institution.

Eligibility – Estimating Turnover

Non-financial companies, with securities admitted to trading on regulated markets, report their turnover or revenue in financial statements with segmentation in line with the accounting standards applied. Most companies do not segment their turnover/revenue in line with NACE in their reporting. On this basis, the Platform for Sustainable Finance has provided a mapping table of Taxonomy activities to alternative classification systems.⁷⁶ Where such classification systems provide revenue or turnover breakouts mapped to Taxonomy activities, these values may be applied to estimate eligibility. Where financial undertakings rely on data providers' estimations and these estimations are performed using a different methodology, the Platform strongly recommends financial undertakings disclose information related to the methodology used. If the information is not sourced from a public filing provided by the investee the company, the Platform stresses the importance for financial undertakings to ask companies to confirm their figures, whenever possible. The description of the activity within the Climate Change Delegated Acts (Annexes I and II)⁷⁷ should be the basis for eligibility reporting. In principle, if a company generates turnover from an activity that could be tested under the Taxonomy, then that activity would count as eligible for the purpose of reporting.

⁷⁵ Financial Institutions collectively captures financial companies subject to Articles 5, 6 and 8 TR (i.e., "financial market participants" (as defined in SFDR) for Articles 5 and 6 and "financial undertakings" (as defined in the Article 8 DA) for Article 8.)

⁷⁶ [Platform on Sustainable Finance: Taxonomy NACE alternate classification mapping | European Commission \(europa.eu\)](#)

⁷⁷ [EUR-Lex - C\(2021\)2800 - EN - EUR-Lex \(europa.eu\)](#)

Eligibility is not an indicator of environmental performance; it is an indicator that an activity is in scope for testing and has the potential to be Taxonomy-aligned. For ease of doubt, if the activity could be tested in line with the TSC within Annex I or II, then the activity is eligible. It should be noted that such segmentation reporting from financial and non-financial companies with securities admitted to trading on regulated markets may not be as granular as the Taxonomy activity. In those cases, it is recommended that the value of the segment that could contain a Taxonomy-eligible activity is taken. For example, an energy company that is involved in a diverse mix of renewable and non-renewable energy production processes may segment their revenue only into 'Energy Production'. In this case, 'Energy Production' includes both in and out of scope activities but is the only available information on company revenue or turnover. Therefore, the financial undertaking could source its estimate turnover KPI under 'Energy Production' as the eligible value until such a time as the company discloses a more granular breakout in accordance with the Taxonomy classification.

Eligibility – Estimating Capex

The use of estimates enables financial undertakings to voluntarily report an approximation of Taxonomy-eligibility for companies or entities who have not yet reported under Article 8, or for companies or entities not subject to the NFRD (or later CSRD). Listed non-financial companies report their capital expenditures in financial statements. However, most companies do not provide a breakdown of such expenditures or segment them by activities or in line with NACE or an alternative classification system in their reporting. Therefore, it may be extremely difficult for financial undertakings to estimate eligibility of capital expenditure during the first year(s) of reporting. Estimates of capital expenditure would not be recommended in voluntary reporting unless the financial undertaking has advanced estimations methods and/or access to more detailed information reported from the investee company or entity.

In the case that a company or entity does provide a breakdown or sufficient information on their capital expenditures, financial undertakings may estimate capital expenditures by counting all expenses associated with an eligible activity using the same methodology as for turnover-eligibility described above. Financial undertakings are encouraged to ask companies to provide or confirm their figures. Understanding that it might not be feasible for large portfolios for all holdings, financial undertakings may wish to focus their engagements on their biggest exposures.

Eligible expenditures do not indicate that the activity or asset meets or will meet the Technical Screening Criteria at maturity. Financial undertakings may include a supplementary voluntary report to include any non-EU assets whose use of proceeds are eligible with the Taxonomy's technical screening criteria but the exact information for eligibility has not been provided to them.

Estimating Alignment

The Platform's recommendations on 'Equivalent Information' (section 2.3) should prevail for any FI wishing to estimate alignment for non-EU or use-of-proceeds investments. Where sufficient environmental reporting is not readily available either at asset or entity level, the Platform recommends that the investor assumes the asset or entity is not Taxonomy-aligned. In voluntary reporting, the FI may wish to distinguish between Taxonomy-aligned, Taxonomy not aligned and Taxonomy unknown investments.

3.0.4 Recommendations on the Use of Number and Naming Conventions in the Climate Delegated Act

Non-financial companies subject to reporting under the Article 8 Delegated Act using the Annex II template are encouraged to use the Taxonomy activity and numbering convention in the Delegated Act. In order for the ESAP to machine-read the content disclosed, the Platform encourages the consistent use of names/numbers between the Mitigation and Adaptation activities. The non-financial company will then be able to disclose this information in a way a machine can cleanly understand which activity to apply eligibility and alignment. The Platform recommends the following adjustments to numbering/naming convention in the Climate Delegated Act.

Table 12: Recommendations on Numbering and Naming Convention

Activity Number	Mitigation Description	Adaptation Description	Notes
5	Water supply, sewerage, waste management and remediation	Water supply, sewerage, waste management and remediation activities	Drop "activities"
6.5	Transport by motorbikes, passenger cars and light commercial vehicles	Transport by motorbikes, passenger cars and commercial vehicles	Include "light"
6.15	Infrastructure enabling low-carbon road transport and public transport	Infrastructure enabling road transport and public transport	Drop "low-carbon"
6.16	Infrastructure enabling low carbon water transport	Infrastructure for water transport	Drop "low-carbon"
6.17	Low carbon airport infrastructure	Airport infrastructure	Drop "low carbon"
7	Construction and real estate activities	Construction and real estate	Drop "activities"
8.2	Data-driven solutions for GHG emissions reductions	Computer programming, consultancy, and related activities	Suggest applying different numbering to the activities
9.1	Close to market research, development, and innovation	Engineering activities and related technical consultancy dedicated to adaptation to climate change	Suggest applying different numbering to the activities
9.2	Research, development, and innovation for direct air capture of CO ₂	Close to market research, development, and innovation	Suggest consistency in numbering values for the same activities

Recommendation

The Platform recommends the European Commission to apply clear and consistent numbering and naming conventions to Economic Activities across the Delegated Acts.

3.0.5 Recommendations on the Breakout of Enabling/Transitional and Eligibility by Environmental Objectives

Annex II does not allow for transparency of Enabling/Transitional performance per environmental objective. In the existing Climate Delegated Act, some activities can be either Enabling (E) or blank, or Transitional (T) or blank - depending on whether they represent the mitigation or adaptation objective. In Annex II, if a company is substantially contributing to a transitional mitigation objective but also to an enabling circular economy objective then the reporting grid does not allow for a clear differentiation of which objective the "E" or "T" relates.

In the financial organisation's reporting annexes, they are required to breakout eligibility and Enabling/Transitional/Total by environmental objective. Within Annex II reporting, an activity can either be E or

T or blank and there is no granularity at the environmental objective level. The Platform recommends that the European Commission consider one of two options to solve this disconnect:

1. Financial Institutions using Annexes VI or VIII do not need to breakout eligible, enabling and transitional data per environmental objective; they are only required to report the Total enabling/transitional alignment values. In Figures 22 and 23, the cells highlighted with red text would be optional. The Platform notes that Transitional only currently refers to the Mitigation objective and would request an update to Annex VIII to remove transitional under Adaptation.

		Disclosures reference date T																			
		Climate Change Mitigation (CCM)						Climate Change Adaptation (CCA)						TOTAL (CCM + CCA)							
		Of which towards taxonomy-relevant sectors (Taxonomy-eligible)						Of which towards taxonomy-relevant sectors (Taxonomy-eligible)						Of which towards taxonomy-relevant sectors (Taxonomy-eligible)							
		Of which environmentally sustainable (Taxonomy-aligned)						Of which environmentally sustainable (Taxonomy-aligned)						Of which environmentally sustainable (Taxonomy-aligned)							
		Of which specialised enabling		Of which transitional enabling		Of which enabling		Of which specialised enabling		Of which transitional enabling		Of which enabling		Of which specialised enabling		Of which transitional enabling		Of which enabling			
Mission EUR		Total gross carrying amount																		Total gross carrying amount	
1	GAR: Covered assets in both sustainable and non-sustainable																				
2	Assets and advances, debt securities and equity instruments not HTI eligible for GAR acquisition	Jan-22	No Data	Report Jan 2024	Report Jan 2024	Report Jan 2024	Report Jan 2024	No Data	Report Jan 2024	Report Jan 2024	Report Jan 2024	Report Jan 2024	Report Jan 2024	A2.51	Report Jan 2024	Report Jan 2024	Report Jan 2024	Report Jan 2024	Report Jan 2024	Report Jan 2024	

2. KPI IF Other services	
1	Revenue (i.e. fees, commissions and other monetary benefits) from investment and services and activities other than dealing on own account (as per Section A of Annex I of Directive 2014/65/EU)
2	Reception and transmission of orders in relation to one or more financial instruments
3	Execution of orders on behalf of clients
4	Portfolio management
5	Investment advice
6	Underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis
7	Placing of financial instruments without a firm commitment basis
8	Operation of an MTF
9	Operation of an OTF
Not in scope of SFDR	

Figure 25: Proposed Amendments Related to Annex VIII

Recommendation

The Platform recommends the European Commission to update reporting Annexes to ensure consistency in reporting obligations amongst user groups.

3.0.7 Recommendations on Amendments to Annex VI

In order to provide a simple overall picture of a credit institution alignment with the Taxonomy, we recommend the summary template in Annex VI (Sheet 0 Summary of KPIs) should also include the total GAR requirements described in Annex V 1.2.1.6. This detail is already provided in the detailed breakout of reporting, but the Platform's recommendation is to repeat them in the summary table to make them more visible for users of the information.

Annex V 1.2.1.6	corresponding row headings in Annex VI	Total GAR		
		Mitigation	Adaptation	Objectives 3-6 thereafter
a) financing activities directed at financial undertakings	Financial corporations			
b) financing activities directed at non-financial undertakings	Non-financial corporations			
c) residential real estate exposures, including house renovation loans	"of which loans collateralised by residential immovable property" + "of which building renovation loans"			
d) retail car loans	Motor vehicle loans			
e) loans to local governments for house financing and other specialised lending	"Local governments financing" However the subcategories ("Collateral obtained by taking possession: residential and commercial immovable properties" + "other local government financing") do not appear to be in the correct order. It would be more intuitive to have it in the following order: Local governments financing of which Housing financing of which Other local governments financing Collateral obtained by taking possession: residential and commercial immovable properties The EBA seems to have addressed this issue in the Pillar 3 ITS templates with the corresponding instructions.			
f) commercial and residential repossessed real estate collateral held for sale	"collateral obtained by taking possession: residential and commercial immovable properties"			

Figure 26: Proposed Amendments Related to Annex VI

Recommendation

The Platform recommends the European Commission to update reporting Annexes to ensure consistency in reporting obligations amongst user groups.

3.0.8 Clarify the Connection Between Annex VI and Annex XI Requirements

In Annex VI (Sheet 0 Summary of KPIs)⁷⁸ there is a requirement that *“Credit Institutions shall disclose forward looking information for this KPIs (see Summary of KPIs to be disclosed by credit institutions under Article 8 Taxonomy Regulation), including information in terms of targets, together with relevant explanations on the methodology applied.”*

The Platform has interpreted this requirement as a reference to Annex XI where Credit Institutions are required to disclose the following information:

“The disclosure of quantitative KPIs shall be accompanied by the following qualitative information to support the financial undertakings’ explanations and markets’ understanding of these KPIs:

- contextual information in support of the quantitative indicators including the scope of assets and activities covered by the KPIs, information on data sources and limitation.*
- explanations of the nature and objectives of Taxonomy-aligned economic activities and the evolution of the Taxonomy-aligned economic activities over time, starting from the second year of implementation, distinguishing between business-related and methodological and data-related elements;*
- description of the compliance with Regulation (EU) 2020/852 in the financial undertaking’s business strategy, product design processes and engagement with clients and counterparties;*
- for credit institutions that are not required to disclose quantitative information for trading exposures, qualitative information on the alignment of trading portfolios with Regulation (EU) 2020/852, including overall composition, trends observed, objectives and policy;*
- additional or complementary information in support of the financial undertaking’s strategies and the weight of the financing of Taxonomy-aligned economic activities in their overall activity.”*

The Platform recommends clarifying the connection between the requirement stated in Annex VI and Annex XI as follow:

- Either include a reference in the footnote Annex VI (Sheet 0 Summary of KPIs) saying “in accordance with qualitative information requirements in Annex XI”; or
- In a similar spirit to the Platform’s recommendations for eligibility disclosures, the quantitative summary reporting (in this case Annex VI) could offer a place for Annex XI disclosure requirements such that all information can be found in the same place.

This will help to avoid misinterpretations and confusions for Annex VI users.

⁷⁸ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/lexuri/ui.do?uri=CELEX:32021R2178:EN:EUR-Lex)

Recommendations

The Platform recommends the European Commission and ESAs to clarify the context of disclosures in Annex VI using clear descriptions of the values required in each cell and how Annex VI relates to Annex XI.

The Platform recommends that formulas linking all relevant parts of the Annex VI spreadsheet are added into Annex VI templates 3-5, in accordance with the first draft published in May 2021. This would enhance the usability of the Annex VI for credit institutions and ensure consistency and significantly reduce the risk for errors or misinterpretations in how the template is applied in the market. There's a note in Annex VI (Sheet 3-5) with reference to formulas, which are however not included in the final Annex VI spreadsheet.

3.1 2024 Review Period

Article 9 of the Article 8 Delegated Act⁷⁹ gives rise to a review period in that by 30 June 2024, the European Commission shall review the application of the Disclosures Regulation. The European Commission shall assess in particular the need for any further amendments with regard to the inclusion of:

- a) exposures to central governments and central banks in the numerator and denominator of key performance indicators of financial undertakings;
- b) exposures to undertakings that do not publish a non-financial statement pursuant to Articles 19a or 29a of Directive 2013/34/EU in the numerator of key performance indicators of financial undertakings.

The Platform has reviewed usability concerns with regard to the Taxonomy coverage of non-NFRD companies, including SMEs, use of proceeds and the wider implication for assets not yet fully covered by Taxonomy disclosure such as derivatives. The Platform recommends, with justification, are made in the following sections of the report.

3.1.1 Dealing with Public Sector

Sovereigns, sub-sovereigns (including municipalities and regions), supranationals (including international intergovernmental organisations) and agencies ("SSA issuers") are already frequent issuers of green bonds. More than a third of all green bond issuances in 2021 had originated from the SSA sector. At the same time, exposure to public issuers represents an important share of the assets of banks, insurance companies, pension funds and asset managers in the Eurozone. It is estimated that about 30% of eurozone government debt is being held by EU financial institutions (excluding central banks).⁸⁰

⁷⁹ EUR-Lex - 32021R2178 - EN - EUR-Lex ([europa.eu](https://eur-lex.europa.eu/))

⁸⁰ ECB Economic Bulletin Issue 3/2021: The role of households in financing government debt in the euro area, see Economic Bulletin Issue 3, 2021 ([europa.eu](https://www.ecb.europa.eu/press/pr/economic_bulletin/2021/eub32021/index.en.htm))

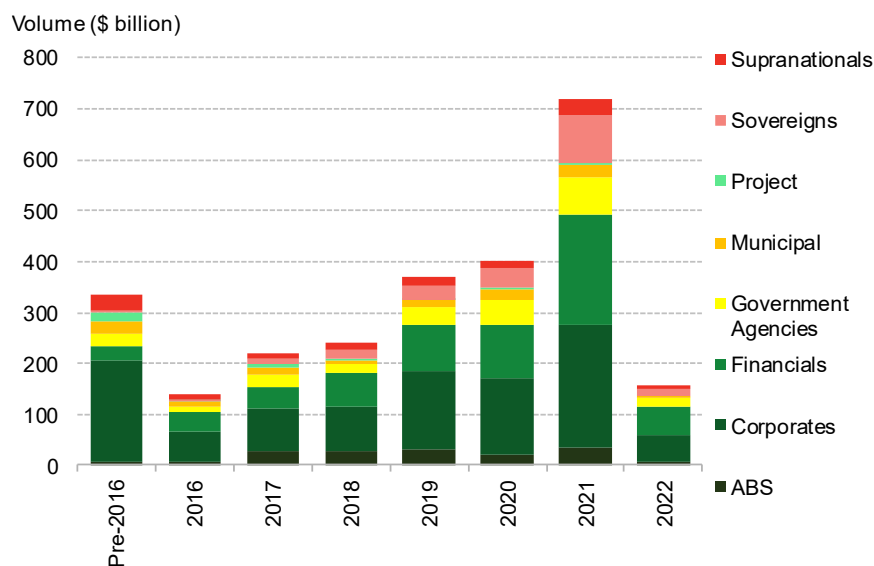


Figure 27: \$ Billion Issuance of Green Debt by User Group

Source: BloombergNEF

More rapid growth of a high-quality green bond market is needed to achieve the objectives of the EU Green Deal and the Paris Agreement. SSA issuers play an important role in this context given their scale, influence and role as enablers or accelerators of green private sector activities, either by co-financing or promoting such activities.

Careful consideration of the specificities of SSA issuers will enhance widespread adoption of the Taxonomy Regulation (EU 2020/852 of 18 June 2020) and of the EU Green Bond Standard (EU GBS).

The Delegated Act Supplementing Article 8 of the Taxonomy Regulation (Regulation (EU) 2021/2178) (“the Disclosures Delegated Act”)

The Article 8 Delegated Act – or Disclosures Delegated Act – requires in-scope entities to include in their non-financial statements or consolidated non-financial statements information on how and to what extent their activities are associated with Taxonomy-aligned economic activities.

In-scope financial entities will have different KPIs and forms of disclosure depending on the type of financial undertaking they are (e.g., credit institutions will disclose the GAR and insurance companies, pension funds, and asset managers, the GIR.)

Due to the current lack of an appropriate calculation methodology, Article 7(1) of the Article 8 Delegated Act currently excludes exposures to central governments, central banks, and supranational issuers from the calculation of the numerator and denominator of financial undertakings’ KPIs. This exclusion also affects use-of-proceeds or green bond instruments, including those issued under the EU GBS.

By 30 June 2024, the European Commission shall review the application of this provision and, subject to a positive review, implement by January 2025. Until then, as explained in the appendix to the European Commission FAQ⁸¹ entitled “Platform considerations on voluntary information as part of Taxonomy-eligibility reporting” financial institutions are encouraged to disclose their exposures to green sovereign and multilateral bonds via a separate voluntary report.

⁸¹ [How should financial and non-financial undertakings report Taxonomy-eligible economic activities and assets in accordance with the Taxonomy Regulation Article 8 Article 8 Delegated Act? Platform on Sustainable Finance: Considerations on voluntary information as part of Taxonomy-eligibility reporting | European Commission \(europa.eu\)](#)

3.1.1.1 *Public Policy and Measures*

After sufficient experience has been gained about implementation of the existing Taxonomy, its impact and usability, the Taxonomy should be the reference point or the benchmark against which new policies in support of sustainable finance are developed, when developing standards for environmentally sustainable financial products and instruments.⁸² Public policy design that includes, sets or defines their degree of environmental sustainability at EU or member-state level rules might also benefit greatly of the Taxonomy.⁸³

The use of the same benchmark for sustainable finance would reduce cost and complexity to financing of the transition and create a unifying market. The opposite would weaken the objective of improving Taxonomy implementation and effectiveness, whereas undermining public sector efforts to attract private finance to support their investments. For example, different definitions of sustainable or green finance could mean that government green debt that is issued under one set of definitions may not be recognised under private financial products. This, in effect, leads to duplicated reporting, and doubt in markets about whether government green finance is for sustainable activities or not.

Further, public finance for industry sectors can affect the cost and supply dynamics in those industries. Investors will have reservations about increasing their allocations to sustainable activities if they know that governments may invest with different targets and performance levels in mind for such industry. In short, the leverage effect of public and private finance could be weakened, slowing the scale and cost of private capital to sustainable economic activities.

Examples worth exploring against this background are if, when, and how the Taxonomy could be leveraged in the design of environmental and transition-g geared public funding instruments, financial assistance programmes for Member States or green public procurement policies and strategies. Such approach would be aligned with the ambitions of the Taxonomy Regulation as outlined under Recital 16.⁸⁴

Recent spending programmes relying on the EU budget take into account the Taxonomy Regulation and the DNSH principles, albeit differently across different programmes. For future EU spending programmes or guarantees relying on the EU budget, the Platform recommends greater consistency. DNSH was introduced in the Common Provisions Regulations (applicable to cohesion policy funds) and in the Recovery and Resilience Facility (RRF). In 2020, as part of the Sustainable Europe Investment Plan the European Commission committed to explore how the Taxonomy can be used in the context of the European Green Deal by the public sector, beyond InvestEU.

The Platform believes that it will be useful to develop a framework, including a set of principles for the use of the Taxonomy in public spending, when it is intended to protect the environment, that determine for which types of expenditures, these investments may deviate from it, why and how. Such a framework might help member-states willing to use the Taxonomy for their own spending programmes. The Platform also encourages the European Commission and member-states to explore the use of the Taxonomy to define their green procurement practices.

Another area for which the Taxonomy is a very useful tool is for tracking the EU budget's contribution to environmental objectives. The Taxonomy as seen at financial-product and entity-level is the first common measurement tool on environmental performance. For a number of activities EU climate coefficients are guided by taxonomy technical screening criteria. The list of economic activities under the EU Taxonomy shows

⁸² Taxonomy Regulation available at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852>

⁸³ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852> Recital 16

⁸⁴ Idem. A classification of environmentally sustainable economic activities at Union level should enable the development of future Union policies in support of sustainable finance, including Union-wide standards for environmentally sustainable financial products and the eventual establishment of labels that formally recognise compliance with those standards across the Union. It could also serve as the basis for other economic and regulatory measures. Uniform legal requirements for determining the degree of environmental sustainability of investments, based on uniform criteria for environmentally sustainable economic activities, are necessary as a reference for future Union law that aims to facilitate the shift of investment towards environmentally sustainable economic activities.

some overlap with the categories used by the EU climate tracking methodology. This methodology, however, covers more areas and also recognises positive climate contributions from some activities that do not necessarily meet all the technical screening criteria in delegated regulations. The European Commission is evaluating whether to align its climate tracking methodology with the EU Taxonomy over time, where relevant.

The Platform welcomes the efforts and invites the European Commission to explore the integration of the extension of the Taxonomy in the future to track the EU budget's contribution to the other environmental objectives.⁸⁵ Due consideration, however, should be given to the proportionate implementation of these criteria in EU instruments targeting non-CSR companies. The Platform also considers the same disclosures principles, regarding the economic activities included in the Complementary Delegated Regulation (EU) 2022/1214, should apply to public climate-related financial instruments.

The European Investment Bank (EIB) Group and the European Central Bank (ECB) have shown leadership in the adoption of the Taxonomy. For instance, since January 2021 the ECB considers eligible as collateral (assets that secure debt) bonds with coupons linked to the Taxonomy or certain SDGs.⁸⁶ Whereas, the EIB Group has already included parts of the DNSH for climate mitigation criteria into its Paris alignment framework and the substantial contribution criteria of climate mitigation into its green eligibility criteria.⁸⁷

Recommendations

The Platform encourages the European Commission to consider the Taxonomy Regulation in a consistent fashion in the context of the development of new public policies in support of sustainable finance, when developing standards for environmentally sustainable financial products and instruments. First, sufficient experience should be gained about implementation of the existing Taxonomy, its impact and usability.

The Platform recommends the European Commission develop of a framework, including a set of principles for the use of the Taxonomy in public spending, when it is intended to protect the environment, that determine for which types of expenditures these investments may deviate from it, why and how. It also encourages the European Commission and member-states to explore the use of the Taxonomy to define their green procurement practices.

The Platform supports the European Commission in its efforts to evaluate whether to align its climate methodology with the Taxonomy substantial contribution criteria over time, where relevant, and encourages the European Commission to work towards tracking EU budget's contribution to the other environmental objectives. Due consideration should be given in all instances to the proportionate implementation of the Taxonomy and DNSH principles in case of non-CSR entity support measures.

3.1.1.2 Sovereign General-Purpose Debt

In their final report, the TEG⁸⁸ mentioned that they had identified some potential methodologies for assessing the Taxonomy-alignment of sovereign bonds, but further work was required to evaluate their applicability. Methodologies considered include:

⁸⁵ [Special Report 22/2021: Sustainable finance: More consistent EU action needed to redirect finance towards sustainable investment \(europa.eu\)](#)

⁸⁶ [ECB to accept sustainability-linked bonds as collateral - Maritime London](#)

⁸⁷ [P. 59 of the EIB Group Climate Bank Roadmap 2021-2025](#)

⁸⁸ [TEG final report on the EU Taxonomy \(europa.eu\)](#)

- Alignment of national climate change mitigation targets with net zero by 2050, potentially supported via Nationally Determined Contributions (NDCs);
- The sectoral contribution of Taxonomy-aligned economic activities to national Gross Domestic Product (GDP); and,
- The sectoral contribution of Taxonomy-aligned economic activities in the form of tax receipts.

The Platform was not given the mandate, and therefore has not conducted any work on how to apply the Taxonomy to sovereign debt. Nevertheless, it would be beneficial to start conducting some analysis of how it could be applied. While there should be no obligation to do so, sovereign issuers could be provided with the tools to assess and disclose Taxonomy-aligned economic activities within a reasonable time horizon. As such, new methodologies to establish the contribution or alignment with the Taxonomy of these exposures should be developed swiftly; for example, public expenditures in the context of the EU green recovery, or central bank exposures – on the evolving sustainability screening methodologies of central bank portfolios.

Due to the current lack of an appropriate calculation methodology, Article 7(1) of the Disclosures Delegated Act currently excludes exposures to central governments, central banks, and supranational issuers from the calculation of the numerator and denominator of KPIs of financial undertakings.

In the absence of an appropriate methodology to assess Taxonomy alignment, it is not recommendable or feasible to apply the Taxonomy to general sovereign debt issuances. Until such methodology is developed, sovereign debt cannot be included in the numerator or denominator of financial institutions entity-level disclosures under Article 8.

At the same time, it is important to note that the Taxonomy was designed primarily as a tool for private finance and it is not at the current stage applicable to the whole public budget (as per section 3.1.1.1). The Taxonomy design is focused on granular economic activities, which while appropriate for reporting of individual firms, is not yet entirely compatible with public expenditures and public budgetary processes. To make the Taxonomy more suitable for public sector use, it would be worthwhile expanding the list of covered activities to new activities that may be directly usable by public authorities.

Recommendations

The Platform advises the European Commission to examine and review how the Taxonomy could be applied to general-purpose sovereign debt and more broadly to the public sector beyond green bonds and use-of-proceeds. The Platform notes that this will require further thorough study and a full impact assessment, including the setting of ESG adverse screening framework.

The Platform does not recommend the inclusion of general-purpose sovereign debt exposures in the numerator of financial undertakings' ratios for the time being.

The Platform invites the European Commission to expand the Taxonomy Delegated Acts to new activities tailored to the needs of public budgetary processes, in order to enlarge the subset of public budget items that could use the Taxonomy criteria as a guiding principle and as a tracking device.

3.1.1.3 EU GBS, Green Bonds, and Use-of-Proceeds Instruments Issued by SSA Issuers

Article 7 (1) exclusion includes exposures to green bonds and other use-of-proceeds instruments issued by SSAs including if issued under the EU GBS.

The Taxonomy can perfectly be applied to use-of-proceeds instruments. Arguably, its application at project-level and for the allocation of proceeds when ex ante the requirements are being set is more appropriate. For

corporate issuers, the calculation of Taxonomy-alignment is a much more accurate figure in the case of these financial instruments that when using Taxonomy-alignment turnover and Capex alignment as proxies for corporate vanilla bonds, for example. For SSA issuers, while at times more complex, Taxonomy-alignment is feasible as the EU GBS Regulation shows. It is important that Taxonomy-alignment reporting of sovereign green bonds accommodate SSA issuer specificities.

Unlike issuers that are financial or non-financial undertakings, issuers that are sovereigns can use green bond proceeds to indirectly finance economic activities that are already (or are intended to be) rendered aligned with Taxonomy requirements with tax expenditure programmes or transfer programmes, including subsidies.⁸⁹ Sovereign issuers have, therefore, a less granular overview of the financed activities compared to financial and non-financial undertakings. Furthermore, sovereign issuers usually rely on public authorities to supervise government accounts.

The EU GBS Regulation makes some sound recommendations for the application, and verification, of the Taxonomy to green bonds issued by SSAs. Against this background, the Council approach, and the European Commission draft proposal on the EU GB Standard Regulation state (paraphrased):

- a. *Where justified by (i) the complexity, scale, and practical unfeasibility of a full assessment of the underlying activities on the one hand, and (ii) on the other, the binding and sufficiently precise provisions in those terms and conditions relevant to the alignment of the final use of proceeds with the Taxonomy requirements, SSA should ensure that economic activities funded by such programmes comply with the terms and conditions of those programmes.*
- b. *External reviewers of SSA's EU GBS (when providing pre- and post-issuance reviews), are not required to assess the Taxonomy-alignment of each economic activity funded by such programmes. Where that is the case, it should be sufficient for external reviewers to assess the alignment of the terms and conditions of the funding programmes concerned with the Taxonomy requirements.⁹⁰*
- c. *In the context of activities of public development credit institutions,⁹¹ there may be a very large number of final borrowers directly or through intermediary institutions. Therefore, it should be made possible, where justified, to perform the assessment of the use of proceeds by means of a random sampling in accordance with best market practices.⁹²*
- d. *Furthermore, sovereigns that issue EUGBs should be allowed to make use of state auditors for the purposes of the external review. State auditors are statutory entities with responsibility for and expertise in the supervision of public spending and have legally guaranteed independence.*

The recommendations are all applicable to green bonds issued by SSAs irrespective of whether they seek the EU GBS label and show how, by taking into consideration its specificities for reporting and verification, the Taxonomy can perfectly be applied to SSA issuances.

Yet, even if 100% aligned with the Taxonomy, SSA issuers will not be able to contribute to the ratios of financial undertakings. This can bring about a range of negative consequences. First and foremost, it discourages the use of the EU GBS by SSA and the issuance of green bonds more broadly. Second, the Taxonomy alignment levels reported by financial institutions may provide a very incomplete picture, and lead to lower demand from investors for SSA green bonds (as opposed to corporate issuances) hindering growth of this important market segment. Lastly, despite its special nature, these green bonds still represent sovereign debt exposures. This means that they can be included when commercial banks purchase large amounts of their own government's bonds for liquidity portfolio purposes. Being able to include green bonds in their GAR would appropriately

⁸⁹ Recital 16 sentence 1 EUR-Lex - 52021PC0391 - EN - EUR-Lex (europa.eu)

⁹⁰ Recital 16 sentences 2-4 EUR-Lex - 52021PC0391 - EN - EUR-Lex (europa.eu)

⁹¹ Criteria defining public development credit institution are listed in a European regulation (2019/876 – 2019 May 19th): 1) Entity has been established by a Member State's central government, regional government or local authority, 2) Its activity is limited to advancing specified objectives of financial, social or economic public policy, on a non-competitive basis; 3) Its goal is not to maximise profit or market share; 4) The central government, regional government or local authority has an obligation to protect the credit institution's viability; 5) It does not take covered deposits.

⁹² Recital 16 sentences 2-4 EUR-Lex - 52021PC0391 - EN - EUR-Lex (europa.eu)

reward Member States who have issued such bonds, and help them finance their transition efforts, as well as the banks purchasing them.

In its recent opinion on the EU GBS proposal, the ECB stated that: “[...] *The contribution of EU GBS holdings towards the Taxonomy disclosures could provide a significant incentive for issuers as well as investors to prefer EU GBs over existing standards, as it would automatically guarantee Taxonomy alignment without the need to carry out an in-depth assessment of the alignment of the underlying investments, as would be the case for other standards. The contribution of EU GB holdings towards the Taxonomy disclosures should be irrespective of the public or private nature of the issuer, i.e., it should also apply to public sector EU GBs, which, under the Article 8 Delegated Act, are currently excluded from both the numerator and denominator of the Taxonomy disclosures.*”⁹³

EU green bonds aligned with the Taxonomy are well suited for funding economic activities that support the transition towards more sustainable and decarbonised economies. Appropriate incentives should be created to ensure wide acceptance of the EU Green Bonds Standard (EU GBS) by the market. The inclusion of EUGB issuances by SSAs in Article 8 (i.e., financial institutions’ Taxonomy-alignment of KPIs) will contribute towards increasing investor demand. The same approach can be taken towards non-EU issuers leveraging the EU GBS, irrespective of the nature of the issuer (i.e., both from the private or SSA sector.) This will be the most effective way of promoting the EU GBS amongst issuers for whom it will undeniably cause additional work and costs. Moreover, being the European market (where most of the demand is concentrated on green bonds), it will be important that issuers be incentivised to align and report according to the Taxonomy.⁹⁴

Recommendations

The Platform recommends to the European Commission that all green bonds and use-of-proceeds instruments should be part of the numerator (for the proportion of the use of proceeds that demonstrate Taxonomy-alignment) and denominator (for the proportion of investment in all bonds and use-of-proceeds instruments) of financial undertakings’ ratios irrespective of the nature of the issuer. This includes green bonds and use-of-proceeds issued by SSAs. By all, the Platform includes EU GBS, EU non-EU GBS and non-EU use-of-proceeds instruments.

The Platform strongly supports the proposed EU GBS, which seeks to establish an official EU (voluntary) guideline for green bonds aligned with the Taxonomy. We further welcome the scope of the proposed regulation, which includes SSA issuers as well the specific adjusted provisions granting flexibility to such issuers when leveraging on the EU GBS. Such provisions would be of particular importance to ensure widespread adoption of the EU GBS by SSA issuers.

3.1.1.4 Reporting of SSA Green Bonds

As noted above, SSA green bonds and other use-of-proceed instruments should count for the proportion of proceeds allocated to Taxonomy-aligned activities and projects. In the case of bonds labelled EU GBS, that is a 100%.

However, the question is twofold:

⁹³ [OPINION OF THE EUROPEAN CENTRAL BANK of 5 November 2021 on a proposal for a regulation on European green bonds \(CON/2021/30\), para 3.1.4, p.5 Opinion of the European Central Bank of 5 November 2021 on a proposal for a regulation on European green bonds - Publications Office of the EU \(europa.eu\)](#)

⁹⁴ The EU has established itself as a global leader in the area (with 51% of global issuance in 2020 coming from EU companies and public bodies.)

1. Can the review period be brought forward; and
2. How to report on them until Article 7 of Article 8 Delegated Act is reviewed. Until they are included in the numerator and denominator of financial undertakings' ratios under Article 8 of the Taxonomy Regulation.

Given the pace with which the sustainable finance market is developing, a significant shortening of the review period would be important to ensure meaningful and comparable disclosure ratios over time. While there are some issues that merit longer time horizons for assessment and review (e.g., the treatment and disclosure derivative exposures), other matters such as the inclusion of sovereign green bonds or green loans to SMEs should be addressed more swiftly given their importance for more complete Taxonomy alignment disclosures and more wide-spread adoption of the Taxonomy.

Article 8 Financial Undertakings Reporting on the Green Legacy and Non-EU Issuances

Until SSA green bonds are included in the numerators and denominators of their ratios, financial undertakings can disclose their exposures to these green instruments as part of their voluntary reporting as recommended in the corporate section below.

Financial undertakings will face two types of SSA green issuances: those that were issued before the entry into force of the Taxonomy and the EU GBS, and those that are issued afterwards.

Until now, market-developed standards⁹⁵ have enabled the growth of the green bond market. These standards have provided issuers with voluntary principles or guidelines focused on disclosure, transparency, and processes as well as overarching green project categories. They have allowed for the standardisation of the green bond market and contributed to its transparency and integrity and thus laid the groundwork for its significant development. SSA issuers spearheaded this market on the issuance side and thus significantly contributed to its current shape and state.⁹⁶

For those green bonds that were issued long before the existence of the Taxonomy, reporting alignment is difficult for financial undertakings to assess alignment, even more, especially with regards DNSH criteria. However, it will be unfair not to reward the progress and contribution made by “early adopters” of green instruments. Totally disregarding their contribution to financial undertakings green ratios could potentially discourage market participants to contribute to future green finance innovations, as it is to be expected that such efforts would be disregarded in the future. Considering legacy issuances in the context of voluntary reporting would bring with it a range of practical advantages.

Recommendations

The Platform recommends to the European Commission a shortening of the 2025 review period on green bonds issued by SSAs and green loans to SMEs given the pace with which the sustainable finance market is developing.

The Platform recommends financial undertakings reports their exposures on SSA green instruments as part of their voluntary reporting for the proportion of their proceeds that are aligned with the TSC and MS of the Taxonomy, with the breakout on the included activities of gas and nuclear, until SSA green bonds are included in the numerators and denominators of their ratios.

⁹⁵ Currently the dominant market-developed standards in Europe are the Green Bond Principles (GBP) by International Capital Markets Association (ICMA), or the Climate Bonds Standard by the Climate Bond Initiative (CBI).

⁹⁶ Kuchtyak M., Bruce E., Moody's Sustainable Finance Outlook Report 2022, 21 January 2022

Application in the Context of the Sustainability-Related Disclosures in the Financial Services Sector (SFDR)

Sovereign green bonds are not excluded from financial-product disclosures. FMPs need to report the:

- Taxonomy-alignment in relation to all the investments of the financial product including sovereign and multilateral bonds, and
- Taxonomy-alignment only in relation to the investments of the financial product excluding sovereign and multilateral bonds.

Sovereign green bonds can be included if the issuer reports the Taxonomy-alignment of the proceeds. If the exact information is not provided, FMPs might make use of 'equivalent information' (see section 2.3). Otherwise, they can account their green bonds as sustainable investments (in accordance with Article 2(17) SFDR⁹⁷) as long as the proceeds financed contributes to the environmental objective defined by the FMPs and is fully compliant with SFDR definitions of harm and good governance. (For more details, see PART 4: Verification.)

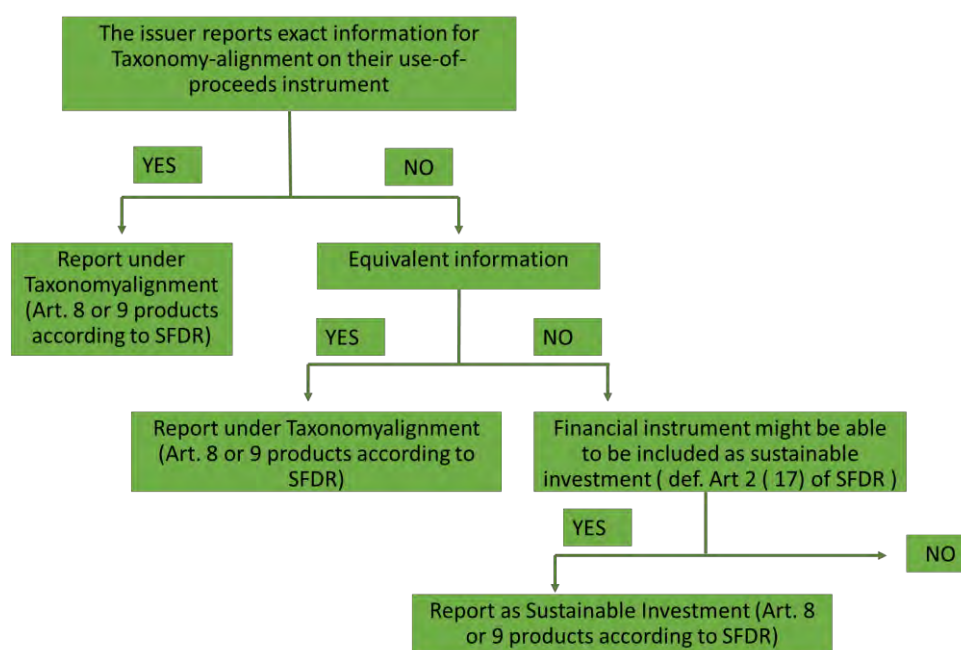


Figure 28: FMP Decision-making Process for Debt in Sustainable Investments

3.1.2 Treatment of Corporate Green Bonds

The Taxonomy is designed to be a dynamic tool with environmental thresholds and criteria expected to tighten over time. This aspect of the Taxonomy is necessary and welcome, as it reflects the need to adjust the TSC to both technological and scientific developments, as well as to the European economy's actual progress towards its sustainability objectives.

While TSC for low-carbon and enabling activities are expected to be relatively stable, this is not the case for most transitional activities. The TSC for transitional activities will be reviewed at least every three years as required per the Taxonomy Regulation. They constitute around one fourth of the mitigation activities listed in the Climate Delegated Act of December 2021.

⁹⁷ [EUR-Lex - 32019R2088 - EN - EUR-Lex \(europa.eu\)](#)

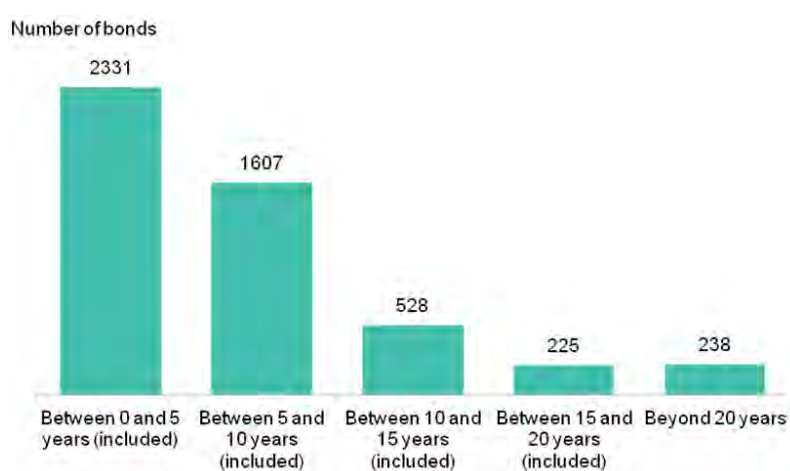
As a result, the degree of Taxonomy alignment once attributed to a green or sustainability bond may change affecting its market performance, as well as potentially leading to the loss of an associated label such as the future EU GBS. This can be resolved by “grandfathering” TSC alignment. Grandfathering is a provision by which an old rule continues to apply to specific existing situations while a new rule will apply to all future cases.

