European Securities and Markets Authority

Final Report

Advice on Article 8 of the Taxonomy Regulation

26 February 2021 | ESMA30-379-471

Table of Contents

Acronyms and definitions

Accounting Directive	Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC
AIF	Alternative investment fund
AIFM	Alternative investment fund manager
APM	Alternative performance measure
AuM	Assets under management
CapEx	Capital expenditure
CapEx KPI	Proportion of CapEx related to assets / processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation
CFDs	Contracts for Differences
Commission Delegated Regulation (EU) 2019/815	Commission Delegated Regulation (EU) 2019/985 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format
Consultation Paper	Consultation Paper on draft advice to European Commission under Article 8 of the Taxonomy Regulation
Commission	European Commission
DNSH	Do no significant harm
EBA	European Banking Authority
EIOPA	European Insurance and Occupational Pensions Authority
EFRAG	European Financial Reporting Advisory Group
ESAs	European Supervisory Authorities (EBA, EIOPA and ESMA)
ESMA	European Securities and Markets Authority
EU GBS	EU Green Bond Standard

GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
JRC	Joint Research Centre
KPI	Key performance indicator
NACE	Nomenclature des Activités Économiques dans la Communauté Européenne - Statistical Classification of Economic Activities in the European Community
Non-Financial Reporting Directive (NFRD)	Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups
OpEx	Operating expenditure
OpEx KPI	Proportion of OpEx related to assets / processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation
PFS	Primary Financial Statements
Platform	Platform on Sustainable Finance
RTO	Reception and transmission of orders
Regulation (EC) No 1893/2006	Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006 establishing the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No 3037/90 as well as certain EC Regulations on specific statistical domains (Text with EEA relevance)
SFDR	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
Short-Selling Regulation	Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and certain aspects of credit default swaps
Transparency Directive	Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of

	transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (as amended by Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013)
Taxonomy Regulation	Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
TEG	European Commission Technical Expert Group on Sustainable Finance
Turnover KPI	Proportion of turnover derived from products / services associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation
UCITS	Undertaking for collective investment in transferable securities
UCITS Directive	Directive 2009/65/EC on the coordination laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)

1 Executive Summary

Reasons for publication

Under Article 8(1) of the Taxonomy Regulation, undertakings required to publish non-financial information pursuant to Articles 19a and 29a of Directive 2013/34/EU (the 'Accounting Directive') have to disclose information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. On 15 September 2020, the European Commission ('Commission') addressed to the three European Supervisory Authorities ('ESAs') a call for advice (see Annex II)[1]. The call requested advice on KPIs and methodology on the disclosure of how and to what extent the activities of undertakings that fall within scope of the Non-Financial Reporting Directive qualify as environmentally sustainable under the Taxonomy Regulation.

A Consultation Paper[2] was published on 5 November 2020 to seek the views of stakeholders on a proposal for the advice to be given to the Commission. This report summarises the feedback to the consultation and sets out ESMA's final advice to the Commission.

Contents

This report is organised into three sections as well as a number of annexes.

Section 2 is an introductory section providing background information.

Section 3 is split into two sub-sections, which are dedicated to the questions addressed to ESMA in the Commission's call for advice, namely how to further specify the three KPIs already established for non-financial undertakings in Article 8(2) of the Taxonomy Regulation and KPIs for asset management companies in the scope of the Non-Financial Reporting Directive. Each sub-section summarises the feedback provided by stakeholders to ESMA's Consultation Paper. Furthermore, it contains ESMA's responses in relation to the proposed amendments to the advice.

ESMA's advice on the KPIs that will be disclosed by non-financial undertakings provides the definitions that entities should use for the calculation of the three metrics namely the turnover KPI, the CapEx KPI and the OpEx KPI. Furthermore, the advice sets out the content of the information that should accompany these disclosures and the level of granularity that should be provided to comply with these reporting obligations. ESMA mainly focused on activities which are covered by the EU Taxonomy i.e. activities that are 'eligible' to qualify as environmentally sustainable for the formulation of its proposals on non-financial undertakings.

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[1] Call for advice to the European Supervisory Authorities on key performance indicators and methodology on the disclosure of how and to what extent the activities of undertakings under the NFRD qualify as environmentally sustainable as per the EU Taxonomy.

[2] Consultation Paper on draft advice to European Commission under Article 8 of the Taxonomy Regulation (Ref.: ESMA30-379-325 | 5 November 2020).

On asset managers, ESMA proposes the KPI that asset managers should disclose along with a number of methodological considerations relating to the calculation of this metric. ESMA furthermore proposes the use of standardised tables for the Article 8 disclosures by non-financial undertakings and asset managers and recommends a transitional application of the Level 2 provisions.

Section 4 includes a number of Annexes. Annex I includes ESMA's advice to the Commission. Annex II contains the Commission's call for advice to the ESAs. Annex III provides a cost-benefit analysis, while Annex IV sets out the opinion provided by ESMA's Securities and Markets Stakeholder Group ('SMSG') and Annexes V and VI contain the standard tables proposed by ESMA for use by non-financial undertakings and asset managers. Lastly, Annex VII presents the use of a coefficient methodology for the estimation of 'Taxonomy-alignment'.

Next Steps

This report will be delivered to the Commission and published on ESMA's website.

2 Introduction

2.1 Background

1. A key objective of the European Commission's (the 'Commission') Action Plan on Financing Sustainable Growth [3] is to reorient capital flows towards sustainable investment. To achieve this objective, the Commission called for the establishment of an EU classification system for sustainable activities, i.e. an EU Taxonomy.

2. Regulation (EU) 2020/852 (the 'Taxonomy Regulation') which creates a classification system for sustainable economic activities was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. The Regulation aims at helping investors as well as companies, issuers and project promoters in the transition to making the EU climate neutral by 2050. It applies to financial market participants who offer financial products, financial and non-financial undertakings within the scope of Directive 2014/95/EU (the 'Non-Financial Reporting Directive') and individual Member States and the EU with regard to existing or potentially new eco-labelling or other legislative measures.

3. The Regulation establishes that economic activities shall qualify as environmentally sustainable if they:

    a. Make a substantial contribution to one or more of the following six environmental objectives:

        i. Climate change mitigation

        ii. Climate change adaptation

        iii. Sustainable use and protection of water and marine resources

        iv. Transition to a circular economy

        v. Pollution prevention and control

        vi. Protection and restoration of biodiversity and ecosystems

    and

    b. Do no significant harm ('DNSH') to the other environmental objectives

    and

[3] Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions, Action Plan: Financing Sustainable Growth, 8 March 2018.

c. Meet minimum safeguards (for example, UN Guiding Principles on Business and Human Rights)

and

d. Comply with technical screening criteria to be established by the Commission in delegated acts.

4. On 20 November 2020 the Commission has launched a public consultation for the draft delegated acts relating to the first two sets of technical screening criteria[4] with a view to ensuring their application from 1 January 2022 in accordance with Articles 10(6) and 11(6) of the Taxonomy Regulation. These criteria aim at determining which economic activities can qualify as contributing substantially to climate change mitigation and climate change adaptation under the EU Taxonomy.

5. The criteria for the other four environmental objectives[5] will be covered in an advice from the Commission's newly established Platform on Sustainable Finance ('Platform') pursuant to Article 20 of the Taxonomy Regulation. The Commission is required to adopt delegated acts on technical screening criteria for the remaining four objectives by 31 December 2021 with a view to ensuring their application from 1 January 2023.

2.2 Article 8 of the Taxonomy Regulation

6. According to Article 8(1) of the Taxonomy Regulation, undertakings required to publish non-financial information pursuant to Articles 19a and 29a of Directive 2013/34/EU (the 'Accounting Directive') have to include information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. For this purpose, Article 8(2) of the Taxonomy Regulation requires non-financial undertakings subject to the Non-Financial Reporting Directive (NFRD) to provide disclosure of three key performance indicators ('KPIs'): turnover, capital expenditure ('CapEx') and operating expenditure ('OpEx') related to environmentally sustainable activities. The Taxonomy Regulation, however, does not specify any KPIs for financial undertakings (including asset managers) which are subject to the disclosure requirements for non-financial information in the Accounting Directive.

7. Article 8(4) of the Taxonomy Regulation requires the Commission to adopt a delegated act to supplement Article 8(1) and (2) by specifying the content and presentation of the information to be disclosed pursuant to those paragraphs, including the methodology to be used in order to comply with them, taking into account the specificities of both financial and non-financial undertakings and the technical screening criteria established pursuant

[4] Please find the draft texts of the delegated acts through the link here.
[5] The remaining four objectives are: a) sustainable use and protection of water and marine resources, b) transition to a circular economy, c) pollution prevention and control; and d) Protection and restoration of biodiversity and ecosystems.

to the Taxonomy Regulation. The Commission is required to adopt the delegated act by 1 June 2021.

2.3 Call for advice

8. On 15 September 2020, the Commission addressed to the three European Supervisory Authorities ('ESAs') a call for advice (see Annex II). The call requested advice on KPIs and methodology on the disclosure of how and to what extent the activities of undertakings that fall within scope of the Non-Financial Reporting Directive qualify as environmentally sustainable under the Taxonomy Regulation. The three ESAs were invited to finalise their advice and deliver it to the Commission by February 2021.

9. ESMA in particular was asked to provide advice on how to further specify the three KPIs already established for non-financial undertakings in Article 8(2) of the Taxonomy Regulation and advice on KPIs for asset management companies in the scope of the Non-Financial Reporting Directive.

2.4 General remarks

10. In order to seek the views of stakeholders on the draft advice ESMA published on 5 November a Consultation Paper[6] containing its proposals on a) how to further specify the three KPIs to be disclosed by non-financial undertakings; and b) the KPI to be disclosed by asset management companies. In addition to the draft advice the Consultation Paper contained a number of horizontal considerations which were raised by stakeholders during the development of ESMA's proposals. In ESMA's view, however, these points could not be addressed in the context of its proposals; nevertheless, it was deemed useful to bring them to the attention of the Commission. ESMA's views on these points have largely remained unchanged except for the suggestion to include a review clause in the delegated act, which, as further explained below, will be included among ESMA's recommendations to the Commission.

11. To deliver its advice within the deadline set by the Commission and in line with the recommendation in the Commission's call for advice[7], ESMA conducted a shortened consultation of four weeks which ended on 4 December 2020.

12. In addition to receiving the opinion of the Securities and Markets Stakeholder Group (SMSG), ESMA received responses from 77 different entities. The amount of responses to individual questions varied as not all respondents replied to all questions. As regards the types of stakeholders who provided feedback to the consultation ESMA notes that the majority of respondents represented issuers, issuer associations and investors[8], while there was a good number of responses from data providers, standard setters. This

[6] Please see section 2.5 2.5 "Horizontal considerations for the attention of the Commission" - Consultation Paper on draft advice to European Commission under Article 8 of the Taxonomy Regulation (Ref.: ESMA30-379-325 | 5 November 2020).
[7] The call for advice explicitly states that: "…the ESAs are invited to consider the task as a targeted one. This may involve shortening some internal deadlines and procedures, e.g. on consultations."
[8] ESMA notes that stakeholders are grouped by category based on input from respondents where such was provided.

mix of respondents allowed ESMA to consider the views of different types of stakeholders for the finalisation of its advice. ESMA also mentions that the vast majority of respondents identified specific EU Member States or Europe in general as a geographical indication of their operations and/or headquarters. The full list of respondents is published on ESMA's website where detailed information on the type of stakeholders who replied to the consultation may be found[9]. The SMSG opinion to this consultation is included in Annex IV.

13. The answers to the consultation are available on ESMA's website unless respondents requested otherwise. ESMA welcomes the input provided and is appreciative of all the contributions received.

14. For the development of its advice, ESMA has closely coordinated with the European Banking Authority ('EBA') and the European Insurance and Occupational Pensions Authority ('EIOPA') in relation to the three pieces of advice developed by the three ESAs. Additionally, as indicated by the Commission in its call for advice, ESMA was in contact with the Commission's Joint Research Centre as well as the EFRAG Project Task Force on non-financial reporting standards and the Platform on Sustainable Finance.

15. This Final Report provides an overview of the consultation responses to each question and contains the changes to the draft advice setting out the reasoning for making any such amendments in light of the feedback received.

3 Summary of feedback and amendments to the advice

3.1 Advice relating to non-financial undertakings

16. This section addresses the responses received to the Consultation Paper with regard to the draft advice on non-financial undertakings. Where respondents provided similar or even identical input in response to more than one question, ESMA addressed these comments only once in order to avoid unnecessary repetition.

3.1.1 General comments

17. In addition to responding to the specific questions, a number of respondents provided general input on various topics touched upon in the Consultation Paper. This input is set out in this section along with ESMA's response thereto[10].

[9] Please access the list of respondents through the link here. Please note that the published list of respondents does not include stakeholders who requested that their response remains non-public.
[10] Where respondents provided input on topics addressed in other sections of the Consultation Paper, their input is summarised under the appropriate question rather than in Section 3.1.1.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
6	3	2	6	22	1	4	1	1	1	16

18. Sixty-three respondents provided general remarks in order to highlight their views as regards specific topics.

19. Several respondents underlined that the timeline to apply the disclosure requirements under Article 8 of the Taxonomy Regulation ('Article 8' hereafter) is tight given that the Commission's delegated act for the specification of the KPIs will be adopted by 1 June 2021. These stakeholders made the following suggestions to allow non-financial undertakings more time to prepare:

- Extend the relevant deadline or application of a pilot phase;

- Apply the disclosure requirements for the first two environmental objectives to the financial periods starting on or after 1 January 2022 and for the remaining four environmental objectives to the financial periods starting on or after 1 January 2023;

- Allow a phasing-in of the disclosures required in relation to asset managers and other financial market participants which would need the reports by investee companies to comply with their own disclosure requirements; and

- Allow the disclosure of estimates for the first year of application.

20. Moreover, a number of stakeholders requested further guidance and clear legislative requirements. Expanding on this idea, these stakeholders pointed out some topics which were in need of further guidance such as the following: a) the Taxonomy-alignment assessment of activities taking place outside the EU; b) the assessment of enabling and transitional activities; c) the application of the minimum safeguards criteria; d) guidance on activities which are not covered by the Taxonomy and e) guidance on the attribution of costs and the application of the materiality principle under the NFRD.

21. Some respondents underlined the difficulties of complying with the requirements set out in Article 8 given that current reporting systems do not necessarily use the NACE classification system, while they also flagged that some activities lack a NACE code.

22. With respect to the content of the disclosure requirements under Article 8 and the definitions of the KPIs the feedback from respondents under this question reiterated

points which were also raised in response to the specific consultation questions in the sections that follow and therefore, is not repeated here.

23. A few respondents raised the issue of how to assess Taxonomy-alignment of investments in EU companies not falling within the scope of the NFRD or investments in companies outside the EU. Lastly, two respondents considered that ESMA was not transparent with respect to the stakeholder outreach which was conducted in preparation of its draft advice as mentioned in paragraph 16 of the Consultation Paper.

24. In the general comments, respondents noted the following issues on the asset management aspects of the draft advice:

- Data: many industry respondents stressed that it will be challenging for asset managers to meet their reporting obligations considering the current lack of sustainability data from non-financial entities.

- Sequencing of disclosures by non-financial undertakings and asset managers: some stakeholders expressed concern about the implementation timeframes, arguing that the application of product disclosures in Article 5 and 6 of the Taxonomy Regulation should be delayed until after non-financial undertakings will be reporting the extent of their Taxonomy-alignment under Article 8.

- Audit: a few respondents argued that auditors should audit disclosed data in order to ensure that it is consistent and reliable.

- SMEs: some respondents underlined that while a wide range of undertakings financed by alternative asset managers are SMEs, they do not fall under the scope of NFRD. This could potentially disincentivise the financing provided to those SMEs that do not fall within scope of the NFRD.

Input from the SMSG

25. Similar to the stakeholders above, the SMSG made several general comments, while acknowledging that some points do not fall within ESMA's remit.

26. The SMSG underlined the challenging timeline of the application for non-financial undertakings, especially given the current COVID-19 pandemic and the timeline for the publication of the delegated act. Thus, the SMSG recommended a phasing-in of the disclosure obligations or an extension of the deadline for application and/or a pilot phase.

27. The SMSG furthermore called for guidance on how non-financial undertakings should account for activities carried out in third countries and invited ESMA to provide clarifications by developing a standardised table in this regard.

28. The SMSG moreover recommended that a consistent approach should be adopted by the three ESAs when coordinating their respective advice to the EC.

29. As regards the size of non-financial undertakings that fall within the scope of the NFRD, the SMSG raised two points. First, some SMSG members recommended broadening the proposed KPIs in order to anticipate a potential increase of the scope of the NFRD in the future. Secondly, some SMSG members pointed out that ESMA did not include a consultation question focusing on a distinction between small and medium size companies that already fall within scope of the Taxonomy Regulation, which in their view runs counter to the Commission's policy to "think small first".

30. In its general comments on methodology, the SMSG addressed a question to ESMA to clarify whether non-financial undertakings were expected to use the methodology described in "Annex V: Estimates for the three KPIs for the EU economy as a whole and by NACE macro sector" themselves.

31. Moreover, the SMSG raised concerns on the use of a methodology that is based on industry averages and suggested that ESMA reconsiders this approach when calculating coefficients for the EU Taxonomy. In the views of the SMSG, industry averages could make distinguishing between companies in the same industry challenging. On that basis, the SMSG recommended relying on company-specific and common ESG-data rather than solely industry averages, which could be used in a multi-step approach depending on availability i.e. if there is lack of data the use of industry averages apply. If there is sufficient data though, existing ESG data should be used. The SMSG furthermore underlined the need for reliable Taxonomy data, expressing the opinion that not everyone should be permitted to calculate this data.

32. An additional point raised by the SMSG relates to the definition of economic activities, which are not all covered by the NACE classification system. Furthermore, the SMSG pointed out that even where NACE codes are attributed to economic activities it will be challenging to assess their Taxonomy-alignment when several activities take place in one plant or how to assess which percentage of an economic activity is Taxonomy-aligned. The SMSG invited ESMA to develop a methodology addressing those points.

33. The SMSG furthermore reiterated its previous advice on ESG disclosures[11] asking ESMA to carefully consider the timing issue and phasing of disclosure obligations and the relation between the timing of various consultations.

34. As regards asset managers, the SMSG pointed out that they would need to report in percentages the "green" proportion of their investment portfolios and these will depend on the time non-financial undertakings will disclose and make available information on the KPIs.

35. The SMSG mentioned that asset managers invest in assets of issuers outside the EU. Given that these issuers do not provide Taxonomy-related disclosures, the SMSG suggested that ESMA provides guidance to asset managers on how to deal with such situations, e.g. (i) by providing that asset managers should engage with such companies to encourage them to produce Taxonomy-related disclosures on a voluntary basis; and

[11] SMSG, 'Advice to the ESA's - Joint Consultation Paper on ESG Disclosures' (ESMA22-106-2858, 14 September 2020).

(ii) by providing examples of disclosures of the proportion of assets on which asset managers could not obtain the necessary data.

36. Lastly, the SMSG considered that the NFRD threshold on company size may exclude asset managers that are large in terms of assets under management, while it also pointed out that annual reports on the largest asset management firms are not freely available in all jurisdictions.

ESMA's response

37. ESMA welcomes the general comments provided by its stakeholders and the SMSG'. ESMA paid careful attention to the points highlighted by both the SMSG and other stakeholders who replied to the consultation, even though some of them relate to matters that are not within the call for advice. One such topic concerns the application timeline of the disclosure obligations under Article 8, which ESMA considers cannot be addressed in the context of its advice to the Commission as Article 26 of the Taxonomy Regulation sets out the application date of the obligations under Article 8. Nevertheless. ESMA took note of the suggestions concerning a phasing-in of the disclosure obligations set out in ESMA's advice and while it is not able to provide an extension of the applicable deadline, it is minded to amend its advice to recommend a transitional application of the disclosures provided by non-financial undertakings as explained in ESMA's response under Question 18 in section 3.1.3.

38. ESMA furthermore emphasises that in its call for advice to the ESAs[12] the Commission clarified its understanding of the application date of the Article 8 disclosure requirements and the reporting period for the calculation of the KPIs. In particular, the Commission explicitly states that "The disclosures under Article 8 apply as of 1 January 2022 for the environmental objectives of climate change mitigation and adaptation, and as of 1 January 2023 for the other four. The obligations relate to the previous financial year respectively (the disclosure obligation for 1 January 2022 covers the financial year 2021, the disclosure obligation for 1 January 2023 covers the financial year 2022)." On that basis, ESMA is of the view that this matter goes beyond the call for advice. Similarly, concerning the suggestions for a phasing approach in relation to the disclosure obligations of asset managers, ESMA reiterates that these are set out in 'Level 1'[13] text and cannot be addressed in its advice to the Commission.

39. As regards the suggestion to provide guidance on activities which are carried out outside the EU, ESMA understands that the EU Taxonomy is conceptually envisaged to apply globally given the absence of specific provisions or exemptions applicable to activities conducted in third countries. With this in mind, ESMA considers that the intention of the co-legislators is for the Technical Screening Criteria ('TSC') and Do No Significant Harm ('DNSH') criteria to be uniformly applied regardless of whether an economic activity is carried out in a third country. This matter is also addressed in the TEG Final Report

[12] Please access the call for advice through the link here.
[13] The term 'Level 1' refers to the framework regulation.

(section 2.1.6)[14] where the European Commission Technical Expert Group on Sustainable Finance ('TEG') explains that by virtue of globally integrated capital markets and economic supply chains, the disclosure obligations create implications for international actors and this fact, in respect of the EU Taxonomy, is no different to other corporate reporting obligations already in place in the EU. As this matter concerns the application of the sustainability criteria, ESMA, however, does not consider it can be covered in its advice.

40. Furthermore, in response to the voices requesting further guidance on several elements of Taxonomy-alignment, ESMA notes that the Platform on Sustainable Finance will continue its work and, as explained in Recital 52, will advise the Commission on a number of matters in accordance with Article 20 of the Taxonomy Regulation. In this regard, ESMA observes that during the implementation phase additional work will be carried out that may help in the direction of clarifying additional elements of Taxonomy-alignment. Moreover, ESMA points out that given the scope of its advice, it is not in a position to address in its proposals to the Commission topics that are not covered in the call for advice.

41. As regards the issue of non-EU investments, this is addressed in section 3.2.2 under Question 37 given that it relates to ESMA's advice on asset managers.

42. On the size of non-financial undertakings, ESMA appreciates that due to national transposition of the Accounting Directive, in some Member States smaller entities may fall within the scope of the disclosure requirements under Article 8. However, ESMA considers that the three KPIs set out in Article 8 are basic metrics and their calculation should be a relatively straightforward matter. Given that ESMA's recommendations have tried to align as much as possible the KPIs with the accounting figures disclosed in financial statements, ESMA considers that to a large extent its advice is already proportionate. However, ESMA notes that inevitable implementation efforts will be necessary in order to meet the requirements in the Taxonomy Regulation, for example, to derive and track information at the level of economic activities and environmental objectives. Such efforts are necessary to give effect to the classification regime envisaged by the Taxonomy Regulation and do not merely result from ESMA's proposals under its advice. ESMA would furthermore expect that smaller companies with a smaller number of economic activities would likely face fewer challenges in complying with the disclosures required under Article 8. Additionally, with respect to the suggestion to anticipate a possible increase of scope of the NFRD, ESMA finds that at this point in time there is no solid basis that would allow for the substantiation of such proposals and considers that this is a matter for the Commission's consideration in the context of the revision of the NFRD. ESMA stands ready to provide its advice to the Commission on this matter if requested.

43. As regards the SMSG's specific comments on methodology, ESMA clarifies that the methodology set out in Annex V of the Consultation Paper is only addressed to financial

[14] EU Technical Expert Group on Sustainable Finance, Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020.

market participants (including asset managers) when company-specific KPIs are not available. ESMA notes that this matter is addressed in section 3.2.2 in ESMA's response under Question 38. In order for financial market participants to produce their own KPIs, sector-level estimates may be needed for non-financial undertakings within the NFRD scope until they start disclosing their KPIs, and for smaller companies outside of the NFRD scope choosing not to disclose KPIs on a voluntary basis. ESMA's suggestion represents an interim solution to enable reporting under Article 8 while the EU Taxonomy is being developed to cover additional sectors and potentially more investee companies are brought within scope of the disclosure requirements once the review of the NFRD is finalised.

44. With respect to the points relating to the definition of economic activities not covered by the NACE classification system and potential challenges in assessing Taxonomy-alignment of economic activities in specific cases, ESMA notes that these matters are not covered in the call for advice which relates to the specification of the KPIs.

45. ESMA furthermore takes note of the comment concerning availability of annual reports on asset management firms at a cost in some jurisdictions. However, it observes that this point is beyond the scope of its advice.

46. In response to the SMSG recommendation for a consistent approach in the three pieces of advice developed by the three ESAs, ESMA reiterates that its advice was developed in close coordination with EBA and EIOPA.

47. Lastly, as regards the comments relating to ESMA's stakeholder outreach conducted before the open consultation, ESMA observes that paragraph 16 of the Consultation Paper explains that it sought initial views from stakeholders representing different categories. These stakeholders were mainly identified via their membership of ESMA's Securities and Markets Stakeholder Group and Consultative Working Groups, and where certain categories were not fully covered in this way, additional stakeholders were identified and contacted. Additionally, ESMA reminds that it publishes on a quarterly basis a full list of stakeholder contacts[15], including the stakeholder meetings organised for the purpose of this advice.

3.1.2 Content of KPIs

3.1.2.1 Definitions of the three KPIs

48. This section summarises the feedback which ESMA received in relation to Questions 1 to 8 of its Consultation Paper and presents ESMA's response to this feedback.

[15] Please access the list of stakeholder contacts through the link here.

3.1.2.1.1 Definition of proportion of turnover

Question 1: For this KPI, do you agree with the proposed approach to defining turnover (bullet a in the draft advice)?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
2	2	2	2	19	1	4	1	1	1	17

49. Fifty-two stakeholders provided an answer to this question, with the vast majority (46) being in support of ESMA's proposal. Among them, 11 respondents who, although they mostly agreed, suggested some changes to the draft advice. Most stakeholders welcomed the approach taken by ESMA of reporting turnover amounts that may be prepared on the basis of different underlying accounting principles (International Financial Reporting Standard ('IFRS') or national Generally Accepted Accounting Principles ('GAAP')).

50. A limited number of stakeholders (5) argued that a more principle-based definition or a definition more directly referring to the amount reported in the audited financial statements of the reporting entity would have been easier for users to understand and for preparers to apply. One stakeholder suggested that ESMA should define revenue on the basis of the revenue presented in the Statement of Profit or Loss on the basis of IAS 1.82 (a), which would make the definition of "turnover" easier to apply and reconcile with the financial statements.

51. Some stakeholders (8) suggested that the turnover generated through joint ventures and accounted for under the equity method as per IFRS 11 *Joint Arrangements* or sales conducted with other parts of the company itself (i.e. intercompany transactions) should be included in the calculation of turnover, especially when it represents a significant contribution. Several stakeholders argued that more clarity is needed on how to deal with subsidies from governments accounted for under IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

52. Few stakeholders (2) specified explicitly their support to the approach that turnover should only include third party sales. A good number of stakeholders reiterated points which were included in the feedback provided under section 3.1.1 concerning the challenges for companies to produce the turnover KPI considering the timeline and the fact that internal reporting processes are neither based on NACE classification nor

available at product line level. Therefore, they suggested that companies are allowed to publish estimated data for the first year of implementation.

53. Some stakeholders claimed that more clarity is needed on how to assess whether minimum safeguards are met. One stakeholder argued that the definition of "turnover" for those non-financial undertakings applying IFRS is broader than the definition of "turnover" for those non-financial undertakings applying national GAAP (e.g. Taxonomy-aligned turnover presented as "other interest receivable and similar income"). ESMA should, therefore, define "turnover" to be revenue or other income as presented in the statement of profit or loss as "net turnover" or "other interest receivable and similar income" (Annex V and VI of the Accounting Directive).

Input from the SMSG

54. The SMSG generally agreed with the proposed approach in relation to the definition of turnover, but noted that it would be very challenging to produce the KPI considering the deadline and the fact that internal reporting processes are not based on the NACE classification system.

ESMA's response

55. ESMA welcomes the overwhelming support of stakeholders for its proposal on the definition of turnover. ESMA shares the view of the majority of respondents that it should not provide a separate definition of turnover, but build on the existing definition of net turnover in Article 2.5 of the Accounting Directive, and that the amount should be prepared on the basis of the accounting principles adopted by the preparer (IFRS or national GAAP).

56. In relation to entities applying IFRS, ESMA acknowledges that using IAS 1 *Presentation of financial statements* paragraph 82(a) as the starting point to define "turnover" might make the definition easier to apply and facilitate reconciliation with the statement of profit and loss. This would include revenue from contracts with customers (IFRS 15 *Revenue from Contracts with customers*), lease revenue for lessors according to IFRS 16 *Leases* (operating lease income as well as revenue from finance leases, interest revenue on finance lease receivables and possibly other receivables calculated using the effective interest method) and possibly other sources of revenue if applicable. On that basis, ESMA intends to amend this part of its advice to the Commission and recommend that the Commission requires a breakdown of turnover as part of the accompanying information to be provided in relation to the turnover KPI.

57. ESMA understands the argument of respondents (most of which were preparers) who wish the definition of turnover to include the share of revenue from joint arrangements. ESMA notes that the proposed definition discussed in the previous paragraph foresees that revenue from joint operations which is recognised in the revenue line item can be counted as turnover. However, on the basis of IFRS 11, interest in joint ventures is recognised as an investment and accounted for using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* unless the entity is exempted

from applying the equity method as specified in that standard (IFRS 11 paragraph 24). Therefore, interest in a joint venture cannot be considered as revenue.

58. With reference to the responses summarised in paragraph 51, ESMA notes that several stakeholders requested explicit clarifications of whether certain types of revenue and income can be included as revenue in the calculation of this KPI. In these regards, ESMA highlights that, as required by IFRS 10 *Consolidated Financial Statements* paragraph B86, as part of the consolidation procedures intercompany transactions should be eliminated in full. Therefore, those transactions cannot be included in the calculation of turnover. Similarly, income relating to government grants and accounted for on the basis of IAS 20 should be presented either separately or under a general heading such as “other income” or alternatively deducted in reporting the related expense (IAS 20 paragraph 29). Therefore, it cannot be considered as turnover because it is not presented as revenue on the basis of IAS 1 paragraph 82(a). Revenue from discontinued operations and the gain or loss recognised in relation to discontinued operations accounted for under IFRS 5 *Non-Current Assets held for sale*, whenever presented in the statement of comprehensive income, needs to be presented separately from continuing operations (IFRS 5 paragraph 33) and therefore, can also not be included in the revenue line item required by IAS 1 paragraph 82(a) and thus it cannot count as turnover. On that basis, ESMA is minded to maintain unchanged these aspects of its advice.

59. Concerning non-financial undertakings applying national GAAP, ESMA acknowledges that the definition of revenue for IFRS preparers originally included in the draft advice might be broader than that of “net turnover” for preparers using national GAAP. This issue should largely be solved by the amendment to the draft advice discussed in paragraph 56. ESMA wishes to highlight that it does not deem it appropriate to include also “other interest receivable and similar income” since the resulting turnover for entities applying national GAAP would then be broader than for entities applying IFRS. Additionally, ESMA considers that in that case the reconciliation with the statement of profit and loss would be rendered more complex. Therefore, ESMA is minded not to further amend its advice in this regard.

