



Taxonomy Regulation Disclosures

A snapshot

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What is the Taxonomy Regulation?

The EU's sustainable finance and climate change agenda has brought forward a package of sustainable finance legislation. The Taxonomy Regulations sit alongside the Sustainable Finance Disclosure Regulations (SFDR) and the Low Carbon Benchmarks Regulation as part of this package.

The Taxonomy Regulation establishes an EU framework for classification of sustainable economic activities. It aims to provide transparency to investors and businesses and to prevent "greenwashing" by defining the criteria under which a financial product or activity can be described as "environmentally sustainable".

Taxonomy Disclosures

The Taxonomy Regulation amends the disclosure requirements in place under SFDR and the Non-Financial Reporting Directive (NFRD).

Under SFDR, financial market participants, including AIFMS and UCITS management, must disclose the extent to which their products are "environmentally sustainable" under the Taxonomy Regulations in their prospectus and reports. Where the product does not meet environmentally sustainable criteria, this must also be disclosed.

Article 8 of the Taxonomy Regulation amends NFRD to include disclosure of information on the extent to which their products are environmentally sustainable in its non-financial statements. It also requires specific disclosures on:

- proportion of turnover derived from products or services associated with environmentally sustainable activities
- proportion of economic capital and operational expenditure related to assets or processes associated with environmentally sustainable activities

In making these disclosures, firms may need to gather sustainability information on their investees/counterparties. This may be more difficult where these parties are not required to make sustainability disclosures.

At present, these NFRD disclosures apply to Large Public Interest Entities with over 500 employees, however, as per below section the European Commission has just adopted a proposal for a new Corporate Sustainability Reporting Directive ("CSRD"), which would mean more entities will be impacted by NFRD and Article 8 Taxonomy Regulations.

In order to understand how these disclosures could be best made by different entities, The Commission requested advice from the ESAs on the KPI's and methodologies for the implementation of these disclosures for banks, insurers and other non-financial undertakings (including asset managers).



Banks

The EBA reverted with an opinion in March 2021 impacting credit institutions and investment firms. It outlines that credit institutions should use the Green Asset Ratio (GAR) to show the extent to which their financing activities in their banking book are associated with environmentally sustainable activities. Where there is exposure to non-EU counterparties, the GAR should be disclosed at EU-level for exposures to EU counterparties. Exposures to non-EU counterparties in sectors covered by the Taxonomy should be disclosed separately, using proxies to determine alignment to environmentally sustainable activities.

For investment firms, the GAR should be used for dealing on own account activities. Additional KPI's are outlined for other activities performed by both types of firms, with templates provided outlining the required presentation of the information.



Asset Managers

ESMA has provided advice for non-financial undertakings, including asset managers, on the calculation of net turnover, capital expenditure and operational expenditure for the purposes of the disclosures. It recommends the information to accompany these KPI's, methodologies to be disclosed, a methodology for estimation of "Taxonomy-alignment" of investee firms that do not report under NFRD and templates for disclosures.

Insurers

EIOPA has also provided advice on the KPI's required by insurers and reinsurers, recommending the extent which i) the insurer or reinsurer is funding or financing taxonomy-related economic activities- in relation to total investments and ii) the insurer or reinsurer carries out taxonomy-relevant economic activities - in relation to non-life gross premiums written.

When do the Taxonomy Disclosures take effect?

Taxonomy Disclosures are applicable from 1 January 2022 for the economically sustainable objectives of climate change mitigation and climate change adaptation, with 1 January 2023 for the remaining objectives.

There are some extensions where investees/ counterparties do not fall under NFRD e.g. For credit institutions, a transition period for Article 8 KPI's ending on December 2022 is proposed for GAR on stock of loans where the counterparty falls under NFRD, or June 2024 otherwise. For investment firms, a transition period ending on December 2022 is proposed for disclosure of KPI's where investee firm/customer falls under NFRD, or June 2024 otherwise.

Corporate Sustainability Reporting Directive

The newly proposed Directive will amend NFRD and will increase the scope of NFRD (including Article 8 Taxonomy) to include all large companies and all companies listed on EU regulated markets (except listed micro-enterprises) and for all large companies meeting two of the below conditions:

- Balance sheet greater than €20m
- Net turnover greater than €40m
- Average number of employees greater than 250

This will also include EU subsidiaries of non-EU parent companies.

Reporting will be required for large entities from January 2023.

From January 2026, small and medium-sized undertakings will also be required to submit sustainability reporting, with Delegated Acts to be put in place by October 2023 to specify out the requirements.

Additional detailed reporting will be required under CSDR including qualitative and quantitative information and, both forward looking and retrospective information. Reporting will be subject to independent audited (limited assurance) and must be in a digital, machine readable format in line with the technical specifications of the single electronic reporting format in order to feed into the European single access point.

What should our clients do and how can we help?

Clients need to consider the Taxonomy and the potential impacts on its frameworks, systems and reporting requirements. Clients should start to consider how their activities align to the Taxonomy and the data required in order to prepare the relevant disclosures.

How KPMG can assist?

Our team is a blend of Regulatory and Sustainability experts. We can assist you in navigating the Taxonomy Disclosures and to prepare your business for compliance with these requirements.

Our offering includes:



Determining the Taxonomy disclosure requirements for your business:

This involves speaking with stakeholders, reviewing internal documents relating to ESG and identifying your taxonomy related activities in order to provide you with a Taxonomy disclosures-related universe for your business.



Performing a gap analysis:

This includes an assessment of the below areas against requirements and provide an action plan for any gaps.

- Screening Criteria for your relevant activities
- Do No Serious Harm Criteria
- Minimum Safeguards



KPI Alignment:

Support in calculating alignment of Revenues, Capital Expenditure and Operational Expenditure in line with requirements.



Disclosures Assistance:

Support with drafting and/or review of disclosures drafted.



Roadmap to Future Compliance:

Action plan for compliance with future disclosure requirements, including CSRD.

We can tailor our offering to your needs, where necessary, leveraging off our wider teams where necessary.

Please contact us to begin your action plan on Taxonomy Disclosures by talking to our team.



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