The Platform proposes three areas for the application of TSC grandfathering:

- the EU GBS,
- reporting under Article 8 of the Taxonomy Regulation (entity level), and
- reporting under Articles 5 and 6 of the Taxonomy Regulation (product level).

Insights on the Maturity and Tenor Profile of Green Use-of-Proceeds Instruments

Figure 29 details the tenor of green bond issuance as of 13 June 2022, with average maturity at around 8.5 years.



Source: BloombergNEF, Corporate and Government bonds only, tenor is from issuance date until maturity date, perpetual notes excluded. Data as of June 13, 2022.

Figure 29: Green Bond Tenor Distribution

3.1.2.1 Grandfathering in the EU Green Bond Standards

The Platform recognises that grandfathering is still under negotiation and further recommendations on Green Debt will align with the latest European Commission position.

The European Commission’s original proposal for a Regulation on European green bonds (“EU GBS Regulation”) provides a five-year “partial” grandfathering. According to the Article 7, if TSC change following the issuance of an EU GBS-compliant green bond, the issuer shall apply the amended TSC within five years after the entry into application of the amended Delegated Act(s).

On 8 April 2022, the Council⁹⁸ adopted its negotiation position ahead of the triologue process. The Council opted for a full TSC grandfathering where the Taxonomy status of a Taxonomy-aligned bond would be preserved for its entire maturity. The European Parliament’s position maintains the partial grandfathering of five years when

⁹⁸ [pdf \(europa.eu\)](https://pdf.europa.eu)

financing fixed assets, Capex, Opex, sovereign expenditures, and equity while extending it to 10 years when financing debt. In case of the former, it also provides that allocated proceeds would not have to be re-allocated.

The Platform believes that full TSC grandfathering would help avoiding:

The instability and loss of market appeal of the EU GBS;

- Taxonomy downgrade due to TSC change which is beyond an issuer's control;
- Hesitation in issuing with EU GBS designation or investing in it due to the unpredictability of how performance levels will evolve over time, which in part results from the fact that there is no official guidance on transition pathways/trajectories;
- Disadvantaging the financing of transitional activities via an EU GBS as TSC are expected to be less stable compared to already green or enabling activities;
- Potential practical challenges that arise because of the interaction of the TSC change with the maturity of the bond as well as the timelines for Capex plans; and
- Wider financial stability and market cyclicity issues as outlined by the ECB.⁹⁹

The Platform recognises though that full TSC grandfathering comes with a price:

- The potential lock-in of the current ambition levels of the TSC over the life of the instrument. This would be particularly problematic for long term maturities as they would be considered as "green" for long time while the underlying asset will no longer meet the technical criteria of the Taxonomy.
- It may cause reputational risks to asset owners and managers when including those bonds as 100% green in their financial products, in particular if associated to assets or companies that are known not aligned or haven't progressed.
- In response, some financial market participants might decide to exclude them from their green portfolios creating by default two standards within the market.
- It might disentitle companies from refinancing in order to ensure the underlying assets meet the criteria and, thus, continue their path towards net zero.
- It may raise more concerns when outdated but once Taxonomy-aligned technologies or energy solutions (e.g., fossil fuels) were financed with such green instruments.

In addition, the Platform recognises that Article 8 Delegated Regulation treats Capex plans differently in case of a TSC change. According to the Annex I, a qualifying Capex plan that upgrades a Taxonomy-eligible activity to a Taxonomy-aligned one should be completed within 5 years (or 10 years if longer period is objectively justified by its specific features and the upgrade concerned). If the TSC change during such plan's implementation, the non-financial entity can either (i) restate its Capex KPI by downgrading it or (ii) it has a 2-year period to re-calibrate its Capex plan to adjust to the new TSC. If the entity chooses to re-calibrate its Capex plan, the initial 5-year (or 10, if justified) timeline/deadline restarts. These rules cannot however apply to EU GBS as it is a binary standard where an issuer does not have the option to "restate" its alignment since the designation itself is expected to rely on full Taxonomy alignment. Also, a maturity date of a bond is the ultimate deadline, which would not allow the application of extra time to adjust to the changed TSC as the bond no longer exists beyond its maturity.

The main cause of the above concerns relates to the lack of predictability on how Substantial Contribution criteria for transitional activities will evolve over time given their three-year review. The Platform recommends the European Commission to consider working towards defining 1.5° trajectories (67% probability of reaching 1.5°) with no or limited overshoot to the extent possible, based on science. For TSC and DNSH criteria where the trajectories necessary to meet the EU targets can already be derived from scientific results, sector analyses, etc. For transitional activities, it should include clear time frames and pathways on how their criteria will tighten and

⁹⁹

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.C_.2022.027.01.0004.01.ENG&toc=OJ%3AC%3A2022%3A027%3ATOC

when their status as a transitional activity expires (sunset clauses) wherever possible. Forward-looking pathways would allow issuers to plan in line with the predicted lifetime of the investment and/or the financial instrument. This would not remove the need for grandfathering Taxonomy-aligned, just the opposite, it would allow full grandfathering without any caveats. It would reassure issuers and investors alike.

After taking into consideration all of the above, the Platform would favour full grandfathering until maturity for green bonds with one caveat. Until trajectories are set for transitional activities, for those green bonds with use of proceeds where TSC will tighten over time, full grandfathering until maturity can only be granted to those whose lifespan does not exceed 10 years in order to minimise lock-in and reputational risks; in other words, for a maximum of 10 years. The Platform acknowledges that there are a few cases linked to large infrastructure and building projects for which bonds might require a longer lifespan and that could be exceptionally granted after thorough examination.

It is worth noting that there is a difference between green bonds that follow a portfolio approach – typically issued by financial institutions – and those normally issued by non-financial undertakings linked to Capex investment or green projects as explained in the section below.

The Platform also believes the EU GBS rules on the timing of applicable TSC (e.g., TSC of the time of issuance for refinancing existing assets and TSC of the time of creation of each loan when financing a loan portfolio) provide comfort regarding the evolving green ambition in refinancing transactions while the need to further ensure ongoing/evolving green ambition for entities can be ensured based on other frameworks, the most prominent one being the forward-looking credible transition plans at entity-level.

The Platform recommends the European Commission considers working towards defining 1.5° trajectories (67% probability of reaching 1.5°) with no or limited overshoot to the extent possible, based on science. For transitional activities, it should include clear time frames and pathways on how their criteria will tighten and when their status as a transitional activity expires (sunset clauses) wherever possible.

Recommendation

The Platform requests the European Commission to fully grandfather TSC until maturity for green bonds whose proceeds are invested in low carbon and enabling activities. With regards transitional activities, and until trajectories are set for these activities, the Platform would favour full grandfathering until maturity for green bonds whose lifespan does not exceed 10 years in order to minimise lock-in risks. The Platform acknowledges that there are a few cases linked to large infrastructure and building projects for which bonds might require a longer lifespan and that could be exceptionally granted after thorough examination.

3.1.2.2 Grandfathering for Article 5, 6, and 8 Taxonomy Reporting

Currently, the Article 8 Delegated Act¹⁰⁰ provides a five-year grandfathering following any change in the relevant TSC (Article 7(5)). This means that the Taxonomy alignment status can be maintained for five years in reporting under GAR/GIR ratios. The Platform understands that this applies both to EU GBS as well as green and sustainability bonds issued that have a portion of their use of proceeds aligned to the Taxonomy, be it 1% or 90%. On the other hand, under the SFDR Delegated Regulation,¹⁰¹ there is no provision on grandfathering. This creates a disconnect between Article 8 and Article 5 and 6 reporting within the Taxonomy Regulation and implies

¹⁰⁰ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2021.443.01.0009.01.ENG&toc=OJ%3AL%3A2021%3A443%3ATOC EUR-Lex - 32021R2178 - EN - EUR-Lex (europa.eu)

¹⁰¹ [https://ec.europa.eu/finance/docs/level-2-measures/C_2022_1931_1_EN_ACT_part1_v6%20\(1\).pdf](https://ec.europa.eu/finance/docs/level-2-measures/C_2022_1931_1_EN_ACT_part1_v6%20(1).pdf)

that investor would have to restate the Taxonomy alignment in the immediate subsequent annual reporting as a result of the TSC change.

The main rationale of preserving the Taxonomy-alignment status of allocated and committed proceeds is that already allocated and committed proceeds cannot be “un-done” because of a TSC change, which itself is beyond an issuer’s control. Issuers will require certainty and need to know what to point at when disclosing Taxonomy alignment. This is especially the case because there is no official guidance on how performance levels are expected to evolve over time, i.e., in the form of pathways/trajectories. Downgrading already allocated and/or committed proceeds in investment reporting due to TSC change would otherwise increase the risk of Taxonomy being an unreliable framework and pushing the market to short termism in their investment strategies. However, as explained above with the EU GBS, there are potential downsides to the grandfathering, such as the possible lock-in of ambition levels and outdated technology or energy solutions, although on balance the Platform sees the advantages of the grandfathering overweight and will enhance the success of the Taxonomy.

In the absence of grandfathering, the Platform highlights the practical challenges for financial entities to track and restate their changing Taxonomy alignment. The Platform recommends that Taxonomy-aligned use of proceeds should be grandfathered for TSC alignment for the entire maturity of an EU GBS bond as long as allocations or commitments occurred within five years (or exceptionally 10 years if the extension is granted following Article 8 Delegated Act) from the date of issuance, and the lifespan of the green bond does not exceed 10 years in the case of use of proceeds with TSC deemed to tighten in overtime. For non-EU GBS green or sustainability bonds to benefit from such grandfathering, the issuer should report Taxonomy-alignment and provide the same degree of external assurance (external review and/or verification) as under the EU GB Regulation regarding their degree of Taxonomy alignment and reporting for that purpose.

Furthermore, it is proposed that the TSC grandfathering rules included under Article 7 of the Commission’s proposal for the EU GB Regulation that would serve for guidance. As a result, it is:

- the TSC of the time of creation of debt that would apply when allocating proceeds to debt, and
- the TSC of the time of issuance that would apply for other types of use of proceeds.

The Platform, however, notes that the EU GB Regulation currently does not provide specific answers on the question of which TSC apply over the life of the bond when an issuer finances a portfolio of green projects in a similar fashion to dynamically financing a portfolio of debt.

Two illustrations of how the Platform recommendation would look like from an investment reporting perspective are the following:

	Financing types under Green Bond Framework	Which TSC to apply?	Sample status when TSC changes (e.g. 36 months after issuance)	Recommended treatment
Corp. issued a EUR1 bn 10-y GB for funding both existing and future green projects	Existing asset refinancing	TSC of the time of issuance	Allocated proceeds	Full grandfathering
	Signed-off CapEx investment or ongoing green project	TSC of the time of issuance	Allocated proceeds	Full grandfathering
	Future green projects to be financed on a dynamic basis	TSC of the time of financing of each project	Un-allocated proceeds	Latest TSC should be applied

Figure 30: Corporate Green Bonds Issuance Financing Different Types of Use of Proceeds

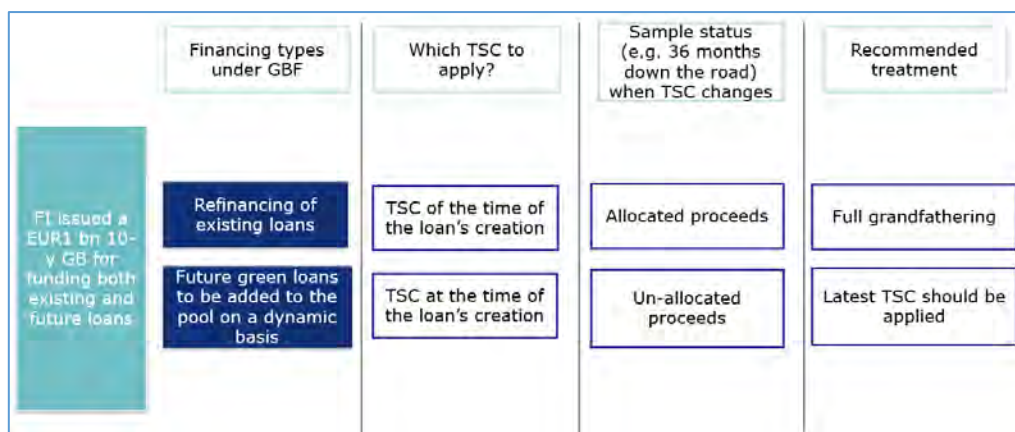


Figure 31: Financial Institutions' (FI) Green Bonds Issuance Financing Different Types of Use of Proceeds

Recommendations

The Platform suggests the European Commission to:

- Review the application of full TSC grandfathering to allocated and/or committed proceeds (within 5 years of the date of issuance) of green and sustainability bonds (including EU GBS aligned bonds) for Article 5, 6 and 8 Taxonomy Reporting when:
 - o Taxonomy-alignment is fully reported
 - o Verified by a third party registered and supervised by ESMA or an official authority if non-EU
 - o The proceeds are invested in low-carbon and enabling activities.
 - o With regards transitional activities, and until trajectories are set for these activities, the Platform would favour full grandfathering until maturity for green bonds whose lifespan does not exceed 10 years in order to minimise lock-in risks. The Platform acknowledges that there are a few cases linked to large infrastructure and building projects for which bonds might require a longer lifespan and that could be exceptionally granted after thorough examination.
- Consider the necessary legislative amendments to implement grandfathering as proposed.

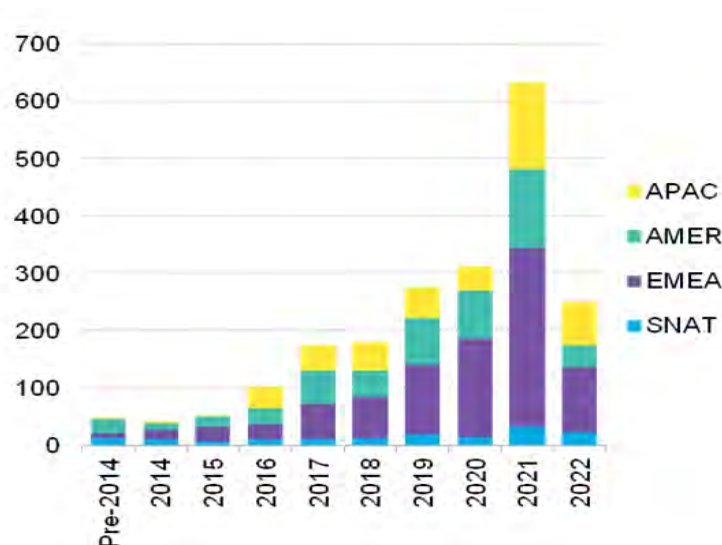
The Platform further highlights that an issuer would not be expected to amend its green/sustainability bond framework to apply the most recent TSC(s) over the life of its instrument. However, a high-level statement under the green bond framework that the issuer will consider the most recent TSC in force when selecting future green projects/assets and evaluating future allocations would provide additional comfort to investors. Ex-post, issuers can also provide further information and transparency on the TSC version used for green eligibility in their post-issuance allocation and/or impact reports.

3.1.2.3 Treatment of Existing Green Corporate Bonds

Green bonds are important instruments for financing investments needed for the transition to a low-carbon economy and meeting the climate objectives laid out in the European Green Deal and in the Paris Agreement.

The green bond market has been growing exponentially over the past years, both globally and at EU level. During 2021, green bond issuances totalled USD 523 billion, representing a 78% increase compared to 2020. European

issuers have become global leaders in this regard, having issued USD 294 billion or 56% of global issuances in 2021.¹⁰²



Source: BloombergNEF, SNAT refers to supnationals, which are entities formed by multiple governments and without a single country or territory of incorporation.

Figure 32: Green Bond Issuance per Region of Risk (\$ billion)

As of 23rd May 2022, there were 4,400 green and sustainability bonds with an outstanding volume exceeding EUR 1.5 trillion (LuxSE data).¹⁰³ The assessment of the Taxonomy alignment of existing green and sustainability bonds (GBs/SBs) is therefore an important topic for regulatory reporting under Article 8, as well as at product-level under Articles 5 and 6.

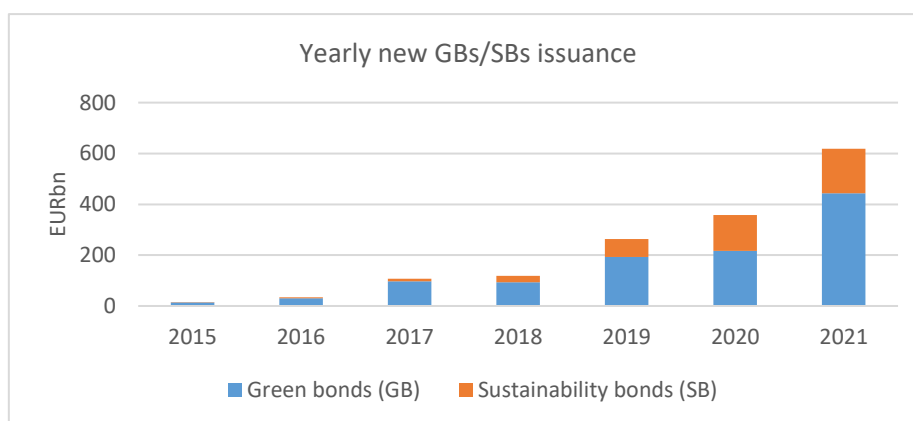


Figure 33: Yearly New Green Bonds of Sustainability Bonds by Year of Issuance

The Platform, therefore, recommends a consistent approach to the treatment of the legacy green and sustainability bond market. This will help mainstream the market uptake of the Taxonomy from the beginning as well as avoid a situation where the Taxonomy is not used to reflect the environmental sustainability of existing green debt in issuance today.¹⁰⁴ The Platform proposes that FMPs apply 'equivalent information' to bonds as recommended in section 2.3 to the legacy market for use in Articles 5 and 6 and that financial institutions do

¹⁰² Source: Bloomberg LP

¹⁰³ Source: ICMA

¹⁰⁴ C 2022 1931 1 EN ACT part1 v6 (1).pdf (europa.eu)

likewise when reporting on Article 8 – voluntarily until its revision. The Platform would welcome a consistent application of reporting against green debt throughout the Taxonomy framework.

Recommendations

The Platform recommends to the European Commission that:

- “Equivalent information” is applied to the legacy debt market, as recommended in Section 2.3
- Consistency in the data used to support reporting for Article 5, 6 and 8 of the Taxonomy

3.1.2.4 Treatment of Complex Green Debt

While the Taxonomy assessment of some projects can be relatively simple, homogeneous in nature and easily linkable to the economic activity definitions of the Taxonomy Delegated Acts, some others can be complicated for a Taxonomy alignment assessment.

Complex green projects such as large-scale infrastructure and development projects or complex real estate projects may consist of a number of different economic activities, hindering the practicality of data disaggregation and alignment assessment both in the legacy and future issuances. An example has been provided under the DNSH Handbook¹⁰⁵ since it showed that a single construction development project (at an early design and planning stage) located in the EU could potentially involve 25 different economic activities. The analysis showed that the breakdown of the DNSH criteria only for three selected economic activities lead to 17 DNSH criteria out of which only three were strictly satisfied.

Furthermore, green or sustainable project may:

- consist of several different economic activities where individual project components may relate to the same or different environmental objectives and Delegated Acts of the Taxonomy;
- contribute to different environmental objectives at the same time; and,
- have social components.

The Platform recommends that a conversion methodology for complex projects funded by green and sustainability bonds to economic activities is developed in a fair and equitable manner across all environmental objectives. For example, the adoption of “lead activity(ies)” concept should be considered. This would allow for flexibility for the rest of the identified activities based on the alignment of the lead activity(ies) in line with the EU GBS. Supporting parameters could be:

- The issuer’s primary green and sustainability objectives for the project;
- The amounts allocated (or committed) to the underlying components of the project and/or their cost; and,
- The focus of the impact reporting and metrics applied to the project and its components by the issuer.

¹⁰⁵ Do No Significant Harm Handbook (published by Maples Group, ELS Europe and Frankfurt School - UNEP Collaborating Centre in December 2021) [Do-No-Significant-Harm-Handbook.pdf \(elseurope.eu\)](https://els.europa.eu/Do-No-Significant-Harm-Handbook.pdf)

Recommendation

The Platform recommends the European Commission to develop a practical methodology for converting complex green projects into economic activities, for Taxonomy assessment.

3.1.3 The Role of Derivatives in the Taxonomy

Derivatives are currently excluded from the Taxonomy Regulation Article 8 Delegated Act¹⁰⁶ with a review clause to consider appropriate Taxonomy reporting in Article 10 of the Delegated Act. The Platform acknowledges that the treatment of derivatives requires careful consideration and make the following recommendations for consideration by the European Commission.

Derivative instruments may be used:

- To share the business risk, take economic exposure, or help to finance a company;
- For market access, for example into emerging markets where the investor does not have direct access to purchase the underlying security;
- To facilitate capital allocation towards specific underlyings or objectives;
- For hedging activities, for example related to mitigating interest rate or equity market risk; and
- As part of a sustainable investment strategy.

Derivative instruments, whether exchange-traded or over the counter, require careful consideration in the context of Taxonomy-aligned reporting. Concerns regarding the use of derivatives in Taxonomy reporting would be:

- The notional value of derivatives can outweigh the outstanding amount issued by those underlying companies. Open interest can add up to many multiples of the actual issued underlyings even though the eventual sum of the long derivatives position will equate to the sum of the short positions. Hence there is a risk of misrepresenting the scale of investment in the Taxonomy-aligned activities at the level of a given investor, in the absence of specific guidance to address this situation.
- How to provide a fair representation of the exposure gained through derivatives to a Taxonomy-aligned activity.
- If Taxonomy reporting permits only certain types of derivative instruments, then arbitrage opportunities are created between permitted and non-permitted derivative instruments (e.g., if a single name Credit Default Swap (CDS) / Total Return Swap (TRS) counts and a derivative on a basket of securities does not, then this will incentivise investing behaviours to avoid Taxonomy reporting or exaggerate Taxonomy alignment).
- Complexity in distinguishing between derivative contracts to report those contributing to Taxonomy-aligned activities versus those only used for hedging purposes.
- Concern over the lack of ownership of the underlying asset, and no direct transfer of capital to the underlying company; meaning that derivative contracts do contribute to its price formation and liquidity, and thus to the investors' appetite, but not always generate capital for the environmentally sustainable economic activities / the transition of the real economy towards sustainability, in the absence of specific guidance to address this situation.
- While owners of derivative contracts can engage with the companies whose financial instruments are the underlying notional, they cannot do so through voting.

The Platform acknowledge that derivatives can facilitate the raising and allocation of capital for green finance; helping businesses and investors better manage the climate-related risks to which they are exposed, and allowing market participants to align their exposures more effectively with risk tolerance and risk management

¹⁰⁶ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](#)

requirements. While conventional derivatives can certainly be used to access certain markets or hedge green instruments such as green bonds, a new wave of sustainability-linked derivatives and exchange-traded ESG derivatives has also developed in recent years, alongside emissions trading derivatives, renewable energy and renewable fuels derivatives, and catastrophe and weather derivatives.

The question still remains on whether sustainability-linked derivatives (SLDs) create a sustainability-linked cashflow since these instruments are mostly designed to monitor compliance with environmental or social targets that are not currently consistent with the Taxonomy technical criteria. As the market for SLDs develops and instruments are designed to consider Taxonomy compliant targets the Platform would encourage a review of the inclusion of such instruments.

In-depth analysis on how the Taxonomy could or should be applied for the different types of derivatives will be necessary before including them in the scope of reporting, and the Platform recommends that Derivative instruments used in sustainable investment practices are further examined up until the 2024 review period. Careful and detailed consideration on the treatment of both long and short derivative positions should be given, because of the complexity and variety of use cases with derivative investment behaviour.

In the interim, the Platform encourages those investors who use derivatives in their funds to explain how they relate to the Taxonomy, as part of the qualitative disclosures as part of their explanations on how derivatives contribute to the environmental objective or characteristics of their fund.

Table 13: Derivative Scoping within the Taxonomy

Asset Class	Derivative Type (examples)	Applicable to Taxonomy
Interest Rate	Futures, Forward Rate Agreement, Swaps, Baskets, Options	No
Currency	Futures & Options	No
Commodity	Futures & Options	Only when testing the manufacturer of the Commodity, not the Commodity alone
Equity	Contract for Difference (CFD), Single Name options, Baskets and Indices, Structured products, Total Return Swaps and Equity Indices	Potentially
Credit	CDS, Baskets, Bond Futures, Options, TRS, Bond repos	Potentially
Carbon/Energy (Commodities)	Structured products, Forwards, Futures, Offsets	No mechanism within the Taxonomy to test carbon alone, unless looking at qualifying carbon capture technologies within the Climate Delegated Acts

3.1.3.1 Derivative Treatment in Article 5 and 6 of the Taxonomy Regulation

For financial products marketed as Article 8 and 9 under SFDR¹⁰⁷, FMPs are required to report the Taxonomy-alignment of those products either from data reported by the underlying investee company or calculated based on 'equivalent information' (see section 2.3). Article 17(1) of the Delegated Regulation under SFDR¹⁰⁸ asks for the Taxonomy assessment to apply the net short methodology laid down in Article 3(4) and (5) of Regulation (EU) No 236/20127 of the European Parliament and of the Council to derivative instruments and explain how derivative instruments are part of the sustainable investment strategy, per Article 51(a) and 59 (a) (ii) of the SFDR RTS;

Article 51(a) "the extent to which the environmental or social characteristics promoted by the financial product were met during the period covered by the periodic report, including the performance of the sustainability indicators used to measure how each of those environmental or social characteristics are met and which derivatives, if any, have been used to meet those environmental or social characteristics;"

Article 59 (a) (ii) "any derivatives referred to in the subsection 'How does the use of derivatives attain the sustainable investment objective?' of the section 'What is the asset allocation and the minimum share of sustainable investments?' in the template set out in Annex III to this Regulation used to attain the sustainable investment objective;"

For Article 9 SFDR products, investments should conform with Article 2(17) SFDR. The Platform notes that derivative instruments are not fully subject to Article 2 (17) requirements but are required to clarify how derivative transactions do not have any DNSH impact (as defined using principle adverse impact indicators).

A financial product, in order to meet requirements in accordance with prudential, product-related sector specific rules may next to 'sustainable investments', also include investments for certain specific purposes such as hedging or liquidity which, in order to fit the overall financial product's sustainable investments' objective, have to meet minimum environmental or social safeguards, i.e., investments or techniques for specific purposes must be in line with the sustainable investment objective. Since Article 9 of Regulation (EU) 2019/2088 remains neutral in terms of the product design, or investing styles, investment tools, strategies or methodologies to be employed or other elements, the product documentation must include information how the given mix complies with the 'sustainable investment' objective of the financial product in order to comply with the "no significant harm principle" of Article 2(17) of Regulation (EU) 2019/2088.¹⁰⁹

3.1.3.2 Derivative Treatment in Article 8 Delegated Act

Derivatives are excluded from the numerator of the GAR or GIR, according to Article 7 (2).¹¹⁰ Derivatives are, however, included in the denominator of such calculations.

The Platform formed a market practitioner working group to review the use of derivatives in the numerator for Article 8 reporting by financial institutions. The working group reviewed the following options, assessing pros and cons for each of them:

- No proposed changes to the current legislation: leaving derivatives out of the numerator while reporting the market value on the asset side within the denominator in Taxonomy reporting
- Removing Derivatives from both numerator and denominator in Taxonomy reporting

¹⁰⁷ [EUR-Lex - 32019R2088 - EN - EUR-Lex \(europa.eu\)](#)

¹⁰⁸ [C_2022_1931_1_EN_ACT_part1_v6\(1\).pdf \(europa.eu\)](#)

¹⁰⁹ [c-2021-4858-f1-annex-en-v1_p1-1313978.pdf \(europa.eu\)](#)

¹¹⁰ [Taxonomy-regulation-delegated-act-2021-4987_en.pdf \(europa.eu\)](#)

- Including only derivatives instruments which provide market exposure to an underlying that is either debt or equity, in both numerator and denominator, up their respective – positive or negative – delta contribution, and thus stimulate a flow of capital to the Taxonomy-aligned outcome:
- o Single name only; or
- o Derivative instruments with a delta > |0.8| only; or
- o All derivative instruments (index or single name, all deltas included)
- Including only derivative instruments that provide an economic exposure to the underlying company in both numerator and denominator; and thus stimulate a flow of capital to the Taxonomy-aligned outcome.
- Including all derivative types in Taxonomy reporting

Recommendations

The working group were unable to reach a consensus opinion on the way forward for Derivatives within Taxonomy reporting and would therefore recommend the European Commission mandate further work to the Platform 2.0 to research the consequences of the following two favoured approaches:

1. Removing Derivatives from both numerator and denominator in Taxonomy reporting
2. Including Underlying value * Delta in the denominator and, in the numerator

The second option has two favourite variants how to identify Taxonomy-aligned underlying value:

- All derivative instruments that provide an economic exposure to the underlying company
- Only single name derivative instruments that provide an economic exposure to the underlying company

Delta is defined as the first derivation of the derivative instrument to the underlying. For options delta is a common measure as one of the Greeks. For long forwards and futures delta equals 1, for short forwards and futures delta equals -1.

Underlying value is defined as mark to market (MTM) value of derivatives underlying. Taxonomy-aligned underlying value is only the Taxonomy-aligned part of underlying value.

The working group concluded that the MTM value of the derivative instruments should be used in the calculation of the denominator until such a time as a thorough review of the inclusion of derivatives in numerator is concluded.

3.1.4 Dealing with SMEs

The Platform, with the help of the European Commission, has appointed a consultancy to appropriately review the inclusion of SMEs and SME finance under the Taxonomy Regulation. Further, more detailed recommendations regarding SME finance will be provided by the Platform in a separate but complementary briefing to support the 2024 review period.

Europe defines SMEs as firms that employ less than 250 workers and have an annual turnover below EUR 50m or a balance sheet total of less than EUR 43m, per Table 14.

Table 14: European Definition of Small- and Medium-Sized Enterprises*

	Employees	Turnover	Balance Sheet Total
Micro	<10	≤ EUR 2m	≤ EUR 2m
Small	<50	≤ EUR 10m	≤ EUR 10m
Medium-sized	<250	≤ EUR 50m	≤ EUR 43m

* Within the category of non-SMEs, one often distinguishes between mid-caps and large corporates, the former being defined as enterprises that employ no more than 2,999 employees, with an additional distinction of small mid-caps, employing no more than 500 employees.¹¹¹

SMEs are not in scope of the NFRD, but this will soon be replaced by the CSRD which enlarges its scope to cover listed SMEs.¹¹² However, they will be subject to lighter reporting standards (albeit, they have the possibility to opt out of the new system until 2028.)

Non-listed SMEs are not obliged to report against the Taxonomy as per Article 8 of the Taxonomy Regulation and they are excluded from the numerator of KPIs of financial undertakings. Their exclusion is however subject to the review scheduled for mid-2024 (Article 9 of Article 8 Delegated Act.)¹¹³

For the time being, SMEs may still be impacted by reporting requirements of larger undertakings, per the Taxonomy Regulation and Article 8 Delegated Act. This is because the disclosure rule intensifies the data needs and collection processes from large corporates that are in scope of the reporting requirement which may lead to them seeking information from their SME counterparts. The CSRD, however, provides that subcontractors can only be asked by their contractual partners to provide information according to a lighter version of reporting standards.

Some SMEs might still wish to voluntarily work towards aligning their activities with the Taxonomy to benefit from accessing green finance (issuing a green bond or asking for a green loan) and improve their access to capital through green finance. Moreover, SMEs whose activities are aligned with the Taxonomy might be considered more attractive to large companies as suppliers.

In addition, Recital 21 of the Taxonomy Regulation stipulates that: “[...] Where financial market participants cannot reasonably obtain the relevant information [...] financial market participants should be allowed to make complementary assessments and estimates based on information from other sources. [...]” This could benefit from further clarification to enable FMPs to understand how to best assess the Taxonomy-alignment of their SME counterparts and clients.

¹¹¹ NFRD/CSRD follow the Accounting Directive (2013/34/EU) for the SME definition, Article 3 of the latter defines: micro-undertakings as undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: (a) balance sheet total: EUR 350 000; (b) net turnover: EUR 700 000; (c) average number of employees during the financial year: 10. Small undertakings as undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: (a) balance sheet total: EUR 4 000 000; (b) net turnover: EUR 8 000 000; (c) average number of employees during the financial year: 50. [...] Medium-sized undertakings as undertakings which are not micro-undertakings or small undertakings and which on their balance sheet dates do not exceed the limits of at least two of the three following criteria: (a) balance sheet total: EUR 20 000 000; (b) net turnover: EUR 40 000 000; (c) average number of employees during the financial year: 250

¹¹² [New rules on corporate sustainability reporting: provisional political agreement between the Council and the European Parliament - Consilium \(europa.eu\)](#)

¹¹³ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](#)

From an environmental perspective, SMEs have a crucial role to play in reaching net-zero by 2050 and building a more sustainable future. The extreme diverse 22.5 million SMEs represent 99% of all non-financial businesses in the EU accounting for just over 50% of GDP¹¹⁴ and are estimated to be responsible for 60-70% of industrial pollution and of total industrial waste. The SME environmental footprint is, on aggregate, substantial. Although a very large proportion of companies, estimated at 55-60%, are SMEs with a low impact on the environment.¹¹⁵

In light of the above, there is a need to examine the extent to which the Taxonomy can be applied to SMEs in its current state and what a light report means when it comes to Taxonomy disclosures. Given how heterogeneous and diverse group European SMEs are coupled with the poor levels of data availability, the Data and Usability sub-group under the Platform (SG5) with the help of the European Commission has commissioned an in-depth analysis to a consultancy for assessing the relevance, usability, and possible simplifications of evidencing Taxonomy technical screening criteria for SMEs. The objective of the study is to provide advice on how the most impacted SMEs can be supported in their efforts to meet and report the mitigation Taxonomy criteria on a voluntary basis. Platform 2.0 could take the analysis of the study forward and provide recommendations to the European Commission on the application of the Taxonomy to SMEs and on whether SMEs should be included in the numerators and denominators of financial undertakings, especially banks; and, if so, which types of SMEs, under which circumstances and how.

The European Banking Authority (EBA) has introduced a mechanism for banks to consider SME investments using the Taxonomy, under the banking books' use of a Taxonomy alignment ratio (BTAR).¹¹⁶ The Platform welcomes the steps made to address SME financing and encourages further guidance on the application of the Taxonomy to SME financing in a consistent and proportional way.

Recommendations

The Platform recommends to the European Commission that Platform 2.0 continues the work on SMEs and provides recommendations to the European Commission on the application of the Taxonomy to SMEs and on whether SMEs should be included in the numerators and denominators of financial undertakings, especially banks; and, if so, which types of SMEs, under which circumstances and how.

The Platform welcomes the introduction of SMEs in EBA's banking booking (BTAR) and encourages EBA to consider the analysis and conclusions of the coming study on SMEs.

3.1.5 Recommendations for Credit Institutions

The Taxonomy is a corner stone of regulatory developments in the banking industry relating the assessment of climate change risks and opportunities. Several regulatory requirements (Pillar III in addition to Taxonomy disclosures under the Article 8 Delegated Act¹¹⁷ in this case) shepherd banks to use of the Taxonomy in order to identify how they can adjust their financing activities over time to meet their objectives of the Paris agreement, and measure and monitor their strategies.

¹¹⁴ [SMEs \(europa.eu\)](https://european-council.europa.eu/media/en/press-articles/2020/05/20200520_SMEs_en.pdf)

¹¹⁵ [SMEs and the environment in the European Union - Publications Office of the EU \(europa.eu\)](https://ec.europa.eu/economy_finance/sme-environment)

¹¹⁶ <https://www.eba.europa.eu/eba-publishes-binding-standards-pillar-3-disclosures-esg-risks>

¹¹⁷ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](https://eur-lex.europa.eu/eli/reg/d/2020/0178/oj)

3.1.5.1 Trading Book KPI

‘Trading book’ means all positions in financial instruments and commodities held by an institution either with trading intent or to hedge positions held with trading intent, as per prevailing prudential definition in point 86 of Article 4.1 in the EU Capital Requirement Regulation II (CRR II) reference (EU) 575/2013.¹¹⁸

The introduction of the KPI on the trading book had been contemplated for the purpose of symmetry with the GAR KPI that applies on the banking book of credit institutions. Annex V of the Disclosures Delegated Act details the disclosure provisions in relation to the trading portfolio.¹¹⁹

The banking book of a credit institution contains transactions that are the result of lending decisions. This is a lot less the case for transactions contained in the trading book of these institutions. Mostly, positions held on a trading book respond to market transactions aimed at hedging or gaining exposure to securities that are aligned with the Taxonomy as explained below. Unlike positions on the banking book, assets held on the trading book have a purely trading purpose and are not necessarily meant to be held to maturity. Market exposures in the trading book shall be valued at market fair value and the resulting gains and losses accounted for in the Profit and Loss statement.

Assets that are held by a bank shall be recorded either in its banking book or its trading book (the latter is also referred to Article 8 Delegated Act as “assets held for trading”).

The trading book can be a significant part of the total balance sheet of a credit institution. The European Banking Authority (EBA) in its final draft ‘Implementing Technical Standards (ITS) on Pillar 3 disclosures on Environmental, Social and Governance (ESG) risks’¹²⁰ (hereafter referred to as EBA Pillar 3 ESG Disclosure ITS) reported on the size of trading portfolio as follows:

“In terms of the relevance of the trading portfolio in EU institutions’ balance sheets, at the EU aggregate level trading book assets account for 15.5% of total financial assets as of Q3 2020. 15 of the 116 FINREP reporting institutions have trading book shares above the EU average (the median share is 2.3%), with several large institutions having shares well above the EU average. The institution with the largest trading book share of total financial assets reports a share of 41.8%.”

The following table illustrates the difference between the trading book and the banking book of a credit institution with corresponding ESG KPIs:

¹¹⁸ REGULATION (EU) 2019/ 876 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL - Of 20 May 2019 - Amending Regulation (EU) No 575 / 2013 As Regards The Leverage Ratio, The Net Stable Funding Ratio, Requirements For Own Funds And Eligible Liabilities, Counterparty Credit Risk, Market Risk, Exposures To Central Counterparties, Exposures To Collective Investment Undertakings, Large Exposures, Reporting And Disclosure Requirements, And Regulation (EU) No 648/ 2012 (Europa.Eu) <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0876> and <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R0575>

¹¹⁹ 1.2.4. Other disclosures in the GAR: GAR for the trading portfolio EUR-Lex - 32021R2178 - EN - EUR-Lex (europa.eu)

¹²⁰ EBA publishes binding standards on Pillar 3 disclosures on ESG risks | European Banking Authority (europa.eu)

Table 15: Trading Book vs Banking Book

	Intent	Active Management?	Main Risk	Main Reward	ESG KPI
Trading Book	Trading	Active positioning given clients' transactions, aiming at market neutral exposure	Market Risk	Trading Profit and Loss	To be defined, if appropriate: 2026
Banking Book	Funding	Active proprietary exposure (with possible hedging) within set limits	Credit Risk Interest Rate Risk	Net Interest Income	Green Asset Ratio (GAR)

In March 2021, the EBA provided clarifications on the trading book characteristics in its advice to the European Commission in relation to GAR calculations,¹²¹ pointing to a critical element of a trading book in the context of seeking to evaluate its Taxonomy-alignment, namely that a credit institution does not have the necessary visibility on the intent of its client on the transaction in relation to the Taxonomy and the underlying asset.

The purpose of a trading book is to allow clients to hedge risk or to gain exposure to securities (shares or bonds) via financial instruments and derivatives which play a key role in this respect. Indeed, derivatives represent a significant proportion of trading activities. A trading book is managed in accordance with market risk inputs. The trading book is a reflection of the risk appetite of the customers of the credit institution combined with the hedging activity the trading book manager conducts. The trader has to manage risks within a strictly defined framework and preserve a commercial margin. In addition, a trading book is flow driven as opposed to investment driven. As a result, a given snapshot at a given point in time may not always provide valuable information.

Given the above considerations, it could be challenging to comprehend how a credit institution takes environmental consideration when managing its trading book. However, while derivatives such as interest or currency derivatives have no direct link with Taxonomy-eligible or aligned activities, credit and equity derivatives (as outlined in section 3.1.3.) can play a role in fostering investments into their underlying securities – shares or bonds issued by economic actors conducting such activities. In this respect the following should be considered:

1. There is a growing demand from investors for solutions that involve equity or credit derivatives – and that allow them to:
 - Invest, directly or indirectly, into these securities within controlled market risk limits, tailored to their risk appetite and profile
 - invest into capital protected products linked to Taxonomy-aligned activities in the case of Retail investors,
 - Get indirect access to financing green assets in wider markets (for example, in countries with local currencies under restricted access from abroad)
2. In order to offer such solutions to clients, credit institutions ought to hedge the embedded derivative positions in the market, to subsequently invest directly or indirectly by triggering the investment

¹²¹ EBA advises the Commission on KPIs for transparency on institutions' environmentally sustainable activities, including a green asset ratio | European Banking Authority (europa.eu)

within the market – into the underlying shares and bonds. By doing so, they may contribute to the financing of Taxonomy-aligned activities.

As a result, there is a part of credit institutions' trading activities that can help their clients increase their investments in Taxonomy-aligned activities or help issuers align their activities with the Taxonomy. This is especially true for a subset of equity and credit derivatives.

Regarding derivatives, it might be possible to define a KPI that reflects the contribution of the trading book of a bank through derivatives eligible to the numerator of the Green Investment Ratio (GIR, or the equivalent GAR KPI) of its clients.

For illustration purposes only, where equity and credit derivatives are based on securities of a company investing in Taxonomy-aligned activities, a potential KPI could record, in the numerator, the shares and bonds purchased by credit institutions in order to hedge the derivatives offered to investors. Such amount would be multiplied by the percentage of Taxonomy-aligned activities of the debt or equity issuing companies. If the credit institution is using derivatives to provide hedges to its client (as opposed to direct investment into securities), such derivatives become eligible to the numerator of the KPI up to their delta (which measures the equivalent exposure to the securities.) This would be restricted by several conditions such as the evidence of a link with an investment being completed in these securities. The denominator would be the sum of the absolute values of the deltas of all equity and credit derivatives in the Trading Book.