60. Lastly, as regards the feedback highlighting the challenges for companies to produce this KPI considering the timeline and the use of the NACE classification system, as already mentioned in ESMA’s reply in paragraphs 38 and 44 ESMA does not see room to address it in its advice as it goes beyond its mandate.

Question 2: For this KPI, do you agree with the proposed approach to when turnover can be counted (bullet b in the draft advice)?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	1	2	5	17	1	4	1	-	1	14

61. Forty-nine stakeholders provided an answer to this question, with 42 stakeholders expressing their support to ESMA's proposal.

62. Some stakeholders considered necessary that ESMA provides further guidance on the application of principles with regard to a number of topics such as the following: a) the inclusion of sale of products from technologies linked to green assets; b) how turnover will be allocated when counting activities for own consumption or in case of activities which do not create revenue themselves but contribute to creating revenue; or c) the level of granularity at which revenue should be assessed. Some respondents suggested that this could be done by adding illustrative examples on how to allocate revenues to different economic activities.

63. A handful of stakeholders considered that, in light of Article 11 of the Taxonomy Regulation, turnover should be counted not only where the activity enables other activities to undergo climate change adaptation (as provided for in the draft KPI), but also where the activity includes adaptation solutions that substantially reduce the risk of the adverse impact on that economic activity itself.

64. One stakeholder, in particular, recommended that the meaning of "enabling activities" in point (b)2 of the draft advice be better defined. The stakeholder questioned whether ESMA's intention was to refer to Article 11(1), point (b) of the Taxonomy Regulation (in which case ESMA's advice should contain a clear reference to it) or it was also meant to include turnover from other activities.

65. Finally, one stakeholder highlighted the need to disclose specifically when activities of the undertaking contribute to multiple objectives of the Taxonomy (two or more).

Input from the SMSG

66. The SMSG considers ESMA's approach is overly restrictive. The SMSG is of the opinion that the environmental objective climate change adaptation turnover can be counted not only where the activity enables other activities to undergo climate change adaptation, but

also where the activity includes adaptation solutions that substantially reduce the risk of an adverse impact on the current climate or the expected future climate of that economic activity.

67. In addition, the SMSG highlighted the difficulty to assess the DNSH principle and minimum social safeguards for activities outside the EU.

68. The SMSG advised ESMA to either (i) clarify the reporting on the DNSH principles on an activity by activity basis, as well as for activities or parts of the value chain exercised outside of the EU, or (ii) to develop guidance on the reporting obligations companies should comply with.

ESMA's response

69. ESMA welcomes the very broad support for its proposals on when turnover can be counted. ESMA has considered the voices advocating for further guidance on the application of the principles and understands the potential usefulness of illustrative examples. However, ESMA understands this type of guidance to be closely related to the application of the criteria for the assessment of Taxonomy-alignment of economic activities and as such not falling within its mandate.

70. Similarly, ESMA acknowledges potential challenges to assess the DNSH principle and minimum social safeguards for activities outside of the EU. However, as discussed in paragraph 39 in section 3.1.1. the application of the EU Taxonomy is intended to be of a global nature. Moreover, ESMA highlights that this matter is not included in the boundaries of ESMA's mandate and therefore, cannot be addressed in its advice.

71. In addition, ESMA notes the views of stakeholders, including the SMSG, arguing that in light of Article 11 of the Taxonomy Regulation, revenue should be counted also where the activity includes adaptation solutions that substantially reduce the risk of the adverse impact on that economic activity itself. ESMA notes, however, that, as discussed in the TEG report, the difference between climate change mitigation and adaptation reflects a difference between these two objectives.

72. On the one hand for climate change mitigation, an economic activity can reach a level of environmental performance that is aligned with net-zero emissions by 2050; on the other hand the TEG did not fully resolve its views on whether an economic activity can ever be said to be fully 'resilient' to climate change since adapting to climate change is an ongoing process that may not be final at any stage (TEG Report[16], section 3.2.3). Therefore, to ESMA's understanding, activities undergoing adaptation or already adapted activities may not be necessarily 'green'. In this regard, ESMA does not see compelling arguments that would allow for including the turnover of these activities in the

[16] EU Technical Expert Group on Sustainable Finance, Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020.

KPI disclosed under Article 8. On that basis, ESMA is minded to maintain unchanged this part of its advice to the Commission.

3.1.2.1.2 Definition of proportion of CapEx

Question 3: For this KPI, do you agree with the proposed approach to defining CapEx (bullet a in the draft advice)?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
2	1	2	3	22	1	4	1	1	1	15

73. Fifty-three stakeholders provided feedback to this question. Twenty-eight stakeholders expressed their support to ESMA's proposed definition of CapEx. The remaining respondents provided a number of comments and suggestions for improvement of the draft proposal.

74. Twelve stakeholders considered that the direct method based on the cash flow statement would be a more appropriate method of defining CapEx for companies preparing their financial statements under IFRS. Some stakeholders favoured a closer alignment of this KPI to the capital expenditure figure in the audited financial statements.

75. One stakeholder noted that the proposed definition of CapEx differs from the wording used in the Accounting Directive and therefore, recommended that ESMA defines it more in line with the Accounting Directive as "additions to fixed tangible and intangible assets during the financial year" (Article 17(1), point (a) (ii) of the Accounting Directive).

76. Several (10) stakeholders were of the view that the proposed definition of CapEx comprises movements (revaluations, foreign currency translation adjustments and IFRS 5 reclassifications) that are not appropriate for the purpose of disclosing meaningful non-financial information and are burdensome for the allocation of economic activities. One stakeholder in particular, whilst agreeing with ESMA's proposed methodology, suggested that this could be further refined by eliminating all non-cash effects (such as capitalisation of addition to provisions or inception of leasing contracts) and thus aligning the CapEx definition to the cash flow statement as much as possible. One stakeholder proposed that a reference to IAS 41 *Agriculture* should be included in ESMA's advice.

77. Many respondents considered that ESMA should provide further guidance on how to handle capital disposals or unallocated CapEx such as expenses relating to headquarters or offices serving for several activities, acquisitions through business combinations, revaluations, impairments and/or foreign exchange differences when calculating CapEx since these matters have an impact on explaining the variation of CapEx. One stakeholder suggested that the treatment of mergers and acquisitions may require separate guidance.

78. Four stakeholders highlighted that, according to IAS 38, research costs and certain development costs may not be capitalised and therefore, would not meet the CapEx definition as currently proposed by ESMA. They also pointed out that these costs may instead be relevant for the calculation of OpEx. Two stakeholders were of the view that excluding investments made via joint ventures (IAS 28) would not provide an accurate picture of their green investments.

79. Eight stakeholders stated that, for companies reporting under IFRS, right-of-use assets under IFRS 16 should be included. One stakeholder made a comment in relation to ESMA's proposal under which finance leases under local GAAP are included in CapEx while right-of-use assets under IFRS are not. This respondent suggested that, if ESMA includes right-of-use assets under IFRS 16 in the CapEx KPI, the possible resulting difference between IFRS and local GAAP could be addressed by allowing that lease payments for operating leases are included in the OpEx KPI on a voluntary basis.

80. Finally, one stakeholder argued that a breakdown of CapEx should be provided to reflect the difference between capital expenditure related to maintenance costs and that which is discretionary.

Input from the SMSG

81. The SMSG was in agreement with the proposed definition of CapEx. In line with the SMSG comments concerning the turnover KPI, the SMSG was of the view that it would be challenging for companies to produce this KPI given the deadline and the fact that undertakings' internal reporting processes are not based on the NACE classification system.

ESMA's response

82. ESMA welcomes stakeholders' high level of support for the proposal on the definition of CapEx and is grateful for the constructive comments received.

83. ESMA agrees to further align the wording with that used in Article 17(1) of the Accounting Directive as "additions to fixed tangible and intangible assets during the financial year" and will amend its advice accordingly so as to avoid any ambiguity.

84. ESMA also acknowledges that the method proposed in the consultation did not fully address how to handle certain non-cash movements such as impairment, foreign currency translation differences, disposal of assets, business combinations or loss of

subsidiaries, revaluations of assets etc. ESMA agrees that these movements may not always be appropriate for the purpose of disclosing non-financial information and could be disproportionately burdensome for companies to allocate to the relevant economic activities whenever an alternative approach is available.

85. Therefore, after carefully weighing the concerns expressed by some stakeholders, ESMA deems it relevant to amend its advice to the Commission to eliminate those non-cash effects that are non-relevant for the purpose of the CapEx KPI and therefore, require that CapEx includes additions to tangible and intangible assets as accounted for on the basis of IAS 16 paragraphs 73 (e) (i) and (iii), IAS 38 paragraphs 118 (e) (i), and IAS 40 paragraphs 76 (a) and (b) (for the fair value model), IAS 40 paragraphs 79 (d) (i) and (ii) (for the cost model) , IAS 41 paragraph 50 (b) and (e) and IFRS 16 paragraph 53(h).

86. Such capital expenses shall also include additions to tangible and intangible assets resulting from business combinations but should not include expenses incurred in the acquisition of significant interest or financial instruments.

87. As regards undertakings not preparing their financial statements on the basis of IFRS, ESMA is minded to maintain its approach largely unvaried other than for the wording change described in paragraph 83. Consistently with the requirements for IFRS entities, the amounts included in CapEx by non-IFRS preparers should be taken into account before any remeasurements (including revaluations and impairments), depreciation and amortisation charges and should exclude fair value changes. Similarly, additions relating to tangible and intangible assets in the context of business combinations shall be included, whilst those relating to the acquisition of significant interests or financial instruments shall be excluded.

88. ESMA notes that under its proposal capital expenses in biological assets can be counted for the CapEx KPI. ESMA also understands the argument that not recognising investments realised through long term leases may go against the objective of the Taxonomy Regulation to promote long term investments, regardless of how these investments are financed. On balance, ESMA deems it, therefore, more relevant to allow preparers to take right-of-use-assets into account whenever possible rather than aim at achieving full alignment between IFRS and national GAAP preparers. Such alignment in fact, may in any case not exist given the potential differences in the underlying measurement approaches mandated by the different standards. Consequently, ESMA's proposed method allows right-of-use assets accounted for under IFRS 16 to be counted in the CapEx KPI.

89. In light of these changes to the draft advice, ESMA deems that a number of comments asking for further guidance on the allocation of non-cash expenses to economic activities can be considered dealt with. ESMA acknowledges that some practical questions remain. ESMA, though, understands this type of guidance to be closely related to the application of the criteria for the assessment of Taxonomy-alignment of economic activities and as such not falling within the current call for advice.

90. Similar to discussions concerning turnover, ESMA highlights that capital expenses made via joint operations as per IFRS 11 are included in the current definition of CapEx. To the contrary, investments made via joint arrangements that are accounted for using the equity method cannot be considered as additions to fixed tangible and intangible assets because they are not accounted for line by line. ESMA is minded not to change its advice on this matter.

91. ESMA also agrees with comments pointing out that research costs and certain development costs may not be capitalised and therefore, would not meet the definition of CapEx proposed by ESMA. ESMA highlights, however, that these costs are to be included in OpEx. This is specifically addressed in response to the questions on OpEx (see paragraph 127).

92. Lastly, ESMA does not deem it necessary to require undertakings to disclose separately their maintenance and their discretionary CapEx and notes that this might not be supported by the Level 1 requirement to disclose a KPI for CapEx. However, entities would be allowed to provide this further breakdown on a voluntary basis if they wish to.

Question 4: For this KPI, do you agree with the proposed approach to when CapEx can be counted, including the definition of 'plan' (bullet b in the draft advice)?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	1	2	5	21	1	4	1	1	1	14

93. Fifty-four stakeholders provided an answer to Question 4. Fifteen stakeholders were supportive of ESMA's proposal, while 22 stakeholders disagreed with the draft advice. The remaining stakeholders were in agreement with certain aspects of ESMA's proposals but made specific suggestions to address individual points.

94. The main aspect of ESMA's advice stakeholders largely disagreed with concerned the requirement for the formulation of a 5-year plan relating to the Taxonomy-alignment of an economic activity. Some stakeholders argued that the requirement to have a plan is not laid down in Level 1. Other stakeholders argued that this proposal was not supported by evidence and was not consistent with the time horizon of investments in different sectors (which would usually be longer and not uniform across sectors).

95. Eight stakeholders mentioned that CapEx should not be limited to capital expenditures incurred as part of a plan as in their view CapEx that is incurred for economic activities

that are *already* Taxonomy-aligned should also be counted for the CapEx KPI disclosed under Article 8.

96. Five stakeholders argued that the criteria relating to the plan i.e. the requirement for the plan to be approved by the undertaking's administrative body may not be applicable for all investments, especially in relation to smaller investments or investments that have a shorter time horizon (e.g. less than 12 months). One stakeholder argued that a plan is not necessary when the expenses have been funded by a bond complying with the EU Green Bond Standard ('EU GBS').

97. Eighteen stakeholders considered that the requirement to publish such a plan could result in disclosing sensitive strategic information. Two stakeholders suggested that a third party could verify that the investment costs are part of a plan. One stakeholder recommended including in ESMA's advice a clause allowing companies to not publish a plan or parts of a plan in exceptional circumstances.

98. Four stakeholders suggested that ESMA should provide further guidance on the content of the plan by setting out the minimum information elements that would need to be included within the plan. A few stakeholders proposed that ESMA should specify the cases where undertakings can count CapEx as Taxonomy-aligned without it being part of a plan. To support their proposal, these respondents mentioned that the TEG[17] has suggested that some exceptional cases where individual improvement measures can be considered to make a substantial contribution without needing to be part of a plan could be included in the CapEx calculations.

99. One stakeholder suggested that ESMA provides specific guidance on potential consequences of not meeting the plan within the 5-year period and another stakeholder requested guidance on the required governance relating to the approval of the plan. Some stakeholders argued that further guidance is needed on how CapEx will be allocated for activities performed to create resources for own consumption. Finally, one stakeholder suggested that where CapEx is financed by a green bond that complies with the EU GBS, then a prospectus should be sufficient, and a plan should not be required.

Input from the SMSG

100. The SMSG expressed a number of reservations in relation to the requirement for CapEx to be counted when it is incurred as part of a 5-year plan. The SMSG noted that ESMA's proposal imposes a requirement not laid down in the Level 1 text. The SMSG considered the 5-year period as arbitrary and pointed out that the procedure for approval of investments by an entity's administrative body varies between different companies. Finally, the SMSG was of the view that disclosure of the plan could result in disclosing sensitive strategic information.

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[17] EU Technical Expert Group on Sustainable Finance, Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020.

101. On that basis, the SMSG advised ESMA to delete the condition that CapEx could be counted only if it is incurred as part of a plan, or at least remove the requirement for a 5-year period. Moreover, the SMSG argued that the disclosure of the plan should be sufficiently high-level to avoid the disclosure of potentially sensitive strategic information.

102. The SMSG furthermore advised ESMA to clarify whether the variation of intangible and tangible assets accounted for on the balance sheet should be considered gross or net of disposals and invited ESMA to provide examples on the calculation of this KPI.

ESMA's response

103. ESMA takes note of the reservations expressed by a large number of stakeholders concerning its proposal on when CapEx can be counted and especially in relation to the definition of a "plan".

104. ESMA disagrees with the view expressed by some respondents that the requirement to have "a plan" is excessive because it is not laid down in Level 1 legislation. ESMA deems that having a plan is a necessary condition to ensure that undertakings are embarking on a trajectory aimed to make their economic activities Taxonomy-aligned and that this is consistent with the overall objective of the EU to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth. The requirement to have a plan is furthermore consistent with the TEG recommendations. Similarly, ESMA disagrees that the plan will inevitably result in disclosing sensitive information and thinks that undertakings need to apply their best judgement on the level of detail that can or should be disclosed to avoid disclosing sensitive information.

105. However, ESMA understands that the proposal that the plan should aim to make the economic activity Taxonomy-aligned within a maximum period of five years might not be in line with the investment or project cycle in certain industries and might be overly restrictive. At the same time, the period over which the investments can be counted as being on a trajectory towards sustainability cannot be indefinite or arbitrarily long.

106. Therefore, ESMA intends to amend its advice to the Commission to require that a plan should aim to make the economic activity in question Taxonomy-aligned within a defined period of time that does not exceed five years, unless a longer period can be justified by the undertaking on the basis of the features of the concerned investments. For example, capital expenditures associated with large infrastructure projects may rely on investment plans longer than five years.

107. In addition, ESMA intends to amend its advice to ensure that expenses captured by CapEx and relating to activities or processes which *already* meet the Taxonomy-alignment criteria can be counted, even if they are not part of a plan.

108. ESMA takes note of comments from stakeholders about the relevance of the criteria that the plan should be approved by the administrative body in connection to small investments or investments within a short time horizon. ESMA acknowledges that a plan for smaller investments or investments within a short time horizon may not need to be

approved necessarily by the administrative body of the undertaking, but that another corporate function may be delegated decision making in these regards. Therefore, ESMA intends to amend its advice to allow more flexibility. ESMA believes, however, that all such investments will need to be approved by an internal governance mechanism and in accordance with the relevant internal procedures.

109. ESMA also acknowledges that it might be useful for a third party to verify that the investment costs are part of the plan. However, the involvement of auditors in the preparation of non-financial information is beyond the scope of ESMA's advice. As highlighted in ESMA's advice to the Commission on undue short-term pressure on corporations[18] and underlined in its response to the Commission's consultation with regard to the revision of the NFRD[19], ESMA supports the introduction of a requirement relating to mandatory assurance by external auditors not only on the *existence* of the non-financial statement, but also on the *contents* of the statement and its *consistency* with the information provided elsewhere in the management report and in the financial statements. ESMA, therefore, considers that this is a matter for consideration in the context of the revision of the NFRD.

110. ESMA also notes that there is currently an expectation that proceeds from bonds complying with the EU GBS will be directed exclusively to Taxonomy-aligned activities. Assuming that this condition will be reflected in the legal requirements which will be negotiated in the coming months, ESMA agrees that an *additional* plan will not be necessary when the expenses are funded by such green bonds. Preparers will, however, still be required to disclose the key aspects of their plan. ESMA expects that these will be readily available to the preparer from the documentation supporting the use of the EU GBS.

111. ESMA does not see room to include in its draft advice details about the required governance of the plan as this is a matter that relates to national company law and internal governance requirements and as such goes beyond the scope of its advice. However, ESMA intends to clarify in its proposal to the Commission that the minimum information which needs to be included in the plan is a narrative description of the objective(s) which the plan is pursuing, the economic activities involved, the timeline within which such activities are expected to become Taxonomy-aligned and the total capital expense expected during such time period. ESMA does not expect that such plan will need to be provided as a separate document, but rather as a narrative description that can be included in the non-financial statement. Additional information can and should be provided if the preparer deems it relevant for investors and other end users.

112. Last but not least, ESMA thinks that guidance or examples on the calculation of this KPI is closely related to the application of the criteria for the assessment of Taxonomy-alignment of economic activities and as such does not fall within the call of advice.

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[18] ESMA30-22-762 Report – Undue short-term pressure on corporations, 18 December 2019.
[19] ESMA32-334-245 Response to public consultation - ESMA response to the European Commission consultation on the review of the NFRD, 11 June 2020.

3.1.2.1.3 Definition of proportion of OpEx

Question 5: For this KPI, do you agree with the proposed approach to defining OpEx (bullet a in the draft advice)?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
2	1	2	2	20	1	3	1	1	1	13

113. Forty-seven stakeholders responded to Question 5. Twenty stakeholders agreed with ESMA's proposed definition of OpEx, while 13 stakeholders expressed strong reservations. The remaining 14 stakeholders, whilst agreeing in principle with ESMA's proposal, highlighted some points for further improvements.

114. Several stakeholders argued that the proposed definition of OpEx appears to be too narrow as well as that it should not include only costs incurred to transform an activity from non-compliant to compliant, but also all operating expenditure related to economic activities that qualify as environmentally sustainable.

115. Seven stakeholders invited ESMA to provide additional guidance on the definition of sustainable OpEx, for example with reference to the calculation of OpEx from labour expenses, taxes, to the allocation of expenses such as general, selling or administration costs, the costs relating to participation to (integral) joint ventures, results of derivatives or disposal gains. One suggestion was that OpEx only includes the operating expenditures ("cost of sales") directly allocated to the economic activity. Another suggestion was to propose a restrictive but exhaustive list of potentially relevant operating expenses that are to be included in this KPI.

116. One stakeholder noted that according to the recommendation by the TEG[20] this KPI should include "selected operating expenditures such as maintenance costs related to green assets that either increase the lifetime or the value of the assets, and research and development costs". This stakeholder suggested that these costs should be added to the OpEx KPI while also noting that such expenses are normally capitalised by IFRS preparers.

[20] EU Technical Expert Group on Sustainable Finance, Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020.

117. Eight stakeholders considered that flexibility should be given to companies to decide whether it is relevant to disclose an OpEx KPI. Some stakeholders suggested that where the Taxonomy-compliant part of OpEx is not deemed relevant and/or significant, undertakings should be required to provide an explanation on why this metric is not significant without disclosing the actual figure.

118. Five stakeholders argued that this KPI should be clearly reconcilable to the corresponding number in the financial statements. On the other hand, two stakeholders suggested that this requirement could be interpreted as an obligation to disclose the OpEx of the Taxonomy-aligned assets instead of the OpEx of the entity. One stakeholder similarly highlighted that it is not clear from the current definition whether OpEx can be counted if the underlying activity is already Taxonomy-aligned.

119. Two stakeholders suggested that ESMA should include in the definition of OpEx the amounts relating to depreciation and amortisation of investments which have been undertaken in financial years prior to the first year of disclosure of disclosure OpEx under Article 8 in order to avoid that companies which have invested in green activities are penalised compared to competitors that will launch such investments after application of the new disclosure regime. Another stakeholder, though, was in favour of excluding amortisation and depreciation from the calculation of OpEx to avoid double counting amounts that would be included in the CapEx KPI as well. Lastly, one stakeholder expressed the view that results from equity accounted investments should be excluded from this KPI.

120. Several stakeholders voiced disagreements with ESMA's proposal to draw inspiration from the International Accounting Standards Board's ('IASB') Primary Financial Statements ('PFS') project for the OpEx definition. These respondents argued that the project is not yet final and the issue of defining OpEx would be addressed in the future.

121. One stakeholder pointed out that there are differences between entities in the way OpEx is presented in the income statement rendering comparisons challenging. Another stakeholder argued that the classification of main business activities based purely on the operating or investing activities is too rigid in nature for certain entities, such as property investment companies whose main activity is earning income from investing activities. Lastly, a stakeholder suggested the inclusion in the calculation of OpEx of amounts incurred by joint ventures and associates while some stakeholders supported a general alignment to IFRS of the KPIs disclosed under Article 8.

Input from the SMSG

122. The SMSG expressed some reservations about ESMA's proposal on OpEx. In particular, the SMSG advised that the definition remains general in order to ensure alignment and consistency of this KPI with alternative performance measures used by companies to measure their operational performance.

ESMA's response

123. ESMA welcomes the views expressed by stakeholders concerning the proposed approach to defining OpEx, including the many constructive proposals for further improvements received.

124. ESMA acknowledges that a starting point to address stakeholders' concerns about the OpEx KPI is to define what such KPI intends to capture. In order to do so, ESMA carefully considered the Level 1 text, the TEG recommendations and the comments received from stakeholders.

125. ESMA notes that Article 8 paragraph 2(b) draws a link between the CapEx and OpEx KPI and indicates that both shall refer to "assets or processes associated with economic activities that qualify as environmentally sustainable". Therefore, ESMA deems it important to remain consistent with this link that is established in Level 1 between these two KPIs. ESMA notes that this approach is also consistent with the TEG report, where OpEx is defined as "shorter-term expenses required to meet the ongoing operational costs of running a business" and that, together with CapEx, its purpose should be to "give an indication of a company's strategy for improving environmental performance and resilience"[21].

126. Therefore, ESMA deems that the OpEx KPI should depict the short-term expenses required to meet the operational needs of running an activity that is already Taxonomy-aligned and/or to contribute to making an activity or process Taxonomy-aligned within a certain timeframe and based on a clear and pre-defined plan.

127. With these considerations in mind, ESMA concluded that it would be preferable at this stage to take a restrictive approach to the definition of OpEx, namely that of limiting OpEx to a list of potentially relevant operating expenses. In ESMA's view, this list should include the following non-capitalised items of cost and expense as accounted for in the profit or loss statement of an undertaking's annual financial statements: research and development costs, building renovation measures, short-term lease costs, maintenance and repair and any other direct expenditures relating to the day-to-day servicing of items of property plant and equipment that is necessary to ensure the continued and effective functioning of such assets. In addition, in light of the fact that some national GAAP do not capitalise right-of-use assets, ESMA deems it relevant that non-IFRS preparers which do not capitalise right-of-use assets should include lease costs in the OpEx.

128. ESMA thinks that only direct costs should be included. This means, for example, that whilst staff costs relating to the undertaking as a whole shall not be included in OpEx, the direct costs relating to non-capitalised research and development, building renovation measures etc. shall be included.

[21] EU Technical Expert Group on Sustainable Finance, Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020, page 28.

129. ESMA acknowledges that such an approach differs from the commonly understood accounting notion of operating expenses, which captures a much broader range of expenses. However, ESMA notes that currently there is no agreed upon way to define operating income, and consequently, the operating expenses of a business. ESMA deems that it is risky at this stage to build on the work of the IASB on PFS. This is firstly because that work is still ongoing and deliberations, following the consultation which took place in 2020, are only starting as this advice is being finalised; secondly, because there is no certainty at this stage on the endorsement nor on the date of application of the new PFS requirements once they are finalised. This means that building too closely on the IASB's work might create operational difficulties for EU preparers and risk a misalignment between the definitions provided in the Delegated Acts and the future PFS standard.

130. Furthermore, ESMA deems that the burden for preparers to assess the Taxonomy-alignment of *all* their operating expenses would not be commensurate to the benefits users would derive from the resulting KPIs and would not be aligned with the objectives it aims to achieve as described in paragraph 125.

131. As a consequence of the approach retained to define OpEx, which is not fully aligned with the commonly understood concept of "operating expenses" in accounting, ESMA is minded to remove the requirement that preparers should provide a reconciliation of the OpEx KPI with any APM which are labelled in the same or in a similar way, since such reconciliation would not be meaningful.

132. ESMA notes that a number of concerns were expressed about the relevance and/or significance of this KPI. ESMA wishes to point out that it is outside of its mandate to provide preparers with the flexibility not to disclose OpEx since the OpEx KPI is explicitly included in the Level 1 text and therefore, it could not be modified in the 'Level 2'[22] delegated act. ESMA believes that the proposed approach as described above can provide relevant information in conjunction with the CapEx KPI on an undertaking's efforts to ensure that its activities remain and/or become Taxonomy-aligned

133. ESMA acknowledges that further guidance and/or illustrative examples would be very useful for preparers and would support a harmonised application of the requirements. However, ESMA sees no room to address this point in its draft advice due to the fact that such guidance would not be appropriate as part of Level 2 measures. Nevertheless, ESMA is ready to assist the Commission in ensuring the consistent application of the requirements that will ultimately be provided in the Commission's Delegated Acts.

134. In response to a point highlighted by several stakeholders, ESMA notes that depreciation and amortisation should be excluded from OpEx since OpEx should be a complement to CapEx which, itself, excludes depreciation and amortisation.

135. Concerning the expenditures incurred by joint ventures and associates, ESMA refers to the argument already provided in answer to Questions 1 (paragraph 57) and 3 (see

[22] The term 'Level 2' refers to detailed implementing measures such as delegated acts or technical standards.

paragraph 90) which excludes the possibility to count those expenses as the entity's own. Similarly, ESMA wishes to point out that investments initiated before the first year of preparation of the KPIs cannot be reflected in OpEx.

136. Last, but not least, ESMA considers that it would be helpful to include a review clause in the delegated act under Article 8, which would enable the review of the Level 2 legal text to take into account, inter alia, developments in the accounting requirements currently under development at the level of the IASB and developments in the overall Taxonomy framework. In this regard, ESMA will include a recommendation in its advice in order to bring this matter to the Commission's attention.

Question 6: For this KPI, do you agree with the proposed approach to when OpEx can be counted, including the definition of 'plan' (bullet b in the draft advice)? With reference to the TEG's inclusion of the words "if relevant" in relation to OpEx, in which situations should it be possible to count OpEx as Taxonomy-aligned?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
2	1	2	3	20	1	3	1	-	1	13

137. Forty-seven stakeholders responded to Question 6. Almost half of stakeholders were generally supportive of ESMA's proposal, although several provided comments for further improvement or highlighted aspects that they deemed critical. Just over half of respondents disagreed with key aspects of ESMA's proposal as described in the draft advice.

138. Several stakeholders disagreed with the proposal that costs could be counted when they are part of a plan. According to some respondents this requirement is not laid down in Level 1, while others were of the view that the maximum period of five years is not supported by evidence and is not always consistent with the investment horizon in different sectors.

139. In line with responses provided in relation to the CapEx KPI 18 stakeholders pointed out that disclosure of a plan could entail disclosure of sensitive strategic information. Two stakeholders suggested that a third party could verify that the investment costs are part of a plan.

140. Eleven stakeholders mirrored their proposals in relation to CapEx and invited ESMA to provide further guidance on the content of the plan by setting out the minimum

information elements that would need to be disclosed as part of the plan as well as the governance of the plan.

141. Several stakeholders requested that ESMA provides further guidance on OpEx on the following topics: a) whether the costs of operating the assets or processes are to be included: and b) how OpEx will be allocated for activities which are sub-activities performed to create resources for own consumption. One stakeholder mentioned that it would be necessary that the plan differentiates between past and future OpEx to avoid confusion.

Input from the SMSG

142. The SMSG's advice in response to Question 6 reiterated comments raised in response to Question 4 concerning CapEx. These comments were summarised in paragraphs 100 to 102 of section 3.1.2.1.2 and are not repeated here.

ESMA's response

143. ESMA takes note of the concerns expressed by several stakeholders concerning its proposal on when it should be possible to count OpEx as Taxonomy-aligned.

144. In light of the concerns raised, and the definition proposed and discussed in response to Question 5, ESMA intends to clarify that OpEx should be counted when costs recognised as part of the denominator[23] are incurred in relation to assets and processes which currently meet or are part of a plan to meet the criteria for Taxonomy-alignment.

145. ESMA highlights that the resulting KPI will capture non-capitalised costs (i.e. those costs not captured by the CapEx KPI) which relate to investments in assets and processes whose aim is to maintain or to achieve Taxonomy-alignment. The OpEx KPI is, therefore, a category of costs which "complements" CapEx in relation to investments and in this regard, together with CapEx, will give an indication of a company's strategy for maintaining or improving environmental performance and resilience. In ESMA's view, this is in line with the TEG recommendation and with the overall objective of the Taxonomy Regulation.

146. Furthermore, by restricting the scope of the costs for which an assessment of Taxonomy-alignment will need to be performed, this approach alleviates the concerns expressed by many stakeholders with respect to the difficulties of allocating *all* operating costs of an entity on the basis of NACE activities.

147. Similarly to the discussion on CapEx, ESMA understands that the proposal that the plan should aim to make the economic activity Taxonomy-aligned within a maximum period of five years might not be in line with the investment or project cycle in certain industries and might be overly restrictive. At the same time, the period over which the investments

[23] Direct costs linked to non-capitalised research and development costs, building renovation measures, short term lease costs, maintenance, repair and any other expenditures relating to the day-to-day servicing of items of property plant and equipment plus, for national GAAP preparers which do not recognise right-of-use assets, lease costs.

can be counted as being on a trajectory towards sustainability cannot be indefinite or arbitrarily long. Therefore, ESMA intends to amend its advice to the Commission to require that a plan should aim to make the economic activity in question Taxonomy-aligned within a defined period of time that does not exceed five years, unless a longer period can be justified by the undertaking on the basis of the features of the concerned investments.

