



# **A USER GUIDE TO NAVIGATE THE EU TAXONOMY FOR SUSTAINABLE ACTIVITIES**

June 2023

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# Glossary

<b>Best Available Techniques</b>	technology approved by legislators or regulators (EU in this case) for meeting output standards for a particular process
<b>Biodiversity</b>	the variability among living organisms arising from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part and includes diversity within species, between species and of ecosystems <sup>1</sup>
<b>Circular economy</b>	an economic system whereby the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy <sup>1</sup>
<b>Climate change adaptation</b>	process of adjustment to actual and expected climate change and its impacts <sup>1</sup>
<b>Climate(-related) hazards</b>	climate-related physical events, trends or their physical impacts potentially harming people, nature, cultural heritage, assets or other economic activities <sup>2</sup>
<b>Climate (change) impact</b>	“effects on natural and human systems of extreme weather and climate events and of climate change” <sup>3</sup>
<b>Climate change mitigation</b>	process of holding the increase in the global average temperature to well below 2 °C and pursuing efforts to limit it to 1,5 °C above pre-industrial levels, as laid down in the Paris Agreement <sup>1</sup>
<b>Climate (change) risk</b>	“potential impact of climate change on societies, economies and the environment” <sup>1</sup>
<b>Do No Significant Harm</b>	A level of environmental performance ensuring that an economic activity does not undermine environmental objectives from being reached, i.e., it has no significant negative impact on them. For each activity, technical screening criteria are defined to ensure compliance with the do no significant harm principle
<b>Ecosystems</b>	dynamic complex of plant, animal, and micro-organism communities and their non-living environment interacting as a functional unit <sup>1</sup>
<b>Enabling activities</b>	economic activities that directly enable other activities to make a substantial contribution to one or more of the environmental objectives, provided that such economic activities: (a) do not lead to a lock-in of assets that undermine long-term environmental goals, considering the economic lifetime of those assets; and (b) have a substantial positive environmental impact, on the basis of life-cycle considerations <sup>4</sup> . For example,

<sup>1</sup> [EU Taxonomy Regulation](#)

<sup>2</sup> adapted from EN ISO 14091: Adaptation to climate change – Guidelines on vulnerability, impacts and risk assessment

<sup>3</sup> EN ISO 14091: Adaptation to climate change – Guidelines on vulnerability, impacts and risk assessment

	the manufacturing of renewable energy technologies or installation of energy efficiency equipment in buildings
<b>Greenwashing</b>	sustainability claims that are exaggerated or not substantiated <sup>4</sup>
<b>Minimum safeguards</b>	procedures implemented by a company that is carrying out an economic activity to ensure the alignment with the <a href="#">OECD Guidelines for Multinational Enterprises</a> and the <a href="#">UN Guiding Principles on Business and Human Rights</a> .
<b>Platform on Sustainable Finance (PSF)</b>	the Platform is an advisory body subject to the European Commission's horizontal rules for expert groups. Article 20 of the Taxonomy Regulation defines its role, composition and advisory tasks. The main purpose of the Platform is to advise the Commission on several tasks and topics related to further developing the EU Taxonomy and to support the Commission in the technical preparation of delegated acts, in order to support the implementation of the EU Taxonomy
<b>Pollution</b>	pollution means (a) the direct or indirect introduction of pollutants into air, water or land as a result of human activity; (b) in the context of the marine environment, pollution is defined in point 8 of Article 3 of <a href="#">Directive 2008/56/EC</a> ; (c) in the context of the water environment, pollution as defined in point 33 of Article 2 of <a href="#">Directive 2000/60/EC</a> <sup>5</sup>
<b>Transitional activities</b>	economic activities which are not low-carbon, and for which there is no technologically and economically feasible low-carbon alternative, can in some cases also contribute substantially to climate change mitigation. These "transitional" activities can only be included as Taxonomy-aligned activities where they support the transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1,5C above pre-industrial levels. The screening criteria are set for these activities to ensure they must (a) have greenhouse gas emission levels that correspond to the best performance in the sector or industry; (b) not hamper the development and deployment of low-carbon alternatives; and (c) not lead to a lock-in of carbon-intensive assets, considering the economic lifetime of those assets <sup>4</sup> . For example, best-in-class cement manufacturing <sup>6</sup>
<b>Vulnerability</b>	propensity or predisposition to be adversely affected, including by climate change effects <sup>7</sup>

<sup>4</sup> In May 2022, the Commission asked the European Supervisory Authorities (ESAs) for input on several aspects related to greenwashing throughout the investment chain. In particular, the Commission asked the ESAs to look at the extent of greenwashing in the financial market as well as the implementation, supervision and enforcement of existing sustainable finance policies intended to prevent greenwashing. The ESAs will publish their progress report before the end of this year and will provide their final input in 2024.

<sup>5</sup> [EU Taxonomy Regulation](#)

<sup>6</sup> [EU Taxonomy Regulation](#)

<sup>7</sup> EN ISO 14090:2019

## The EU Taxonomy User Guide

The objective of this User Guide is to support organisations subject to the EU Taxonomy Regulation in **understanding and addressing the main challenges and benefits related to its implementation**.

It is designed as a practical reference, focussing on key implementation steps and specific illustrative “use cases” to support organisations tackling expected challenges and potential benefits.

The User Guide is aimed at all Users of the Taxonomy whether they are users through legal requirement, or through voluntary use. This can include companies, investors, asset owners, fund managers and bond issuers. However, the User Guide primarily targets **large and/or listed entities that are or will in the near future be subject to EU requirements related to sustainability reporting**<sup>8</sup>. This includes large companies, large banks, and large insurance companies operating in the EU, as well as companies with securities listed on EU regulated markets (with the exception of listed micro-enterprises). Overall, across the EU, around 50,000 large or listed entities are expected to fall under this mandatory reporting requirement. Nevertheless, this guide also includes several key learning points for non-listed Small and Medium-sized Enterprises (SMEs) and non-EU companies.

The Guide is structured around three sections:

A section on “context”, including relevant policy developments and an introduction of the EU Taxonomy;

A section on “how to navigate the EU Taxonomy”, including an overview of the key implementation steps and the definition of practical Use Cases covering main challenges and potential benefits; and,

A final section on “conclusions”, including key takeaways, links to other reporting initiatives, and expected further developments.

### **Box 1 Disclaimer: EU Taxonomy and related policies are in continuous development**

The EU Taxonomy is a living classification to which activities will be added over time. This User Guide will be updated when deemed relevant, but readers are encouraged to check latest developments on webpages dedicated to the [EU Taxonomy](#) and the [Platform on Sustainable Finance](#).

The reporting and disclosure requirements for corporates outlined in this Guide are based on the [Commission Delegated Regulation \(EU\) 2021/2178](#) supplementing Article 8 of the Taxonomy Regulation, while the reporting scope for corporates is determined by the agreed text of the Corporate Sustainability Reporting Directive (CSRD), which entered into force and replaced the Non-Financial Reporting Directive (NFRD) on 5 January 2023. The relevant differences between the NFRD and the CSRD are specified in the next section.

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<sup>8</sup> The EU requirements related to non-financial reporting were first set out in the Non-Financial Reporting Directive (NFRD), which was replaced by the Corporate Sustainability Reporting Directive (CSRD) that entered into force by January 2023.

## Context

### 2.1 How does the EU Taxonomy fit within the wider EU policy landscape?

In December 2019, the European Commission adopted its new growth strategy, the “[European Green Deal](#)”. The strategy builds on a set of key actions that will help the EU become a climate-neutral continent by 2050, make its society more resilient to the impacts of climate change, boost the efficient use of resources through a clean and circular economy, restore biodiversity and cut pollution. Since the adoption of the European Green Deal, the EU has taken several steps to implement these actions, including setting the objective of becoming a **climate-neutral and resilient continent by 2050** into [law](#).

Sustainable finance has a key role to play in delivering on the policy objectives under the European Green Deal. As demonstrated by the 2018 [Action Plan on Sustainable Finance](#), the financial sector can support the reorientation of private investments towards more sustainable technologies and businesses and finance growth in a sustainable manner over the long-term. To achieve this, the Action Plan noted that “a common language that investors can use when investing in projects and economic activities that have a substantial positive impact on the climate and the environment” is needed. The [EU Taxonomy Regulation](#) adopted in July 2020 aims to establish such a language by translating the EU’s climate and environmental objectives into a classification system for environmentally sustainable economic activities making a substantial contribution to those objectives.

The EU Taxonomy aims to accelerate financial flows that address the climate and environment challenges the EU is facing. It is underpinned by science and by international and EU policy, such as the European Green Deal and the Paris Agreement. It is also closely linked to other EU policies related to non-financial disclosure. First, it complements the EU’s [Non-Financial Reporting Directive](#) (NFRD) or Corporate Sustainability Reporting Directive (CSRD) as companies that fall under the scope of the NFRD (or now CSRD)<sup>9</sup> have a **mandatory obligation** to disclose alignment of their activities or investments with the criteria set out in the EU Taxonomy. Other companies may decide to disclose this information on a **voluntary basis** for the purpose of getting market access to sustainable financing or for other business-related reasons.

The NFRD was replaced by the [Corporate Sustainability Reporting Directive](#) (CSRD) in January 2023, with its updated scope and reporting requirements to be phased in between 2023 and 2028. The CSRD enlarges the scope of companies that will need to publish sustainability information to all large companies and all companies with securities listed on EU regulated markets (with the exception of micro companies). This means that the number of entities falling under the sustainability reporting requirements will be extended from 11.700 to around 50.000. The CSRD also includes a provision to mandate the European Financial Reporting Advisory Group (EFRAG) to develop detailed and comprehensive sustainability reporting standards that will be adopted by the Commission as Delegated Acts. The first set of reporting standards is in development and is planned to be adopted by mid-2023. Additional details on the expected implications of the CSRD on the Taxonomy’s disclosure requirements are included in the next chapter.

Second, the EU Taxonomy also interacts with the EU’s [Sustainable Finance Disclosure Regulation](#) (SFDR). Articles 5 and 6 of the Taxonomy require all financial products falling under the Articles 8 and 9 of the SFDR to disclose the proportion of their underlying investments that is aligned with the Taxonomy. Financial products disclosing under Article 8 of SFDR are products that promote environmental and/or social characteristics. Financial products disclosing under Article 9 of SFDR are products that specifically have sustainable investment as their objective.

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<sup>9</sup> The Non-Financial Reporting Directive (NFRD) covered companies (including partnerships) that (i) have more than 500 employees (on average) and (ii) a balance sheet total of EUR 20 million or a net turnover of EUR 40 million in a financial year (i.e. “large companies” if both conditions are met), and (iii) are EU Public Interest Entities (PIE), i.e. a traded company on a regulated market (i.e. a “listed company”), a banking company, an authorised insurance company or a company carrying out an insurance market activity. The Corporate Sustainability Reporting Directive (CSRD) extends this scope to all large companies (even if un-listed) and all listed SMEs (except micro-enterprises). The CSRD also applies to non-EU companies with activities in the EU above a certain threshold, but Taxonomy rules will not apply to these companies.

Finally, the EU Taxonomy will facilitate the development of EU-wide standards for environmentally sustainable financial products, such as the [European Green Bond Standard](#), which makes use of the Taxonomy Regulation to determine what expenditure should be considered “green”.

### **Box 2 The International Platform on Sustainable Finance and the Common Ground Taxonomy**

The [International Platform on Sustainable Finance](#) (IPSF) was launched in October 2019 with the aim of opening a forum of dialogue and exchange between international policymakers in the field of sustainable finance. It is made up of 19 jurisdictions (including the EU), representing 50% of world population, 55% of global GDP and 55% of global greenhouse gas emissions, to share and promote best practices, compare and strive to align their sustainable finance approaches.

The IPSF focused, among others, on sustainable finance taxonomy with the objective of comparing objectives, metrics and performance criteria and identify common grounds. In November 2021, it released its [first Common Ground Taxonomy Report](#) which is the result of an in-depth comparison of the EU and Chinese taxonomies, covering the climate change mitigation objective and establishing a solid methodology to compare taxonomies.

The Common Ground Taxonomy exercise, which was [updated in June 2022](#) and will continue to be key within the IPSF, is meant to provide more clarity and transparency about the commonalities and differences between taxonomy approaches and eventually contribute to lowering the trans-boundary cost of green investments and scaling up the mobilisation of green capital internationally.

The ultimate objective is to improve comparability and interoperability of sustainable finance approaches, also in line with the recommendations of the [G20 Sustainable Finance Working Group](#).

## **2.2 What is the EU Taxonomy for sustainable activities?**

The EU Taxonomy is a robust, science-based transparency tool to help companies and investors make sustainable investment decisions. It does not constitute a mandatory list for investors to invest in; nor does it set mandatory requirements on environmental performance for companies or for financial products. Instead, it provides a common understanding of economic activities that make a substantial contribution to the achievement of the EU's climate and environmental goals, by providing consistent and objective criteria.

The EU Taxonomy is expected to achieve multiple objectives such as:

- help scale up investments in projects that make a substantial contribution to at least one of the six environmental objectives of the EU Taxonomy and therefore accelerate the implementation of the European Green Deal;
- protect investors from “greenwashing”;
- help companies to plan and finance their green transition;
- help mitigate market fragmentation and information asymmetry, by harmonising what is classed by investors as green; and,
- help shift investments to where they are most needed to meet the EU's climate and environmental ambitions.

According to Article 3 of the Taxonomy Regulation, there are four conditions that an economic activity must meet to be recognised as environmentally sustainable (“Taxonomy-aligned”):



1. making a substantial contribution to at least one environmental objective<sup>10</sup>;
2. doing no significant harm to any of the other five environmental objectives;
3. complying with minimum safeguards; and,
4. complying with the technical screening criteria.

In addition to economic activities which make a direct substantial contribution to the six environmental objectives through their own performance, the Taxonomy recognizes another specific subtype of environmentally sustainable economic activities that can make a substantial contribution to the EU's climate and environmental goals. This subset describes the **"enabling" activities**. These are activities which can help contribute substantially to one or more of the EU environmental objectives by "directly enabling" other activities to improve their performance and make a substantial contribution to one or more of the objectives. This is provided that the "enabling" economic activity: (a) does not lead to a lock-in of assets that undermine long-term environmental goals, considering the economic lifetime of those assets; and (b) has a substantial positive environmental impact, on the basis of life-cycle considerations. For instance, the installation of energy efficient windows can improve the energy efficiency of an existing building.