This example is exclusively provided to illustrate a potential solution for indicative purpose only. Further and thorough analysis ought to be conducted in order to define a meaningful and effective KPI that fairly reflects banks' trading books liaison with the Taxonomy.

Table 16: Pros and Cons of Trading Book GAR KPI

Pros	Cons
Could represent a sizeable portion of some credit institution balance sheet for which a sort of Taxonomy disclosure could be of interest, if meaningful and feasible.	1. The composition of the trading book is contingent by nature, its size and content do not result from an assets allocation policy 2. Trading is a flow driven business.
Growing demand from clients for Taxonomy-aligned investments within controlled market risk limits: assess/measure how much the trading book of a bank responds to these requests.	The credit institution may not be able to determine the underlying asset or activity that gave rise to the derivative (if any) included in the trading book and therefore to allow for a full alignment analysis.
A periodic KPI reporting would address the risk of irrelevance of "snapshot" or "window dressing" practices.	The short-term nature of the trading book, with line added constantly would only allow for a point-in-time analysis which could be subject to "window-dressing."

Recommendations

The Platform recommends to the European Commission that further in-depth analysis of the Trading Book KPI is conducted in conjunction with the review of derivatives regarding Taxonomy reporting and related financial undertakings KPIs. The aim will be to determine whether a KPI can be meaningful in reflecting the contribution of credit institutions through their Trading Book.

The Platform recommends that this review is conducted ahead of the 2024 review period. Such a review could be commissioned to an ad hoc expert group overseen by the Platform 2.0.

3.1.5.2 Fees & Commission KPI

The Fees & Commissions KPI lists a number of activities for which credit institutions typically earn a fee or take a commission, and requires each of those earnings to be counted when linked to a financing of an aligned economic activity.

The introduction of the KPI on fees and commissions follows the principle of transparency, as expressed by the EBA, and to this effect requires the mapping of all sources of revenues for a credit institution to Taxonomy-aligned activities. Annex V of the Disclosures Delegated Act details the disclosure provisions in relation to the Fees and Commissions KPIs.¹²²

Recommendation

The Platform recommends the European Commission to welcome the inclusion of Fees and Commissions that encourage the credit institution to offer Taxonomy-aligned products and services to its clients. Where such Fees and Commissions are generated from activities that have the capacity to influence capital flows towards sustainable outcomes, they should be included in both numerator and denominator. In order to allow comparison between banks, the Platform recommends that the denominator reflects only those Fees and Commissions considered eligible for Taxonomy reporting (and not all fees and commissions, as currently written).

The Platform has undertaken an extensive review of the types of fees and commissions that have the potential to stimulate capital flows to Taxonomy-aligned activities, with details in Appendix B.

¹²² Annex V 1.2.3. KPIs on services other than lending – Fees and Commissions (F&C KPI) EUR-Lex - 32021R2178 - EN - EUR-Lex (europa.eu)

Table 17: Summary of Recommendations on Fees and Commissions KPI for GAR

Fees & Commissions Connected to Activity	Recommendation
a) <i>issuance or other services related to third-party securities;</i>	Include as proposed.
b) <i>reception, transmission, and execution on behalf of customers of orders to buy or sell securities;</i>	Recommendation 1: consider <u>excluding</u> given its lack of connection and capacity to influence green capital flows.
c) <i>merger and acquisition undertakings advisory services;</i>	Recommendation 2: consider <u>excluding</u> income from merger and acquisition advisory services in the fees and commission KPI at this stage. A deeper analysis may be required to determine with M&A practitioner how they could play a role in guiding their client to improve the environmental sustainability of their asset sale or acquisition through the advisory process.
d) <i>undertakings finance services related to capital market advisory for undertakings clients or other;</i>	Recommendation 3: consider supplementing the Disclosures DA with a guidance laying out a clear set of conditions related to the eligibility of the underlying assets. Consider including this guidance in the ESMA securitisation regulation.
e) <i>private banking related fees;</i>	Recommendation 4: Platform 2.0 to assess the different types of fees and commissions linked to private wealth with a view to focus on those relevant to structuration and placement of Taxonomy-aligned financial products and avoid double counting with items accounted for under “assets under management”.
f) <i>clearing and settlement services;</i>	Recommendation 5: consider <u>excluding</u> clearing and settlement services from the fees and commission KPI considering its lack of connection and capacity to influence green capital flows.
g) <i>custody and other related services;</i>	Recommendation 6: consider <u>excluding</u> custody and other related services from the fees and commission KPI considering its lack of connection and capacity to influence green capital flows.
h) <i>payment services;</i>	Recommendation 7: consider <u>excluding</u> payment services from the fees and commission KPI considering its lack of capacity to influence green capital flows.
i) <i>fee and commission income for distribution of products issued by entities outside the prudential group to its current customers;</i>	Recommendation 8: Platform 2.0 to advise which of these types of fees and commissions may be linked to the structuration and placement of Taxonomy-aligned financial products and consequently should be maintained in the scope of the Fees& Commission KPI.
j) <i>loan servicing activities;</i>	Recommendation 9: consider <u>excluding</u> loan servicing activities from the fees and commissions KPI since it should be excluded in principle and its lack of capacity to influence green capital flows.
k) <i>foreign exchange services and international transactions.</i>	Recommendation 10: consider <u>excluding</u> foreign exchange services considering its lack of capacity to influence green capital flows.

3.1.5.3 Mortgages

Note: The recommendations presented in this section cover credit institutions' reporting obligations as per Article 4 of the Regulation. These recommendations may also be applicable for other financial undertakings under the scope of this Regulation, where relevant to their own disclosure requirements as per Article 3 (asset managers), Article 5 (investment firms), and Article 6 (insurance and reinsurance undertakings).

Buildings make up approximately two thirds of the world's hard assets (Kay, 2015),¹²³ and are responsible for 40% of Europe's energy consumption and 36% of the EU's GHG emissions.

Ensuring that the capital flows supporting the renovation of buildings are Taxonomy-aligned could significantly contribute to the delivery of the EU's climate goals. Reporting on Taxonomy-aligned mortgages will allow credit institutions and regulators to measure the progress of decarbonisation of the sector and may lead Member States to provide additional incentives, if need be, to accelerate the emission reduction of the sector.

Credit institutions are expected to report the alignment of their financing activities, which comprises households as well as companies (non-financial undertakings as well as financial institutions.) In relation to households, the main activities covered by the Taxonomy are via the construction and real estate sectors, namely 7.1, 7.2 and 7.7 as listed in Annex I of the Climate Change Delegated Act.

Given that households are not expected to report under the Taxonomy, credit institutions have to undertake the assessment of the alignment with the Taxonomy themselves. Hence, the Disclosure Delegated Act sees credit institutions as the main aggregator for Taxonomy-aligned car loans and mortgages. Section 1.2.1.3 of Annex V of the Article 8 Delegated Act details how the Green Asset Ratio for retail exposures should be calculated in relation to activities 7.2 to 7.7 as listed in Annex I.

Credit institutions and other lender types will be in a difficult position to deliver this role at scale until the underlying data is readily available. Indeed, if a client wants a green mortgage, potentially offered at preferential conditions, the lender needs to ensure that the TSC (SC and DNSH criteria) are fulfilled. This entails either the credit institution accessing the information via publicly available data sources or the client providing it. Both solutions are currently difficult to implement in absence of common standards throughout EU Member States.

As a result, mortgages without the required information cannot be analysed and will be classified as not aligned with the EU Taxonomy by default. This also means that the improvement of the EU building stock, financed by renovation loans will also not be monitored through the GAR which defeats one of its very purposes.

On 15 December 2021, a proposal for a recast of the Energy Performance Buildings Directive (EPBD)¹²⁴ requires the worst-performing 15% of the building stock of each Member State to be upgraded from Energy Performance Certificate (EPC) G to at least EPC F by 2027, in the case of non-residential buildings, or by 2030, for residential buildings particularly. This new requirement is intended to drive the decarbonisation potential of the building stock in Europe, which will require the support of funding.

Under the currently proposed changes to the EPBD¹²⁵ and the Energy Efficiency Directive (EED),¹²⁶ some of the relevant information to comply with the substantial contribution to mitigation will, in time, be held by local authorities and building contractors (noting the vast majority are SMEs). This is not currently the case for all required information and throughout all EU Member States. Lending institutions' role in this process is to align their mortgage application process such as that relevant information on the collateral is collected.

¹²³ https://ec.europa.eu/info/news/focus-energy-efficiency-buildings-2020-lut-17_en

¹²⁴ [Energy performance of buildings directive \(europa.eu\)](#)

¹²⁵ Idem.

¹²⁶ [Energy efficiency directive \(europa.eu\)](#)

The Platform notes that, once the final texts are approved, a detailed assessment of the amendments – in particular on the standardisation and accessibility of information on EPCs - ought to be made in order to understand whether, and how, the remaining issues with TSC might be addressed to make the Taxonomy more usable on mortgages.

Substantial Contribution Criteria

The Energy Performance Certificate (EPC) is the key element to determine whether substantial contribution is achieved in relation to the climate change mitigation objective.

Credit institutions encounter two main hurdles which are inherent to accessing and integrating EPC's or Net Zero-Emission Buildings (NZEBS) to determine whether mortgages are green. These are:

1. **Process Timing:** Either the EPC does not exist at the time the mortgage is offered, or the EPC is incomplete and thus subject to revision (as is the case for renovations.)
2. **Legal Constraints:** In most instances, the client (mortgage beneficiary) has no legal right to obtain the EPC at the time of origination of the mortgage. When acquiring an existing building, the mortgage beneficiary receives funds from a credit institution before they become the owner of the building.

In addition, the following legal constraints are worth noting:

- The definition of the EPC labels and the way EPCs are calculated can differ depending on the region.
 - EPC Issuance is not always mandatory, for example, in some jurisdictions for commercial property.
 - EPC databases are not made available to financial institutions for General Data Protection Regulation (GDPR) reasons as per local GDPR laws. This is the case in Belgium and Spain for instance.
 - The way EPC audits are done can differ from one audit to the next as there is no regulatory standard. This may lead to variation in EPC data for the same property.
 - NZEB thresholds can also differ depending on the region.
 - Standards differ by type of residential buildings. For instance, in Spain and the Netherlands the NZEB thresholds depends on the type of building.
3. **Data Availability:** Credit institutions' access to data can be challenging when for example:
 - A unique identifier is not available; in many jurisdictions, the building units do not have a digitalised unique identifier. Where one exists, it is not always included in relevant EPC databases and therefore not collected by credit institutions IT systems.
 - Databases can have a different structure and may not be connected to a central repository, making it difficult for credit institutions to obtain quality information in an automated manner.
 4. **Changing Thresholds Over Time:** In some jurisdictions, EPC thresholds evolve which leads to grandfathering issues, i.e., a building complies under the previous threshold but not with the new threshold. When the building changes ownership, the EPC threshold alignment will be lost.

To the extent that the EPC score and label of the property are available and comparable, credit institutions will be in a position to determine whether a property is meeting the SC criteria. For the reasons mentioned above, the EPC framework ought to be strengthened by ensuring:

- Harmonisation across Europe and within countries, and
- EPC's are mandatory in all jurisdictions and are made available and updated in a timely manner.

For the construction of new buildings, credit institutions face a similar challenge. National levels of NZEB thresholds need to be standardised, or at a minimum, the full list of applicable thresholds across the EU ought to be publicly and easily available.

Finally, a future challenge for credit institutions is the application to mortgages outside the EU - as required in Article 8 reporting from 2025, subject to the 2024 review period – given that EPC is a European labelling scheme. Many jurisdictions have voluntary green building certifications which could be used as an alternative to the EPC as a source of energy demand data. Several of such schemes already operate both within and outside of Europe and Green Building Councils and other operators of these schemes have already adapted them to enable their use as a tool to demonstrate Taxonomy alignment. The Platform encourages the European Commission to work within the International Platform for Sustainable Finance (IPFS)¹²⁷ framework or directly with other national jurisdictions to create a list of international and national certificates that can be considered as equivalent both within and outside the EU. Given how critical the decarbonisation of the real estate sector is for achieving carbon neutrality, significant efforts should be invested into making the Taxonomy easily applicable to financial products, instruments, and mortgages.

From an EU policy perspective, this will ensure a coherent measurement of the quality of real estate properties. It will also guarantee that mortgages are reported in a coherent manner in the GAR of credit institutions (for regulators and investors) and GIR of the investment portfolios of investment managers, insurance companies and pension funds (main addressees being their respective clients.) It will simplify the use and interpretation of labels and norms across clients, credit institutions, and other stakeholders. Finally, it will be more cost efficient not only for lenders, but also for local regulators.

We note that Annex V specifies that only those mortgages aligned with the Climate Change Mitigation objective are mandatory to report in Annex VI¹²⁸ in accordance with the technical screening criteria depicted in Figure 34.

The Platform recognises that these challenges are not limited to credit institutions, but they extend to all investors in mortgage-linked assets, such as asset backed and mortgage-backed securities. The Platform would encourage financial institutions to still endeavour to obtain as much information in their investment process as possible and look at options on providing preferential financing to support the greening of real estate assets. The Platform stresses the importance of this sector in improving the environmental sustainability of real estate.

¹²⁷ https://finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance_en

¹²⁸ Annex V of Disclosures DA section 1.2.1.6: GAR for residential real estate exposures, including house renovation loans, for the objective of climate change mitigation. See also Recommendation 1 of this report section on Annex VI.

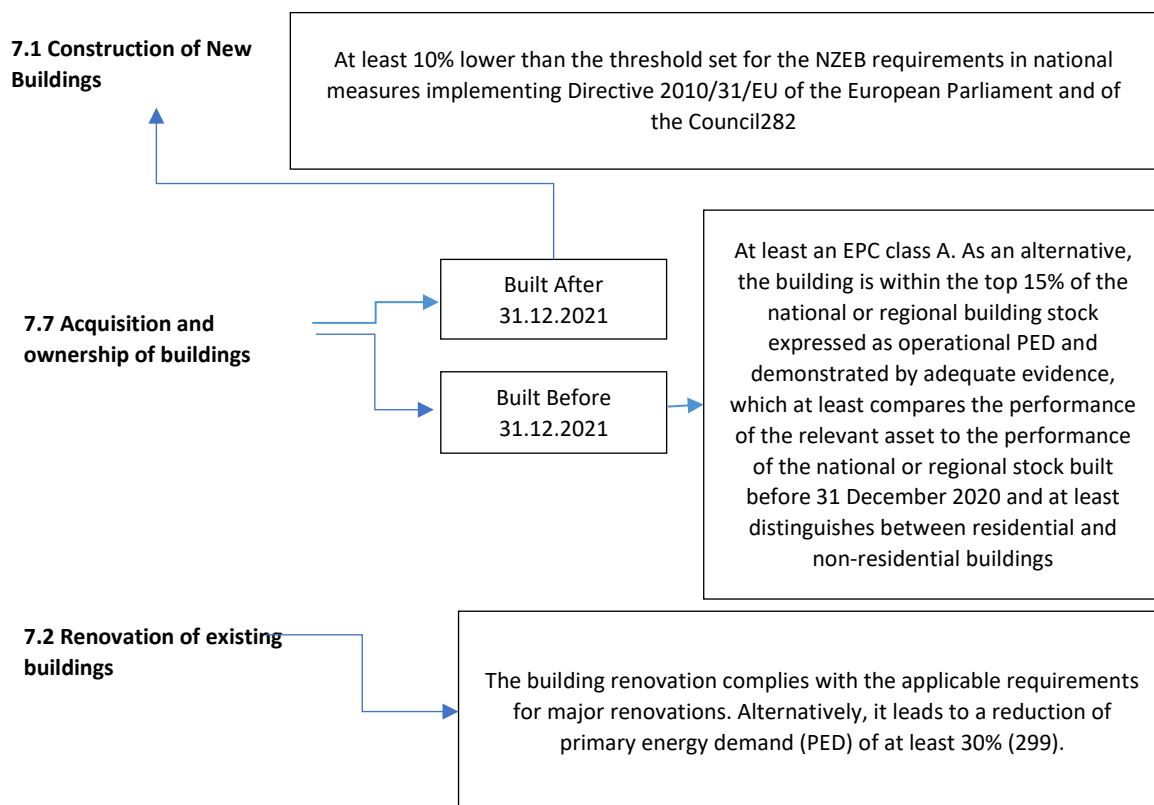


Figure 34: Technical Screening Criteria for Mortgage Taxonomy Alignment

Recommendations

The Platform suggests the European Commission to:

- Review and strengthen the EPC framework and NZEBs so that it is equally and timely applied across Europe.
- Allow investors, lenders, and certifying bodies to have direct access to the EPC and NZEB databases. Develop an EU-wide framework of unique identifiers, e.g., based on geo coordinates, such that lenders are in a position to conduct automated checks to identify when EPC or updated EPC are available.
- Work with the IPFS members to create a list of “EPCs and NZEBs” international equivalences by mapping the quality and the level of implementation of energy efficiency and green buildings labelling schemes outside of Europe.
- For a transitional period, while the EPC framework is being strengthened, allow banks and mortgage lenders to use existing green building certification systems as proxies.

Do No Significant Harm (DNSH) Criteria

DNSH criteria vary depending on which of the three activities is under examination. While for acquisition and ownership of buildings, adaptation is the only requirement, for construction of new buildings and renovation, the list is longer and specific.

Most of the information necessary to verify the DNSH criteria is currently not readily available to credit institutions when they grant the mortgage to a household. As for SC, if this information cannot be obtained, it

may prevent the assessment of alignment. Table 18 below illustrates the challenges today inherent to DNSH requirements:

Table 18: DNSH Challenges for Mortgages

Criteria	How to verify?	Provided by?	Issue	Feasibility
Adaptation: Physical risks (flooding, sea level ...)	Map location with risk maps	External providers	No market standards for all risks	Medium
Water (comm. Buildings)	Audits	None	Missing local regulation	Low
Circular Eco: recycle 70% of non-hazardous demolition waste	Audits	None	Missing local regulation	Low
Pollution prevention: materials used	Audits	None	Missing local regulation	Low
Biodiversity: not constructed on arable land, greenfield, forest,	Registration Number of building ground	Local governments	Not readily available throughout the EU ¹²⁹	Low

In the light of these data availability challenges – the Platform believes that the following options present themselves for the treatment of mortgages in the reporting of the GAR:

¹²⁹ The EU space observation program Copernicus should soon make data on land cover available for all Member States at high resolution through: 1) CLC+, the new iteration of CORINE Landcover data (<https://land.copernicus.eu/pan-european/clc-plus>) with a maximum grid (cell) size of 0.5 ha and 18 land cover classes; and 2) High Resolution Soil Sealing Layers (<https://land.copernicus.eu/pan-european/high-resolution-layers/imperviousness>) offering indicators for percent impervious area, impervious built-up area, change layer, all with a 10-20m resolution.

Table 19: Options for the Stock of Existing Mortgages

Options available	Pros	Cons
Option 1: Whenever local regulations are missing or access to relevant data is denied, credit institutions rely on their own analysis applying either a generally accepted industry approach in their country of domicile or a self-developed methodology. In any case, the applied methodological approach must be disclosed in relevant entity and product-related sustainability reporting.	Flexibility for credit institutions	Robustness of each methodology will inevitably vary. Lack of consistency which makes data less comparable amongst credit institutions. Not aligned with the spirit and intent of the EU Taxonomy to enhance transparency and work against green washing.
Option 2: Credit institutions use an estimate related to Taxonomy-aligned mortgages for the stock for a clearly defined period. Credit institutions should only use a European Commission vetted and published methodology to ensure consistency across the markets, e.g., the JRC methodology. According to the EBA advice on Article 8,¹³⁰ the JRC methodology¹³¹ is a possible approach to estimating Taxonomy-alignment. “Using as a fallback solution relevant proxies and coefficients on Taxonomy alignment by sector, estimated by an independent Commission body, like the JRC/UZH alignment coefficients developed for the objective of climate change mitigation at sector aggregate level”. Specifically, the JRC propose using 15% as a proxy of the Taxonomy-aligned share of the mortgage portfolio, based on the corresponding climate change mitigation TSC.¹³²	An official and single methodology which would prevent inconsistencies in the reporting across financial institutions while preserving the integrity of the Taxonomy. Provides comparability amongst credit institutions. Aligned with the spirit of the EU Taxonomy by limiting the potential for greenwashing.	Some may view this as further constraints and details imposed by the Disclosure DA. The methodology is a fall-back solution which doesn't reflect the fully accurate position of a portfolio. The latter being currently not feasible.

For the avoidance of doubt, **the Platform recommends to the European Commission that only option 2 is retained.**

For the Flow of New Mortgages

The Platform acknowledges that despite the urgent need to harmonise and upgrade EPCs, it is the best indicator in the market for SC and should be used for determining SC for any new mortgage. The Platform recognises that DNSH is a critical part of assessing buildings alignment with the Taxonomy. Today's reality, however, renders it difficult for financial institutions to access the necessary data to evidence alignment to DNSH for buildings

¹³⁰ [https://www.eba.europa.eu/sites/default/documents/files/document_library/About Us/Missions and tasks/Call for Advice/2021/CfA on KPIs and methodology for disclosures under Article 8 of the Taxonomy Regulation/963616/Report - Advice to COM Disclosure Article 8 Taxonomy.pdf](https://www.eba.europa.eu/sites/default/documents/files/document_library/About%20Us/Missions%20and%20tasks/Call%20for%20Advice/2021/CfA%20on%20KPIs%20and%20methodology%20for%20disclosures%20under%20Article%208%20of%20the%20Taxonomy%20Regulation/963616/Report%20-%20Advice%20to%20COM%20Disclosure%20Article%208%20Taxonomy.pdf) page 54

¹³¹ Lucia Alessi and Stefano Battiston, 'Two sides of the same coin: Green Taxonomy alignment versus transition risk in financial portfolios', International Review of Financial Analysis, 2022, 102319, Vol. 84, ISSN 1057-5219, <https://doi.org/10.1016/j.irfa.2022.102319>

¹³² Idem.

(existing and new.) The European Commission needs to ensure the necessary information to apply DNSH is made available to financial institutions.

There are sophisticated tools to measure the degree of physical risks of different properties. Yet, what is not accessible to financial institutions is whether and when the building designer or developer, or the local authorities, have conducted a physical risk assessment and developed a plan to mitigate the identified risks. **The European Commission should prioritise making this information, alongside the impact on biodiversity for new constructions, available to credit institutions.**

In order to further direct capital flows towards the building sector, the European Commission may consider evaluating possible lending schemes favouring Taxonomy-aligned mortgages.

3.1.5.4 Car Loans

The transport sector is now the second-largest source of emissions in the EU, with carbon dioxide making up the vast majority of GHG emissions from this sector.¹³³ Road transport constitutes the highest proportion of overall transport emissions (in 2019 it emitted 72% of all domestic and international transport GHG).¹³⁴ The increase in green car loans should therefore be one of the key measurable outcomes of the Taxonomy.

However, much like for mortgages, credit institutions find themselves in the position of having to assess the environmental credentials of cars and other vehicles financed through car loans. The main challenges related to car loans are the availability of the necessary data and evidence, in a timely manner:

- The registration card, containing CO₂ data, is available only after purchasing the car and arranging the finance agreement
- There is no database available to identify the energy consumption by vehicle type and brand
- Consistent application of this requirement linked to regulation throughout the EU such that data is available and reliable throughout the EU
- Economic activity 6.5 within the Climate Delegated Act¹³⁵ includes: “Purchase, financing, renting, leasing and operation of vehicles.”

Substantial Contribution

Regarding Climate Change Mitigation, requirements are mainly centred on each vehicle’s tailpipe emission limit, of 50gCO₂/km up until 31st December 2025 and of 0g CO₂/km thereafter.

Do No Significant Harm

Requirements are:

- Adaptation: appendix A requirements
- Circle economy: recyclability and reusability of 85% to 95%
- Compliance with EU vehicle standards, including noise pollution and energy efficiency

It is problematic for a credit institution to independently verify compliance with both SC and DNSH criteria, without access to the necessary information from both manufacturer and owner of the vehicle. This issue will be applicable to both the stock of existing car loans and the flow of new car loans. Similar to mortgages, the

¹³³ [Transportation emissions in the European Union - Statistics & Facts | Statista](#)

¹³⁴ [Greenhouse gas emissions from transport in Europe \(europa.eu\)](#)

¹³⁵ [EUR-Lex - 32021R2139 - EN - EUR-Lex \(europa.eu\)](#)

Platform believes that the following options present themselves for the treatment of car loans in the reporting of GAR:

Table 20: Treatment of Car Loans in Green Asset Ratio

Options	Pros	Cons
Option 1: Credit institutions do not include car loans as Taxonomy-aligned in their GAR stock disclosures in year 2024 (based on fiscal year 2023 holdings). Credit institutions report a null number for the existing stock of car finance agreements.	The actual figure of car loans for any given credit institution's balance sheet will be much less significant than that of mortgages. Therefore, the implication of a null figure is less significant.	The usefulness and relevance of the EU Taxonomy may be questioned as improvement in the car fleet cannot be reflected
Option 2: Credit institutions use an estimate related to Taxonomy-aligned car loans for the GAR stock for a clearly defined period. Credit institutions should only use a European Commission vetted and published methodology to ensure consistency across the market, for DNSH until the information is made available to credit institutions.	The credit institution is rightly able to disclose a contribution towards green car fleets.	Some may view this as further constraints and details imposed by the Disclosure DA. The methodology is a fall-back solution which doesn't reflect the fully accurate position of a portfolio. The latter being currently not feasible.

Recommendation

The Platform requests to the European Commission to include the numerator and denominator using an approved estimation methodology for DNSH until the information is made available to credit institutions for mortgages, other building renovation loans and car loans.

3.1.5.5 Private Equity/Debt

Value of Taxonomy in Private Markets

Alternative investments have the potential to significantly contribute to the transition. In particular, the Taxonomy could guide sustainable infrastructure investments and private or venture capital (VC) can play a role in scaling up innovative business models and new technologies. As the investment horizon for venture capital is usually under five years, there is limited focus on long term sustainability goals but incubating new business ideas, some focused on low carbon technologies and other enabling activities, are important in driving creative and innovate solutions to the market. Infrastructure investments, on the other hand, are often longer-term investments that play a critical role in supporting the environmentally sustainable transition needed in digitalization, transport, and energy.

Reporting Obligations in Private Equity

The application of the Taxonomy for private markets faces many similar challenges as other non-listed categories. There is a general lack of data and many of the companies are not covered by NFRD and/or CSRD reporting

obligations. For small and medium sized private companies, the reporting burden and confidentiality of data are additional challenges.

Private Equity (PE) and venture capital is used to define an alternative investment class that consist of capital that is not listed on a public exchange.

- Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of a public equity.
- Venture capital is mostly used to scale start-ups and small enterprises.

Private equity firms are typically structured as limited partnerships, where the fund manager is the general partner (GP) and the fund's investors are limited partners (LPs). Management of the fund is under the control of the GP, and all debts are jointly liable. When applying the Taxonomy, the reporting obligations between fund investments and direct investments differ.

Table 21 below, shows the different obligations:

Table 21: Private Equity Treatment of Taxonomy Data

Timing	FUND		DIRECT
	Limited Partner	General Partner	
Before investment	To express sustainability preferences to GP	Conduct research on individual companies before investment to identify Taxonomy eligibility, sustainability risk and minimum safeguards.	Conduct research and put reporting requirement in place to assess eligibility, SC, DNSH and minimum safeguards of investee companies
	To assess GP on use of Taxonomy for its investments	Include in contractual framework reporting requirements for individual companies including Taxonomy eligibility, sustainable investment share, Taxonomy alignment, DNSH, PAI indicators and minimum safeguards	
After investment	Ongoing monitoring of GP. Receive Taxonomy eligibility (and alignment) reporting from GP	Include Taxonomy and DNSH assessment in ongoing monitoring of portfolio companies and motivate companies to increase their data availability	Include Taxonomy assessment in ongoing monitoring of investment

Green Tech Finance and the Role of Venture Capital

Venture capital is used to scale start-ups and small enterprises. In the transition to a more environmentally sustainable economy, venture capital can play an important role in scaling up new technologies. Greentech innovation financing has been on the rise in recent years. After a minor setback during the period 2013-2016, VC and PE growth investments in European Greentech companies have increased sharply from 2017 onwards. Even during the COVID-19 crisis, the European Greentech sector continued to expand steadily. Rising demand for green products and services present unprecedented growth opportunities for the European Greentech sector.¹³⁶

¹³⁶ https://www.eif.org/news_centre/publications/eif_working_paper_2021_75.pdf



Source: Invest Europe, Authors' Calculations

Figure 35: VC Investment Amounts by Stage Focus



Source: Invest Europe, Authors' Calculations

Figure 36: Seed Stage VC Investments in European Companies¹³⁷

For venture capital, the Platform recognises difficulty in matching the investments to the very detailed activity level criteria. Investments are often related to new enabling technologies and solutions that are not yet part of the Taxonomy, or that could potentially claim substantial contribution under category “3.6 *Manufacture of other low carbon technologies*.” The Taxonomy focusses on existing technologies and models with a certain scale, even the aforementioned criteria refer to verification of out-performance relative “to the best performing alternative technology/product/solution available on the market.” To be valuable for VC, clarification for how emerging technologies can be treated regarding the existing Climate Delegated Act testing criteria would be welcome.

¹³⁷ In the Invest Europe statistics, seed stage VC transactions are defined as “[f]unding provided before the investee company has started mass production/distribution with the aim to complete research, product definition or product design, also including market tests and creating prototypes. This funding will not be used to start mass production/distribution.” The seed stage goes beyond TT, but it is the earliest investment stage for which data is provided in Invest Europe statistics. Important additional tech transfer and seed stage investments that not only include equity instruments are, for example, grants, crowdfunding, but also equity deployed by non-VC/PE market participants. See, for example, Dealroom.co (2018) for an approach that differs from Invest Europe’s and results in higher amounts reported for seed stage investment.

Recommendations

The Platform recommends the European Commission to consider providing detailed guidance on how emerging technologies and venture capital can consider alignment with the Climate Delegated Act, notably under:

- 3.1. Manufacture of renewable energy technologies
- 3.3. Manufacture of low carbon technologies for transport
- 3.5. Manufacture of energy efficiency equipment for buildings
- 3.6. Manufacture of other low carbon technologies
- 8.2. Data-driven solutions for greenhouse gas (GHG) emissions reductions
- 9. Professional, scientific, and technical activities
- 9.1. Close to market research, development, and innovation

3.1.5.6 Infrastructure Investments

Definitions of Infrastructure Investment

Infrastructure investments are a form of “real assets,” which contain the physical assets seen in everyday life like bridges, roads, highways, sewage systems, or energy infrastructure. Investors invest in infrastructure, as it is non-cyclical, and it offers stable and predictable cash flows.

There are a variety of challenges for Taxonomy implementation in private markets, with the primary issue being a lack of data:

- Much of the data needed to Taxonomy-assess private markets is not readily available; as many companies are not subject to reporting under NFRD. These challenges are likely to remain unless the market decides to publish data voluntarily or the scope of reporting under CSRD incorporates private markets.
- Data providers are not (yet) able to obtain sufficient company specific data.
- For small companies, particularly those who operate in the private equity and venture capital space, the required reporting systems are often not in place and would be very costly relative to the resources such companies have available.
- There is a tendency for companies operating in private markets to stay private, including but not limited to the belief that certain data sets are competitively sensitive and should not be publicly disclosed.
- A consequence of the limited data availability could be that investors will allocate their capital towards larger corporates.
- There is a particular lack of data concerning the DNSH criteria. The Taxonomy’s definition of DNSH, and respective testing criteria, in addition to the PAI assessment under SFDR creates a significant reporting ask for small companies. Such reporting also needs independent verification, which comes at cost for such small operators.
- An additional challenge is fund of fund investments, where the target fund manager raises capital for certain investments. A target fund manager outside the EU might not be willing / open to include extensive reporting requirements in order for their EU investor to comply with Taxonomy and SFDR disclosures.
- The second challenge is related to investors operating in non-EU markets. Taxonomy alignment requires great amount of interpretation where testing criteria relate to existing EU legislation. For emerging markets, the level of information required is not currently available. That does not mean that the investments are not sustainable. (See PART 6: International ConsiderationsPART 6: .)

Recommendations

The Platform makes the following suggestions for Improved Taxonomy Implementation in Private Markets:

- Increasing incentives for issuers to report driven by investor demand – even if it can eventually be driven by regulation. Investors could push for voluntary reporting in order to recognise the environmental credentials of the investment.
- The Platform recommends a transitional approach; elements of the data are not available for small and mid-sized EU companies and emerging market issuers. Rules on ‘equivalent information’ in these cases should be further clarified and simplified where possible (see section 2.3 on Equivalent Information).
- Conversion/coherence between SFDR and Taxonomy definitions and requirements, and the CSRD reporting template; including simplification for SMEs (see Part 5 of this report)
- Continued extension of the Taxonomy and inclusion of enabling technologies, business models and services – covering the full economic value chain (from raw materials to final consumer with inclusion of distribution activities, business services as well as consumer facing models and products).
- Adaptation of Taxonomy to R&D, innovation, start-ups and SMEs through increased flexibility and rationalization of eligibility and alignment criteria (see section 3.1.4)

PART 4: Verification

4.0 Verification and Assurance

This section of the report aims to provide clarity and some guidance to the industry and other stakeholders on:

- What information used in Taxonomy reporting is subject to verification and/or assurance?
- Who is responsible for verification or assurance of the information used in Taxonomy reporting?
- How will verification be implemented and what is the level of assurance required?

4.1 What information is required to be verified or assured?

Taxonomy reporting can entail up to three layers of verification:

- The verification of certain TSC and methodologies and calculation of the performance levels as described in the Climate Delegated Act (and the future Delegated Acts on the other four objectives).
- The assurance of Taxonomy-alignment and eligibility reporting under Article 8 of the Taxonomy Regulation.
- The assurance of financial product reporting under Articles 5 and 6 of the Taxonomy Regulation, and the verification of a financial instrument issuance (e.g., green bonds).

Technical Criteria

The Climate Delegated Act details where compliance with the TSC needs to be verified and for which activities.

Table 22 provides an illustrative non-exhaustive list of selected economic activities for which calculation methodologies for GHG emissions or emissions savings are to be verified as part of the TSC. Except for two activities, verification comprises the quantitative and qualitative information on methodologies and calculations of the GHG emissions mostly compared with a given threshold. In the case of activities 3.6. *Manufacture of other low carbon technologies* and 3.10. *Manufacture of hydrogen* no threshold is provided. Instead, the threshold ought to be calculated by the entity conducting the activity. An independent third party will have to verify the quantified life cycle GHG emissions savings, which would include verification of the methodologies and calculations of the GHG emissions and how the activity of the entity performs against the threshold.

Qualitative information contextualises and explains quantitative performance data, and therefore, its verification is important to ensure overall consistency.

Reported GHG emissions of economic activities contain a certain amount of uncertainty linked to their variable size. It is therefore recommendable to closely link the verification of reported GHG emissions to the European Monitoring and Verification Support Capacity that the European Commission is building under the Copernicus Programme atmosphere monitoring service. It will also visualise the GHG plumes (and their potential change) over Europe in a timely and transparent manner. The Platform notes that an international reference is also needed for non-EU operations.

Table 22: Example of Calculation Methodologies for GHG Emissions and Emission Savings Verification

Technical Criterion: “GHG emission savings are verified by an independent third party”	
Examples of activities that must ensure that GHG emission savings are verified by an independent party	GHG emission/savings need to be verified by an independent third party
3.6. Other low carbon manufacturing technologies	Savings ✓
3.10 Manufacture of hydrogen	Savings ✓
Electricity generation from geothermal energy	✓
8.2. Data-driven solutions for GHG emissions reductions	✓

Some TSC involve forward-looking information – e.g., climate-related targets in the case of activity 4.29. *Electricity generation from fossil gaseous fuels for power generation from gas* of the Complementary Delegated Act¹³⁸ – which requires estimation of a future outcome, based on a set of assumptions. Forward-looking reported information inevitably carries out a degree of uncertainty. Forward-looking criteria ought to be transparent and science based. As the CSRD well notes, the reasonable assurance opinion on forward-looking information only provides an assurance that such information has been prepared in accordance with applicable standards.¹³⁹

The current verification requirements are listed in Appendix C to this section. Requirements are diverse and broad and vary from activity to activity. These largely follow the TEG report¹⁴⁰ on what and where verification is needed. Further verification is not required when testing criteria are based on existing EU legislation. This is notably the case for many transport activities. For example, Regulation EU 2019/1242 setting CO₂ emission performance standards for new heavy-duty vehicles, referred to in activity 6.6 “*Freight transport services by road*” of Climate Delegated Act Mitigation appendix,¹⁴¹ requires CO₂ emissions of heavy-duty vehicles to be verified in-service.¹⁴² However, it poses a practical challenge to operations in most non-EU jurisdictions. Transport-related performances outside of the EU should also be verified by third parties. Some guidance is required to define what equivalent verification might be needed for transport-related performance outside of the EU.

The European Commission’s impact assessment on the Taxonomy gives background on where and why verification is included, namely to help investors with context-specific criteria like forestry, or provide assurance on specific GHG thresholds being met. In several cases, the criteria rely on elements that require high-technical knowledge (e.g., on international equivalence, quality of decarbonisation plans.) The accuracy of such information would be difficult to check for most investors and financial institutions. Consequently, the Delegated Acts have included verification requirements for those cases so that investors can rely on the information without needing to independently assess it themselves.

¹³⁸ [Corporate sustainability reporting | European Commission \(europa.eu\)](#)

¹³⁹ [Recital 54 of the CSRD recalls that “reasonable assurance opinion on forward-looking information is only an assurance that such information has been prepared in accordance with applicable standards”. Corporate sustainability reporting | European Commission \(europa.eu\)](#)

¹⁴⁰ [Technical expert group on sustainable finance \(TEG\) | European Commission \(europa.eu\)](#)

¹⁴¹ [EUR-Lex - 32021R2139 - EN - EUR-Lex \(europa.eu\)](#)

¹⁴² [Article 13 Regulation EU 2019/1242 EUR-Lex - 32019R1242 - EN - EUR-Lex \(europa.eu\)](#)

4.1.1 Taxonomy Disclosures Linked to NFRD (Future CSRD) Reporting

Article 8 disclosures are a sub-set of the non-financial statement regulated by the NFRD/CSRD.

Article 8 of the Taxonomy Regulation¹⁴³ mandates non-financial undertakings to report their turnover, Capex and Opex (the KPIs) Taxonomy-alignment and eligibility, and the linked narratives as part of a company's non-financial statement under NFRD (CSRD in the near future). Financial undertakings need to disclose their Taxonomy ratios – GAR, GIR or underwriting ratio – following the requirements stipulated in the Article 8 Delegated Act.¹⁴⁴ All undertakings ought to also disclose their KPIs covering the previous annual reporting period in accordance with Annexes I through XI.¹⁴⁵

Non-financial undertakings shall also disclose the accounting policy that underpinned the calculation of the KPIs – and avoidance of double counting; the underlying reasons for any methodological or material change since the previous reporting period and their impact; and a series of contextual information.

The Platform stresses the importance of Capex, Capex plans, and the role it plays in helping companies to shape their transition plans and access funding for them. Consequently, the reliability of companies' reporting on Capex (and Opex when relevant/with relevant Opex included) is key.¹⁴⁶ The Taxonomy allows companies to claim as green a series of investments throughout a defined period based on a commitment. The Capex plans, particularly those destined to render an activity or an asset Taxonomy-aligned in the future, capture that commitment. It is therefore essential for investors to be able to rely on the accuracy and robustness of those plans. The assurance of those plans and associated Capex Taxonomy-alignment reports is critical to the success of the Taxonomy. The more investors believe and trust in companies' Capex plans to green their businesses, the greater access companies will have to finance their plans.

Disclosures under the Taxonomy Regulation are theoretically subject to the same level of assurance as the non-financial statements regulated by the transposition to national legislation of the NFRD by member-states. However, in practice that is not always the case. For instance, even if limited assurance of the non-financial statement is required in France and in Italy, the requirement does not seem to extend to the Taxonomy information included in the non-financial statement. Spain is the only Member State where limited assurance on Taxonomy-reporting seems to be currently mandatory because verification covers all legally mandatory disclosures.

In most EU jurisdictions there is no mandatory assurance of Taxonomy-related reporting under Article 8 of the Taxonomy Regulation. This situation will change with the entry into force of the CSRD, which will require, first, limited assurance as a minimum across the EU. Until then, the Platform recommends companies seek limited assurance wherever practical or possible.

4.1.2 Financial Products and Instruments

FMPs use the disclosures on Taxonomy-related KPIs made by all investee companies subject to the NFRD (and the CSRD in the future) in their non-financial statements. For all other investee companies and investments, they may use "equivalent information" obtained by the financial market participant directly from investee companies

¹⁴³ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](#)

¹⁴⁴ [Article 8 Delegated Act EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](#)

¹⁴⁵ [EUR-Lex - 32021R2178 - EN - EUR-Lex \(europa.eu\)](#)

¹⁴⁶ Companies ought to disclose the following information in relation to Capex plans: the environmental objectives pursued; the economic activities concerned; research, development and innovation activities concerned, where relevant; the period of time whereby each Taxonomy-aligned economic activity is expected to be expanded or whereby each economic activity is expected to become Taxonomy aligned, including, where the period in which the economic activity is expected to become Taxonomy-aligned exceeds five years, an objective justification of such longer period, based on the specific features of the economic activity and the upgrade concerned; the total capital expense expected to be incurred during the reporting period and during the period of time of the Capex plan. Where Opex is part of a Capex plan, non-financial undertakings shall disclose the key information about each of their Capex plans.

or from third-party providers. The underlying premises and the methodology to use equivalent information are laid down in section 2.3. As shown, equivalent information is critical for investors to be able to use, apply, and report against the Taxonomy at fund-level. However, it requires investors to make some judgement calls when assessing alignment.

The SFDR RTS¹⁴⁷ follow the recommendation made by the ESAs (see Figure 37) and encourages FMPs to seek third-party assurance: “ *A description of the investments underlying the financial products that are in environmentally sustainable economic activities, including whether the compliance of those investments with the requirements laid down in Article 3 of the Taxonomy Regulation will be subject to an assurance provided by one or more auditors or a review by one or more third parties and, if so, the name or the names of the auditor or third party;*”¹⁴⁸

Independent third-party assurance might be the key for end-investors and other stakeholders to gain trust in the use of equivalent information which is key for FMPs to integrate non-CSR/NFRD investees not only when reporting Taxonomy-alignment but when using the Taxonomy to build their portfolios. Supervision and enforcement of the Taxonomy-related disclosure obligations is carried out by the national competent authorities (NCA) designated under the sectoral legislation that apply for each type of product.

