



# Get ready for the EU Taxonomy Regulation

Understanding the basic requirements for non-financial undertakings

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January 2024



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## What is the Regulation?

- The EU Taxonomy Regulation (2020/852/EU) establishes an EU-wide classification system for environmentally sustainable economic activities. The Regulation contains six objectives, designed to support the EU's Green Deal and 2030 climate and energy targets.
- Non-financial undertakings in scope of the Regulation are required to report the share of Turnover, Capital Expenditures and Operating Expenditures of (potentially) sustainable economic activities.
- The intention of the Regulation is, amongst other things, to help companies plan and finance their green transition, scale up investments and shift investments to where they are most needed, and protect investors from greenwashing.



## What is the impact?

- EU Taxonomy reporting requires the involvement and expertise of multiple stakeholders and functions in an organization, including management, legal and compliance, financial accounting and reporting, and sustainability.
- The requirements result in increased transparency and disclosure requirements. This may lead to integration of sustainability into business strategies, and may also require operational changes.



## What is next?

Identify if you are in scope of the EU Taxonomy Regulation. If so:

- Make yourself familiar with the EU Taxonomy Regulation and disclosure requirements.
- Identify what you will be required to report.
- Understand the practical implications for your company's people, processes and systems.
- Start preparing to identify eligible and aligned activities and start drafting the first disclosures.



[Abbreviations and key terms](#)



\*The Regulation covers both financial and non-financial undertakings, but the scope of this publication covers only non-financial undertakings.

# Key questions to get ready

**01**

**What is the EU Taxonomy Regulation?**

**02**

**When and to who will Article 8 of the EU Taxonomy apply?**

**03**

**When can activities be reported as sustainable?**

**04**

**What needs to be disclosed and where?**

**05**

**Is it required to make activities sustainable?**

*All answers provided to these questions throughout this document are based on the Regulation and Delegated Acts as adopted by the European Commission and published before 9 November 2023*

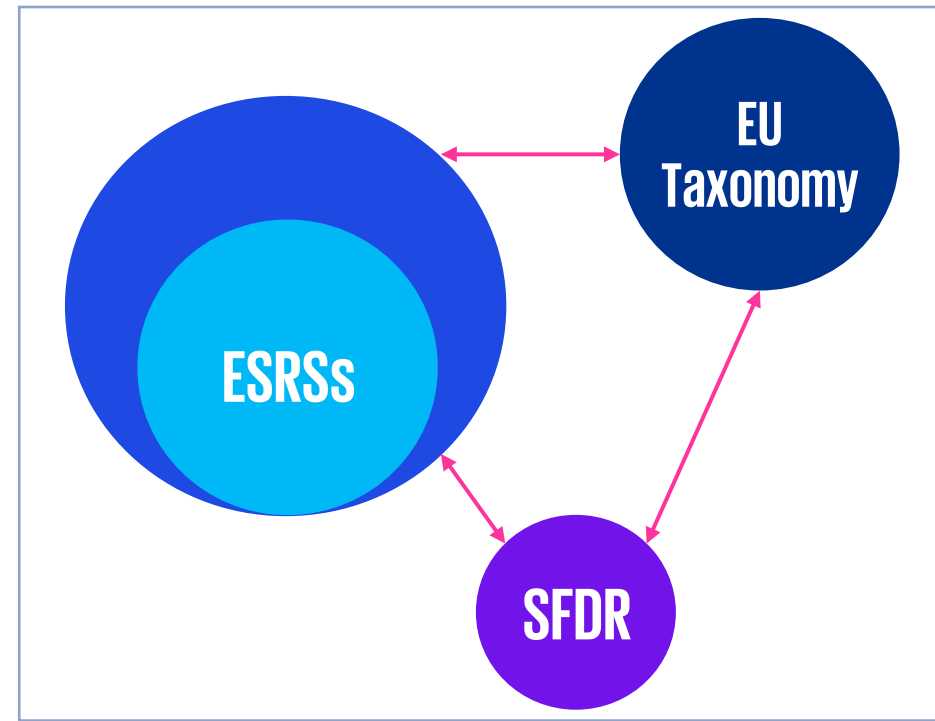
# 01 What is the EU Taxonomy Regulation?