The Regulation also recognizes a particular type of activities under the climate change mitigation objective. The role of **"transitional" activities**, for which no low-carbon alternatives are yet available, but which are extremely important to support the urgent transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1,5C above pre-industrial levels. Transitional activities are a subtype of activities substantially contributing to the objective of climate change mitigation, and they can be included as Taxonomy-aligned activities provided that they have greenhouse gas emission levels that correspond to the best performance in the sector or industry, do not hamper the development and deployment of low-carbon alternatives, and do not lead to a lock-in of carbon-intensive assets, considering the economic lifetime of those assets.

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<sup>10</sup> According to Article 9 of the Taxonomy Regulation (EU) 2020/852 the environmental objectives are: (i) climate change mitigation; (ii) climate change adaptation; (iii) the sustainable use and protection of water and marine resources; (iv) the transition to a circular economy; (v) pollution prevention and control; (vi) the protection and restoration of biodiversity and ecosystems.

### **Box 3 The EU Taxonomy is being developed based on support from experts**

In order to inform its work on the EU Taxonomy, the European Commission established a Technical Expert Group (TEG) on sustainable finance in July 2018.

Within the framework of the [EU Taxonomy Regulation](#), the TEG was asked to develop recommendations for technical screening criteria for economic activities that can **make a substantial contribution to climate change mitigation and adaptation, while avoiding significant harm to the five other EU climate and environmental objectives** (including the non-climate objectives i.e. (1) sustainable use and protection of water and marine resources; (2) transition to a circular economy; (3) pollution prevention and control; and, (4) protection and restoration of biodiversity and ecosystems).

During its mandate that lasted until September 2020, the TEG engaged with over 200 additional experts to develop its recommendations for the technical screening criteria. On the basis of the experts' input and several rounds of public feedback, the TEG published its [final report](#) in March 2020. The report contains recommendations relating to the overarching design of the EU Taxonomy, as well as an extensive implementation guidance on how companies and financial institutions can use and disclose against the EU Taxonomy.

To continue supporting future developments, the [EU Taxonomy Regulation](#) also established a permanent Commission expert group, the [Platform on Sustainable Finance](#) (PSF) that comprises experts from across the European economy and civil society.

The PSF is tasked with: advising the European Commission on further developing the EU Taxonomy; improving its usability; and, exploring its extension to social objectives, activities that significantly harm the environment or activities that have a neutral impact on the environment.

The PSF published its recommendations for technical screening criteria of activities that can make a substantial contribution to the six environmental objectives of the EU Taxonomy in a [March 2022 report](#) (and [annex](#)) and a complementary [November 2022 report](#).

On 9 and 10 December 2021, two legally binding acts were published in the Official Journal of the European Union that further define detailed measures outlined in the Taxonomy Regulation, referred to as the Delegated Acts.

The first act is the **"Climate Delegated Act"** (Commission Delegated Regulation (EU) 2021/2139). It defines the technical screening criteria for economic activities that can make a substantial contribution to climate change mitigation and climate change adaptation and the technical screening criteria to ensure that those activities do no significant harm (DNSH) to any of the other environmental objectives.

Until now, the Climate Delegated Act covers economic activities in sectors that represent almost 64% of direct greenhouse gas emissions in Europe<sup>11</sup>. By meeting the technical screening criteria of the EU Taxonomy, these economic activities can become qualified as "environmentally sustainable", ("Taxonomy-aligned") activities. However, this does not mean that the economic activities that are not included in the EU Taxonomy so far are necessarily environmentally harmful or unsustainable. It just means that they may not yet have been considered, that their environmental impact is negligible, or that the activity may not make a "substantial" contribution, but instead a smaller contribution. The EU Taxonomy is a living document to which activities will be added over time. Technical screening criteria for activities will also be updated in line with latest scientific evidence, technological progress and evolutions in climate and environmental policy. As such, on 15 July 2022, a [Complementary Climate Delegated Act](#) was published in the Official Journal. The Complementary Climate Delegated Act adds, under strict conditions, specific nuclear and gas energy related activities to the list of economic activities covered by the EU Taxonomy.

The second delegated act is the **"Disclosures Delegated Act"** (also known as "Article 8 Delegated Act") (Commission Delegated Regulation (EU) 2021/2178), which became applicable on 1 January 2022. It specifies the content, methodology and presentation of information to be disclosed by non-financial and financial companies subject to the NFRD/CSRD, as defined under Article 8 of the [EU Taxonomy Regulation](#). Companies are required to disclose to what extent the activities they carry out meet the criteria set out in the EU Taxonomy. Meanwhile, financial

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<sup>11</sup> Based on 2021 data from [Eurostat](#).

undertakings, mainly large banks, asset managers, investment firms and insurance/reinsurance undertakings, are required to disclose to what extent the activities that they finance or invest in meet the EU Taxonomy criteria.

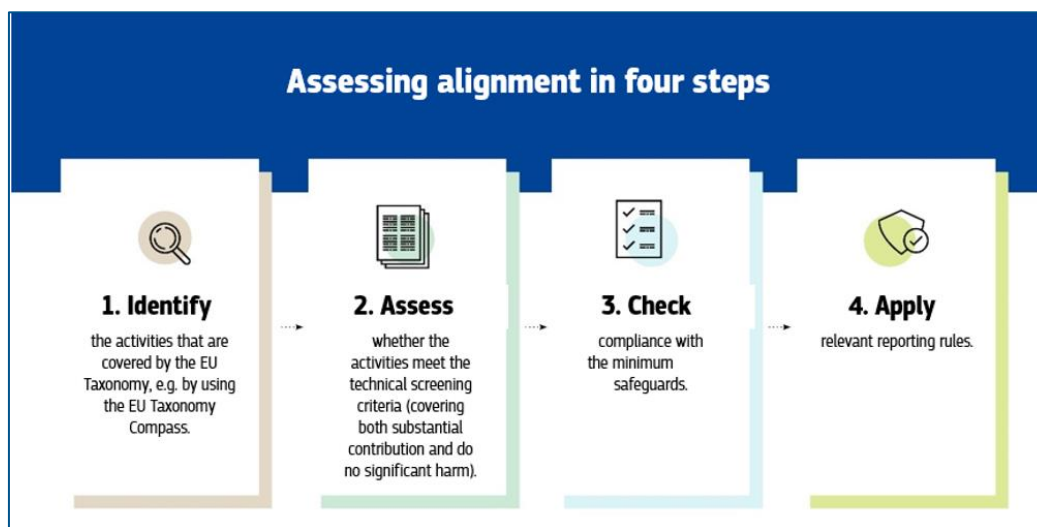
A third delegated act, called the “**Environmental Delegated Act**”, which is still under development by the Commission, considers the advice of the Platform on Sustainable Finance for drafting the technical screening criteria. It addresses a selection of activities with the potential to make a substantial contribution to one or more of the other four environmental objectives covered by the EU Taxonomy (i.e. (1) sustainable use and protection of water and marine resources; (2) transition to a circular economy; (3) pollution prevention and control and protection; and, (4) protection and restoration of biodiversity and ecosystems). This Act is expected to be adopted in 2023.

# How do you navigate the EU Taxonomy?

## 3.1 Four key steps for companies to assess their alignment with the EU Taxonomy

The following approach defines the main steps that companies need to follow to implement the requirements set out in the EU Taxonomy.

Figure 3.1 Step-by-step approach to assess and disclose taxonomy-aligned activities



### STEP 1: Identify the activities that are covered by the EU Taxonomy (“Taxonomy-eligible activities”)

The first step consists of identifying those activities within the assessed company’s operation that can be considered as “**taxonomy-eligible**”<sup>12</sup> under the EU Taxonomy. These are currently all activities that are included in the existing [Climate Delegated Act](#) and the [Complementary Climate Delegated Act](#) and will in the future comprise all economic activities in the related delegated acts that the Commission will adopt. For ease, the [EU Taxonomy Compass](#) provides a visual representation of all activities included in the Climate Delegated Act and the Complementary Climate Delegated Act.

The main question a company should ask itself is:

- *Which of the activities performed by my company are covered by the EU Taxonomy?*

(Refer to Use Case 1 for details on how to address this question.)

### STEP 2: Assess whether the activities meet the technical screening criteria (“Taxonomy-aligned activities”)

The second step consists of assessing if the identified economic activities meet the “technical screening criteria” set out in the respective Delegated Act (substantial contribution and Do No Significant Harm criteria) for the activities in question, and can therefore be recognised as **taxonomy-aligned** (under the conditions set out in the next step).

<sup>12</sup> It is important to recall that the EU Taxonomy is an evolving classification tool, for which technical screening criteria for new economic activities will gradually be added. Therefore, those economic activities that are not included to date, i.e., for which technical screening criteria have not yet been developed, cannot be considered as “unsustainable” but only as “non-eligible” under the EU Taxonomy.

Where a particular activity has substantial contribution criteria defined for more than one objective, these should each be assessed.

The criteria to assess **substantial contribution** are based on a level of ambition that is in line with what is needed to achieve the goals of the European Green Deal. Only if an activity makes a substantial contribution (rather than a marginal one, such as implementing limited efficiency improvements on a highly polluting manufacturing process) to any of the environmental objectives under the EU Taxonomy, can it be classified as “environmentally sustainable” (provided it meets the other minimum safeguard and ‘Do No Significant Harm’ criteria).

The criteria of “**Do No Significant Harm**” ensures that the economic activity does not impede the other environmental objectives from being reached, meaning that it has no significant negative impact on them.

#### **Box 4 The EU Taxonomy’s Do No Significant Harm criteria**

The [EU Taxonomy Regulation](#) (see Art. 17) specifies that an activity is considered to **do significant harm** to:

1. **climate change mitigation** if it leads to significant greenhouse gas (GHG) emissions;
2. **climate change adaptation** if it leads to an increased adverse impact of the current climate and the expected future climate, on the activity itself or on people, nature or assets;
3. **the sustainable use and protection of water and marine resources** if it is detrimental to the good status or the good ecological potential of bodies of water, including surface water and groundwater, or to the good environmental status of marine waters;
4. **the circular economy**, including waste prevention and recycling, if it leads to significant inefficiencies in the use of materials or in the direct or indirect use of natural resources, or if it significantly increases the generation, incineration or disposal of waste, or if the long-term disposal of waste may cause significant and long-term environmental harm;
5. **pollution prevention and control** if it leads to a significant increase in emissions of pollutants into air, water or land – the activity should have lower emissions compared to a level of environmental performance that is based on BAT principles;
6. **the protection and restoration of biodiversity and ecosystems** if it is significantly detrimental to the good condition and resilience of ecosystems, or detrimental to the conservation status of habitats and species, including those of Union interest.

The [Climate Delegated Act](#) and its [Complementary Climate Delegated Act](#) specify the technical screening criteria under which economic activities make a (1) substantial contribution to **climate change mitigation or climate change adaptation**, and (2) do not cause significant harm to any of the other five environmental objectives. As explained above, future reviews of the [Climate Delegated Act](#) will most probably include an update of some technical screening criteria to reflect the latest scientific evidence, technological progress and evolutions in climate and environmental policy.

The Environmental Delegated Act sets the technical screening criteria for economic activities that (1) make a substantial contribution to the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control or the protection and restoration of biodiversity and ecosystems; and (2) do not cause significant harm to any of the other five objectives.

The main questions a company should ask itself are:

*For companies falling under the scope of the NFRD/CSRD:*

- *How can my company assess if its specific activities qualify as contributing substantially to climate change mitigation and are therefore potentially aligned with the EU Taxonomy?*
- *How can my company assess that eligible activities also meet the “Do No Significant Harm” (DNSH) criteria?*

- *How can my company benefit from the EU Taxonomy if it conducts activities that enable others to adapt to the impacts of climate change?*

For all companies:

- *How can my company demonstrate leadership on adapting to the physical impacts of climate change? How does the EU Taxonomy support this ambition?*

(Refer to Use Cases 2 to 5 for details on how to address these questions.)

### **STEP 3: Check compliance of the activities with minimum safeguards**

The third step consists of assessing if the economic activities also comply with the minimum safeguards as set out in Article 18 (1) and (2) of the Taxonomy Regulation.

Article 18 (1) of the Taxonomy Regulation sets out that minimum safeguards are procedures implemented by the company or financial institution to ensure the alignment with the [OECD Guidelines for Multinational Enterprises](#) and the [UN Guiding Principles on Business and Human Rights](#). This includes 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.

As already explained in the previous chapter, the CSRD includes the development of detailed and comprehensive sustainability reporting standards. A first set of these standards is planned for adoption by the Commission as a Delegated Act in mid-2023. As full-scope sustainability reporting standards, these will also address social aspects to ensure that companies will report on only one set of social disclosures that meet the requirements of both the EU Taxonomy and the CSRD. The main question a company should ask itself is:

- *How can my company ensure compliance of its eligible activities with the minimum safeguards?*

(Refer to Use Case 6 for details on how to address this question.)

### **STEP 4: Apply the relevant reporting rules**

The [EU Taxonomy Regulation](#) stipulates that companies that fall under the scope of the NFRD/CSRD shall disclose the proportion of environmentally sustainable economic activities that align with the EU Taxonomy criteria.

The reporting requirements under the EU Taxonomy are specified in the [Disclosures Delegated Act](#). It defines key performance indicators (KPIs) related to turnover, capital expenditure (CapEx) and operational expenditure (OpEx) for non-financial companies. In addition, it sets out specific indicators (the “Green Asset Ratio/ Green Investment Ratio”) for asset managers, banks and insurance companies that will need to disclose the proportion of taxonomy-aligned economic activities in their financial activities.