Voluntary indication of compliance with Article 3 TR assured by an auditor or verified by a third party (preferred option)	
PROS	CONS
Level playing field for financial market participants	Time- and cost-intensive for financial market participants
Opportunity to provide more accurate information to supervisors and end-investors	The disclosure gives a false sense of security as it seems to imply that a system of verification of taxonomy-alignment exists, with clear responsibilities for the auditor and enforceable powers for supervisors. However, the legal framework does not identify who a verified third party or auditor can be and what would be the liability for such third party or auditor verification
Independent verification by a third party	

Figure 37: ESAs Recommendations on Independent Verification Standards

Source: ESAs (22 October 2021) *Final Report on draft Regulatory Technical Standards regarding the content and presentation of disclosures pursuant to Article 8(4), 9(6) and 11(5) of Regulation (EU) 2019/2088*, page 61.

¹⁴⁷ [C_2022_1931_1_EN_ACT_part1_v6\(1\).pdf \(europa.eu\)](#)

¹⁴⁸ [Article 15 of EU RTS SFDR C_2022_1931_1_EN_ACT_part1_v6\(1\).pdf \(europa.eu\)](#)

Recommendations

The Platform requests to the European Commission and ESAs to set clear requirements on equivalent information that conform a framework by which assurers can certify such reporting.

Independent third-party assurance will allow end-investors and other stakeholders to gain trust in the use of equivalent information. Until clear guidelines on which assurance can be provided, the Platform would encourage investors to adopt the precautionary principle in their own disclosures and seek verification on the aggregated overall Articles 8 and 9 SFDR reporting.

4.1.3 Assurance of Use-of-Proceeds Debt Instruments

The issuance of financial instruments *per se* does not entail or reference Taxonomy-related reporting.¹⁴⁹ Nevertheless, issuers of use-of-proceeds financial instruments that contribute to an environmental objective or have environmental characteristics have an interest in reporting against the Taxonomy. The demand for Taxonomy-aligned instruments by European investors is expected to increase over time to yield higher Taxonomy-alignment of their financial products. Taxonomy-aligned instruments also contribute to their aspirations to deliver their own transition and net zero plans.

It is in investors' interest to get the allocation of proceeds (including Taxonomy-alignment) and impact reports verified by an independent party. Verification on green credentials grants these instruments greater traction among investors especially if it becomes a condition to obtain TSC grandfathering for 10 years or until maturity.

Taxonomy-alignment reporting is likely for those issuances funding a Taxonomy-based Capex plan. Article 8 Delegated Act obliges non-financial undertaking that have issued environmentally sustainable bonds or debt securities with the purpose of financing specific identified Taxonomy-aligned activities to also disclose the Capex KPI adjusted for the Taxonomy-aligned capital expenditure financed by such bonds or debt securities. Yet, there is no obligation for any green bond or environmental use-of-proceeds instrument issued or commercialised in the EU to disclose their Taxonomy-alignment except for green bonds qualifying under the EU GBS. There are though voluntary market-based frameworks that already encourage issuers to disclose alignment of use-of-proceeds against market-based and/or official sector taxonomies.

The EU GBS will set the gold standard for green bonds by ensuring that the funds raised are allocated to projects aligned with the Taxonomy.¹⁵⁰ Further, bonds using the EU GBS label must be verified by an approved external reviewer to ensure compliance with the Regulation. Only reviewers registered with and supervised by ESMA are allowed to verify that the bonds meet the requirements of the EU GBS. ESMA will therefore supervise the external reviewers and have the power to withdraw their registration, suspend their activities or impose pecuniary sanctions if they do not comply with the requirements laid down in the EU GBS regulation. This will ensure the quality of their services and the reliability of their reviews, to protect investors and ensure market integrity.

¹⁴⁹ In practice, shares and general-purpose debt vehicles carry the issuers' Taxonomy-related disclosures.

¹⁵⁰ Please note that at the time of writing, the EU GBS Regulation was still being negotiated, some details might change to reflect the agreement reached in the trialogues.

Recommendations

The Platform recommends the European Commission to require issuers of green bonds and similar use-of-proceeds financial instruments to:

- report against the Taxonomy;
- to get their allocation and impact reports verified by a third-party verifier; and,
- for the verifier to be registered and supervised by the ESMA or an official authority for non-EU issuances.

Note that hereafter the section focuses on the verification of technical criteria and the assurance of Taxonomy-related reporting under Article 8 of the Taxonomy Regulation.

4.2 Who will verify the information?

The CSRD allows EU Member States to open the market for sustainability assurance services to so-called “independent assurance services providers.” This means that member-states could chose to allow firms other than the usual auditors of financial information to assure sustainability information. Specifically, the CSRD stipulates that:

- One or more statutory auditors or audit firms can express an opinion based on assurance engagement on sustainability reporting.
- Member States may allow a statutory auditor or an audit firm other than the one(s) carrying out the statutory audit of financial statements to provide such an opinion.
- Member States may allow independent assurance service providers to provide such an opinion if the comply with the requirements on training, professional ethics, etc. unless they have been accredited before 2024 or the accreditation process which is ongoing at that time finishes before 2026.
- If a Member State makes use of the option to allow an independent assurance services provider to express the opinion, it shall also allow a statutory auditor other than the one(s) doing the statutory audit of financial statements, to do so.
- As from four years after the entry into force, a host Member State that has made use of the option shall allow independent assurance services providers established in another Member State (home) to carry out the assurance of sustainability reporting.
- The home Member State shall be responsible for the supervision of the independent assurance services providers established in its territory unless the host one decides to supervise the assurance engagement in its territory (but without imposing stricter requirements).

The CSRD amends the Audit Directive and the Audit Regulation to bring in the assurance of sustainability-related information including the compliance with the reporting requirements of Article 8 of Taxonomy Regulation.¹⁵¹ It also defines the/some requirements verifiers must meet. Proposed paragraph (11) of Article 3 inserts Article 25b to extend the Audit Directive rules on the professional ethics, independence, objectivity, confidentiality, and professional secrecy required of auditors of financial statements to their work on the assurance of sustainability reporting.

¹⁵¹ CSRD to Article 34 of the Accounting Directive : (ii) the following point (aa) is inserted: ‘(aa) where applicable, express an opinion based on a limited assurance engagement as regards the compliance of the sustainability reporting with the requirements of this Directive, including the compliance of the sustainability reporting with the reporting standards adopted pursuant to Article 29b or Article 29c, the process carried out by the undertaking to identify the information reported pursuant to those reporting standards, and the compliance with the requirement to mark-up sustainability reporting in accordance with Article 29d, and as regards the compliance with the reporting requirements of Article 8 of Regulation (EU) 2020/852.’

Independent assurance service providers will play a key role in ensuring the regulatory intent is preserved as well as in enhancing consistency across reporting requirements.

The Platform notes that the quality of the external assurance or verification will mostly depend on the competency and skills of the services provider. The CSRD obliges Member States to ensure that statutory auditors who want to qualify for the assurance of sustainability reporting have the right level of expertise and knowledge.

The Platform believes that all auditors and independent assurance service providers should demonstrate the necessary level of know how. ESG expertise is instrumental to the success of verification, not least to assess whether and the extent to an ESG indicator can be verified:

- Verifying TSC such as life-cycle emissions require sectoral and environmentally proven knowledge.
- Expertise in social areas namely on labour and human rights due diligence processes will equally be needed.
- Sustainability auditors have developed verification strategies and enjoy a deep knowledge on environmental and social technical frameworks and can exercise a thoughtful professional judgement when it comes to assessing company's narratives.

Taxonomy-aligned indicators such as for revenues or Capex derive both from company's financial statements and from its environmental, social and governance performance. Providing assurance of such indicators requires competences in both financial reporting and ESG matters.

The CSRD requires statutory auditors to complete "a practical training of at least eight months in the assurance of annual and consolidated sustainability reporting or in other sustainability related services, taking account of previous employment experiences."¹⁵² The Platform believes that an EU accreditation scheme is needed to ensure the right level of knowledge and expertise is acquired and a level playing field across the EU. Such a scheme should recognise the different needs for asset level and organisation level verification and assurance. Any EU-wide accreditation scheme should take into consideration best practices already in place at national level for both asset level assurance (for example, Green Building Certification Auditors) and organisational level assurance (i.e., sustainability and ESG auditors).

Recommendations

The Platform stresses the importance that the auditor of non-financial information or technical criteria cannot be providing consultancy services to the audited firm. The same rules as for financial audits should apply.

The Platform calls for an EU accreditation scheme on sustainability-reporting assurance for all verifiers and auditors to ensure they have the right level of knowledge and expertise and a level playing field across the EU.

The Platform emphasises that an accreditation scheme for sustainability assurance within the EU should be developed by the European Commission. All auditors and verifiers should be subject to the same or equivalent public oversight.

¹⁵² [Corporate sustainability reporting | European Commission \(europa.eu\)](#)

4.3 How would the verification have to be performed?

To be able to provide assurance, verifiers and auditors require that:

1. The subject matter is clearly identified, and
2. It can be verified according to “a framework” that guides the calculations and specifies the requirements or criteria, e.g., GHG Protocol will be the framework to assess GHG reporting.

4.3.1 Assurance Standard Frameworks

ESG issues are high on the corporate agenda of all companies and reporting on their ESG performance enables companies to demonstrate their commitments.

Yet, sustainability-related reporting does not benefit from the same levels of reliability or years of experience. Progressively, as we all gain experience, the internal control mechanisms that ensure accuracy of financial information will be deployed for non-financial information.

Assurance generally means validating a statement or a process against defined criteria or an established framework. An assurance conclusion or opinion is always provided in accordance with a reporting framework (for example, European Financial Reporting Advisor Group (EFRAG) European Sustainability Reporting Standards (ESRS) that are currently being defined), and it is reached when applying an assurance standard framework (e.g., ISAE 3000) that defines how the assurance engagement is performed.

However, as the CSRD recognises, there is no assurance standard framework today that caters for this need. This risks creating a landscape of multiple interpretations of what assurance should exactly entail, especially regarding forward-looking and qualitative disclosures. To avoid this, the CSRD obliges the European Commission to adopt an assurance standard for reasonable assurance.

From the audit and accounting perspective, the International Auditing and Assurance Standards Board (IAASB)'s ISAE 3000 could be a starting point with regards to the methodology to follow. The ISAE 3000 covers assurance engagements other than audits or reviews of historical financial information. For example, it has been used to provide assurance on so called non-financial information (now called sustainability information in the CSRD) in various shapes and forms from sustainability disclosures to sustainability reports. For assessing the applicability of the ISAE 3000 to the three levels of verification/assurance needed, in section 4.1, few steps could be foreseen. First, as ISAE 3000 is a general assurance methodology which covers steps needed for ensuring professionalism, audit techniques, application of criteria (to assure against), how to obtain evidence and forming a conclusion, etc. These have worked well on non-financial information, but it cannot be excluded that further guidance would be needed for assurance of sustainability information. For example, to perform reasonable assurance or undertake pre-work on assessing criteria to use from the Taxonomy, EU GB Standards, the SFDR and/or granular principles of the Taxonomy, such as Minimum Safeguards and DNSH, would require knowledge and understanding of these regulations and standards.

Details are needed for preparing the engagement and to determine if the auditor has enough competence for the engagement (e.g., combining audit skills with subject matter expertise.) Besides suitable criteria and competence, the Taxonomy, SFDR and CSRD are expected to be more advanced to assure compared to level 1 disclosures under the NFRD. It is then likely that ISAE 3000, once being applied and over time, would be developed further – or – should the European Commission develop an assurance standard under the CSRD in a similar way as the ESRS, that could alternatively complement the ISAE 3000.

To ensure the standard-to-use would cater for stakeholder and regulatory expectations, a fitness check could be carried out by the largest users of ISAE 3000. Such check could capture the historical role and usage of ISAE 3000, the intended usage and how it could be applied on forward looking information, for example.

Recommendation

The Platform believes the European Commission should assess the extent to which ISAE 3000 is fitted as an assurance standard for CSRD and the Sustainability reporting requirements within the EU. Depending on the assessment result, the European Commission should consider assessing whether the European assurance standard framework can take ISAE 3000 as a starting point and be adjusted to the EU Sustainability reporting framework, including the European Sustainability Reporting Standards (ESRS).

4.3.2 Limited vs. Reasonable Assurance

The CSRD obliges the European Commission to adopt an assurance standard for reasonable assurance of sustainability reporting no later than 1 October 2028. Once adopted, following an assessment to determine if reasonable assurance is feasible for auditors and for undertakings, reasonable assurance will be mandatory.

Until then, limited assurance will be mandatory in all EU states. The CSRD demands limited assurance on:

1. Compliance with the reporting standards adopted according to Article 19b of CSRD.¹⁵³ The reporting standards developed by the European Financial Reporting Advisory Group (EFRAG) will require reliable performance data and breakdowns by country or operating segments or units.
2. The process carried out by the undertaking to identify the information reported according to these standards.
3. Compliance with the requirement to tag sustainability reporting as it is currently the case for the financial statements. This relates to the digitalisation of the information.
4. Taxonomy-reporting requirements.

The Platform believes that sustainability reporting deserves the same level of assurance as financial reporting and agrees with the approach taken in the CSRD, and agrees with the CSRD that a progressive approach is needed. Before moving to reasonable assurance, companies, assurance providers, and supervisors need to scale up their know-how. The novelty nature of the subject explains the low levels of knowledge, and highlights the need for training in the auditing and supervisory communities. This is accentuated by the uncertainty we face on how data availability and the underlying methodologies will evolve.

Companies need to implement an effective internal control framework for ESG matters to allow reasonable assurance to be conducted. This might prove to be challenging for several companies in the EU market and require some time.

Not only will the gradual approach from limited to reasonable assurance allow for the progressive development of the assurance practice for sustainability reporting but it will also help undertakings phase in the increase in costs.

Ultimately, the level of assurance on sustainability-related information ought to be the same as for “conventional” financial information. Both types of information risk being misreported and can cause significant damage to companies and their investors.

¹⁵³ <https://www.consilium.europa.eu/media/57644/st10835-xx22.pdf>

Recommendations

The Platform recommends the European Commission to develop guidelines on how to conduct verification and assurance, including how to avoid multiple layers of verification and optimise costs.

The Platform suggests the European Commission to assess whether sustainability data used in Taxonomy reporting provided by data service providers ought to be verified, and which level or requirement of external verification should be applied as part of its ongoing work on a normative framework for ESG/sustainability data providers.

PART 5: Sustainable Finance Regulatory Framework

5.0 Regulatory Framework

Policy coherence is the foundation of a successful regulatory framework.

The Taxonomy Regulation does not operate in a regulatory vacuum. It is intrinsically related to the NFRD (through Article 8 of the Taxonomy Regulation), which is currently being revised, and the SFDR (through Articles 5 and 6), but it also interlinks with other pieces of regulation such as the Benchmark Regulation (BMR), MiFID II and IDD, and the proposed ECOLABEL as well as with national requirements (e.g., Article 29 of the Energy Law in France or Article 32 of The Energy Transition Law in Spain) or the InvestEU and Common Provisions Regulation for shared management funds or other European Commission sectorial strategies.

Policy coherence between all regulatory pieces within the sustainable finance strategy is critical to ensure that investments support a resilient, environmentally sustainable and carbon neutral economy.

This section examines those regulatory initiatives that are more closely linked to the Taxonomy without forgetting the need for consistency within the Taxonomy Regulation. These are:

- the proposal for Corporate Sustainable Reporting Directive (CSRD);
- Sustainable Finance Disclosure Regulation (SFDR);
- Benchmark Regulation (BMR); and
- Sustainability preferences in Markets in Financial Instruments Directive (2004/39/EC) (MiFID II) and Insurance Distribution Directive (IDD).

It outlines interlinkages with the Taxonomy, and proposed amendments to strengthen consistency and gain efficacy. Lastly, it provides some recommendations to the European Commission (EC) and European Supervisory Authorities (ESAs) in the search for greater coherence and efficiency across regimes.

5.1 Consistency Between Articles 5, 6 and 8 of the Taxonomy Regulation

Key goals of the Taxonomy include providing consistency and clarity when investing in products with an environmental objective or characteristics. Non-financial corporates disclosures on the percentage of alignment of their activities by turnover, Capex or Opex (KPIs) serve as the basis for financial market participants (FMPs) own calculation of the proportion of their funds that are aligned with the Taxonomy and Financial Undertakings can report their Taxonomy-aligned ratios – GAR for credit institutions and GIR for investment managers.

Portfolio-alignment calculations will benefit from a common approach. This can be achieved by:

- Establishing the same inclusions and exclusions across numerator and denominator in reporting; and
- Having two primary ratios, expressed for turnover and Capex.

5.1.1 Having Two Primary Ratios per Financial Undertaking

Capex and Turnover are equally important.

The Platform reiterates the importance of both turnover and Capex/Opex metrics in FMP reporting. Turnover looks at current performance levels of the investee company and the latter (Capex/Opex) is crucial to incentivise investments directed to finance the transition.

The Article 8 Delegated Act does not require financial undertakings to express their ratios in Opex. This is understandable given the high-level of complexity already required to calculate turnover and Capex. However, when FMPs calculate the proportion of a financial product that is aligned using Opex, they cannot include in the calculation any financial undertaking in their financial product.

The Platform recommends simplifying disclosures at financial product-level to turnover and Capex only. This will serve to make disclosures at product-level more consistent with those at financial entity-level. The Platform has previously explained the importance of Capex. The SFDR RTS favours or incentivises the use of turnover over Capex by asking FMPs in pre-contractual disclosures to use turnover by default and “where the features of the financial product justify such use, in particular where capital expenditure or operating expenditure are more representative for the degree to which those financial products invest in environmentally sustainable economic activities, and provided such use is explained.”¹⁵⁴

Communication to end investors, especially retail investors, needs to be clear and easily understandable. This might explain the choice made to use revenues as a default option. Nevertheless, the Platform believes that the use of Capex is so relevant for financing the transition that it is worth that small extra layer of explanations. While revenues give the retail investors a picture of the performance of the company over the past year and the percent of greenness of their activities, Capex portrays the efforts of a company in greening their activities or expanding their already green activities. If revenues are chosen, the Taxonomy-alignment percent exhibits the percent of current greenness of the financial product. If Capex is instead chosen, the financial product is supporting the transition towards green activities of the investee companies.

The disclosure by FMPs only per turnover and/or Capex and Opex and related templates under SFDR RTS do not take into account other type of potential green use of proceeds. For instance, a green bond fund that holds sovereign green bonds (including potentially EU GBS) may have Taxonomy-aligned green sovereign expenditures or one or more green bonds whose proceeds are destined to refinance fixed assets. Moreover, these would not be compliant within the definitions of turnover, Capex or Opex in the Article 8 Delegated Act. A list of such green sovereign expenditures can be found under Article 4(2) of the EU GBS Regulation. The Platform would welcome guidance to FIs on reporting their holdings in green use-of-proceeds sovereign financial instruments in their own disclosures.

¹⁵⁴ [Article 15 \(3a\) RTS of SFDR](#)

Recommendations

The Platform encourages the European Commission to:

- eliminate justification for the use of Capex/Opex by deleting Article 15 (3a); or
- ask for an explanation of why the KPI was chosen by FMPs irrespective of the choice by replacing “in respect of investee companies that are non-financial undertakings, whether the degree to which the investments are in environmentally sustainable economic activities is measured by turnover, or whether, due to the features of the financial product, the financial market participant has decided that a more representative calculation is given when that degree is measured by capital expenditure or operating expenditure and the reason for that decision, including an explanation of why that decision is appropriate for investors in the financial product” to “in respect of investee companies that are non-financial undertakings, whether the degree to which the investments are in environmentally sustainable economic activities is measured by turnover, capital expenditure or operating expenditure and the reason for that decision, including an explanation of why that decision is appropriate for investors in the financial product”.

The Platform recommends the European Commission to eliminate the requirement for FMPs to calculate Taxonomy-alignment of their portfolios using Opex, given that the information will not be readily available and add little value to end-investors.

The Platform recommends the European Commission adopts a common approach to define numerators and denominators across the Taxonomy reporting obligations. We request a clear and common list of assets to be excluded from the Taxonomy ratios (GAR and GIR). Financial institutions ratios should follow the same approach when determining the denominator and numerator.

5.2 Consistency Within the Sustainable Finance Package

The success of the entire regulatory package will be determined by how interconnected, consistent, complementary, and ultimately usable the different regulatory pieces are in practice.

Three Types of Inconsistencies Identified

There are three types of interactions between different laws and regulation leading to established or potential inconsistencies which deserve a closer examination:

1. **Legal Interactions:** Most regulations were developed separately, many before the Taxonomy Regulation was adopted. This has inevitably created some gaps when it comes to aligning concepts or directly referencing one another. For instance, the Taxonomy Regulation explicitly references the SFDR, but not the other way around. These are mutually dependant and will thus benefit from a revision aimed at strengthening or fine tuning the interlinkages. They will also require ongoing monitoring. If one piece is changed, the European Commission needs to ensure the whole regulatory package remains functional.
2. **Definitional and Calculation Inconsistencies:** Very similar but distinct concepts can be found in the different regulations. A case in point can be found in the slightly different definitions of the principle of DNSH in the Taxonomy, Benchmarks and Disclosures (SFDR) regulations. In addition, the methodologies to calculate some indicators differ. For instance, the measurement of significant harm for biodiversity differs between principal adverse impact (PAI) indicators, which measures operations in or near biodiverse sensitive areas, and the Taxonomy Regulation’s Climate Delegated Acts, where harm is based on the existence of adequate mitigation post an Environmental Impact Assessment.

3. **“Data-chain” Inconsistencies:** Where one piece of legislation needs information originated by another piece of legislation to function. Financial institutions depend on the information provided by the underlying investee or financed companies through NFRD/CSRD (including on Article 8 of the Taxonomy Regulation), Corporate Sustainability Due Diligence Directive (CS3D) in order to be able to meet their legal requirements under SFDR, Capital Requirements Regulation-Capital Requirements Directive (CRR-CRD) and EBA Pillar III, Benchmarks Regulation (BMR) and Taxonomy Regulation. In these cases, the inconsistencies might emerge from the sequencing and inconsistent scopes of the various pieces of legislation. The financial legislation was adopted in many cases before the information was available from the underlying companies.

5.2.1 The Corporate Sustainability Reporting Directive (CSRD)

The European Commission’s proposal for a CSRD will amend the existing reporting requirements of the NFRD,¹⁵⁵ among other changes, by introducing detailed reporting requirements including specific mandatory ESRS.

Disclosures under Article 8 of the Taxonomy Regulation are a sub-set of reporting requirements of the NFRD/CSRD non-financial statement/Corporate Sustainability Reporting. Taxonomy-alignment reporting demands a detailed breakdown of the KPIs (turnover, Capex and Opex) but does not require the underlying environmental and social performance indicators and information to be disclosed.

By contrast, CSRD will ask companies to report against specific ESRS, some of which will have to be calculated following the official method by Application Guidance.

To ensure full consistency with the Taxonomy Regulation, the EFRAG Exposure Draft ESRS E1 Climate Change,¹⁵⁶ explicitly stipulates¹⁵⁷ that Article 8 Taxonomy reporting is part of and complementary to the other information disclosed under the provisions of draft ESRS E1.

Information on Capex and action plans, in turn, provides insight into key actions accomplished during the reporting period, and a forward-looking component, including key actions planned in the short-, medium- and long-term (and clearly defining the three periods of time). Draft Application guidance AG35 of ESRS E1 Climate change further clarifies that:

- The amount of Opex and Capex disclosed shall be consistent with the key performance indicators and the Capex plan required by Commission delegated regulation (EU) 2021/2178 under Commission delegated regulation (EU) 2021/2139.
- The undertaking may structure its action plan by economic activity to accommodate the Opex and Capex plan for Taxonomy alignment. Potential differences between Opex and Capex disclosed under the Standard and under Regulation (EU) 2020/852 shall be explained.
- The information fulfilling the requirements of Regulation (EU) 2020/852 shall be identified as such.

More broadly, when drafting the specific technical indicators, consistency between the indicators used in the Taxonomy and those used in other frameworks related to sustainable finance should prevail to the extent possible. For example, reporting on air pollution attributable to a certain activity should cover the same substances across all frameworks, just as reporting on deforestation should cover the same kind of measures.

¹⁵⁵ The non-Financial Reporting Directive (NFRD), Directive 2014/95/EU, lays down the rules on disclosure of non-financial and diversity information by large public-interest companies with more than 500 employees. Under the Directive, companies have to publicly report on environmental and social matters, treatment of employees, respect for human rights, anti-corruption and bribery and diversity on company boards (in terms of age, gender, educational and professional background).

¹⁵⁶ The Exposure Drafts on draft ESRS are out for public consultation with a deadline of 8 August 2022. The comments received will be considered in finalising the draft ESRS.

¹⁵⁷ ESRS E1 ED: Taxonomy Disclosure Requirements - Taxonomy Regulation for climate change mitigation and climate change adaptation Paragraphs 62 to 64

In addition, ensuring comparability and consistency of reporting requirements helps to avoid overloading the market with excessive reporting requests that might dilute the message, and divert focus, from using the Taxonomy to reporting on an endless list of indicators.

Coherence needs to be ensured between:

- the Taxonomy's TSC for the six environmental objectives and the environment-related CSRD standards as defined in exposure drafts ESRS-E1 to ESRS-E5, and in future sector-specific standards;
- ESG data reporting requirements covered within SFDR – namely PAIs should also be covered within CSRD standards, including any proposed changes to PAI expected over the next 12 months.
- the Taxonomy's minimum safeguards and the CSRD standards related to social and governance aspects. In contrast to the environmental criteria these are reported at entity-level according to Article 18 of the Taxonomy Regulation. Key disclosure requirements are those which require information on the implementation of the UN Guiding Principles on Business and Human Rights (UNGP).¹⁵⁸

Taxonomy reporting is organised based on activities, some with associated NACE-codes. A company can be involved in one or many Taxonomy-related activities. In contrast, the first set of CSRD standards is "sector agnostic," i.e., obligatory for all sectors. Accordingly, only the more general aspects of the Taxonomy criteria can be expected to be coherent with the current set of sector-agnostic standards. The more sector-specific criteria within the CSRD standards will be developed as the next step. The requirements for minimum safeguards (MS) are sector agnostic and therefore adequately covered by the first set of CSRD standards.

Most disclosures today capture company's average or overall performance e.g., average carbon intensity or total absolute emissions. The Taxonomy requires companies to calculate performance at activity-level (e.g., plant level carbon intensity of energy measured in CO₂e per kWh) and contrast it against the technical criteria. For example, a utility company will calculate its overall carbon intensity performance as depicted in Figure 38, where two of its plants operate above the 100gCO₂e/kWh threshold and one plant operates below. When reporting against the Taxonomy it will look at the carbon intensity of each of its plants and count the revenues generated by those plants whose carbon intensity meets the technical screening criteria, in this example EUR 50 million of turnover would be Taxonomy-aligned assuming the plant also complies with the DNSH and the entity with MS. In most cases currently, companies will not meet the testing requirements at entity-level, but could for some of their operational plants. In Figure 38, the entity-level carbon intensity is 260gCO₂e/kWh which would render none of the company's turnover from energy as Taxonomy-aligned. In this sense, the Taxonomy is a tool that gives companies the opportunity to be rewarded at asset or detailed activity-level and claim the revenues generated from green operations.

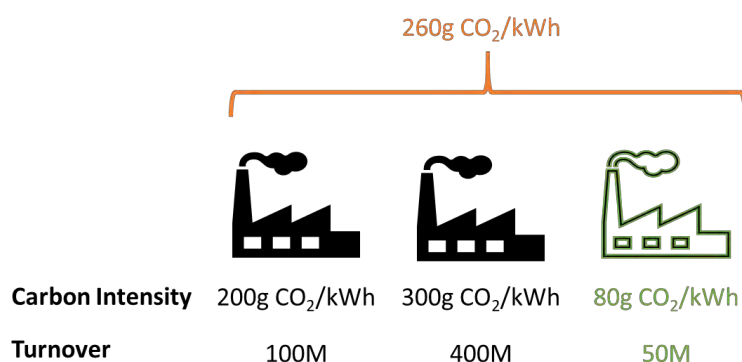


Figure 38: Example Energy Company

¹⁵⁸ These are found in ESRS 1 general provisions and on the sixth step "remediation" in the respective topical standards as defined in exposure drafts ESRS-S1 to ESRS-S4. Information of relevance to Minimum Safeguards alignment may be found in ESRS 1,2, ESRS S1-S4 and ESRS G1-G2. Disclosure requirements on corruption and fair competition are defined in ESRS-G1 and ESRS-G2. Taxation, which is a topic of Article 18 documents isn't explicitly mentioned in CSRD.

Investors, on the other hand, appreciate the complementary nature of both. While the entity-level indicators provide an overview of a company's overall environmental performance, the Taxonomy acts as a zoom-in. It allows investors to identify which proportion of their operations are aligned and, if the Taxonomy was extended to cover always principally harmful activities (e.g., coal) and Significant Harmful (SH)¹⁵⁹ activities, they will also have a clear picture of which operations are stranded and which are at risk. The Platform encourage CSRD to review including both activity level and entity level information, where relevant and practical.

5.2.1.1 Terminology Coherence

When identical terms are used in the Taxonomy and the CSRD, they should stand for identical concepts. This may be achieved, for example, by referring to the same EU Directive, international standard etc., or – where applicable – by the CSRD standards referring to the respective definition in the Taxonomy Regulation or the Climate Delegated Act. See, for example, the definition of “pollution” and “pollutants” in exposure draft ESRS-E2. Providing consistent definitions of technical terms like refurbishment, remanufacturing, renaturation, etc., would help to avoid misunderstandings among preparers and users.

Similarly, when identical concepts are used in both the Taxonomy and the CSRD, their designation should be the same. If concepts closely relate to each other, their relation should be made clear (e.g., Capex plans under the Taxonomy's Article 8 Delegated Act, which are also part of the ‘action plan’ under the CSRD.¹⁶⁰

5.2.1.2 Consistency of Indicators and Classification Systems

Measurement of impacts that are included under both frameworks should be based on the same indicators. For example, when referring to “life-cycle GHG emissions” under the Taxonomy, the calculation should be in line with the Greenhouse gas protocol, as requested under the CSRD.

Where applicable, indicators should be based on the same, and ideally global, classification system.

5.2.1.3 Coverage

All environmental impacts within the Taxonomy's technical screening criteria should be included under the CSRD. For example, if nitrogen emissions and pesticide use are covered by the Substantial Contribution (SC) criteria for agriculture in the Taxonomy, these substances should also be covered in the sector specific ESRS for agriculture.

5.2.1.4 Identification of Taxonomy Disclosures

Information which is to be disclosed under the Taxonomy should be identified as such in the CSRD reporting. This does not only refer to the tables included under Article 8 TR, but also to Capex plans (as part of action plans in the CSRD,) for example.

If a company discloses targets for capital expenditures or aspirational Taxonomy-aligned revenues as part of its sustainability strategy under the CSRD, the activities, environmental objectives, minimum safeguards, KPIs, time frames and, if applicable, the Capex plans these targets refer to should be clearly identified. Similarly, if the strategy statement includes targets on emission reductions, water use, social aspects, governance, etc., that would render an activity Taxonomy-aligned or make it comply with the DNSH or MS criteria, this should be identified.

Given that Taxonomy-related information may be disclosed at various locations in the CSRD report, it may increase the readability of the report if a table is included that lists the locations of all Taxonomy-related

¹⁵⁹ Platform on Sustainable Finance's report on environmental transition Taxonomy | European Commission (europa.eu)

¹⁶⁰ See, for example, exposure draft ESRS-E1, AG39.

information. To improve understanding of the information provided, differences in the indicators and their appropriate interpretation should be included under this table.

5.2.1.5 Minimum Safeguards

The minimum safeguards apply to the undertaking carrying out the activity (entity-based) and not to the activity (activity-based.) This makes an alignment with the CSRD easier because CSRD disclosure requirements are also addressed at the level of the undertaking. At the same time, the minimum safeguards refer to the same documents as the CSRD and the upcoming EU due diligence directive (CS3D), namely UNGPs and the OECD Guidelines for Multinational Enterprises. As the CSRD will provide disclosures for CS3D, a conformity between minimum safeguards, CSRD and CS3D on the topic of human rights should be ensured. Looking at the present ESRS,¹⁶¹ there is only one step of the six UNGP steps missing in the section as it does not mention remediation. Remediation mechanism are however part of the topical ESRS for workers, consumers, and communities.

In terms of content, the draft ESRS largely reflect the UNGPs and OECD Guidelines. However, there is yet little experience with companies' disclosures on Human Rights Due Diligence (HRDD) processes and their verification. In future, questions like these will come up and will have to be answered:

- Are companies' and their stakeholder's understanding of Human Rights (HR) risks the same?
- The term "affected stakeholders" leaves room for interpretation but is central for the identification and addressing of risks.
- Which stakeholders will be involved when outcomes are evaluated?
- What is considered 'acceptable' actions to address HR issues?
- How will HR risks be linked to the business model, country risk or sector risks and how will these stated links be scrutinized?

Beyond human rights, the ESRS Governance standards will provide information on bribery and fair competition; with companies having to report on the processes implemented to prevent bribery and breaches of competition laws, as well as fines which must be paid because of breaches.

There are, however, no explicit disclosure requirements on taxation, although taxation is a topic of the OECD Guidelines and of minimum safeguards. Disclosure on taxation – like information whether and how a company has included tax risks in their risk management system, whether there is litigation on tax issues, settled fines and the nature of litigation – should be added to the CSRD disclosure requirements to bring minimum safeguards and CSRD completely in agreement.

Another area of concern could be raised if the ESRSs merge positive and negative impact information into the same disclosure requirements, which might render more difficult to identify performance against minimum safeguards as well as some social Principal Adverse Impacts included in the SFDR.

¹⁶¹ Evidence for this conformity is found in ESRS 1 Chapter 3 "Due diligence under the CSRD" recital 82-89

Recommendations

The Platform recommends to the European Commission to work with the Platform 2.0, EFRAG, and the ESAs on ensuring that:

- All terminology that is used in the CSRD / ESRS Standards and the Taxonomy Regulation / Delegated acts is fully consistent, and identical where appropriate, and adequate references are provided.
- Sustainability indicators follow the same underlying methodology for their calculation even if the scope differs.
- All environmental impacts that are subject of substantial contribution or DNSH criteria of the Taxonomy are analysed for inclusion in the sector agnostic and respective sector specific ESRS and included where relevant.
- All Taxonomy-related information or information that is also relevant for Taxonomy purposes is clearly identified in the sustainability statement, and appropriate explanations are provided.
- Ensure policy coherence across MS, CSRD and CS3D when it comes to human rights and corporate governance criteria using UNGPs and OECD Guidelines as the common reference point.

5.2.2 Sustainable Finance Disclosure Regulation (SFDR)

Regulation (EU) 2019/2088, also known as the Sustainable Finance Disclosure Regulation (hereinafter SFDR), published in November 2019, outlines the sustainability-related disclosures in the financial sector. SFDR establishes new requirements on sustainability-related disclosures for financial market participants (FMPs) both at entity and at product level.

The required entity-level information aims to provide asset owners with a sustainability interest the information they need to select the managers of their assets that best fit their sustainability strategies.

At product-level the regulation is geared to provide investors with greater insight into sustainability risks, enhance the comparability of financial products with respect to sustainability factors and foster a level playing field for products that have environmental or social features.

Amongst other requirements and distinctions, the SFDR distinguishes between financial products that promote environmental or social characteristics (Article 8), financial products **with sustainable investment** as their objective (social or environmental) (Article 9) and financial products that do not promote environmental and/or social characteristics or with sustainable investment as their objective (which must still disclose how sustainability risks are integrated into investment decisions.)

Articles 8 and 9 SFDR require further disclosures both in its pre-contractual information and in periodic reports. They are intrinsically linked to Articles 5 and 6 of the Taxonomy Regulation. Those financial products with environmental characteristics or with sustainable investment as their objective investing in activities contributing to environmental objectives must disclose:

- the information on the environmental objective or environmental objectives to which the investment underlying the financial product contributes; and
- a description of how and to what extent the investments underlying the financial product are in economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. This means that it must specify the proportion of investments in environmentally sustainable economic activities selected for the financial product, including details on the proportions of enabling and transitional activities respectively, as a percentage of all investments selected for the financial product.)

Financial products that promote environmental characteristics shall apply mutatis mutandis and accompanied by a statement in order to clarify that the “do no significant harm” principle only applies to Taxonomy-aligned and sustainable investments in the financial product.

All Articles 8 and 9 SFDR disclosures independently of their commitments ought to disclose the proportion of the financial product that is aligned with the Taxonomy in their periodic disclosures.

5.2.2.1 Sustainable Investment

Article 2 (17) of SFDR introduces a concept of a **sustainable investment** which slightly defers from the stricter definition embedded in the Taxonomy. In fact, a Taxonomy-aligned investment is a sub-set of a sustainable investment following the definition in the SFDR.

Article 2 (17) Definition of Sustainable Investment (SI)

‘sustainable investment’ means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, with respect to sound management structures, employee relations, remuneration of staff and tax compliance;

While the Taxonomy captures an investment in an economic activity that significantly contributes to an environmental objective, the SFDR SI only requires that it contributes to an environmental objective without needing to meet the substantial contribution criteria of the Taxonomy.



Figure 39: Assessment of Financial Products Under SFDR and Taxonomy

The SI allows the FMP to choose and define an environmental or social objective as well as to define how to measure or capture “contribution”. In contrast to DNSH within the Taxonomy Regulation, DNSH within SFDR refers to any social or environmental objective. Under SFDR, FMPs must disclose how their sustainable investment respect the DNSH criterion of Article 2(17) SFDR which requires taking into account of the PAI indicators for that purpose, for which they can set particular thresholds or tolerance levels, as evidenced in Figure 39. It is important to note that most PAIs are expected to apply at entity-level unlike the DNSH assessment of the Taxonomy which looks at activity-level. It is worth noting that the Taxonomy is not yet complete – not all environmental or social objectives have been defined and not all activities that can substantially contribute recognised. SI allows FMPs to invest in activities not yet covered and in activities with a social objective.

As displayed in Figure 39, some assets will be subject to more than one layer of harm or social safeguards assessment. A portion of the product will be covered by the Taxonomy (Taxonomy-eligible) and all eligible assets

would be assessed against substantial contribution, DNSH and minimum safeguards. Only a fraction of those investments will pass all tests and be considered Taxonomy-aligned.

SI requires that the underlying investee company shall follow good governance practices.

The table below shows the similarities and the differences between both.

Table 23: Taxonomy vs SFDR Definitions of Sustainability

	CRITERIA			OBJECTIVES IN FOCUS		
	Contribution to Objective	Do No Significant Harm (DNSH)	Additional Safeguards	Climate	Further Env Objectives	Social
Taxonomy-aligned Investments	Investment in an economic activity that substantially contributes to environmental objective	DNSH for environmental objectives (activity level)	Minimum Safeguards (Social and Governance)	Yes Adaptation and Mitigation	Only as of 1 January 2023 (might be postponed)	Maybe in the future / to be decided
Sustainable Investments	Investment in an economic activity that contributes to environmental and/or social objective	DNSH for social and environmental objectives (entity level)	Good governance	Yes	Yes	Yes

Figure 40 illustrates how it will work in practice. Company A is a steel company with three plants. Only one meets the TSC criteria.¹⁶² However, the company has developed a thorough Capex plan as part of its transition strategy to align its other two plants in five years. Company A has a strong human rights due diligence process in place and sound governance practices. It complies with the Taxonomy minimum standards.

Note: The Platform has observed diverging market practices (by data providers) and a confusion within the market on how to account for SI. The Platform recommends the European Commission to clarify that only the actual sustainable investment share (e.g., 20%) in an investee company can be disclosed as SI and not the whole entity (i.e., 100%) even if the whole entity needs to meet the DNSH and good governance requirements indicated in Article 2 (17) of SFDR. This clarification is of utmost importance in order to (1) align the Sustainable Investment disclosure approach with the Taxonomy disclosure approach; (2) achieve comparability across Sustainable Investment disclosures; and (3) incentivize companies to further transition.

¹⁶² [Manufacture of iron and steel - Taxonomy Compass | European Commission \(europa.eu\)](#)

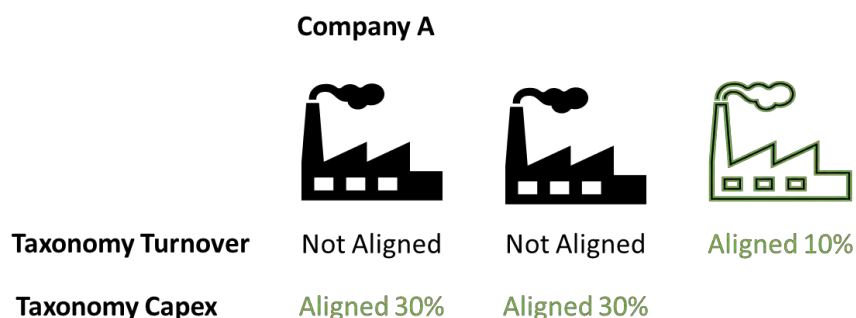


Figure 40: Example Steel Manufacturer, Company A

Note: Percentages are quoted as company-level not as a percentage of the activity or plant.



FMP B is an asset manager. FMP B has a Climate fund with a committed objective of 10% Taxonomy-alignment based on revenues according to its pre-contractual disclosures.

FMP B wants to see if they can include company A in their portfolio:

- Company A meets their Taxonomy requirements, but in order to include the company in the portfolio, the FMP B needs to verify that it meets the DNSH and good governance requirements of SFDR (Article 2 (17)).
- FMP B has set their maximum tolerance levels to PAI indicators.¹⁶³ In Table 24 below, under FMP B rules, their rules for three of the PAIs are displayed.¹⁶⁴
- FMP B checks that Company A performance for the 14 indicators comply with their set rules for each indicator i.e., do not exceed the tolerance levels. The table below illustrates how it will work in practice using three of the 14 mandatory PAIs.
- FMP B needs to assess if Company A has good governance practices following the SFDR definition, even though it meets the Taxonomy minimum safeguards that apply at entity-level.