148. In reply to the respondents which advocate for third party verification of the KPI, ESMA reiterates its response in paragraph 109 under Question 4 that this is a matter that cannot be addressed in its advice given that the information disclosed under Article 8 will be included in the non-financial statement published under the NFRD. ESMA, furthermore, highlights that it has expressed its public position on that matter in its advice to the EC on undue short-term pressure on corporations[24] as well as in its response to the Commission's consultation with regard to the revision of the NFRD[25].

149. Last but not least, ESMA thinks that guidance or examples on the calculation of this KPI is closely related to the application of the criteria for the assessment of Taxonomy-alignment of economic activities and as such does not fall within the call for advice.

3.1.2.1.4 Feedback on the definitions of all three KPIs

Question 7: Do you believe that any of the suggested approaches covered in questions 1 to 6 above will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, including whether they are one-off or ongoing, and provide your best quantitative estimate of their size.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
-	-	1	3	19	1	4	1	-	1	11

150. Forty-one stakeholders replied to Question 7. Thirty-six respondents were of the view that disclosing the three KPIs required under Article 8 will necessarily generate additional costs, while four stakeholders considered costs will not increase or not increase in any significant way, given the size of the entities involved and the disclosure requirements

[24] ESMA30-22-762 Report – Undue short-term pressure on corporations, 18 December 2019.
[25] ESMA32-334-245 Response to public consultation - ESMA response to the European Commission consultation on the review of the NFRD, 11 June 2020.

already in place, also taking into account the costs companies will face to comply with the disclosures required under the Taxonomy Regulation itself. The remaining, either did not take position or did not provide a clear answer.

151. Stakeholders largely indicated that undertakings would have to establish new reporting processes, potentially implement or adjust IT systems as well as establish and maintain new reporting structures. Some stakeholders highlighted that reporting processes and IT systems are not organised according to the NACE classification system. Stakeholders were of the view that one-off costs would be significant, while they underlined that entities would face additional ongoing costs of running those systems and processes.

152. Three stakeholders mentioned some figures of the amounts that would be needed to prepare for the implementation of the Article 8 obligations which were estimated at around EUR 10, 2 and 1 million. Ongoing costs were expected to be also material; however, no estimate was provided in relation to these.

153. Respondents in general considered that the inclusion of the KPIs in the non-financial statement generates additional ongoing costs for companies. Moreover, many stakeholders were of the view that as disclosure requirements under Article 8 may evolve, undertakings will need to adapt their internal reporting systems to future changes or updates to the methodology and will, therefore, incur additional maintenance costs.

154. Some stakeholders pointed out that costs could be kept at reasonable level if requirements are well described or consistent with already audited information allowing entities to leverage off existing reporting as much as possible.

ESMA's response

155. ESMA acknowledges respondents' comments concerning the additional costs that undertakings may incur in complying with their disclosure obligations pursuant to Article 8. ESMA also notes that with the exception of three stakeholders, respondents did not provide a quantitative indication of those costs.

156. To ESMA's understanding the input from stakeholders on costs largely refers to the application of the new disclosure regime under Article 8 and is not expressly related to the ESMA's proposals on the specification of the three KPIs. ESMA, therefore, wishes to clarify that the disclosure requirements pursuant to Article 8 is a matter linked to Level 1 and as such falls outside ESMA's remit.

157. ESMA acknowledges the points made by a handful of stakeholders which stated that the definition of the KPIs will have an impact on the costs incurred by entities. ESMA, highlights, however, that detailed reporting from non-financial undertakings will provide the basis for other financial market participants to comply with their own disclosure obligations. While ESMA appreciates the cost concerns, it wishes to underline that a direct link between its advice and the additional costs incurred by undertakings has not been established given that, to ESMA's understanding, entities will already be in possession of the granular information that is set out in ESMA's proposals. As such,

ESMA did not make any additional revisions to its advice to the Commission based on the responses to Question 7.

158. Finally, ESMA takes note of concerns linked to the expected evolution of the requirements in the next years and the resulting costs of adaptation for companies. ESMA deems that these fall outside the scope of its work.

Question 8: Do you agree that sectoral specificities should not be addressed in the advice, as proposed in Section 3.2.3?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	2	2	5	16	1	3	-	-	1	11

159. Forty-four stakeholders responded to Question 8. Thirty-six stakeholders were in agreement with ESMA's proposal not to differentiate its draft advice on the basis of sectoral specificities.

160. Some of the respondents who were in agreement with ESMA's proposal suggested, nevertheless, that ESMA provides more specific guidance as regards details of the three KPIs. One stakeholder highlighted that it might be beneficial to develop separate sectoral guidelines, while another suggested that a review clause in the delegated act would allow the Commission to provide such sectoral guidance once best practices have been developed.

161. Lastly, eight stakeholders criticised the proposal as in their view adopting a one-size-fits-all approach would not be appropriate given the diversity of business models.

Input from the SMSG

162. The SMSG agreed with ESMA's approach and highlighted that it is important to ensure disclosure of KPIs without sectoral differentiation in order to consolidate the data at portfolio level.

ESMA's response

163. ESMA welcomes the broad support for its proposal to not address sectoral specificities in its advice.

164. With respect to the suggestion by a few stakeholders to provide more guidance regarding the KPIs, including more sectoral guidance, ESMA is of the view that this is a matter which cannot be addressed in the context of Level 2 measures. Moreover, this topic is not included in the scope of the call for advice and therefore, cannot be covered in ESMA's advice.

3.1.2.2 Accompanying information

165. This section summarises the feedback which ESMA received in relation to Questions 9 to 13 of the Consultation Paper on draft advice to Commission under Article 8 and presents ESMA's response to this feedback.

Question 9: Do you agree with the requirements for accompanying information which ESMA has proposed for the three KPIs?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	2	1	5	20	1	3	-	1	1	14

166. Fifty-one stakeholders provided their views to Question 9. Thirty-one stakeholders largely agreed with ESMA's proposal, whilst twenty stakeholders did not. Some of those respondents in particular considered that the required additional disclosures would significantly increase the reporting obligations under Article 8 including the related costs. Some respondents put forward the view that less granular disclosure requirements in the accompanying information would be sufficient.

167. Moreover, some stakeholders were of the view that ESMA's recommendations went beyond the requirements of the Level 1 text. One stakeholder mentioned that according to Article 8(2) of the Taxonomy Regulation, the disclosure of the three KPIs does not need to be accompanied by narrative information.

168. Other stakeholders who, while agreeing with ESMA's proposal, nevertheless, pointed out that undertakings should be given flexibility to explain changes in the KPIs. In support of this point, four stakeholders suggested that only material changes should trigger an explanation of what each KPI shows and why it increased or decreased. One respondent was of the view that disclosures under Article 8 should ultimately cover a 5-year period. To this end, this stakeholder suggested that there is a progressive inclusion of additional financial years in the Article 8 disclosures until a 5-year period is covered. On the other

hand, several stakeholders welcomed ESMA's proposal and recommended that guidance on additional disclosures should be provided through binding legislation instead of guidelines.

169. Some stakeholders disagreed with ESMA's proposal to require a reference to the related line items in the financial statements or an explanation about whether the KPIs differ from any APMs labelled in the same way or that depict items of turnover, capital expenditures and operating expenditures. These respondents argued that the three KPIs disclosed under Article 8 are neither GAAP measures nor measures for the assessment of an entity's financial performance, but rather specific indicators used to assess the environmental contribution of economic activities. They also highlighted that whilst the turnover KPI is expected to be relatively close to the turnover/revenue figure, the KPIs relating to CapEx and OpEx are often not consistent with the corresponding APM and therefore, a reconciliation would be burdensome and possibly meaningless.

170. Several stakeholders considered that ESMA should illustrate how to prepare the required disclosures and provide additional guidance on the methodology to be used. A small number of stakeholders made the following suggestions

- Require disclosure of the *estimates* used in the computation of Taxonomy-alignment as part of the methodology section;

- As regards the requirement to provide contextual information to interpret the KPIs and provide explanations on their increase or decrease, limit such information to those transitional activities which are part of the 5-year plan;

- Provide voluntarily disclosures on “potentially aligned” activities where the firm has the objective to reach Taxonomy-alignment; and

- Allow issuers to make reference to the Notes of their financial statements or to disclosures relating to APMs where accounting policies and/or APMs are explained and therefore, the possibility to make references only to the non-financial report is not sufficient.

Input from the SMSG

171. The SMSG was of the view that accompanying information is potentially useful for the interpretation of the KPIs. However, the SMSG also considered that, for investors and other users of non-financial information, having to interpret accompanying information that is long and non-standardised or comparable could ultimately lead to confusion and undermine comparability between non-financial undertakings. To this end, the SMSG suggested establishing additional requirements on the content of the accompanying information in the delegated act to ensure comparability across the information provided by different non-financial undertakings.

ESMA's response

172. ESMA welcomes the strong support expressed by stakeholders for its proposal regarding the accompanying information for the three KPIs.

173. ESMA does not agree with the view expressed by a minority of stakeholders that requiring accompanying information exceeds the requirements of the Taxonomy Regulation. This is because ESMA deems that accompanying information is necessary to enable users to understand and interpret the KPIs prepared by non-financial undertakings and that this is consistent with the overall objective of the EU to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth.

174. ESMA agrees with the suggestion that changes (increase or decrease) to the value of each KPI should be explained only if material. However, ESMA thinks that there is no need to further specify this aspect in the draft advice since the overarching materiality principle applicable to the NFRD disclosures and to the Accounting Directive at large (i.e. "that requirements […] regarding recognition, measurement, presentation, disclosure and consolidation need not be complied with when the effect of complying with them is immaterial"[26]) will also be applicable to the three KPIs. ESMA notes that information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the users make on the basis of those financial statements[27].

175. To the contrary, ESMA wishes to highlight that changes to the definition, i.e. in the methodology used to calculate the KPIs, are material by nature, regardless of whether they trigger a change in the value of the KPI and should be thoroughly explained to users; therefore, ESMA is minded not to make any changes to its draft advice in these regards.

176. ESMA disagrees that the contextual information will only need to be provided about transitional activities which are part of a plan since this contextual information is important for users regarding all activities, whether transitional or not. ESMA does not see a need to make further adjustments to its advice in these regards.

177. ESMA agrees that voluntarily disclosures could be provided on "potentially aligned" activities where the undertaking has the objective to reach Taxonomy-alignment. However, ESMA deems that this information would fall among those additional disclosures undertakings may provide which they consider are important to explain the KPIs.

178. ESMA takes note of the concerns expressed by some stakeholders regarding the requirements to reconcile the three KPIs to the related line items in the financial statements and to any APMs labelled in the same way or that depict items of turnover, capital expenditure or operating expenditure. ESMA notes, however, that such

[26] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, Article 6 paragraph 1(j).
[27]Please refer to IAS 1, paragraph 7.

reconciliations will be necessary for users to understand the difference in the definitions used to define measures which have labels that may be misleadingly similar. ESMA also notes that such reconciliations are not expected to be overly burdensome in light of the fact that the KPIs are typically calculated on the basis of figures presented in the financial statements and undertakings already provide a reconciliation of APMs to the closest figure in the financial statements as required by ESMA's Guidelines on APMs[28]. Therefore, preparers are expected to already have most of the relevant details available.

179. ESMA understands the usefulness of illustrative examples and further guidance on the methodology to be used. However, as previously mentioned ESMA does not see room to address the matter of additional guidance in its advice to the Commission due to the fact that such guidance would not be appropriate as part of a legal act and is not covered in ESMA's mandate.

180. ESMA agrees that it would be useful to require disclosure of the estimates used in the computation of Taxonomy-alignment. ESMA deems that this is covered by bullet point 2.2 'Accounting Policy' but will make minor changes to the draft advice to further clarify this requirement.

181. For discussion on compliance by cross-reference, please refer to Question 11.

Question 10: Do you consider that the requirement to refer to the relevant line item(s) in the financial statements for each KPI ensures sufficient integration between the KPIs and the financial statements?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	2	1	4	14	1	3	-	1	1	11

182. Forty-one stakeholders provided input to Question 10. Thirty-one stakeholders largely agreed with ESMA's proposal to require a reference to the financial statements. These stakeholders explained that this approach would allow investors to reconcile non-financial and financial reporting and to ensure consistency between both.

[28] Guidelines on Alternative Performance Measures, (ESMA2015/1057 | 30 June 2015).

183. Four stakeholders disagreed with ESMA’s proposal to require a reference to the financial statements, while four stakeholders expressed mixed views criticising limited elements of the draft advice.

184. A handful of stakeholders, whilst agreeing with the general approach proposed, highlighted that undertakings should have sufficient flexibility on the format and how the data is presented in order to allow companies to easily align existing formats. They also argued that direct reference for each KPI in the financial statement should only be required where relevant.

185. A few stakeholders considered that the proposed definitions of CapEx and OpEx are significantly different from their current accounting definitions and therefore, in the view of these stakeholders, it would not be possible to provide a meaningful reconciliation of these metrics with the ones disclosed in their financial statements.

Input from the SMSG

186. The SMSG did not provide feedback on this question.

ESMA’s response

187. ESMA welcomes the very large support to its proposed approach on how to ensure integration between the KPIs and the financial statements.

188. ESMA acknowledges that CapEx and especially OpEx may be significantly different to the line items in an undertaking’s financial statements. ESMA notes that reference may be made to line items which may be aggregated or disaggregated and therefore, not be labelled as “capital” or “operating” expenses as such.

189. In light of this, ESMA does not deem it necessary to make any changes to its draft advice.

Question 11: Do you agree with ESMA's suggestion to permit compliance by reference, so that non-financial undertakings may present the accompanying information elsewhere in the non-financial statement than in the immediate vicinity of the KPIs, as long as they provide a hyperlink to the location of the accompanying information?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	1	1	4	18	1	3	-	1	1	12

190. Forty-five stakeholders replied to this question, with all expressing their agreement with ESMA's suggestion to permit compliance by reference.

191. Three stakeholders observed that, even though ESMA's proposal is acceptable, their preference would be for accompanying information to be presented in the vicinity of the KPIs. They pointed out that this suggestion is in line with ESMA's suggestion in its draft advice relating to asset managers. One stakeholder also reported that from a data collection perspective, having data in multiple places may cause issues in case there are delays. In this regard, that stakeholder indicated a preference for having this information in the same document.

192. Three respondents considered that making references only within the non-financial report is not sufficient and that issuers should be allowed to make references to the financial statements or to disclosures relating to APMs.

Input from the SMSG

193. The SMSG agreed with ESMA's suggestion to permit compliance by reference but underlined its preference for disclosing the information in the immediate vicinity of the KPIs if possible.

ESMA's response

194. ESMA welcomes the unanimous support to its proposal to allow compliance by reference in relation to the accompanying information required for the three KPIs. ESMA agrees that it might be helpful for preparers to be able to refer, if necessary, to information disclosed not only in the non-financial statement, but anywhere in the financial report. This is true especially concerning APMs. ESMA intends to amend its advice accordingly.

Question 12: Do you consider there are additional topics that should be considered by ESMA in order to specify the content of the three KPIs? If yes, please elaborate and explain the relevance of these topics.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
1	2	1	3	9	1	3	-	-	1	8

195. Twenty-nine stakeholders provided their feedback to Question 12. While 12 respondents did not consider that further topics should be covered in ESMA's advice, 15 respondents made a few suggestions for ESMA's consideration.

196. The remaining stakeholders did not have additional specific topics to suggest for inclusion in ESMA's advice. Respondents' suggestions focused largely on providing clarity in relation to the following matters:

- Use of estimates by undertakings to comply with their Taxonomy-alignment reporting;
- Requirements in respect of activities taking place outside the EU;
- In the context of the minimum safeguards criteria limit the application of the OECD's Multinational Guidelines to the issues of labour and human rights, and anti-bribery and anti-corruption;
- Expectations concerning the assessment of compliance with the Taxonomy-alignment criteria;
- Treatment of value chains in order to avoid double counting;
- Treatment of activities that are potentially or partially aligned but do not yet meet the specific quantitative thresholds; and
- Allocation of turnover, CapEx and OpEx to different economic activities.

Input from the SMSG

197. The SMSG observed that it is not necessary to consider additional topics concerning the content of the three KPIs as disclosure of the three KPIs would already be a great

challenge for companies. Furthermore, the SMSG mentioned that establishing additional requirements on the content of the accompanying information in the delegated act would bring further operational complexity for companies.

ESMA's response

198. ESMA welcomes the constructive input received on whether other topics should be considered in order to specify the content of the three KPIs. ESMA notes that the majority of stakeholders does not wish that ESMA establishes additional requirements as this would bring further operational complexity for companies.

199. ESMA thinks that additional guidance or examples on the calculation of the KPIs is closely related to the application of the criteria for the assessment of Taxonomy-alignment of economic activities and as such does not fall within the call for advice and cannot be covered in ESMA's advice to the Commission.

Question 13: Do you believe that providing the suggested accompanying information will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, including whether they are one-off or ongoing, and provide your best quantitative estimate of their size.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
1	-	1	1	17	1	4	1	-	1	9

200. Thirty-six stakeholders provided answers to Question 13. Twenty-nine stakeholders were of the view that mandating accompanying information to the three KPIs would impose additional costs on non-financial undertakings. Many of them expected the costs to be high, while some stakeholders believed they would be limited. Stakeholders underlined that they were not able to provide cost estimates due to the short consultation period.

201. The majority of stakeholders considered that the new disclosure requirements would generate both one-off and ongoing costs.

202. Many stakeholders were of the view that some flexibility in the format of the accompanying information would help in reducing additional costs.

203. Four stakeholders believed that providing accompanying information would not impose additional costs on non-financial undertakings. Some of those stakeholders thought that in many cases such information would need to be disclosed anyway by the undertakings.

Input from the SMSG

204. The SMSG did not provide feedback on this question.

ESMA's response

205. ESMA acknowledges respondents' comments concerning the additional costs that undertakings may incur in providing the suggested additional information. ESMA notes that none of the respondents provided a quantitative indication of those costs.

206. To ESMA's understanding the input from stakeholders on costs largely refers to the application of the new disclosure regime under Article 8 and is not expressly related to ESMA's proposals on the information which is proposed to accompany the three KPIs. ESMA wishes to clarify that the disclosure requirements pursuant to Article 8 is a matter linked to Level 1 and as such falls outside ESMA's remit.

207. ESMA acknowledges the points that flexibility in the format required for the provision of additional information will help limit additional costs. This aspect is further discussed in the section of methodology.

208. In light of this, ESMA did not make any additional revisions to its advice to the Commission in relation to Question 13.

3.1.3 Methodology to report the KPIs

209. This section summarises the feedback which ESMA received in relation to Questions 14 to 23 of its Consultation Paper and presents ESMA's response to this feedback.

Question 14: Do you agree that non-financial undertakings should provide the three KPIs per economic activity and also provide a total of the three KPIs at the level of the undertaking / group? If not, please provide your reasons and address the impact of your proposal to financial market participants along the investment chain.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
4	3	1	6	18	1	4	-	1	1	15

210. ESMA received 54 responses to Question 14. Twenty-nine respondents stated that non-financial undertakings should disclose the three KPIs per economic activity as well as at the level of the undertaking. These respondents highlighted that the level of granularity proposed in ESMA's draft advice was needed to allow users of this information such as asset managers to comply with their own disclosure obligations. One respondent underlined the need for large undertakings to report at the group level, while also providing information on their Taxonomy exposure per subsidiary in order to prevent selective publication of information. Another respondent suggested that where an entity issues bonds to fund a specific operating company, the three KPIs should be disclosed at this level too in order to give investors the information that they need to assess the Taxonomy-alignment of their investment. Lastly, one respondent suggested that in light of the fact that the issue of auditing of non-financial information is being considered as part of the review of the NFRD, the Level 2 requirements should be revisited once the review of the NFRD has been finalised. Similarly, other respondents pointed out that the delegated act should be reviewed as the EU Taxonomy evolves, taking into account that the criteria for all activities are not yet in place, while others suggested a review of the delegated act once the review of the NFRD is completed[29].

211. Furthermore, three respondents who were in agreement with ESMA's proposals each made the following recommendations to ESMA:

[29] This point was also raised in the General Remarks section and in response to Question 2.

- Allow entities to publish estimated data for the first year of application to retain flexibility;

- Consider the level of granularity in ESMA's advice which may introduce reporting complexity that would outweigh the benefits to investors as well as information overload; and

- Allow the use of proxies in splitting revenue between activities where it is not possible to disaggregate revenue.

212. Twenty-two respondents advocated for disclosure of the KPIs at entity level only. Of these respondents, one opposed the disclosure at group level, deeming it not relevant. This respondent explained that the disclosures should focus on the proportion of the economic activity that is covered by the EU Taxonomy and has the potential to contribute to the environmental objectives and the proportion not covered by the EU Taxonomy but which contributes to other key issues such as health, education or defence. In general, respondents who did not support disclosure of the KPIs per economic activity were in favour of only disclosing the three KPIs at the level of the undertaking. Some of them favoured providing entities with the flexibility to disclose the KPIs at the economic activity level on a voluntary basis, while one suggested a comply or explain approach and another proposed to allow the publication of estimated data in the first year of application. As a last point, one of these stakeholders suggested to extend the deadline for the disclosure requirements under Article 8 or alternatively adopt a phased approach until the delegated acts on all six environmental objectives have been adopted by the Commission.

213. The two most prominent arguments against the disclosure of KPIs at the level of economic activity were the burden on preparers as well as an overload of information caused by the granularity of disclosures. Furthermore, three respondents indicated that in their view the definition of economic activity is either not specific enough or not in line with the sectoral disclosures currently provided.

214. Four respondents stated that when production facilities are used in an integrated manner it may be too complex to disaggregate the KPIs per economic activity. In this case these respondents suggested that the use of proxies is complemented with third party verification. Moreover, some of these respondents argued that a definition of 'economic activity' is missing from the framework and suggested that this should be aligned with the current segment reporting of the entity, while one respondent asked for the development of guidance on activities that make a substantial contribution to the six environmental objectives.

Input from the SMSG

215. The SMSG agreed with ESMA's proposal that both levels of information, per economic activity and at entity level, should be requested. The SMSG, furthermore, pointed out that this information is important for asset managers as certain companies have different economic activities.

ESMA's response

216. ESMA welcomes the support for the proposal to disclose the three KPIs required under Article 8 per economic activity as well as a total across all economic activities. ESMA points out that assessment of Taxonomy-alignment is foreseen at the level of the economic activity under Level 1 rules. ESMA would, therefore, expect that in order to disclose the three KPIs required under Article 8 at entity level, non-financial undertakings would have to undertake a detailed analysis that would focus on the individual assessment of their economic activities. To this end, as a first step, undertakings would need to identify these activities in order to determine whether they meet the substantial contribution criteria as well as the DNSH and minimum safeguards criteria.

217. ESMA has, moreover, considered the arguments that the granularity of information proposed in its advice is onerous for undertakings as well as that an overflow of disclosures may obscure the information that is relevant for users of non-financial information. Nevertheless, ESMA considers that the information required for the calculation of the three KPIs per economic activity would already be available.

218. To ESMA's understanding, entities which fall within scope of the NFRD would need to reflect on the required reporting on their economic activities under Article 8 and undertake preparatory work to adapt their internal reporting systems to comply with these disclosure obligations. ESMA, furthermore, points out that under the Taxonomy Regulation Taxonomy-alignment is performed at economic activity level as reflected in the draft delegated acts published by the Commission[30] in relation to the environmental objectives of climate change mitigation and climate change adaptation. On that basis, ESMA considers that limiting disclosure of the KPIs at entity level or requiring disclosure in relation to subsidiaries or specific security issuances would not be in line with the obligations set out in Level 1.

219. ESMA also underlines that financial market participants offering financial products referred to in Articles 5 and 6 of the Taxonomy Regulation should disclose a description of how and to what extent the investments underlying the financial product are in economic activities that qualify as environmentally sustainable under Article 3 of the Taxonomy Regulation. The wording of the Level 1 text is indicative of the wish of the co-legislators to link the disclosures provided by financial products under Articles 8 and 9 of the SFDR with the notion of environmentally sustainable economic activities. While the RTS that will set out the detailed information to be disclosed under Articles 5 and 6 of the Taxonomy Regulation are not yet published[31], ESMA considers it would be imprudent to overlook the link with the disclosures required under Articles 5 and 6 and not propose in its advice disclosure of the KPIs per economic activity.

220. Additionally, with respect to the suggestions from some stakeholders to allow for more flexibility to issuers when complying with the requirements under Article 8, ESMA points

[30] Sustainable finance – EU classification system for green investments (europa.eu).
[31] The RTS relating to the first two environmental objectives are due by 1 June 2021, while the RTS relating the remaining four objectives are due by 1 June 2022 under the empowerments in Article 8(4), 9(6) and 11(5) of the SFDR.

out that such flexibility should not go against the need of financial market participants for legal certainty on the disclosures that will be provided by non-financial undertakings. Taking into account that this information will be used for investment decisions on the financing of sustainable activities, ESMA considers that it should be of high quality, clear and reliable in order to promote investor confidence.

221. As regards the challenges associated with the disaggregation of KPIs per economic activity in cases where production facilities are used in an integrated manner, ESMA considers that this issue, along with the requests for additional guidance on activities that substantially contribute to environmental objectives, are matters that fall outside the call for advice as they relate to topics for consideration in the implementation phase of these requirements. ESMA thinks that providing detailed guidance to address sectoral and other specificities is not a matter that can be covered in a Level 2 legal text given the nature of the explanations requested. Nevertheless, ESMA clarifies that, in cases where disaggregation of KPIs per economic activity is needed, entities should undertake such disaggregation based on criteria that are appropriate for the production process being implemented and reflect the technical specificities thereof. Furthermore, entities should provide disclosures on the basis of such disaggregation in the accompanying information. In this regard, ESMA is minded to amend its advice to address this matter.

222. Concerning the input asking for an extension of the deadline or a phased implementation of the disclosure obligations under Article 8, ESMA notes that the timing of application of these disclosures falls outside the scope of its mandate for this advice. In the same way, on the points related to the notion of economic activity and its alignment with the current segment reporting adopted by the undertaking, ESMA clarifies that this matter cannot be addressed in ESMA's advice. ESMA notes that segment reporting follows accounting rules whose objectives are not necessarily fully aligned with those pursued by the Taxonomy Regulation. In ESMA's view, segment reporting would typically require entities to provide a view of their business 'through the eyes of management'. If an entity's management steers the business having regard to the classification criteria set out in the Taxonomy Regulation, segment reporting and reporting under Article 8 may be fairly aligned and differences between these two types of disclosures may be minimised or even eliminated. Furthermore, ESMA emphasises that its advice fits in the broader framework of the EU Taxonomy which also includes the delegated acts on the technical screening criteria per economic activity that the Commission will adopt.

223. In relation to the comment suggesting the review of these disclosure obligations once the review of the NFRD is finalised, ESMA appreciates that as the overall EU Taxonomy framework evolves there might be merit in reviewing the Level 2 measures as well at a later point in time in order to assess the application of the disclosure requirements. ESMA, therefore, reiterates that, as mentioned in paragraph 136, the Commission could consider including a review clause in the delegated act that would allow a review of the delegated act as needed. In the context of that review ESMA would be ready to update its advice taking into account relevant legal texts that will be published in the future but also to assess whether the Level 2 provisions remain appropriate to achieve the objectives of the Taxonomy Regulation. Taking into consideration the above points and

the fact that the three KPIs required under Article 8 set out information which would support investor decisions concerning their investing in the ‘green’ economy and provide the basis for the reporting to be disclosed by other financial market participants, ESMA is minded to maintain its draft advice to the Commission and propose disclosure of the three KPIs per economic activity and as a total across economic activities.

Question 15: Do you agree that where an economic activity contributes to more than one environmental objective, non-financial undertakings should explain how they allocated the turnover / CapEx / OpEx of that activity across environmental objectives and where relevant the reasons for choosing one objective over another?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	3	1	6	19	1	4	-	1	1	13

224. ESMA received 52 responses to Question 15. Twenty-nine respondents agreed that additional explanations should be provided on the allocation of turnover / CapEx / OpEx of an economic activity across environmental objectives. These respondents argued that this information is key for investors to get a clear understanding of the substantial contribution of an economic activity to more than one environmental objective. On top of this, such narrative disclosure would help in addressing the issue of double counting and avoid the risk of green washing as argued by several respondents. Three of these respondents introduced caveats to their support, with two underlining the need for brief explanations, and one calling for materiality to be considered when disclosing this information.

225. Twenty-two respondents were against ESMA’s proposal, citing a lack of merit for investors and difficulties in implementation of the suggested disclosures. Three respondents stated that additional information on the allocation of turnover / CapEx / OpEx was not needed, as this would be already available in the disclosures per environmental objective.

226. Two respondents had mixed views in relation to ESMA’s proposal. One respondent stated that further disclosure would be feasible at the level of business units, but such information could not be provided at the project level. The other respondent suggested that this matter should take into account the issue of proportionality given that some Member States adopted a definition of large undertakings which is different from the one

provided in the Accounting Directive and therefore, companies which have less than 500 employees may fall within the scope of the disclosure requirements under Article 8.

227. In response to this question several respondents provided their opinion on the issue of double counting. Eight respondents which were against the additional disclosure on the allocation of turnover / CapEx / OpEx argued that, where an economic activity makes a substantial contribution to more than one environmental objective, entities should not be required to choose only one environmental objective. In their view such allocation to only one environmental objective would be artificial and misleading. Three respondents which largely supported ESMA's proposal suggested that entities provide disclosure on the substantial contribution of economic activities to each environmental objective separately, complemented with information in relation to double counting.

Input from the SMSG

228. The SMSG supported ESMA's proposal to require an explanation concerning the allocation of turnover / CapEx / OpEx in cases where an economic activity contributes to more than one environmental objective. The SMSG underlines that this explanation is relevant for asset managers and points out that the explanations should be kept brief.

ESMA's response

229. ESMA appreciates that the majority of respondents is supportive of the proposal to provide additional explanations in cases where turnover / CapEx / OpEx of an economic activity is allocated across different environmental objectives as well as stating the reasons for choosing to assign turnover / CapEx / OpEx to one environmental objective where such decision has been made.

230. ESMA acknowledges concerns from respondents concerning the allocation of turnover / CapEx / OpEx among environmental objectives and clarifies that under its draft advice such a split is not mandated. ESMA points out that under its draft advice on the content of the three KPIs undertakings should explain how the issue of double counting was addressed. ESMA considers that undertakings should be transparent about the split of turnover / CapEx / OpEx across objectives to avoid the issue of double counting. This disclosure should be accompanied by narrative information clarifying the criteria for making such a split. ESMA notes that where an entity decides to allocate turnover / CapEx / OpEx to one objective instead of splitting across two or more objectives, this decision should be disclosed along with clear and sufficient explanations on the reasons for choosing one objective over another. ESMA reminds that this reasoning is in line with the TEG recommendations in its Final Report[32].To ensure clarity on the disclosures required, ESMA has amended its advice in relation to this matter.

231. In line with the majority of respondents ESMA highlights the importance of addressing the risk of double counting to ensure reliability of the disclosures provided under Article

[32] EU Technical Expert Group on Sustainable Finance, Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020, page 37.

8. ESMA, therefore, disagrees with those respondents who observed that double counting of turnover / CapEx / OpEx should be allowed. Furthermore, ESMA disagrees with respondents who considered that additional explanations on the allocation of turnover / CapEx / OpEx are not warranted.

232. With respect to the points raised in the consultation in favour of keeping the explanations provided by undertakings brief, ESMA has considered those arguments and concluded that in order to avoid information overflow these narrative disclosures should be kept concise. It has, therefore, adjusted its advice to reflect this point.