In order to support corporates in implementing their reporting obligations under the Taxonomy Regulation, the Commission has published three sets of Frequently Asked Questions (FAQs) covering Article 8 disclosures:

- [FAQs](#) on Taxonomy-*eligibility* reporting published on 20 December 2021.
- [FAQs](#) (Draft Commission notice) on Taxonomy-*eligibility* reporting published on 2 February 2022.
- [FAQs](#) on Taxonomy-alignment reporting for non-financial undertakings published on 21 December 2022, together with a legal interpretative [Q&As](#) on the technical screening criteria of the Climate Delegated Act.

In addition, the Commission published the [EU Taxonomy Navigator](#), a user-friendly website that offers three online tools to help users better understand the EU Taxonomy in a simple and practical manner, ultimately facilitating its implementation and supporting companies in their reporting obligations:

- The [FAQs repository](#) serves as a one stop-shop for all Frequently Asked Questions documents (FAQs) that the Commission has published on the EU Taxonomy so far. Through the repository, users can search for

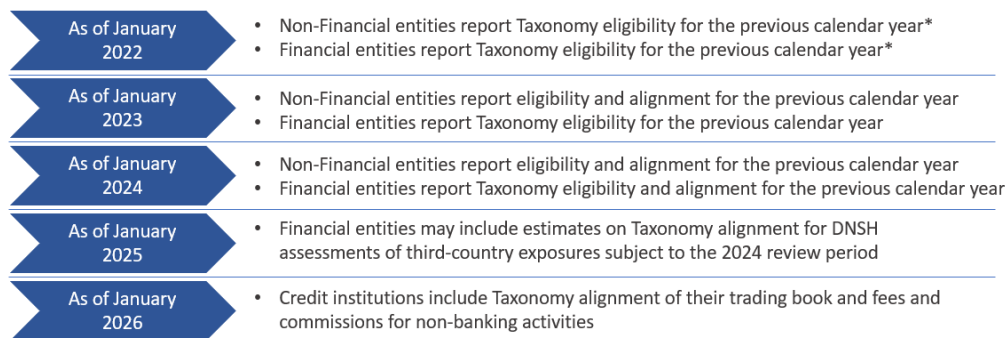
specific questions that are of interest to them, while also filtering the questions by organisation type and FAQs document.

- The [EU Taxonomy Compass](#) is an online tool that provides a visual representation of the contents of the EU Taxonomy, therefore allowing users to search for activities in the Taxonomy delegated acts and directly access their technical screening criteria.
- The [EU Taxonomy Calculator](#) aims to guide non-financial undertakings step-by-step on how to determine their Taxonomy-eligibility and alignment according to the Taxonomy Disclosures Delegated Act.

Non-financial and financial entities that are not (yet) covered and obligated to disclose their Taxonomy alignment may decide to disclose this information on a voluntary basis for the purpose of getting access to sustainable financing or for other business-related reasons. On 20 December 2021, the Platform on Sustainable Finance published further advice on best practices for voluntary reporting for eligibility reporting in the first year(s) of reporting.

The **timeline for the reporting requirements** is as follows:

Figure 3.2 Overview of the timeline for reporting requirements



\* Article 8 (2) and (3) Disclosures Delegated Act stipulates that information disclosed in accordance with this Regulation shall cover the annual reporting period from the previous calendar year of the date of disclosure and that financial undertakings and non-financial undertakings shall provide in the non-financial statement the key performance indicators covering the previous annual reporting period. Therefore, the first reporting period concerns the (fiscal) year of 2021.

For undertakings where the fiscal year is congruent with the calendar year the first reporting period is therefore the 1<sup>st</sup> of January 2021 to the 31<sup>st</sup> of December 2021. In the case an undertaking has a diverging fiscal year, only the last annual reporting period has to be covered. For instance if an undertaking has a fiscal year starting on the 1<sup>st</sup> of July and ending on the 30<sup>th</sup> of June it would mean that the first disclosures according to Article 8 Taxonomy Regulation would (only) have to cover the period 1<sup>st</sup> of July 2021 to 30<sup>th</sup> of June 2022 as this would be the previous annual reporting period.

- As of January 2022 (for the reporting period 2021), companies under the scope of the NFRD started reporting the proportion of their activities (or the proportion of their exposure to activities) that are considered as **eligible in the EU Taxonomy** vs. those that are not eligible (i.e., not covered in the Taxonomy). At this stage, the companies in question are not required to assess the Taxonomy-alignment of these activities. They are also only required to report against activities related to the climate objectives (activities related to other objectives will only be published in 2023).
- In 2023 (for the reporting period 2022), non-financial companies under the scope of the NFRD will need to report what activities are considered as **aligned with the EU Taxonomy's** climate objectives.

- **Similar requirements** will apply to large financial institutions<sup>13</sup> in 2024 for activities related to climate objectives (for the reporting period 2023), with the exception of trading book and fees and commissions for non-banking activities from credit institutions (banks) that are delayed to 2026<sup>14</sup>.
- After a transition period of three years, in 2026 (for the reporting period 2025), credit institutions (banks) will also need to report on alignment of their trading book and fees and commissions for non-banking activities.
- As described in the previous chapter, the CSRD enlarges the scope of companies that will need to publish sustainability information to all large and all listed companies (with the exception of micro companies). Large companies that are not under the scope of the NFRD will need to report for the first time in 2026 (for the reporting period 2025).
- Listed SMEs will need to report for the first time in 2027 (for the reporting period 2026). They may however decide to opt out of the reporting requirements for a further two years.

The main questions a company should ask itself are:

*For companies falling under the scope of the NFRD/CSRD:*

- *What are the disclosure obligations related to the EU Taxonomy for a non-financial company?*
- *What are the disclosure obligations related to the EU Taxonomy for a financial institution (bank, asset manager and insurance company)?*
- *How can the EU Taxonomy help my company to define and disclose new credible transition targets?*

*For companies that don't fall under the scope of the NFRD/CSRD:*

- *How can my company use the EU Taxonomy to measure and report its impact on climate change mitigation and adaptation?*

(Refer to Use Cases 7 to 12 for details on how to address these questions)

Figure 3.3 illustrates the coverage of the Use Cases in each step of the approach. Relevant reporting rules will apply even if the company does not have aligned economic activities.

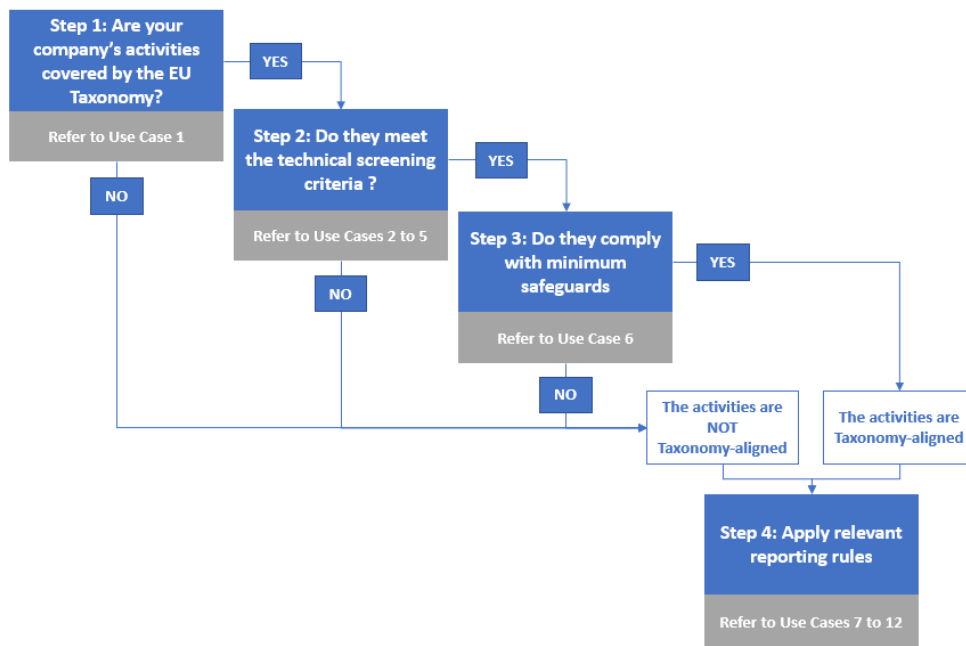
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<sup>13</sup> Large financial institutions cover credit institutions (banks), asset-managers and insurance and reinsurance companies that meet the criteria defined in the Non-Financial Reporting Directive.

<sup>14</sup> With the caveat that some exposures and investments, including in sovereign debt and non-NFRD companies, may not have been fully reflected yet. Such reporting requirements will depend on the results of the review period per Article 10 (expected in June 2024).



Figure 3.3 Overview of the coverage of the Use Cases



### 3.2 Overview of Use Cases to help companies navigate key challenges and benefits from the EU Taxonomy

This Guide has identified 12 Use Cases that can help mainly non-financial companies to tackle important challenges or opportunities that arise in the implementation of the EU Taxonomy. Some of the Use Cases are also relevant for financial institutions falling under the scope of the NFRD/CSRD.

For each Use Case, this Guide:

- Defines the challenge / opportunity the use case addresses
- Introduces the context, the link with existing regulation and potentially high-level guidance
- Defines specific steps that the entity can do to tackle the challenge and maximise the opportunity
- Shares potential next steps and additional resources that might be of use

Table 3.1 provides an overview of the **12 selected Use Cases**.

Table 3.1 Overview of the “Use Cases”

Who are you?		What are your challenges or benefits?
<b>Use Case related to step 1: Identify eligible activities</b>		
<b>1.</b>	Any company	Which of the activities performed by my company are covered by the EU Taxonomy?
<b>Use Cases related to step 2: Assess EU Taxonomy alignment of the activities</b>		
<b>2.</b>		How can my company assess if specific activities qualify as contributing

Who are you?		What are your challenges or benefits?
		substantially to climate change mitigation and are therefore potentially aligned with the EU Taxonomy?
3.	A company falling under the scope of the NFRD/CSRD	How can my company assess that eligible activities meet the “Do No Significant Harm” (DNSH) criteria?
4.		How can my company benefit from the EU Taxonomy if it conducts activities that enable others to adapt to impacts of climate change?
5.	Any company	How can my company demonstrate leadership on adapting to the physical impacts of climate change? How does the EU Taxonomy support this ambition?
<b>Use Case related to step 3: Check compliance with minimum safeguards</b>		
6.	Any company	How can my company ensure compliance of its eligible activities with the minimum safeguards?
<b>Use Cases related to step 4: Apply relevant reporting rules</b>		
7.	A non-financial company falling under the scope of the NFRD/CSRD	What are the disclosure obligations related to the EU Taxonomy for a non-financial company?
8.		What are the disclosure obligations related to the EU Taxonomy for credit institutions (banks)?
9.	A financial institution falling under the scope of the NFRD/CSRD	What are the disclosure obligations related to the EU Taxonomy for asset managers?
10.		What are the disclosure obligations related to the EU Taxonomy for insurance and reinsurance companies?
11.	Any company	How can the EU Taxonomy help my company to define and disclose new credible transition targets?
12.	A company that does not fall under the scope of the NFRD/CSRD	How can my company use the EU Taxonomy to measure and report its impact on climate change mitigation and adaptation?

### 3.3 Use Case related to step 1: Identify eligible activities

#### Use Case 1: Identifying potential ‘Taxonomy eligible’ activities

### Which of the activities performed by my company are covered by the EU Taxonomy?

Context	<p>In April 2021, the European Commission adopted the <a href="#">Climate Delegated Act</a> setting criteria for economic activities in the sectors that are most relevant for achieving climate neutrality and delivering on climate change adaptation.</p> <p>The Climate Delegated Act identified more than 80 activities in the following sectors:</p> <ul style="list-style-type: none"> <li>• Forestry</li> <li>• Environmental protection and restoration activities</li> <li>• Manufacturing</li> <li>• Energy</li> <li>• Water supply, sewerage, waste management and remediation</li> <li>• Transport</li> <li>• Construction and real estate activities</li> <li>• Information and communication</li> <li>• Professional, scientific and technical activities</li> </ul> <p>(and the following ones, although only for adaptation-related activities)</p> <ul style="list-style-type: none"> <li>• Financial and insurance activities</li> <li>• Education</li> <li>• Human health and social work activities</li> <li>• Arts, entertainment and recreation</li> </ul> <p>In addition, on 9 March 2022, the Commission adopted the <a href="#">Complementary Climate Delegated Act</a>, which set criteria for economic activities in the sectors of gas and nuclear energy.</p> <p>As highlighted above, the fact that some or all activities of a company are not included in the list does not necessarily mean that they are unsustainable. It just means that criteria have not yet been developed for these activities and are therefore not yet eligible under the EU Taxonomy.</p>
Proposed approach to address your challenge	<p><u>Step 1</u> – Identify those activities that your company conducts or that are covered by the financial product your company offers, which could potentially qualify as contributing substantially to climate change mitigation or climate change adaptation<sup>15</sup>.</p> <p><i>For example, a construction company could list its services that are supporting the construction of low carbon buildings or activities that are supporting the reduction of the most important physical climate risks to their own operation or others as potentially Taxonomy eligible activities.</i></p> <p><u>Step 2</u> – Screen those activities against the list set out in the annexes of the Climate Delegated Act and Complementary Climate Delegated Act to gain an overview of which</p>

<sup>15</sup> The assessment should be extended to the other four environmental objectives under the EU Taxonomy upon adoption of the Environmental Delegated Act.

activities fall within the scope of the EU Taxonomy. You can use the [EU Taxonomy Compass](#) to quickly visualise the relevant activities included so far.

*For example, the [EU Taxonomy Compass](#) highlights that the following activities are currently potentially eligible for construction and real estate activities: (1) construction of new buildings, (2) renovation of existing buildings, (3) installation, maintenance and repair of energy efficiency equipment*

The EU Taxonomy uses the European industry classification system (NACE) as orientation to indicate eligible economic activities. The NACE codes are provided in the section “Description of the activity” that is to be used as factor to determine the eligibility scope and that is included in the annexes of the Climate Delegated Act. The reference to NACE codes is only indicative and not necessarily exhaustive. Therefore, an economic activity could match the description of an activity and the technical screening criteria laid out in the Climate Delegated Act even if the NACE sector of the company is not listed in the description of the activity.