¹⁶³ FMPs need to set performance or tolerance levels for the 14 mandatory indicators for investee companies (not sovereign, not real estate) and two optional criteria.

¹⁶⁴ Three for illustrative purpose but the same exercise ought to be done for all 14 + 2 optional.

Table 24: Illustrative PAI for Company A

	Company A	FMP B rules
Share of non-renewable energy consumption and production	33.2% of electricity consumption from non-renewable source	Less than 50%, with targets to further reduce by 2030
GHG intensity of investee companies	Carbon intensity (ton CO ₂ / ton of product) 23tCO ₂ /t	In line with Taxonomy DNSH thresholds when existing; otherwise follow EU ETS when applicable or IEA SDS thresholds
Gender pay gap	2.5 %	Maximum of 5%

FMP B chooses to include Company A in their portfolio. When (re) calculating the alignment of their portfolio, FMP B will only consider the portfolio weighted turnover and Capex-alignment figures of the company - 10% for turnover-based alignment and 60% for Capex-alignment.

The PAIs serve to ensure that the non-aligned part of Company A causes no significant harm to social and environmental objectives. They act as a “minimum safeguard” on environmental, social and governance issues for the entire company. It is worth noting that the regulatory requirement is to disclose the mandatory PAIs indicators as well as any relevant opt-in indicators.

The chart below provides a visual that might help understand why the Taxonomy is effectively a sub-set of SIs and with respect to defined activities, a stricter version for environmental investments. Taxonomy-aligned investments require compliance with the technical screening criteria for both the substantial contribution and the DNSH. Moreover, they are screened against the PAIs and two sets of safeguards – minimum safeguards of TR and good governance of SFDR.

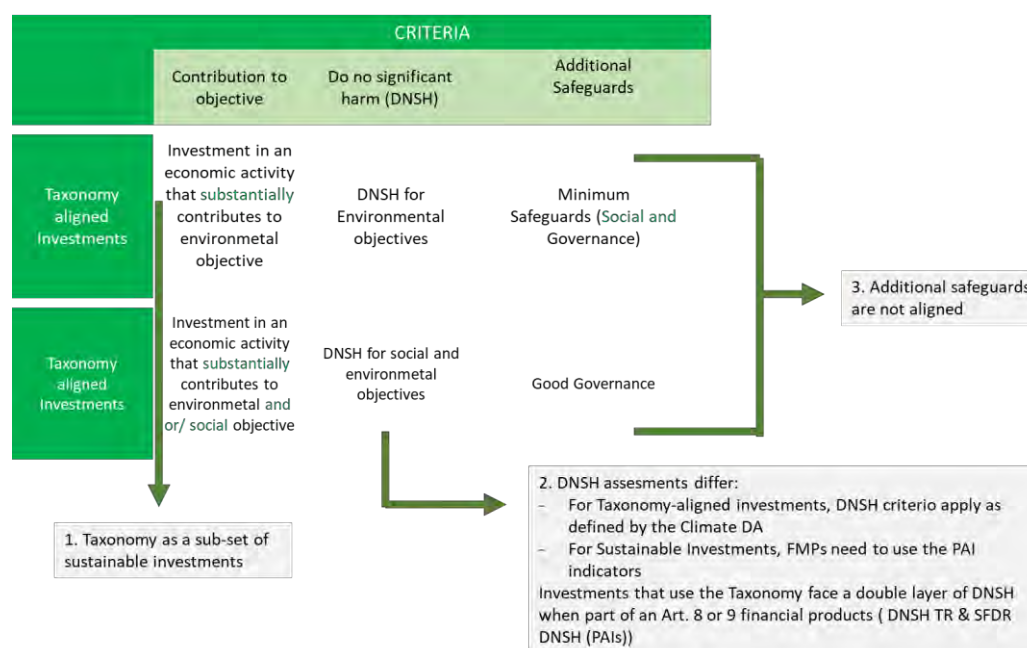


Figure 41: Taxonomy and SFDR Definitions of Harm and Safeguards

The SFDR requires Taxonomy-aligned investments for financial products to be screened against a double layer of DNSH and additional safeguards, as per Figure 41. In contrast, for SI the contribution only needs to be positive and is not defined in terms of specific technical screening criteria, metrics, and thresholds. The DNSH criteria must take into account PAIs. The thresholds or tolerance levels are to be set by the FMP, thus could vary between investors.

This double-constraint for Taxonomy-aligned investments represents a disadvantage for Taxonomy-based products falling under the SFDR and it could disincentivise FMPs to use the Taxonomy. Greater alignment between the definition of DNSH and safeguards in both regulations will help foster the use of the Taxonomy in green portfolios. Alignment should also be sought with the BMR, given how interlinked the BMR, the Taxonomy Regulation and SFDR are, and the fact that a concept of “do no significant harm” is also embedded in the BMR (see section 5.2.3).

5.2.2.2 Taxonomy DNSH and Principal Adverse Impacts

The following chart (Figure 42) depicts the definition and application of DNSH in the three regulations. A main difference between DNSH of the Taxonomy Regulation and DNSH of SFDR and BMR is that the first applies at activity-level, the second (through PAIs and safeguards) apply at entity-level.

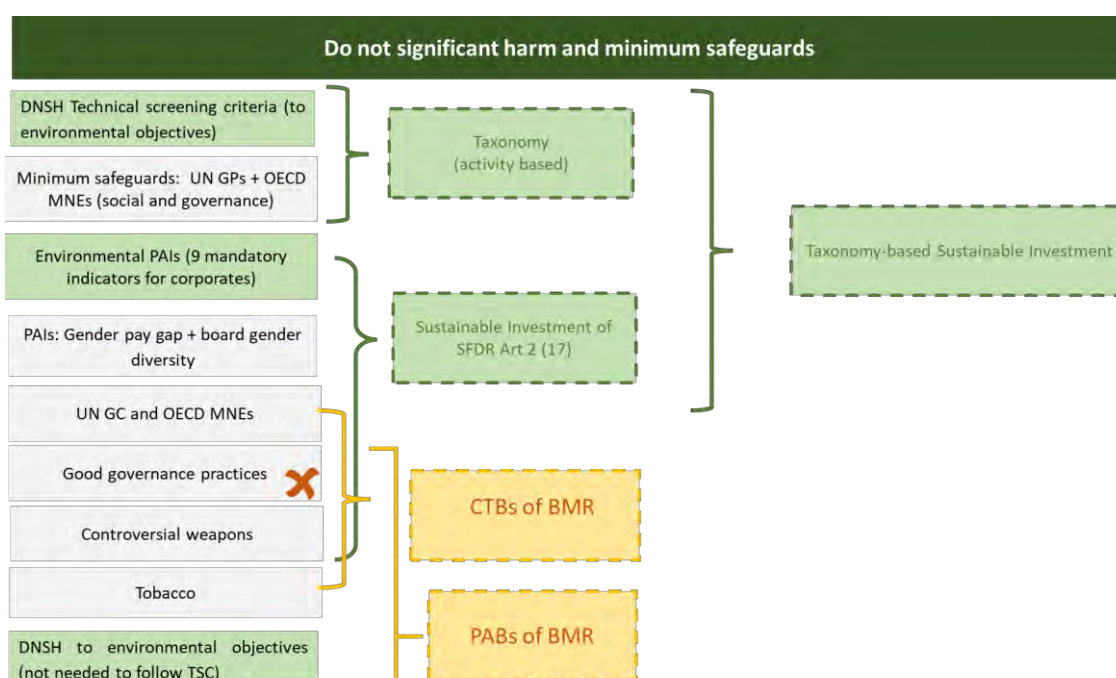


Figure 42: Crossover on Do No Significant Harm across the Sustainable Regulatory Framework

The RTS of Regulation (EU) 2019/2088¹⁶⁵ include the content, methodologies, and presentation of information in relation to adverse sustainability impacts. The indicators cover the areas of “(1) *adverse impacts on the climate and other environment-related adverse impacts and (2) adverse impacts in the field of social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.*”

¹⁶⁵ COMMISSION DELEGATED REGULATION (EU) .../... of 6.4.2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of ‘do no significant harm’, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in precontractual documents, on websites and in periodic reporting.

The current environmental PAIs are sector-agnostic, non-risk based and provide no guidance of what a recommendable performance for different sectors, company sizes and/or geographies must be. The technical screening criteria of the Taxonomy are customised to the specificities of economic activities and provide a performance threshold.

The European Commission has mandated the ESAs to review and revise the SFDR RTS with respect to the PAI indicators in order to:

- streamline and develop further the regulatory framework,
- consider extending the lists of universal indicators for PAIs, as well as other indicators, and
- refine the content of all the indicators for adverse impacts and their respective definitions, applicable methodologies, metrics, and presentation.

In particular, the amendments should seek to reduce the risk of ‘false certainty’ and potential ‘safeguards washing.’ Such revision should also seek greater alignment between the SFDR and the Taxonomy Regulation by:

- Considering the use of Taxonomy metrics and the underlying methodologies (even if the scope of application differs) to define environmental PAIs.
- Aligning social and governance PAIs and minimum safeguards of the Taxonomy Regulation.
- Including a short list of always significant harmful social and environmental activities in the absence of an always principally adverse Taxonomy (or until such Taxonomy exists).

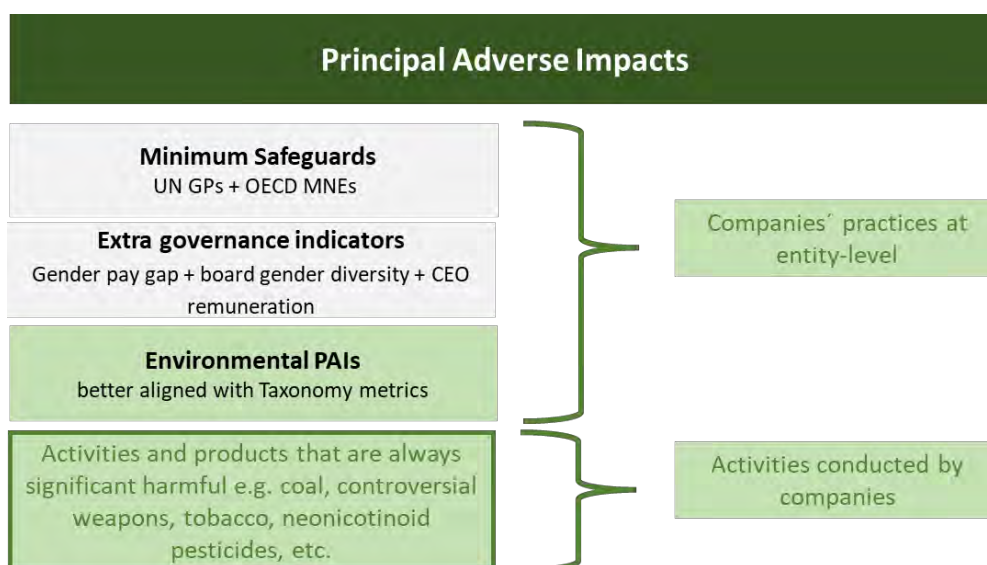


Figure 43: Proposal on the Treatment of Harm and Minimum Safeguards

These measures would help removing the double layer of DNSH and PAI screening in Article 8 and 9 SFDR products for Taxonomy-based investments without undermining the important role that PAIs play at entity and should play at product-level. It will give consistency across the three regulations on the definition and application of Principal Adverse Impacts.

The Platform recognises that DNSH of TR cannot replace PAIs for the time being because:

1. DNSH criteria are not developed for all activities.
2. A complete extended Taxonomy¹⁶⁶ is not available.
3. The risk of applying DNSH as a screening filter for revenues is that it will translate to an exclusion of most companies that conduct transitional activities, even if a proportion of the activities are aligned with the Taxonomy (e.g., cement manufacturer or steel maker).

A preferable option would be the application of DNSH as screening criteria to Capex because, while companies that generate some revenues from SH might still be seriously committed to decarbonise, a company that invests its Capex in harmful activities cannot (except for a minimum percent of Capex that might be inevitable to maintain operations while transitioning). This means that a tolerance level on percent of Capex allocated to activities that do not meet DNSH could be applied.

This will require Article 8 to be modified to include mandatory reporting on the proportion of Capex that do not comply with the DNSH criteria.

The Platform in its report on the 29 March 2022¹⁶⁷ recommended that the European Commission define those activities that cannot be improved to avoid significant harm and will therefore remain always significantly harmful. Such activities should be prioritised for Taxonomy recognised transition investment as part of a decommissioning plan with a just transition effort. Such a classification was named the “always principally adverse” Taxonomy. If extended to other environmental objectives, it would include activities for which there is no technological solution, and they cause significant harm such as neonicotinoids. These are the real stranded assets. A filter that will identify and exclude stranded assets might prove to be most effective not least from a risk management perspective.

When applying the concept to social objectives, activities such as controversial weapons or tobacco might be found as they always cause significant harm, and no solution is feasible. Until a Taxonomy addressing always principally adverse activities is developed, the Platform recommends the expansion of PAIs to a handful of indicators that capture those activities that always cause significant harm and for which no solution is feasible. FMPs can then set minimum tolerance levels to screen them.

Within this recommendation, the Platform is mindful of the interconnectivity between CSRD and SFDR PAI, any newly considered PAI should be part of the mandatory CSRD disclosure to prevent data-access issues discussed earlier in this paper.

The Platform recommends the European Commission to align SFDR PAIs metrics more closely with those required in the BMR once PAIs are reviewed. In concrete, the Platform recommends the European Commission consider the inclusion of energy consumption, discrimination incidents, executive diversity, and CEO compensation to the benchmarks’ sustainability disclosure requirements to greater align SFDR and BMR as detailed in Appendix F as subsequently detailed section 5.2.3 related to Benchmarks.)

In the light of the above, the Platform proposes the following measures and amendments to the regulation:

¹⁶⁶ Including both social and transitional recommendations, made previously by the Platform.

¹⁶⁷ [Platform on Sustainable Finance’s report on environmental transition Taxonomy | European Commission \(europa.eu\)](#)

Recommendations

The Platform recommends the European Commission to seek greater alignment between the SFDR and the Taxonomy Regulation by:

- Considering the use of Taxonomy metrics and the underlying methodologies (even if the scope of application differs) to define environmental PAIs.
- Aligning social and governance PAIs and minimum safeguards of the Taxonomy Regulation.
- Including a short list of always significant harmful social and environmental activities as “always principally adverse” in the absence of a Taxonomy addressing always significantly harmful activities (or until such Taxonomy exists.)

Introduction of the Following Changes (in Bold and Underlined) to the Delegated Regulation (EU) 2021/1288

European Commission (...) Regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of ‘do no significant harm’,....”

“For financial products that commit to making one or more sustainable investments, a description of how the sustainable investments contribute to the sustainable investment objective(s) and discloses against the Principle Adverse Impact indicators.

Recommendation

The Platform recommends to the European Commission that a clear distinction is made between environmental ‘do no significant harm’ in reference to the Taxonomy and ‘do no significant harm’ of SFDR, which is captured through Principle Adverse Impacts.

Review and Better Alignment of the Environmental PAIs to the DNSH Criteria of the Taxonomy Regulation

The European Commission mandate to the ESAs to review and revise the SFDR RTS with respect to the PAI includes:

- the consideration of extending the lists of universal indicators for PAIs, as well as other indicators, and
- refine the content of all the indicators for adverse impacts and their respective definitions.

One of the recommendations made above is the review of the actual environmental indicators to better aligned the principle of DNSH of both regulations. The environmental PAIs could be revised in three ways:

1. For the environmental indicators, the PAIs could focus on using the key metric or criterion referenced in the Taxonomy for every environmental objective, wherever possible even if the scope will be different, e.g., activity vs. entity-level (worth noting that the specified thresholds are not necessarily applicable to the PAI DNSH test on company level);
2. Better aligning how an indicator is calculated; and,
3. Improving the “usability” of the criteria while considering data availability.

Example 1: Fossil Fuels

For example, the first PAI “*captures the exposure to companies active in the fossil fuel sector*”: measured as share of investments in companies active in the fossil fuel sector.¹⁶⁸ By treating a company that has a residual activity in fossil fuels (sometimes this responds to governmental mandate or only used in extreme circumstances, e.g., cuts or interruption of supply) the same as another for which the gross of their activities are linked to fossil fuels might seriously mislead investors; this could lead to divestments from companies that are making serious efforts to transition and discourage the development of sound transition strategies.

A more fitted for purpose indicator, and better aligned with the Taxonomy, would be the percent of revenues generated from and the percent of Capex invested in activities directly linked to fossil fuels.¹⁶⁹ By using revenues and Capex, investors can make the distinction between those companies that have a percent of Taxonomy-aligned activities and are taking action and only residual activity in fossil fuels from those that are still dependent. Investors can set a minimum threshold for revenues (e.g., 5%) and only allow, for example, maintenance expenditures while Capex is invested in transitioning.

In line with the Benchmark requirements, the Platform would suggest common breakouts of fossil fuel exposures:

- companies that derive their revenues/Capex from exploration, mining, extraction, distribution or refining of hard coal and lignite;
- companies that derive their revenues/Capex from the exploration, extraction, distribution or refining of oil fuels;
- companies that their revenues/Capex from the exploration, extraction, manufacturing, or distribution of gaseous fuels;
- companies that derive their revenues/Capex from electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh.

Example 2: Biodiversity

Another example is the PAI on biodiversity. The PAI currently asks: “*Activities negatively affecting biodiversity [1] sensitive areas: Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas.*”

At the moment SFDR does not define the distance that denotes “near” to such areas of high biodiversity value. Given very low levels of disclosure (less than 1% of the major indices, like MSCI ACWI, have companies disclosing the number of sites in environmentally sensitive areas) the Platform observes the market proxy this data set to whether or not the company has a biodiversity policy. Typical reporting observed on biodiversity at the moment includes a count of operations and rehabilitation, per the example of best practice in Figure 44:

¹⁶⁸ According to SFDR, ‘companies active in the fossil fuel sector’ means (i) companies that derive any revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite; (ii) companies that derive any revenues from the exploration, extraction, distribution (including transportation, storage and trade) or refining of liquid fossil fuels; and (iii) companies that derive any revenues from exploring and extracting fossil gaseous fuels or from their dedicated distribution (including transportation, storage and trade).

¹⁶⁹ A more precise metric but much harder to obtain could be: “Share of fossil fuel-related Capex/Share of total energy related Capex.”

	Unit	2019	2020	2021	2025 target	2030 target	GRI ref	SASB ref
Biodiversity								
Quarries assessed using BIRS methodology – active only	%	36	40	40				
Quarries assessed using BIRS methodology – active and non-active	%	NR	NR	35				
Active quarries with Rehabilitation Plan in place ¹¹	%	84	86	93				
Active quarries with biodiversity importance ¹²	#	271	259	266			304-1	
Active quarries with biodiversity importance with ongoing Biodiversity Management Plans in place	%	91	93	94			304-3	
Total rehabilitated area (active quarries)	ha	14,633	14,363	14,048				
Total rehabilitated area (all areas)	ha	NR	NR	19,989				

⁸ Includes captive power plants.

⁹ Includes alternate raw material industrial mineral components (consumed and sold externally), alternate fuels, the volume of returned concrete recycled, secondary and/or recycled aggregates, and recycled asphalt. In 2021, we introduced a new indicator for a waste stream in the cement segment, which contributed to 1.7% of the total waste-derived resources figure reported.

¹⁰ Figure for 2019 excludes captive power plants. We started reporting for captive power plants in 2020.

¹¹ This number refers to the number of quarries having a quarry Rehabilitation Plan compliant with Holcim's internal requirements.

¹² According to categorizations introduced in 2018 following FFI recommendations, which we have been incrementally implementing.

HOLCIM Sustainability Performance Report 2021

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Figure 44: Example Sustainability Report on Biodiversity 2021

Should the European Commission wish to retain this PAI metric, the Platform would ask for consideration of the following options:

Option One

- Definition of “near”
- Measures to encourage better disclosure of the geo-spatial location of a company's operations (including longitudinal and latitudinal metrics, to the nearest thousand)
- Clearly identifiable areas of biodiverse sensitivity; locked in for a period of time. Thus, if a company chooses to remove a forest and thus claiming it no longer operates in or near a forest, such claims could be independently verified relative to a clear map of protected areas.

Option Two

- The percent of revenues generated from activities located in or near to biodiversity-sensitive areas that negatively affect those areas,
- The percent of Capex invested in activities located in or near to biodiversity-sensitive areas that negatively affect those areas. Almost half of United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage sites are believed to be threatened, primarily by the extractive industry. By counting the Capex, this PAI can act as a deterrent for future investments in biodiversity-sensitive areas. By counting revenues, this PAI can act as an incentive to seek remediation.

Option Three

- Alignment with the Taxonomy definition of ‘harm’ per appendix D, that an EIA or screening has been completed in accordance with Directive 2011/92/EU, defining the environmental impact assessment (EIA) process.¹⁷⁰
- Currently, the PAI assessment requires only a report of operations in or near biodiverse sensitive areas but not an impact assessment on the roles of those operations and/or the mitigation measures taken to permit such activities.

¹⁷⁰ EUR-Lex - 32011L0092 - EN - EUR-Lex (europa.eu)

- With a view that companies with any new developments in the last three years have conducted an Environmental Impact Assessment. Where an EIA has been carried out, the required mitigation and compensation measures for protecting the environment are implemented.

In addition, clear guidance on which proxies are admissible for companies outside the CRSD reporting scope would be much welcome.

The Platform has conducted a review of the SFDR mandatory PAI relative to the data required to evidence DNSH and the detail of that review can be found in Appendix F, including recommendations on the treatment of the indicators within the PAI review noted above.

Recommendation

The Platform recommends the European Commission to enhance consistency of the PAIs with the Taxonomy by aligning the measurement of PAI indicators to the measurement of DNSH criteria under the Taxonomy.

Alignment Between Social and Governance Data Sets

For an economic activity to be considered as sustainable, the undertaking must be conducted in a way that respects minimum safeguards. Minimum safeguards¹⁷¹ refers to the UNGPs on Business and Human Rights, the International Bill of Human Rights, OECD Multinational Enterprise Guidelines (OECD MNEs), and the eight fundamental conventions identified in the declaration International Labour Organization (ILO) Convention on Labour Rights. Article 18 (2) of the Taxonomy Regulation on minimum safeguards directly refers to SFDR DNSH principle of Article 2 (17)¹⁷² by noting that when implementing the procedures referred to the minimum safeguards, undertakings shall adhere to the principle of DNSH of Article 2 (17) SFDR.

The social principles embedded in the Taxonomy Regulation form the base of two SFDR PAIs, as highlighted in

Table 25 below. With the notable difference that the Taxonomy relies in the OECD MNEs guidelines and the UNGPs which are the international standard when it comes to human rights and as opposed to the OECD MNEs or UN GC. The latter includes the 10 principles that conform the base for the OECD MNEs (labour and human rights, environmental protection and anti-corruption and bribery). The OECD MNEs though have expanded and deepened the principles:

- Expanded by including, for example, several governance principles: anti-corruption and bribery, fair taxation, and fair competition.
- Deepened by developing detailed guidance on how to apply the principles, even at sector-level.

The UNGC screens companies that have signed up to the UNGC but fail to report against them. However, it does not assess performance. It is a transparency screening tool that tends to exclude SMEs and emerging market companies whose reporting levels are poorer. Investors do not tend to use the list of companies which have been excluded because of failing to report but on the basis of ESG controversies screening, which is typically media based. Results vary depending on who carries out the screening and may be contested by the company.

¹⁷¹ The minimum safeguards referred to in point (c) of Article 3 shall be procedures implemented by an undertaking that is carrying out an economic activity to ensure the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights. Article 18 (1) [EUR-Lex - 32020R0852 - EN - EUR-Lex \(europa.eu\)](#)

¹⁷² "When implementing the procedures referred to in paragraph 1 of this Article, undertakings shall adhere to the principle of 'do no significant harm' referred to in point (17) of Article 2 of Regulation (EU) 2019/2088."

Still, the Platform recognises the potential of the extensive reporting database as an important element for structured non-EU company reporting.

The Platform believes that there is no additional value in including the UNGC as it is fully and deeply covered by the OECD MNEs but there is real benefit in incorporating the UNGPs as they bring alongside thorough and fundamental due diligence guidance in line with the CS3D and Taxonomy Regulation. However, given the systematic data gaps and inconsistent reporting for non-CSRD companies, the UNGC reporting database can be a good source for proxies as it overlaps with the OECD MNEs and picks up important elements from international standards and frameworks such as ILO and UNGP.

Table 25: Mandatory PAI on Social and Employee Matters

Adverse Sustainability Indicator		Metric
Social and Employee Matters	Violations of UN Global Compact principles or Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	Board gender diversity	Average ratio of female to male board members in investee companies
	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

The Taxonomy Regulation does include gender diversity through the OECD MNEs and ILO conventions but does not specify the use of indicators (board gender diversity, unadjusted gender pay.) The Taxonomy Regulation does not require exposure to controversial weapons. The Platform report on Minimum Safeguards address some of these concerns in more detail.¹⁷³

It is worth noting that, concerning human and labour rights, the CSRD highlights the steps and scope of human rights due diligence as it is laid out in the UNGPs. CSRD Recital (27) mirrors the most essential points of these principles.¹⁷⁴

¹⁷³ https://ec.europa.eu/info/publications/220711-sustainable-finance-platform-report-minimum-safeguards_en

¹⁷⁴ Recital (27) of the CSRD [Corporate sustainability reporting](#) | European Commission (europa.eu)

The Sustainable Investment definition on SFDR requires that *“the investee companies follow good governance practices, with respect to sound management structures, employee relations, remuneration”*. The description used in level 2 SFDR of good governance practices derives directly from Article 2 (17).

Recommendations

The Platform recommends replacing ‘good governance’ with the Taxonomy Regulation’s definition of minimum safeguards, which already include good governance practices and ample labour rights, to bring stronger alliance between the practices of the Taxonomy and SFDR. This is not tied to any Taxonomy-activity and can be conducted against all investee companies. This will also lift the workload on Taxonomy-aligned investments who would otherwise be subject to a double DNSH and governance check in SFDR Article 8 and 9 products.

The Platform recommends replacing the “good governance” check in SFDR with Minimum Safeguards as described in Article 18 of the Taxonomy Regulation as they include both social and governance safeguards.

The Platform, in order to align the two regimes, recommends replacing the sentence “with respect to sound management structures, employee relations, remuneration of staff and tax compliance” by “with respect to minimum safeguards” which include European Commission good governance practices and labour rights.

The Platform recommends using the guidance on the application of minimum safeguards

The Platform recommends amending SFDR RTS to replace UN Global Compact with UN Guiding Principles of Business and Human Rights. Align ESRS and PAI social indicators with the Taxonomy’s minimum social safeguards by referring to the UN Guiding Principles for Business and Human Rights instead of the UN Global Compact principles. Noting that SFDR PAI reference “or” instead of “and” with regard to OECD and UNGC requirements.

Amendments to Delegated Regulation (EU) 2022/1288 Article 15 (3)(c)

Article 15 (3) (c) obliges FMPs to provide *“a breakdown of the minimum proportions of investments of investments in the transitional economic activities and in the enabling economic activities, in each case expressed as a percentage of all investments of the financial product”* as part of Article 8 and 9 products pre-contractual disclosures.

The pre-contractual disclosures of the expected percent of investments in enabling and transitional is an unnecessary burden to portfolio managers as setting a percent minimum obligation constrain them further by limiting their investment universe and capacity to choose among stocks with sustainable activities.

A pre-contractual breakdown of the Taxonomy alignment (e.g., into a minimum share of enabling or transitional activities) might only provide a benefit where the underlying assets in a product are fixed and have no exposure to market movements. In all other cases which is most financial products, already a market movement will lead to a different share of Taxonomy alignment and even more so of a breakdown. The most prominent example is an actively managed fund, which comprises of one or two holdings in the portfolio that contribute to the Taxonomy share. In case the value of such holdings decreases significantly or the portfolio manager for non-sustainable reasons decides to sell such holdings, they are bound to keep it in order to avoid an active breach.

Given how small Taxonomy-aligned investment universes are, this overly prescriptive rule might impede portfolio managers to properly take advantage of market conditions, while providing little extra information.

Reporting on transitional and enabling can remain in the periodic reporting which gives investors the necessary transparency on the underlying investments.

Recommendation

The Platform recommends the European Commission to only keep the reporting of the breakdown on transitional and enabling activities for periodic disclosures to foster the use of the Taxonomy.

Simplified Template for Retail Investors and Proposed Changes To Templates

The SFDR templates provide a useful guidance for FMPs and allow investors to compare the Articles 8 and 9 SFDR products that are offered to them, or they invest in. Both templates – pre-contractual and periodic reporting – cater for comprehensive disclosures. However, the level of detail and complexity embedded in the templates might hinder the ability for retail investors to understand the ESG credentials of the product. This is particularly true given the novelty and the technicity of the concepts that underpin the disclosure required.

A balance must be found of being easy to understand and comprehensive. This is a challenge given that the templates are provided for all types of investors.

The Platform would like to suggest some changes to the pre-contractual template balancing the following aspects:

Table 26: Pros and Cons of the Pre-Contractual Template

Issue	Pros	Cons
One template for all types of investors	Keeps disclosure burden at same level	Does not allow for more tailored disclosures or for a simplified version for retail investors
No inclusion of commitment details	Every detailed commitment is an investment limit and hence limits investment abilities. For Retail investors several concepts are hard to understand any further breakdown will likely confuse investors.	It could reduce the influence of the Taxonomy or ESG factors in the selection of stocks/in the construction of portfolios.
Reporting and pre-contractual differ in structure and content detail	Reporting generally contains more tangible information and hence is more detailed	Both documents might not be as easily read together than if they are almost the same

Furthermore, the current SFDR Taxonomy reporting templates only foresees reporting of Taxonomy alignment by turnover, Capex, Opex. However, green bonds (hence, green bond funds) may include other types of use-of-proceeds which can be Taxonomy-aligned, but do not fit under such metrics. An example is sovereign expenditures.

The pre-contractual disclosure needs to provide the investor with a clear understanding of which sustainability elements the investment comprises. Precise understanding does not necessarily correlate with higher number of or more detailed disclosures but rather from a focused and clear picture of the financial product objectives.

Investors would benefit from greater alignment of the sustainability preferences and the SFDR templates because it would allow them to better understand their choices.

Recommendation

The Platform recommends the European Commission to develop a simplified and easier to understand pre-contractual template which is tailored to the sustainability preferences. In Appendix G, we propose elements for a simplified template version.

Applying the Review and Upgraded PAIs to Article 8 Financial Products

The Platform shares the European Commission's view that there is a need to ensure that the non-aligned part of an investment stock (e.g., share in a listed company) meets minimum environmental and social safeguards in order for the aligned part to be counted as Taxonomy-aligned.

However, while Article 9 products ensure that this is applied to all constituents of the financial product that is not the case of Article 8 products.¹⁷⁵ The latter leaves the door open for any type of investment to be made in the non-covered proportion, even for investments that might undermine or revert the environmental or social positive footprint. While FMPs ought to provide details of the non-sustainable investment part of the portfolio, performance against minimum environmental and social safeguards on the proportion that does not promote environmental or social characteristics will only be visible if the FMP reports on the PAI indicators on a product level for all investments in the financial product. Only this will provide end investors with a clear picture of the real impact of the entire financial product.

It is the decision of the manufacturer of the financial product to determine the category in which their products fall. The classification of a product in one of the sustainability categories should not be seen as a type of sustainability certification. The classification chosen is not a guarantee of a product's degree of sustainability. It is the underlying information that has to provide insight into the degree of sustainability. The assessment, at least for the time being, will be made by the investor.

Recommendation

The Platform recommends the European Commission to consider the use of PAIs as the tool to set minimum criteria for Article 8 products. The Platform recommends setting very low maximum tolerance thresholds for the "always principle adverse" indicators, and the rest of PAIs to measure good practice and/or progress over time.

Taxonomy Metrics Should be a Transparency Tool Applied to All Article 6/8/9 Financial Products Irrespective of Objective

The Platform requests that the European Commission applies ESG reporting requirements for non-environmentally/socially sustainable financial products, including those that are not classified as Article 8 or 9 often referred to as Article 6 under SFDR. At the moment, to invest sustainably carries a high management fee, a portion of which relates to the growing costs in ESG data needed for reporting. If non-sustainable products (those classified as Article 6) were also to carry a baseline Taxonomy reporting requirement as well as a clear set of minimum KPIs – including GHG- , then an investor can easily see the comparative out-performance of their

¹⁷⁵ [European Commission Q&A on sustainability-related disclosures in the financial services sector](#) (Sustainable Finance Disclosure Regulation 2019/2088)

environmentally sustainable product. It should also reduce the premium price paid for investing in a sustainable way, a portion of which comes from the cost of data for reporting.

The Taxonomy should be embedded into the narrative of any financial product – to show how much existing (turnover) or future (Capex) investment is aligned. Such a reporting requirement that is mandated across all financial products would help to highlight any Article 8 or 9 out-performance on Taxonomy metrics relative to Article 6 products.

When looking at financial products, it is important to not only consider what it has in it, but what it does not. For example, many ESG ETFs will charge premium fees for the data required to manage the products. Creating a transparency regime (similar to food labelling standards) that doesn't distinguish between environmentally sustainable or not would allow for a more even price structure between ESG and non ESG product offerings.

Recommendation

The Platform recommends the European Commission to consider additional base reporting requirements for non-environmentally/socially sustainable financial products.

5.2.3 Benchmarks Regulation (BMR)

This section examines how to better align the benchmark disclosure further with SFDR reporting requirements. Subsequently, the section reviews technical aspects of benchmark construction and proposed equivalent single KPI based benchmarks for SFDR's Article 9 (1) (a). The Platform feels it is important for an Article 8 or 9 SFDR product to have ESG disclosures that are comparable in nature and methodology to the ESG disclosures provided by the benchmark.

5.2.3.1 *Aligning Social and Governance Metrics Between BMR and SFDR*

The BMR draws upon multiple references to “harm” across its framework, which can result in confusion as outlined in Table 27.

Table 27: Sources of Confusion Around the Definition of ‘Harm’ for Benchmarks

Compliance with Article 1 (amendments to Regulation (EU) 2016/1011)	Compliance with Article 12(2) (Regulation (EU) 2020/1818)	Article 9 SFDR Product (Regulation (EU) 2019/2088)
<i>The activities relating to its underlying assets do not significantly harm other environmental, social and governance (ESG) objectives.</i> Source of Confusion: No definition of “harm” in the regulatory text.	<i>Administrators of EU Paris-Aligned Benchmarks shall exclude from those benchmarks any companies that are found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 202/852 [Taxonomy Regulation]</i> Source of Confusion: The Taxonomy definition of ‘significant harm’ is defined at activity level and not company level. The Regulation explicitly refers to companies instead of activities but it does reference significant harm in relation to the Taxonomy’s environmental objectives while it does not reference the Taxonomy’s screening criteria. Taxonomy-aligned activities may come from companies who also have activities which significantly harm one or more environmental objectives (e.g., investment in renewables from an oil and gas energy company). Misinterpreting the Taxonomy DNSH activity requirements an exclusion at the company level would be counter-productive to the nature of the Taxonomy which encourages investment in activities and not companies aligned with the technical screening criteria.	<i>Article 9 SFDR requires funds with decarbonisation objective which reference a benchmark to use EU Paris-Aligned or EU Climate Transition benchmarks unless these are unavailable. The related Q&A further clarifies that the implementation of minimum standards, as laid down in Commission Delegated Regulation (EU) 2020/1818, by benchmark administrators, for the construction of EU Climate Transition Benchmarks and EU Paris Aligned Benchmarks, must ensure compliance with point 17 of Article 2 of the Regulation (EU) 2019/2088.</i> Source of Confusion: While the vast majority of SFDR’s PAI indicators are conceptually covered by the exclusion criteria of Paris-Aligned Benchmarks and a high level of consistency between the DNSH concepts of Regulation 2020/1818 and 2019/2088 is present for PABs, Climate Transition Benchmarks (CTBs) may currently include securities such as coal or oil companies that might conflict with PAIs.

In addition, Paris-Aligned Benchmarks (PABs) and Climate Transition Benchmarks (CTBs) starting 31 December 2022 are required to meet a set of exclusions including:

- companies involved in any activities related to controversial weapons;
- companies involved in the cultivation and production of tobacco; and
- companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.

Article 9(3) has to be read in conjunction with Article 2(17) SFDR.¹⁷⁶ Climate Transition and Paris-aligned products will normally qualify as article 9 and are, in fact, required as reference benchmarks for article 9 (3) funds with decarbonisation objective. While SFDR’s PAI indicators are conceptually covered in vast majority by the exclusion criteria of PABs, CTBs may currently include securities such as coal or oil companies that might conflict with PAIs and article 2 (17) reporting requirements. Greater alignment is therefore highly recommended, albeit the specificities of benchmarks are preserved:

1. The benchmarks regulation should replace the United Nations Global Compact principles, which are sufficiently covered by the OECD Guidelines for Multinational Enterprise, by the United Nations

¹⁷⁶ European Commission Q&A on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosure Regulation 2019/2088)

on Guiding Principles on Business and Human Rights in line with minimum safeguards of the Taxonomy Regulation and as suggested for the SFDR.

2. The SFDR regulation should include exposure to tobacco as a PAI.
3. With respect to CTBs, whose current exclusion may conflict with Article 2 (17) for instance in the case of investments in coal or oil companies, it is advised to adapt the BMR framework to complement or replace existing DNSH provisions with the PAI indicators directly imported from the SFDR upon the next review. The Platform would welcome SFDR Article 8 and 9 funds also reporting “Exposure ... to companies the activities of which fall under Divisions 05 to 09, 19 and 20 of Annex I to Regulation (EC) No 1893/2006” in accordance with ESG mandatory reporting requirements in BMR Disclosure of the percentage or revenue or capex derived from each fossil fuel as per the CTB breakout would be a useful comparison tool. Exclusions of such companies would negate the positive investment they may make in Taxonomy aligned activities (e.g. renewable energy generation, electric vehicle charging infrastructure and other environmental R&D projects). Therefore, the Platform would discourage outright exclusions on fossil-fuel based companies but would encourage exclusions of fossil-fuel based capital expenditure.

In case of PABs, its exclusions conceptually cover almost all of the significant harms translated under the SFDR PAI indicators, including social, on top of an omnibus environmental DNSH principle applicable at entity level (as it is the case for the SFDR DNSH). PABs can be structured as a mutual fund of marketable securities or as a marketable security itself (i.e. ETF). The SFDR requires Article 9 products are invested in securities that comply with the SI definition under Article 2(17), unless those investments are made for specific liquidity or hedging needs linked to specific product-related sector rules.

SFDR RTS need to acknowledge the specificities of these benchmarks, and the active or passive funds that reference or replicate them, respectively.

Recommendations

The Platform suggests the European Commission to consider sustainability disclosures within BMR when modifying SFDR PAIs. Specifically:

- ESG-based benchmarks disclosure requirements are updated to fully align with SFDR PAI disclosures
- ESG-based benchmark disclosures should include Taxonomy alignment
- SFDR PAI on fossil fuel indicators should be updated to follow the same breakout as PAB exclusions
- SFDR PAI and PAB/CTB exclusions should align (e.g., both should consider reporting against Tobacco)

The Platform recommends the European Commission to include exposure to tobacco as a PAI and to replace UNGC by UNGPs to gain consistency between both regulations.

CTBs should align with the SFDR definition of harm in that they should ‘consider’ Principle Adverse Impact (PAI) indicators in their construction, with clear explanations as to how PAIs are considered. Although PABs are already consistent with PAIs in the vast majority of cases as outlined above, a similar alignment is recommended for the sake of consistency between PABs and CTBs.

Table 28 below depicts the suggestions for greater alignment between Taxonomy, SFDR and Benchmark Regulation at the company level.

Table 28: Suggestions for Future Alignment of DNSH and Additional Safeguards

		Taxonomy-aligned Investments	Benchmark Regulation (EU Paris-aligned BM)	SFDR Sustainable Investments
Contribution to objective / Benchmark construction	Current	Substantially contribute to environmental objective(s)	Selection, weighing or exclusion of assets that portfolios emissions are aligned with objectives of Paris Agreement	Contribute to environmental and/or social objective(s)
	Proposal	No change	No change	No change
Do no significant harm (DNSH)	Current	DNSH for environmental objectives at activity level (prescriptive)	Do no significant harm other environmental, social and governance (ESG) objectives on company level (Investor set)	DNSH for social and environmental objectives at company level (investor set)
	Proposal	Consideration of always principally adverse activities once Platform concludes guidance ¹⁷⁷	Consideration of always principally adverse activities once Platform concludes guidance Meanwhile, consideration of including seriously always principally adverse activities as PAIs e.g., thermal coal mining and peat extraction, controversial weapons, tobacco, etc. ¹⁷⁸	
Additional Safeguards	Current	Minimum Safeguards (Social and Governance) on company level	UNGC principles to the OECD Guidelines for Multinational Enterprises on company level	Good governance on company level
	Proposal	Enhance consistency of Minimum Safeguards on company level		Enhance consistency of Minimum Safeguards on company level by deleting good governance and replacing with Taxonomy regulation minimum safeguards

5.2.3.2 Aligning Benchmark Disclosure with SFDR Disclosure

PABs and CTBs are the key ingredient of Article 9(3) of SFDR's disclosure requirements. Any SFDR Article 9 product which is pursuing a carbon-based strategy would need to demonstrate carbon outperformance relative to a PAB. Similarly, any Article 9 fund with environmental or social objective(s) should ideally be comparing those objectives to a respective index measuring the same or similar objectives, where available, as per Article 9 (1)

¹⁷⁷ See Platform's report (March 2022): [Platform on Sustainable Finance's report on environmental transition taxonomy](#)

¹⁷⁸ Idem. Page 24. "The Platform recognises there are other economic activities for which no technological possibility of improving their environmental performance to avoid significant harm exists across all objectives and which might be thought of as 'Always Significantly Harmful' activities. These could be identified for any of the six environmental objectives and subject to further analysis, could include activities such as: - Thermal coal mining and peat extraction (climate change mitigation). - Construction of new housing in extreme high-risk flood areas (climate change adaptation). - Activities destroying ecosystems with high biodiversity value etc."