233. As regards the comment on the application of the principle of materiality when providing such additional explanations, ESMA emphasises that its draft advice includes an explicit reference to materiality in relation to the content of the narrative information that will complement the disclosure of the three KPIs. On the stakeholder feedback concerning the feasibility of providing further disclosure at the project level, ESMA reiterates that under its draft advice such disclosure is not required, even though entities are permitted to provide additional disclosures if deemed necessary for users of non-financial information.

234. Lastly, ESMA paid careful attention to the feedback requesting that these disclosures are applied in a proportionate manner to account for smaller companies which fall within scope of the NFRD due to the implementation of the Accounting Directive at national level. ESMA, however, finds little room for adjusting the methodology for reporting the KPIs, given that the same level of internal analysis is required to ensure reliability of the disclosures provided under Article 8, as already explained in paragraph 42 under section 3.1.1.

Question 16: Do you agree that non-financial undertakings should provide information on enabling and transitional activities?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
4	3	1	6	16	1	5	-	1	1	14

235. ESMA received 52 responses to Question 16. Thirty-eight respondents agreed with ESMA’s proposal to require non-financial undertakings to provide information on enabling and transitional activities. Six of these respondents underlined that this information is necessary in order to allow other financial market participants to comply

with their own disclosure obligations. Additionally, two respondents highlighted the importance of transitional activities, while five respondents called for clarity on the relevant definitions and additional guidance on the applicable criteria. Furthermore, six respondents highlighted that the proposal is in line with the TEG's advice as well as current Level 1 legislation.

236. Nine respondents voiced their support for providing disclosures on transitional and enabling activities under certain conditions. Three stakeholders clarified that this disclosure should only be of a qualitative nature, while six respondents suggested that these activities should be identified in the table by means of a footnote.

237. Five respondents were against requiring disclosure of information on enabling and transitional activities. They argued that providing this information is unnecessary and burdensome for preparers of non-financial statements, while two of these stakeholders expressed the view that this information would already be covered in the disclosures of the KPIs per activity.

Input from the SMSG

238. Most SMSG members were in agreement with ESMA's proposal to provide disclosure on transitional and enabling activities as a key element of the EU Taxonomy. Moreover, the SMSG pointed out in its advice that financial undertakings will need this information for their own disclosures.

ESMA's response

239. ESMA welcomes the overwhelming support for its proposals on the disclosures relating to enabling and transitional activities. ESMA echoes the views of the majority of respondents that this information is key in order to understand where the company is in terms of its sustainability strategy as well as to allow other financial market participants to build on this information in order to comply with their own disclosure obligations. To respond to the suggestions that such disclosure should only be of qualitative nature or by means of a footnote, ESMA explains that the relevant column in the standardised table is intended to provide an indication of the type of activity.

240. Lastly, ESMA has carefully considered the voices advocating for clarifications on the definition and the applicable criteria of enabling and transitional activities. ESMA, however, understands that this type of guidance is closely related to the application of the criteria for the assessment of Taxonomy-alignment of economic activities and as such it does not fall within the scope of its advice.

Question 17: Do you agree that the three KPIs should be provided per environmental objective as well as a total at undertaking or group level across all objectives? If not, please provide your reasons and address the impact of your proposal to financial market participants along the investment chain.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	3	1	6	18	1	4	-	1	1	13

241. ESMA received 51 responses to Question 17. Thirty-four respondents agreed that the three KPIs should be provided per environmental objective as well as a total at undertaking or group level across all objectives. These stakeholders argued that the information provided by non-financial undertakings would be used by other financial market participants in order to comply with their own disclosure obligations. Furthermore, they pointed out that such disclosure would allow for identifying investment opportunities in economic activities that substantially contribute to certain environmental objectives and would also help prevent double counting. Whilst agreeing with the proposal to require disclosure of the three KPIs per environmental objective, some respondents noted that, at the time of ESMA's consultation, there was clarity on the technical screening criteria that would apply only to two environmental objectives, while for the remaining four objectives further work would need to be carried out. Moreover, one respondent underlined that it would be challenging for non-financial undertakings to make the split per environmental objective.

242. Seventeen respondents disagreed with ESMA's draft advice. These respondents argued that it would be burdensome and complicated for an undertaking to implement the required disaggregation per objective and that the costs would outweigh the benefits. A handful of these stakeholders were of the opinion that it would suffice to provide disclosure on the main environmental objective which would be chosen to assess substantial contribution. Two respondents were of the view that such disclosures should be made on a voluntary basis only.

243. Lastly, one of the respondents who disagreed with ESMA's proposal considered that the allocation of KPIs per environmental objective would be arbitrary and suggested disclosure of KPIs per economic activity along with the environmental objectives to which it contributes without quantitative disclosure on the environmental objectives.

Input from the SMSG

244. The SMSG was supportive of ESMA's proposal to disclose the three KPIs per environmental objective and as a total across all objectives.

ESMA's response

245. ESMA appreciates the broad support for its proposal to require disclosure of the three KPIs per environmental objective as well as a total across all environmental objectives. At the same time, ESMA takes note of the concerns raised by stakeholders and appreciates the different points mentioned in relation to splitting of turnover / CapEx / OpEx per environmental objective, disclosure of only qualitative information or disclosure on a voluntary basis. As a principle, though, ESMA considers that these points would go against the need to disclose reliable and comparable information that would allow investors to reorient investments to activities substantially contributing to the six environmental objectives. Additionally, they would not address the risks of double counting and green washing that require a minimum level of granularity in the disclosures provided by entities. Lastly, ESMA considers that such granular disclosure is in line with the Level 1 requirements in Article 8, which make an explicit reference to Article 9 that lists the six environmental objectives. On that basis, ESMA is minded to maintain this part of its draft advice.

Question 18: Do you agree that non-financial undertakings should be required to provide the three KPIs for economic activities which are covered by the Taxonomy, economic activities which are covered by the Taxonomy but for which the relevant criteria are not met and therefore are not Taxonomy-aligned as well as for economic activities which are not covered by the Taxonomy?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
4	3	1	6	19	1	5	-	1	1	12

246. ESMA received 53 responses to Question 18. Twenty respondents agreed that KPIs should be provided in each of the three cases mentioned in ESMA's draft advice. Eight of these respondents highlighted in their responses that this information would allow financial market participants to assess the undertakings' commitment to a sustainable strategy as well as the reasons for non-alignment. Respondents furthermore appreciated

these additional disclosures, which would complement the information disclosed in relation to the technical screening criteria that are met.

247. Several of the respondents that showed sympathy for the proposal provided additional clarifications on how, in their view, these requirements should be applied. Two stakeholders proposed a progressive implementation of the disclosures relating to the activities which do not meet the technical screening criteria and activities not covered in the Taxonomy, considering the challenges of complying with the disclosure of the KPIs relating to Taxonomy-aligned activities. Furthermore, one respondent was of the view that further guidance would be warranted in order to ensure consistent implementation of the relevant disclosure requirements.

248. Thirty-two respondents voiced disagreement with the approach proposed by ESMA. Thirteen respondents expressed the view that this part of ESMA's draft advice went beyond the disclosure requirements under Article 8 in requiring disclosures relating to activities not covered in the technical annexes of the Taxonomy Regulation. Five respondents questioned the relevance of the information that would be disclosed for investors and other users of the non-financial statement. Several respondents recommended that disclosure on activities not covered by the Taxonomy be allowed on a voluntary basis where undertakings consider that such activities are 'green' but not addressed in the delegated act. Moreover, two respondents were of the view that it would be of interest to investors to understand whether the substantial contribution or the DNSH criteria are met or not.

249. Lastly one respondent expressed the view that disclosing information on activities which are not covered by the Taxonomy would require undertakings to break down their business model into individual activities using their own definition of economic activity. In the opinion of that stakeholder this disclosure would go beyond the purpose of the Taxonomy Regulation. On top of this, such disclosure would not be needed as it can be inferred by the information disclosed on activities covered in the Taxonomy.

Input from the SMSG

250. The SMSG was in general supportive of ESMA's draft advice. However, the SMSG advised ESMA to propose a phased application of the disclosure obligations under which entities would first disclose the three KPIs for economic activities covered by the Taxonomy and in compliance with the technical screening criteria. As a next step, disclosures would extend to economic activities which are covered by the Taxonomy, but which do not meet the technical screening criteria as well as economic activities not covered by the Taxonomy.

251. Furthermore, the SMSG suggested that the delegated act should clarify the obligations of companies whose activities are not yet covered by the Taxonomy. The SMSG pointed out that the timeline for the implementation of the disclosure obligations under Article 8 is challenging for entities and on that basis advised that the delegated act for the first two objectives should use 2022 as reference date, while the delegated act for the remaining four objectives should use 2023 as reference date.

ESMA's response

252. ESMA appreciates the different points raised in relation to the part of its draft advice that proposes granular disclosure of the three KPIs. ESMA takes particular note that the criticism is mainly focused on the suggestion to provide disclosure on economic activities not covered by the Taxonomy.

253. ESMA, furthermore, notes that while several respondents showed sympathy for the proposal to require disclosure on activities which are not covered by the Taxonomy, there is equally a number of dissenting voices which argue that this obligation is burdensome for undertakings and goes beyond the requirements of the Taxonomy Regulation.

254. ESMA appreciates the points raised by several stakeholders who underlined that the focus of the disclosures under Article 8 should be on the Taxonomy-alignment of the undertaking. However, ESMA is of the view that the wording of the Level 1 text is sufficiently broad to cover disclosure on activities not yet aligned or not covered by the Taxonomy since it requires information on "…how and to what extent the undertaking's economic activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9.." of the Taxonomy Regulation. Moreover, ESMA considers that there is merit in disclosing information on activities which are covered by the Taxonomy, but which are not Taxonomy-aligned. Such disclosure will allow investors to assess whether non-alignment is related to not meeting the substantial contribution or the DNSH criteria and understand how far the undertaking is from being aligned, as well as which activities could potentially become aligned in the future.

255. Given that the primary focus of the EU Taxonomy is on economic activities which have the potential to make a substantial contribution to the six environmental objectives, ESMA intends to maintain its proposal to require granular disclosure on activities covered by the Taxonomy i.e. 'eligible' activities, including those which are not Taxonomy-aligned regardless of whether they do not meet the substantial contribution criteria or the DNSH criteria. ESMA, furthermore, is mindful that in its request to the Platform on Sustainable Finance for advice on financing transition[33] the Commission underlines the importance of financing transition of sectors and enterprises towards the climate targets. ESMA notes that, in this context, one of the questions addressed to the Platform relates to supporting finance to activities that are not Taxonomy-aligned. ESMA, therefore, considers that its proposal is in line with the overall Taxonomy framework and the considerations relating to the financing of the transition to a sustainable economy.

256. However, having duly considered the arguments provided by respondents, ESMA is minded to amend its advice in the following way. In particular, as regards activities which are not covered by the Taxonomy, i.e. 'non-eligible' activities, ESMA acknowledges that it would potentially be complex and burdensome to require quantitative disclosure in the absence of relevant sustainability criteria and potentially result in arbitrary disclosures. On the other hand, mandating the disclosure of qualitative information on these activities

[33] Commission request to the EU Platform on sustainable finance to provide advice on financing transition.

entails the risk of disclosing information that would not be sufficiently informative and possibly incomplete or even misleading as it would be based on the entity's own assessment of the 'greenness' of these activities.

257. ESMA is, however, aware that the Taxonomy will need to be further developed in the coming years and additional activities would progressively be included. Additionally, ESMA recognises that disclosure on an entity's own assessment of the sustainability of activities not covered by the Taxonomy might have significant informative value for investors and other users of non-financial information, while the non-inclusion of an economic activity in the Taxonomy at this initial phase should not penalise activities that may have the potential to substantially contribute to one or more of the environmental objectives. To find the right balance between these two competing objectives, ESMA proposes that undertakings be required to provide a concise narrative disclosure on the environmental sustainability of economic activities which are not covered by the Taxonomy when they have informed the Platform on Sustainable Finance that technical screening criteria for these activities have not been established, in accordance with Article 20(6) of the Taxonomy Regulation. Where the Platform on Sustainable Finance has advised the Commission against covering these activities in the Taxonomy, the entity should disclose that fact in the non-financial statement and cease henceforth to provide such disclosures. Furthermore, ESMA suggests that this narrative disclosure is complemented with quantitative disclosure limited to the turnover KPI of these activities to give investors an understanding of their overall importance.

258. In addition, ESMA appreciates the input suggesting that it is of relevance to investors to have information on whether an activity does not meet the substantial contribution or the DNSH criteria. To address these comments, ESMA is minded to propose that this information, which is already included in the standardised table, is more clearly identified.

259. As regards the proposals for a progressive implementation of the disclosure requirements under Article 8, ESMA appreciates the logic of providing entities the needed time to prepare for the reporting required under Article 8. ESMA agrees that for the disclosures under Article 8 to be of sufficiently good quality, non-financial undertakings would need time to prepare internally in order to perform the Taxonomy-alignment assessment per economic activity as required under the Taxonomy Regulation and reflected in the draft delegated acts published by the Commission for consultation on 20 November 2020[34]. ESMA points out that these delegated acts foresee the application of the technical screening criteria per economic activity and will be adopted by the Commission with a view to ensuring their application from 1 January 2022 in accordance with Articles 10(6) and 11(6) of the Taxonomy Regulation. As indicated by respondents, ESMA would expect that, to comply for the first time with the disclosure obligations of the Article 8, an entity's internal reporting systems and processes will need to undergo adjustments to align with this 'per activity' approach.

[34] Please find the draft texts of the delegated acts through the link here.

260. ESMA argues that the calculation of the three KPIs per activity will have to be undertaken in any case in order to produce the three KPIs at entity level; ESMA, however, takes into account the arguments from stakeholders that during the implementation phase companies will need to make a significant effort to adjust internally to the new reporting regime. With this in mind, ESMA considers that there is merit in the proposal from the SMSG and other stakeholders to propose the adoption of a phased approach to allow undertakings sufficient time to prepare internally. To this end, ESMA has adjusted its proposed approach in the following ways:

(a) for the first year of application the disclosures under Article 8 should contain the three KPIs in relation to activities that are 'eligible' and Taxonomy-aligned in accordance with the Taxonomy Regulation. Disclosure of these KPIs should be provided per environmental objective as well as a total across all objectives. ESMA clarifies that the term 'eligible' is used with reference to activities included in the Commission's delegated acts setting out the technical screening criteria for the environmental objectives.

The disclosures should also provide the three KPIs for enabling and transitional activities as a total across those activities. Additionally, entities should indicate the turnover KPI of the remaining activities and breakdown of this metric (into the turnover KPI of 'eligible' but not Taxonomy-aligned activities and 'non-eligible' activities.

In practical terms, this means that undertakings would need to provide the information requested in line A.1 and column 20 of Tables 1, 2 and 3 which are included in Annex V and information requested in lines A.2, (A.1 + A.2) and B of Table 1. Furthermore, in accordance with the logic set out in paragraph 256, ESMA considers that entities should provide narrative information on activities which are not eligible, but which have the potential to make a substantial contribution to environmental sustainability. This narrative information should have the minimum content indicated in paragraph 257.

(b) For the second and any subsequent year of application, disclosures should include the information mandated for the first year under point (a) as well as the three KPIs per eligible economic activity regardless of whether an activity is Taxonomy-aligned or not. In addition, the breakdown of the turnover KPI into eligible, non-eligible activities and activities which are Taxonomy-aligned and those that are not should be provided on a mandatory basis.

261. With respect to the SMSG suggestions concerning the reference date of the delegated acts, ESMA reiterates that as already explained in paragraph 38 of section 3.1.1. this is a Level 1 matter which goes beyond the call for advice. On a similar note, ESMA takes note of the request for additional guidance in relation to these disclosure requirements which in ESMA's view is a matter to be addressed in the implementation phase of the Article 8 disclosure requirements and cannot be covered in the context of its advice.

Question 19: Do you agree with the proposal not to require retroactive disclosure concerning the four environmental objectives relating to the financial year 2021?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
4	2	1	5	19	1	4	-	1	1	16

262. ESMA received 54 responses to Question 19. There was almost unanimous agreement with ESMA's proposal not to require retroactive disclosure concerning the four environmental objectives relating to financial year 2021. In general, respondents highlighted that undertakings should be given adequate time to ensure better preparedness and good quality of the information provided. Two respondents expressed the view that retroactive disclosure should be provided on a voluntary basis.

263. Six stakeholders raised concerns in relation to the disclosures that asset managers would be required to provide and whether the relevant reference data would be available from investee companies in order to allow asset managers and investment funds to comply with their reporting obligations at the product level under Articles 5 and 6 of the Taxonomy Regulation and at the entity level under Article 8. To overcome this issue, these stakeholders suggested that the application of these reporting requirements kicks-in on 1 January 2023 in relation to the financial year 2022.

264. A few respondents reiterated suggestions provided in response to previous questions concerning the timeline for the implementation of the disclosure requirements under Article 8 and proposed a phased approach until the delegated acts on the technical screening criteria relating to the six environmental objectives have been published.

265. Lastly, one respondent disagreed with ESMA's proposal, supporting the informative value of retroactive disclosures.

Input from the SMSG

266. The SMSG was in agreement with ESMA's proposal not to require retroactive application of the disclosure requirements under Article 8.

ESMA's response

267. ESMA welcomes the practically unanimous support for its proposal to not require retroactive disclosures from non-financial undertakings. As regards the few dissenting

voices for the publication of such disclosures on a voluntary basis, ESMA notes that under its advice this would still be possible.

268. With respect to the concerns raised concerning the timeliness of the disclosures by non-financial undertakings in order to allow compliance by asset managers with their own disclosure obligations within the deadline, ESMA reiterates that, in its view, this is a Level 1 matter which cannot be addressed in the context of ESMA's advice. However, ESMA refers the reader to section 3.2.2 of this report where under Questions 37 and 38 ESMA provides explanations on how asset managers should comply with their disclosure requirements in the absence of concrete disclosures from investee companies.

Question 20: Do you consider that there are specific elements in ESMA's draft advice which are not in line with the information needed by financial market participants in order to comply with their own obligations under the Taxonomy Regulation and the SFDR? If yes, please specify in your answer.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
4	1	-	6	4	1	2	-	-	1	7

269. ESMA received 26 responses to Question 20. Ten respondents made suggestions regarding topics that in their view should be addressed in ESMA's advice and issues that they considered were in need of further clarification. In particular, the topics put forward related to the following issues:

- Disclosures of non-financial undertakings which are outside the EU or do not fall within the scope of the NFRD;

- Corporate disclosures of the data required to assess the principal adverse impacts under the SFDR to be reviewed to allow financial market participants to report in alignment with these metrics;

- Clarification on the difference between activity reporting under the Taxonomy Regulation and entity level requirements under the SFDR in relation to significant harm for both non-financial undertakings and other financial market participants;

- Interaction and alignment with the forthcoming work at the product level reporting under Articles 5 to 7 of the Taxonomy Regulation, in particular with regard to the reporting at product-level in pre-contractual disclosures which will be required by the end of 2021 for the climate objectives, while companies will only report in 2022;

- Information needs of financial market participants in relation to NACE code level and company level which may not be fully met by information provided by non-financial undertakings; and

- How information on DNSH could be further developed.

270. The remaining twelve respondents agreed overall with ESMA's analysis and did not raise any points for inclusion in ESMA's draft advice.

Input from the SMSG

271. The SMSG did not provide feedback on this question.

ESMA's response

272. ESMA welcomes the input provided by stakeholders in relation to potential topics that would be in need of further development in order to ensure alignment of the disclosures provided under Article 8 with the information needed by financial market participants to comply with their own obligations under the Taxonomy Regulation and the SFDR. With its draft advice, ESMA has endeavoured to explicitly make the link envisaged by the co-legislators between the disclosure obligations of non-financial undertakings and other financial market participants. To this end, ESMA's proposals aim at ensuring that the information provided by non-financial undertakings is comprehensible, easily accessible and relevant for other financial market participants. ESMA refers the reader to its response to previous questions where it mentions the proposed level of granularity for the disclosures under Article 8 that will eventually feed into the disclosures provided by other financial market participants.

273. ESMA points out that respondents to this question did not formulate specific proposals concerning elements that should be addressed in its advice in relation to the interaction of the Taxonomy Regulation and the SFDR. ESMA, therefore, does not consider that the feedback from the consultation provides the basis to amend its advice on this particular topic. As regards the feedback relating to the alignment with the timing of the disclosures at product level, ESMA reiterates that this matter goes beyond the scope of ESMA's advice and cannot be addressed therein.

274. In response to stakeholders who voiced concerns concerning the disclosures that will be provided by non-EU entities or entities that do not fall within the scope of the NFRD, ESMA points out that third country non-financial undertakings are not subject to the disclosure requirements of the NFRD. As regards EU entities which do not fall within the scope of the NFRD, ESMA reiterates that this matter is duly addressed in section 3.2.2 of this report in ESMA's analysis under Questions 37 and 38.

275. ESMA has carefully considered the comments which relate to the data required to assess principal adverse impacts under the SFRD, the interaction between activity reporting

under the Taxonomy Regulation and reporting at entity level under the SFDR concerning DNSH and further development of the DNSH criteria. ESMA observes, however, that these points cannot be addressed in the context of its advice as they are not covered in the call for advice. As a small point, ESMA notes that the ESAs' work under the Taxonomy Regulation does not cover Article 7 of the Taxonomy Regulation as indicated by respondents.

276. Lastly, as regards the stakeholder input requesting clarifications on the use of the NACE classification system, ESMA does not see room to address it in its advice as it goes beyond its mandate for this advice and it is a matter for consideration at the implementation phase of the disclosure requirements under Article 8.

Question 21: Are there points that should be addressed in ESMA's advice in order to facilitate compliance of financial market participants across the investment chain? If yes, please specify.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
4	1	-	5	4	1	3	-	-	1	11

277. ESMA received 30 responses to Question 21. Twenty-six of these respondents raised specific points for ESMA's consideration. In particular, some respondents suggested that, to ensure reliability and comparability of the information disclosed under Article 8 of the Taxonomy Regulation, this information should be verified by a third party[35]. A handful of respondents suggested that the disclosures under Article 8 should be machine-readable[36], while a small number of stakeholders raised the issue of the timing of the disclosure obligations and its interaction with the disclosure obligations at the product and entity level by asset managers.

278. One stakeholder suggested the disclosure of KPIs at EBIT or EBITDA level instead of turnover or OpEx as these metrics may not be so relevant for certain industries, while another argued that disclosure of the KPIs as a total should be mandatory to allow financial market participants to comply with their own disclosure obligations. One respondent stressed the need to align the Taxonomy Regulation with the SFDR and include the requirements on principal adverse impacts. Lastly, one respondent

[35] This point was also raised in the General Remarks section.
[36] Ibid.

mentioned that in their view the definitions of the KPIs should comply with the definitions used in the undertaking's financial statements, while two respondents invited ESMA to clarify that the principle of materiality under the Accounting Directive should apply to the three KPIs.

Input from the SMSG

279. The SMSG recommended a formal verification process of the disclosures provided in order to ensure their reliability. As an additional point, the SMSG highlighted the need for relevant staff to develop necessary competences and pointed out the challenges stemming from different legislations being in diverse stages of development.

ESMA's response

280. ESMA appreciates the points raised in response to this question. ESMA observes that the comments on the interaction with the SFDR and the timing of the disclosure obligations reiterated input provided to previous questions which is already addressed.

281. As regards the comments which advocated that entities' disclosure is made at EBIT or EBITDA level, ESMA notes that the KPIs are explicitly mentioned in the Level 1 text and therefore, could not be modified in the Level 2 delegated act. In reply to the SMSG and other respondents which advocated for third party verification of the Article 8 disclosures, ESMA reiterates its response in paragraph 109 under Question 4 that this is a matter that cannot be addressed in its advice given that the information disclosed under Article 8 will be included in the non-financial statement published under the NFRD. ESMA, furthermore, points out that it has expressed its public position on that matter in its advice to the EC on undue short-term pressure on corporations[37] as well as in its response to the Commission's consultation in relation to the revision of the NFRD[38].

282. On machine-readability of the information disclosed pursuant to Article 8, ESMA reiterates the views stated in paragraph 171 of the Consultation Paper[39] which supported machine-readability of non-financial statements in their entirety, a position formally expressed in ESMA's response[40] to the public consultation on the review of the NFRD.

283. ESMA believes, in fact, that the issue of machine-readability of the Article 8 disclosures should be addressed in the context of the NFRD review given that these disclosures form part of the non-financial statement. In this context, ESMA notes that the KPIs will constitute harmonised and standardised information and therefore, agrees with the comments made by some stakeholders that, ideally, they should be rendered in a machine-readable format. As discussed in ESMA's response to the consultation on the review of the NFRD, the ESEF Regulation constitutes a framework within which it would

[37] ESMA30-22-762 Report – *Undue short-term pressure on corporations*, 18 December 2019.
[38] ESMA32-334-245 Response to public consultation - *ESMA response to the European Commission consultation on the review of the NFRD*, 11 June 2020.
[39] ESMA30-379-325 Consultation Paper on *Draft advice to the European Commission under Article 8 of the Taxonomy Regulation*, 5 November 2020.
[40] ESMA response to the European Commission consultation on the review of the NFRD (Ref.: ESMA 32-334-245 | 11 June 2020).

be possible to expand tagging requirements to non-financial information under the condition that such disclosures are subject to standardisation. ESMA is ready to support the Commission in this regard.[41].

284. As a consequence, ESMA deems that the possibility to expand such requirements to the three KPIs is premature at this stage, because the preconditions for machine-readability are dependent on the review of the NFRD. Nevertheless, ESMA will raise this point to the attention of the Commission for further consideration.

285. Lastly, as regards the comments advocating for disclosure of the KPIs as a total and use of the definitions of the KPIs which are used in the entity's financial statements ESMA refers the reader to its responses to Questions 1, 3, and 14.

Question 22 Do you believe that ESMA's detailed proposals under Section 3.3 will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, to which specific proposal they relate including whether they are one-off or ongoing, and provide your best quantitative estimate of their size.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
2	-	1	2	16	1	4	-	-	1	11

286. ESMA received 38 responses to Question 22. The vast majority of respondents (32) expressed the view that the calculation and disclosure of the KPIs required under Article 8 would impose additional costs on non-financial undertakings. Stakeholders mentioned that these costs would be one-off costs that would include preparation of IT systems, establishment of new reporting processes, training of staff etc. One respondent gave a quantitative estimate of the one-off costs, believing them to be around EUR 10 million.

287. Additionally, respondents underlined that there would be ongoing costs to comply with the disclosure obligations pursuant to Article 8, such as collection, compilation and storage of the data for the three KPIs as well as possible verification costs etc. A few stakeholders suggested that the level of detail required would have an impact on these

costs, while it was also stated that further development of the applicable criteria would add to the costs of compliance.

288. One stakeholder clarified that such costs would vary based on the size and countries of operations of each company. Another stakeholder mentioned that based on a report[42] commissioned by the Federal Ministry of Environment in Germany to assess major European firms against the EU Taxonomy, companies would face additional costs stemming from adjusting data collection and sustainability disclosure processes to meet Taxonomy criteria. These additional costs would be related to the disaggregation of revenue streams according to the Taxonomy criteria and aligning of internal operational and production processes with the EU Taxonomy. In general, though, the input provided by stakeholders did not relate explicitly to the specific costs that would be imposed from the application of ESMA's proposals.

289. Lastly, six respondents were of the view that the proposals in ESMA's draft advice would not cause additional costs to non-financial undertakings.

Input from the SMSG

290. The SMSG did not provide feedback on this question.

ESMA's response

291. ESMA acknowledges respondents' comments concerning the additional costs that undertakings will incur in complying with their disclosure obligations pursuant to Article 8. ESMA, also, notes that, with the exception of one stakeholder, respondents did not provide a quantitative indication of those costs.

292. To ESMA's understanding the input from stakeholders on costs largely refers to the application of the new disclosure regime under Article 8 and is not expressly related to the ESMA's proposals on the specification of the three KPIs.

293. ESMA acknowledges the points made by a handful of stakeholders which stated that the granularity of the Article 8 disclosures would have an impact on the costs incurred by entities. ESMA, however, reiterates that detailed reporting from non-financial undertakings will provide the basis for other financial market participants to comply with their own disclosure obligations. While ESMA appreciates the cost concerns, it wishes to underline that a direct link between its advice and the additional costs incurred by undertakings has not been established given that, as previously mentioned, entities would already be in possession of the granular information that is set out in ESMA's proposals due to the application of the Taxonomy Regulation. As such, ESMA did not make any additional revisions to its advice to the Commission based on the responses to Question 22.

[42] https://sustainablefinancesurvey.de/sites/sustainablefinancesurvey.de/files/documents/european-sustainable-finance-survey-2020_bf.pdf.

Question 23: Do you consider there are additional topics that should be considered by ESMA in order to specify the methodology that non-financial undertakings should follow? If yes, please elaborate and explain the relevance of these topics.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
1	2	-	3	15	1	2	-	-	1	7

294. ESMA received 32 answers to Question 23. Twenty-five respondents raised additional topics that should be considered by ESMA in order to specify the methodology that non-financial undertakings should follow. Several of these respondents reiterated input provided in response to previous questions which is not repeated here.

295. Many respondents took this opportunity to ask for clarifications on certain topics. Five respondents invited ESMA to provide explanations on how to account for goods and services that were sold in third countries. Three respondents mentioned that they would appreciate guidance on the treatment of subsidiaries, strategic participations and associate companies. Additionally, a few respondents requested clarifications on the use of proxies or estimates for the verification of DNSH, social safeguards criteria and underlined the challenges in assessing the DNSH criteria[43]. Two respondents referred to input raised in response to previous questions. This input is already addressed and is not repeated under this question.

296. Additional suggestions provided by some respondents related to the following topics:

- For activities not covered by the Taxonomy, undertakings should be allowed to give their own interpretation of what is sustainable and disclose this in a transparent manner;

- A full assessment of Taxonomy-alignment would not be required in cases where only a small part of an entity's activities is covered under the Taxonomy in application of the principle of materiality44;

- In view of the revision of the NFRD, smaller entities should be allowed to provide simplified reporting on their Taxonomy-alignment;

[43] This point was also raised in response to Question 2.
[44] This point was also raised under the General Remarks section.

- Sectoral guidance on the interpretation of the sectoral criteria across national jurisdictions should be provided;

- More detailed description in relation to OpEx should be provided;

- Geographical disclosure is needed given that the effects of climate change will not be the same across different geographical locations;

- The Commission should be requested to a) provide a definition of the terms ‘non-financial undertaking’ and ‘financial undertaking’ and b) consider the disclosure that should be provided by non-financial undertakings on their financial or investment activities;

- Further guidance on the methodology applying to companies that fall within scope of the Article 8 disclosure obligations should be provided; and

- Equity-accounted entities’ contribution should be included in the methodology for the calculation of the three KPIs.

297. Lastly, seven respondents clarified that they did not see additional topics that needed to be raised.

Input from the SMSG

298. The SMSG did not provide feedback on this question.

ESMA’s response

299. ESMA takes note of the additional input provided in response to Question 23 and observes that several of the topics raised by stakeholders are not within ESMA’s remit to address. These relate to the requests for definitions of the terms financial and non-financial undertaking and clarifications on the following: a) Taxonomy assessment of activities taking place outside the EU; b) application of the DNSH and minimum safeguards criteria; c) potential further guidance on the application of the Taxonomy criteria (including guidance for specific sectors where warranted); and d) relevance of geographical disclosures as complementary information to the Article 8 disclosures.

