

EU Taxonomy Regulation Explainer

Table of contents

What is the EU Taxonomy Directive?

Definitions of activities that align to the taxonomy

How does the EU taxonomy fit with wider EU sustainability regulation

Time table for roll-out of regulation

Further reading

What is the EU Taxonomy Regulation?

- The EU Taxonomy is the classification system that translates the EU's climate and environmental objectives into criteria for specific economic activities.
- The regulation enables the EU, companies, and investors to better focus investment on economic activities that align to the EU's plan to become carbon neutral by 2050.
- The taxonomy is shaped by several acts that overtime will provide detailed and measurable criteria against the EU's six core environmental objectives:



**Climate
change
mitigation**



**Climate
change
adaptation**



**Protection of
water and
marine
resources**



**Transition
to a
circular
economy**











**Pollution
control**



**Protection of
ecosystems**

How activities need to align to EU objectives?

 EU Objective	 How activities need to align
 Climate change mitigation	The activity contributes substantially and does no harm to: the stabilisation of greenhouse gas emissions by avoiding or reducing or enhancing greenhouse gas removals.
 Climate change adaptation	The activity contributes substantially and does no harm to: preventing the adverse impact of current or future climate change, or the risks of adverse impacts on the company/society/nature/other assets.
 Protection of water & marine resources	The activity contributes substantially and does no harm to: maintaining the sustainable use and protection of water and marine resources.
 Transition to a circular economy	The activity contributes substantially and does no harm to: transitioning to a circular economy by supporting durability, reparability, reusability of products, improving design and use of products and promoting circular practices.
 Pollution control	The activity contributes substantially and does no harm to: preventing the introduction of substances or contaminations across air, water, soil, living organisms and food resources.
 Protection of ecosystems	The activity contributes substantially and does no harm to: the restoration of the world's ecosystems to good ecological conditions and ensure they are resilient and adequately protected.

Sources: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020R0852&from=EN>

Criteria used to determine fit with the EU taxonomy

1 Principles to determine whether taxonomy matches

 **Substantial contribution**

Is the company involved in an activity that positively contributes to the objective? For example the company makes solar panels

 **Do no significant harm**

Do these activities detrimentally affect the other five environmental objectives? For example, when constructing green buildings, is it done in a sustainable way that does not cause excessive pollution (objective 5)?

 **Minimum safeguards**

Is the company conducting business in a way that respects global standards for responsible conduct? For example the company reports in line with global standards on workers rights.

2 Technical screening criteria (TSCs) and NACE codes (the eu's industry classification system) also used to determine fit