(a). Therefore, the Platform is supportive of closer alignment between the two reporting regimes, making both products more comparable on key ESG performance metrics.

Regulation (EU) 2020/1816, was published in July 2020 outlining how environmental, social and governance (ESG) factors are reflected in each benchmark (referred to in this report as 'BMR') and should be reported against for any benchmark using environmental, social or governance measures, with small variance at asset class level. Annex II of the document provides details of ESG factors to be considered for five asset classes (equity, fixed income, sovereign debt, commodities and other.)

Appendix F provides a table comparing the climate benchmarks and the SFDR sustainability-related disclosures. There are several indicators required to disclose as part of SFDR that would provide valuable information on climate benchmarks. Firstly, benchmarks disclosure currently asks for voluntary information on renewable energy for Fixed Income and Equity indices, as well as a mandatory breakout of the revenue made from fossil fuel-based industries as defined under NACE Sections A to H and Section L, as well as NACE divisions 05 to 09, 19 and 20. Conversely SFDR PAI only requires a disclosure against 'companies active in the fossil fuel sector' meaning:

- companies that derive any revenues from the exploration, extraction, distribution (including transportation, storage, and trade) or refining of liquid fossil fuels; and
- companies that derive any revenues from exploring and extracting fossil gaseous fuels or from their dedicated distribution (including transportation, storage, and trade);
- 'Fossil fuel sectors' means sectors of the economy which produce, process, store or use fossil fuels as defined in Article 2(62) of Regulation (EU) 2018/1999.

The Platform would therefore recommend that SFDR and BMR reporting requirements refer to the same definitions of fossil fuel activities, such that the disclosures can be fairly compared between Article 8 and 9 SFDR products and the respective ESG benchmark.

The Platform also notes that Benchmarks have voluntary reporting requirements for ESG ratings, "weighted average ESG rating of the benchmark" and "overall ESG rating of top ten benchmark constituents by weighting in the benchmark." Should this requirement prevail, the Platform would encourage the European Commission to consider where an ESG rating or score product is used in BMR reporting, the formal methodology used to create such rating or score should be made public and should include, at a minimum:

- a description of what the rating or score is designed to measure;
- a description of the approach, research methodology and the qualitative and quantitative processes used to derive the analytical output;
- a description of all material assumptions;
- a description of the input data (including source) used, including, where any external data sets are used, the name and contact details of the data provider;
- the treatment of non-disclosure on an ESG characteristic by the investee company within the ESG score or rating;
- where estimates are used, that such estimates comply with the precautionary principle;

Both SFDR and BMR require reporting of the GHG intensity of the benchmark and percentage of GHG emissions reported versus estimated. BMR does not provide any further detail on how the intensity is calculated, whereas SFDR asks funds to breakout the GHG reporting by scopes 1, 2 and 3 on an absolute basis, by revenue (in EUR millions) and by Enterprise Value Including Cash (EVIC). The Platform would recommend that benchmarks and funds use the same metrics to report their carbon footprint, carbon intensity and overall carbon profile of the financial product, preferring the SFDR requirements over the BMR reporting requirements. This will make for cleaner comparisons between funds and their benchmarks.

The Platform also requests that consideration is given to Scope 2 reporting. For scope 2 emissions, companies have the choice to report using a location-based approach, a market-based approach, or both. Disclosure

requirements typically do not specify which methodology should be followed. To enhance the comparability of companies' disclosed scope 2 emissions, and in alignment with recommendations by the GHG protocol, the Platform's suggested approach would be a market-based approach, and to use a location-based approach when data is insufficient for a market-based disclosure. This marries with the CTB and PAB requirements, as per the handbook.¹⁷⁹

Furthermore, there are several indicators required to disclose in SFDR that would provide valuable information on climate benchmarks. Firstly, benchmarks disclosure currently requires information on renewable energy. However, the Platform sees overall energy consumption disclosure (energy consumption intensity per high impact climate sector) as an important indicator in evaluation the energy transition progress. Furthermore, there are several social and governance related indicators required to disclose in SFDR. Namely the diversity incidents and CEO compensation, both of which are important in evaluating overall health of entities. Additionally, the Platform recognises it is important to understand the gender composition of the management of the company and not only its board, and therefore highlights an additional indicator: executive gender diversity.

Recommendations

The Platform recommends the European Commission to align SFDR PAIs metrics more closely with those required in the BMR once PAIs are reviewed. In concrete, the Platform recommends the European Commission consider the inclusion of energy consumption, discrimination incidents, executive diversity, and CEO compensation to the benchmarks' sustainability disclosure requirements to greater align SFDR and BMR as detailed in Appendix F.

The Platform recommends the European Commission considers, where an ESG rating or score product is used in BMR reporting, making mandatory to report on the formal methodology used to create such rating or score.

5.2.3.3 Enterprise Value Inflation Adjustment Factor

Regulation (EU) 2020/1818 (Delegated Regulation), on minimum Paris-Aligned and Climate Transition benchmark requirements, Article 7 outlined the annual decarbonisation target of 7% based on greenhouse gas (GHG) intensity. The Article has also highlighted the significance of changes in the constituent security enterprise value including cash (EVIC), which can in turn affect the GHG intensity figures. In particular, an increase in constituent EVIC can result in benchmark GHG intensity reduction when no reduction in carbon emissions has occurred.

As a result, the enterprise value inflation adjustment factor was introduced. As stated in the Delegated Regulation: "Where the average EVIC of the constituent securities of the benchmark has increased or decreased during the last calendar year, the EVIC of each constituent shall be adjusted by dividing it by an enterprise value inflation adjustment factor."

It is further detailed that "enterprise value inflation adjustment factor shall be calculated by dividing the average EVIC of the benchmark constituents at the end of a calendar year by the average EVIC of the benchmark constituents at the end of the previous calendar year."

¹⁷⁹ [Handbook of climate transition benchmarks, Paris-aligned benchmark and benchmarks' ESG disclosures \(europa.eu\)](#)

Thus, in the mathematical notation, the inflation adjustment factor is defined as:

$$\frac{\frac{1}{n(t_m)} \sum EVIC_i(t_m)}{\frac{1}{n(t_{m-1})} \sum EVIC_i(t_{m-1})}$$

Where n is the number of constituents at the end of a calendar year and t_m is a calendar year from 1 to m .

Since the ratio is calculated on the average EVIC value of all benchmark constituents, the Delegated Regulation adjustment factor is a benchmark or a portfolio level metric. The adjustment, therefore, takes effect on the aggregate benchmark GHG intensity.

However, there have been concerns raised regarding the Delegated Regulation inflation adjustment factor (Ekman et al., 2022b)¹⁸⁰. A study by Ekman et al. (2022a)¹⁸¹ investigated the behaviour of the enterprise value inflation adjustment factor via simulation methods. The study found that the inflation adjustment factor, as defined in the Delegated Regulation, can result in an incomplete adjustment in the GHG intensity ratio. The factor shortcoming can be attributed to the adjustment calculation at a benchmark or a portfolio level instead of the security level itself.

Due to issues observed with the EVIC inflation adjustment factor constructed at the portfolio level, the Platform recommends basing the inflation adjustment factor directly on the constituent itself. As the name suggests, the inflation adjustment factor is simply the individual benchmark constituent EVIC at the end of a calendar year, divided by its EVIC at the end of a base year.

$$\frac{EVIC_i(t_m)}{EVIC_i(t_0)}$$

The *constituent level* EVIC inflation adjustment factor is to be applied to each constituent's GHG intensity.

$$\frac{GHG_i(t_m)}{EVIC_i(t_m)} \times \frac{EVIC_i(t_0)}{EVIC_i(t_m)}$$

Such factor calculation allows avoidance of the incomplete adjustment for inflation as it accounts for each constituent's change in EVIC individually.

Recommendation

The Platform recommends the European Commission to consider revising the EVIC inflationary adjustment to be calculated at the security level instead of the benchmark or portfolio level.

¹⁸⁰ Ekman, C., Hoepner, A.G., Mannerbjörk, P., Zdanceviciute, G. (2022b). Absolutely Sustainable Investing Across Asset Classes with Paris Aligned Benchmarks: an Application to AP2. In Jurcenko, E. (editor) Climate Investing: New Strategies and Implementation Challenges. London: Wiley-ISTE. Forthcoming 2022. Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4081244

¹⁸¹ Ekman, C., Hoepner, A. G. F., Lennartsson, J., Mannerbjörk, P., Zdanceviciute, G. (2022a) Enterprise Value Adjustment Factor of Paris-Aligned Benchmarks: A Review. Working paper. Andra AP-fonden (AP2) & University College Dublin. The paper will be available via Prof. Hoepner's author page. https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=704585

Climate benchmarks have introduced a tool for decarbonising investment portfolios in line with the 1.5-degree IPCC pathway with no or limited overshoot (Rogelj et al., 2018)¹⁸² corresponding with the Paris Agreement goal. The temperature pathway was translated into a year-on-year reduction of a benchmark carbon intensity. Following consultations with various stakeholders, 30% or 50% base year GHG intensity (or absolute emissions) reduction for CTB and PAB respectively (Delegated Regulation Article 9 and Article 11¹⁸³) were introduced as well as a 7% GHG intensity (or absolute emissions) reduction on an annual basis (Delegated Regulation Article 7.) The proposed carbon reductions are also in line with the net zero 2050 target as set out in the European Green Deal.

However, it is evident that as we get closer to the year 2050 the GHG intensity reductions have to get stricter to reach the net zero (Hoepner and Zdanceviciute, 2022).¹⁸⁴ If a Climate Transition benchmark with a base year 2030 follows the 30% baseline year and 7% annual self-decarbonisation trajectory, it would result in 16.4% remaining GHG emissions in the year 2050 (see Appendix D for annual breakdown).

In order to stay on the 1.5-degree trajectory while retaining the familiar 7% headline reductions, the Platform recommends introducing a constraint on the baseline year. **The climate benchmark base year shall be restricted to no later than 2023.**

With such constraint, the minimum GHG intensity reduction as well as the further annual emissions reductions would be calculated with 2023 as base year, despite benchmarks being launched at a later date. If, for example, a benchmark is launched in 2027, it would have to reduce the GHG intensity to satisfy the reductions that would have accrued if the benchmark was launched in base year, i.e., 2023. That would include the minimum GHG intensity reduction of 30% or 50% and the annual 7% reductions for four years from 2023 to 2027.

Thus, a Climate Transition benchmark launched in 2027 with the latest permissible baseline year as 2023 and the latest permissible base date of December 31st, 2023, it would have to decarbonise on 31 December 2027 by:

$$\text{Year 1 required decarbonisation} = 1 - [(1 - 0.3) \times (1 - 0.07)^4] \times 100\% = 47.64\%$$

It can be seen that the latest permissible benchmark base year constraint ensures the Paris Aligned and the Climate Transition benchmarks meet, and in fact exceed, the 50% emissions reduction target by 2030 (see Appendix D for annual breakdown). It also preserves the continuous alignment with the 2050 net zero target and the 1.5-degree IPCC trajectory.

Recommendation

The Platform recommends that the European Commission to consider revising the Delegated Regulation (EU) 2020/1818 to ensure that 2023 is defined as latest permissible base year and 31 December 2023 is defined as latest permissible base date of CTBs and PABs.

¹⁸² Rogelj, J., Popp, A., Calvin, K.V., Luderer, G., Emmerling, J., Gernaat, D., Fujimori, S., Streffer, J., Hasegawa, T., Marangoni, G., Krey, V., Kriegler, E., Riahi, K., van Vuuren, D.P., Doelman, J., Drouet, L., Edmonds, J., Fricko, O., Harmsen, M., Havlik, P., Humpenöder, F., Stehfest, E., Tavoni, M., 2018. Scenarios towards limiting global mean temperature increase below 1.5 °C. Nat. Clim. Change 8, 325–332. <https://doi.org/10.1038/s41558-018-0091-3>

¹⁸³ EUR-Lex - 32020R1818 - EN - EUR-Lex (europa.eu)

¹⁸⁴ Hoepner, A.G.F., Zdanceviciute, G. (2022) Climate Transition and Paris Aligned Benchmarks: a Three Year Review. Working paper. University College Dublin. The paper will be available via Prof. Hoepner's author page. https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=704585

5.2.3.4 Equity Sector Classification of NACE Code K

Article 3 of the Delegated Act has introduced the equity weight allocation constraint with regards to oil, gas, mining, and transportation sectors (also known as the “heavy” or high climate impact sectors) in climate benchmarks. The Article stated:

“EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks that are based on equity securities . . . , shall have an aggregated exposure to the [high climate impact] sectors¹⁸⁵ . . . that is at least equivalent to the aggregated exposure of the underlying investable universe to those sectors.”

The rationale for such requirement was to prevent divestment from and underweighting of the heavy sector as a method of benchmark decarbonisation. Divestment of capital would be counterproductive in driving sector transition to a low-carbon economy.

However, as outlined in Hoepner and Zdanceviciute (2022)¹⁸⁶ with the final Scope 3 emission inclusions for NACE sectors to be included at the end of 2024 (*Regulation (EU) 2020/1818*, 2020), the benchmark sectoral emissions intensity profile is expected to change. Specifically, with the scope 3 emissions accounted for in the financials sector (Section K, Financial and insurance activities) the authors highlighted it would become the highest GHG intensity bearing sector among the low climate impact sectors.

The Platform therefore recommends allowing the benchmark providers an additional level of flexibility in terms of treatment of the financial and insurance sector constituents. It is recommended that benchmark providers are able to choose whether to treat the financial and insurance sector equities as high or low impact sector constituents.¹⁸⁷

Recommendation

The Platform recommends the European Commission to consider revising the Delegated Regulation (EU) 2020/1818 to allow benchmark providers to choose whether to treat the financial and insurance sector equities (i.e., NACE Code K) as high or low impact sector constituents.

5.2.3.5 Self-Enhancing Benchmarks for Further Indicators

Climate benchmarks have received positive feedback from various market stakeholders in their objective to continuously measure and benchmark the decarbonisation progress.¹⁸⁸ The Platform, therefore, finds it suitable to recommend the development and implementation of similar single SFDR objective aligned benchmarks¹⁸⁹ for the remaining mandatory SFDR principal adverse impact (PAI) indicators (Annex I, Joint Committee of the European Supervisory Authorities, 2021), especially for the purpose SFDR Article 9 (1) (a).

¹⁸⁵ High climate impact sectors include the following NACE sections: Agriculture, Forestry and Fishing; Mining and Quarrying; Manufacturing; Electricity, Gas, Steam and Air Conditioning Supply; Water Supply; Sewerage, Waste Management and Remediation Activities; Construction; Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles; Transportation and Storage; Real Estate Activities.

¹⁸⁶ Hoepner, A.G.F., Zdanceviciute, G. (2022) Climate Transition and Paris Aligned Benchmarks: a Three Year Review. Working paper. University College Dublin.

¹⁸⁷ From a financial data science perspective, it is worth noting that most firms in section K will have GHG emissions properties more comparable to high impact sectors once Scope 3 is included.

¹⁸⁸ Hoepner and Zdanceviciute, 2022; Ekman et al, 2022b; Bloomberg Professional Services, 2022; FTSE Russell, 2021; Wang et al., 2021; Schwaiger et al., 2021

¹⁸⁹ PABs, CTBs and similar single SFDR objective aligned benchmarks may also represent an interesting methodological feature for a potential suite of EU ESG Benchmark labels,

Objective aligned benchmarks are required by SFDR Article 9 (1) (a) and self-enhancing mechanism is the key feature to ensure that benchmarks actually achieve their objective (i.e., walking the walk instead of just talking the walk.) While the self-enhancing mechanism refers in case of the climate benchmarks to an at least 7% annual self-decarbonisation, it would represent an X% annual reduction in water pollution for a water benchmark or a Y% annual increase in top executive gender diversity for a diversity focused benchmark. Consequently, the self-enhancing feature of the successful climate benchmarks could similarly allow to measure and benchmark progress on other crucial single SFDR objectives.

The topical benchmarks would similarly allow to measure and benchmark progress on other crucial ESG objectives, in order for the financial investment to be able to demonstrate relative out-performance on the critical ESG metrics considered to be principle adverse indicators to a sustainable investment.

Recommendation

The Platform advises the European Commission to consider the development and implementation of similar SFDR objective aligned benchmarks for the remaining mandatory SFDR principal adverse impact (PAI) indicators.

5.2.4 Sustainability Preferences

A definition of “Sustainability Preferences” has been included under the Delegated Regulation (EU) 2017/565 (“MiFID II DR”) and to the Insurance Distribution Directive (IDD) Delegated Regulations ((EU) 2017/2358 and (EU) 2017/2359) as follows:¹⁹⁰

- **“Sustainability preferences” means a client’s or potential client’s choice as to whether and, if so, to what extent, one or more of the following financial instruments shall be integrated into his or her investment:**
- a financial instrument for which the client or potential client determines that **a minimum proportion shall be invested in environmentally sustainable investments** as defined in Article 2, point (1), of Regulation (EU) 2020/852 of the European Parliament and of the Council (*);
- a financial instrument for which the client or potential client determines that **a minimum proportion shall be invested in sustainable investments** as defined in Article 2, point (17), of Regulation (EU) 2019/2088 of the European Parliament and of the Council (**);
- a financial instrument that considers principal adverse impacts on sustainability factors where **qualitative or quantitative elements** demonstrating that considerations are determined by the client or potential client;

It is worth noting that (a) refers to the Taxonomy and (b) to the definition of Article 2 (17) of SFDR and (c) to the principal adverse impacts (although without a direct reference to the SFDR). Firms should collect information from clients regarding their preferences on sustainability based on:

- Taxonomy (% of alignment as of revenues, Capex or Opex);
- Sustainable investment (proportion of SI but as defined by the financial market participant (“FMP”)); and
- The different PAIs (and performance levels or ranges of performance or as screening criteria).

¹⁹⁰ See Article 2 MiFID DR as amended according to Article 1 Commission Delegated Regulation (EU) 2021/1253.

- Firms should then offer clients different products that meet their sustainability preferences if they have.¹⁹¹ By integrating the Taxonomy into sustainability preferences, retail investors can clearly identify what part of their financial product substantially contributes to environmental objectives and consistently compare between financial products.

The integration of Sustainability Preferences in suitability tests will allow retail investors across Europe for the very first time to align their investments with their values and contribute to financing the transition to a net zero, more environmentally sustainable and inclusive economy.

The Platform is highly supportive of the measure but believes some measures ought to be made to ensure that retail investors can fully understand the choices and can therefore make informed investment decisions. The Platform has identified two main challenges in the application of ESG preferences in suitability tests:

The **Taxonomy option might be easily discarded** by retail investors because:

- The definition of sustainability preferences puts “Sustainable Investments” (as defined by SFDR – “SI”) at the same level as “sustainable investments” defined by the Taxonomy. This does not consider the fact that Taxonomy-aligned investments provide for a more stringent standard than SI for the activities included. Note that this is not the case for other financial instruments like shares, structured products.
- Taxonomy-alignment numbers are, and will be for a while, very low. SFDR SI products can easily achieved much higher numbers as FMP set the criteria and performance levels. Further, they can limit the criteria to one indicator. Lack of real understanding about how the Taxonomy works, its benefits and why numbers are meant to be low.

Retail investors are not directly asked what they do not want to invest in. Option C allows for investors to express what they do not wish to invest in but it does not apply to all the options and does not have a predefined list of potential exclusions as choices. For many retail investors, it is equally important to decide in what to invest as to decide in what not to invest.

5.2.4.1 *What the Numbers Say*

Taxonomy data is not yet sufficiently available to properly assess the proportion of Taxonomy-alignment in a financial instrument or in a financial product. Data assessments show deviations between data providers of up to 100% repeatedly. (See section 2.5.)

Limited availability of data is not surprising for the following reasons:

- The first TSC for the Taxonomy only cover two of the six environmental objectives of the Taxonomy and where only finalised by the end of 2021.
- NFRD companies will only start reporting Taxonomy-alignment in 2023. The following year the scope of reporting companies will expand significantly with CSRD entering into force. In 2022 they will only publish numbers on Taxonomy-eligibility that cannot be used for calculating Taxonomy-aligned quota.
- Most financial products include non- EU stocks and even a higher number non-NFRD (which includes non-EU and all non-NFRD within the EU.)

The assessment of the DNSH criteria comprises a market challenge since companies might have published data on the positive contribution of their activities but would so far not have little incentives to publish information that would help assessing the DNSH criteria. In addition, it is not yet clear what “equivalent information” might

¹⁹¹ Please note that as Recital 15 of the consultation states “firms should first assess the suitability of a transaction in accordance with the criteria of knowledge and experience, financial situation, other investment objectives and then, as a second step, consider the client’s sustainability preferences.”

entail and the extent that would allow to include non-NFRD companies when reporting Taxonomy-alignment, as covered in section 2.3.

Even for instruments such as green bonds which normally do contribute to environmental objectives through a ring-fenced financing of projects, Taxonomy-alignment exact data is scarce mainly due to the lack of DNSH specific criteria. Most of such bonds were issued before the TSC were published and therefore did not address these specific requirements.¹⁹²

Example 1: European Commission Joint Research Centre estimated figures for alignment and eligibility in the EU

The Joint Research Centre (JRC) of the European Commission estimates the following share of Taxonomy-aligned and Taxonomy-eligible financial investments based on 2022 data looking at Substantial Contribution of Climate Change Mitigation revenues-alignment and eligibility:¹⁹³

- For EU equity and corporate bond markets as a whole: 2.8% was Taxonomy- aligned, 22.8% eligible.
- Equity markets: 2.4% aligned, 26.8% eligible
- Corporate bonds: 3.2%-10.8% aligned, 18.5%-62.5% eligible

Figures vary depending on the scope of the study and whether DNSH alignment is included or not.

Example 2: Bloomberg Data as of April 13th, 2022

- SXXP (Euro Stoxx 600)
- Estimated Eligibility **31.6%**
- Estimated Substantial Contribution to Mitigation (note, this does not exclude for DNSH) **5.4%**
- Minimum Safeguards (process/policy-based compliance levels) are **90%**, based on index weighted average scores

Eligibility was split as follows (note this is based on segment revenue aligned to the Taxonomy - not classification of the company):

Agriculture	0.3%
Construction	7.1%
Energy	14.6%
Information Systems	18.8%
Manufacture Low Carbon Tech	25.0%
Manufacture Metal & Cement	4.5%
Manufacture Plastic & Chemicals	8.6%
Real Estate	2.4%
Transport	8.9%
Water & Waste	1.2%
Adaptation (not in Mitigation)	8.6%

¹⁹² Ensuring the usability of the EU Taxonomy, ICMA, February 2022

¹⁹³ Lucia Alessi, Stefano Battiston, 'Two sides of the same coin: Green Taxonomy alignment versus transition risk in financial portfolios', International Review of Financial Analysis, 2022, 102319, ISSN 1057-5219, <https://doi.org/10.1016/j.irfa.2022.102319>.

DNSH process-based scores (disclosure levels) against each environmental objective

NOTE: This is index weighted average scores out of 100.

<i>Taxonomy Estimated DNSH – Level 1</i>					
Adaptation	Biodiversity	Mitigation	Pollution	Waste	Water
66.66679	71.1	70.30019	62.60865	63.94262	54.2996

Example 3: Asset Manager Based on Moody's Taxonomy Alignment

Benchmark Name	Taxonomy Eligibility (%) - pre DNSH	Taxonomy Alignment (%) - pre DNSH	Taxonomy Alignment (%) - post DNSH
MSCI ACWI	19.9	1.2	0.9
MSCI World	20.3	1.2	0.9
MSCI EM	16.5	1.1	0.8
MSCI Europe	15.3	3.1	2.5
MSCI USA	22.3	0.7	0.5

To address these challenges, the Platform makes the following recommendations to the European Commission and the ESAs:

- It is critical that advisors and firms are well informed and are able to:
 - explain the term and the distinction between the different elements of the definition of sustainability preferences under a) to c) and the difference between a) and b) including the fact that a) requires an assessment against a detailed technical definition criterion of sustainable investment that guarantees “substantial contribution” in line with science-based environmental targets whereas b) refers to contribution to an environmental or social objective defined and assessed by FMPs.
 - explain the differences between these products and products without such sustainability features in a clear manner, avoiding technical language. They should explain which type of products they offer address their sustainability preferences and how, including a description of the differences between these products and products without such sustainability features in a clear manner, avoiding technical language.
 - explain clearly what are the maximum and average figures that can be expected and, in a simple manner, why that is the case. Further, that despite the low numbers, those products that use the Taxonomy have the highest potential to make a positive environmental impact.
- To ensure that is the case, the MiFID guidelines should clearly reflect the three points above. In addition, the European Commission should put together a user-friendly brochure or website that explains the Taxonomy and how Taxonomy-based products work (including on the value of Capex) that could be used voluntarily by financial advisors and firms. The brochure or site should explain the role of PAIs and how they work in simple and accessible language. Further, the European Commission should develop some easily accessible training (through internet) on sustainable finance and on ESG preferences in particular.
- Firms should regularly review clients’ sustainability preferences. Such review should also account for the overall availability and evolution of data relating to aspect a), b) and c) of the definition according to Article 2(7) MiFID II and IDD Delegated Regulations.

4. The Platform has made some recommendations for the review, and enhancement of the current PAIs in section 5.2. Amongst which, making a distinction between those PAIs that capture environmental or social performance and are linked to companies' practices when conducting an activity, to those PAIs that reflect whether a company is involved in a certain activity e.g., fossil fuels or controversial weapons. When asked about the different PAIs (and performance levels or ranges of performance or as screening criteria), the same distinction should be made.
5. PAIs can also be used to ask which activities or sectors they do not want to invest such as in fossil fuels, nuclear, controversial weapons. To that extent, the Platform recommends that the MiFID guidelines clarify that point (c) on consideration of PAIs does cater for the need of those investors that express their desire not to invest in certain activities. The Platform has recommended the possibility of expanding the PAIs to incorporate more activities that are always significant harmful in the absence, and until a Taxonomy that addresses always principally adverse activities exists. These should include as a minimum: fossil fuels (following the BMR regulation), controversial weapons, tobacco. The Platform recommends the consideration of other activities such as neonicotinoids.

FMPs can set minimum tolerance levels for these activities e.g., less than 5 or 10% of revenues, but it is important that no Capex investments are allowed. These can vary depending on the activity and availability of data, but guidance that provide a common understanding of acceptable thresholds for these PAIs are needed.

Firms and financial advisors should provide a list of these activities and ask clients which of these activities they do not wish to invest in. When offering financial products, firms and advisors ought to show the maximum thresholds for these activities allowed in each product.

6. The Platform believes that the ESAs Guidelines on certain aspects of the MiFID II and IDD suitability requirements could integrate the above recommendations, albeit the last one would only be possible once the PAIs are reviewed, and data availability improved (post CSRD implementation). The European Commission should consider making the necessary changes to the amendments of the Delegated Regulation (EU) 2017/565 ("MiFID II DR") and of the Delegated Regulation (EU) 2017/2358 and 2017/2359 ("IDD DR") so that level 2 regulation formally stipulates that clients ought to be asked in what they do not wish to invest, and thus clarify the intention under point (c) (see previous paragraph).
7. In the SFDR section, the Platform recommends the European Commission set minimum criteria based on the PAIs, especially by establishing maximum thresholds for revenues and Capex on the activity based PAIs. This recommendation is dependent on the availability of PAI data, and on the recommended revisions within this document. Some minimum requirements might be advisable for Article 9 products namely on always significantly harmful activities. In the long run, once Article 8 and 9 have minimum criteria attached to it, and the Taxonomy is completed (including a social Taxonomy) sustainability preferences might be directly linked to:
 - Substantial contribution environmental or social products based on the Taxonomy,
 - Contribution social or environmental products, and
 - General ESG Article 8 products.

In addition, clients will be asked in what they do not want to invest and their tolerance levels.

Recommendations

The Platform requests the European Commission:

- To clarify in the revising the Delegated Regulation that point (c) on consideration of PAIs does cater for the need of those investors that express their desire not to invest in certain activities.
- Firms and advisors should ask what their clients do not want to invest in.
- To align MiFID's and IDD PAIs with the reviewed SFDR list of PAIs. The activity-based PAIs should be used to ask which activities or sectors clients do not want to invest such as in fossil fuels, nuclear, controversial weapons.
- To consider minimum acceptable thresholds only for activity-based PAIs (e.g., controversial weapons, thermal coal, or tobacco) but no Capex investments for these activities should be allowed.
- To enhance the consistency of ESG reporting between funds and their benchmarks.
- To consider developing an accessible Sustainability training programme for firms and financial advisors to be deployed across Europe.

PART 6: International Considerations

6.0 International Application

The Taxonomy is unique in its ambition. Its value lies in the underlying mix of science-based rigor, clear quantitative and process-based criteria, and granularity.

The Taxonomy has created a precedent that many other jurisdictions have followed with around 30 official sector taxonomies now existing or under development.¹⁹⁴ The landscape is highly fragmented, even though many have taken the Taxonomy as the starting base and inspiration.

The attention to taxonomies is motivated partially by longstanding official and market concerns about greenwashing, and consequently the appetite for credible and usable criteria. Markets look for both *credible and practical* tools to manage ESG risks and enable alignment with ESG goals, notably with the goals of the Paris Agreement. While the goals of the Paris Agreement are global, there are different pathways. Ambition and starting points in relation to other environmental objectives equally differ from country to country. Similarly, the level and quality of environmental infrastructure and resources vary considerably. Some environmental problems carry local particularities and therefore require a local solution.

In addition to the various levels of ambition and needs, sustainable finance markets and sustainability reporting and decision frameworks are unequally developed across geographies. Furthermore, the design of the Taxonomy incorporates certain EU-specific features, which may not be applicable or readily replicated.

All these reasons may render the adoption and application of the Taxonomy outside of the EU more difficult.

When assessing the international applicability of the Taxonomy and its interoperability with other taxonomies, there are therefore certain usability issues that are likely to impair the ability of all market operators to align with the Taxonomy, notably in developing and emerging countries.

This section aims to address some of the usability challenges to enhance the international operability of the Taxonomy, while fostering the development of a harmonised framework or at least understanding for the different international taxonomies.

It is divided in three sections:

- The international operability of the Taxonomy,
- A zoom into investments in developing countries and development finance, and
- Towards a global framework for taxonomies.

6.1 The International Operability of the Taxonomy

Understandably, the Taxonomy is based on European legislation as well as on European labelling and certification schemes. The TSC are often stricter and more ambitious, while a large proportion (75%) of DNSH criteria (as part of the Climate Delegated Act) refer to EU environmental legislation. This may become a challenge when assessing Taxonomy-alignment of activities conducted outside the EU. Of particular concern are the challenges investments in the developing world may face.

¹⁹⁴ "Ensuring the usability of the EU Taxonomy", ICMA, February 2022.

These are confronted with lack of historical data, or capacity to generate appropriate data going forwards, and lack of official structures and systems that could offer equivalents on DNSH. Lastly, obtaining adequate certification against Taxonomy criteria is more difficult for investments outside the EU.

6.1.1 Substantial Contribution Criteria

Numerical Substantial Contribution (SC) is the part of the Taxonomy that has proven most readily applicable ex-EU. However, not all SC criteria are easily workable globally.

To improve inter-operability, it is recommended that the European Commission supports further efforts to understand commonalities and differences between the Taxonomy and other taxonomies, and to explore means of increasing interoperability. The following are examples illustrating how this could work. It can build on the progress already made and be part of the future work of the International Platform on Sustainable Finance (IPSF):

Equivalence Tables for Any EU Labelling or Certification-Based Criteria (e.g., EPCs)

To ensure SC is based on objective criteria as much as possible aiming at quantitative or process-based criteria. For example, the definition of the technical screening criteria for the activity *'construction of new buildings'*¹⁹⁵ relies on the concept of NZEB. NZEB-10% defines the baseline against which a new building can be considered making a substantial contribution to climate change mitigation. NZEB is a legally defined concept enshrined in EU law, and then translated nationally by every member state, that has not been developed outside the EU. While lack of harmonisation across the EU is still a challenge for the implementation of the Taxonomy as mentioned in section 3.1.5.3, there is an expectation that the ongoing legislative review will minimise disparities. However, it will not solve the need for numerical references, instead of relative ones that can be interpreted and accounted for differently around the world.

References to EU Norms, Methodology or Codification on How Quantitative Criteria are to be Calculated

For example, the technical screening criteria for substantial contribution to climate change mitigation for the activity *'Transport by motorbikes, passenger cars and light commercial vehicles'*¹⁹⁶ stipulates that *'until 31 December 2025, specific emissions of CO₂, as defined in Article 3(1), point (h), of Regulation (EU) 2019/631, are lower than 50gCO₂/km (low- and zero-emission light-duty vehicles).'* This can be an issue outside of the EU, since the GHG emissions standards may not be directly translatable into emissions reported for vehicles manufactured or driven in other countries and the information may not be available outside the EU, at least readily.

6.1.2 Do No Significant Harm

The current DNSH is deconstructed in five different types according to the nature of the criteria as seen in Figure 15. Type A and B criteria do not require any equivalence and are broadly transmittable at international level. The same might be true for type C as it directly references international standards – albeit sometimes international norms might establish high-level hard to grasp in practice standards – while type E criteria entail a usability challenge irrespective of where the operation takes place.

This leaves Type D as the criteria whose nature may raise problems for non-EU actors and to some EU actors when operating outside the EU. The Platform therefore suggests that equivalence should be developed wherever possible. The options to do so could be:

- Establishing equivalences on a one-to-one basis;
- Establishing equivalences with international standards only to be used outside the EU; and

¹⁹⁵ Section 7.1 of the Climate Delegated Act

¹⁹⁶ Section 6.5 of the Taxonomy Climate Delegated Act

- Translating EU legislations into quantitative and/or process based to guide application both inside and outside the EU.

Each EU regulation (directive or regulation) could be “translated” into quantitative and/or process-based criteria for:

- Non-EU players operating outside of the EU;
- Financial undertakings, when assessing compliance with the Taxonomy criteria by non-EU actors;
- Facilitating a potential extension of the Taxonomy to cover activities that must transition away from significantly harmful (SH) performance levels and activities that should transition to green when possible - whose performance lies between SH and DNSH (intermediate or amber performance)¹⁹⁷; and
- Those players that would like to use voluntarily an extended Taxonomy.

6.1.3 Minimum Safeguards

Minimum safeguards, as defined by Article 18, refers to international instruments with global applicability rather than a specific EU regulation or standard. Notably, the UN Guiding Principles on Business and Human Rights is an authoritative global standard of expected business conduct, which is useful from an international application perspective. Several non-EU countries have in place or are developing national action plans on business and human rights, as a way of fostering increased respect for human rights by companies based in their jurisdiction. This includes Thailand, Pakistan, Uganda, Kenya, Colombia, Chile, and USA.¹⁹⁸

In terms of implementation of minimum safeguards there is of course international variation in how widely implemented the standards contained in article 18 is today. A 2021 UN stocktake report on the implementation of UNGPs notes that: “Although data gathered thus far indicates that OECD-based companies are more likely to commit to the Guiding Principles, a 2019 assessment of the top 50 publicly listed companies in the stock exchanges of Indonesia, Malaysia, the Philippines, Singapore, and Thailand found that 37.1 per cent had publicly committed to respecting human rights. The same trend seems to be emerging in other regions, like Africa and the Arab States, and very especially in Latin America, demonstrating an emerging awareness around human rights that did not exist a decade earlier.”¹⁹⁹

Despite these encouraging trends, the gap continues as Europe has progressed the most in terms of, for example, introduction by Member States of mandatory human rights due diligence laws which drives up implementation numbers. Care should therefore be taken to avoid an unintended side-effect of minimum safeguards implementation which would result in increasing exclusion of non-OECD based companies from global value chains. Rather minimum safeguards should be used to lift standards of OECD and non-OECD companies who through alignment with minimum safeguards, in addition to SC and DNSH, can improve their access to sustainable capital. Rather than screening out non-OECD or OECD companies that have not already implemented the UNGPs and OECD Guidelines, investors and financiers seeking Taxonomy-aligned portfolios should use their leverage with portfolio companies and potential investees to require implementation of these standards (e.g., within a reasonable time period.)

¹⁹⁷ EU Platform on Sustainable Finance (March 2022), The Extended Environmental Taxonomy: Final Report on Taxonomy extension options supporting a sustainable transition.

¹⁹⁸ [National Action Plans on Business and Human Rights \(globalnaps.org\)](https://globalnaps.org)

¹⁹⁹ [UN Guiding Principles Reporting Framework \(ungpreporting.org\)](https://ungpreporting.org)

Recommendations

The Platform invites the International Platform for Sustainable Finance (IPFS) to consider developing equivalence tables between regional certification and labelling schemes and propose a practical checklist for international projects with the minimum prerequisites for proof of alignment.

The Platform recommends the Platform 2.0 and the European Commission to translate EU regulation criteria into quantitative and/or process-based criteria to facilitate its application outside of the EU especially by non-EU actors and have the role to assess the relevance of any proposed alternative. For usability purposes, it is possible that such criteria that intentionally diverge from the scope of the existing Taxonomy be complemented by the provision of guidance / criteria (as already developed) that offer separate non-binding information, with a purely environmental benchmark. Such technical, science-based criteria would be a way to guide those parts of the market seeking policy-neutral information.

6.2 Development Finance and Investments in Developing Countries

It is important that the Taxonomy can help channel sustainable finance to emerging markets, especially to least-developed countries. In the face of manifold social challenges in emerging markets, social considerations have to be considered when financing green activities. The concept of a just green transition seems to be even more important in these geographies than in developed countries. The bulk of investments needed to achieve net zero objectives are in emerging markets, and much of the most urgent adaptation investments that are needed are in developing countries.

Data below from IFC (2020) illustrates the scale of the investment opportunity and challenge.

Investment opportunity for climate in emerging markets is significant (\$29 trillion)

Investment potential in cities by region and sector to 2030 --- IFC Study based on 21 countries

	East Asia Pacific	South Asia	Europe and Central Asia	Middle East and North Africa	Sub-Saharan Africa	Latin America and Caribbean	Total
Waste	\$82 billion	\$22 billion	\$17 billion	\$28 billion	\$13 billion	\$37 billion	\$200 billion
Renewables energy	\$266 billion	\$141 billion	\$88 billion	\$31 billion	\$89 billion	\$226 billion	\$842 billion
Public transportation	\$135 billion	\$217 billion	\$116 billion	\$281 billion	\$159 billion	\$109 billion	\$1 trillion
Climate-smart water	\$461 billion	\$110 billion	\$64 billion	\$79 billion	\$101 billion	\$228 billion	\$1 trillion
Electric vehicles	\$569 billion	\$214 billion	\$46 billion	\$133 billion	\$344 billion	\$285 billion	\$1.6 trillion
Green buildings	\$16 trillion	\$1.8 trillion	\$881 billion	\$1.1 trillion	\$768 billion	\$4.1 trillion	\$24.7 trillion
Total	\$17.5 trillion	\$2.5 trillion	\$1.2 trillion	\$1.7 trillion	\$1.5 trillion	\$5 trillion	\$29.4 trillion

Source: IFC analysis [14]

INCREASING INVESTMENT

Figure 45: IFC Investment Opportunity in Emerging Markets

The scale, range and urgency of climate investments requiring clear criteria mean the Taxonomy must offer practical solutions while respecting EU's ambitions and Paris Agreement goals. As it stands, the Taxonomy may raise several technical usability challenges for both investors and issuers, when assessing alignment. These may impact product usability and regulatory reporting.

6.2.1 Substantial Contribution

While substantial contribution criteria for environmental objectives can be very relevant in developing and emerging markets, there are some hurdles inherent to its application when investing in these regions. This is particularly true for companies in medium and small size emerging markets. Increasing social pressures due to climate change consequences (e.g., pressure on decreasing amount of arable land) make it even more difficult for some local actors to make commitments (e.g., size of uncultivated land.)

Red | Amber | Green Criteria

Some other taxonomies such as the Association of Southeast Asian Nations (ASEAN) one, have introduced concepts such as the traffic light system which the recent proposals for an extended Taxonomy from the Platform also address. An extended Taxonomy will allow to be more inclusive to realistic performance levels in emerging markets without lowering the ambition of the Taxonomy. It can notably recognise, and reward efforts made to move from the red space (exceeding DNSH criteria) to the amber zone (between substantial contribution and DNSH performance levels.)

6.2.2 Do No Significant Harm (DNSH)

Non-quantitative or process based DNSH criteria are primarily based on regulatory requirements and best practices within the European Union. While this is perfectly understandable and operational at EU-level, DNSH thresholds might already entail significant effort for investments and companies in geographies where the capacity to fulfil the criteria is lacking. This is particularly true for companies in medium and small size emerging markets.

The Platform recognises that some criteria might be impossible to fulfil until the necessary capacity, infrastructure or regulatory framework are more developed. While in many places the levels of infrastructure and technological advancement remain underdeveloped, they vary tremendously between regions and within countries in the emerging world. A solid and rigorous process should be put in place to avoid any misuse or greenwashing.

6.2.3 Minimum Safeguards

Development Finance Institutions (DFIs) play an important role in financing development in emerging economies. The institutions can also contribute to avoiding and addressing negative social impacts of development projects, especially where their policies and standards are aligned with the EU Minimum safeguards, that is, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

The Platform has published a report which provides recommendations to the European Commission on the application of Article 18 of the Taxonomy Regulation on minimum safeguards but acknowledges that more work needs to be undertaken when applying some of its recommendations to development finance and some investments in developing countries. While some requirements based on OECD standards, for example, disclosures on fair competition might be extremely difficult to obtain, the proper implementation of human rights due diligence remains a priority.