Next steps  
and  
references

If (some of) your activities are not yet included in the list, you should keep an eye out for amendments to the Climate Delegated Act and the adoption of the Environmental Delegated Act that is planned for 2023.

As a stakeholder, you will also have an opportunity to notify the Platform on Sustainable Finance about activities you believe should be covered in the EU Taxonomy through a dedicated Stakeholder Request Mechanism that will be made available on the Commission website.

Reference to recommended resources:

- [EU Taxonomy Compass](#)

### 3.4 Use Cases related to step 2: Assess EU Taxonomy alignment of the activities

#### Use Case 2: Assessing if activities are qualifying as making a substantial contribution to climate change mitigation

#### How can my company assess if specific activities qualify as contributing substantially to climate change mitigation?

Context	<p>The EU Taxonomy recognises that activities are aligned when they make a substantial, rather than a marginal, contribution to reaching at least one of the EU's environmental objectives (as well as doing no significant harm and meeting minimum safeguards, as described in Use Cases 3 and 6 respectively). It sets the criteria based on a level of ambition that is in line with what is needed to achieve the goals of the European Green Deal.</p> <p>Economic activities can make a substantial contribution to one of the six environmental objectives through specific means that are listed in Articles 10 to 15 of the <a href="#">EU Taxonomy Regulation</a> and articulated via the activity-specific Technical Screening Criteria for substantial contribution.</p>
Proposed approach to address your challenge	<p><b>Step 1</b> - check that your investment is aligned with the description of the relevant activity included in <a href="#">Annex I to the Climate Delegated Act</a> and the <a href="#">Complementary Climate Delegated Act</a>. The <a href="#">EU Taxonomy Compass</a> can serve as a helpful tool to get a quick overview of the activities and their descriptions.</p> <p><i>For example, for energy efficiency measures, refer to activity “7.3 Installation, maintenance and repair of energy efficiency equipment”: Individual renovation measures consisting in installation, maintenance or repair of energy efficiency equipment.</i></p> <p><i>The economic activities in this category could be associated with several NACE codes, in particular F42, F43, M71, C16, C17, C22, C23, C25, C27, C28, S95.21, S95.22, C33.12 in accordance with the statistical classification of economic activities established by <a href="#">Regulation (EC) No 1893/2006</a>.</i></p> <p><b>Step 2</b> - understand what is required for the activity to be compliant ('aligned') with the technical screening criteria for a substantial contribution to climate change mitigation. The criteria will probably require the collection of specific data or information. It is therefore advised to already start defining actions to be taken to prepare the assessment (e.g., identify data requirements, identify sources for data collection, define responsibilities and timeline for data collection, define data quality checks, etc.).</p> <p><i>For example: In the case of investment in energy efficiency equipment, the criteria include (1) the reference to relevant compliance requirements at EU or national level (e.g., applicable national measures implementing the recast Energy Performance of Buildings Directive 2010/31/EU) and (2) the specific individual measures considered as eligible (e.g., replacement of existing windows with new energy efficient windows).</i></p>
Next steps and references	<p><u>Reference to recommended resources:</u></p> <ul style="list-style-type: none"> <li>■ <a href="#">EU Taxonomy Compass</a></li> </ul>

**Use Case 3: Assessing activities against the DNSH criteria**

**How can my company assess that eligible activities meet the “Do No Significant Harm” (DNSH) criteria?**

<p>Context</p>	<p>Together with the criteria to assess if an activity substantially contributes to at least one of the EU environmental objectives, the criteria for ‘Do No Significant Harm’ (DNSH) specify the minimum requirements that the economic activity should meet to avoid harming any of the other five environmental objectives.</p> <p>Any breach of the DNSH criteria would automatically disqualify an activity from being environmentally sustainable. It is the responsibility of your company to ensure compliance with DNSH criteria laid down in the respective Delegated Act if you want your activities to be classified as taxonomy-aligned. Verifying the alignment with the requirements set out in the technical screening criteria might necessitate a detailed assessment by companies.</p> <p>For DNSH criteria that entail compliance requirements with the environmental legislation, it may be necessary for an external competent authority to perform an assessment procedure and, subsequently, grant a permit.</p>
<p>Proposed approach to address your challenge</p>	<p><u>Step 1.</u> Identify in the <a href="#">Climate Delegated Act</a> and <a href="#">Complementary Climate Delegated Act</a> the Do No Significant Harm criteria for the economic activities for which the company is complying with the Substantial Contribution criteria.</p> <p><u>Step 2.</u> Collect the data and evidence required to assess the compliance with the DNSH criteria.</p> <p><u>Step 3</u> - Conduct a detailed internal verification process to assess if the identified eligible economic activities meet the respective criteria for Do No Significant Harm included in the Delegated Acts. When required under the applicable environmental legislation, ensure that formal assessment procedures have been performed early in the process and relevant permits and approvals obtained from the competent authorities. When applicable, consider the local context of your activity.</p> <p>For many activities, criteria to assess DNSH included in the <a href="#">Climate Delegated Act</a> and <a href="#">Complementary Climate Delegated Act</a> are generic as set out in the appendices of the Delegated Acts.</p> <p><i>For example, generic criteria for DNSH to protection and restoration of biodiversity and ecosystems are:</i></p> <ul style="list-style-type: none"> <li>■ <i>An Environmental Impact Assessment (EIA) or screening has been completed in accordance with <a href="#">Directive 2011/92/EU335</a>.</i></li> <li>■ <i>Where an EIA has been carried out, the required mitigation and compensation measures for protecting the environment are implemented.</i></li> <li>■ <i>For sites/operations located in or near biodiversity-sensitive areas (including the Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas, as well as other protected areas), an appropriate assessment, where applicable, has been conducted and based on its conclusions the necessary mitigation measures are implemented.</i></li> </ul> <p>For some activities, technical screening criteria to assess DNSH are specific to the activity.</p> <p><i>For example, DNSH to “Pollution prevention and control” for activities related to passenger interurban rail transport, is ensured by demonstrating that “engines for the propulsion of railway locomotives (RLL) and engines for the propulsion of railcars (RLR) comply with</i></p>

emission limits set out in [Annex II to Regulation \(EU\) 2016/1628 of the European Parliament and of the Council](#)".

The EU Taxonomy aims to fully integrate the principle of Do No Significant Harm in a systematic way by guiding the assessment of key potential adverse impacts, including how and when they should be managed.

Next steps and references

References to recommended resources:

- [Climate Delegated Act](#)
- [Complementary Climate Delegated Act](#)

**Use Case 4: Helping others to adapt to impacts of climate change**

**How does your company benefit from the EU Taxonomy if it conducts activities that enable others to adapt to impacts of climate change?**

<p>Context</p>	<p>As an entity that falls under the scope of the NFRD/CSRD, you will need to disclose information on how and to what extent your activities are aligned with the EU Taxonomy. If your company conducts activities that enable others to adapt to the impacts of climate change, the associated revenues and capital expenditures and operational expenditures may be taxonomy-aligned. Reporting them can enhance your reputation and improve your access to capital.</p>
<p>Proposed approach to address your challenge</p>	<p><u>Step 1</u> - Check which of your activities, services or solutions that are enabling others to adapt are covered in the EU Taxonomy. Which exact activities are eligible is defined in the “description of the activity” sections in Annex II of the <a href="#">Climate Delegated Act</a>. To date, business operations in the following areas are eligible as ‘enabling’ activities for climate change adaptation:</p> <ul style="list-style-type: none"> <li>• Engineering activities and related technical consultancy dedicated to adaptation to climate change</li> <li>• Close to market research, development and innovation</li> <li>• Non-life insurance: underwriting of climate-related perils</li> <li>• Reinsurance</li> </ul> <p><i>For example, an engineering company that plans a system of drinking water fountains for a municipality can identify this activity as being eligible under the EU Taxonomy’s adaptation enabling activity “Engineering activities and related technical consultancy dedicated to adaptation to climate change”.</i></p> <p>In addition, activities in the following sectors are eligible as adapted-enabling activities. That is, they qualify as adapted activities where they meet the first four technical screening criteria for substantial contribution, and as enabling activities where they meet the fifth technical screening criterion for substantial contribution (and therefore can claim their revenue as Taxonomy-aligned in addition to their CapEx and OpEx):</p> <ul style="list-style-type: none"> <li>• Afforestation</li> <li>• Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event</li> <li>• Forest management</li> <li>• Conservation forestry</li> <li>• Restoration of wetlands</li> <li>• Programming and broadcasting activities</li> <li>• Education</li> <li>• Creative, arts and entertainment activities</li> <li>• Libraries, archives, museums and cultural activities</li> <li>• Motion picture, video and television programme production, sound recording and music publishing activities</li> </ul> <p><u>Step 2</u> – Ensure that the activity fulfils the “technical screening criteria” (see Use Cases 2 for more information).</p>



	<p>In general, your activity, service or solution qualifies as enabling if you show that it can directly help others (people, nature, cultural heritage, assets, or other economic activities) to adapt to climate change impacts.</p> <p><u>Step 3</u> - Show how you can enable adaptation, assess current and future climate risks for your targeted field of action, client or customer.</p> <p><i>For example, the engineering company that develops drinking water fountains needs to show how heat risks in its client municipality are significantly exacerbated by climate change.</i></p> <p>The assessment needs to touch on the possible uncertainties in climate projections and be based on robust data. Climate data for such an assessment can for example be accessed through the <a href="#">Copernicus services</a> managed by the European Commission (for more information on climate risk assessments see Use Case 5). Maybe you can also refer to a climate risk assessment conducted by your client or related to your activity.</p> <p><i>Taking the example of the engineering company that develops drinking water fountains, heat risks have probably been already identified for their activity locations in a national or local climate risk or vulnerability assessment.</i></p> <p><u>Step 4</u> - Demonstrate that the primary objective of your activity is to provide or promote the use of a technology, product, service, information or practice that (1) either increases the level of resilience to physical climate risks, or (2) contributes to adaptation efforts.</p> <p><i>For example, drinking water fountains when installed in heat stressed areas especially when aligned with an adaptation strategy in the company's area of action are to be seen as having the primary objective described above. By referring to this strategy, the company could show that it is contributing to adaptation.</i></p>
<p>Next steps and references</p>	<p><u>References to recommended resources:</u></p> <ul style="list-style-type: none"> <li>• <a href="#">Climate Delegated Act</a></li> <li>• <a href="#">Copernicus Climate Change Service</a> providing climate data and tools</li> <li>• legal interpretative <a href="#">Q&amp;As</a> on the technical screening criteria of the Climate Delegated Act.</li> <li>• <a href="#">Climate-ADAPT</a> as a platform to share knowledge and experiences</li> <li>• <a href="#">Covenant of Mayors</a> as a database of local climate action plans</li> </ul>

**Use Case 5: Aligning with best practices in adapting to impacts of climate change**

**How can my company demonstrate leadership on adapting to the physical impacts of climate change? How does the EU Taxonomy support this ambition?**

<p>Context</p>	<p>If your company falls under the scope of the NFRD/CSRD, you will be required to disclose information on your company’s operational and capital expenditures towards adapting certain activities to the impacts of climate change. The EU Taxonomy supports businesses in becoming more resilient to climate change by providing criteria to determine what can be considered as making a substantial contribution to climate change adaptation.</p> <p>Making this information available can signal to financial institutions and the wider public that your company is addressing physical risks of climate change in a comprehensive way. This can have positive effects on your company’s reputation and improve your access to capital.</p> <p>If you are not obliged to disclose your physical climate risks under the EU Taxonomy it is still of great benefit to conduct a climate risk and vulnerability assessment in an EU Taxonomy-compliant way – for a variety of reasons: First, it gives you the opportunity to voluntarily disclose your expenditure for climate adaptation. Second, financial institutions (e.g., banks), investors and customers might expect you to act on or disclose information related to climate risks. Third, you may be able to profit from easier access to the capital markets, helping you to make the necessary upfront investments in climate-resilience that are likely to pay off in the future.</p>
<p>Proposed approach to address your challenge</p>	<p><u>Step 1</u> - Check whether your company is conducting any activities that are currently identified as having the potential to make a substantial contribution to climate change adaptation in the EU Taxonomy (i.e., whether the activities are ‘Taxonomy eligible’ - see Use Case 1).</p> <p><u>Step 2</u> - If you have not yet taken any steps to deal with the impacts of climate change on these activities, screen each of your company’s activities to find out what climate-related hazards from Appendix A of Annex II of the <a href="#">Climate Delegated Act</a> may affect the performance of the activities during their expected lifetime.</p> <p><i>For example, a logistics company that uses inland freight water transport might be negatively affected by an increased frequency of days with low levels of water caused by climate change on important shipping routes as this forces them to reduce the loads on their vessels.</i></p> <p><u>Step 3</u> - Where an activity could be affected by one or more hazards leading to physical impacts, conduct a thorough climate risk and vulnerability assessment. Such an assessment will point towards the actions that need to be taken to reduce possible risks. Choosing your approach, you need to consider your resources and your data availability. Regarding the risk assessment approach, the EU Taxonomy allows for flexibility, as long as the chosen approach is based on best practice and available guidance and is in line with state-of-the-art science on risk and vulnerability assessments from the</p>

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Intergovernmental Panel on Climate Change (IPCC) reports and scientific peer-reviewed publications.

One appropriate way to make sure your assessment approach is based on a recognised quality standard is to follow the guidelines on vulnerability, impacts and risk assessment outlined in the [European Standard EN ISO 14091:2021](#) for adaptation to climate change. For such a standardised risk assessment you need to: (1) screen impacts from climate change and develop climate impact chains showing how your activities are affected by the identified hazards; (2) identify indicators for these impacts; (3) acquire and manage data for those indicators; (4) aggregate indicators and risk components; (5) assess your adaptive capacity; (6) interpret and evaluate your findings; (7) analyse cross-sectoral dependencies; and, (8) conduct an independent review of your findings.