The EU Taxonomy Regulation entered into force on 12 July 2020 and establishes an EU-wide classification system for environmentally sustainable economic activities. It serves as a common language and clear definition of what is 'sustainable', based on harmonized criteria at European Union level.

The EU Taxonomy is a cornerstone of the EU's sustainable finance framework and an important market transparency tool. It helps direct investments to the economic activities most needed for the transition to sustainable investments, in line with the European Green Deal objectives<sup>1</sup>.

The EU Taxonomy Regulation interacts with the Corporate Sustainability Reporting Directive (CSRD). Companies that report sustainability statements based on Articles 19a and 29a of the CSRD and the associated ESRS, are also required to provide information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable based on the EU Taxonomy in a separate identifiable section of their sustainability statements<sup>2</sup>.

<sup>1</sup> Source: [EU Taxonomy for sustainable activities \(europa.eu\)](https://european-council.europa.eu/media/e3004c7d-323d-4761-9917-d3ed53305801/attachment_data/data/eu_taxonomy_for_sustainable_activities_en.pdf)  
<sup>2</sup> Based on the European Sustainability Reporting Standards (ESRS) pursuant to Article 29b of Directive 2013/34/EU



 The text of EU Taxonomy Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 can be found [here](#).

# 02 When and to who will Article 8 of the EU Taxonomy apply?

**When:** The EU Taxonomy Regulation is already in force. During the period of FY2021 to FY2023, it applies to companies that fall under the Non-Financial Reporting Directive (NFRD), being large Public Interest Entities (PIEs)<sup>1</sup> with more than 500 employees. Starting from FY24, the CSRD replaces the NFRD, and other companies will fall in scope of the Regulation.

**Which companies:** Article 8 of the EU Taxonomy Regulation applies to the following undertakings<sup>2</sup>:

- Large EU companies<sup>3</sup>
- Large issuers<sup>4</sup> and
- SME listed PIEs and SME issuers<sup>5,6</sup>

<sup>1</sup> PIE: company governed by law of a member state and: with securities listed on a regulated EU market; credit institution; insurance entity; or designated as PIE by a member state.

<sup>2</sup> Different timelines apply for financial undertakings regarding certain EU Taxonomy disclosures (not covered in this publication).

<sup>3</sup> Large: company (or group) meeting at least 2 of the following 3 criteria (for 2 consecutive financial years): balance sheet total > EUR 20m; net turnover > EUR 40m; employees > 250. As from FY24 (EU member states may opt for FY23): balance sheet total > EUR 25 m; net turnover > EUR 50m; employees > 250.