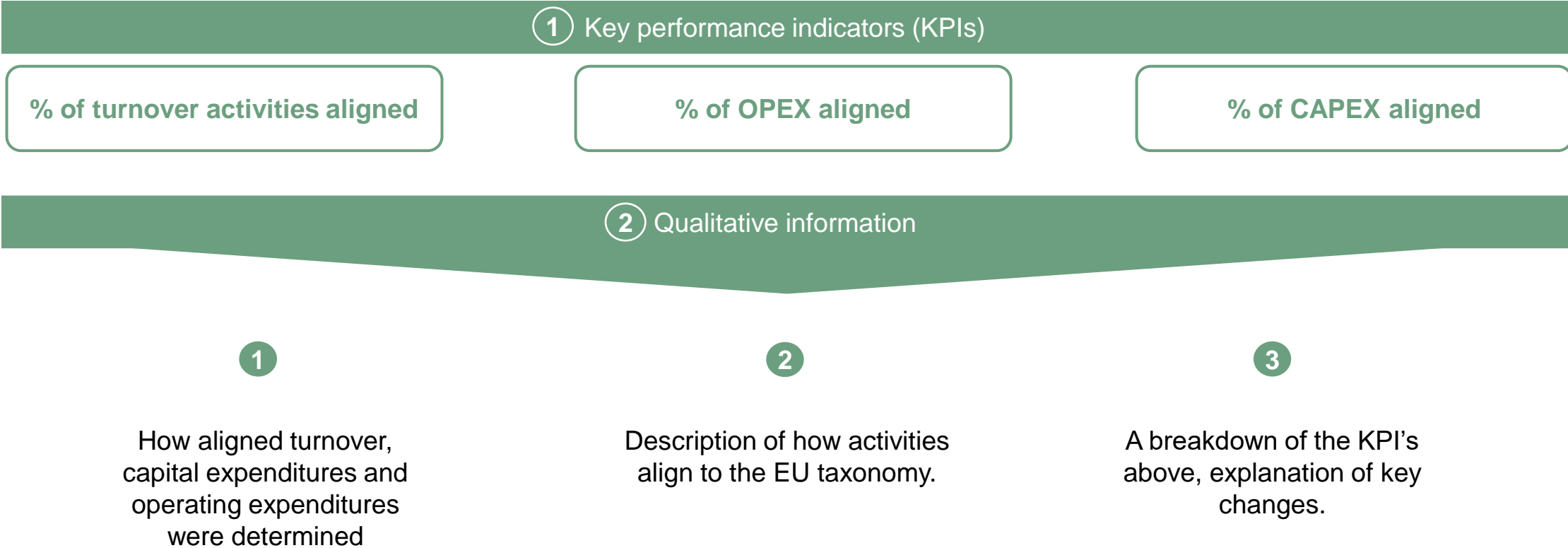
Metrics e.g. GHG emission reductions

Qualitative criteria stated within acts

Alignment to Sustainable activities

Sources: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020R0852&from=EN>

What will be reported: share of Turnover, CAPEX, OPEX aligned to taxonomy activities



Sources: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020R0852&from=EN>

Example of reporting template

Table 1: Proportion of turnover from products or services associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation^A - disclosure covering year N

Economic activities (1)	Code(s) (2)	Absolute turnover (3) Currency	Proportion of turnover (4) %	Substantial contribution criteria						DNSH criteria (Do No Significant Harm')						Minimum safeguards (17) Y/N	Taxonomy-aligned proportion of turnover, year N (18) Percent	Taxonomy-aligned proportion of turnover, year N-1 (19) Percent	Category (enabling activity / transitional activity) (20) E/T
				Climate change mitigation (5) %	Climate change adaptation (6) %	Water and marine resources (7) %	Circular economy (8) %	Pollution (9) %	Biodiversity and ecosystems (910) %	Climate change mitigation (11) Y/N	Climate change adaptation (12) Y/N	Water and marine (13) Y/N	Circular economy (14) Y/N	Pollution (15) Y/N	Biodiversity and (16) Y/N				
A. ELIGIBLE ACTIVITIES																			
A.1. Eligible Taxonomy-aligned activities																			
Activity A			20%	50%*	0%	0%	0%	0%	0%		Y	Y	Y	Y	Y	Y	10%	E	
Activity B			11%	0%	0%	100%	0%	0%	0%	Y	Y		Y	Y	Y	Y	11%		
Turnover of eligible Taxonomy-aligned activities (A.1)			31%	10%	0%	11%	0%	0%	0%								21%	10%**	
A.2 Eligible not Taxonomy-aligned activities																			
Activity D			18%	0%	0%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	0%	T	
Activity E			20%	50%	0%	0%	0%	0%	0%	Y	Y	N	Y	Y	Y	Y	0%		
Turnover of eligible not Taxonomy-aligned activities (A.2)			38%																
Total (A.1 + A.2)			69%	10%	0%	11%	0%	0%	0%								21%	10%*	
B. NON-ELIGIBLE ACTIVITIES																			
Turnover of non-eligible activities (B)			31%																
Total (A + B)			100%																

^A The information in this cell denotes that only 50% of activity A qualifies as environmentally sustainable and therefore only 50% of the turnover related with activity A is Taxonomy-aligned.