Especially if you are a SME, guidance materials, like the Climate Expert Tool, can help you identify and assess the climate impacts most relevant for your company. *For example, for the above-mentioned logistics company this would mean, among other things, to show how days with low levels of water have affected transport loads in the past and investigate in how far the number of such days will increase in the future as a result of the ongoing change of the climate.*

Step 4 - Ensure that the climate projections used correspond to the lifespan of the activity. This is important because if you plant a forest or build a factory with a 60-year lifespan, you have to plan further into the future than if you plant a meadow or build a pump with a 15-year lifespan. Shorter time frame climate projections may be able to employ simpler techniques (for example, extrapolation of past climate change trend data) while longer timeframe projections require more complex assessments (for example, climate impact modelling). The [Climate Delegated Act](#) specifies that:

(1) For activities with an expected lifespan of less than 10 years, you need to use at least climate projections at the smallest appropriate scale corresponding to your activity's lifespan.

(2) For activities with a lifespan of more than 10 years, you need to incorporate state-of-the-art climate projections with the highest available resolution across a range of future scenarios. They need to include at least 10-to-30-year projections for major investments. For such projections, open-source models, e.g., accessible through the [Copernicus services](#) managed by the European Commission, are a good option.

*For example, the logistics company could use a [scientific study](#) on the impacts of climate change on the two rivers on which the company conducts most of its business as one source of its assessment. The study uses a range of state-of-the-art climate projections across different scenarios and time periods. The study transparently discloses its methodologies, for example climate models employed and data sources which are recent, state of the art and reliable and the study is expert/peer-reviewed and published by a reliable entity.*

Step 5 - Select adaptation solutions in a fashion that is tailor-made to the results of the assessment and the context, in which the solution is implemented. The adaptation solutions need to be integrated in an adaptation plan that ensures that all solutions collectively significantly reduce the identified impacts.

*For example, given that the logistics company wants to reduce the risk of reduced transport loads during low water levels, one solution would be an update of the fleet with lightweight vessels that operate better under such conditions. The assessment has shown*

	<p><i>that this solution is financially feasible and practically implementable and will not affect the adaptation efforts of others nor contradict local and regional adaptation plans. Because this physical solution is covered by another activity in the adaptation Annex, 6.8. Inland freight water transport, the company has made sure that the solution complies with the DNSH criteria of that activity.</i></p> <p><u>Step 6</u> - Implement the suitable adaptation solutions. Expenditures arising for the implementation can be reported at the end of each year as expenditures that contribute towards the adaptation objective of the EU Taxonomy.</p> <p><i>For example, the expenses for purchasing lightweight vessels by the logistics company could then be reported as taxonomy-aligned expenditure.</i></p> <p><u>Step 7</u>: Set-up a monitoring and measurement system. When implementing adaptation solutions, the entity needs to define indicators to monitor the effectiveness of the solution. If the indicators are not met, remedial action need to be taken.</p> <p><i>For example, for the monitoring of the solution, the company has defined an indicator that measures the target tonnes of freight transported on low water level. After the purchase and operation of the lightweight vessels they identify that the target indicator is not met as on some days the water levels are so low that the company can load the lightweight vessels only with half their freight capacity. The company considers remedial measures and decides to outsource to additional road transport to make up for the freight that cannot be transported on the waterway.</i></p>
<p>Next steps and references</p>	<p><u>References to recommended resources:</u></p> <ul style="list-style-type: none"> <li>■ <a href="#">EN ISO 1409:2021</a> European Standard “Adaptation to climate change - Guidelines on vulnerability, impacts and risk assessment”</li> <li>■ Climate Expert Tool: A practical excel tool for SMEs, guiding you through relevant question in developing an adaptation strategy, including the assessment and prioritisation of climate risks and opportunities</li> <li>■ <a href="#">Copernicus Climate Change Service</a> providing climate data and tools providing climate data and tools</li> <li>■ <a href="#">Climate-ADAPT</a> as a platform to share knowledge and experiences</li> </ul>

### 3.5 Use Case related to step 3: Check compliance with minimum safeguards

#### Use Case 6: Assessing compliance with minimum safeguards

### How can my company ensure compliance of its eligible activities with the minimum safeguards?

Context

In line with the principles enshrined in the European Pillar of Social Rights supporting a sustainable and inclusive growth, and recognising the relevance of international minimum human and labour rights and standards, the [EU Taxonomy Regulation](#) stipulates that economic activities should only qualify as environmentally sustainable where they are carried out in alignment with Article 18 (1) and (2):

*“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.*

*When implementing the procedures referred to in paragraph 1 of this Article, undertakings shall adhere to the criteria of “do no significant harm” referred to in point (17) of Article 2 of [Regulation \(EU\) 2019/2088](#).<sup>16</sup>”*

As regards to the UN Guiding Principles on Business and Human rights, these include: (1) the [Declaration on Fundamental Principles and Rights at Work](#) of the International Labour Organisation (ILO); (2) the [eight fundamental conventions](#) of the ILO; and, (3) the [International Bill of Human Rights](#) from the Office of the United Nations High Commissioner for Human Rights (OHCHR).

As an example, the eight fundamental conventions identified in the ILO’s declaration are:

- the right not to be subjected to forced labour;
- the freedom of association;
- workers’ right to organise;
- the right to collective bargaining;
- equal remuneration for men and women workers for work of equal value;
- non-discrimination in opportunity and treatment with respect to employment and occupation; and
- the right not to be subjected to child labour.

**Disclaimer:** Companies subject to Taxonomy disclosure under Article 8 of the Taxonomy Regulation will also be subject to **sustainability reporting standards** referenced in the CSRD. Those standards will be prepared by the European Financial Reporting Advisory Group (EFRAG) and adopted by the Commission as Delegated Acts.

<sup>16</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosure Regulation).

Proposed approach to address your challenge

To demonstrate your compliance with the minimum safeguards, ensure that your company has defined the relevant policies, procedures, systems and indicators that are necessary to adhere to the UN Guiding Principles on Business and Human rights and the [OECD Guidelines for Multinational Enterprises](#) as referred to in Article 18(1) of the Taxonomy Regulation.

*For example, such information could include:*

*(1) your labour and governance policies, and whether these include compliance with all eight conventions;*

*(2) a definition of your labour management systems;*

*(3) key performance indicators on elements such as health and safety track records, gender mobility or gender pay gap; and,*

*(4) audits of sites and/or suppliers or subcontractors on those dimensions.*

Next steps and references

References to recommended resources:

- [OECD Guidelines for Multinational Enterprises](#)
- [UN Guiding Principles on Business and Human Rights](#)
- [\[Potential upcoming FAQ from the Commission\]](#)
- [Report of the Platform on Sustainable Finance on minimum safeguards](#)

### 3.6 Use Cases related to step 4: Apply relevant reporting rules

#### Use Case 7: Reporting against the EU Taxonomy for non-financial companies

### What are the disclosure obligations related to the EU Taxonomy for a non-financial company?

Context	<p>One of the key objectives of the EU Taxonomy is to increase transparency in the market and help reduce greenwashing by providing information to investors about the environmental performance of assets and economic activities of large financial institutions and large non-financial companies.</p> <p>The <a href="#">Disclosures Delegated Act</a> is therefore a key enabler of the EU Taxonomy as it specifies the information that large financial institutions and non-financial companies must provide to investors and wider stakeholders. Disclosure requirements aim to provide the market with information on: (1) companies whose activities comply with the EU Taxonomy criteria (through disclosure of the share of revenue from EU taxonomy-aligned activities); and, (2) companies that are taking steps to get there (through disclosure of green expenditure).</p> <p>As the objective of your disclosure is to allow investors (or, more broadly, financial institutions) to make financing decisions, you will be required to translate your environmental performance into financial variables. Such a process will require new skills and new processes to be defined in your organisation.</p>
Proposed approach to address your challenge	<p><b>Step 1</b> - identify taxonomy-aligned economic activities (see Use Cases 1, 2, 3 and 4 for more information). The outcome of your assessment could be that only some of your activities are aligned.</p> <p><i>For example, if your company manufactures specific equipment for buildings, only the activities related to the products meeting specific energy efficiency thresholds as defined in the technical screening criteria for substantial contribution to climate change mitigation included in Annex I to the <a href="#">Climate Delegated Act</a> will be eligible.</i></p> <p><b>Step 2</b> - disclose the key performance indicators (KPIs) for each economic activity and the total KPIs for all economic activities at the level of the relevant company or group. Such information includes both the turnover from activities identified as taxonomy-aligned, as well as any capital expenditure (and specific operational expenditure) related to expanding these activities and maintaining them as EU taxonomy-aligned. Capital expenditure that are part of an investment plan aiming to make an activity taxonomy-aligned also counts.</p> <p>The KPIs are defined as:</p> <p>(1) The <b>turnover KPI</b> represents the proportion of your net turnover derived from products or services that are taxonomy-aligned. The turnover KPI gives a static view of your company’s contribution to environmental goals.</p> <p>The KPI shall be calculated as the part of the net turnover derived from products or services, including intangibles, associated with taxonomy-aligned economic activities (numerator), divided by the net turnover (denominator) as defined in Article 2, paragraph (5), of the <a href="#">Accounting Directive</a>.</p> <p>(2) The <b>capital expenditure (CapEx) KPI</b> represents the proportion of the capital expenditure of an activity that is either already taxonomy-aligned or is part of a</p>

credible plan<sup>17</sup> to extend or reach environmental sustainability. The capital expenditure KPI provides a dynamic and forward-looking view of companies' plans to transform their business activities.

The denominator shall cover additions to tangible and intangible assets during the financial year considered before depreciation, amortisation and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes. The denominator shall also cover additions to tangible and intangible assets resulting from business combinations.

The numerator shall be equal to the part of the capital expenditure included in the denominator that is

- a) related to assets or processes that are associated with taxonomy-aligned economic activities; or,
- b) part of a plan (considered as credible and feasible in the medium-term, i.e., 5 years) to expand taxonomy-aligned economic activities or to allow taxonomy-eligible economic activities to become taxonomy-aligned; or,
- c) related to the purchase of output from taxonomy-aligned economic activities and individual measures enabling the target activities to become low-carbon or to lead to greenhouse gas emission reductions (e.g., building renovations), provided that such measures are implemented and operational within 18 months.

- (3) The **operational expenditure (OpEx) KPI** represents the proportion of the operating expenditure associated with taxonomy-aligned activities or to the capital expenditure plan. The operating expenditure KPI covers essentially non-capitalised costs related to the maintenance and servicing of companies' assets (plant, equipment) that are necessary to ensure the continued and effective use of assets.

The denominator shall cover direct non-capitalised costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures related to the day-to-day servicing of assets of property, plant and equipment by the undertaking or third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets.

The numerator shall be equal to the part of the operating expenditure included in the denominator that is:

- a) related to assets or processes associated with taxonomy-aligned economic activities, including training and other human resources adaptation needs, and direct non capitalised costs that represent research and development; or,
- b) part of the CapEx plan to expand taxonomy-aligned economic activities or allow taxonomy-eligible economic activities to become taxonomy-aligned within a predefined timeframe; or,
- c) related to the purchase of output from taxonomy-aligned economic activities and to individual measures, enabling the target activities to become low-carbon or to lead to greenhouse gas emission reductions as well as individual building

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<sup>17</sup> As defined by the Commission in the [FAQs: What is the EU Taxonomy Article 8 delegated act and how will it work in practice?](#), question 6: 'This Disclosures Delegated Act considers that a credible plan is a necessary condition to ensure that companies are embarking on a trajectory aimed to make their economic activities taxonomy-aligned. A credible plan should minimise companies' reputational risks, support their environmental target and develop strategic and forward-looking business decisions.'



renovation measures, provided that such measures are implemented and operational within 18 months.

*For example, a manufacturing company that produces among others, Taxonomy-aligned energy efficiency equipment for buildings will report: (1) its net turnover from selling its energy efficiency equipment for buildings as its share of taxonomy-aligned turnover based on the proportion of turnover that those activities represent, and (2) new investment to expand a factory that produces the Taxonomy-aligned energy efficiency equipment for buildings as its share of Taxonomy-aligned capital expenditure t based on the proportion of capital expenditure dedicated to this investment.*

*(3) expenditures on purchases of Taxonomy-aligned energy (e.g. renewable energy) or other Taxonomy-aligned inputs for its production process as its share of Taxonomy-aligned operating expenditure.*

Exception: for the environmental objective of climate change adaptation (unless for enabling activities), only the capital or operating expenditures related to making an activity climate-resilient should be taken into account. The turnover associated with the activity itself should not be counted unless it also qualifies as environmentally sustainable for its substantial contribution to another environmental objective.

*For example, a manufacturing plant that does not comply with the criteria for substantial contribution to climate change mitigation, but is being renovated to improve its resilience against climate change, could count the renovation as taxonomy-aligned expenditure. However, the turnover linked to the activity of the manufacturing plant, even after the plant has been made climate-resilient, would not count unless the products manufactured in the plant are taxonomy-aligned.*

**Step 3** - provide a breakdown of the KPIs based on the economic activity pursued, including transitional and enabling activities, and the environmental objective reached. Annex II to the [Disclosures Delegated Act](#) includes templates for the KPIs of non-financial companies.

*For example, a part of the template for the disclosure of the proportion of turnover from products or services associated with taxonomy-aligned economic activities is shown below.*

**Figure 3.4** Illustration of the template on “Proportion of turnover from products or services associated with taxonomy-aligned economic activities” (limited selection only)

Economic activities (1)	Code(s) (2)	Absolute turnover (3) Currency	Proportion of turnover (4) %	Substantial contribution criteria					
				Climate change mitigation (5) %	Climate change adaptation (6) %	Water and marine resources (7) %	Circular economy (8) %	Pollution (9) %	Biodiversity and ecosystems (10) %
<b>A. TAXONOMY-ELIGIBLE ACTIVITIES</b>			%						
<b>A.1. Environmentally sustainable activities (Taxonomy-aligned)</b>									
Activity 1 <sup>3</sup>			%	%	%	%	%	%	%
Activity 2			%	%	%	%	%	%	%
<b>Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)</b>			%	%	%	%	%	%	%

**Step 4** - identify the proportion of the turnover, CapEx and OpEx related to taxonomy-aligned economic activities and the proportion of the turnover, CapEx, and OpEx related

to taxonomy-eligible economic activities that do not meet the technical screening criteria over the total turnover, CapEx, and OpEx.