300. As regards the input concerning activities which are not covered by the Taxonomy, ESMA refers the reader to its response in paragraph 256 under Question 18. On the proposal to not require a Taxonomy-alignment assessment where a small part of the undertaking’s activities are covered by the Taxonomy, ESMA points out that the Level 1 text imposes an obligation on non-financial undertakings that fall within scope of the NFRD to make such disclosure and therefore, an exemption cannot be provided in the delegated act. Additionally, ESMA notes that, as one of the objectives of the EU Taxonomy is to provide more transparency on the sustainability performance of entities, it is key for entities to make such disclosures even if only a small part of their activities is eligible for Taxonomy-alignment.

301. With respect to the suggestion to allow smaller companies to provide simplified reporting ESMA refers the reader to its response in paragraph 234 under Question 15 where it explains that it does not see room for the application of the proportionality principle to these disclosures. As regards the suggestions on the content of the KPIs i.e. the treatment of subsidiaries, strategic participations, associates, investments accounted for using the equity method and the description of OpEx ESMA points out that these topics were addressed in its responses under Questions 1 to 13. Lastly, on the request for clarifications with regard to the disclosure that should be provided by non-financial undertakings on their financial or investment activities, ESMA notes that for the calculation of the KPIs required under Article 8 entities should ensure consistency with the consolidation principles set out in Article 21 of the Accounting Directive which apply to consolidated financial statements and reports.

3.1.4 Presentation of KPIs

302. This section summarises the feedback which ESMA received in relation to Questions 24 to 27 of its Consultation Paper and presents ESMA's response to this feedback.

Question 24: Do you agree that in order to ensure the comparability of the information disclosed under Article 8(2) of the Taxonomy Regulation and as such facilitate its usage, ESMA should propose the use of a standardised table?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	2	1	5	17	1	5	-	-	1	15

303. ESMA received 50 responses to Question 24. While overall 39 respondents agreed with ESMA's proposal on the use of a standardised table for the reporting requirements, eight of these underlined that they supported its use on a voluntary basis.

304. Twelve respondents explained that they agreed with the proposal given that it would enhance comparability of the disclosures provided. Seven respondents argued that the standardised table should be provided in a machine-readable format. One respondent expanded on that premise to suggest the use of identifiers such as Legal Entity Identifier ('LEI') or Financial Instrument Global Identifier ('FIGI') as well as distributing the table through a feed. In line with comments raised under previous questions, five respondents

pointed out that it is key for users to be able to access the information disclosed under Article 8 through a centralised register i.e. a single access point[45].

305. Seven of the respondents, who considered that it would be helpful to propose a standardised table, suggested that entities should have flexibility to present the required information in their own format with some of them suggesting the inclusion of a link to the standardised table. One respondent proposed to include the standardised table only in the online version of the annual report.

306. Ten respondents did not see merit in ESMA's proposal on the use of a standardised table for the disclosure obligations under Article 8. These respondents argued that prescribing a standardised format would have limited value for users of that information, while it would be burdensome for preparers. Lastly, one respondent pointed out that this matter should be addressed in the context of the review of the NFRD given that the three KPIs will be included in the non-financial statement.

Input from the SMSG

307. The SMSG acknowledged the level of detail given for the definition and methodology of the three KPIs and recommended that ESMA provides templates for the disclosure of the CapEx and OpEx KPIs. The SMSG suggested that the templates be used as an example, while companies should be given the flexibility to choose a different format.

ESMA's response

308. ESMA welcomes the broad stakeholder support for the proposed standardised table. In response to the SMSG and respondents to the consultation who suggested using this table on a voluntary basis or allowing companies flexibility to use a different format, ESMA observes that to achieve the purpose of the Taxonomy Regulation as reflected in the Article 8 provisions, it is key to ensure disclosure of comparable and reliable information that would be easily reused and fed into disclosures by other financial market participants. On that basis, ESMA intends to retain the mandatory adoption of the standardised table.

309. With respect to the comment by the SMSG to provide standardised templates for the CapEx and OpEx KPIs, ESMA notes that the Consultation Paper included a standardised table for the turnover KPI in order to seek stakeholder views on ESMA's proposal on standardisation of the disclosures under Article 8. Considering the broad stakeholder support for this proposal ESMA will include in its advice to the Commission standardised tables for the three KPIs.

310. As regards the suggestions on the machine-readability of the Article 8 disclosures, ESMA refers the reader to its response in paragraphs 283 and 284 under Question 21 on this topic. With respect to the proposals that entities be allowed to include the standardised

[45] This point was also raised under the General Remarks section.

table only in the online version of the annual report or provide only a link to such a table, ESMA's response is provided in its feedback in paragraph 330 under Question 26.

311. Lastly, on the more detailed proposals which advocate the use of specific identifiers in the standardised table, ESMA considers that where such identifiers are available, the entities that fall within scope of Article 8 disclosures should include them in the standardised table. Furthermore, ESMA sees merit in the idea of this information being made available through a single access point, consistently with the views expressed by ESMA in its response to the review of the NFRD[46].

312. ESMA notes that under Article 4(7) of the Transparency Directive annual financial reports should be prepared in a single electronic reporting format which, as specified in Article 3 of Commission Delegated Regulation (EU) 2019/985[47], should be in XHTML format. In this regard, ESMA observes that where the non-financial statement is included in the management report it will be disclosed in the format specified for that report. ESMA, furthermore, appreciates that specifying alternative formats that would apply only to part of the non-financial statement i.e. the section relating to the Article 8 disclosures would impose additional burdens to entities which already prepare the non-financial statement under their own format. ESMA also notes that it would like to avoid a situation where the introduction of a specific format under the forthcoming review of the NFRD would entail additional costs for entities which would need to replicate their efforts and associated costs in the implementation of such format to the disclosure of the three KPIs.

313. To this end, ESMA has amended its advice to the Commission in order to propose that the information published under Article 8 should follow the formatting rules that apply to the non-financial statement.

[46] https://www.esma.europa.eu/file/56330/download?token=j4ccl0CC

[47] Commission Delegated Regulation (EU) 2019/985 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format.

Question 25: Do you consider that the standard table provided in Annex III of this Consultation Paper is fit for purpose? Do you think the standard table provides the right information, taking into account the burden on non-financial undertakings of compiling the data versus the benefit to users of receiving the data? If not, please explain and provide alternative suggestions to promote the standardisation of the disclosure obligations pursuant to Article 8 of the Taxonomy Regulation.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
2	2	1	6	18	1	5	-	-	1	10

314. ESMA received 46 responses to Question 25. Twenty-nine respondents deemed the standard table provided in Annex III of this Consultation Paper fit for purpose, albeit with comments in some cases. These stakeholders highlighted the usefulness of a standard table to financial market participants and in general users of the information that will be disclosed under Article 8.

315. As regards more detailed comments on the content of the table these mainly related to the following topics:

- Inclusion in ESMA's final advice of standard tables relating to the KPIs on CapEx and OpEx;
- Presentation in the table only of information concerning economic activities that are covered in the Taxonomy or only on activities which meet the criteria for Taxonomy-alignment;
- Inclusion in the table of information on the reasons for not meeting the technical screening criteria;
- Not require disclosure per environmental objective;
- Editorial comments concerning the headings of certain columns such as clarifying whether an activity substantially contributes to an objective based on its own performance or due to its enabling or transitional characteristics.

316. Fourteen respondents expressed concerns on the use of the standard table which, in their view, was too detailed and complex. These stakeholders argued that undertakings should be allowed flexibility to base these disclosures on their own reporting format. They

also suggested that the table should not include information on activities not covered in the Taxonomy or activities that did not meet the technical screening criteria should not be included in the table, nor disclosure of the KPIs per economic activity. One respondent commented that the use of the standard table limits companies which cannot adopt alternative reporting methods that would be considered helpful for investors. Another respondent considered that the content of the standard table relating to the KPIs disclosed by non-financial undertakings is not consistent with the standard table for the KPI disclosed by asset managers as it does not provide the proportion of transitional and enabling activities as a total across all activities. A stakeholder suggested that ESMA provides non-binding examples, while another stakeholder proposed that the information relating to the DNSH and minimum safeguards criteria be removed from the table.

317. One respondent suggested that the standard to be used for non-financial reporting is Inline XBRL. The same respondent encouraged ESMA to use strict definitions for tagged data items to enable machine-to-machine communication and to propose in its advice to the Commission financial definitions that are already in use. Where it is necessary to use new definitions, this respondent was of the view that these should be aligned with the already defined KPIs for the ESEF format to the extent possible.

Input from the SMSG

318. In reply to Question 25, the SMSG referred to its response under Question 24.

ESMA's response

319. ESMA welcomes the support for its proposal on the standardised table from the majority of respondents. ESMA clarifies that it will include in its final advice to the Commission standardised tables in relation to the KPIs on CapEx and OpEx. With respect to the content-related comments ESMA refers the reader to its responses under Questions 15 and 18.

320. On the issue of consistency between the standardised table that will be disclosed by non-financial undertakings with the one that will be published by asset managers, ESMA points out that the proportion of transitional and enabling activities as a total across all activities can be easily calculated with the information already included in the standardised table. Nevertheless, ESMA is minded to add a field in the table for the disclosure of this information. However, in response to the suggestion that the table should include an indication of whether an activity contributes to an objective based on its own performance, ESMA notes that this information is already indicated in the table. In this regard, ESMA considers that no further adjustment is needed to the table to address this comment.

321. With respect to the input from a stakeholder inviting ESMA to provide examples, ESMA observes that it could consider this matter as part of its Level 3 work in order to provide future guidance on the implementation of these requirements. However, ESMA notes that following the publication of the draft delegated acts relating to the first two sets of

technical screening criteria[48] ESMA has included in its advice some examples in reference to economic activities set out in the annexes to these draft delegated acts. Furthermore, ESMA notes that the standardised table provided in ESMA's Consultation Paper and Annex V of this report includes as an example the case of Activity A which partly contributes to the objective of climate change mitigation. In the example provided 50% of that activity's turnover can be counted as Taxonomy-aligned.

322. As regards the comments arguing in favour of more flexibility for undertakings to adopt the reporting format of their choice as well as the suggestion to use Inline XBRL, ESMA points out that, as discussed with respect to Question 21, this is a matter to be addressed in the context of the machine readability of the non-financial statement as part of the review of the NFRD.

323. ESMA has also carefully considered the detailed comments on the content and heading of certain columns and adjusted the standardised table as indicated in Annex V of this report. Taking into account the input provided to this question and the previous questions on methodology, ESMA has adjusted the content of the standardised table for the disclosure of the turnover KPI and will propose to the Commission that this table should include the rows and columns illustrated in Table 1 in Annex V. Additionally, ESMA has developed standard tables for the CapEx KPI and the OpEx KPI, which are included in Tables 2 and 3, respectively in Annex V of this report. ESMA will propose that these standard tables include the following rows and columns:

- Economic activities (row): Presentation of those of the non-financial undertaking's economic activities which are included in the delegated acts published in accordance with Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of the Taxonomy Regulation and contributed to turnover / CapEx / OpEx during the reporting year. The description of the activity should refer to the relevant delegated acts setting out the technical screening criteria for Taxonomy-alignment assessment (e.g. "3.2. Manufacture of equipment for the production of hydrogen" [49]).

- Code(s) (column): For the economic activities which are included in the delegated acts published in accordance with Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of the Taxonomy Regulation, the code(s) indicated in the relevant delegated acts should be provided. For example, in relation to activity "3.2. Manufacture of equipment for the production of hydrogen" the relevant code(s) mentioned in Annex I are C.25, C.27, C.28 in accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006.

- Absolute turnover / CapEx / OpEx (column): The turnover / CapEx / OpEx related to each economic activity expressed in the currency of the non-financial undertaking's choice.

[48] Please find the draft texts of the delegated acts through the link here.
[49] Annex I of the Commission's published draft delegated act (please find the draft texts of the delegated acts through the link here).

- Proportion of turnover / CapEx / OpEx (column): The turnover / CapEx / OpEx related to each economic activity expressed as a percentage of the overall turnover / CapEx / OpEx of the non-financial undertaking or group.

- Substantial contribution criteria (six columns corresponding to the six environmental objectives): These columns should be filled in only for activities which are included in the delegated acts published in accordance with Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of the Taxonomy Regulation and indicate the percentage of that activity's substantial contribution to each environmental objective. They should be used to indicate whether an economic activity substantially contributes to each of the environmental objectives. In some cases, only part of the turnover / CapEx / OpEx related to an economic activity will substantially contribute to one of the environmental objectives. This should be indicated in the relevant column by including the proportion of the activity's turnover / CapEx / OpEx that substantially contributes to an objective and the proportion that does not.

- Where an economic activity substantially contributes to multiple objectives, the undertaking should indicate in the narrative information whether it has split turnover / CapEx / OpEx across these objectives or whether it has decided to attribute turnover to a single objective, clearly setting out the rationale for this choice as well as how the issue of double counting was avoided.

- DNSH criteria (six columns corresponding to the six environmental objectives): These columns should be filled in to indicate whether an economic activity satisfies or not the DNSH criteria.

- Minimum safeguards (column): Indication of whether an economic activity meets the minimum safeguards criteria pursuant to Article 18 of the Taxonomy Regulation.

- Taxonomy-aligned proportion of turnover / CapEx / OpEx, year N (column): The proportion of an economic activity's turnover / CapEx / OpEx which is Taxonomy-aligned for the reporting year. Where only part of the turnover / CapEx / OpEx related to an economic activity substantially contributes to one of the environmental objectives, this column should include only the proportion of that activity's turnover / CapEx / OpEx that substantially contributes to a specific objective. To identify this figure, the proportion of the turnover / CapEx / OpEx that substantially contributes to an objective should be multiplied with the proportion of the non-financial undertaking's overall turnover / CapEx / OpEx constituted by that economic activity.

- Taxonomy-aligned proportion of turnover / CapEx / OpEx, year N-1 (column): The proportion of an economic activity's turnover / CapEx / OpEx which is Taxonomy-aligned for the year prior to the reporting year (comparative).

- Category (column): This column should indicate whether an activity is enabling in accordance with Article 16 of the Taxonomy Regulation or transitional pursuant to

Article 10(2) of the Taxonomy Regulation and at the bottom of the column provide the total of the relevant KPI for enabling and transitional activities only.

- Non-eligible activities (row): This row should provide information on the undertaking's turnover of activities which are not included in the delegated acts published in accordance with Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of the Taxonomy Regulation, as a total across these activities.

Question 26: Do you agree that the disclosure in the three standard tables should comply with the formatting rules mentioned in Table 5?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
1	2	1	2	15	1	3	-	-	1	7

324. ESMA received 33 responses to Question 26. A minority of respondents i.e. sixteen stakeholders, broadly supported ESMA's proposal that the disclosure in the three standard tables should comply with the formatting rules mentioned in Table 5. The main argument for a standardised format put forward by these stakeholders was the prospect of automated analysis.

325. Two stakeholders which supported ESMA's proposal mentioned that a certain degree of rounding in the figures provided should be allowed and that the use of special characters and merging of information in one cell should be avoided at all times.

326. Seventeen stakeholders expressed their disagreement with ESMA's proposal. Eleven stakeholders explained that it is important to retain flexibility for issuers to ensure that the applicable formatting rules are in line with their own formatting rules and practices for the disclosure of the financial statements and the annual report. Two stakeholders mentioned that ESMA should consider national specificities concerning the use of "." to denote decimal numbers instead of "," which is used in some Member States. On the other hand, one respondent who was in favour of ESMA's proposals supported by the use of a standardised numerical arrangement, such as ISO 20022.

Input from the SMSG

327. The SMSG did not provide feedback on this question.

ESMA's response

328. ESMA acknowledges that respondents expressed mixed views in response to Question 26, with the majority voicing disagreement with the proposed formatting rules. As regards the objections to the formatting rules, ESMA appreciates that they mainly reflect strong views concerning the alignment of formatting rules to those already applicable to the non-financial statement and the annual financial report given that the three KPIs are included in the non-financial statement.

329. ESMA acknowledges the validity of those arguments and is mindful that as discussed in paragraph 312 under Question 24 the disclosures provided under Article 8 form an integral part of the non-financial statement which is either disclosed under XHTML format when it is included in the management report or under the undertaking's own format. ESMA, therefore, appreciates that applying a set of formatting rules, which will not necessarily be in line with the format of the non-financial statement, will be burdensome for issuers.

330. As already explained, ESMA is supportive of rendering the non-financial statement machine-readable. In the meantime, though, ESMA thinks it would be premature to apply a set of formatting rules only to the part of the non-financial statement that includes the KPIs disclosed under Article 8. With this in mind, ESMA intends to withdraw its proposed formatting rules from its advice to the Commission.

Question 27: Do you believe that ESMA's detailed proposals under Section 3.4 will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, to which specific proposal they relate including whether they are one-off or ongoing, and provide your best quantitative estimate of their size.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
-	-	1	-	13	1	5	-	-	-	6

331. ESMA received 26 responses to Question 27. Twenty respondents were of the view that ESMA's draft advice under Section 3.4 would impose additional costs on non-financial undertakings. Respondents highlighted both the costs of adaptation of reporting as well as the ongoing costs related to tracking the relevant information. One respondent gave an approximation of the relating costs, estimating the one-off costs to be at 100 – 200

working hours per activity and the ongoing costs to be between annually 40 and 80 working hours per activity.

332. A handful of stakeholders reported that the associated costs were dependent on the level of detail that was to be required in the final legislation. Six respondents did not believe that the proposals under Section 3.4. would impose additional costs to non-financial undertakings. One stakeholder expressed the view that ESMA's proposal reduces costs, as it standardises and streamlines requirements.

ESMA's response

333. ESMA appreciates the input provided in response to Question 27. Even though respondents largely mentioned that undertakings would be faced with additional costs, they were not in a position to provide a quantifiable indication of such costs, with the exception of one stakeholder. ESMA observes that some respondents underlined that the obligation for standardised reporting would impose additional costs to entities that are subject to the Article 8 disclosure requirements without providing further quantitative information on that point.

334. While ESMA has carefully considered this point, it remains convinced that the proposal to disclose the information required under Article 8 in a standardised format is justifiable and proportionate to allow the Taxonomy Regulation to deliver on its objectives. ESMA, therefore, is minded not to amend its advice based on the input provided under Question 27.

335. ESMA, however, notes that, based on the input provided to previous questions, it has implemented changes to its advice with regard to the content of the KPIs, the methodology for reporting them and the content of the standardised table. ESMA considers that those amendments to its advice represent alleviations and simplifications which partly address concerns from stakeholders. On that basis, ESMA considers that its advice to the Commission includes proposals which will entail lower costs for preparers of the KPIs compared to the draft advice.

3.2 Advice on extent of asset managers investments' Taxonomy-alignment

3.2.1 Content of KPI

336. This section summarises the feedback which ESMA received in relation to Questions 28 to 36 of its Consultation Paper and presents ESMA's response to this feedback.

Question 28: Do you agree that a share of investments is an appropriate KPI for asset managers? If you do not, what other KPI could be appropriate, please justify.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
5	2	1	6	3	1	4	-	-	1	8

337. ESMA received 31 responses to Question 28. A significant majority of respondents were in favour of using the share of eligible investments as an appropriate KPI for asset managers. Those respondents stated that the alternative model based on fees is not the most suitable approach as it would offer less relevant data compared to turnover and would not capture the evolution of allocation to Taxonomy-aligned assets.

Input from the SMSG

338. The SMSG agreed that the share of investments is an appropriate KPI for asset managers and that alternative approaches should not be used. The SMSG considered that the alternative model based on fees is not the best approach as it offers less pertinent data compared to turnover. Moreover, the SMSG pointed out that an approach based on share of eligible investments seems more appropriate than total assets under management (some asset classes can be assessed against the Taxonomy). Lastly, the SMSG underlined that the list of 'eligible investments' could be widened as the Taxonomy regime evolves (criteria for remaining environmental objectives) and once the NFRD is reviewed.

ESMA's response

339. ESMA welcomes the support from a significant majority of stakeholders to ESMA's analysis and its proposal for a KPI that is based on the share of investments. ESMA, furthermore, notes that the alternative fee-based model was not seen as appropriate by

respondents or the SMSG. Based on the positive feedback to this question ESMA will be recommending an investment based KPI in its advice on asset managers' extent of Taxonomy-alignment.

Question 29: This advice focuses on the collective portfolio management activities of asset managers. Should this advice also cover potentially any other activities that asset managers may have a license for, such as individual portfolio management, investment advice, safekeeping and administration or reception and transmission of orders ('RTO')?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
5	-	1	6	1	1	3	-	-	1	7

340. Twenty-five stakeholders provided feedback to Question 29. Most respondents did not see merit in imposing a requirement to extend the disclosure of the Taxonomy compliance of activities to include activities such as individual portfolio management, investment advice, safekeeping or reception and transmission of orders (RTO).

341. As regards individual portfolio management, a majority of respondents supported also including investments from that activity in the KPI, although of those respondents, half argued that such investments should only be included on an optional basis, given that the client may not wish to take into account such a criterion.

342. Some respondents argued that RTO activities should not be included as no major sustainability decisions are made in this business line. These stakeholders were also of the view that such an approach would not be realistic in terms of visibility vis-à-vis investors.

343. In relation to investment advice, a few respondents argued that since asset managers have generally no adequate overview over the outcomes of their recommendations (i.e. whether the client follows a recommendation to buy, hold or sell an asset), there is no suitable basis for calculating KPI(s) on Taxonomy-aligned activities in relation to the service of investment advice.

Input from the SMSG

344. Most SMSG members were, in theory, open to extend the reporting to other activities, in particular individual portfolio mandates, but not to activities that do not involve

discretionary management, such as advice, safekeeping, etc. However, these members underlined that imposing a granular public reporting obligation could be problematic for client confidentiality reasons. One SMSG member, however, was of the view that these disclosures would always be made on an aggregate basis and the risk of disclosing confidential information would, therefore, be minimal.

ESMA's response

345. ESMA acknowledges that the feedback to consultation voices support for the approach of not including activities such as RTO and investment advice in the KPI for Taxonomy-alignment of asset managers. However, ESMA also appreciates input from stakeholders and the SMSG which advocate that investments resulting from individual client mandates should not be treated differently from collective portfolio management. In this regard, ESMA has amended its advice to the Commission in order to recommend the inclusion of individual portfolio management in the KPI. However, to address concerns by SMSG members, ESMA notes that the disclosure should be made on an aggregate basis, which avoids the risk of disclosing confidential information.

Question 30: Do you agree that for the numerator of the KPI the asset manager should consider a weighted average of the investments exposed to investee companies based on the share of turnover derived from Taxonomy-aligned activities of the investee companies? If not please propose and justify an alternative.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
5	2	1	7	4	1	3	-	-	1	12

346. Thirty-six stakeholders provided a response to Question 30. In general, respondents expressed split views while answering this question; many agreed that for the numerator of the KPI, the asset manager should consider a weighted average of the investments exposed to investee companies based on the share of turnover derived from Taxonomy-aligned activities of the investee companies.

347. However, a considerable number of respondents stressed that considering only the share of turnover derived from Taxonomy-aligned activities would result in a static assessment. These stakeholders advocated that this approach would result in omitting those companies which have little Taxonomy-aligned turnover today but have already invested significantly in sustainable activities. Moreover, those respondents

recommended that ESMA proposes in its advice equal weight also to the CapEx indicator compared to the turnover indicator, as CapEx reflects new, incremental green investments in the economy filling the existing investment gap.

Input from the SMSG

348. The SMSG agreed that for the numerator of the KPI, the asset manager should consider a weighted average of the investments exposed to investee companies based on the share of turnover derived from Taxonomy-aligned activities of the investee companies.

ESMA's response

349. ESMA notes the support for the proposal of a weighted average of investments to investee companies based on the share of turnover derived from Taxonomy-aligned activities of those investee companies. With regard to the support for a CapEx derived KPI, ESMA notes that under its draft advice the proposed presentation allows the additional disclosure also of CapEx of underlying investee companies. Nevertheless, a turnover based main disclosure remains the most important element of disclosure and ESMA maintained its advice unchanged on this matter.

350. ESMA also takes the opportunity to clarify the treatment of financial undertakings when they are investee companies for the asset manager. For financial undertakings, the relevant KPI in the delegated act should be used as a proxy for the share of turnover devoted to Taxonomy-aligned economic activities.

Question 31: Do you agree that in addition to a main turnover-derived Taxonomy-alignment KPI, there is merit in requiring the disclosure of CapEx and OpEx-derived figures for Taxonomy-alignment of an asset managers' investments?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
5	2	1	6	5	1	3	-	-	1	12

351. Thirty-six respondents provided feedback in response to Question 31. While most respondents saw merit in requiring the disclosure of CapEx-derived figures for Taxonomy-aligned investments, some expressed doubts over the additional set of information provided by reporting OpEx-derived figures as well.

352. Along this line, respondents explained that CapEx is the most interesting alternative metric for investors as it helps understand the direction of travel of the company and validate companies' strategies and as such it would be useful for investment funds focusing on companies in transition.

353. In relation to OpEx, some respondents raised concerns over the information that such indicator can provide to investors and – considering the additional accounting burden to calculate it – they suggested that OpEx-derived figures should be reported only on a voluntary basis.

354. Some respondents raised doubts over data availability and therefore, recommended that reporting on these two additional indicators should be on a best-efforts basis.

Input from the SMSG

355. The SMSG recommended to use turnover as the primary indicator given that comparability of the information is of utmost importance and turnover is a relatively simple metric to collect.

356. As regards CapEx the SMSG considered that disclosing CapEx-derived figures would make sense because it helps understanding investment challenges. In the view of the SMSG this metric is forward-looking and probably the most interesting metric for investors; however, the SMSG underlined the main issue which relates to feasibility and perimeter. Nevertheless, the SMSG pointed that providing information on both figures (green CapEx and revenues of investment in equities or corporate debt) is probably unrealistic and a separate reporting would be needed (on an optional basis).

357. Furthermore, the SMSG highlighted challenges concerning data collection and data quality. On that basis, the SMSG recommended using turnover and when possible, with a best effort approach, to disclose CapEx and OpEx-derived figures for Taxonomy-alignment of an asset managers' investments.

ESMA's response

358. ESMA notes the agreement by respondents that a turnover based weighted average is the preferred approach. ESMA agrees that data availability and comparability may hamper mandatory reporting of CapEx and OpEx figures and therefore, should be reported on a voluntary basis. On that basis, ESMA intends to amend its advice in order to retain the simple turnover calculation as the KPI for asset managers' Taxonomy-alignment.

Question 32: Do you think sovereign exposures, such as sovereign bonds (but excluding green bonds complying with the EU Green Bond Standard) should be considered eligible investments and if so under what methodology?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
7	1	1	5	1	1	4	-	-	1	10

359. ESMA received thirty-one responses to Question 32. Respondents expressed split views on the topic. Of the 25 respondents who expressed a view, a slim majority of fourteen stakeholders was not in favour of considering sovereign bonds as eligible investments. Those respondents argued that conventional sovereign exposures should not be considered as eligible for the following reasons:

- A turnover-based model would not be applicable to sovereign investments;
- Asset managers are not equipped to verify the green earmarking from states; and
- There is no upstream allocation of the debt (budgetary principle of universality with a non-assignment requirement of public debt).

360. As regards the methodology for potential sovereign bond inclusion, different approaches were proposed. Two respondents suggested to only consider that part of the sovereign debt which is allocated for earmarked projects aligned with the Taxonomy. Another respondent was of the view that only the sovereign debt of the countries which have signed the Paris agreement should be considered as Taxonomy-aligned. Finally, one stakeholder proposed to follow the FTSE Russell Climate Risk-Adjusted Government Bond Index Series.

Input from the SMSG

361. The SMSG argued that a distinction should be made between sovereign debt and sovereign green bonds. As regards the latter, the SMSG considered that as sovereign analysis is not mature enough yet, classic sovereign exposure should not be considered as eligible investment to avoid requiring asset managers to do national cost accounting. The SMSG underlined that in case sovereign bonds were considered eligible investment, it would be unclear how corporate debt and sovereign debt would have to be aggregated and how the debt of state entities with mixed activities, such as sovereign wealth funds,

would be classified. This lack of clarity would lead to disclosure of information that would be less relevant to investors.

362. As regards sovereign green bonds, though, the SMSG considered that they should be treated differently and take into account only sovereign green bonds complying with the EU GBS in order to incentivise Member States to issue green bonds under the EU GBS.

363. However, given that green bonds are eligible investments only if compatible with the EU GBS, the SMSG questioned whether the same criterion should apply where the issue is in compliance with a similar type of standards that is not an EU standard. As the SMSG was of the opinion that the value of sovereign green bonds cannot be limited to those that comply with the EU GBS, it advised ESMA to consider counting bonds that comply with the EU GBS for their entire value (100%) and also allow the inclusion of other sovereign green bonds for their value aligned with the Taxonomy.

ESMA's response

364. ESMA acknowledges the split views on the issue of sovereign bonds. ESMA, furthermore, appreciates the arguments in favour of allowing the inclusion of sovereign bonds in the calculation of the KPI disclosed by asset managers. ESMA agrees that it is possible for public budgets to finance Taxonomy-aligned activities, such as publicly funded academic research. For this reason, in principle it would be beneficial to include sovereign bonds in the numerator of the KPI. However, without specific sovereign disclosures of those activities it is not possible to derive reliable data on the share of Taxonomy-aligned activities funded by sovereign bonds.

365. ESMA observes that there are emerging methodologies to estimate Taxonomy-alignment of sovereigns, as observed by the Technical Expert Group in their Final Report[50]. Also, scientific research on green fiscal policies (e.g. Monasterolo and Raberto, 2018) and sovereign exposure to climate risk (e.g. Battiston and Monasterolo, 2020) is already available, though admittedly still not available as operational methodologies for estimating Taxonomy-alignment. Nevertheless, ESMA observes that, on balance, the analysis of Taxonomy-alignment potential for sovereign bonds is not mature enough, given the limited availability of granular information on the use of proceeds of these issuances which would make the relevant assessment challenging at the asset manager level. This is regrettable as ESMA believes it would be beneficial to be able to include sovereign investments in the numerator. ESMA, therefore, invites the Commission to develop a methodology that would allow for a reliable assessment of the share of Taxonomy-aligned economic activities funded by sovereign bonds.

366. In the absence of a reliable methodology, ESMA is minded not to recommend the inclusion of sovereign bonds in the KPI's numerator at this stage, although a clear roadmap to establish either reliable sovereign disclosures or a methodology for estimating Taxonomy-alignment would be beneficial to give an indication of when

[50] Final Report of the Technical Expert Group on Sustainable Finance, footnote 42 on page 41

sovereign bonds could be included in the future. ESMA, however, notes that green sovereign bonds issued under the forthcoming EU GBS should still be included.

367. Recognising that the EU GBS is not yet in place, ESMA believes that a transitional regime is appropriate for green bonds issued under standards that could be considered equivalent to the principles of the EU GBS where it is possible to determine the Taxonomy-aligned activities financed by those green bonds.

Question 33: Do you agree that the denominator should consist of the value of eligible investments in the funds managed by the asset manager or should it be simply the value of all assets in the funds managed by the asset manager?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
7	2	1	6	2	1	4	-	-	1	9

368. Thirty-three respondents provided a response to Question 33. The majority of the stakeholders was in favour of calculating the denominator as the value of eligible investments in the funds managed by the asset manager. Those - mainly industry respondents - stated that the value of eligible investments is a more insightful and accurate figure for investors than the total assets under management ('AuM') at entity level. Similarly, they argued that prioritisation of eligible assets in the denominator is important so as not to unduly penalise those investing in assets that are not covered by the Taxonomy with no chance of being aligned.