Sources: https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-eligibility-reporting-voluntary-information
<https://www.isda.org/a/djDgE/ISDA-and-AFME-Comments-on-Art-8-Taxonomy-DA-disclosures.pdf>

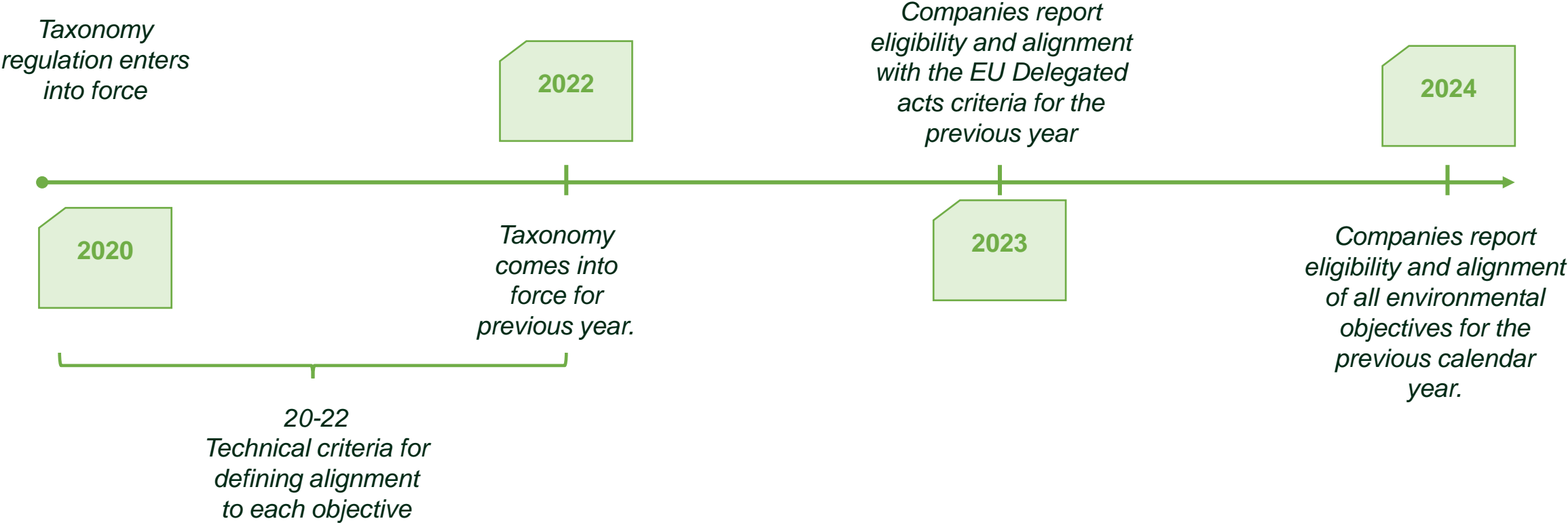
Who is impacted by the EU taxonomy?

- **Applies to all large listed companies**
- **Any company that falls under the CRSD:**
 - I. **Large companies, defined as, fitting with 2 out of the following criteria within the EU:**
 - > 500 employees and/or
 - > €40M Turnover and/or
 - > €20M Total Assets
 - II. **All listed companies, banks and insurance companies**
- **Implies 49,000 companies will be required to report**
 - Covers 75% of EU's companies turnover*
 - Was previously 11,600 companies