See templates provided in Annex II of the [Disclosures Delegated Act](#).

**Step 5** – identify taxonomy-non-eligible economic activities and disclose the proportion of turnover, CapEx, and OpEx related to Taxonomy non-eligible activities over total turnover, CapEx, and OpEx.

See templates provided in Annex II of the [Disclosures Delegated Act](#).

**Step 6** – provide supplementary information to show the transition of your taxonomy-eligible economic activities towards Taxonomy alignment over time and explain the key elements for change of the three KPIs during the reporting period.

**Remark:** if your company prepares only individual non-financial statements, all the KPIs shall be provided at the level of the individual legal entity. If your company prepares consolidated non-financial statements, they shall be prepared at the level of the group.

Next steps and references

The reporting obligations will increase gradually, with the following schedule:

- As of January 2022, all companies under the scope of the NFRD commenced reporting of what activities are considered to be taxonomy-eligible, i.e., are **covered** by the EU Taxonomy vs. those that are not covered.
- As of January 2023, large non-financial companies under the scope of the NFRD will need to report Taxonomy alignment, i.e., what activities are **aligned with** the EU Taxonomy technical screening criteria vs. those that are not aligned. Large companies that were not covered under the NFRD but will now be subject of the CSRD will need to report in 2026 (for the reporting period 2025).

Figure 3.5 Illustration of the reporting schedule for large companies<sup>18</sup>

Companies	2022	2023	2024	2025	2026	2027
Large companies (in scope of NFRD)						
Large companies (not in scope of NFRD but well in CSRD)						
Listed SMEs in scope of CSRD						
Taxonomy-eligible data						
Taxonomy-aligned data						

For more information, you should refer to the Disclosure Delegated Act, the accompanying Staff Working Document and the related FAQs published by the European Commission:

- [Disclosures Delegated Act](#) and its Annexes I and II
- [Staff Working Document](#) on Article 8 of Taxonomy Regulation
- [FAQs](#): What is the EU Taxonomy Article 8 delegated act and how will it work in practice?

<sup>18</sup>Source: [Platform on Sustainable Finance, Practical Briefing on the EU Taxonomy, 2021](#), available on YouTube.

- [FAQs](#): 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?
  - [FAQs](#): Draft Commission notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of eligible economic activities and assets
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**Use Case 8: Reporting against the EU Taxonomy for credit institutions (banks)**

**What are the disclosure obligations related to the EU Taxonomy for credit institutions (banks)?**

<p>Context</p>	<p>As explained in Use Case 7, the <a href="#">Disclosures Delegated Act</a> is a key enabler of the EU Taxonomy as it specifies reporting requirements for financial and non-financial companies. It requires financial institutions to report “how, and to what extent, their activities are associated with taxonomy-aligned activities” as part of their disclosure requirements under Article 8 of the Taxonomy Regulation.</p> <p>The main requirements for financial institutions are (a) to explain how and to what extent they have used the EU Taxonomy in determining the sustainability of underlying investments, (b) to disclose to what environmental objective(s) those investments make a substantial contribution, and (c) to disclose the proportion of underlying investments that are taxonomy-aligned, expressed as a percentage of their overall investment, fund or portfolio.</p> <p>The <a href="#">Disclosures Delegated Act</a> and its Annexes V and VI specify the reporting requirements for credit institutions that are subject to the disclosure obligations laid down in the <a href="#">Non-Financial Reporting Directive</a>. The main KPI for credit institutions is the <b>Green Asset Ratio (GAR)</b> representing the extent to which their exposures finance Taxonomy-aligned activities. For exposures where the use of proceeds is not known, credit institutions shall use the KPIs of their counterparties (e.g. the turnover and CapEx KPIs disclosed by their non-financial counterparties (see Use Case 7)) to compute their own KPIs,</p>
<p>Proposed approach to address your challenge</p>	<p><u>Step 1</u> - disclose the aggregate <b>Green Asset Ratio</b> for your institution’s covered <b>on-balance sheet assets</b>.</p> <p>The main activity of credit institutions is the provision of financing (through extension of credit or making investments) to the real economy. The exposures of credit institutions to organisations that they finance are reflected as on-balance sheet assets. The main key performance indicator (KPI) for credit institutions is the <b>Green Asset Ratio</b> for on-balance sheet exposures, which shows the proportion of on-balance sheet assets financing and invested in Taxonomy-aligned activities compared to the total covered assets of those credit institutions.</p> <p>The numerator of the green asset ratio shall cover the loans and advances, debt securities, equities and repossessed collaterals that finance taxonomy-aligned economic activities. For exposures where the use of proceeds is known, the numerator shall include amounts to the extent and proportion that they finance a taxonomy-aligned economic activity. For exposures whether the use of proceeds is not known, the numerator shall included amounts weighted by the KPIs of the counterparties: the exposures to non-financial undertakings shall be weighted by the turnover KPI and the CapEx KPI and exposures to financial undertakings by) the relevant KPIs of underlying assets. The denominator shall cover the total loans and advances, total debt securities, total equities and total repossessed collaterals and all other covered on-balance sheet assets irrespective whether they finance Taxonomy-aligned activities or not.<sup>19</sup> The trading</p>

<sup>19</sup> The numerator and denominator shall not include the exposures mentioned in Article 7(1) of the Art 8 DA, namely exposures to central governments, central banks and supranational issuers. The numerator shall not include exposures mentioned in Article 7(2) and (3) namely derivatives and exposures to undertakings that are not obliged to publish non-financial information pursuant to the Non-Financial Reporting Directive, and further exposures listed in the third paragraph of Section 1.1.2 of Annex V of the Disclosure Delegated Act (on-demand interbank loans, cash and cash-related assets, other categories of assets (such as Goodwill, commodities etc.).

portfolio and certain exposures (sovereign) shall be excluded from the denominator and the numerator of the KPIs.

Credit institutions shall disclose GAR computed based on stocks and flows. Credit institutions shall also disclose the breakdown of the KPIs by environmental objective and by type of counterparty. For climate change mitigation, this shall also include disclosures of which are enabling and transitional activities. For other environmental objectives, this shall include disclosures of which are enabling activities.

*[Annex V](#) of the [Disclosures Delegated Act](#) includes details on how to calculate the green asset ratio for different types of on-balance sheet exposures.*

**Step 2** - disclose a complementary **green ratio** on the level of association with taxonomy-aligned economic activities of **off-balance sheet exposures**.

Credit institutions may manage underlying assets or provide financial guarantees, leading to off-balance-sheet exposures. For those off-balance-sheet exposures, you should disclose the proportion of taxonomy-aligned activities in the underlying assets that your institution manages or in the obligations for which your institution is offering a guarantee of performance.

The **green ratio for financial guarantees** to undertakings shall be defined as the proportion of financial guarantees supporting loans and advances and debt securities financing Taxonomy-aligned economic activities (numerator) compared to all financial guarantees supporting loans and advances and debt securities to undertakings (denominator). This shall include disclosures of stock and flow, for all the environmental objectives. For climate change mitigation, this shall also include disclosures of which are enabling and transitional activities. For other environmental objectives, this shall include disclosures of which are enabling activities.

The **green ratio for assets under management** shall be the proportion of assets under management (equity, debt instruments, and real estate) from undertakings financing taxonomy-aligned economic activities (numerator), compared to total assets under management (equity, debt instruments, and real estate) (denominator). This shall also include disclosures of stock and flow, for all the environmental objectives. For climate change mitigation, this shall also include disclosures of which are enabling and transitional activities. For other environmental objectives, this shall include disclosures of which are enabling activities.

*[Annex V](#) of the [Disclosures Delegated Act](#) includes details on how to calculate the green ratio of off-balance sheet assets.*

**Step 3** – disclose the KPI for **fees and commission income** linked to services associated with taxonomy-aligned economic activities.

Credit institutions also perform other commercial services and activities than the provision of financing, for example merger and acquisition advisory services or private banking. Those activities generate fees and commission income. Also, for these types of income, your institution shall disclose the proportion of taxonomy-alignment.

The numerator of the KPI shall include the fees and commissions income associated with taxonomy-aligned economic activities from services other than lending and asset management. This shall be estimated by weighting the fees and commission income from each counterparty with the proportion of turnover and capital expenditures associated with

taxonomy-aligned economic activities of the company contributing to the relevant environmental objective as disclosed by the company. For financial institutions, the ratio for the counterparty to be applied shall be the same as for the KPIs for these institutions.

The denominator shall be the total amount of fees and commission income from companies from products or services other than lending and asset management.

*[Annex V](#) of the [Disclosures Delegated Act](#) includes details on how to calculate the KPI for fees and commission income.*

#### **Step 4 - disclose green asset ratio for your trading portfolio**

In addition to disclosures concerning your banking book, your institution shall provide explanations on the investment policy regarding its trading portfolio, overall composition, and on any trend in terms of predominant sectors and their association with taxonomy-aligned economic activities. They shall also explain potential limits in terms of climate and environmental risks, in terms of the level of association with taxonomy-aligned economic activities and how they manage the environmental risks that may impact the value of the portfolio.

Where a trading portfolio plays an important role in the business model of the credit institution, they shall disclose quantitative information and KPIs that show to what extent the institution is trading with environmentally sustainable assets and to what extent it is contributing to promoting the trading of this type of assets.

You shall disclose (a) total trading during the disclosure period in taxonomy-aligned instruments, including absolute purchases plus absolute sales of environmentally sustainable securities and (b) total trading during the disclosure period of securities, including total absolute purchases plus total absolute sales of securities.

The specific green asset ratio for your trading portfolio shall be the proportion of absolute purchases and absolute sales of environmentally sustainable securities (numerator), compared to the total absolute purchases and absolute sales of securities (denominator).

*For example, [Annex V](#) of the [Disclosures Delegated Act](#) includes details on how to calculate the KPI for fees and commission income.*

#### Next steps and references

The reporting obligations will increase gradually, with the following schedule:

- As of January 2022, all institutions commenced reporting of what activities are considered to be taxonomy-eligible, i.e., are **covered** by the EU Taxonomy vs. those that are not covered.
- As of January 2024, all institutions will need to report Taxonomy alignment, i.e., what activities are **aligned with** the EU Taxonomy technical screening criteria vs. those that are not aligned (with the exception of trading book and fees, and commissions that are delayed to 2026).

For more information, you should refer to the Disclosures Delegated Act, the accompanying Staff Working Document and the related FAQs published by the European Commission:

- [Disclosures Delegated Act](#) and its Annex V and VI
- [Staff Working Document](#) on Article 8 of Taxonomy Regulation
- [FAQs](#): What is the EU Taxonomy Article 8 delegated act and how will it work in practice?

- [FAQs](#): 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?
- [FAQs](#): Draft Commission notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of eligible economic activities and assets

References to additional recommended resources:

- [UNEP FI / EBF report: Testing the application of the EU Taxonomy to core banking products](#)
  - [The TEG report](#) (including specific case studies for typical asset classes to show how the EU Taxonomy should be applied and how financial actors should report on it in practice)
-

## Use Case 9: Reporting against the EU Taxonomy for asset-managers

### What are the disclosure obligations related to the EU Taxonomy for financial institutions?

#### Context

Asset managers are facing two sets of disclosures related to the Taxonomy:

- (1) Entity-level disclosures under the Disclosures Delegated Act (for all asset managers in the scope of the NFRD/CSRD)
- (2) Product-level disclosures under Articles 5 and 6 of the Taxonomy Regulation, and the related obligations under the [SFDR Delegated Regulation](#) (for the financial products disclosing under Articles 8 and 9 of the SFDR)

#### **Entity level disclosures under the Disclosures Delegated Act**

As explained in Use Case 7, the [Disclosures Delegated Act](#) is a key enabler of the EU Taxonomy as it specifies reporting requirements for financial and non-financial companies. It requires financial institutions to report “how, and to what extent, their activities are associated with taxonomy-aligned activities” as part of their disclosure’s requirements under Article 8 of the Taxonomy Regulation.

The main requirements for financial institutions are (a) to explain how and to what extent they have used the EU Taxonomy in determining the sustainability of underlying investments, (b) to disclose to what environmental objective(s) those investments make a substantial contribution, and (c) to disclose the proportion of underlying investments that are taxonomy-aligned, expressed as a percentage of their overall investment, fund or portfolio.

The [Disclosures Delegated Act](#) and its Annexes III and IV specify the reporting requirements for asset managers that are subject to the disclosure obligations laid down in the [Non-Financial Reporting Directive](#). The KPI of Asset Managers is defined as the proportion of investments and assets financing taxonomy-aligned activities in their assets under management. For investments where the use of proceeds is not known, asset managers shall use the KPIs disclosed by their investee undertakings (e.g. the turnover and CapEx KPIs disclosed by their non-financial investees (see Use Case 7) or the relevant KPIs disclosed by their financial investees (see Use Case 8)) to compute their own KPIs.

#### **Product level disclosures under Articles 5 and 6 of the Taxonomy Regulation**

The EU Taxonomy plays a central role in the SFDR. It is used as a tool to assess the sustainability claims made by financial products under the SFDR.

According to Articles 5 and 6 of the Taxonomy Regulation, taxonomy disclosures are required for those financial products falling under the Article 8 and 9 of the SFDR. Financial products disclosing under Article 8 of SFDR are products that promote environmental and/or social characteristics (E/S). Financial products disclosing under Article 9 of SFDR are products that specifically have sustainable investment as their objective.

These financial products must disclose certain Taxonomy-related information in the pre-contractual and periodic documentation required according to their sectoral legislation and on their websites. This information includes the environmental objective(s) set out in the Taxonomy Regulation to which the investment contributes to and the percentage of the underlying fund that is Taxonomy-aligned.



According to the SFDR Delegated Regulation, the quantitative proportion of Taxonomy-alignment for products disclosing under Articles 8 and 9 should be measured by turnover or, if justified, by CapEx or OpEx.

Proposed approach to address your challenge

**Entity level disclosure under Disclosures Delegated Act**

Step 1 - disclose a KPI based on turnover KPIs of the investee companies and a KPI based on the capital expenditures KPI of the investee companies.