369. Those stakeholders who were in favour of including the value of all assets in the funds managed by the asset manager argued that the main issue with the inclusion of the value of only eligible investments would be that asset managers that have only few Taxonomy-aligned funds would have an advantage over peers that have decided to include minimum environmental standards for all their products. This would not allow for a fair comparison.

370. Four stakeholders proposed to report KPIs for both AuM and eligible investments in the denominator in order to have a complete picture.

Input from the SMSG

371. The SMSG was in agreement with the proposal to include in the denominator only the value of eligible investments. The SMSG, however, underlined that it supported inclusion

of sovereign green bonds in the denominator. In the views of the SMSG, these bonds are an important part of the market and there is no reason for excluding them, especially considering that the Commission will be issuing green bonds in the future.

372. Some members of the SMSG, however, were or the view that the denominator should consist of the value of eligible investments in the funds managed by the asset manager, whilst other members believed it should consist of the value of all assets in the funds managed by the asset manager; they highlighted, however, that in any event, consistency between numerator and denominator is important.

ESMA's response

373. ESMA has carefully considered the feedback in response to Question 33. More broadly, ESMA has considered the benefits and drawbacks of a more limited denominator as opposed to a broader denominator consisting of all investments, bearing in mind the split opinions.

374. On balance, ESMA appreciates the arguments that a denominator based on all investments is a better option for the purposes of comparability and the prevention of greenwashing.

375. ESMA believes that if the calculation has a denominator limited to all eligible investments, the disclosed information would not be as comparable, since an asset manager that has significant "ineligible" investments, e.g. sovereign bonds, would show a greater Taxonomy-alignment compared to an asset manager with similar value of investments but a smaller share of non-eligible sovereign bonds. As mentioned in paragraph 366, ESMA believes the ideal solution would be the ability to determine the Taxonomy-alignment of activities financed by sovereign bonds, either by sovereign disclosures or a methodology to estimate Taxonomy-alignment. When that is possible, sovereign bonds can be included in the numerator allowing for a more accurate KPI.

376. In order to illustrate this issue, below is a simplified example of two asset managers where one holds more non-eligible investments in the form of sovereign bonds (for the sake of the simplified example, the asset managers are assumed to hold no other assets):

- Asset manager A holds €50mn in corporate bonds that are 10% Taxonomy-aligned. If the total AuM of the asset manager is €50mn, the Taxonomy-alignment as a percentage of all investments would then be ((10% x 50mn) / 50mn) or 10%.

- Asset manager B holds €10mn in corporate bonds that are 20% Taxonomy-aligned, and €40mn in sovereign bonds. If the total AuM is again €50mn, the Taxonomy-alignment in % of AuM excluding sovereign bonds would be ((20% x 10mn) / 10mn) or 20%, while the Taxonomy-alignment as a percentage of total AuM ((20% x 10mn) / 50mn) would be 4%.

377. ESMA notes that if “ineligible holdings” are excluded from the denominator, investors relying on KPIs to compare investment funds would be led to think that a greater share of the money they invest in Asset manager B would go to Taxonomy-aligned activities (since 20% > 10%).

378. In practice, an investor investing €100k into these asset managers would see €10k going into Taxonomy-aligned activities with asset manager A, but only €4k with asset manager B. Therefore, ESMA believes that for investors, a KPI using AuM in the denominator offers a more accurate proxy for how their money finances Taxonomy-aligned activities.

379. On that basis, ESMA has amended its advice in order to recommend to the Commission that the denominator of the KPI disclosed by asset managers should consist of the value of all investments by the asset manager. However, recognising that such an approach would include assets in the denominator, such as sovereign bonds, which may fund environmentally sustainable economic activities but that cannot be reliably estimated, ESMA has recommended that the share of such assets is also disclosed alongside the KPI.

Question: 34: Do you support restricting the denominator to funds managed by the asset manager with sustainability characteristics or objectives (i.e. governed by Article 8 or 9 of Regulation (EU) 2019/2088)? What are the benefits and drawbacks of such an approach?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
6	1	1	6	1	1	4	-	-	1	9

380. Of the 30 stakeholders who responded to Question 34, 17 were not in favour of restricting the denominator to funds managed by the asset manager with sustainability characteristics. Nine expressed the opposite view, while acknowledging that this approach can potentially provide a partial picture. Finally, two respondents proposed a phased approach and two others expressed a neutral view.

381. Those respondents who were not in favour of only considering sustainability related products to calculate the denominator argued that from a general standpoint, reporting only on Article 8 and 9 products would not provide the full picture of the asset manager´s financing of Taxonomy-aligned activities. Furthermore, these stakeholders argued that if the goal is to shift the economy and society towards more sustainable activities, then it

would not be appropriate to focus solely on funds that already pursue sustainability features or goals. Moreover, one stakeholder suggested that as derivatives are excluded from the calculation, then there would be an incentive to short using only derivative instruments to improve the Taxonomy-alignment score.

382. Those stakeholders who were in favour of restricting the denominator to funds managed by the asset manager with sustainability characteristics raised the following arguments in support of this approach:

- It would allow a precise perimeter that will be controlled by the asset manager, hence checked, compliant and secured; and

- Such approach would ensure consistency with Articles 5 and 6 of the Taxonomy Regulation that require disclosures of proportions of investment portfolios in such funds that are invested in line with the Taxonomy.

383. Two respondents suggested a phased approach structured as follows:

a. Phase 1: denominator restricted to Article 8 and 9 products, in order to provide information on the extent to which these kinds of products are aligned with EU objectives; and

b. Phase 2: denominator with a wider scope to all funds managed in order to provide information on to what extent asset managers' portfolios are aligned with the EU objectives.

Input from the SMSG

384. The SMSG agreed with ESMA's view that the definition of "eligible investments" should be broad and not limited to funds that qualify as sustainable investments under Article 9 or investments with ESG characteristics under Article 8 of SFRD. The SMSG believed that this objective would be best served by a definition of "eligible investments" that includes green bonds (compliant with the GBS), public and private equity, real estate and corporate bond investments in investee companies, as suggested in the first option proposed by ESMA.

385. However, one SMSG member was in support of an approach based on Articles 8 and 9 i.e. the second option discussed by ESMA in the Consultation Paper, arguing that it allows a precise perimeter that will be controlled by the asset manager.

ESMA's response

386. ESMA acknowledges the lack of support for a definition of eligible investments restricted to Article 8 and 9 SFDR products. ESMA agrees that such an approach would risk giving an incomplete report of the full extent of all investments of the asset manager and would not incentivise Taxonomy-alignment of non-sustainable products offered by the asset manager. ESMA, therefore, will not be proposing this approach in its advice to the Commission.

Question 35: Is it appropriate to combine equity and fixed income investments in the KPI, bearing in mind that these funding tools are used for different purposes by investee companies? If not, what alternative would you propose?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
4	1	1	4	1	1	4	-	-	1	8

387. Out of 25 stakeholders who expressed a view on the topic, 19 were in favour of combining equity and fixed income investments in the KPI and six were against it.

388. Those respondents who were in favour noted that such an approach focuses on funds with sustainability claims and tackling more accurately concerns around greenwashing. Additionally, they observed that separating reporting on these asset classes would also introduce further, unnecessary, complexity.

389. Those respondents who were not in favour, stated that these funding tools have different risk profiles as debt instruments involve less risks compared to equity instruments. Due to the different risk profiles, a manager could invest more in green debt securities while funding non-sustainable behaviour in equity investments. Those respondents also argued that it is more appropriate to keep equity and fixed income separate as these funding tools are used for different purposes by investee companies.

Input from the SMSG

390. The SMSG agreed that is appropriate to combine equity and fixed income investments in the KPI as most shares are bought on the secondary market. Moreover, in the view of the SMSG this approach would allow focusing on funds with sustainability claims and tackling more accurately concerns around greenwashing.

ESMA's response

391. ESMA welcomes the general support for combining bond and equity investments in calculation of the KPI that will be disclosed by asset managers. ESMA acknowledges that separating these asset classes would introduce significant complexity and would reduce comparability.

Question 36: Do you believe the proposed advice will impose additional costs on asset managers? Please specify the type of those costs, to which specific proposal they relate including whether they are one-off or ongoing, and provide your best quantitative estimate of their size.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
6	-	1	5	1	1	4	-	-	1	7

392. Of 26 respondents who answered Question 36, 24 industry respondents considered that the proposed advice will impose additional costs on asset managers while two respondents argued the opposite.

393. In terms of estimating additional costs, respondents raised the following points:

- The main cost identified consisted of obtaining data across a wide range of products, in particular with respect to investments which are not subject to any reporting requirement such as non-EU, small caps or unlisted investments which will prove very onerous; and

- Additional costs would also include IT infrastructure deployment and maintenance, hiring costs of new lawyers and consultants to deal with the new legislative framework.

394. One respondent was of the view that the additional costs will largely depend on the approach that will be adopted in relation to the scope of relevant investments. In case the Taxonomy-related KPIs were to be calculated only for the underlying investments in Article 8 and 9 funds, the additional costs would be limited. If, however, the KPI(s) to be reported under Article 8(1) of the Taxonomy Regulation were to be based on eligible investments in all managed funds, the additional costs would be significant.

395. To address some of the increased costs, stakeholders proposed that the European Single Access Point should include a specific segment on Taxonomy-related disclosures.

396. Those who argued that such approach would not impose new additional costs noted that additional costs would be negligible given the size of the organisations involved and the disclosure requirements already in place. Furthermore, they considered that if the Commission defines and standardises the information that asset managers are required

to disclose by providing a template, this will not impose additional costs on the asset managers.

Input from the SMSG

397. The SMSG did not provide feedback on this question.

ESMA's response

398. ESMA appreciated the feedback received to the question on the cost impact of its draft advice. ESMA notes that the cost of introducing new IT systems may be significant but believes that a focus on turnover based data for the KPI would reduce the costs, since KPIs based on CapEx and OpEx disclosures of investee companies would be optional under ESMA's advice. Therefore, ESMA is not minded to make further changes to its advice on the basis of the input provided in response to this question.

3.2.2 Methodology for preparing and reporting the KPI

399. This section summarises the feedback which ESMA received in relation to Questions 37 to 41 of its Consultation Paper and presents ESMA's response to this feedback.

Question 37: What are the benefits and drawbacks of limiting Taxonomy-aligned activities to those reported by Non-Financial Reporting Directive companies?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
5	2	1	6	1	1	4	-	-	1	9

400. Thirty respondents provided feedback to Question 37. Among the main benefits, some stakeholders noted the ability to rely on standardised information, providing investors with a coherent set of information easily comparable between different asset managers. Furthermore, these stakeholders pointed out that relying on available data would reduce the risk of unreliable disclosures that cannot be compared.

401. On the other hand, stakeholders raised as main drawbacks the following points:

- Smaller companies with significant Taxonomy-aligned activities would not be eligible for consideration in the disclosures made under Article 8. Stakeholders underlined that such an approach would incentivise investments in big companies; and

- Investments in companies located in third countries not included in the scope of the NFRD would be disincentivised.

Input from the SMSG

402. In response to Question 37, SMSG members had split views. In particular, some members representing asset managers supported asking companies as much information as possible because they know their own business model. These members were of the opinion that, in the meantime, the use of standardised proxies provided by a public entity seems like a sensible idea to avoid capital only flowing towards large issuers.

403. Other members of the SMSG disagreed with the proposed use of proxies. They argued that the ultimate purpose of imposing a KPI disclosure framework is to encourage, and enforce the production of authentic, empirical data that inform investment decisions and the general political and societal debate. In the view of these SMSG members, the introduction of proxies would only reduce incentives for companies and financial intermediaries to furnish actual data. Moreover, it could also dilute the quality of the disclosures provided. Finally, if the use of such proxies by asset managers would be optional only, this potentially expensive and time-consuming exercise would be much less informative.

ESMA's response

404. ESMA appreciates the input provided to Question 37 in relation to the benefits and drawbacks of limiting Taxonomy-aligned activities to those disclosed by undertakings reporting under the NFRD. ESMA is of the opinion that in order to promote standardised reporting under NFRD the KPI for asset managers should focus on reported or equivalent data obtained from undertakings reporting their Taxonomy-aligned activities as set out in this advice.

405. As will be explored further under ESMA's response to Question 38, ESMA is of the view that there is merit in considering a methodology to assign Taxonomy-alignment coefficients to cover entities that are not in scope of NFRD reporting in the EU.

406. To explain in practical terms how ESMA envisages that asset managers should approach the Taxonomy-alignment assessment of their investments, ESMA proposes a "decision tree" hierarchy to determine how to prioritise different types of data in order to incentivise NFRD reporting:

    a. For EU investee companies falling in scope of NFRD reporting, the asset manager should rely on the NFRD disclosures pursuant to Article 8; and

    b. For EU investee companies outside the scope of NFRD reporting, ESMA proposes the following hierarchy of data prioritisation:

        i. Rely on public disclosures consistent with NFRD in terms of Taxonomy-alignment of activities;

ii. If information under a) is not available, rely on private information consistent with NFRD in terms of alignment with the EU Taxonomy and obtained bilaterally from investee companies;

iii. If information under a) and b) is not available, rely on the methodology to assign Taxonomy-alignment coefficients or other estimates provided by private data vendors.

c. Provided that a methodology for Taxonomy-aligned coefficients can be developed to cover also non-EU investee companies, the same decision tree can be used for non-EU investments, i.e. NFRD-consistent data should be prioritised, but where not publicly or privately available, a coefficient for non-EU investee companies should be used. If a methodology for Taxonomy-aligned coefficients cannot be extended to non-EU investments, where NFRD-consistent information is not available, investments in non-EU investee companies should not be considered eligible investments for Taxonomy-alignment of activities.

Question 38: Do you agree with ESMA's recommendation that the Commission develop a methodology to allow a sector-coefficient to be assigned for non-reporting investee companies?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
6	2	1	6	2	1	4	-	-	1	11

407. Thirty-four respondents provided an answer to Question 38. A third of the stakeholders who provided an answer were against the proposal, while others though in general favourable, noted the complexity and the shortcomings of any methodology.

408. On the use of sector-based coefficients, stakeholders raised the following issues:

- Inaccurate, resulting in information of limited value;

- Misleading and against the logic of the Taxonomy which is intended to result in granular, scientific and reliable disclosures;

- Disincentive for non-reporting companies to disclose Taxonomy-alignment;

- Leads to potential greenwashing, as non-reporting investee companies would "freeride" on other companies in the same industry that do provide data; and

- Not appropriate for non-EU based companies.

409. Other stakeholders favoured the approach proposed by the TEG that distinguishes between disclosure of full and potential Taxonomy-aligned activities.

410. Those in favour of a coefficient-based methodology highlighted the effort of the Commission to develop guidance on the use of estimates and proxies for investments in companies outside the scope of the NFRD, given the current lack of relevant disclosure.

Input from the SMSG

411. The SMSG was in agreement with ESMA's recommendation that the Commission develops a temporary methodology to allow a sector-coefficient to be assigned for those non-reporting investee companies. The SMSG in its advice to ESMA encouraged the Commission to develop a dedicated transitional methodology, the application of which should be replaced by reporting under the NFRD as soon as this is in place. Furthermore, the SMSG pointed out that actual data should be prioritised and encouraged whenever possible.

ESMA's response

412. ESMA acknowledges the support for a methodology to derive a sector-based coefficient that will be used for reporting of asset managers under Article 8 of the NFRD. ESMA agrees that there is merit in allowing reporting based on such a coefficient, but also notes the potential drawback that such a coefficient could discourage firms from voluntarily reporting under NFRD when not in scope.

413. Due to the importance of this topic for the forthcoming delegated act, ESMA has undertaken some quantitative analysis to show the potential shortfall in coverage of NFRD reporting for asset managers in the EU. This is intended to be read in conjunction with Annex VI which illustrates how estimations of Taxonomy-alignment of corporate asset holdings may be calculated for EU companies, based on a methodology developed in the Commission's Joint Research Centre ('JRC') report on the EU Taxonomy.[51]

414. EU fund holdings of financial instruments issued by companies incorporated in the Union represent 31% of equity holdings (€1.2 trillion), and 41% of corporate bond holdings (€445 billion) (Chart 1). Within EU holdings, almost 60% of the exposure is concentrated in three countries: France, Germany, and the Netherlands. Concentration is even greater outside the EU, with companies incorporated in the US and the UK accounting for 60% of non-EU exposure.

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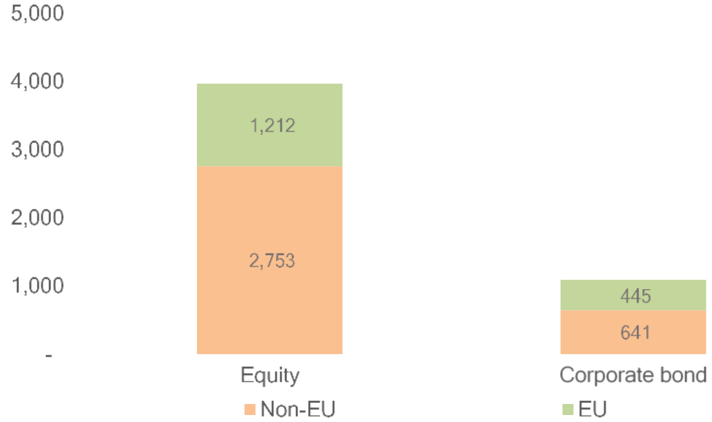
[51] Alessi, L., Battiston, S., Melo, A. S. and Roncoroni, A., *The EU Sustainability Taxonomy: a Financial Impact Assessment*, EUR 29970 EN, Publications Office of the European Union, Luxembourg, 2019, ISBN 978-92-76-12991-2, doi:10.2760/347810, JRC118663.

Chart 1 – EU fund holdings of equities and corporate bonds, by region of incorporation (EUR billion)



Note: Aggregate market value of EU-27 fund equity and corporate bond holdings, by instrument type and issuer domicile, EUR bn.
Sources: Morningstar, ESMA.

415. Annex VII estimates the Taxonomy-alignment of non-financial undertakings within the scope of the NFRD. Building on this, Chart 2 shows the share of instruments issued by non-financial undertakings within EU fund portfolio holdings which will have to disclose Taxonomy KPIs under NFRD in the future ('NFRD firms' henceforth): 26% for equities, 20% for corporate bonds. This relatively low share highlights the importance of using a reliable and consistent methodology to estimate the Taxonomy-alignment of non-disclosing firms, including smaller EU firms, in order for asset managers to produce their own KPIs.

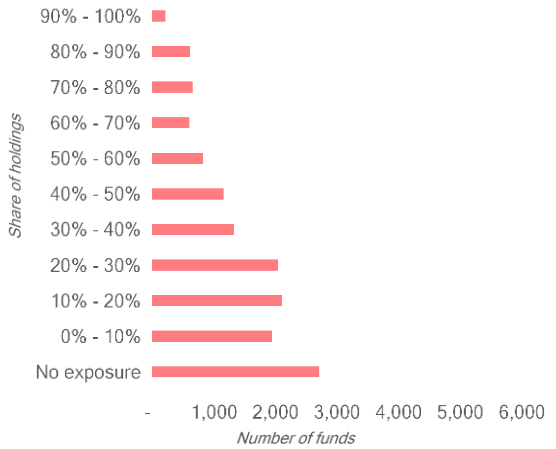
Chart 2 – Share of EU fund holdings of equities and corporate bonds issued by non-financial undertakings in scope of NFRD

Note: Share of EU-27 fund holdings inside and outside of NFRD scope.
Sources: Morningstar, ESMA.

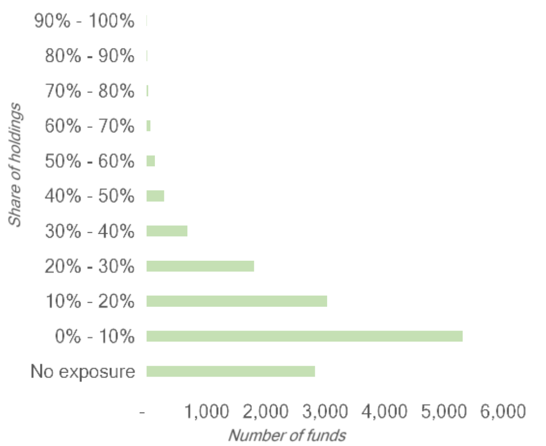
416. ESMA analysis shows that only a very small number of EU fund managers will be able to rely exclusively on Taxonomy KPI disclosures by EU non-financial undertakings in NFRD scope to calculate their own KPI. This is illustrated in Chart 3 below, which shows the distribution of funds based on the share of NFRD firms in equity and corporate bond

holdings. A quarter of EU funds have no exposure at all to NFRD firms, and around half of EU funds have less than 20% exposure to them. A large majority of funds have at least some exposure to EU firms, including firms for which Taxonomy-alignment will need to be estimated (Chart 4).

Charts 3 and 4 – Number of EU funds by share of EU non-financial undertakings in NFRD scope (left) and other EU firms (right), in equity and corporate bond holdings.



Note: Number of EU-27 funds by share of EU-27 non-financial undertakings disclosing Taxonomy KPIs under NFRD, as % of equity and corporate bond holdings.

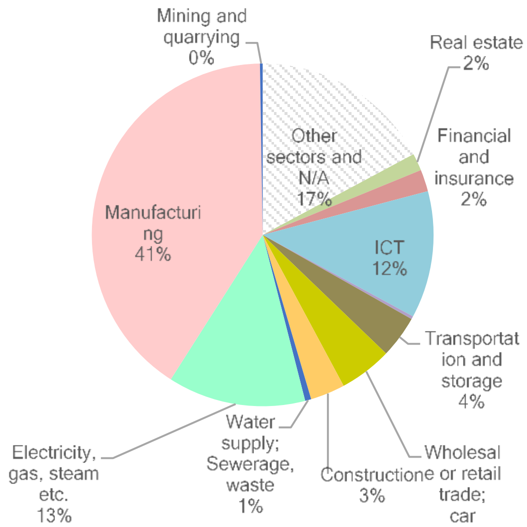


Note: Number of EU-27 funds by share of EU-27 companies other than non-financial undertakings disclosing Taxonomy KPIs under NFRD, as % of equity and corporate bond holdings.
Sources: Morningstar, ESMA.

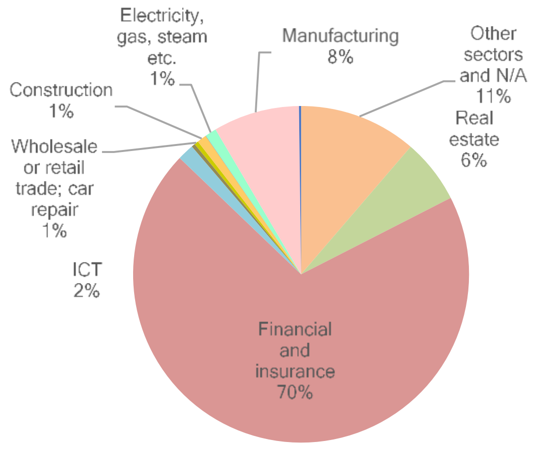
417. Looking at the breakdown of funds' EU holdings by NACE sector,[52] most (41%) EU non-financial undertakings within scope of the NFRD belong to the manufacturing sector, and to a lesser extent (13%) the electricity, gas, steam and air conditioning supply sector (Chart 5). For other EU companies, the financial sector dominates (Chart 6). EU funds hold a combined €234 billion in EU financial sector equities and corporate bonds, corresponding to 15% of their EU holdings, compared with €102 billion (or 7%) in financial assets issued by EU non-financial undertakings outside the scope of the NFRD.

[52] NACE sector information is not widely available for non-EU companies.

Charts 5 and 6 – EU fund holdings of EU equities and corporate bonds by sector, split between non-financial undertakings in NFRD scope (left) and other EU firms (right)



Notes: Share of NFRD firms in EU holdings by NACE Macro-sector
Sources:: Morningstar, Refinitiv EIKON, ESMA

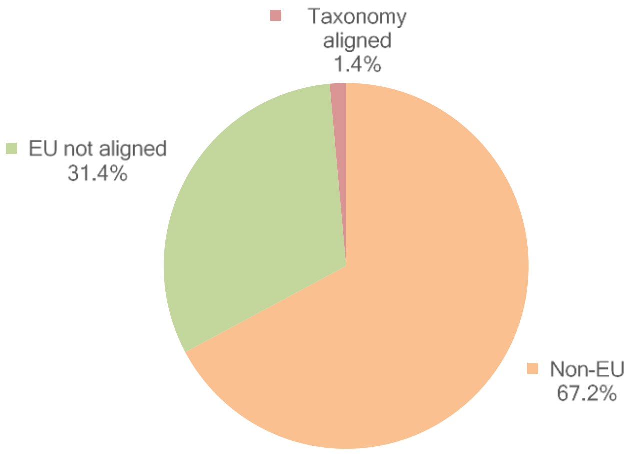


Notes: Share of firms outside NFRD scope in EU holdings by NACE Macro-sector

418. Using the methodology described in Annex VII, the analysis below estimates the Taxonomy-alignment of EU fund portfolios. For simplicity, sovereign bonds, derivatives and other assets have not been included in the denominator; therefore, the values are calculated as a share of equity and corporate bond holdings.

419. The estimated Taxonomy-alignment of EU fund equity and corporate bond holdings is 1.4%, or €73 billion (Chart 7). This reflects mainly the high share of non-EU holdings (67%), including from 2,422 EU funds that have no exposure at all to EU equity or corporate debt. When excluding non-EU assets from the denominator, the estimated Taxonomy-alignment of EU fund holdings increases to 4.4%. A large majority of the estimated Taxonomy-aligned value comes from the electricity, gas, steam and air conditioning supply sector, with €58 billion (i.e. 79% of the total Taxonomy-aligned value).

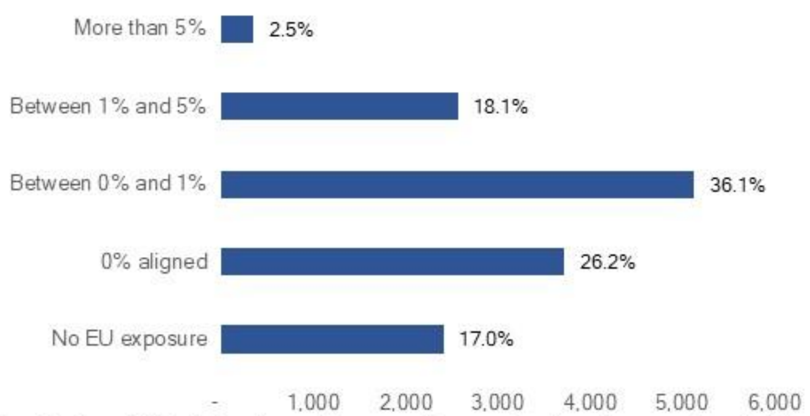
Chart 7 – Estimated Taxonomy-alignment of EU fund equity and corporate bond holdings



Note: Share of equity and corporate bond holdings in EU fund portfolios.
Sources: Morningstar, Refinitiv EIKON, ESMA.

420. The estimated Taxonomy-alignment of EU fund portfolio holdings varies, with the highest shares in the 20-30% range. Less than 3% of EU fund portfolios have an estimated Taxonomy-alignment of 5% or higher (Chart 8). In contrast, a quarter of the funds have a 0% alignment (in addition to funds with no EU exposure). On average, funds with at least some exposure to EU firms have an estimated Taxonomy-alignment of 0.9%.

Chart 8 – Number of EU funds by estimated Taxonomy-alignment



Note: Number of EU funds by estimated Taxonomy alignment of equity and corporate bond holdings.
Sources: Morningstar, Refinitiv EIKON, ESMA.

421. ESMA has, therefore, suggested to the Commission the use of a sector-based coefficient under a methodology. ESMA, furthermore, recommends to the Commission that to ensure reliability of the coefficient methodology it should be centrally developed, maintained and updated as needed by an independent body such as the European Commission's Joint Research Centre and remain in the public domain to allow easy

access and use by interested parties. Furthermore, in line with the views expressed in paragraph 136 in relation to the advice on the KPIs for non-financial undertakings, ESMA states that it is ready to update its advice on this matter should this be deemed necessary by the Commission in the context of the review of the delegated act.

422. Such a methodology will be particularly important for financial undertakings during the first year of application of the reporting requirements, since reports from non-financial undertakings under the delegated act showing the Taxonomy-alignment of their activities as a share of turnover will not yet be available.

Question 39: Should netting be allowed, on the lines of Article 3 of the Short-Selling Regulation?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
5	1	-	2	1	1	3	-	-	1	7

423. Of the 21 stakeholders who responded, a majority supported the proposal to allow netting based on Article 3 of the Short-Selling Regulation. Some of the respondents who favoured the netting methodology noted that it would ensure more accurate reporting on equity exposures, while pointing out that shorting and single stock options only have the same pay-off profile when buying puts, otherwise they would be different. On that basis these respondents considered that netting of short positions should be considered separately to derivatives.

424. One respondent agreed that reporting should be based on the relevant economic exposure in the portfolio after netting potential hedges and offsets, but as regards the netting methodology, this stakeholder favoured direct reliance on the commitment approach given that this approach is already being used for calculating net leverage at the fund level.

425. Four stakeholders were against the proposal since in their view Taxonomy-alignment should be a representation of the investment held and not the hedging activities of the manager.

426. Two stakeholders cautioned that netting is very difficult to reconcile at entity level (as opposed to fund level).

Input from the SMSG

427. The SMSG agreed with ESMA to allow for netting short positions along the lines of Article 3 of the Short-Selling Regulation at fund level, and with the adequate transparency.

ESMA's response

428. ESMA takes note of the majority support for netting on the basis proposed in the Consultation Paper. On that basis, ESMA is minded not to amend its advice on this matter.

Question 40: How should derivatives be treated for the calculation purposes? Should futures be considered as potential Taxonomy-aligned investments?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
4	1	-	4	2	1	4	-	-	1	9

429. Among the 26 respondents to this question, a significant majority was in favour of the exclusion of derivatives from the KPI.

430. However, several stakeholders supported the exclusion of derivatives in the KPI, pointing out that Contracts for Differences ('CFDs') should not be considered as derivatives, because in many jurisdictions investors commonly use CFDs to simply avoid taxes.

431. Two respondents noted that while funds with sustainability strategies rarely focus on investing via derivatives other than for the purpose of hedging or risk overlay, sometimes the use of derivatives is the only possibility to gain exposure to certain niche markets for legal or economic reasons.

432. Three respondents agreed that the calculations should include derivatives as they can affect the price of the underlying security and have an indirect effect on companies that are aligned with the Taxonomy.

433. One stakeholder stressed that futures should be considered potential Taxonomy-aligned investments, suggesting that a working group could be set up to establish a methodology for including them.

Input from the SMSG

434. The SMSG agreed with ESMA's position that the calculation on Taxonomy-alignment should exclude derivatives.

ESMA's response

435. ESMA appreciates the broad support for the proposal to exclude derivatives from the KPI with the notable exception of Contracts for Differences ESMA acknowledges that there may be valid reasons for undertaking exposures in CFDs. Taking into account the arguments put forward by stakeholders, ESMA intends to amend its advice to the Commission and recommend that CFDs are not excluded from the calculation of the numerator of the KPI disclosed by asset managers.

Question 41: What are the costs and benefits associated with the different options for non-reported activity coverage, netting and derivatives treatment presented above? Please provide a quantitative estimate for each option, distinguishing between one-off and ongoing costs.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
2	-	1	3	-	1	2	-	-	-	3

436. Of the twelve respondents who provided an answer to Question 41, two were of the view that costs would not be very high assuming non-reported activity is out of scope, derivatives are excluded and a transparent methodology for netting is applied.