Sources: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020R0852&from=EN>

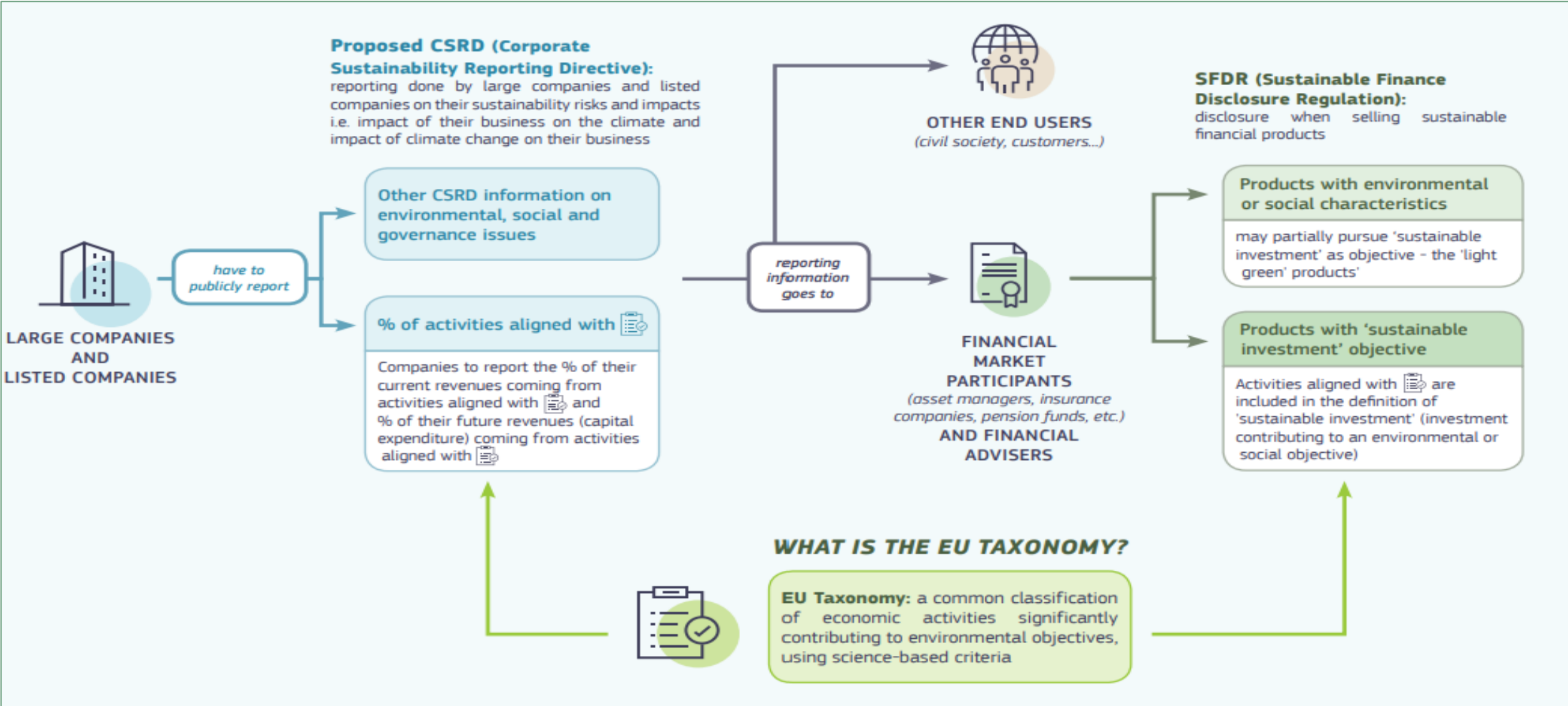
Note: *PlanA estimate: <https://plana.earth/academy/csrd-corporate-sustainability-reporting-directive>

What is the time table for implementation of the EU Taxonomy



Sources: <https://www.europarl.europa.eu/news/en/press-room>

EU Taxonomy within the wider framework of EU sustainable finance regulation



Sources: https://finance.ec.europa.eu/system/files/2021-04/sustainable-finance-taxonomy-factsheet_en.pdf

Further reading

- https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM%3AC%282021%292800
- https://finance.ec.europa.eu/system/files/2021-04/sustainable-finance-taxonomy-factsheet_en.pdf
- <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52021DC0390&from=BG>
- <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020R0852&from=EN>
- https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-eligibility-reporting-voluntary-information_en.pdf