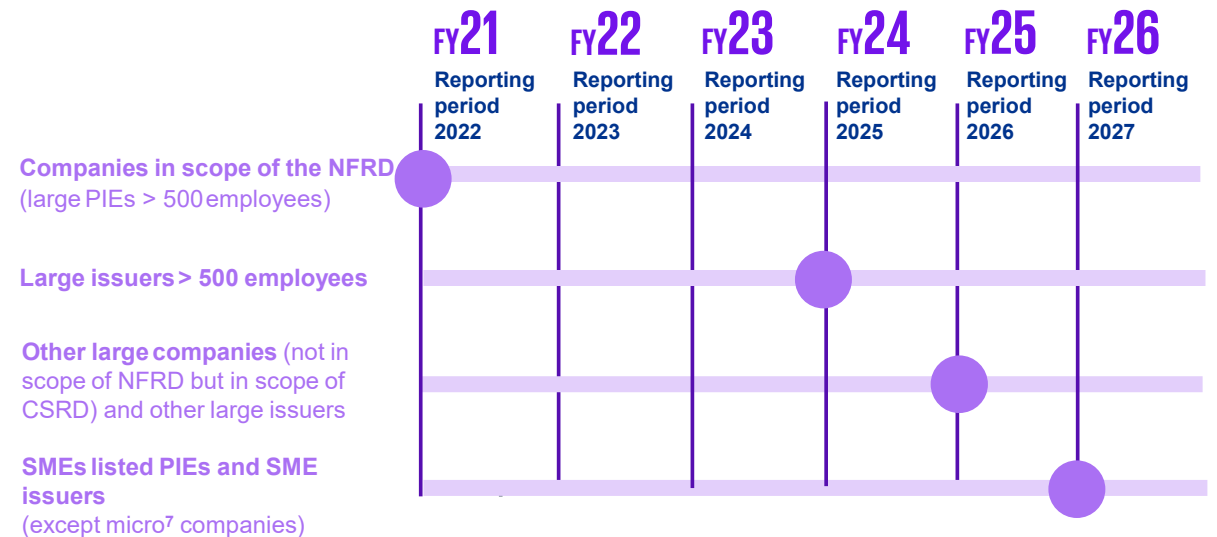
<sup>4</sup> Issuer: company (EU/non-EU based) with securities listed on a regulated EU market.

<sup>5</sup> It is unclear whether the 2 year opt-out option in the CSRD for Small and Medium-sized Enterprises (SMEs) will also apply for the EU Taxonomy. We expect this matter to be clarified in the future.

<sup>6</sup> Small and non-complex institutions and captive insurers (as specified in Article 5, paragraph 2 (c), (i) and (ii) of the CSRD – Directive (EU) 2022/2464) are treated like listed SMEs.

<sup>7</sup> Micro: company meeting at least 2 of the following 3 criteria (for 2 consecutive financial years): balance sheet total ≤ EUR 350k; net turnover ≤ EUR 700k; employees ≤ 10. As from FY24 (EU member states may opt for FY23): balance sheet total ≤ EUR 450k; net turnover ≤ EUR 900k; employees ≤ 10.

## Effective dates for undertakings in scope of Article 8



The EU Taxonomy will be subject to regular review and expansion in the future

# 03 When can activities be reported as sustainable?

Economic activities<sup>1</sup> of a company resulting in Turnover, CapEx and/or OpEx, are potentially sustainable (**'eligible'**) if they are described in the Delegated Acts of the EU Taxonomy Regulation.

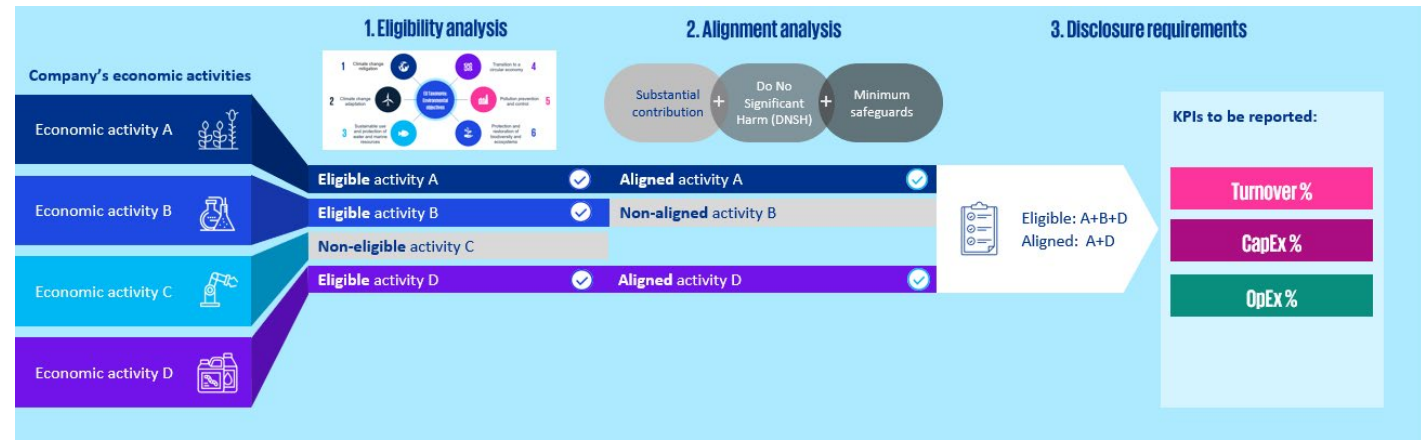
The Delegated Acts specify the activities for each of the six environmental objectives identified by the European Commission, being:

1. Climate change mitigation
2. Climate change adaptation
3. Water and marine resources
4. Circular economy
5. Pollution prevention and control
6. Biodiversity and ecosystems

Whether the activity is sustainable (**'aligned'**) depends on whether the activity meets the Substantial Contribution and Do No Significant Harm criteria, as well as whether the Company has minimum safeguards in place.

The **Substantial Contribution** and **Do No Significant Harm** criteria are referred to as the **Technical Screening Criteria**.

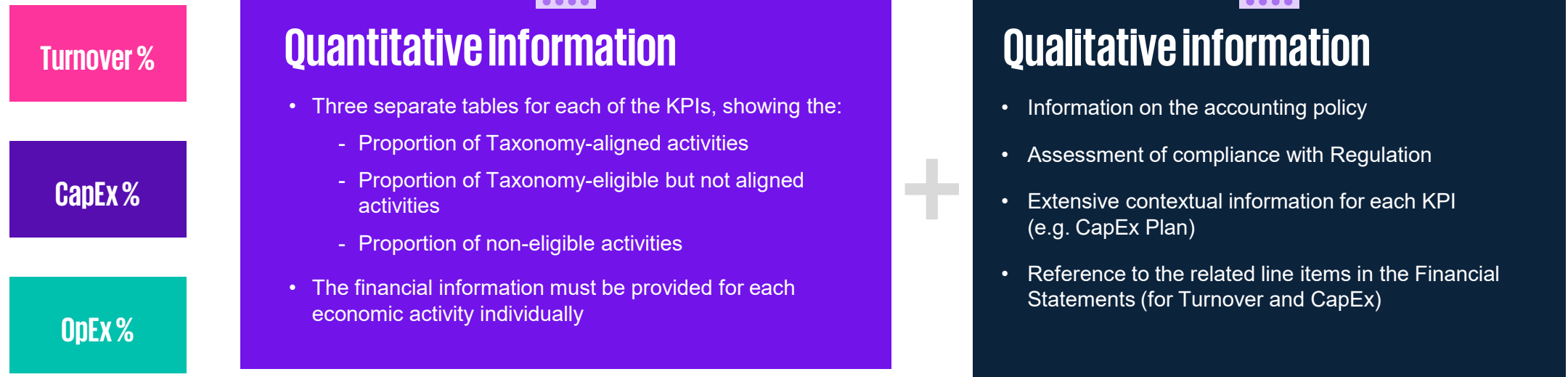
<sup>1</sup> An economic activity takes place when resources such as capital, goods, labor, manufacturing techniques or intermediary products are combined to produce specific goods or services. It is characterized by an input of resources, a production process and an output of products (goods or services).



[Economic activities and sectors currently covered](#)