The KPI to be reported is referred to as the **Green Asset Ratio for Asset Managers**. As an asset manager, your institution should therefore disclose the proportion of investments and assets you made in taxonomy-aligned economic activities in relation to the value of all investments you have under management, excluding exposures referred to in Article 7(1), resulting from both collective and individual portfolio management activities. For investments where the use of proceeds is not known, asset managers will mainly rely on the underlying investee companies' KPIs to compute their own green investment ratio. For the investments and assets where the use of proceeds is known, the numerator should include exposures to the extent and proportion in which those exposures finance Taxonomy-aligned economic activities.

For exposures where the use of proceeds is not known, the KPI numerator shall consist of a weighted average of the value of investments in taxonomy-aligned economic activities of the companies you have invested in. The denominator shall consist of the value of all Assets under Management resulting from both collective and individual portfolio management activities of your institution and excluding exposures referred to in Article 7(1).

KPIs shall be disclosed for each environmental objective and for aggregated taxonomy-aligned economic activities.

Step 2 - provide the breakdown of the denominator per type of assets (e.g. derivatives, EU undertakings not subject to NFRD, non-EU undertakings not subject to NFRD, undertakings subject to NFRD, other counterparties, Taxonomy-eligible but not Taxonomy-aligned activities, Taxonomy not-eligible activities)

Step 3 - provide the breakdown of the numerator per type of assets (e.g. Taxonomy-aligned exposures to financial and non-financial undertakings subject to NFRD, Taxonomy (turnover based and CapEx based), Taxonomy aligned exposures to other counterparties or assets (CapEx based)).

Step 4 - disclose the breakdown of the numerator of KPIs per environmental objective. This shall include a breakdown of which activities are enabling and transitional (the breakdown of transitional activities shall only be done for climate change mitigation). All disclosures under this step shall be turnover based and CapEx based.

**Remark:** provide the KPIs at the level of the individual asset manager if your institution prepares only individual non-financial statements or at the level of the group if your institution prepares consolidated non-financial statements.

*The below figure shows an example of how to calculate the alignment of an equity fund formed by three companies.*

Figure 3.6 How to calculate the KPI of an asset manager

Investments and assets in all funds and portfolios under management	% in total AUM (excluding Art 7(1))	Proportion of Taxonomy-alignment
---	-------------------------------------	----------------------------------

Use of proceeds not known		Investee Turnover KPI	Investee CapEx KPI
Investee 1	10%	20%	30%
Investee 2	10%	5%	10%
Investee 3	10%	1%	20%
Investee 4	15%	0%	0%
Use of proceeds known			
Investee 5 (green bond)	5%	100%	
Real estate	50%	5%	
<b>Total covered AUM</b>	<b>100%</b>	<b>10%</b>	<b>14%</b>
<b>KPI of the Asset Manager (turnover based)</b>		<b>10%</b>	
<b>KPI of the Asset Manager (CapEx based)</b>			<b>14%</b>

[Annex III and IV](#) of the [Disclosures Delegated Act](#) include details on KPIs and templates for the reporting related to asset managers.

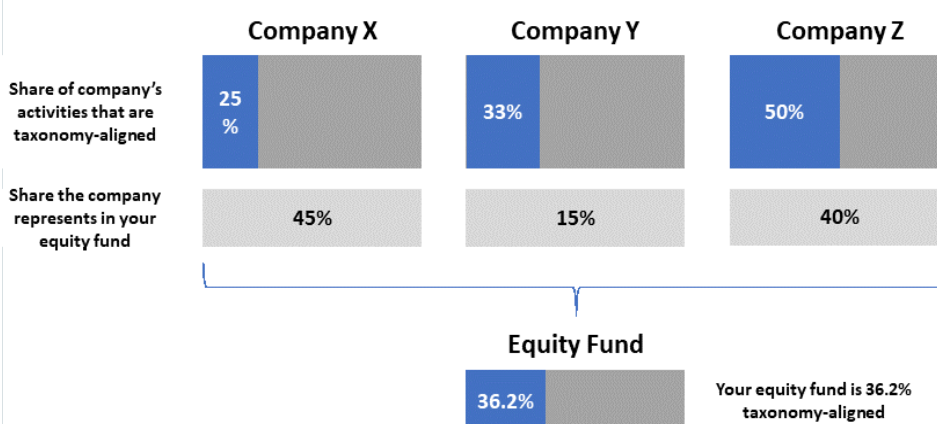
### Product level disclosure under Article 5 and 6 of the Taxonomy Regulation

**Step 1** – Indicate in pre-contractual disclosures the minimum proportion of taxonomy aligned investments that the financial product commits to, if any.

If a proportion of taxonomy-alignment was indicated, the additional information that the asset manager must include:

- a description of how the underlying investments of the financial product align with the taxonomy;
- the percentage of investments aligned with the EU taxonomy including and excluding sovereign bonds; and
- the share of investments in transitional and enabling activities.

Figure 3.7 How to calculate the alignment of an illustrative equity fund



**Step 2** – In the periodic reports, disclose the actual proportion of Taxonomy-aligned investments in the past year.

The below figures show the Taxonomy related sections in the SFDR reporting templates.

Figure 3.8 SFDR reporting templates on Taxonomy<sup>20</sup>

**Did this financial product have a sustainable investment objective?** *[tick and fill in as relevant, the percentage figure represents sustainable investments]*

●● <input type="checkbox"/> Yes	●○ <input type="checkbox"/> No
<input type="checkbox"/> It made <b>sustainable investments with an environmental objective:</b> ___% <ul style="list-style-type: none"> <li><input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> </ul> <input type="checkbox"/> It made <b>sustainable investments with a social objective:</b> ___%	<input type="checkbox"/> It <b>promoted Environmental/Social (E/S) characteristics</b> and while it did not have as its objective a sustainable investment, it had a proportion of ___% of sustainable investments <ul style="list-style-type: none"> <li><input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with a social objective</li> </ul> <input type="checkbox"/> It promoted E/S characteristics, but <b>did not make any sustainable investments</b>

Next steps and references

The reporting obligations will increase gradually, with the following schedule:

- As of January 2022, all institutions commenced reporting of what activities are considered to be taxonomy-eligible, i.e., are **covered** by the EU Taxonomy vs. those that are not covered.
- As of January 2024, all institutions will need to report Taxonomy alignment, i.e., what activities are **aligned with** the EU Taxonomy technical screening criteria vs. those that are not aligned.

Figure 3.9 Illustration of the reporting schedule for asset managers<sup>21</sup>

Asset managers	2022	2023	2024	2025
All KPIs				
Taxonomy-eligible data				
Taxonomy-aligned data				
Mix according to holdings*				

\*Reporting for financial holdings may only account eligible data from previous financial year, aligned in 2025

For more information, you should refer to the Disclosure Delegated Act, the accompanying Staff Working Document and the related FAQs published by the European Commission:

- [Disclosures Delegated Act](#) and its Annexes III and IV
- [Staff Working Document](#) on Article 8 of Taxonomy Regulation

<sup>20</sup> As included in Annexes IV and V of the [SFDR Delegated Regulation](#) (templates for periodic disclosure for financial products referred to in Article 8 and 9).

<sup>21</sup> Source: [Platform on Sustainable Finance, Practical Briefing on the EU Taxonomy, 2021](#), available on YouTube.

- [FAQs](#): What is the EU Taxonomy Article 8 delegated act and how will it work in practice?
- [FAQs](#): 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?
- [FAQs](#): Draft Commission notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of eligible economic activities and assets

References to additional recommended resources:

- [UNEP FI / EBF report: Testing the application of the EU Taxonomy to core banking products](#)
- [The TEG report](#) (including specific case studies for typical asset classes to show how the EU Taxonomy should be applied and how financial actors should report on it in practice)

**Use Case 10: Reporting against the EU Taxonomy for insurance and reinsurance companies**

**What are the disclosure obligations related to the EU Taxonomy for insurance and reinsurance companies?**

<p>Context</p>	<p>As explained in Use Case 7, the <a href="#">Disclosures Delegated Act</a> is a key enabler of the EU Taxonomy as it specifies reporting requirements for financial and non-financial companies. It requires financial institutions to report “how, and to what extent, their activities are associated with taxonomy-aligned activities” as part of their disclosure’s requirements under Article 8 of the Taxonomy Regulation.</p> <p>The main requirements for financial institutions are (a) to explain how and to what extent they have used the EU Taxonomy in determining the sustainability of underlying investments, (b) to disclose to what environmental objective(s) those investments make a substantial contribution, and (c) to disclose the proportion of underlying investments that are taxonomy-aligned, expressed as a percentage of their overall investment, fund or portfolio.</p> <p>The <a href="#">Disclosures Delegated Act</a> and its Annexes IX and X specify the reporting requirements for insurance and reinsurance companies that are subject to the disclosure obligations laid down in the Non-Financial Reporting Directive, in particular, the KPI related to investments and assets and the KPI related to underwriting activities.</p>
<p>Proposed approach to address your challenge</p>	<p><u>Step 1</u> - disclose the KPI that relates to your investment policy for the funds collected from your underwriting activities.</p> <p>The KPI should show the proportion of assets invested in taxonomy-aligned activities in your overall covered assets. The KPI shall be calculated as the proportion of the investments of insurance or reinsurance companies that are associated with taxonomy-aligned economic activities (numerator) in relation to their total investments excluding exposures referred to in Article 7(1) of the Disclosures Delegated Act (denominator) (see Green Asset Ratio in the asset management section). As explained for asset managers, insurers shall rely on the underlying investee companies’ KPIs to compute their own investment KPI for exposures where the use of proceeds is not known. For exposures where the use of proceeds is known, the numerator should include exposures to the extent and proportion in which those exposures finance Taxonomy-aligned economic activities.</p> <p><u>Step 2</u> - disclose the KPI that relates to the underwriting activities themselves and that shows what proportion of the overall non-life underwriting activities is composed of non-life underwriting activities that relate to climate adaptation. The KPI shall be calculated as the proportion of the ‘non-life gross premiums written’ corresponding to taxonomy-aligned insurance activities as defined in the Taxonomy Climate Delegated Act in relation to total non-life gross premiums written.</p> <p><i>For example, Annex IX and X of the <a href="#">Disclosures Delegated Act</a> include details on KPIs and templates for the reporting related to insurance and reinsurance companies.</i></p>
<p>Next steps and references</p>	<p>The reporting obligations will increase gradually, with the following schedule:</p>

- As of January 2022, all institutions commenced reporting of what activities are considered to be taxonomy-eligible, i.e., are **covered** by the EU Taxonomy vs. those that are not covered.
- As of January 2024, all institutions will need to report Taxonomy alignment, i.e., what activities are **aligned with** the EU Taxonomy technical screening criteria vs. those that are not aligned.

Figure 3.10 Illustration of the reporting schedule for financial institutions<sup>22</sup>

Insurers	2022	2023	2024	2025
KPI Underwriting				
KPI Assets				

Taxonomy-eligible data
Taxonomy-aligned data
Mix according to holdings*

\*Reporting for financial holdings may only account eligible data from previous financial year, aligned in 2025

For more information, you should refer to the Disclosure Delegated Act, the accompanying Staff Working Document and the related FAQs published by the European Commission:

- [Disclosures Delegated Act](#) and its Annexes IX and X
- [Staff Working Document](#)
- [FAQs](#): What is the EU Taxonomy Article 8 delegated act and how will it work in practice?
- [FAQs](#): 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?
- [FAQs](#): Draft Commission notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of eligible economic activities and assets

References to additional recommended resources:

- [UNEP FI / EBF report: Testing the application of the EU Taxonomy to core banking products](#)
- [The TEG report](#) (including specific case studies for typical asset classes to show how the EU Taxonomy should be applied and how financial actors should report on it in practice)

<sup>22</sup> Source: [Platform on Sustainable Finance, Practical Briefing on the EU Taxonomy, 2021](#), available on YouTube.

**Use Case 11: Defining transition targets**

**How can the EU Taxonomy help my company to define and disclose new credible transition targets?**

<p>Context</p>	<p>The EU Taxonomy criteria provide a reference point for your company to support your decision-making process towards sustainability. Your company can use the EU Taxonomy to improve your overall environmental performance (either by upgrading current activities or starting new activities). It also provides incentives to define an investment plan to gradually increase your share of green economic activities. The capital expenditures linked to your transition targets can help attract investors searching for taxonomy-aligned investments to finance the transition or those looking at limiting their environmental risks and/or maximise their opportunities. The EU Taxonomy will therefore help companies and investors to accelerate the transition to sustainability.</p> <p>The EU Taxonomy criteria are defined at the level of economic activities. Knowing the current environmental performance at the level of an activity will encourage your management to set transition targets and implement measures to align your activities with the EU Taxonomy criteria.</p> <p>In addition, the European Sustainability Reporting Standards (ESRS), according to which companies within the scope of the Corporate Sustainability Reporting Directive (CSRD) will have to publish sustainability reporting, set out a number of disclosure requirements which help companies to better define their transition targets. The objective of such disclosure is to enable an understanding of the undertaking’s past, current, and future mitigation efforts to ensure that its strategy and business model(s) are compatible with the transition to a sustainable economy. This shall include reporting information relating to the undertaking’s greenhouse gas emission reduction targets and climate change mitigation actions, as well as an explanation of the undertaking’s investments and funding supporting the implementation of the transition targets, and if applicable, an explanation of the undertaking’s objective for aligning its economic activities with the Taxonomy Regulation. EFRAG has submitted the draft ESRS to the European Commission, which will consult EU bodies and Member States on the draft standards, before adopting the final standards as delegated acts in June 2023.<sup>23</sup></p>
<p>Proposed approach to address your challenge</p>	<p><u>Step 1</u> – Identify how to close the gap between not aligned and aligned activities and define an activity level transition target.</p> <p>Knowing your current environmental performance at an activity level will encourage your company to define a credible and feasible transition target and identify the measures that improve environmental performance of your activities towards alignment with EU Taxonomy criteria.</p> <p><i>For example, if your company manufactures cement, only the activities that meet the EU ETS benchmark, as defined in the technical screening criteria for substantial contribution to climate change mitigation (see Annex I of the Climate Delegated Act) will be aligned. You could then define a target to transition for some or all of your production sites or lines towards the manufacture of cement meeting the identified criteria.</i></p>

<sup>23</sup> For more information, see [EFRAG website](#).