Table 29: Suggestion for Future Alignment of Minimum Safeguards

Sector	SC Criteria	DNSH Criteria	Applicability in EMDE
Construction and Real Estate	The nearly zero-energy building (NZEB)-10% defines the baseline against which a new building can be considered making a substantial contribution to climate change mitigation.		NZEB has been developed only at EU level, and translated nationally by every member state, making its use difficult as a baseline in developing countries.
Energy		Transmission and distribution of electricity should not exceed the threshold value of 100g CO ₂ e/kWh unless the system is the interconnected European system. Two alternative calculation criteria in the DA offer more flexibility.	The EU average is significantly higher than the threshold (270g CO ₂ e/kWh), so most EU projects will rely on being part of the interconnected European system. Electricity generation in most developing countries largely exceeds the threshold and no other interconnected systems are referenced.
Transport (railway infrastructure)	SC criteria are very detailed and reference annexes to EU Directives, including those focused on the interoperability of the rail system within the EU.	DNSH criteria on circular economy require high percentage (70%) of reuse/recycle of construction waste.	There are no Best Available Technology ("BAT") standards for the sector, so transport projects typically follow local regulations. DNSH criteria on circular economy are challenging.
Transport (road)	Until 2025, specific emissions of CO ₂ , as defined in Article 3(1), point (h), of Regulation (EU) 2019/631, are lower than 50gCO ₂ /km (low- and zero-emission light-duty vehicles).		This can be challenging to implement in developing countries, since it refers to EU legislation on how CO ₂ emissions for vehicles are calculated.

6.2.4 The Role of EDFIs

European Development Finance Institutions (EDFIs) play a crucial role in channelling global climate finance towards emerging markets.²⁰⁰ They play this role by their unique position in originating and structuring emerging markets investment opportunities.

DFIs can be seen as pathfinders and role models for Taxonomy implementation in developing countries. DFIs' mandate is to help private sector clients in developing and emerging markets to transition their operations towards better ESG standards. DFIs can build on long-standing experiences in impact and ESG management,

²⁰⁰ Emerging markets are defined by referring to the list of partner countries under DG INTPA https://ec.europa.eu/international-partnerships/where-we-work_en

which is now being enhanced with extensive work ongoing, in a harmonised manner, on aligning investments with the 1.5 C target of the Paris Agreement.

The Multilateral Development Banks (MDBs) and IDFC have developed MDB Common Principles for climate finance tracking. These are generally compatible with the Taxonomy, while currently offering a wider activity coverage. Together with the OECD Rio markers, these principles are also instrumental in the global count of climate finance under the United Nations Framework Convention on Climate Change (UNFCCC) framework.

EDFIs currently rely on international standards, such as the Operating Principles for Impact Management, the UN Guidelines on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the IFC Performance Standards. Since 2015, EDFIs have all committed to responsible financing principles. Complying with international standards is a core principle of activity of EDFIs, who must align with industry standards across institutional investors active in emerging and developing markets.

As the Taxonomy becomes more complete in the future, it will be important to maximize the synergies with both the MDB-IDFC Common Principles and the OECD Rio Markers.

The IFC Performance Standards (IFC PS) are also a common baseline for DFIs. IFC PS are currently the primary ESG standards used by private investors for operations in developing and emerging countries. Such established use of IFC PS results in familiarity and usability. It will be worth evaluating the forthcoming IFC mapping versus the Taxonomy, as a basis for issuing mapping and guidance to clarify where the Taxonomy may be aligned or more exigent. This mapping could also examine the existing gaps between IFC PS and the Taxonomy minimum safeguards, as several institutions including the UN Office of the High Commissioner of Human Rights as well as civil society organisations argue for enhancing human rights within these policies and practices, and align them with the UNGPs more explicitly.

The Platform has included two case studies provided by EDFIs in Appendix E.

Recommendations

The Platform recommends the European Commission to develop mappings between EU-based technical criteria and labelling schemes to the most widely used international standards building on the work done by European and other DFIs – EIB, EDFIs, MDB Climate Finance Tracking criteria and OECD Rio Markers, and IFC standards -, for development finance, blended finance, and more broadly, investments in developing countries. The Platform would welcome a balanced approach to environmental and social investments in developed markets.

The Platform recommends the European Commission to define the type of investments (e.g., development finance, blended finance, SMEs, etc) and the geographical scope (e.g., least-developed, developing, or emerging markets) that should benefit from the application of such standards. This may include specific lists of exemptions, drawing on analysis determining for criteria and applicable geographic and sectoral areas, and to indicate whether a common approach can be taken.

The Platform recommends the European Commission to perform in-depth analysis on the technical criteria of DNSH and their applicability in developing countries.

The Platform recommends the European Commission to work with EDFIs in conducting such analysis, as EDFIs are already starting to deploy or test the Taxonomy in developing countries.

In this process, the IPSF could play a pivotal role.

6.2.5 ESG General Data Availability in Emerging Markets

In the developing world, the availability of environmental, and more broadly, ESG data is often severely lacking, caused by weak or non-existent disclosure requirements and poor coverage by most major data providers, among other factors.

There is encouraging evidence of progress among policy makers and stock exchanges but mostly limited to emerging markets:

- Financial regulators in Brazil and South Africa have developed corporate ESG disclosure rules.
- An increasing number of emerging market countries are also adopting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), including Mexico, Brazil, and South Africa.
- The Sustainable Stock Exchanges (SSE) Initiative is working to develop model guidance on climate disclosure and has developed training programmes for stock exchanges on ESG issues more broadly.

Despite the recent improvement achieved, data availability – quantitative and qualitatively - remains a major constraint for sustainable investing in emerging markets, especially in least-developed countries. This is particularly true when it comes to the lack of historical data. This is accentuated by the fact that data providers tend to be less incentivised to provide this data for emerging market activities.

Currently in development finance there is significant burden on lenders and investors to gather relevant and meaningful data. It is challenging today to find enough human resources to achieve comprehensive data collection and analysis efforts in ESG. However, fintech and other technological solutions could significantly improve the quantity and quality of data. Increasing requirements in this area will need to be accompanied by a plan to source adequate staff, know how, technological equipment, and resources for compliance with these requirements. This will require greater official financial and advisory support than in the EU, wherever possible supporting development of local or regional capabilities to ensure enduring results.

Recommendations

The Platform stresses the need of studying the context of data gaps for developing countries and to consider potentially building in transition language where necessary (for example, if the data is not available because of historic/contextual reasons, proxies will be provided that are based on expert opinion/available tools).

The Platform calls for funding Technical Assistance to plug shortfall in capacity and resources in developing countries, notably to improve reporting of relevant data and application of Taxonomies.

The Importance of Supporting Verification

Verification and certification against Taxonomy DNSH criteria have been identified as a hurdle in developing countries. For example, analysis conducted by one of the EDFIs of afforestation activities found lack of availability of suitable certification or verification against Taxonomy criteria to be a key hurdle for the bulk of cases. This type of challenge was echoed by feedback from financial intermediaries in relation to sustainable bond transactions (EIB 2021), which indicated that the verification sector is over-stretched, and issuers in emerging markets may be constrained by verification costs and internal resource issues. For global and European FMPs having sustainability and Taxonomy-related reporting verified gives them a much-needed assurance when selecting investments perceived as more difficult to assess, thus riskier.

Recommendation

The Platform advises the European Commission to provide technical support to developing countries so that they strengthen and build capacity on sustainability-related verification with a focus on the Taxonomy. Financial and technical support should be directed to local providers, local market participants, including issuers, to make a more lasting impact. Some initiatives in this regard may be possible under forthcoming initiatives from the European Commission (e.g., HLEG by DG INTPA), and it is important that such initiatives are well designed and coordinated. Numerical requirements under DNSH should be kept.

HLEG on Scaling up Sustainable Finance in Low- and Middle-Income Countries

The European Commission has established a much-needed High-Level Expert Group (HLEG) on scaling up sustainable finance in low- and middle-income countries. The overall task of the group is to identify the challenges and opportunities that sustainable finance presents in low and middle-income countries and provide recommendations to the European Commission to accelerate private financial flows. The recommendations will feed into the forthcoming EU Sustainable Finance strategy for low- and middle-income countries. It will focus on three topics:

- 1) Supporting sustainability-related financial instruments and products;
- 2) Facilitating global and local investments in sustainable and SDG-aligned projects; and,
- 3) Building coherent frameworks and ecosystems conducive to accelerating private finance flows for sustainable development, building on the EU's Sustainable Finance experience.

One of its tasks will be to “provide recommendations on how the European Commission can assist low- and middle-income countries in increasing their access to international and domestic private capital for their sustainable investments notably through the development of credible and coherent sustainable finance frameworks (e.g., sustainable finance roadmaps including transition strategies, taxonomies, green bonds standards, sustainability-related disclosure, etc.), building on the EU ones and taking into account global developments, where applicable.”²⁰¹ The expert group is expected to provide recommendations to the forthcoming strategy on sustainable finance in low and middle-income countries on how to improve data availability, particularly Environmental, Social and Governance (ESG) data to support sustainable investments decisions.

Recommendation

The Platform recommends the European Commission to ensure close collaboration between the Platform 2.0 and the new HLEG on sustainable finance for low and middle-income countries given the relevance of the forthcoming strategy on sustainable finance in low and middle-income countries.

6.2.6 Towards a Global Framework for Taxonomies

The EU and China have been frontrunners in developing sustainable finance taxonomies, the concept enjoys widespread success with a proliferation dubbed “taxomania.”²⁰² Regulatory Taxonomy frameworks are being

²⁰¹ [intpa-tor-hleg-sf-sg_en.pdf \(europa.eu\)](#)

²⁰² [Climate Bonds Taxonomy | Climate Bonds Initiative](#)

developed in the UK, Canada, Asian, Singapore, Indonesia, Thailand, Vietnam, South Africa, South Korea, Chile, Columbia, and India, to cite a few. CBI, IDFC and ISO also develop market-based taxonomies.

Most taxonomies are developed under governmental aegis. There are a few exceptions of taxonomies being developed through the initiative of the private sector (Canada), academia (Japan) or non-governmental institutions (Climate Bonds Initiative or CBI, International Organization for Standardization, or ISO).

The EU Taxonomy is the most comprehensive and granular in terms of the sectors and sustainability objectives covered. It reassures investors that a Taxonomy-aligned investment will neither harm significantly any other environmental objective nor undermine minimum safeguards. The China's Green Industry Guiding Catalogue focuses instead on the disclosure requirements for specific sustainable financing instruments (e.g., issuance of green bonds, supply of green credit and statistics.)

Finance is global and often operating across borders. The current Taxonomy landscape remains fragmented. An increased international coherence in sustainability standards and sustainable finance taxonomies could help reduce market fragmentation and accelerate the flow of global capital to sustainable finance.

The European Commission has fostered the international dialogue around sustainable finance and Taxonomy development by creating the IPSF, with the objective to scale up the mobilisation of private capital towards environmentally sustainable investments. The IPSF offers a multilateral forum of dialogue between policymakers that are in charge of developing sustainable finance regulatory measures. Through the IPSF, members can exchange and disseminate information to promote best practices, compare their different initiatives and identify barriers and opportunities of sustainable finance, while respecting national and regional contexts. Where appropriate, willing members can further strive to align their initiatives and approaches.

The IPSF is currently developing a "Common Ground Taxonomy" (CGT) to help identify the commonalities and differences among existing taxonomies for environmentally sustainable investments. The CGT is a milestone work resulting from an in-depth comparison exercise between the EU and China's green taxonomies, with the initial focus on substantial contribution criteria for climate change mitigation. Such work can be used to improve the comparability and future interoperability of taxonomies around the world, and to eventually lower the trans-boundary cost of green investments and scale up the mobilization of green capital internationally. The IPSF is planning to involve more jurisdictions into this Common Groundwork, so as to widen the base for identified commonalities between taxonomies.

The G20 Sustainable Finance Working Group Roadmap includes a workstream to "improve coordination at the regional and international level to facilitate the comparability, interoperability, and as appropriate the consistency of different alignment approaches, including via work of relevant international organizations, and by encouraging jurisdictions which intend to pursue a Taxonomy-based approach to consider developing sustainable finance taxonomies using the same language (e.g., international standard industry classification and other internationally recognized classification systems), voluntary use of reference or common taxonomies, and regional collaboration on taxonomies." The FC4S, IFC-SBFN, IMF, IPSF, IOSCO, ISO, NGFS, OECD, UN-DESA, and World Bank are involved in this effort spanning from 2022 to 2025.

Against this background, it is worth mentioning that a global framework for taxonomies does not supersede or replace jurisdictional taxonomies. Each jurisdiction has specific considerations that are reflected in their taxonomies. The use case for a global framework is to allow global finance, at investor and issuer level, to benchmark sustainability against consistent and comparable information. To this aim, gradually developing equivalence mechanisms to assess and accept local laws/standards/labels as equivalent to each other could be beneficial. For example, in terms of usability, there could be a great benefit in saying that for buildings Silver LEED is equivalent to BREEAM.

Another support, even if not achieving equivalence, would be to map all the standards, metrics and labels used across taxonomies to understand where there are big challenges in translating them across different jurisdictions and then to focus on those. This could also act as guidance for those developing taxonomies to use the most common metrics that appear in the mapping rather than their own.

A sustainable finance Taxonomy includes an extensive scheme of classifications, typically based on purely national standards and definitions. In existing taxonomies, classifications are used to identify environmentally beneficial activities or projects in a single jurisdiction. One prominent example are the existing industry classifications used by national statistical agencies like the NACE codes in the Taxonomy or the Classification of Strategic Emerging Industry (based on the Chinese Standard Industrial Classification – CSIC) in the Chinese Taxonomy.

The IPFS should work with data providers to develop and validate “officially recognised mapping” between statistical systems as the European Commission has done for the Taxonomy.

Lastly, the Platform believes that the same way there are key financial concepts for which a commonly acceptable definition has been agreed upon, real efforts should be made to harmonise key environmental metrics and the methods to calculate them. Achieving a common understanding in sustainability metrics should be a priority when developing international reporting frameworks. The Platform believes the European Commission can play a critical role in this task given its leadership on sustainable finance regulatory frameworks. The Platform notes, however, that the very fact that other taxonomies might allow to consider an investment green even if it causes significant harm to another environmental objective other than the targeted one, raises at the very least some questions.

Recommendations

The Platform encourages the European Commission, as co-chair of the IPFS, to continue promoting the development of a “common ground framework” by:

- widening the base for identified commonalities between taxonomies.
- mapping the standards, metrics and labels included in taxonomies gradually developing equivalence mechanisms to assess and accept local laws/standards/labels.
- working with data providers to develop and validate “officially recognised mapping” between statistical systems.
- developing a common understanding for key environmental metrics and the methods to calculate them.
- Incentivising other regions to incorporate the principle of DNSH and minimum safeguards in their taxonomies.

PART 7: Recommendations for Future Platform Work

Key

	Platform advice already ongoing
	Recommend area for near-term Platform further advice
	Potential area for Platform further advice, if requested by European Commission

Policy Area	Recommendation	Further Advice
1	Recommendations on the treatment of SMEs in reporting for the Taxonomy	
2	Recommendations on the treatment of Derivatives in reporting for the Taxonomy	
3	Recommendations on the application of the Taxonomy to public finance and green procurement	
4	Recommendations on the application of EU-based technical screening criteria to international companies and international operations of EU domiciled companies	
5	Recommendations on the use of Trading Book metrics in Green Asset Ratio for banks	
6	Consider the pros and cons of developing of technical criteria for green financing and investing activities as part of the Climate Delegated Acts (e.g., car loans, mortgages, credit card facilities)	
7	Recommendations on the expansion of the Taxonomy to new sectors of the economy (e.g., agriculture, mining, retail and wholesale, service sectors)	
8	Recommendations on the harmonisation of SFDR, Benchmark ESG reporting and Taxonomy in the use of similar metrics, definitions, and reporting requirements	
9	Recommendations on the application of CSRD to reporting under the EU's Sustainable Finance Regulatory regimes (e.g., Taxonomy activity-level metrics, SFDR PAI, Benchmark ESG reporting) 1. All terminology that is used in the CSRD / ESRS and the Taxonomy Regulation / Delegated Acts is fully consistent, and identical where appropriate, with adequate references provided; 2. Sustainability indicators follow the same underlying methodology for their calculation even if the scope differs; 3. All environmental impacts that are a subject of substantial contribution or DNSH criteria of the Taxonomy are analysed for inclusion in the sector agnostic and respective sector specific ESRS, and included where relevant; 4. All Taxonomy-related information or information that is also relevant for Taxonomy purposes is clearly identified in the sustainability statement, and appropriate explanations are provided;	

Policy Area	Recommendation	Further Advice
10	Continued usability advice and recommendations on the treatment of DNSH in reporting for financial products, where self-disclosure is not provided. This would include refinement of DNSH to remove subjective criteria and allow for international proxies.	
11	Recommendations on enhancing greater consistency within sustainability-linked banking and insurance regulation.	
12	Recommendations to the European Commission on what will need to be subject to reasonable assurance in relation to Taxonomy-reporting.	
13	Usability advice on the treatment of reporting in Article 8 Delegated Act under Article 7(7) for international application of Green Investment and Green Asset Ratios	
14	Platform 2.0 to continue working with EDFIs and provide input to HLEG and IPSF for the application of Taxonomy-aligned finance into emerging and international economies	
15	Platform 2.0 input into IPSF for the treatment of equivalent Taxonomies under the EU reporting regimes	

Platform Usability Report

Appendices

12 October 2022

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Glossary of Terms

ASAEN	Association of Southeast Asian Nations
AUM	Assets Under Management
BMR	Benchmarks Regulation
BREEAM	Building Research Establishment Environmental Assessment Method
BTAR	Banking Books Taxonomy Alignment Ratio
Capex	Capital expenditure
CBI	Climate Bonds Initiative
CGT	Common Ground Taxonomy
CMU	Capital Market Union
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CS3D	Corporate Sustainability Due Diligence Directive
CSIC	Chinese Standard Industrial Classification
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
CTB	Climate Transition Benchmark
DA	Delegated Act
DFI	Development Finance Institutions
DG INTPA	Directorate-General for International Partnerships
DNSH	Do No Significant Harm
EBA	European Banking Authority
EBPD	Energy Performance Buildings Directive
ECB	European Central Bank
ECHA	European Chemicals Agency
EDFI	European Development Finance Institutions
EED	Energy Efficiency Directive
EFRAG	European Financial Reporting Advisory Group
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EP	Energy Performance
EPC	Energy Performance Certificate
ESA	European Supervisory Authorities
ESAP	European Single Access Point
ESEF	European Single Electronic File
ESG	Environment, Social and Governance
ESMA	European Securities and Markets Authority

ESRS	European Sustainability Reporting Standards
ETF	Exchange-Traded Fund
ETS	Emissions Trading System
EU	European Union
EU GBS	EU Green Bond Standard
EVIC	Enterprise Value Including Cash
FC4S	UNDP Financial Centres for Sustainability
FI	Financial Institution
FMP	Financial Market Participant
GAR	Green Asset Ratio
GBS	Green Bond Standard
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GIR	Green Investment Ratio
GP	General Partner
HLEG	High-Level Expert Group
HR	Human Rights
HRDD	Human Rights Due Diligence
IDD	Insurance Distribution Directive
IDFC	IDFC First Bank
IFC	International Finance Corporation
SBFN	Sustainable Banking and Finance Network
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IMF	International Monetary Fund
IMI	Investable Market Index
IOSCO	International Organization of Securities Commissions
IPSF	International Platform for Sustainable Finance
ISAE 3000	International Standard on Assurance Engagements 3000
ISO	International Organisation for Standardization
ITS	Implementing Technical Standard
JRC	Joint Research Centre
JV	Joint Venture
KPI	Key Performance Indicator
LEED	Leadership in Energy and Environmental Design
LoB	Lines of Business
LP	Limited Partners

MDB	Multilateral Development Banks
MFRD	Managing Financial Resources and Decisions
MiFID II	Second Markets in Financial Instruments Directive
MNE	Multinational Enterprise
MS	Minimum Safeguards
MSFD	Marine Strategy Framework Directive
MTF	multilateral trading facility
MTM	Mark-to-Market
NACE	Nomenclature of Economic Activities
NDC	Nationally Determined Contributions
NFC	Non-Financial Company
NFRD	Non-Financial Reporting Directive
NGFS	Network for Greening the Financial System
NZEB	Net-zero Emission Building
OECD	Organisation for Economic Co-operation and Development
Opex	Operating expenditure
OS-Climate	Open Source - Climate
OTF	Organised Trading Facility
PAB	Paris-Aligned Benchmark
PACTA	Paris Agreement Capital Transition Assessment
PAI	Principal Adverse Impacts
PDF	Portable Document Format
PE	Private Equity
PSF	Platform on Sustainable Finance
R&D	Research and Development
RRF	Recovery and Resilience Facility
RTS	Regulatory Technical Standard
SC	Substantial Contribution
SDG	Sustainable Development Goal
SFDR	Sustainable Finance Disclosure Regulation
SG5	Subgroup 5
SH	Significantly Harmful
SI	Sustainable Investment
SMEs	Small- and Medium-sized Enterprises
SoC	Substances of Concern
SSA	Supranational, Sovereign and Agency
SSE	Sustainable Stock Exchanges

TCFD	Task Force on Climate-related Financial Disclosures
TEG	Technical Expert Group
TR	Taxonomy Regulation
TSC	Technical Screening Criteria
UN-DESA	United Nations Department of Economic and Social Affairs
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNGC	United Nations Global Compact
UNGP	United Nations Guiding Principles
UoPs	Use of Proceeds
VC	Venture Capital
WFD	Water Framework Directive
XBRL	Extensible Business Reporting Language
XHTML	Extensible HyperText Markup Language
YoY	Year-over-Year

Appendix A: Contributors to SG5 Usability Report

A.1 Members and Observers of the Platform – SG5

Company	Representing	Name
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Bloomberg	Rapporteur	Nadia Humphreys
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UNEP FI	Permanent Representative	Corrine Raux
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Member	GRI	Wolfgang Kuhn	Sherpa
Member	Iberdrola	Marina Amigo	Sherpa
Member	Iberdrola	Roberto Fernandez Albendea	Permanent Representative
Member	ICMA	Julia Rodkiewicz	Assistant
Member	ICMA	Nicolas Pfaff	Permanent Representative
Member	ICMA	Ozgur Altun	Sherpa
Member	ICMA	Simone Utermarck	Sherpa
Member	IEEP	Ben Allen	Rapporteur
Member	IEEP	Nora Hiller	Sherpa
Member	Institut Louis Bachelier	Gabriel Plantier	Sherpa
Member	Institut Louis Bachelier	Stephane Voisin	Permanent Representative

Status	Company	Name	Representing
Member	IUCN	Gregory Guillot	Sherpa
Member	IUCN	James Dalton	Permanent Representative
Observer	NGFS	Erlan Le Calvar	Permanent Representative
Observer	OECD	Raphael Jachnik	Permanent Representative
Observer	OECD	Zach Miskin	Assistant
Member	OMV Aktiengesellschaft	Brigitte Bichler	Permanent Representative
Member	Orgalim	Andreas Brunsgaard	Permanent Representative
Member	Orgalim	Ivana Jakovljevic	Sherpa
Member	PGGM	Eloisa Menguzzo	Sherpa
Member	PGGM	Maurits Heldring	Sherpa
Member	RTO Lithuania	Steigvilė Byčenkienė	Permanent Representative
Member	SEB	Åsa Knudsen Sterte	Sherpa
Member	SEB	Karl-Oskar Olming	Permanent Representative
Member	SEB	Lotta Sandberg	Assistant
Observer	SGI Europe	Henriette Gleau	Sherpa
Observer	SGI Europe/CEEP	Stefan Enica	Sherpa (replacement for Henriette Gleau)
Member	SME united	Gerhard Huemer	Sherpa
Member	SME united	Piet Vanden Abeele	Permanent Representative
Member	Transport and Environment	Anna Grabowska	Assistant
Member	Type A	Andreas Hoepner	Permanent Representative
Member	Type A	Bernabé Alonso Fariñas	Permanent Representative
Observer	Type A	Helena Viñes Fiestas	Rapporteur
Member	Type A	Linda Romanovska	Permanent Representative
Member	Type A	Marzia Traverso	Rapporteur
Member	Type A	Paolo Marullo Reedtz	Permanent Representative
Member	Type A (Andreas Hoepner)	Fabiola Schneider	Sherpa
Member	Type A (Linda Romanovksa)	Magdalena Rogger	Sherpa
Member	Type A (Marzia Traverso)	Rebecca Todzey	Sherpa

Status	Company	Name	Representing
Member	Type A (Marzia Traverso)	Suzana Ostojic	Sherpa
Member	Type B	Brenda Kramer	Permanent Representative
Chair	UN PRI	Alyssa Heath	Chair Assistant
Chair	UN PRI	Ben Leblaque	Chair Assistant
Chair	UN PRI	Chloe Chilton	Chair Assistant
Chair	UN PRI	Nathan Fabian	Chair
Chair	UN PRI	Nikolaj Halkjaer	Chair Assistant
Observer	UNEP FI	Corinne Raux	Permanent Representative
Observer	UNEP FI	Daniel Bouzasluis	Sherpa
Member	Value Balancing Alliance	Christian Heller	Permanent Representative
Member	Value Balancing Alliance	Florian Klinkhammer	Sherpa
Member	World Green Buildings Council	Carolina Montano Owen	Sherpa
Member	World Green Buildings Council	Stephen Richardson	Permanent Representative

A.3 Non-Member Support of the Usability Report

A.3.1 Industry Associations

EFAMA (European Fund and Asset Management Association)
 Eurosif - Sustainable Investment Forums (SIFs)
 AFME (Association for Financial Markets in Europe)
 IRSG (International Regulatory Strategy Group) – ESG Workstream
 ISDA (International Swaps and Derivatives Association, Inc.)
 The IA (the Investment Association)
 AIMA (Alternative Investment Managers Association)
 PRI (Principles for Responsible Investment) Practitioners Group
 AIA (Association of International Accountants)
 EFAA (European Federation of Accountants and Auditors)
 EBF (European Banking Federation)
 FBF (Fédération des Banques Françaises)

A.3.2 Data Vendors – Mapping Table

Andrea Barberis	Bloomberg
Emma Burger	Bloomberg
Anna Shapoval	Factset
Daniel Grundig	Factset
Terence Kempf	Factset
Cyndi Merrill	Factset
Chris Zador	Factset
Lily Dai	London Stock Exchange Group
Andre Chanavat	London Stock Exchange Group
Deepa Karkera	London Stock Exchange Group
Simone Ruiz-Vergote	MSCI
Cory Bender	MSCI
Olga Emelianova	MSCI
Hanna Trueb	MSCI
Gauthan P	S&P Global
Rick Lord	S&P Global
Steven Bullock	S&P Global

A.3.3 Data Vendors – Survey

Rahil Patel	Bloomberg
Jean-Yves Wilmotte	Carbone 4

Rodolphe Bocquet	Clarity AI
Andrew Steel	Fitch
Alexander Stevens	Greenomy
Elodie Lelief	Iceberg Data Labs
Arleta Majoch	Impact Cubed
Diana Marosi-McMahon	Impact Cubed
Till Jung	ISS ESG
David Harris	London Stock Exchange Group
Elena Philipova	London Stock Exchange Group
Nicolas Moriceau-Gomez	Moodys
Peter Webster	Moodys
Olga Emelianova	MSCI
Hanna Ogilvy	MSCI
Philipp Aeby	RepRisk
Morgan Williams	Robeco
Hendrik Garz	Sustainalytics
Anne Schoemaker	Sustainalytics
Divya Mankikar	S&P Global
Joe Beviss	Urgentem

A.3.4 Data Working Group

Claes Ekman	AP2
Fabrizio Ferraro	IESE
Sergio Garcia Vega	University College Dublin
Detlef Glow	London Stock Exchange Group
Till Jung	ISS ESG
Rosanne Lam	Ortec Finance
Markus Leippold	University of Zurich
Peter Mannerbjörk	AP2
Ifigenia Paliampelou	University of Hamburg
Elena Philipova	London Stock Exchange Group
Saphira Rekker	University of Queensland
Joeri Rogelj	Imperial College London
Frank Schiemann	University of Hamburg
Gabija Zdanceviciute	University College Dublin

A.3.5 Derivatives Working Group

Dennis Baas	Allianz
Tobias Linder	Allianz

Gabriel Tissot	BNP Paribas
Christophe Delafontaine	BNP Paribas
Gwendolyn Yu	JPMorgan
Jason Mitchell	Man Group
Ido De Geus	PGGM
Mikael Scheja	PWC
Lotta Sandberg	SEB
Asa Liedgren	SEB

A.3.6 Organisation Engaged Through Workshops Organised by the Banking Group

A.3.6.1 *Taxonomy Implementation Challenges*

Katherine Wagner	HSBC
Neylin Mutlu	JPMorgan
Dale Butler	JPMorgan
Filip Ferrante	KBC
Denisa Avermaete	EBF
Antonio Ballabriga	BBVA
Sofia Galipienso	BBVA
Lucille de La Jonquiere	Societe Generale
Paul Grimal	Societe Generale
Manuel Vicente Perez De Castro	Banco Santander
Alejandra Tardio De Villota	Banco Santander
Hans Bieman	ING
Evan Tylenda	Goldman Sachs
Véronique de Lammerville (on Annex VI)	BNP Paribas
Alexia Patout (on ESAP)	BNP Paribas

A.3.6.2 *Mortgages*

Axel Jost Ehrmann	Allianz
Elisabeth Minjauw	BNP Paribas
Hans Bieman	ING
Paul Grimal	Societe Generale

A.3.7 Organisation Consulted by the Banking Group and Debt Group

UNEP-FI Taxonomy Project which involved

- Banks: ABN AMRO ; BBVA ; BNP Paribas (special thanks to Gilles Renaudière); BPCE Group (including Natixis) ; Credit Agricole ; Deutsche Bank ; DNB ; ING ; Intesa SanPaolo ; KB Financial Group ; Nidaros Sparebank ; Nordea ; Nova Ljubljanska Banka ; OP Financial Group ; Piraeus Group ; Raiffeisen Bank International AG ; Santander; SEB ; Société Générale ; Standard Chartered ; Swedbank Group ; UniCredit; Caixa Bank;
- Banking Associations: ABB, ABI, BdB—Association of German Banks, Febelfin, Finance Denmark, Finance Latvia, Finance Norway, French Banking Federation, Liechtenstein Bankers' Association, Lithuanian Banking Association, Romanian Bankers' Association, Swedish Bankers' Association, Swiss Banking Association, UK Finance.

EBF European Banking Federation

FBF Fédération des Banques Françaises

A special thank you to Platform member Karl-Oskar Olming and his sherpa, Lotta Sandberg from SEB.

A.3.8 Organisations that Contributed to Asset Management Workstreams

APG

Pensioenfederatie

AP Pension

DUFAS

EFAMA

Invesco

A special thank you to Patrik Karlsson from ESMA, Joerg Ladwein and Julia Backmann from Allianz SE.

A.3.9 Insurance Workshops

A special thank you to Julia Menacher from Allianz Investment Management, Pamela Schuermans and Sandra Hack from EIOPA, Gwendlyn Yu from JP Morgan, and Insurance Europe.

A.3.10 Taxonomy Implementation Challenges

Véronique de Lammerville (on Annex VI)	BNP Paribas
Alexia Patout (on ESAP)	BNP Paribas
Evan Tylenda	Goldman Sachs

A.3.11 Development Finance and Investing in Developing Countries Workshops

Event	Topic	Participants
Workshop 1	Application of the EU Taxonomy to development finance, for investment activities outside the EU (“Do Not Significant Harm” criteria)	SG5 Representatives AFD, BIO, CDC, CDP, Cofides, EIB, EBRD, EDFI, FMO, Finnfund, IFU, KfW, Norfund, OeEB, OBVIAM, Proparco, Swedfund
Workshop 2	Application of the EU Taxonomy to development finance, for investment activities outside the EU (Minimum Safeguards and Art. 8)	SG5 Representatives AFD, BIO, CDC, CDP, Cofides, EIB, EBRD, EDFI, FMO, Finnfund, IFU, KfW, Norfund, OeEB, OBVIAM, Proparco, Swedfund
Workshop 3	Application of the EU Taxonomy to development finance, for investment activities outside the EU (EDFIs high-level proposals, equivalences between existing practices of DFIs/ local frameworks and new systems designed for disclosures)	SG5 Representatives AFD, BIO, CDC, CDP, Cofides, EIB, EBRD, EDFI, FMO, Finnfund, IFU, KfW, Norfund, OeEB, OBVIAM, Proparco, Swedfund
Deep Dive Sessions	Insight into the IFC’s Environmental and Social Performance Standards, widely referenced by DFIs as criteria to assess and manage environmental and social risks and impacts in developing countries	SG5 Representatives IFC

A special thank you to Michele Montefiori from EIB.

A.3.12 Non-Platform Organisations that Contributed to the Work of the Accounting Workstream

Anglo American

BASF

BMW Group

Bosch

Deutsche Bank

Deutsche Post DHL Group

Dräger

Holcim

Kering

Kirchhoff

L'Oréal

Michelin

Mitsubishi

Novartis

Otto

PMI

Porsche

Posco

Sana Kliniken

SAP

Schaeffler

Shinhan Bank

SK

ZF

A.3.13 Accounting Firms

Deloitte

Ernst & Young

KPMG

PWC

A.3.14 Verification and Assurance Workshops (Non-Platform Contributions)

Catherine Gey

PWC

Rami Feghali

PWC

Marie Baumgarts

KPMG

Marc Stauder

KPMG

Laurence Rivat

Deloitte

Sebastian Dingel

Deloitte

Dr. Florian Kiy

Deloitte

Severin Panni

EY

Claudio Nuber

EY

A special thank you to Catherine Gey from PWC.

Appendix B: Fees and Commissions

B.1 Evaluation of the Different Types of Fees and Commissions Included in the KPI Against Their Relevance and Influence on Green Capital Flows

1. Issuance or other services related to third party securities:

The corresponding definition in FINREP is: '284 (a): 'Securities. Issuances' shall include fees and commissions received for the involvement in the origination or issuance of securities not originated or issued by the institution.

These types of activities in credit institutions, for example, advisory services towards bond and / or equity structuring or issuance, can drive capital flows towards sustainable investments in the real economy and create new business opportunities. The activities are not captured in credit institutions balance sheets, they only appear in the income statement. From an operational perspective, it is reasonable to believe that credit institutions can capture this fees and commission income. This type of fees and commission is therefore relevant and should be part of the KPI.

2. Reception, transmission, and execution on behalf of customers of orders to buy or sell securities:

FINREP definition: '284 (b): Securities. Transfer orders shall include fees and commissions generated by the reception, transmission, and execution on behalf of customers of orders to buy or sell securities.

These activities are connected to the credit institutions trading book which is largely driven by the customers'/clients' intentions. The purpose of credit institutions trading book related services is not to drive capital towards sustainable investments, but rather to provide a service to customers/clients to manage their own market risk.

Recommendation 1: consider excluding this type of income from the fees and commission KPI given its lack of connection and capacity to influence green capital flows.

3. Merger and acquisition undertakings advisory services:

FINREP definition: '284 I: Securities. Other' shall include fees and commissions generated by the institution providing other services related with securities not originated or issued by the institution;

Merger and acquisitions are advisory activities with the purpose of consolidating companies or assets, and stimulating growth, gaining competitive advantages, increasing market share etc. Credit institutions are often involved in mergers and acquisitions transactions providing advisory services, but the activity is not primarily connected to financing new capital to the real economy. The purpose is rather to create efficient market and ownership structures.

There are instances where a credit institution would advise to, or require of, their clients some degree of environmental improvement and investments in order to complete the transaction in more favourable terms in terms of environmental performance. Whilst this can be regarded as credit institutions contributions to environmental improvements, it is not in itself leading to a capital re-allocation of Taxonomy aligned activities.

Recommendation 2: consider excluding income from merger and acquisition advisory services in the fees and commission KPI at this stage. A deeper analysis may be required to determine with M&A practitioner how they could play a role in guiding their client to improve the environmental sustainability of their asset sale or acquisition through the advisory process.

4. Undertakings finance services related to capital market advisory for undertakings clients or other:

FINREP definition: 284 (f): 'Structured finance' shall include fees and commissions received for the involvement in the origination or issuance of financial instruments other than securities originated or issued by the institution.

The type of transactions included in this category, such as for example securitization, have the capability to drive capital towards sustainable investments. The underlying assets could be for instance green mortgages, or green loans. Reporting on these types of fees and commission may create incentives for credit institutions to increase the share of sustainable investments. However, there should be an underlying framework which states the conditions for the assets to be eligible, which could be similar to or included in ESMA Securitisation Regulation.¹

Recommendation 3: consider supplementing the Disclosures DA with a guidance laying out a clear set of conditions related to the eligibility of the underlying assets. Consider including this guidance in the ESMA securitisation regulation.

5. Private banking related fees:

Only some of the activities related to private wealth may be connected to the placement of Taxonomy aligned financial products. There is also a risk of double counting those transactions captured under asset under management reporting.

Recommendation 4: Platform 2.0 to assess the different types of fees and commissions linked to private wealth with a view to focus on those relevant to structuration and placement of Taxonomy aligned financial products and avoid double counting with items accounted for under "assets under management".

6. Clearing and settlement services:

FINREP definition: '284 (g): Clearing and settlement' shall include fee and commission income (expenses) generated by (charged to) the institution where participating in counterparty, clearing and settlement facilities;

The activities relate to transaction services that credit institutions provide to the customers such as validating the availability of appropriate funds, recording transfers, and in the case of securities, ensures the delivery of the security or funds to the buyer. There's no connection or an ability to influence an allocation or re-allocation of capital in the real economy.

Recommendation 5: consider excluding clearing and settlement services from the fees and commission KPI considering its lack of connection and capacity to influence green capital flows.

7. Custody and other related services:

FINREP definition: '284 (b): Custody assets shall refer to the services of safekeeping and administration of financial instruments for the account of clients provided by the institution and services related to custodianship such as cash and collateral management. 'Custody assets' shall be reported by type of customers for which the institution is holding the assets distinguishing between collective investment undertakings and others. The item 'of which: entrusted to other entities' shall refer to the amount of

¹ [List of Implementing and Delegated Acts for \(EU\) 2017/2402 \(europa.eu\)](https://eur-lex.europa.eu/eli/reg/2017/2402/oj)

assets included in custody assets for which the institution has given the effective custody to other entities.

Custody services provided by a bank typically include the settlement, safekeeping, and reporting of customers' marketable securities and cash. Securities lending can allow a customer to make additional income on custody assets by loaning securities to approved borrowers on a short-term basis. The activities relate to transaction services that credit institutions provide to their customers, and there's no direct connection to reallocation of capital to the real economy.

Recommendation 6: consider excluding custody and other related services from the fees and commission KPI considering its lack of connection and capacity to influence green capital flows.

8. Payment services:

FINREP definition: '284 I: Payment services' shall refer to the collection on behalf of customers of payments generated by debt instruments that are neither recognized on the balance sheet of the institution nor originated by it;

Payment services essentially comprise of execution of payment transactions associated with a payment account (card payments, credit transfers and direct debits); Transmission of funds; Payment initiation and account information services, issuance of means of payment and/or acquisition of payment orders. These activities relate to transaction services that credit institutions provide to the customers. There's no direct connection to reallocation of capital to the real economy, but rather cash exchange for products and services. When payment services support transactions towards green capital flows, the capital flows themselves will be captured under other categories of assets, for e.g., mortgages, car loans etc.

Recommendation 7: consider excluding payment services from the fees and commission KPI considering its lack of capacity to influence green capital flows.

9. Fee and commission income for distribution of products issued by entities outside the prudential group to its current customers:

An example of this includes, but is not limited to, insurance products. In the case of insurance products, the insurer is not in the prudential scope of consolidation, but it is in the accounting scope of consolidation. The bank may assist the insurer to distribute a product and receive fees/commission for this service. This fee/commission would appear on bank's income statement under regulatory scope.

It is questionable if these fees and commissions should be included in the Taxonomy at all since Taxonomy alignment is to be assessed based on prudential consolidation.

Recommendation 8: Platform 2.0 to advise which of these types of fees and commissions may be linked to the structuration and placement of Taxonomy aligned financial products and consequently should be maintained in the scope of the Fees& Commission KPI.

10. Loan servicing activities:

FINREP definition: 284 (g): fees from 'Loan servicing activities' shall include, on the income side, the fee and commission income generated by the institution providing loan servicing services and on the expense side, the fee and commission expense charged to the institution by loan service-providers;

Loan servicing refers to the administrative aspects of a loan from the time the proceeds are dispersed to the borrower until the loan is paid off. Loan servicing includes sending monthly payment statements, collecting monthly payments, maintaining records of payments and balances, collecting, and paying

taxes and insurance (and managing escrow funds), remitting funds to the note holder, and following up on any delinquencies.

Beyond the fact that these are services that do not influence capital flows, the Platform note that according to Annex V: “Credit institutions shall disclose the fees and commission income linked to services provided **other than** lending and asset management”. Loans servicing activities are clearly linked to lending and asset under management.

Recommendation 9: consider excluding loan servicing activities from the fees and commissions KPI since it should be excluded in principle and its lack of capacity to influence green capital flows.

11. Foreign exchange services and international transactions:

Foreign Exchange (FX) or “FX-like” Service means a retail service offering which allows FX End Users to obtain Exchange Service from a mandatory local calling area other than the mandatory local calling area where the FX End User is physically located. The activities relate to transaction services that credit institutions provide to the customers. There is no connection to reallocation of capital to the real economy, but rather cash exchange for cash in another currency. In addition, the underlying asset is unknown and can’t be traced.

Recommendation 10: consider excluding foreign exchange services and in from the fees and commission KPI considering its lack of capacity to influence green capital flows.

Appendix C: Verification and Assurance

C.1 Workshops on Verification and Assurance

On 18 May 2022, the Platform convey two workshops for its members and observers where six external experts from the auditing community were invited. The Platform thanks them for their valuable contribution and their insights.

The workshop was structured in three parts – what needs to be verified, by whom and how. The questions below were asked to steer the discussion.

Key questions on what needs to be verified:

- Should the verification on the information include both quantitative and qualitative information? Yes
- Should forward-looking information be part of the scope? Yes – list of what can be disclosed
- Should it be focused on the whole sustainability report or pieces of information/indicators?
- Which framework(s) should be used to produce the information? Shall the EU restrict the use to some frameworks that it would endorse?
- Is all information verifiable? By a unique independent third party?
- Do we think other criteria need to be verified by an independent third party? Could this be a recommendation for companies on a voluntary basis?
- Should the use of “equivalent information” for financial-product Taxonomy reporting under Articles 5 & 6 be verified or should we recommend its verification on a voluntary basis?