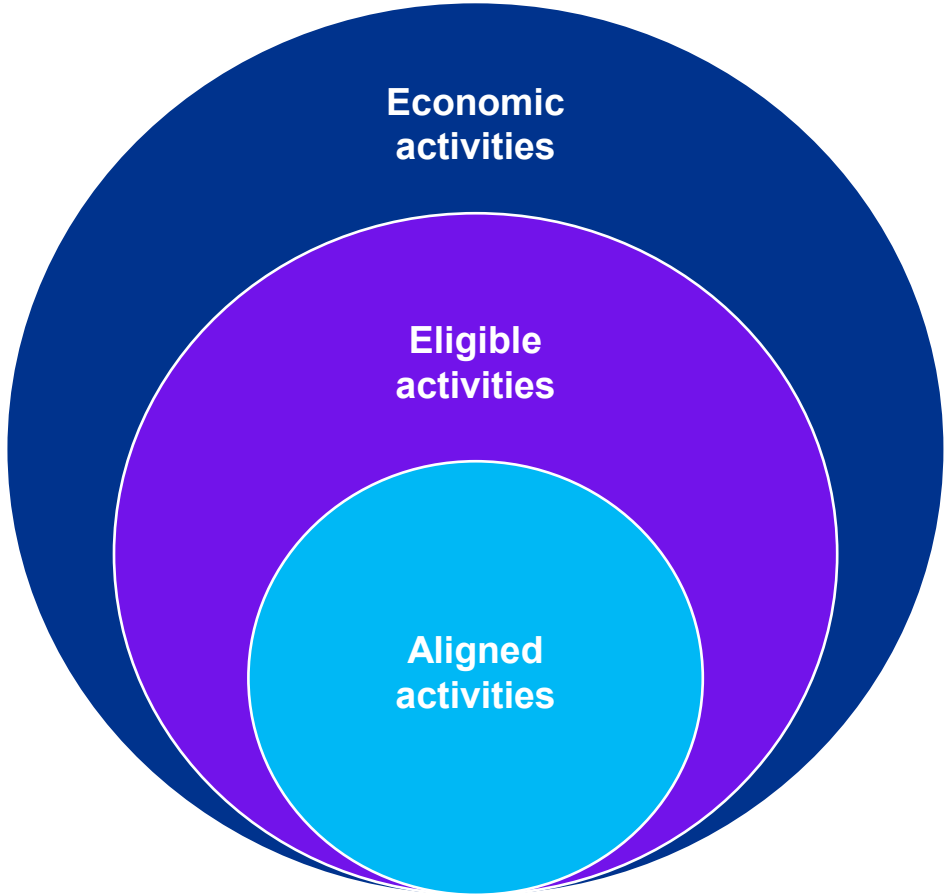
# 04 What needs to be disclosed and where?

Companies in scope of the EU Taxonomy Regulation must provide quantitative and qualitative disclosures in the management report. These disclosures will be part of the Sustainability Statements once the CSRD applies, and will be in scope of (limited) assurance.



The [Disclosures Delegated Act](#) specifies the content, methodology and presentation of information to be disclosed. The disclosure requirements for financial and non-financial undertakings differ from each other.

# 05 Is it required to make activities sustainable?



**Eligible activities** correspond to the activities listed in the Delegated Acts to the EU Taxonomy Regulation and are therefore potentially sustainable.

**Aligned activities are eligible activities that meet all of the following:**

- (1) Contribute substantially to at least one environmental objective
- (2) Do no significant harm to the other environmental objectives
- (3) Comply to the minimum safeguards

Those aligned economic activities are actually sustainable.

**!** The EU Taxonomy does not require companies to make activities sustainable (aligned), but transparency on what is and what is not sustainable (aligned) must be provided.



# Abbreviations and key terms

## CSRD

The EU's adopted Corporate Sustainability Reporting Directive, amending and significantly expanding the existing requirements for sustainability reporting in the EU under the NFRD

## EC

European Commission

## DNSH

Do No Significant Harm, one of the criteria that must be met for an economic activity to be sustainable ('aligned'), as per Article 3 of the EU Taxonomy Regulation (Regulation (EU) 2020/852)

## ESRS

European Sustainability Reporting Standards as adopted by the EC as of 31 July 2023 (not yet in force)

## KPI

Key Performance Indicator. For non-financial undertakings, Article 8 of the EU Taxonomy Regulation (Regulation (EU) 2020/852) requires disclosures on Turnover, CapEx and OpEx as specified in the Disclosures Delegated Act (Regulation (EU) 2021/2178)