**Step 2** – Define required investments to implement your transition target and identify the resulting turnover share of taxonomy-aligned products.

As defined in Use Case 7, the EU Taxonomy does not just recognise the investments that are already green but allows your company to claim capital expenditures as taxonomy-aligned if they are part of a plan (considered as credible and feasible in medium-term /5 years) to expand taxonomy-aligned economic activities or to allow taxonomy-eligible economic activities to become taxonomy-aligned. You can also claim expenditures related to individual measures that enable the target activities to become low-carbon or lead to greenhouse gas emission reductions, provided that such measures are implemented and operational within 18 months.

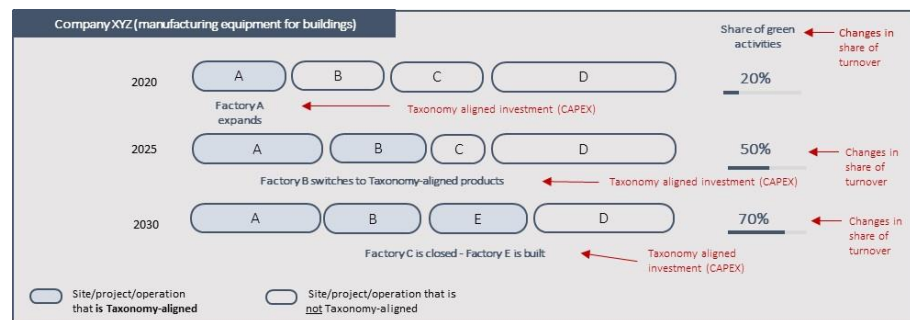
*Using the example of a company manufacturing cement as defined above, your company should assess the capital expenditures required to switch your sites or lines that will produce the taxonomy-aligned products such as energy efficient equipment (e.g., change of kiln) or energy mix switch (from fossil fuel towards biomass fuel) Your company should also assess the changes in the share of those products' turnover that result from the investments made.*

**Step 3** – Disclose capital expenditures KPI as defined in Use Case 7.

Based on your transition target, you will be able to disclose the expected impact on your key performance indicators (KPIs). You can disclose (1) capital expenditure that are part of your investment plan aiming to make an activity taxonomy-aligned and (2) the expected changes in turnover from activities identified as taxonomy-aligned.

*The figure below illustrates how your transition targets could be disclosed, in line with the EU Taxonomy reporting requirements.*

**Figure 3.11** Illustration of how your transition targets could be reported<sup>24</sup>



Next steps and references

Many initiatives from outside the EU exist to support your company in setting up and disclosing ambitious green strategies. Many of those fit well with the information required to assess and disclose your impact in alignment with the EU Taxonomy.

References to recommended resources:

- [ACT Initiative](#)
- [Science Based Target initiative](#)
- [Task Force on Climate-related Financial Disclosures \(TCFD\)](#)
- [CDP disclosure questionnaire](#)

<sup>24</sup> Source: [Platform on Sustainable Finance, Practical Briefing on the EU Taxonomy, 2021](#), available on YouTube.



**Use Case 12: Reporting against the EU Taxonomy for non-listed SMEs or non-EU companies<sup>25</sup>**

**Your company is a non-listed SME or a non-EU company, therefore it will not need to comply with the Taxonomy disclosures referred to in the CSRD. How can you still use the EU Taxonomy to measure and report your impact on climate change adaptation and mitigation?**

<p>Context</p>	<p>Reporting alignment with the EU Taxonomy is not mandatory for your company, but there might be good reasons for you to start considering it already.</p> <p>First, depending on market developments and the review mentioned in Article 9 of the Disclosures Delegated Act, financial institutions may gradually consider the degree to which their exposures align with the Taxonomy for all types of underlying companies, including non-listed SMEs and non-EU companies, not subject to the Taxonomy disclosures under the CSRD. Therefore, if your business has European investors, they will likely be asking questions about your alignment with the EU Taxonomy.</p> <p>Second, European companies operating globally will be likely to apply the EU Taxonomy lens to their global operations. While the EU Taxonomy is an EU regulation, it will have implications for foreign markets that conduct business with Europe or European companies. If you are a supplier of large EU companies, your clients might also need some information on your products in order to assess and disclose the potential impacts of their own outputs (e.g., to assess Do No Significant Harm criteria for building materials).</p> <p>Finally, you might consider applying the EU Taxonomy disclosure rules on a voluntary basis as its criteria might provide an important reference point to demonstrate the positive impact of your activities and therefore potentially retain or attract EU investors. For instance, SMEs that provide products or services in line with the EU Taxonomy, such as manufacturing of renewable energy or energy efficiency equipment, will have the option to use the EU Taxonomy as a tool to highlight the benefits and environmental contribution of their green activities and get easier access to green finance (e.g., a green loan of a bank linked to its green bonds issuance).</p>
<p>Proposed approach to address your challenge</p>	<p><u>Step 1</u> - Assess EU Taxonomy disclosure requirements.</p> <p>For the reasons highlighted above, it might be important that your company already starts assessing the disclosure requirements sets in the EU Taxonomy (refer to Use Case 7) and identify your stakeholders’ needs and the related required data to be collected.</p> <p><i>For example, if your company manufactures specific equipment for buildings, you should assess how to calculate/report the turnover and expenditure KPIs related to taxonomy-aligned activities. The KPIs will potentially cover some of your products if they meet the energy efficiency thresholds as defined in the technical screening criteria for substantial contribution to climate change mitigation (see Annex I of the <a href="#">Climate Delegated Act</a>).</i></p> <p><u>Step 2</u> – Identify required skills and define reporting processes.</p> <p>The EU Taxonomy disclosure rules are based on the translation of your environmental performance into financial variables. Such a process is not straightforward. Some</p>

<sup>25</sup> “Non-EU company” means a company not legally established in the EU.

requirements might be perceived as an administrative burden for smaller entities and represent an obstacle in relation to the correct and efficient voluntary reporting. It is therefore important to identify the new skills and processes that are required for your organisation.

*Using the above example of a company manufacturing specific equipment for buildings, you will need to collect and assess environmental and social data on your energy efficient products to demonstrate alignment with the technical screening criteria and compliance with the minimum safeguards (see Use Case 2 to 6). You will also need to collect financial information to assess the share of turnover that those products represent, and the potential expenditures related to an extension, switch or development of the production capacity of those products.*

**Step 3** – Apply disclosure requirements to your economic activities identified as taxonomy-aligned and follow the process described in Use Case 7.

Those SMEs whose business model is focused on one green activity covered by the EU Taxonomy will have only one set of criteria applicable to their business model.

*For example, a small manufacturer of energy efficient windows could check relatively easily what share of its turnover, capital expenditure or operational expenditure is related to the sale of windows that comply with the EU Taxonomy criteria.*

Next steps  
and  
references

Reporting obligations will be extended gradually, with the following schedule:

- As of January 2022 (for the reporting period 2021), only entities that fall under the scope of the NFRD needed to report the proportion of their activities (or the proportion of their exposure to activities) that are considered as eligible in the EU Taxonomy vs. those that are not eligible or not covered. At this stage, entities are not required to assess Taxonomy-alignment of these activities. They are also only required to report against activities related to climate objectives (activities related to other objectives will only be published in 2023).
- In 2023 (for the reporting period 2022), non-financial companies under the scope of the NFRD will need to report what activities are considered as aligned with the EU Taxonomy climate objectives.

As described in the previous chapter, the CSRD enlarges the scope of companies that will need to publish sustainability information to all large and all listed companies (with the exception of micro companies).

- Large companies that were not covered under the NFRD but are now covered under the CSRD will need to report in 2026 (for the reporting period 2025).
- Listed SMEs will need to report in January 2027 (for the reporting period 2026). They may however decide to opt out of the reporting requirements for a further two years.

For more information, you should refer to the Disclosure Delegated Act, the accompanying Staff Working Document and the related FAQs published by the European Commission:

- [Disclosures Delegated Act](#) and its Annexes I and II
- [Staff Working Document](#) on Article 8 of Taxonomy Regulation
- [FAQs](#): What is the EU Taxonomy Article 8 delegated act and how will it work in practice?

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| <ul style="list-style-type: none"><li>• <a href="#">FAQs</a>: 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?</li><li>• <a href="#">FAQs</a>: Draft Commission notice on the interpretation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of eligible economic activities and assets</li></ul> |
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# Conclusions

## 4.1 Key takeaways

The EU Taxonomy is important for you if your company or your financial institution:

- falls under the scope of the NFRD/CSRD and thus needs to fulfil sustainability disclosure requirements;
- wants to gain a competitive advantage through better access to financial markets and reputational benefits; and/or,
- seeks guidance to improve sustainability performance and climate resilience.

When using the EU Taxonomy to assess if an economic activity can be considered as environmentally sustainable, it is important to check:

- the activity's description to determine taxonomy-eligibility (see Use Case 1); and
- the activity's substantial contribution criteria (see Use Case 2) and Do No Significant Harm criteria (see Use Case 3), as well as the company's compliance with the minimum safeguards (see Use Case 6) to determine taxonomy-alignment.

The EU Taxonomy Delegated Acts are subject to periodic reviews in order to be aligned with latest scientific evidence, technological progress and evolutions in climate and environmental policy. This User Guide will be updated on that basis. Readers of the Delegated Acts and this User Guide should therefore make sure to always use the latest versions published online. Expected future developments are outlined in Section 4.3.

## 4.2 Links to other reporting initiatives

If your company already reports on issues related to climate change you might not need to start from scratch to report under the EU Taxonomy. Your company will find potential synergies between the Taxonomy and prominent initiatives in the area of non-EU climate change reporting, such as the recommendations of the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#), the [International Sustainability Standards Board \(ISSB\)](#), the [Carbon Disclosure Project \(CDP\)](#) and the [Global Reporting Initiative \(GRI\)](#). If your company is reporting under one or several of these initiatives, it is most likely that important information is already being collected regarding the activities that are potentially eligible under the EU Taxonomy.

On climate mitigation related activities, the information and data points to be collected are very diverse depending on which sector your activities belong to. Nevertheless, a significant proportion of the information and data that reporting initiatives expect you to collect and disclose will be directly useful to assess compliance with the EU Taxonomy's technical screening criteria related to climate change mitigation. In many cases, for example, you will need to assess the carbon or energy intensity of your products, services or processes (e.g., for the manufacturing or the use of transport or construction products, for the manufacturing of energy intensive material or for construction and operation of water or waste management systems). In other cases, you will also need to assess the strategy, policy or management plan of your activities (e.g., for activities in the forestry or the ICT sectors).

For activities related to climate adaptation, you may also be able to build on work that has been done to answer questions from other reporting initiatives. For example, TCFD, ISSB, CDP and GRI are requesting companies to report on their climate-related risks. Thus, you might have already conducted some elements of a taxonomy-aligned climate risk and vulnerability assessment. However, these reporting initiatives may not cover all aspects of the technical screening criteria for climate change adaptation under the EU Taxonomy. For instance, they may not require companies to assess the impact of all climate hazards included in Appendix A to Annex II to the Climate Delegated Act.

Table 4.1 provides an overview of some key themes from other reporting initiatives that relate to climate adaptation requirements of the Climate Delegated Act of the EU Taxonomy.

**Table 4.1** Examples of key themes related to climate adaptation requirements also included in other reporting initiatives

EU Taxonomy	TCFD	CDP	GRI	ISSB <sup>26</sup>
Performing a robust climate risk and vulnerability assessment	<p><u>Strategy:</u> Description of identified climate-related risks and opportunities over the short, medium, and long term</p> <p><u>Metrics and Targets:</u> Metrics used for the assessment of physical climate risks</p>	<p><u>C2.3:</u> Identification of inherent climate-related risks with potentially substantive financial or strategic business impact</p>	<p><u>201-2 a</u> Risks and opportunities posed by climate change</p> <p>i. a description of the risk or opportunity</p> <p>ii. a description of the impact</p> <p>iii. financial implications before action is taken</p>	<p><u>Strategy:</u> Description of strategy for addressing significant climate-related risks and opportunities/</p> <p><u>Metrics and targets:</u> Description of measurement, monitoring and management of significant climate-related risks and opportunities, and assessment of performance against the set targets.</p>
Implementing adaptation solutions to physical climate risks	<p><u>Risk Management:</u> Integration of climate-related risks into the organization's overall risk management</p>	<p><u>C2.2:</u> Integration of climate-related risks into the organization's overall risk management</p>	<p><u>201-2 a</u> Risks and opportunities posed by climate change</p> <p>iv: methods used for risk management</p> <p>v: costs of risk management actions taken</p>	<p>Risk Management: Description of the process by which climate-related risks and opportunities are identified, assessed and managed.</p>

<sup>26</sup> Based on the International Sustainability Standards Board's draft IFRS S2 Climate-related Disclosures from March 2022. [Available online](#) (version March 2022).

### 4.3 Expected future developments of the EU Taxonomy

The [EU strategy for financing the transition to a sustainable economy](#) identifies additional areas for action to complete the EU sustainable finance framework.

Further developments on the EU Taxonomy will entail:

- A delegated act to the Taxonomy Regulation addressing a first selection of activities with the potential to make a substantial contribution to achieving one or more of the remaining four environmental objectives (i.e., sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems) was adopted in June 2023 and is expected to apply from January 2024;
- Further EU Taxonomy delegated acts to define technical screening criteria for additional economic activities that can make a substantial contribution to at least one of the six environmental objectives;
- Delegated acts to the CSRD and a review of Regulatory Technical Standards (RTS) under the EU Regulation on sustainability-related disclosures in the financial services sector (SFDR), with detailed and comprehensive sustainability reporting standards planned to be adopted in 2023; and,
- Further specification on disclosure related to “minimum safeguards” in the sustainability reporting standards as referenced in the CSRD.

As the common EU classification system for sustainable economic activities, the EU Taxonomy feeds into further sustainable finance tools, such as:

- the voluntary “gold standard” for green bonds; and
- the EU Climate Benchmark Regulation

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