



Operationalization of ESG reporting

Risks, Controls & Internal Audit

December 2021

The EU Taxonomy regulation for corporates on one page

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The EU Taxonomy came into force on 12 July 2020 and offers a classification system for companies and investors to determine whether an economic activity is 'green' or not.

For the reporting year 2021, companies will have to present the proportion of Taxonomy-eligible and Taxonomy non-eligible activities in their total CAPEX, OPEX and turnover. For the reporting year 2022 and onwards, companies will have to disclose their taxonomy alignment on these metrics.

The Timeline



Who should disclose?

All companies required to provide a non-financial statement under the Non-Financial Reporting Directive (NFRD)*

* Currently this includes large PIEs of 500+ employees. The CSRD will replace the NFRD and will include all large companies (meeting at least two criteria of: 250+ employees, EUR 40m turnover, EUR 20m assets) and will come into effect as from reporting year 2023.

How and what to disclose?



Identify eligible activities against the classification system



Test for alignment based on the Technical Screening Criteria, DNSH criteria, and compliance with minimum social safeguards



For eligible and aligned activities

Turnover %

CAPEX %

OPEX %

Did you know...

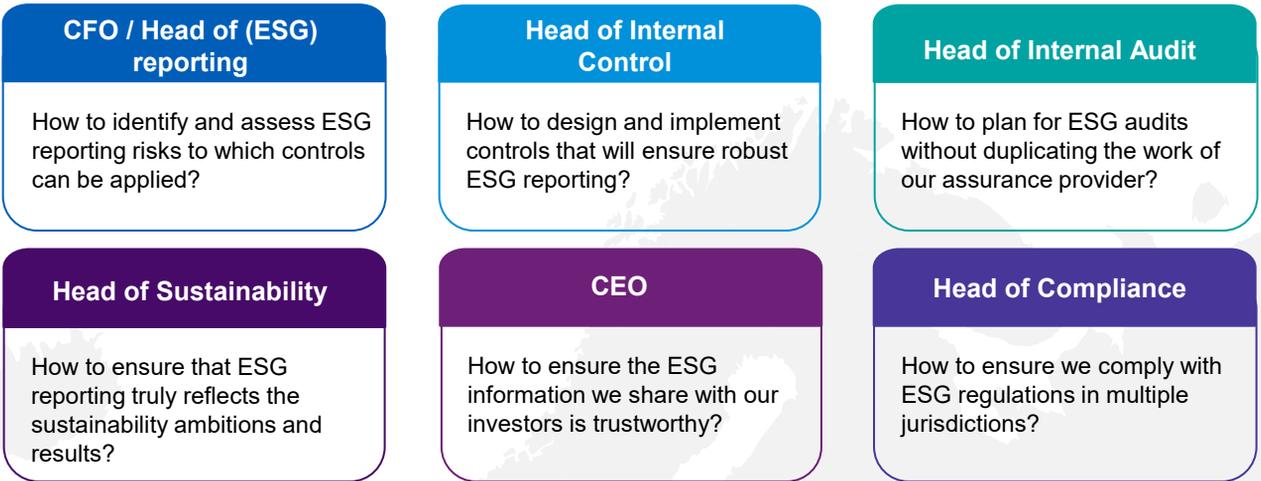
Additional screening criteria for No Significant Impact (NSI) and Significant Harm (SH) are to be developed

Additional granularity within screening criteria 'Shades of Green' might be added (e.g. levels of performance vs 'in or out thresholds')

Additional delegated acts on social aspects are expected: from compulsory dictionary for 'E' to dictionary for 'E+S' 'social taxonomy'

Key implementation challenges

Let's start with the silver lining of this daunting task – most large companies that are first in line to comply with the regulation have already invested millions of euros and years in building a set of internal controls over financial reporting (ICOFR). Now the same rigor and discipline can be applied to the ESG reporting framework. Of course, significant challenges remain, such as:



KPMG can help you meet these challenges





Contacts

Marco Frikkee
Partner
ESG Reporting & Assurance
T: +31 206 567239
E: Frikkee.Marco@kpmg.nl

Gijs de Graaff
Director, ESG Reporting
T: +31 206 567757
E: deGraaff.Gijs@kpmg.nl

Vera Moll
Manager, ESG Reporting
T: +31 206 567703
E: Moll.Vera@kpmg.nl

Leah Jin
Partner
ESG Risks, Controls & IA
T: +31 206 562989
E: Jin.Leah@kpmg.nl

Arushi Paliwal
Manager
ESG Risks, Controls & IA
T: +31 206 562960
E: Paliwal.Arushi@kpmg.nl



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