437. One respondent considered that one-off costs would be related to initial outlay costs, such as consultants, lawyers, IT infrastructure deployment, and data acquisition. As regards ongoing costs these would include data procurement, IT infrastructure maintenance, data provision, auditing, and the required resources to update it according to the latest standards. Respondents generally mentioned that giving a quantitative estimate was difficult; however, they put forward the view that this was envisaged in the millions of euros, a cost that would eventually be passed on to customers.

438. One stakeholder mentioned that they were not able to provide quantitative cost estimates for different options of implementation, noting, however, that strict requirements for assessing investment portfolios against the Taxonomy would drive up the costs for asset

managers and issuers through initial implementation and ongoing data supply. This estimation was provided regardless of the availability of data reported by issuers.

Input from the SMSG

439. In reply to this question, the SMSG indicated its agreement on specific elements of ESMA's draft advice, without, nevertheless, providing estimates of related costs

ESMA's response

440. ESMA appreciates the input received to this question. Nevertheless, ESMA considers that the cost-related input is mainly connected with the Level 1 requirements. ESMA notes that a direct link with its draft advice has not been established or quantified. ESMA is, therefore, minded not to change the approach in its advice as a result of the responses provided to this question.

3.2.3 Presentation of KPI

441. This section summarises the feedback which ESMA received in relation to Questions 42 to 46 of its Consultation Paper and presents ESMA's response to this feedback.

Question 42: Do you have any views on the proposed advice recommending a standardised table for presentation of the KPI for asset managers in Annex IV?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
2	1	1	5	2	1	4	-	-	1	9

442. Twenty-six respondents provided input Question 42. Eleven stakeholders supported the proposed template. These respondents underlined that the use of a standardised table enhances the comparability of the information which is useful for end-investors.

443. In addition, one respondent suggested providing information of the KPI in euros as well as presenting the KPI the per environmental objective and economic activity.

444. Six stakeholders were broadly in favour of the proposal. Nevertheless, they made the following remarks:

- The KPI for asset managers to be presented weighted by OpEx should be optional;

- Disclosure of the KPI by economic activity should not be required;
- Breakdown disclosures should allow for the inclusion of one activity in more than one environmental objective; and
- Breakdown of enabling and transitional activities should only be required, for the time being, for climate change mitigation activities.

445. Lastly, two stakeholders were against the proposed template.

Input from the SMSG

446. The SMSG expressed its support for the proposed template but made the following observations:

- The SMSG saw little value in requiring OpEx weighted disclosures at asset management level;
- One activity may contribute to more than one environmental objective even though for the calculation of the overall Taxonomy-alignment there cannot be double counting;
- Asset managers should not be required to provide a breakdown of their activities given that most asset managers invest across the market, disclosures by economic activity would become extremely cumbersome for asset managers, while such level of reporting would also not be useful to either investors or distributors; and
- Information on enabling and transitioning activities should be provided for the time being only in relation to activities that substantially contribute to climate change mitigation.

ESMA's response

447. ESMA appreciates the responses received on the proposed template for disclosure of the asset managers' Taxonomy-alignment of investments. ESMA notes that as already clarified in its feedback in paragraph 358 under Question 31 the CapEx and OpEx weighted average of the asset manager KPI will remain voluntary additional KPIs. ESMA appreciates the arguments concerning the requirement to provide a breakdown per economic activity of the KPI provided by asset managers. On this matter, ESMA wishes to clarify that its approach is consistent with the fact that the disclosure provided by asset managers relates to their investing activity either in connection with collective portfolio management or individual portfolio management as already explained in paragraph 345 under Question 29. ESMA agrees that further breakdown in relation to the economic activity covered by their investments would not provide added value to investors nor enhance comparability of disclosures. ESMA, therefore, amended its approach on this point.

448. As regards information on enabling and transitional activities, ESMA appreciates the argument that the taxonomy is evolving and for the time being there is only a reference to transitional activities under Article 10(2) of the Taxonomy Regulation which relates to climate change mitigation. ESMA, however, notes that Article 16 of the Taxonomy Regulation which refers to enabling activities includes an explicit reference to Article 9 that sets out the six environmental objectives. To ensure that ESMA's advice remains relevant when the delegated acts foreseen in Articles in Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of the Taxonomy Regulation have been adopted by the Commission ESMA is minded to include references to Articles 10(2) and 16 in its advice.

Question 43: Do you agree with presenting accompanying information in the vicinity of the standard table?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	1	1	5	2	1	4	-	-	1	7

449. ESMA received 25 responses to Question 43. There was practically unanimous agreement with ESMA's suggestion to require presentation of accompanying information in the vicinity of the standard table.

Input from the SMSG

450. The SMSG did not provide feedback on this question.

ESMA's response

451. ESMA welcomes the support of its proposal concerning the presentation of accompanying information near the standard template. As referred in paragraph 188 ESMA agrees that it might be helpful for preparers to be able to refer, if necessary, to information disclosed not only in the non-financial statement, but anywhere in the financial report. This is true especially concerning APMs.

Question 44: Do you agree that there would be merit in including in the accompanying information a link, if relevant, to an asset managers' entity-level disclosures on principal adverse impacts of investment decisions on sustainability factors?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	1	1	5	1	1	4	-	-	1	7

452. Twenty-four respondents provided input to Question 44. The majority of these respondents were in favour of the proposal to allow the inclusion of a link to the asset managers' entity-level disclosures on principal adverse impacts of investment decisions on sustainability factors. Some respondents, though, while agreeing with this suggestion, were of the view that such disclosures should be provided on a voluntary basis.

Input from the SMSG

453. The SMSG in its response to Question 44, explained that some SMSG members saw no merit in including the proposed link and recommended to allow its inclusion on a voluntary basis. Other SMSG members, though, were supportive of this proposal considering that information on principle adverse impacts would be very helpful for investors to better evaluate sustainability of the investment, especially in the absence of a Taxonomy of environmentally harmful activities. In the view of the latter SMSG members, providing a reference to those disclosures in the accompanying information would make it easier to locate such disclosures.

ESMA's response

454. ESMA takes note that in general respondents were supportive of its proposal for the inclusion of a link to entity level principal adverse impact. However, ESMA also appreciates the arguments for providing this information on a voluntary basis. ESMA, therefore, intends to slightly adjust its approach on this matter and recommend to the Commission that entity level principal adverse impact reporting be included in the accompanying information on a voluntary basis.

Question 45: Do you agree with adopting the same formatting criteria as presented in Section 3.4.2 for the asset manager KPI disclosure?

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
3	1	1	4	1	1	3	-	-	1	6

455. Twenty-one stakeholders provided an answer to Question 45. Fourteen of these respondents agreed with the proposal to align the formatting rules for the asset manager KPI disclosure with the formatting rules that apply to the disclosures provided by non-financial undertakings.

Input from the SMSG

456. The SMSG did not provide feedback on this question.

ESMA's response

457. ESMA notes the support provided to its proposal on the applicable formatting rules to the disclosures provided by asset managers. Nevertheless, for the reasons fully explained in its response in paragraphs 328 to 330 under Question 26, ESMA notes that it is minded to amend its draft advice on that topic and not recommend to the Commission the application of specific formatting rules in relation to the disclosures provided under Article 8.

Question 46: What are the one-off and ongoing costs of setting up the reporting and disclosure under this obligation? Please clarify the type of costs incurred and provide a quantitative estimation where possible.

Stakeholder feedback

Asset Manager Association	Data/ Ratings Provider	Investment Analyst	Investor	Issuer/ Issuer Association	Legal and Accountancy	NGO and other Association	Regulated Market	Standard Setter	UCITS Management Company / AIFM	Other
2	-	-	2	1	-	-	-	-	-	4

458. Nine respondents provided input to Question 46. Four respondents believed that the costs would be relatively limited if non-financial undertaking are reporting in a way that facilitates data gathering and other facilitating measures are taken. These costs would include both one-off and ongoing costs.

459. One data provider respondent noted that the higher the degree of data permutations, the more expensive the data model will be to build and suggested that ESMA balances data clarity with the more meaningful KPI to drive environmentally sustainable behaviours.

Input from the SMSG

460. The SMSG did not provide feedback on this question.

ESMA's response

461. ESMA acknowledges the response received to the question on costs of the setting up of the reporting under this advice. ESMA notes that costs are not expected to be excessive for asset managers and therefore, is not minded to amend its advice on the basis of the responses provided to this question.

4 Annexes

4.1 Annex I: Advice to the Commission

On the basis of the considerations presented in the Final Report, ESMA provides the following advice to the European Commission under Article 8 of the Taxonomy Regulation in relation to the content, methodology and presentation of the KPIs that will be disclosed by non-financial undertakings and the KPI that will be disclosed by asset managers.

A. Non-financial undertakings

A.1. Content of KPIs to be disclosed by non-financial undertakings

1. Defining the elements of the three KPIs

ESMA is of the view that it is important to establish clarity around the different elements of the three KPIs which non-financial undertakings must disclose according to Article 8(2) of the Taxonomy Regulation. Only by having a uniform understanding of how to define each of the three KPIs and its constituent elements will non-financial undertakings be able to provide comparable disclosure for the benefit of investors and other users of non-financial information.

1.1. Turnover KPI

As regards the KPI 'proportion of turnover derived from products / services associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation', ESMA recommends that the Commission:

For the denominator:

a. Require non-financial undertakings to use the definition of "net turnover" in Article 2(5) of the Accounting Directive as the reference point when calculating their turnover. More specifically,

    1. Non-financial undertakings applying IFRS Standards should be required to count the amounts that are presented as "revenue" according to IAS 1 paragraph 82(a); and

    2. Non-financial undertakings applying national GAAP should be required to count the amounts that are accounted for under the corresponding provision in national GAAP.

For the numerator:

b. Require non-financial undertakings to apply the following approach to counting turnover for the purpose of this KPI:

   1. For the environmental objectives climate change mitigation, 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, turnover can be counted where the economic activity meets:

      i. The criterion of making a substantial contribution to one or more of those environmental objectives, including by meeting the technical screening criteria;

      ii. The criterion of not doing significant harm to any of the other environmental objectives, including by meeting the technical screening criteria; and

      iii. The criterion of minimum safeguards.

   2. For the environmental objective climate change adaptation, turnover can be counted where the activity enables other activities to undergo climate change adaptation.

1.2. CapEx KPI

As regards the KPI 'proportion of capital expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation', ESMA recommends that the Commission:

For the denominator:

a. Require non-financial undertakings to define CapEx as (1) additions to tangible and intangible assets during the financial year before any remeasurements (including revaluations and impairments), depreciation and amortisation charges for the year and excluding fair value changes and (2) additions resulting from acquisitions through business combinations. In order to do that:

   1. Non-financial undertakings applying IFRS should define CapEx as the costs accounted for on the basis of:

      - IAS 16 paragraphs 73 (e) (i) and (iii);

      - IAS 38 paragraphs 118 (e) (i);

- IAS 40 paragraphs 76 (a) and (b) (for the fair value model);
- IAS 40 paragraphs 79 (d) (i) and (ii) (for the cost model);
- IAS 41 paragraph (b) and (e); and
- IFRS 16 paragraph 53(h).

2. Non-financial undertakings applying national GAAP should define CapEx as the corresponding costs accounted for under the applicable GAAP. Leases which do not lead to the recognition of a right-of-use asset shall not be counted as CapEx.

For the numerator:

b. Require non-financial undertakings to count CapEx where the costs incurred relate to assets or processes which meet, or are part of a plan to meet:

1. The criterion of making a substantial contribution to one or more of the environmental objectives, including by meeting the technical screening criteria;
2. The criterion of not doing significant harm to any of the other environmental objectives, including by meeting the technical screening criteria; and
3. The criterion of minimum safeguards.

In this regard, 'plan' should meet the following conditions for the capital expenditure to be eligible:

i. The plan should aim to make the economic activity in question Taxonomy-aligned within a maximum period of five years unless a longer period can be justified by the undertaking on the basis of the features of the concerned investments;

ii. The plan should be approved by the non-financial undertaking's administrative body or another corporate function to which such approval has been formally delegated to; and

iii. ESMA recommends that the Commission exempts from the requirement to be part of a plan the few exceptional cases identified by the TEG in its Final Report[53] where individual improvement measures can be considered to make a substantial contribution without needing to be part of a plan. These are primarily low-carbon technologies and

[53] EU Technical Expert Group on Sustainable Finance, *Taxonomy: Final report of the Technical Expert Group on Sustainable Finance*, March 2020, page 16..

building renovation measures whose widespread development is critical to reducing emissions in the EU's current building stock.

1.3. OpEx KPI

As regards the KPI 'proportion of operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation', ESMA recommends that the Commission:

For the denominator:

a. Require non-financial undertakings to define OpEx as the following non-capitalised costs: research and development, building renovation measures, short-term leases, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of items of property plant and equipment that are necessary to ensure the continued and effective functioning of such assets

b. In addition, require non-financial undertakings applying national GAAP and not capitalising right-of-use assets to include lease costs in the definition of OpEx

c. Require that direct costs only are included.

For the numerator:

a. Require non-financial undertakings to count OpEx where the costs incurred relate to assets or processes which meet, or are part of a plan to meet:

   1. The criterion of making a substantial contribution to one or more of the environmental objectives, including by meeting the technical screening criteria;

   2. The criterion of not doing significant harm to any of the other environmental objectives, including by meeting the technical screening criteria; and

   3. The criterion of minimum safeguards.

   In this regard, the 'plan' should meet the following conditions for the operating expenditure to be eligible:

   i. The plan should aim to make the economic activity in question Taxonomy-aligned within a maximum period of five years unless a longer period can be justified by the undertaking on the basis of the features of the concerned investments;

ii. The plan should be approved by the non-financial undertaking's administrative body or another corporate function to which such approval has been formally delegated to;

iii. The plan used for the OpEx KPI should generally be the same as that used to determine the eligibility of capital expenditures to which the OpEx relate and included in the CapEx KPI. However, for the eligibility of research and development costs as operating expenditures, a plan may not necessarily be associated to existing capital expenditures that have already been accounted for in the CapEx KPI.

1.4. Double counting

For all three KPIs, to avoid double counting of turnover / CapEx / OpEx across several economic activities, ESMA advises the Commission to require non-financial undertakings to apply their best judgement of how to split turnover / CapEx / OpEx across their activities and to avoid doing so in a way which unduly inflates the turnover / CapEx / OpEx related to Taxonomy-aligned economic activities.

2. Specifying the disclosure which should accompany the three KPIs

ESMA considers that it would be helpful for investors and other users to receive accompanying information alongside the three KPIs. Such information should make clear how the KPIs where prepared and what they cover and put them into context, so that investors and other users may more easily interpret them.

ESMA recommends that the Commission establishes certain requirements on the content of this accompanying information in its delegated act to ensure comparability across the information provided by different non-financial undertakings. More specifically, ESMA advises the Commission to specify that such disclosure should include the following information.

2.1. General reference

Firstly, ESMA proposes to insert a general reference in the Commission's delegated act to the requirement in Article 19a(1) / 29a(1) of the Non-Financial Reporting Directive to provide information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, inter alia, environmental matters.

Furthermore, for all three KPIs ESMA suggests that non-financial undertakings should be required to provide the following accompanying information:

2.2. Accounting policy

Explain how turnover, CapEx and OpEx were defined and the basis on which they were calculated, explaining any judgement that was applied in the allocation of revenues or expenses to different activities.

For Turnover and CapEx, include a reference to the related line item(s) in the financial statements and whether the denominators of these KPIs differ from any Alternative Performance Measures (APMs) as defined in ESMA's Guidelines on APMs which are labelled in the same way or that depict items of turnover or capital expenditures.

If a definition has changed since the previous reporting period, explain the changes, explain why these changes result in reliable and more relevant information, and provide restated comparative figures.

2.3. Assessment of Taxonomy-alignment

2.3.1. Information on assessment of Taxonomy-alignment

For each economic activity, explain how the undertaking performed the following assessments:

i. Whether the substantial contribution criteria, including technical screening criteria, are met;

ii. Whether the DNSH criteria, including technical screening criteria, are met; and

iii. Whether minimum safeguards are met;

And describe the nature of the economic activities that are considered Taxonomy-aligned. Explain any judgement applied to avoid double counting in the allocation of turnover / CapEx / OpEx across economic activities.

2.3.2. Contribution to multiple objectives

Where an economic activity contributes to multiple objectives, explain the basis for splitting turnover / CapEx / OpEx across these objectives. Where an entity decides to allocate turnover / CapEx / OpEx to one objective rather than split it across objectives, this fact should be disclosed along with the rationale for choosing to attribute the relevant turnover / CapEx / OpEx to the specific objective. In both situations, this assessment should be based on the entity's best judgement and such disclosure should be accompanied by narrative information that would explain how the issue of double counting was avoided.

2.3.3. Disaggregation of KPIs

Where the KPIs per economic activity need to be disaggregated (for instance in cases where production facilities are used in an integrated manner), such disaggregation should be undertaken based on criteria that are appropriate for the production process being implemented and reflect the technical specificities thereof. Additionally, the undertaking should include explanations about the basis of such disaggregation in the information accompanying the KPIs.

2.4. Context

Explain what each KPI shows and the reasons for any increase or decrease in the reporting period.

In particular:

For the turnover KPI: provide the breakdown of the numerator, explaining the key elements and the drivers of change in the KPI during the reporting period, such as revenue from contracts with customers, lease revenue and/or other sources of income.

For the CapEx KPI:

- Provide a breakdown of the amounts included in the numerator in order to explain the drivers of change in CapEx during the reporting period. Such breakdown should disclose at least:
    - additions to property, plant and equipment, to intangible assets (internally developed or acquired), to investment properties (acquired or recognised in the carrying amount) and (if applicable) to capitalised right-of-use assets;
    - additions related to acquisitions through business combinations;
    - expenses incurred in relation to already aligned activities and expenses incurred as part of the plan to meet the criteria for Taxonomy-alignment.
- Provide key information about the plan(s) to meet the criteria for Taxonomy-alignment, including the purpose which such plan aims to achieve, the economic activity/ies involved, the period of time within which each activity is expected to become Taxonomy-aligned, the total capital expense expected to be incurred for that purpose (both in total and for the future period).

For the OpEx KPI: provide a breakdown of the numerator, explaining the components and the drivers of change in the KPI during the reporting period.

Explain, if relevant, what are the other expenditures relating to the day-to-day servicing of items of property plant and equipment which are included in the calculation of OpEx (numerator and denominator).

In addition to the above accompanying information undertakings may provide on a voluntary basis any additional disclosure which they consider material to explain the KPIs. This information may include, but is not limited to, information with regards to future objectives to explain whether undertakings have set a future target for the size of the KPI and how they plan to achieve this target.

2.5. Compliance by reference

Across all three KPIs, ESMA suggests that the accompanying information should be placed in the immediate vicinity of the KPIs, as this will make the information most helpful for investors and other users. However, to avoid undue burden on non-financial undertakings and to ensure that the KPIs and the accompanying information become an integrated part of the financial report, ESMA recommends that the Commission permit compliance by reference. This would entail that where non-financial undertakings prefer to disclose some or all of the accompanying information in a different part of the financial report, they should be permitted to do so on the condition that they provide a cross-reference to this other part, so that users can easily access the relevant information .

2.6. Comparative information

For all three KPIs, ESMA advises the Commission to require non-financial undertakings to present one year of comparatives. This requirement should start to apply in the second year of application of the disclosure requirements.

2.7. Presentation currency

ESMA recommends that the Commission requires non-financial undertakings to use, where relevant, the presentation currency of the non-financial undertaking's financial statements throughout the disclosures provided under Article 8.

2.8. General principles

ESMA suggests that the Commission require non-financial undertakings to ensure that the accompanying information is not misleading and that it is unbiased and that non-financial undertakings avoid boilerplate language.

A.2. Methodology to report against the KPIs to be disclosed by non-financial undertakings

1. Reporting of KPIs

ESMA recommends that the Commission establishes a number of requirements as regards the methodology for the reporting of KPIs under Article 8(2) of the Taxonomy Regulation, as follows:

(a) Non-financial undertakings should disclose the three KPIs per economic activity along with a total per KPI across economic activities at the level of the undertaking or group.

(b) Non-financial undertakings should identify economic activities that are enabling in accordance with Article 16 of the Taxonomy Regulation as well as economic activities that are transitional pursuant to Article 10(2) of the Taxonomy Regulation and disclose the three KPIs per enabling and transitional economic activity along with a total per KPI across enabling and transitional economic activities at the level of the undertaking or group.

(c). Non-financial undertakings should disclose the three KPIs per environmental objective along with a total per KPI at the level of the undertaking or group across all environmental objectives.

(d) Non-financial undertakings should disclose the three KPIs in relation to economic activities which are included in the delegated acts that will be adopted by the Commission in accordance with Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of the Taxonomy Regulation ('eligible' activities hereafter), including in cases where the relevant criteria are not met and therefore, these activities are not Taxonomy-aligned. Non-financial undertakings should clearly identify the criteria which are satisfied and those which are not satisfied.

(e) In case of economic activities which are not included in the delegated acts that will be adopted by the Commission in accordance with Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of the Taxonomy Regulation ('non-eligible' activities hereafter), non-financial undertaking should disclose the turnover KPI as a total across those activities at the level of the undertaking or group.

(f) Where non-financial undertakings consider that one or more of their non-eligible activities substantially contribute to the environmental objectives set out in the Taxonomy Regulation, they should provide relevant narrative disclosure in the non-financial statement provided that they have informed the Platform on Sustainable Finance that such activities should qualify as environmentally sustainable in accordance with Article 20(6) of the Taxonomy Regulation. In case the Platform advises the Commission against developing technical screening criteria on this activity, the non-financial undertaking should disclose that fact and cease including this information in the non-financial statement.

(g) Disclosure of the three KPIs under Article 8 should be provided at the level of the individual undertaking if the entity only prepares individual non-financial statements; it should be provided at the level of the group if the entity prepares consolidated non-financial statements.

2. <u>Gradual application of reporting of the KPIs</u>

ESMA recommends that the Commission adopt a gradual application of the aforementioned reporting of the three KPIs as follows:

(1) For the first year of application non-financial undertakings should provide the following disclosures;

(1.1) the three KPIs relating to economic activities that are Taxonomy-aligned per environmental objective at the level of the undertaking or group;

(1.2) the three KPIs as a total across economic activities that are Taxonomy-aligned at the level of the undertaking or group;

(1.3) the three KPIs as a total across those Taxonomy-aligned economic activities which are enabling in accordance with Article 16 of the Taxonomy Regulation or transitional pursuant to Article 10(2) of the Taxonomy Regulation at the level of the undertaking or group;

(1.4) the turnover KPI of 'eligible' activities as a total across those 'eligible' activities that do not meet the technical screening criteria for Taxonomy-alignment and the turnover KPI of 'eligible' activities as a total across 'eligible' activities that meet the technical screening criteria for Taxonomy-alignment and 'eligible' activities that do not meet those criteria;

(1.5) the information referred to in point (e) above; and

(1.6) the information required under point (f) above.

(2) For the second and any subsequent year of application, non-financial undertakings should prepare their disclosures under Article 8 of the Taxonomy Regulation in accordance with points (a) to (f) above.

A.3. Presentation of KPIs to be disclosed by non-financial undertakings

ESMA recommends that the Commission establishes the following requirements as regards the presentational aspects of the disclosure that will be published pursuant to Article 8(2) of the Taxonomy Regulation:

a. Content of standard tables

The disclosures under Article 8 should be provided in tabular format, as set out in Annex V. The standard tables should include the following columns and rows:

- Economic activities (row): Presentation of those of the non-financial undertaking's eligible economic activities which contributed to turnover / CapEx / OpEx during the reporting year. The description of the activity should refer to the relevant delegated acts setting out the technical screening criteria for Taxonomy-alignment assessment (e.g. “3.2. Manufacture of equipment for the production of hydrogen” [54]).

- Code(s) (column): For eligible economic activities the code(s) indicated in the relevant delegated acts should be provided. For example, in relation to activity “3.2. Manufacture of equipment for the production of hydrogen” the relevant code(s) mentioned in Annex I are C.25, C.27, C.28 in accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006.

- Absolute turnover / CapEx / OpEx (column): The turnover / CapEx / OpEx related to each economic activity expressed in the presentation currency of the non-financial undertaking’s financial statements.

- Proportion of turnover / CapEx / OpEx (column): The turnover / CapEx / OpEx related to each economic activity expressed as a percentage of the overall turnover / CapEx / OpEx of the non-financial undertaking or group.

- Substantial contribution criteria (six columns corresponding to the six environmental objectives): These columns should be filled only for eligible activities and indicate the percentage of that activity’s substantial contribution to each environmental objective. They should be used to indicate whether an economic activity substantially contributes to one or more of the environmental objectives.

  In some cases, only part of the turnover / CapEx / OpEx related to an economic activity will substantially contribute to one of the environmental objectives. This should be indicated in the relevant column by including the proportion of the activity’s turnover / CapEx / OpEx that substantially contributes to an objective.

  In case an economic activity substantially contributes to multiple objectives, the undertaking should mention in the narrative information whether it has split turnover / CapEx / OpEx across these objectives or whether it has decided to attribute turnover to a single objective, clearly setting out the rationale for this choice as well as how the issue of double counting was avoided.

- DNSH criteria (six columns corresponding to the six environmental objectives): These columns should be filled to indicate whether an economic activity satisfies or not the DNSH criteria (Y/N).

- Minimum safeguards (column): This column should be filled in to indicate whether an economic activity meets the minimum safeguards criteria pursuant to Article 18 of the Taxonomy Regulation (Y/N).

- Taxonomy-aligned proportion of turnover / CapEx / OpEx, year N (column): This column should provide the proportion of an economic activity’s turnover / CapEx /

[54] Annex I of the Commission’s published draft delegated act (please find the draft texts of the delegated acts through the link here).

OpEx which is Taxonomy-aligned for the reporting year. In cases where only part of the turnover / CapEx / OpEx related to an economic activity substantially contributes to one of the environmental objectives, this column should include only the proportion of that activity's turnover / CapEx / OpEx that substantially contributes to a specific objective. To identify this figure, the proportion of the turnover / CapEx / OpEx that substantially contributes to an objective should be multiplied with the proportion of the non-financial undertaking's overall turnover / CapEx / OpEx constituted by that economic activity.

- Taxonomy-aligned proportion of turnover / CapEx / OpEx, year N-1 (column): This column should provide the proportion of an economic activity's turnover / CapEx / OpEx which is Taxonomy-aligned for the year prior to the reporting year (comparative).

- Category (column): This column should indicate whether an activity is enabling in accordance with Article 16 of the Taxonomy Regulation or transitional pursuant to Article 10(2) of the Taxonomy Regulation and at the bottom of the column provide the total of the relevant KPI for enabling and transitional activities only.(E/T)

- Non-eligible activities (row): This row should provide information on the undertaking's turnover of non-eligible activities as a total across these activities.

b. General principles

Non-financial undertakings should ensure coherence and consistency between the content of the tables relating to the three KPIs, for example, by ensuring that the same economic activity is listed as contributing to the same environmental objective across the tables.

B. Asset managers

B.1. Content of the KPI to be disclosed by asset managers

The KPI for asset managers should consist of a ratio of investments that are Taxonomy-aligned. Investment from both collective and individual portfolio management activities should be included in that ratio.

The numerator should consist of the value of green bonds complying with the EU Green Bond Standard and a weighted average of the value of the investments invested in Taxonomy-aligned activities of investee companies. The weighted average should be based on the share of Taxonomy-aligned activities of the investee companies measured by turnover. Additional calculations for CapEx and OpEx may also be provided but are not required.

In order to ensure a more accurate KPI over time, the Commission should consider developing a methodology to estimate the share of environmentally sustainable economic activities funded by sovereign bonds, in order for sovereign bonds to be included in the numerator.

When investee companies are financial undertakings, the relevant KPIs for those undertakings should be used as a proxy for the share of turnover used for non-financial investee companies.

Until the EU Green Bond Standard is in force and applied, green bonds issued under equivalent standards can be included in the numerator up to the value of the Taxonomy-aligned activities they finance.

The denominator should consist of the value of all investments of the asset manager. The accompanying information to the KPI should identify the share of assets in the denominator, such as sovereign bonds, that may fund environmentally sustainable environmental activities but cannot be reliably assessed.

B.2. Methodology for preparing and reporting the KPI to be disclosed by asset managers

The Commission should consider the feasibility of developing a methodology to allow KPI calculation to cover also investments in companies not reporting under the Non-Financial Reporting Directive in order to assess the extent of their Taxonomy-aligned activities by assigning them a coefficient derived on a sector-basis under a common methodology as outlined in Annex VII. ESMA recommends to the Commission that this methodology should be elaborated and maintained by an independent body, such as the European Commission's Joint Research Centre, which would be responsible for maintaining and updating the methodology as needed and ensure that it remains in the public domain for easy access and use by relevant financial market participants.

However, directly reported or obtained data should be encouraged by phasing out the coefficient after a set period. ESMA recommends that the Commission includes that phasing out period in the review clause of the delegated act.

In order to encourage reporting under NFRD or the reporting of information consistent with the NFRD for Taxonomy-alignment of activities, ESMA recommends that the Commission should prioritise such data. However, in the first year of application, when NFRD reporting under the delegated act by non-financial undertakings is not yet available, the Commission should allow a transitional period for asset managers where the coefficient methodology can be prioritised.

For investments in EU investee companies in scope of NFRD, data reported under NFRD should be prioritised.

For investments in EU companies outside the scope of NFRD, public reporting of NFRD-consistent data should be prioritised, followed by privately obtained NFRD-consistent data. Where such data is not available, the methodology to assign a coefficient for Taxonomy-alignment should be used.

The aforementioned coefficient methodology should be extended to cover non-EU investee companies. If that is possible, the same prioritisation can be applied by the Commission for investments in non-EU investee companies, i.e. NFRD-consistent data should be prioritised, but where not publicly or privately available, a coefficient for non-EU investee companies should be used. If a methodology for Taxonomy-aligned coefficients cannot be extended to non-EU investments, where NFRD-consistent information is not available, investments in non-EU investee companies should not be considered eligible investments for Taxonomy-alignment of activities.

The calculation should allow netting for the purposes of reporting the share of investments that are Taxonomy-aligned derived from the methodology used to calculate net short positions in the Short-Selling Regulation.

The calculation should not cover derivatives in the numerator except for contracts for differences (CFD).

B.3. Presentation of the KPI to be disclosed by asset managers

The presentation of the KPI should follow a template style set out in Annex VI.

The presentation of the disclosure should identify which environmental objectives the investments contribute to and whether the activities are transitional in accordance with

Article 10(2) of the Taxonomy Regulation or enabling activities pursuant to Article 16 of the Taxonomy Regulation for each environmental objective.

The presentation of a standard table should also have appropriate accompanying information presented in the vicinity of the standard table. That information may include a link to disclosures on the principal adverse impacts of investment decisions on sustainability factors under Article 4 of the SFDR.

C. Review clause

ESMA recommends that the Commission considers the inclusion of a review clause in the delegated act in order to assess whether the Level 2 provisions remain appropriate in terms of achieving the objectives of the Taxonomy Regulation as well as whether any amendments are necessary at a later point in time. The review should include but not be limited to a) the use of the coefficient methodology by asset managers b) developments relevant to the Level 2 measures such as the review of the NFRD, the publication of the delegated acts foreseen in Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of the Taxonomy Regulation, the publication of the RTS foreseen in Article 11(4) of the SFDR relating to the details of the content and presentation of the information to be provided for financial products subject to Articles 5 and 6 of the Taxonomy Regulation and the finalisation of the IASB work on the IAS 1 Presentation of Financial Statements; and c) any other matter that is relevant for the application of the delegated act.