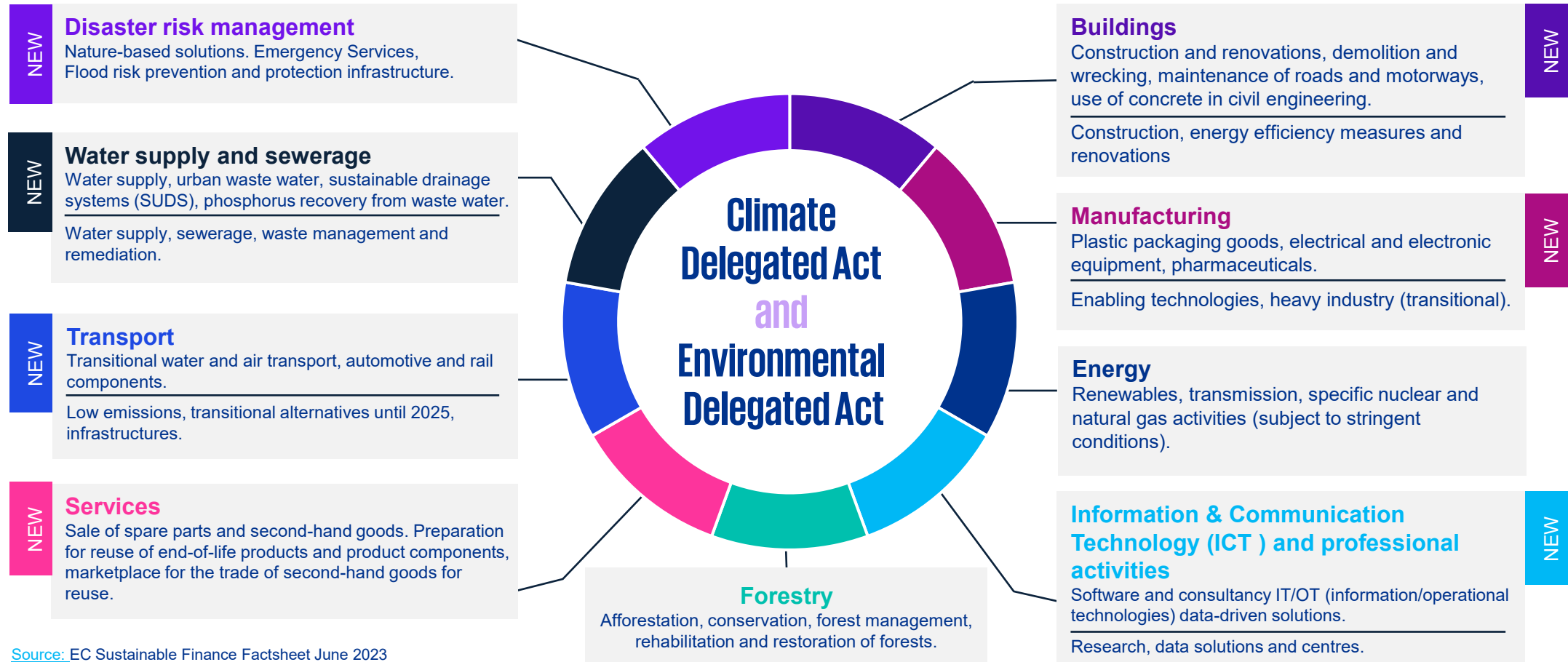
## NFRD

The EU's Non-Financial Reporting Directive (Directive 2014/95/EU)

## SFDR

The EU's Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088)

# Economic activities and sectors currently covered



Source: EC Sustainable Finance Factsheet June 2023

NEW: Environmental Delegated Act and amendments to the Climate Delegated Act as published in 2023

# Keeping in touch



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Whether you are new to sustainability reporting or a current user, you can find digestible summaries of recent developments and more detailed guidance on the current requirements here.

[EU Taxonomy webinars](#)



[EU taxonomy for sustainable activities](#)



Read the global [KPMG Impact Plan](#) →



## KPMG on social media

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