Key questions on who should verify the information:

- What prerequisites should a verifier fulfil?
- Independence: What are the independence requirements for verifiers? How are they fulfilled? How is independence controlled? By whom? Training: What are the requirements in terms of training for the verifiers' teams?
- Is accreditation needed?
- Responsibility: What is the verifiers' responsibility? How is it engaged? What are the possible sanctions in case of failure, notably on independence?
- What are the quality requirements / applicable frameworks? Is there a need for an oversight of the verifiers? By whom?
- What is the most efficient set up to limit the cost for companies?

Key questions on how it needs to be verified:

- What verification standard(s) should be applied on sustainable information (incl. Taxonomy)? (unique verification standard or at least a limited number of international standards generally used to ensure consistency / transparency / comparability / credibility)
- If there are multiple verifiers, how do they interact with each other to perform verifications on specific information and to provide assurance on the overall Taxonomy KPIs? Shouldn't the rules embedded into the European Act to limit local adjustments to the frameworks?
- How do we ensure consistent (aligned) verification methodology throughout the Taxonomy regulation as well as throughout the different delegated acts?
- Should the level of expected assurance be specified in the regulation? (depend on the work effort) - What transition period if any? How to deal with companies' processes not mature enough to allow for limited or reasonable assurance?
- Shall the assurance be publicly available?

- Shall a private reporting to the management / audit committee be requested? Should management / audit committee responsibility over sustainability information be defined?
- Should the result of a verification process be represented in a standardized format to enhance accessibility and comparability?

C.2 Taxonomy Existing DAs Establishing Technical Screening Criteria

This section summarises the specific assurance and verification requirements included in the DAs on Climate. It must be noted, however, that further verifications might be required to verify compliance with the EU regulations when those are referred as criteria to be met.

It must also be noted that the audit and verification requirements that are listed below as part of Substantial contribution to mitigation requirements, are equally required as DNSH to climate mitigation in the Substantial contribution to adaptation requirements.

The Audit and verification requirements in the Taxonomy Delegated Act containing the TSCs can be categorized in the following categories:

1. Environmental Impact Assessments

- They are part of generic DNSH criteria to *sustainable use and protection of water and marine resources*, and to *pollution prevention and control* in the case of the use and presence of chemicals.

2. Audit of SC to climate change mitigation criteria for forestry and environmental protection activities

- Forestry and environmental protection activities require that SC to climate change criteria **be audited within two years** of the start of the activity and every ten years thereafter, either by national competent authorities, or by an independent third party.

3. Independent third- party Assessment of Life Cycle GHG Emission Reductions

- For some energy activities, SC to climate change mitigation requires that quantified life cycle GHG emissions are **verified by an independent third party**. These are four activities in Energy involving production and co- generation of heat/cool.
- Some ICT activities (data processing and data driven solutions for GHG reductions) require **independent third-party periodical verification** of practices and GHG reductions
- For research activities, **independent third-party verification of life cycle GHG emission** is required in certain cases.

4. EPC Certificates and Buildings Certifications

- For building activities, SC to climate change mitigation requires the production of EPC certificates to assess the energy performance.
- DNSH criteria talks about a building survey being carried out by a 'competent specialist'. In addition, specific certification requirements apply to the DSNH criteria *to sustainable use and protection of water*.

5. All verification requests for Substantial Contribution are carried out externally, and two DNSH verification including the EIA (Appendix D) and 7.3- pollution prevention and control did not specify whether these verification requests should be carried out internally/externally.

In addition, **Environmental Impact Assessments** are part of generic DNSH criteria to generic criteria for DNSH to sustainable use and protection of water and marine resources and generic criteria for DNSH to pollution prevention and control regarding use and presence of chemicals (“An Environmental Impact Assessment (EIA) or screening (1) has been completed in accordance with Directive 2011/92/EU (2).Where an EIA has been carried out, the required mitigation and compensation measures for protecting the environment are implemented.”)

A more detailed analysis of the verification requirements for some activities:

C.3 Forestry Activities and Environmental Protection Activities (Climate Delegated Action - Sections 1 and 2)

The Technical Screening Criteria for Substantial contribution to climate change mitigation for all activities in this category 1 in the DA are subject to audit requirements, whether at the level of a forest sourcing area or a group of forests:

“4. Audit

*Within two years after the beginning of the activity and every 10 years thereafter, the compliance of the activity with the substantial contribution to climate change mitigation criteria and the DNSH criteria **are verified by** either of the following: (a) the relevant national competent authorities; (b) an independent third-party certifier, at the request of national authorities or the operator of the activity. In order to reduce costs, **audits** may be performed together with any forest certification, climate certification or other audit. The independent third-party certifier may not have any conflict of interest with the owner or the funder, and may not be involved in the development or operation of the activity.*

5.Group Assessment

The compliance with the criteria for substantial contribution to climate change mitigation and with DNSH criteria may be checked: (a) at the level of the forest sourcing area (12) as defined in Article 2, point (30), of Directive (EU) 2018/2001; (b) at the level of a group of holdings sufficiently homogeneous to evaluate the risk of the sustainability of the forest activity, provided that all those holdings have a durable relationship between them and participate in the activity and the group of those holdings remains the same for all subsequent audits.”

This audit requirement is therefore also part of the requirement for SC to adaptation, as part of the DNSH criteria to climate change mitigation.

C.4 Manufacturing Activities (Climate Delegated Action - Sections 3.6, 3.10, 3.13, 3.14, 3.17)

For manufacturing of other low carbon technologies (activity 3.6), chlorine (3.13), organic basic chemicals (3.14), quantified life cycle GHG emission savings need to be verified by an independent third party. For activity 3.10. Manufacture of hydrogen, “Quantified life-cycle GHG emission savings are verified in line with Article 30 of Directive (EU) 2018/2001 where applicable, or by an independent third party.” For activity 3.17. Manufacture of plastics in primary form, when the plastic in primary form is not fully manufactured by mechanical recycling of plastic waste, quantified life cycle GHG emissions need to be verified by an independent third party.

C.4.1 Energy Activities (Climate Delegated Action - Section 4.18, 4.19, 4.22 and 4.23)

These activities require that quantified life cycle GHG emissions are verified by an independent third party. These are *Cogeneration of heat/cool and power from geothermal energy, Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels, Production of heat/cool from geothermal energy and Production of heat/cool from renewable non-fossil gaseous and liquid fuels.*

C.4.2 Water and Waste (Climate Delegated Action - Section 5.11)

For activity 5.11. Transport of CO₂, “Appropriate leak detection systems are applied and a monitoring plan is in place, with the report verified by an independent third-party.”

These activities require that quantified life cycle GHG emissions are verified by an independent third party. These are *Cogeneration of heat/cool and power from geothermal energy, Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels, Production of heat/cool from geothermal energy and Production of heat/cool from renewable non-fossil gaseous and liquid fuels.*

C.5 Transport (Climate Delegated Action - Section 6)

Transport does not contain verification requirements.

C.6 Construction and Real Estate (Climate Delegated Action - Section 7)

The Substantial Contribution (SC) to mitigation for construction of new buildings (Activity 7.1) requires that “The energy performance is certified using an as built Energy Performance Certificate (EPC). The DNSH criteria to Sustainable use and protection of water and marine resources requires that “Where installed, except for installations in residential building units, the specified water use for the following water appliances are attested by product datasheets, a building certification or an existing product label in the Union, in accordance with the technical specifications laid down in Appendix E”.

For the renovation of existing buildings (Activity 7.2), the DNSH criteria to Sustainable use and protection of water and marine resources requires that “Where installed, except for installations in residential building units, the specified water use for the following water appliances are attested by product datasheets, a building certification or an existing product label in the Union, in accordance with the technical specifications laid down in Appendix E”.

For Activity 7.3, Installation, maintenance, and repair of energy efficiency equipment, the DNSH criteria to Pollution requires that “In case of addition of thermal insulation to an existing building envelope, a building survey is carried out in accordance with national law by a competent specialist with training in asbestos surveying.”

For Activity 7.7, Acquisition and Ownership of buildings, the Substantial Contribution criteria to climate change mitigation requires that “For buildings built before 31 December 2020, the building has at least an Energy Performance Certificate (EPC) class A. As an alternative, the building is within the top 15 % of the national or regional building stock expressed as operational Primary Energy Demand (PED) and demonstrated by adequate evidence, which at least compares the performance of the relevant asset to the performance of the national or regional stock built before 31 December 2020 and at least distinguishes between residential and non-residential buildings.”

C.7 Information and Communication Activities (Climate Delegated Action - Sections 8.1, 8.2)

Activity 8.1 Data processing, hosting, and related activities: The SC criteria to mitigation requires that “The activity has implemented all relevant practices listed as ‘expected practices’ in the most recent version of the European Code of Conduct on Data Centre Energy Efficiency (307), or in CEN-CENELEC document CLC TR50600-99-1 ‘Data centre facilities and infrastructures - Part 99-1: Recommended practices for energy management’ (308). The implementation of those practices is verified by an independent third-party and audited at least every three years.”

Activity 8.2 Data-driven solutions for GHG emissions reductions: The SC criteria to mitigation requires that “Where an alternative solution/technology is already available on the market, the ICT solution demonstrates substantial life cycle GHG emission savings compared to the best performing alternative solution/technology. Lifecycle GHG emissions and net emissions are calculated using Recommendation 2013/179/EU or, alternatively, using ETSI ES 203 199 (311), ISO 14067:2018 (312) or ISO 14064-2:2019 (313). Quantified life cycle GHG emission reductions are verified by an independent third party, which transparently assesses how the standard criteria, including those for critical review, have been followed when the value was derived.

C.8 Professional, Scientific and Technical Activities (Climate Delegated Action - Sections 9.1, 9.2)

Activity 9.1 Close to market research, development and innovation, and Activity 9.22 Research, development, and innovation for direct air capture of CO₂.

The SC to mitigation requires that “Where the researched, developed, or innovated technology, product or other solution is at TRL 6 or 7, life- cycle GHG emissions are evaluated in simplified form by the entity carrying out the research. The entity demonstrates one of the following, where applicable: (a) a patent not older than 10 years associated with the technology, product or other solution, where information on its GHG emission reduction potential has been provided; (b) a permit obtained from a competent authority for operating the demonstration site associated with the innovative technology, product or other solution for the duration of the demonstration project, where information on its GHG emission reduction potential has been provided. Where the researched, developed, or innovated technology, product or other solution is at TRL 8 or higher, life- cycle GHG emissions are calculated using Recommendation 2013/179/EU or, alternatively, using ISO 14067:2018 (316) or ISO 14064-1:2018 (317) and are verified by an independent third party.”

Taxonomy Complementary DA (Approved by the EC on March 9, 2022)

C.8.1 Summary of Verification and Assurance Requirements

Independent third-party verification of life-cycle emissions: this is required as the Substantial Contribution criteria for Climate Change Mitigation for the six activities covered in the CDA (4.26 pre-commercial stages of advanced technologies to produce energy from nuclear processes with minimal waste from the fuel cycle, 4.27. Construction and safe operation of new nuclear power plants, for the generation of electricity or heat, including for hydrogen production, using best-available technologies, 4.28 Electricity generation from nuclear energy in existing installations, 4.29. Electricity generation from fossil gaseous fuels , 4.30. High-efficiency co- generation of heat/cool and power from fossil gaseous fuels , 4.31. Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling)

Environmental Impact Assessments: this is required as part of the DNSH to biodiversity for activity 4.26, as part of the DSNH to circular economy and biodiversity for activities 4.27 and 4.28.

For activities 4.29, 4.30 and 4.31, detailed screening criteria are mentioned under 1(b). Compliance with the criteria referred to in point 1(b) is verified by an independent third party. The independent third-party verifier has the necessary resources and expertise to perform such verification. The independent third-party verifier does not have any conflict of interest with the owner or the funder, and is not involved in the development or operation of the activity. The independent third-party verifier carries out diligently the verification of compliance with the technical screening criteria. In particular, every year the independent third party publishes and transmits to the Commission a report:

- a) certifying the methodologies and calculations of the level of direct GHG emissions referred to in point 1(b)(i);
- b) where applicable, assessing whether annual direct GHG emissions of the activity are on a credible trajectory to comply with the average threshold over 20 years referred to in point 1(b)(i);
- c) assessing whether the activity is on a credible trajectory to comply with point 1(b)(v).

When undertaking the assessment referred to in point 1(b), the independent third-party verifier takes into account in particular the planned annual direct GHG emissions for each year of the trajectory, realised annual direct GHG emissions, planned and realised operating hours, and planned and realised use of renewable or low carbon gases.

See below related observations made by the Platform in its response to the Commission on the CDA.

For activities 4.27 and 4.28, there are specific requirements of notification and periodic reports by Member States to the Commission, under Euratom Treaty or Council legislation, with the Commission reviewing the report, raising issues, and giving opinions, as well as various obligations of Member States under Euratom and national legislation. See also comments below from the Platform.

C.8.2 Observations on Verification and Assurance Requirements in the CDA from the Platform Response to the Commission on the CDA of 21 January 2022

“The Platform notes the inconsistency, uncertainty, and lack of reassurance in verification arrangements in the TSCs. This derives from the fact that there is high uncertainty that performance foreseen in a long-term plan will be met in a timeframe that is relevant to the financing provided.”

“Verification could provide some reassurance to investors, but more clarity would be required on the exact scope, the requirements (expertise and know how) of the verifiers and on dealing with potential conflicts of interest; and finally on how verification (and reporting) would work for the criteria member-states ought to comply.”

“Even with stronger verification requirements, important questions are unanswered in the TSCs, including what happens when they are not met (and/or when criteria change in future). Further in the case of nuclear activities, some of the criteria are to be met by the host member-state and some by the undertaking performing the activity. Possible changes in government policy before performance criteria have been fulfilled may mean the criteria are never met, even though an activity or asset has already benefited from the Taxonomy aligned stamp. (Note: green sovereign bonds are excluded from financial undertakings ratios and can only be disclosed on a voluntary basis.)”

For activity 4.27, and 4.28, the Platform noted that “Broadening the current powers of the Commission over the approval of projects and verification of compliance with the legislation (beyond what already exists in art. 41 of the Euratom Treaty) could add an additional layer of complexity and checks to implementing the criteria,”

For activity 4.29, the Platform noted that “The provisions for an Independent third-party verification in the subparagraph of point 1.b) are criticized for a lack of clear requirements. Respondents underline that provisions under 1.b) are highly complex, related to longer time horizons of up to 20 years and would require the ability to

audit average emissions thresholds as well as blending commitments for renewable and low-carbon gaseous fuels. The lack of clarity on where the obligation for monitoring and verification would fall, whether responsible European or national authorities, as well as sector audit specialists raise concerns for many members.”

The Platform also noted, also for activity 4.29, that “For reporting and assessing Taxonomy-eligibility and alignment, the criteria of average emissions over 20 years in A.29 point 1.b.i) is not directly auditable and therefore not accessible for external data providers. “

C.8.3 Verification and Assurance Requirements Included in the CDA on Nuclear and Gas

- **Independent third-party verification of life-cycle emissions**: this is required as the Substantial Contribution criteria for Climate Change Mitigation for the six activities covered in the CDA

(4.26 pre-commercial stages of advanced technologies to produce energy from nuclear processes with minimal waste from the fuel cycle, 4.27. Construction and safe operation of new nuclear power plants, for the generation of electricity or heat, including for hydrogen production, using best-available technologies, 4.28 Electricity generation from nuclear energy in existing installations, 4.29. Electricity generation from fossil gaseous fuels, 4.30. High-efficiency co- generation of heat/cool and power from fossil gaseous fuels, 4.31. Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling)

- **Environmental Impact Assessments**: this is required as part of the DNSH to biodiversity for activity 4.26, as part of the DSNH to circular economy and biodiversity for activities 4.27 and 4.28.
- **The independent third-party verifier**: For activities 4.29, 4.30 and 4.31, detailed screening criteria are mentioned under 1(b). Compliance with the criteria referred to in point 1(b) is verified by an independent third party. The CDA requires independent third- parties to:
 - o Have the necessary resources and expertise to perform such verification.
 - o Not have any conflict of interest with the owner or the funder and is not involved in the development or operation of the activity.
 - o Carry out diligently the verification of compliance with the technical screening criteria.
 - o Publish and transmit to the EC a report: In particular, every year the independent third party publishes and transmits to the Commission a report:
 - (a) certifying the methodologies and the calculations of the level of direct GHG emissions referred to in point 1(b)(i);
 - (b) where applicable, assessing whether annual direct GHG emissions of the activity are on a credible trajectory to comply with the average threshold over 20 years referred to in point 1(b)(i);
 - (c) assessing whether the activity is on a credible trajectory to comply with point 1(b)(v).

When undertaking the assessment referred to in point 1(b), the independent third-party verifier takes into account in particular **the planned annual direct GHG emissions for each year of the trajectory, realised annual direct GHG emissions, planned and realised operating hours, and planned and realised use of renewable or low carbon gases.**

Appendix D: Benchmark Regulation Examples

Example calculation of a Climate Transition benchmark with a 2030 base year.

Year	Maximum GHG Intensity Compared to Reference Universe
	CTB
2030	70.00%
2031	65.10%
2032	60.54%
2033	56.30%
2034	52.36%
2035	48.70%
2036	45.29%
2037	42.12%
2038	39.17%
2039	36.43%
2040	33.88%
2041	31.51%
2042	29.30%
2043	27.25%
2044	25.34%
2045	23.57%
2046	21.92%
2047	20.38%
2048	18.96%
2049	17.63%
2050	16.40%

Example calculation of the 7% on average per annum reduction, geometrically calculated, for a 2023 Base Year and 31 December 2023 Base Date.

Calendar Year	Maximum GHG Intensity Compared to Reference Universe	
	CTB	PAB
2023	70.00%	50.00%
2024	65.10%	46.50%
2025	60.54%	43.25%
2026	56.30%	40.22%
2027	52.36%	37.40%
2028	48.70%	34.78%
2029	45.29%	32.35%
2030	42.12%	30.09%
2031	39.17%	27.98%
2032	36.43%	26.02%
2033	33.88%	24.20%
2034	31.51%	22.51%
2035	29.30%	20.93%
2036	27.25%	19.46%
2037	25.34%	18.10%
2038	23.57%	16.84%
2039	21.92%	15.66%
2040	20.38%	14.56%
2041	18.96%	13.54%
2042	17.63%	12.59%
2043	16.40%	11.71%
2044	15.25%	10.89%
2045	14.18%	10.13%
2046	13.19%	9.42%

Calendar Year	Maximum GHG Intensity Compared to Reference Universe	
	CTB	PAB
2047	12.27%	8.76%
2048	11.41%	8.15%
2049	10.61%	7.58%
2050	0%	0%

Appendix E: Case Study from a European DFI

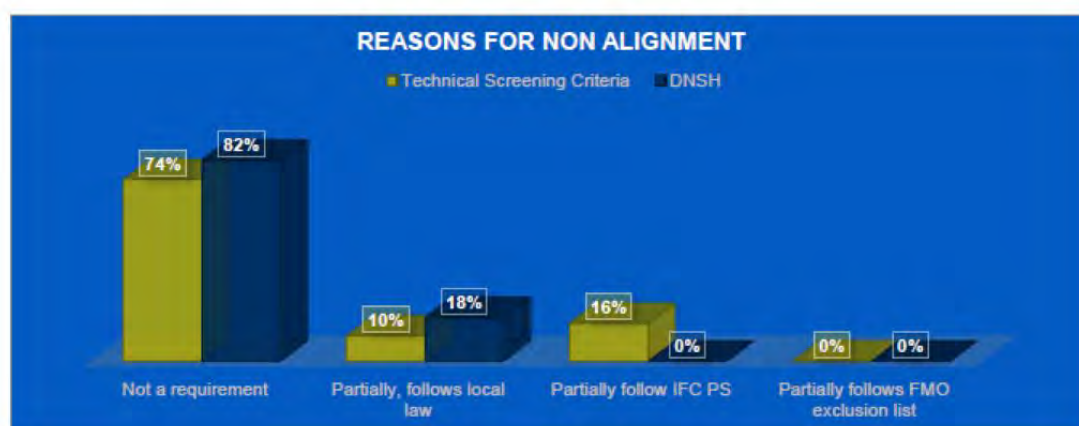
A European DFI conducted a Taxonomy Assessment of its project portfolios. The DFI encountered the following general challenges with respect to the application of the EU Taxonomy to emerging markets:

- Lack of Historical data
- Lack of Government structures/ systems – relating to DNSH
- References to EU legislation in EU Taxonomy (lack of local equivalents)

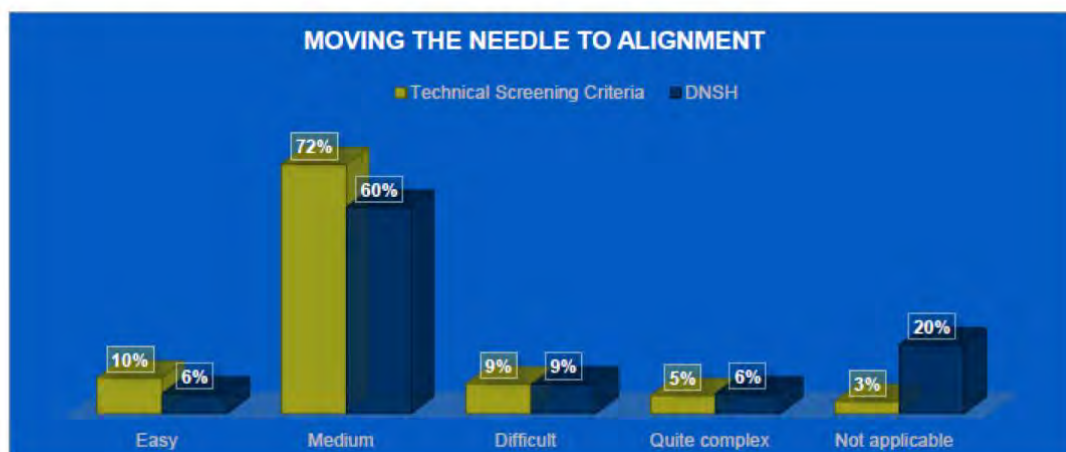
The following two examples on the assessment of the alignment of the DFI's project portfolios in the Afforestation and Energy sectors with the EU Taxonomy Climate Mitigation and Climate Adaptation provide an accurate and detailed picture of what the challenges are in practice.

E.1 First Example: Afforestation

EU TAXONOMY| Analysis on Afforestation



EU TAXONOMY| Analysis on Afforestation



Level of Difficulty	Examples of Criteria
Medium	<i>Within the 2 years after the beginning of the activity and every 10 years thereafter, the compliance of the activity with the SC to climate change mitigation and the DNCH criteria are verified by the following: either the relevant national competent authorities or an independent third-party certifier, at the request of national authorities or the operator of the activity.</i>
Difficult	<u>Difficulty is short term – having third party certified.</u> <i>Demonstrate net balance of GHG emissions and removals by the activity over a period of 30 years is lower than baseline. Baseline is at the start of the activity.</i> <u>Difficulty is getting data to establish the baseline if you have been operational for years.</u>
Quite complex	An EU legislation pertaining to illegal deforestation in EU country: “The management system associated with the activity in place complies with the due diligence obligation and legality requirements laid down in Regulation (EU) No 995/2010 of the European Parliament and of the Council.” EU directive on pesticides very different from a national directive: “Accordance with Directive 2009/128/EC of the European Parliament and of the Council (Directive 2009/128/EC of the European Parliament and of the Council of 21 October 2009 establishing a framework for Community action to achieve the sustainable use of pesticides (OJ L 309, 24.1..2009, p.71)).” <u>Difficulty is associated with an activity within the EU that is guided by EU law.</u>

E.2 Second example: CLIMATE

Conclusions from the European DFI's Taxonomy Assessment of Energy portfolio versus Taxonomy Climate Mitigation and Climate Adaptation Objectives:

E.2.1 General Findings:

References to EU legislation is one of the major blocks in implementing criteria for our markets.

In many cases, meeting screening criteria and/or DNSH will be resource intensive to align as they are in addition to current sector-wide practice. These additional resources will be required by both the lender and the client.

There are gaps across the sector in meeting DNSH criteria regarding climate risk screenings and assessments at a project level. However much of this gap will be closed soon by performing climate risk assessments required by the ECB Guideline on Climate and Environmental Risks. There will still be gaps however in the DNSH requirements to implement adaptive solutions, which can potentially pose material opportunity costs for the bank and costs to clients.

There are also gaps identified with meeting circular economy DNSH requirements. In many cases, recyclable equipment and processes are not yet available in the markets in which we operate. However, the DNSH requirement refers to "where feasible", therefore this is not seen as a block to alignment.

E.2.2 Sectorial Analysis

E.2.2.1 Climate Mitigation- Hydro Gap Analysis

The Taxonomy criteria for climate mitigation related to hydro activities are mostly not aligned with current practices and requirements. 33% of DNSH non-alignments are judged almost impossible to address, 50% are difficult, and 17% are judged easy. For the combination of SC and DNSH, 29% of non-alignments are judged almost impossible to address, 43% are difficult and 29% are judged easy. Most common causes for the non-alignment are the need for additional resources from the lender and the client and the references to EU legislation, or a combination of the two.

E.2.2.2 Climate Mitigation - Other Renewable Energy Gap Analysis

Other energy activities include ocean power, biofuels/bioenergy, transmission & distribution, storage. Only the DNSH criteria have been analysed at this point. The Taxonomy criteria for climate mitigation related to other energy activities are largely misaligned with current practices and requirements. 14% of DNSH and 22% of DNSH+SC non-alignments are judged almost impossible to address. 50% of DNSH non-alignments and 39% of DNSH+SC non-alignments are difficult, 14% resp. 22% medium, and 21% resp. 17% are judged to be easy. Most common causes for non-alignment are the need for additional resources from the lender and the client and the references to EU legislation, or a combination of the two.

E.2.2.3 Climate Adaptation - Solar Gap Analysis

The Taxonomy criteria for climate adaptation related to solar activities financed (PV and CSP without thermal storage) are largely not aligned with current practices and requirements. Addressing the only DNSH non-alignment is judged easy. For the combination of SC and DNSH, 33% are judged difficult, 33% medium and 33% easy; none is judged nearly impossible to address. Most common cause is the need for additional resources from the lender and the client.

E.2.2.4 Climate Adaptation - Off-shore Wind Gap Analysis

The Taxonomy criteria for climate adaptation related to wind activities are largely not aligned with current practices and requirements. 67% of DNSH non-alignments are judged difficult and 33% are judged easy; no criteria are judged nearly impossible to address. For the combination of SC and DNSH, 60% are judged difficult, 20% medium and 20% easy; none is judged nearly impossible to address. Most common causes for non-alignment are the need for additional resources from the lender and the client and the references to EU legislation, or a combination of the two.

Appendix F: SFDR PAI v DNSH v BMR Assessment

The following table summarises the ESG disclosure requirements for the climate benchmarks (column “PAB/CTB”) and SFDR product disclosures (column “SFDR RTS”). PAB/CTB ESG disclosures are outlined in the regulation (EU) 2020/1816 Annex II. SFDR RTS indicators are summarised based on the Final Report on draft Regulatory Technical Standards published in February 2021, Annex I Tables 1,2 and 3.

Highlighted text are the disclosures proposed to be included in the benchmark sustainability reporting. The brackets next to each disclosure contain information on the type of asset class, for benchmarks, and the type of investments, for SFDR, the disclosure applies to, as well as the information of whether the disclosure is mandatory or voluntary/additional.

Indicator	PAB/CTB	SFDR RTS
<i>Combined ESG</i>		
ESG	- Weighted average ESG rating of the benchmark. (All; Voluntary) - Overall ESG rating of top ten benchmark constituents by weighting in the benchmark. (All; Voluntary) - The percentage of underlying fund management companies signed up to international standards. (Sovereign debt; Mandatory) - Percentage of green bonds in the benchmark portfolio. (Fixed income, Sovereign debt; Mandatory)	- Share of bonds not certified as green under a future EU act setting up an EU Green Bond Standard. (Sovereigns; Additional) - Share of securities not certified as green under a future EU legal act setting up an EU Green Bond Standard. (Investee; Additional)
<i>Environmental</i>		
General Environmental	- Weighted average environmental rating of the benchmark. (Equity, Fixed income, Sovereign debt; Voluntary) - Exposure of the benchmark portfolio to activities included in the environmental goods and services sector, as defined in Article 2, point (5) of Regulation (EU) No 691/2011 of the European Parliament and of the Council. (Equity; Mandatory)	NA
Energy Consumption	- Energy consumption intensity per high impact climate sector. (Voluntary) - Energy consumption intensity. (Voluntary) - Exposure to energy-inefficient real estate assets. (Voluntary)	- Energy consumption intensity per high impact climate sector. (Investee; Mandatory) - Energy consumption intensity. (Real estate; Additional) - Exposure to energy-inefficient real estate assets. (Real estate; Mandatory)

Indicator	PAB/CTB	SFDR RTS
Exposure to Climate-Related Opportunities	Degree of exposure of the portfolio to climate-related opportunities, measuring investment opportunities related to climate change, innovating new investment solutions, as percentage of total weight in portfolio. (Other; Voluntary)	NA
Exposure to Physical Climate-Related Risks	- Exposure of the benchmark portfolio (or degree of exposure of the underlying commodities) to climate-related physical risks, measuring the effects of extreme weather events on companies' operations and production or on the different stages of the supply chain (based on issuer exposure) or (low, moderate, or high). (Equity, Fixed income, Sovereign debt, Commodities; Voluntary) - The methodology used to calculate the climate-related physical risks (Commodities; Voluntary). - Top ten and bottom ten constituents by exposure to climate-related physical risks. (Sovereign debt; Voluntary).	NA
Exposure to Transition Related Risks	Degree of exposure of the underlying commodities to climate-transition risks, measuring the financial impacts resulting from the effects of the implementation of a low-carbon strategies (low, moderate, or high). (Commodities; Mandatory)	NA
GHG Emissions	- Percentage of GHG emissions reported versus estimated. (Equity, Fixed income, Sovereign debt; Mandatory) - GHG emissions (Investee regardless of listing on equity markets)	- GHG emissions (Investee; Mandatory) - GHG emissions (Real estate; Additional) - Investments in companies without carbon emission reduction initiatives (Investee; Additional) - Emissions of ozone depletion substances (Investee; Additional) - Carbon footprint (Investee; Mandatory)

Indicator	PAB/CTB	SFDR RTS
GHG Intensity	GHG intensity of the benchmark. (Equity, Fixed income, Sovereign debt; Mandatory)	- GHG intensity of investee companies. (Investee; Mandatory) - GHG intensity. (Sovereigns; Mandatory)
Heavy/Fossil Fuel Sector Exposure	- Degree of exposure of the portfolio to the sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006 as percentage of total weight in the portfolio. (Equity, Fixed income, Other; Mandatory) - Exposure of the benchmark portfolio to companies the activities of which fall under Divisions 05 to 09, 19 and 20 of Annex I to Regulation (EC) No 1893/2006. (Equity, Fixed income; Mandatory)	- Exposure to companies active in the fossil fuel sector. (Investee; Mandatory) - Exposure to fossil fuels through real estate assets. (Real estate; Mandatory)²
Renewable Energy Consumption and Production	Exposure of the benchmark portfolio to renewable energy as measured by capital expenditures (Capex) in those activities (as a share of total Capex by energy companies included in the portfolio). (Equity, Fixed income; Voluntary)	- Share of non-renewable energy consumption and production. (Investee; Mandatory) - Breakdown of energy consumption by type of non-renewable sources of energy. (Investee; Additional)
Biodiversity	NA	- Activities negatively affecting biodiversity- sensitive areas. (Investee; Mandatory) - Natural species and protected areas. (Investee; Additional)
Land Use	NA	- Land artificialisation. (Real estate; Additional) - Land degradation, desertification, soil sealing. (Investee; Additional) - Investments in companies without sustainable land/agriculture practices. (Investee; Additional) - Deforestation. (Investee; Additional)
Pollution	NA	- Emissions of inorganic pollutants. (Investee; Additional) - Emissions of air pollutants. (Investee; Additional)

² We note that SFDR may want to consider defining fossil fuel sector exposure in more detail.

Indicator	PAB/CTB	SFDR RTS
Raw Materials	NA	Raw materials consumption for new construction and major renovations. (Real estate; Additional)
Hazardous Waste	NA	- Hazardous waste ratio. (Investee; Mandatory) - Investments in companies producing chemicals. (Investee; Additional)
Other Waste	NA	- Waste production in operations. (Real estate; Additional) - Non-recycled waste ratio. (Investee; Additional)
Water	NA	- Emissions to water. (Investee; Mandatory) - Water usage and recycling. (Investee; Additional) - Investments in companies without water management policies. (Investee; Additional) - Exposure to areas of high water stress. (Investee; Additional) - Investments in companies without sustainable oceans/seas practices. (Investee; Additional)
Social		
General Social	- Weighted average social rating of the benchmark (Equity, Fixed income, Sovereign debt, Other; Voluntary). - Degree of exposure of the underlying commodities to social risks (low, moderate, or high). (Commodities; Mandatory)	Investee countries subject to social violations. (Sovereigns; Mandatory)

Indicator	PAB/CTB	SFDR RTS
Controversial Weapons	- Weighted average percentage of benchmark constituents in the controversial weapons sector. (Equity, Fixed income, Other; Mandatory) - International treaties and conventions, United Nations principles or, where applicable, national law used in order to determine what constitutes a 'controversial weapon'. (Equity, Fixed income, Other; Mandatory)	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons). (Investee; Mandatory)
Diversity	Incidents of discrimination (Voluntary)	Incidents of discrimination. (Investee; Additional)
Human Rights	- Average human rights performance of the issuers (including a quantitative indicator and the methodology used to calculate it). (Sovereign debt; Mandatory) - Average freedom of expression score measuring the extent to which political and civil society organizations can operate freely (including a quantitative indicator and the methodology used to calculate it). (Sovereign debt; Mandatory)	- Lack of a human rights policy. (Investee; Additional) - Lack of due diligence. (Investee; Additional) - Lack of processes and measures for preventing trafficking in human beings. (Investee; Additional) - Operations and suppliers at significant risk of incidents of child labour. (Investee; Additional) - Operations and suppliers at significant risk of incidents of forced or compulsory labour. (Investee; Additional) - Number of identified cases of severe human rights issues and incidents. (Investee; Additional) - Average freedom of expression score. (Sovereigns; Additional) - Average human rights performance. (Sovereigns; Additional)
ILO Convention	Exposure of the benchmark portfolio to companies without due diligence policies on issues addressed by the fundamental International Labour Organization Conventions 1 to 8. (Equity, Fixed income; Mandatory)	NA
Income Inequality	Average income inequality score, measuring the distribution of income and economic inequality among the participants in a particular economy (including a quantitative indicator and the methodology used to calculate it). (Sovereign debt; Mandatory)	Average income inequality score. (Sovereigns; Additional)
Social Violations	Number of benchmark constituents subject to social violations (absolute	Violations of UN Global Compact principles and OECD Guidelines

Indicator	PAB/CTB	SFDR RTS
	number and relative divided by all benchmark constituents), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law. (Equity, Fixed income, Sovereign debt; Mandatory)	for Multinational Enterprises. (Investee; Mandatory) Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises. (Investee; Mandatory)
Tobacco	Weighted average percentage of benchmark constituents in the tobacco sector. (Equity, Fixed income, Other; Mandatory)	NA
Governance		
General Governance	- Weighted average governance rating of the benchmark. (Equity, Fixed income, Government debt, Other; Voluntary) - Degree of exposure of the underlying commodities to governance risks (low, moderate or high). (Commodities; Mandatory)	NA
Board Diversity	- Weighted average ratio of female to male board members. (Equity, Fixed income; Mandatory) - Weighted average percentage of female board members. (Equity; Mandatory)	Board gender diversity. (Investee; Mandatory)
Board Independence	Weighted average percentage of board members who are independent. (Equity; Mandatory)	NA
Corruption and Bribery	- Numbers of convictions and amount of fines for violations of anti-corruption and anti-bribery laws. (Equity, Fixed income; Mandatory) - Average corruption score measuring the perceived level of public sector corruption (including a quantitative indicator and the methodology used to calculate it). (Sovereign debt; Mandatory)	- Lack of anti-corruption and anti-bribery policies. (Investee; Additional) - Cases of insufficient action taken to address breaches of standards of anti-corruption and anti-bribery. (Investee; Additional) - Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws. (Investee; Additional) - Average corruption score. (Sovereigns; Additional)
CEO Compensation	Excessive CEO pay ratio. (Voluntary)	Excessive CEO pay ratio. (Investee; Additional)
Executive Diversity	Weighted average ratio of female to male executive team members. (Voluntary)	NA

Indicator	PAB/CTB	SFDR RTS
Gender Pay Gap	Weighted average percentage of female executive team board members. (Voluntary)	
	Weighted average gender pay gap. (Equity, Fixed income; Mandatory)	Unadjusted gender pay gap. (Investee; Mandatory)
Policies	Percentage of underlying funds with stewardship policies in place, including measures for the planning and management of resources. (Other; Mandatory)	- Lack of grievance/complaints handling mechanism related to employee matters. (Investee; Additional) - Insufficient whistle-blower protection. (Investee; Additional)
Political Stability and Rule of Law	- Average political stability score, measuring the likelihood that the current regime will be overthrown by the use of force (including a quantitative indicator and the methodology used to calculate it). (Sovereign debt; Mandatory) - Average rule of law score, based on the absence of corruption, respect for fundamental rights, and the state of civil and criminal justice (including a quantitative indicator and the methodology used to calculate it). (Sovereign debt, Commodities; Mandatory)	- Average political stability score. (Sovereigns; Additional) - Average rule of law score. (Sovereigns; Additional)
Tax	NA	Non-cooperative tax jurisdictions. (Sovereigns; Additional)
Work Safety	Weighted average ratio of accidents, injuries, fatalities. (Equity, Fixed Income; Mandatory)	- Investments in companies without workplace accident prevention policies. (Investee; Additional) - Rate of accidents. (Investee; Additional) - Number of days lost to injuries, accidents, fatalities, or illness. (Investee; Additional) - Lack of a supplier code of conduct. (Investee; Additional)

Appendix G: Simplified Disclosure Proposal

Amendments to Article 8 and 9 SFDR templates and proposal for a simplified version for retail investors

Final Report on draft Regulatory Technical Standards with regard to the content, methodologies, and presentation of disclosures in Annex II

Template Art. 8 - Introduction	
Include explanation of - Sustainable investment - Taxonomy - Principal Adverse Impact	Does this financial product have a sustainable investment objective? <i>[tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]</i> ☐ Yes ☒ No, but it promotes ☐ Environmental characteristics ☐ Social characteristics ☐ Environmental and social characteristics ☐ and it will make a minimum share of investments in economic activities that qualify as environmentally sustainable under the Taxonomy: y% ☐ but will not have additional environmental or social commitments. ☐ and it will make a minimum share of others sustainable investments: x% ☐ and it will consider principal adverse impacts on sustainability factors

Template Art. 9 - Introduction

Include explanation of

- Sustainable investment
- Taxonomy
- Principal Adverse Impact

Does this financial product have a sustainable investment objective? *[tick and fill in as relevant, the percentage figure represents the minimum commitment to sustainable investments]*

☒ **Yes**

☐ **No, but it promotes environmental and/or social characteristics**

☐ and it will make a **minimum share of investments in economic activities** that qualify as environmentally **sustainable under the Taxonomy**: y%

☐ but will **not have additional environmental or social commitments**.

☐ and it will make a minimum share of others **sustainable investments**: x%

☐ and it will **consider principal adverse impacts** on sustainability factors

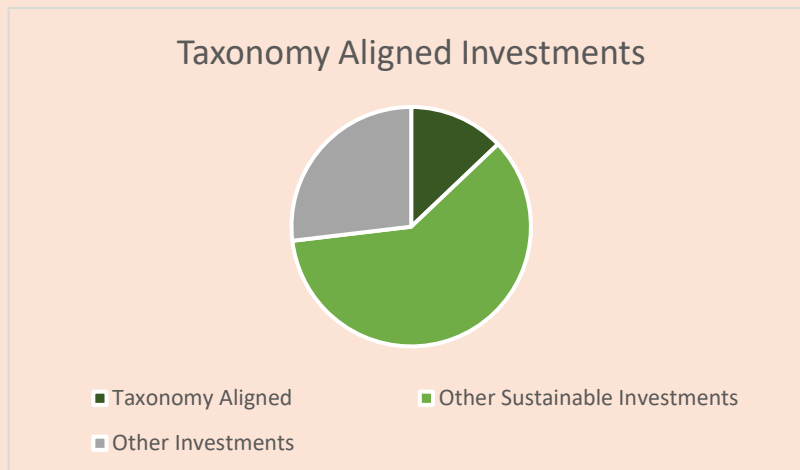
This simplification of the introductory statement allows:

- alignment with PRIIPs disclosure (see ESA proposal, p. 84); this could even optically be the same in order to allow recognition
- direct link to MiFID / IDD pillars
- disclosure of one sustainable investment share (without distinction between environmental and social from the outset).

Template Art. 8 – Taxonomy Graph

Include description of Taxonomy eligibility compared to alignment

The graph below shows in green the minimum percentage of investments that are aligned with the Taxonomy.



*** Sustainable investments and other investments can also comprise Taxonomy-eligible investments.**

- The distinction between portfolios with or without sovereigns can provide a helpful overview in the reporting template. In the pre-contractual document, it can only be provided for those portfolios which have a minimum rate of sovereign investments. Even then it would need to take into account potential market changes between the sovereign and the non-sovereign part of the portfolio. We hence suggest only including the overall portfolio graph in the pre-contractual disclosure.
- If pre-contractually, only commitments (and not current shares) are shown, the Taxonomy eligibility should at the most only be explained. The Platform does not consider that a commitment to Taxonomy eligibility would be practical or even desirable. In the reporting, however, Taxonomy-eligibility provides a valuable understanding of how many parts of the portfolio could become Taxonomy-aligned. Taxonomy eligibility and alignment should be a mandatory reporting metrics for all Article 8 and 9 products. FMPs should report % Taxonomy alignment and % non-eligible, % of eligible and also % of sustainable through another indicator. Otherwise, there is no clear way for an investor to see what portion of Taxonomy eligible activities are deemed to be “sustainable investments” from the investment manager but are not demonstrating alignment to the Taxonomy.
- The Template should also show provide the sequence of Taxonomy alignment as the highest standard of sustainability, sustainable investment as the broader concept of which Taxonomy-alignment is a subsection by showing “other sustainable investments.”