4.2 Annex II: Call for advice

CALL FOR ADVICE TO THE EUROPEAN SUPERVISORY AUTHORITIES ON KEY PERFORMANCE INDICATORS AND METHODOLOGY ON THE DISCLOSURE OF HOW AND TO WHAT EXTENT THE ACTIVITIES OF UNDERTAKINGS UNDER THE NFRD QUALIFY AS ENVIRONMENTALLY SUSTAINABLE AS PER THE EU TAXONOMY

With this Call for Advice, the European Commission invites the European Supervisory Authorities (ESAs) to develop advice determining key performance indicators (KPIs) and associated methodology that undertakings subject to the Non-Financial Reporting Directive (NFRD)[1] should use to disclose information on how and to what extent their activities are aligned with those that qualify as environmentally sustainable under the EU taxonomy, in line with Article 8 of the Taxonomy Regulation[2]. In order to achieve this, the ESAs should investigate with the relevant stakeholders appropriate metrics and data analysing the impacts these might have on undertakings, including in terms of costs. The content of the advice should be adequate to form the basis for an impact assessment for a delegated act based on the Taxonomy Regulation that the Commission will adopt by June 2021.

The request is made in accordance with the founding Regulations establishing the ESAs[3], which establish the obligation to protect the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system, including through ensuring the integrity, transparency, efficiency and orderly functioning of financial markets.

The advice should be based on qualitative and, when feasible, quantitative sources. The evidence discussed in the advice should be based on data samples from public and commercial databases, data submitted to the ESAs by the supervised entities and qualitative sources of information, which might include a review of the most relevant literature, where available. It may also include, but should not be limited to, concrete examples or case studies, based on the experience of the ESAs in their supervisory capacity.

The need for this request and the scope of the work have been agreed between Commission staff and the ESAs. Commission staff kindly request the delivery of the final advice by February 2021. The Commission, in close cooperation with the ESAs, may revise and/or supplement this request and revise the timetable accordingly.

The European Parliament and the Council will be informed about this request, which will be available on the website of the Directorate-General for Financial Stability, Financial Services and Capital Markets Union once it has been transmitted to the European Supervisory Authorities.

[1] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC, OJ L 182, 29.06.2013, page 19, as subsequently amended.

[2] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198, 22.06.2020, page 13.

[3] Regulations (EU) No 1093/2010, 1094/2010, 1095/2010 and 2019/2175 of the European Parliament and of the Council.

1. CONTEXT

By June 2021, the Commission will complement the recently adopted Taxonomy Regulation with a delegated act setting forth requirements for undertakings subject to the NFRD (i.e., large listed undertakings, large banks and large insurance undertakings with more than 500 employees). Such requirements will specify the content and presentation of information on how and to what extent their activities are associated with the EU taxonomy, including the methodology to be used. The delegated act should take into account the specificities of both financial and non-financial undertakings subject to the NFRD.

Article 8 of the Taxonomy Regulation states that non-financial undertakings under the NFRD shall disclose the proportion of their turnover, capital expenditures (CapEx) and operating expenditure (OpEx) associated with environmentally sustainable economic activities, as per the EU taxonomy. Article 8 does not specify equivalent indicators on taxonomy-alignment for financial undertakings under the NFRD (i.e., mainly large banks and large insurance undertakings), leaving this task to the delegated act.

The Commission's guidelines on reporting climate-related information[4] provide a useful starting point, since in their annexes they identify KPIs that both banks and insurance companies could use to report sustainability-related data. However, the scope of KPIs to be developed under Article 8 has to be narrower, since it needs to focus solely on taxonomy-alignment. For example, the following KPIs based on the guidelines have been modified to refer to the EU taxonomy, and could be considered by the ESAs as a starting point for their analysis.

For banks:

- Proportion of total assets invested in taxonomy-compliant economic activities.

For insurance and reinsurance undertakings:

- Proportion of total assets invested in taxonomy-compliant economic activities.
- Proportion of total non-life insurance underwriting exposure associated with taxonomy activities.
- Proportion of total reinsurance underwriting exposure associated with taxonomy activities.

The Commission invites the ESAs to consider whether to further refine these indicators for financial undertakings, for example to exclude certain assets from the calculations (e.g., derivatives, trading book exposures, central bank reserves, for banks) and to assess the need of having different indicators for taxonomy-compliant financial services (e.g. climate risk insurance as a proportion of total insurance underwriting activities/gross written premiums) and for investments into taxonomy-compliant economic activities. The ESAs should also analyse whether all existing activities should be covered retroactively or only those relevant to the time period as of the when the disclosure rules start to apply[5]. Some activity-level

[4] Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information OJ C 209, 20.6.2019

[5] The disclosures under Article 8 apply as of 1 January 2022 for the environmental objectives of climate change mitigation and adaptation, and as of 1 January 2023 for the other four. The obligations relate to the previous financial year respectively (the disclosure obligation for 1 January 2022 covers the financial year 2021, the disclosure obligation for 1 January 2023 covers the financial year 2022).

information on taxonomy-alignment may also be hard to come by, suggesting the need to think of possible proxy-indicators.

2. SCOPE OF THE EXERCISE

The Commission invites ESMA, EBA and EIOPA to investigate and determine the content and presentation of relevant KPIs and associated methodology that should be used by different financial undertakings under their remit, in order for such undertakings to disclose their degree of taxonomy-compliance under Article 8 of the Taxonomy Regulation. Further, the ESAs are asked to consider how the three indicators for non-financial undertakings in Article 8(2) of the Taxonomy Regulation could be further specified and to determine appropriate methodologies.

In developing their advice, the ESAs are also invited to take into account that clarity is needed on how undertakings ought to determine whether their investments are associated with economic activities considered environmentally sustainable under the EU taxonomy. Namely, as set out in Article 8 and as proposed by the Technical Expert Group (TEG), whose recommendations constitute the basis for the Commission's draft delegated act on technical screening criteria for selecting economic activities to qualify as environmentally sustainable, both turnover resulting from an undertaking's investment and capital/operational expenditure constituting the investment itself should count[6]. However, the conditions can vary for different types of investments and environmentally sustainable activities. In this respect, the TEG proposed that eligible taxonomy-aligned turnover should vary depending on the environmental objective that the economic activity from which the turnover is derived contributes to, as set out in the table below, whereas for capital expenditures and operational expenditures it should not.

Financial metric	Climate change mitigation	Climate change adaptation
Turnover	Can be counted where economic activity meets Taxonomy technical screening criteria for substantial contribution to climate change mitigation and relevant DNSH criteria.	Turnover can be recognised only for activities enabling adaptation. Turnover cannot be recognised for adapted activities at this stage[7].
CapEx/OpEx	Can be counted where costs incurred (capex and, if relevant, opex) are part of a plan to meet Taxonomy technical screening criteria for substantial contribution to climate change mitigation and relevant DNSH criteria.	Can be counted where costs incurred (capex and, if relevant, opex) are part of a plan to meet Taxonomy technical screening criteria for substantial contribution to climate change adaptation and relevant DNSH criteria.

[6] Turnover reflects where a company currently is relative to the taxonomy and can be used by investors as a proxy for assessing how green a company is for equity exposures. Expenditures, in contrast, give investors a good sense of a company's direction of travel and is a key variable for investors assessing the credibility of a company's strategy in terms of improving its environmental performance.

[7] Allowing for turnover from adapted activities to count could be misleading: once the "substantial contribution" to adaptation of an activity is made (i.e. it is made resilient to climate change), it is questionable if the turnover associated with that activity (which may or may not have environmental benefits) should count as sustainable.

The issue of "what counts" matters for accurate disclosures of taxonomy-alignment throughout the investment chain: for undertakings carrying out sustainable economic activities under their disclosure obligation under Article 8, for financial market participants offering their services in relation to financial products under their disclosure obligations under Articles 5-7 of the Taxonomy Regulation[8] and for end-investors themselves. Consistency and clarity will help prevent different interpretations of what can count as 'taxonomy-aligned', minimise the risk of greenwashing, and consolidate the overall usability and appeal of the EU taxonomy. In this respect, the ESAs are invited to ensure consistency in the advice requested here and in the draft technical standards under Articles 8(4), 9(6) and 11(5) of Regulation (EU) 2019/2088.

In gathering evidence, qualitative sources and relevant literature should be complemented, where feasible, by quantitative evidence, such as data from public and commercial databases. We also expect the ESAs to engage with the most relevant stakeholders by means of an already planned or *ad hoc* stakeholder interaction or consultation, in order to develop the requested advice.

The three ESAs are asked to consider the following questions. In developing their advice, all ESAs are invited to provide data or estimates on the expected impacts, including costs, of the proposed disclosures and methodologies for relevant stakeholders.

EBA:

1. What information should banks and investment firms subject to the NFRD disclose (e.g. as part of their prudential and broader ESG disclosures) on how their financial or broader commercial activities align with economic activities identified as environmentally sustainable in the EU taxonomy, whether carried out in-house or performed by third parties? Which financial or commercial activities should be included/excluded?

2. If turnover, OpEx and CapEx were not considered appropriate, what alternative indicators would achieve the same purpose? What KPIs are best suited to disclose information identified in (1) above? What should constitute the numerator and the denominator for a specific KPI for banks and investment firms?

3. Could the green asset ratio be adapted to include taxonomy-related disclosures?

EIOPA:

1. What information should (re)insurance companies subject to the NFRD disclose (e.g. as part of their prudential and broader ESG disclosures) on how their insurance activities correspond to those identified as environmentally sustainable in the EU taxonomy? Should there be a difference between insurers and reinsurers, and between insurance and reinsurance activities?

2. Should they disclose how financial or commercial activities beyond insurance underwriting are directed at funding economic activities identified as environmentally sustainable in the EU taxonomy? If yes, what information should they disclose? Are turnover, CapEx and OpEx appropriate?

3. What should be included in (2)? Could something be excluded and if yes, what types of activities? What should constitute the numerator and the denominator of a possible specific KPI for (re)insurers?

[8] For which ESAs are preparing draft technical standards.

ESMA:

1. What information should any asset management companies subject to the NFRD, notably alternative investment fund managers or UCITS management companies, disclose on how their activities are directed at funding economic activities identified as environmentally sustainable in the EU taxonomy?

2. How should the three KPIs that non-financial undertakings are required to disclose under Article 8(2) of the Taxonomy Regulation be further specified? More specifically:

- Should non-financial undertakings make any further disclosures to accompany the KPIs?
- Should it be specified which KPI/(s) is/are relevant for companies in a given sector?
- What methodology should non-financial undertakings use to report against the identified indicators (allocating turnover/expenditures within the undertaking or group to different economic activities; distinguishing between activities not covered by the taxonomy and activities covered by the taxonomy, but where the undertaking doesn't meet the thresholds/technical screening criteria)?

3. PRINCIPLES

The subject matter of this call for advice is highly focused. It is circumscribed by the requirement of Article 8 to further specify details of the information to be disclosed, and accompanying methodology, for undertakings in relation to the taxonomy. The legal requirement to adopt the delegated act is June 2021. Consequently, the ESAs are invited to consider the task as a targeted one. This may involve shortening some internal deadlines and procedures, e.g. on consultations.

The development of the advice should be based on the following principles:

- **Autonomy:** The ESAs are free to choose working arrangements which they consider most efficient to reach the objectives described in this request, in line with better regulation principles. In particular, the ESAs are invited to utilise existing consultation channels and working formations e.g. on prudential disclosures, to derive the input.
- **Reliable qualitative and quantitative data** should be considered to assess the merits of all recommendations. The advice should aim to build on diverse, but unbiased sources.
- **Justified solution:** the KPIs the ESAs will include in the advice will need to be assessed in terms of their possible impacts while possible trade-offs with other EU objectives should also be considered. As appropriate, the ESAs should consider and justify choices e.g. regarding the need for information which is disclosed to be accurate, useful, usable, and cost-efficient.
- **Cooperation between the ESAs:** The ESAs are free to choose an arrangement for their cooperation, which they consider most efficient to reach the objectives described in this request. While work on questions specific to undertakings in their remit can proceed independently, ESMA, EBA and EIOPA are invited to closely coordinate their work on the advice to ensure consistent and coherent recommendations. The advice can be delivered in the shape of three separate reports by each ESA.
- **Cooperation with other EU bodies:** The ESAs are invited to cooperate with other EU bodies as relevant. Notably, ESAs are encouraged to liaise with the European Financial Reporting Advisory Group (EFRAG), which has been mandated to carry out preparatory

work for possible EU non-financial reporting standards, as well as the Commission's Joint Research Centre.

- **Absence of conflict of interest:** The ESAs shall ensure a transparent and balanced engagement with stakeholders and require, as appropriate, disclosure of sources and avoidance of conflict of interest in the conduct of the discussions and in the development of their advice. Cases involving potential conflict of interest will be duly noted.

4. STEPS AND TENTATIVE TIMETABLE

The advice is expected by February 2021.

The ESAs can choose the best way to approach the exercise in line with the scope and principles defined above. Below a suggested tentative timeline.

Step 1	Formal request sent	September 2020
Step 2	Collecting evidence and stakeholders views and drafting the advice	September 2020 – February 2021
Step 3	Interim drafts and preliminary findings, including KPIs and associated methodology, discussed with the Commission	Continuous
Step 4	Advice finalised	February 2021

4.3 Annex III - Cost-benefit analysis

1. Executive Summary

Reasons for publication

Regulation (EU) 2020/852 was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. The Regulation requires the Commission to adopt a delegated act in accordance with Article 23 to supplement paragraphs 1 and 2 of this Article to specify the content and presentation of the information to be disclosed pursuant to those paragraphs, including the methodology to be used in order to comply with them, taking into account the specificities of both financial and non-financial undertakings and the technical screening criteria established pursuant to this Regulation, by 1 June 2021.

In September 2020, the Commission issued a call for advice to the European Supervisory Authorities (ESAs) on Key Performance Indicators (KPIs) and methodology on the disclosure of how and to what extent the activities of undertakings under the NFRD qualify as environmentally sustainable as per the EU Taxonomy. The call for advice requires that the policy solutions included in the advice are assessed in terms of their possible impacts.

The advice must be submitted to the European Commission by February 2021.

The cost-benefit analysis ('CBA') aims to provide the reader with an overview of findings with regards to the potential impacts of the proposed draft RTS.

Contents

Section 2 introduces the CBA by describing ESMA's mandates and explaining the nature of the CBA along with its structure. Section 3 analyses the costs and benefits connected with the proposed advice.

2. Introduction

This CBA was developed to assist in the drafting of the advice which the Commission has mandated the ESAs to submit. Based on Article 8 of the Taxonomy Regulation, the Commission required that ESMA draw up advice specifying:

- How should the three KPIs that non-financial undertakings are required to disclose under Article 8(2) of the Taxonomy Regulation be further specified, and more specifically:
  - Should non-financial undertakings make any further disclosures to accompany the KPIs?
  - Should it be specified which KPI(s) is/are relevant for companies in a given sector?
  - What methodology should non-financial undertakings use to report against the identified indicators (allocating turnover/expenditures within the undertaking or group to different economic activities; distinguishing between activities not covered by the Taxonomy and activities covered by the Taxonomy, but where the undertaking does not meet the thresholds/technical screening criteria?
- What information should any asset management companies subject to the NFRD, notably alternative investment fund managers or UCITS management companies, disclose on how their activities are directed at funding economic activities identified as environmentally sustainable in the EU Taxonomy.

The CBA aims at assessing the impact of the above advice on different stakeholders. Evidence provided in the course of the consultation was taken into consideration for the finalisation of the CBA. The problem identification as well as the market/regulatory failure analysis were performed by the Commission at Level 1 and therefore, do not need to be replicated in this context.

The different mandates assigned to ESMA are analysed making reference to a baseline scenario under which only Level 1 text would apply. Therefore, the costs and benefits identified and assessed are the incremental costs that might be caused by the way ESMA suggests exercising the mandates in case ESMA's advice were to be adopted by the Commission without amendments.

The call for advice also sets out a number of principles which ESMA is invited to take account of when developing its advice. ESMA was asked to provide advice in cooperation with other ESAs as well as with other relevant EU bodies. The Commission also asks that the advice be autonomous, consider qualitative and quantitative data and propose solutions that are well justified.

The CBA is mostly qualitative in nature. In order to support ESMA's choices with cost assessments, ESMA endeavoured to obtain quantitative information from market participants responding to the public consultation. This information is not easily available through NCA nor through any readily accessible public source allowing for a systematic analysis of the potential effects of ESMA intervention. The information gathered through the consultation was, however, almost exclusively qualitative.

3. Analysis of proposed measures

3.1. Non-financial undertakings – definition of KPIs

These provisions are drawn up in response to the call for advice for ESMA to specify in the first place how the three KPIs that non-financial undertakings are required to disclose under Article 8(2) of the Taxonomy Regulation should further be specified. ESMA has, therefore, to provide a definition of the three KPIs.

In this section, ESMA analyses the possible approaches to the definition of KPIs. The section starts by clarifying the policy objective of this part of the advice and then goes on to identify two options. The section then examines the costs and benefits of both Option 1 and 2 to provide background reasoning for the decision to pursue Option 2.

3.1.1. Technical options

Policy Objective	Specify how to define the KPIs (Turnover, CapEx, OpEx) required under Article 8(2) of the Taxonomy Regulation
Option 1	Ad hoc measures / definitions
Option 2	Building on existing measures / definitions from the Accounting Directive and IFRS standards as applicable
Preferred option	Option 2

3.1.2. Cost-benefit analysis

Option 1	Ad hoc measures / definitions
Benefits	As all non-financial undertakings, regardless of the set of accounting standards they use, would apply the same measures and definitions, consistency and comparability would be enhanced
Costs to regulator	Additional costs, mainly of a one-off nature, would stem from getting used to new definitions and adapt the monitoring process accordingly

Compliance costs	For all non-financial undertakings, ad hoc measures would generate material additional costs, e.g. in the form of adjusting their IT systems and reporting structures, both on a one-off and ongoing basis.
Costs to other stakeholders	Users would have to understand new terms / definitions whereas they are familiar with the IFRS or national GAAP terms and definitions

Option 2	Borrowing existing measures / definitions from the Accounting Directive and from IFRS Standards as applicable
Benefits	Consistency and comparability of KPIs for non-financial undertakings using the same accounting standards (IFRS or national GAAP); increased understandability for users given familiarity with the terms / definitions used
Costs to regulator	Costs incurred to adapt monitoring would be minimised by leveraging widely on existing accounting knowledge and experience
Compliance costs	Compliance costs for non-financial undertakings would be minimised as such entities could leverage on existing reporting
Costs to other stakeholders	As preparers using different accounting standards will apply measures and definitions in a slightly different way, consistency and comparability will be impacted However, costs will be mitigated by leveraging on existing accounting knowledge, especially as regards IFRS

3.2. Non-financial undertakings: accompanying information

These provisions are drawn up in response to the mandate for ESMA to specify if accompanying disclosure should be provided by non-financial undertakings in addition to the three KPIs mandated under Article 8(2) of the Taxonomy Regulation. In the affirmative, ESMA has in addition to specify what accompanying information should be published.

In this section, ESMA analyses the possible approaches to accompanying information. The section starts by clarifying the policy objective of this part of the technical advice and then goes on to identify three options. The section then examines the costs and benefits of Options 1, 2 and 3 to provide background reasoning for the decision to pursue Option 3.

3.2.1. Technical options

Policy Objective	Mandating accompanying information to the KPIs to ensure: – consistency and comparability with the financial statements – understandability of key aspects of the calculation and drivers of change of the three KPIs
Option 1	Mandating no accompanying information
Option 2	Mandating granular explanation of the calculations made
Option 3	Mandating less granular explanations with reference to similar line items of the financial statements / similarly labelled APMs and key elements included in the calculation of the KPI
Preferred Option	Option 3

3.2.2. Cost-benefit analysis

Option 1	Mandating no accompanying information
Benefits	-
Costs to regulator	Monitoring costs due to potential lack of information and low comprehensibility
Compliance costs	This option would not increase compliance costs
Costs to other stakeholders	Comprehensibility and clarity of KPIs for financial market participants would be impaired and time-consuming

Option 2	Mandating granular explanation of the calculations made
Benefits	Clarity and comprehensibility of KPIs for financial market participants (as well as for regulators) would be maximised
Costs to regulator	Risk of information of overload
Compliance costs	Compliance costs for non-financial undertakings would be more material, especially in terms of HR/IT costs

Costs to other stakeholders	Risk of information overload for users of non-financial statements

Option 3	Mandating less granular explanations with reference to similar line items of the financial statements / similarly labelled APMs and key elements included in the calculation of the KPI
Benefits	Clarity and comprehensibility of KPIs for financial market participants (as well as for regulators) would be improved; potential confusion stemming from the use of similar terms for different concepts is mitigated
Costs to regulator	-
Compliance costs	Compliance costs for non-financial undertaking would be mitigated by requiring reconciliations only to limited line items of the financial statements / similarly labelled APMs and by requiring only disclosure of the key elements / drivers of change in the value of the KPI
Costs to other stakeholders	-

3.3. Non-financial undertakings: methodology

These provisions are drawn up in response to the mandate for ESMA to specify the methodology that non-financial undertakings should use to report against the identified indicators required under Article 8(2) of the Taxonomy Regulation. ESMA, therefore, has to design a methodology for the three KPIs, including allocation of turnover/expenditures within the undertaking or group to different economic activities, distinction between activities not covered by the Taxonomy and activities covered by the Taxonomy i.e. eligible and non-eligible economic activities.

In this section, ESMA analyses the possible approaches to the methodology. The section starts by clarifying the policy objective of this part of the advice and then goes on to identify three options. The section then examines the costs and benefits of Options 1, 2 and 3 to provide background reasoning for the decision to pursue Option 3.

3.3.1. Technical options

Policy Objective	Mandating disclosure of the methodology used to calculate the KPIs
Option 1	Mandating disclosure for eligible and non-eligible economic activities (i.e. disclosure both for activities that have the potential to be environmentally sustainable and those that have not as they are not included in the Taxonomy)
Option 2	Mandating disclosure for economic activities that are eligible to be environmentally sustainable and, for those activities that are not eligible, mandating narrative disclosure and limited disclosure at aggregate level only
Preferred Option	Option 2

3.3.2. Cost-benefit analysis

Option 1	Mandating disclosure for eligible and non-eligible economic activities (i.e. disclosure both for activities that have the potential to be environmentally sustainable and those that have not as they are not included in the Taxonomy)
Benefits	This option would provide full clarity on methodology to financial markets participants and provide a complete picture of where a company is in terms of its path towards Taxonomy-alignment
Costs to regulator	Monitoring costs would materially decrease due to much lower risks of lack of clarity and divergent practices.
Compliance costs	Additional compliance costs would be material but mainly of a one-off nature, namely in terms of setting IT systems, establishing new reporting processes and training the staff, which would be part of the overall costs of preparing for compliance with the disclosure requirements under Article 8.
Costs to other stakeholders	Some additional costs may stem from information overload. Furthermore, in the absence of criteria for non-eligible activities, sustainability assessment of those activities by companies based on own criteria may create confusion to users of that information.

Option 2	Mandating disclosure for economic activities that are eligible to be environmentally sustainable and for those activities that are not eligible, mandating narrative disclosure and limited disclosure at aggregate level only.
Benefits	This option would provide substantial clarity on methodology to financial markets participants, avoid information overload and allow for the fact that as the EU Taxonomy evolves some of the non-eligible activities may be covered by the Taxonomy
Costs to regulator	Monitoring costs would to some extent decrease due to lower risks of lack of clarity and divergent practices.
Compliance costs	Compliance costs would exist but would be mitigated by the less granular disclosure on those activities that do not have the potential to be environmentally sustainable under the EU Taxonomy
Costs to other stakeholders	Minor costs may stem from the assessment of the narrative information disclosed

3.4. Non-financial undertakings: presentation

These provisions are drawn up in response to the general mandate for ESMA to specify rules around the disclosure of KPIs by non-financial undertakings under Article 8(2) of the Taxonomy Regulation, given that in its call for advice the Commission invited the ESAs to provide advice on the presentation of the KPIs disclosed under Article 8.

In this section, ESMA analyses the possible approaches to the development of a template. The section starts by clarifying the policy objective of this part of the technical advice and then goes on to identify two options. The section then examines the costs and benefits of both Options 1 and 2 to provide background reasoning for the decision to pursue Option 1.

3.4.1. Technical options

Policy objective	Propose standardised presentation of KPIs
Option 1	Presentation based on a standardised template with no formatting rules; leaving formatting rules to be addressed in the context of the review of the NFRD
Option 2	Presentation based on a standardised template and following specific formatting rules
Preferred option	Option 1

3.4.2. Cost-benefit analysis

Option 1	Presentation based on a standardised template with no formatting rules
Benefits	Disclosure would be streamlined, thereby improving comprehensibility
Costs to regulator	Costs of monitoring would be reduced due to better comparability.
Compliance costs	Minor additional one-off costs in order to adapt preparers' reporting systems.
Costs to other stakeholders	

Option 2	Presentation based on a standardised template and following specific formatting rules
Benefits	Disclosure would be fully standardised, thereby improving comprehensibility and comparability and providing the basis for machine-readability.
Costs to regulator	Costs of monitoring would be materially reduced due to better comparability and machine readability. However, there would be material costs linked to set up systems to extract and analyse machine-readable information. Additional costs might arise if different / additional formatting rules are required by the NFRD (applicable to the entire non-financial statement) which are not consistent with the ones for KPIs.
Compliance costs	One-off compliance costs to adapt the reporting systems also to the formatting rules may be material. Such costs might also indirectly regard other parts of the annual financial report or of the non-financial statement. In light of the ongoing revision of the NFRD, additional costs are likely to arise in the future if different/ additional formatting rules are required by the NFRD (applicable to the entire non-financial statement) which are not consistent with the ones for KPIs.
Costs to other stakeholders	Costs linked to the possible inconsistency of the requirements with the formatting / machine readability requirements which may be mandated in the revised NFRD.

3.5. Asset management companies: content of KPIs

These provisions are drawn up in response to the mandate for ESMA to identify the KPI(s) that asset management companies are required to disclose. ESMA has, therefore, to identify such KPI(s) also on the basis of the three KPIs provided for by Article 8(2) of the Taxonomy Regulation.

In this section, ESMA analyses the possible approaches to the definition of KPIs. The section starts by clarifying the policy objective of this part of the advice and then goes on to identify three options. The section then examines the costs and benefits of Option 1, 2 and 3 in order to provide background reasoning for the decision to pursue Option 2.

3.5.1. Technical options

Policy objective	Identify the relevant KPI(s) for asset management companies
Option 1	Mandate the same KPI(s) envisaged for non-financial undertakings
Option 2	Mandate the KPI *turnover*, with the denominator of the ratio including only eligible assets
Option 3	Mandate the KPI *turnover*, with the denominator of the ratio including all assets
Preferred option	Option 3

3.5.2. Cost-benefit analysis

Option 1	Mandate the same KPI(s) envisaged for non-financial undertakings
Benefits	This option would provide a comprehensive view to financial markets participants; however, the related benefits are lowered by the fact that CapEx and OpEx are often not relevant metrics for asset management companies
Costs to regulator	Monitoring costs would be to some extent reduced due to enhanced clarity and harmonisation when compared to the status quo
Compliance costs	Additional compliance costs to track the relevant information and set up the necessary systems can be material
Costs to other stakeholders	-

Option 2	Mandate the KPI *turnover*, with the denominator of the ratio including only eligible assets
Benefits	This option would provide material benefits as KPI including only eligible assets provides insight into a subset of all investments that can be considered to be contributing to Taxonomy-aligned economic activities
Costs to regulator	Reduction of monitoring costs due to a single KPI and a harmonised ratio when compared to the current situation, but the need to also track the value of all investments to find out the extent of Taxonomy-alignment of all investments.
Compliance costs	Compliance costs to track the relevant information and set up the necessary systems can be material but are limited to one KPI
Costs to other stakeholders	This ratio might have limited value in certain cases due to the denominator including only eligible assets which does not provide a comparable figure since the KPI would depend significantly on the share of eligible investments in each asset manager. Additional costs could accrue if stakeholders would want to find out the Taxonomy-alignment of all investments.

Option 3	Mandate the KPI *turnover*, with the denominator of the ratio including all assets
Benefits	This option would maximise benefits as disclosures are targeted and significant, providing a comparison point for all asset managers regardless of what type of investments are undertaken
Costs to regulator	Material reduction of monitoring costs due to a single KPI and a harmonised ratio and the lack of a need to find out the share of Taxonomy-alignment of all investments
Compliance costs	Compliance costs to track the relevant information and set up the necessary systems can be material but are limited to one KPI
Costs to other stakeholders	Costs to other stakeholder would not differ significantly compared to Option 2 but could be lower due to the lack of a need to find out the share of Taxonomy-alignment of all investments

3.6. Asset management companies: methodology

These provisions are drawn up in response to the mandate for ESMA to specify the methodology that asset management companies should use to report against the identified indicator. ESMA has, therefore, to design a methodology that ensures a realistic disclosure.

In this section, ESMA analyses the possible approaches to the methodology. The section starts by clarifying the policy objective of this part of the advice and then goes on to identify two options. The section then examines the costs and benefits of both Option 1 and 2 in order to provide background reasoning for the decision to pursue Option 2.

3.6.1. Technical options

Policy objective	Mandating disclosure of the methodology used to calculate the KPI
Option 1	Methodology is high level and does not instruct on how to address non-EU entities
Option 2	Methodology is more granular and provides steer on how to address non-EU entities
Preferred option	Option 2

3.6.2. Cost-benefit analysis

Option 1	Methodology is high level and does not instruct on how to address non-EU entities
Benefits	-
Costs to regulator	Monitoring costs would to some extent decrease due to lower risks of lack of clarity and divergent practices when compared to the status quo
Compliance costs	Minor compliance costs, especially in terms of obtaining data across different products, due to the need to report only with reference to the underlying investments in Article 8 and 9 funds
Costs to other stakeholders	This option would provide limited disclosure to financial markets participants

Option 2	Methodology is more granular and provides steer on how to address non-EU entities
Benefits	By allowing for a comprehensive view of asset management companies' portfolio, this option would provide full clarity to financial markets participants
Costs to regulator	Monitoring costs would materially decrease due to much lower risks of lack of clarity and divergent practices when compared to the status quo
Compliance costs	Additional compliance costs, especially in terms of obtaining data across different products, are material due to the need to report on the eligible investments in all managed funds
Costs to other stakeholders	-

3.7. Asset management companies: presentation

These provisions are drawn up in response to the general mandate for ESMA to specify rules around the disclosure of how asset management companies' activities are directed at funding environmentally sustainable activities, given that in its call for advice the Commission invited the ESAs to provide advice on the presentation of the KPIs disclosed under Article 8.

In this section, ESMA analyses the possible approaches to the presentation of KPI(s). The section starts by clarifying the policy objective of this part of the advice and then goes on to identify two options. The section then examines the costs and benefits of both Option 1 and 2 in order to provide background reasoning for the decision to pursue Option 2.

3.7.1. Technical options

Policy objective	Propose standardised presentation of KPIs
Option 1	Presentation based on a granular template with formatting
Option 2	Presentation based on a less granular template with no formatting
Preferred option	Option 2

3.7.2. Cost-benefit analysis

Option 1	Presentation based on a granular template with formatting
Benefits	Disclosure would be fully standardised, thereby improving comprehensibility and comparability and providing the basis for machine-readability
Costs to regulator	Costs of monitoring would be materially reduced due to better comparability and machine readability
Compliance costs	Additional one-off and ongoing compliance costs to adapt the reporting systems – especially from an IT perspective - would be material
Costs to other stakeholders	Costs linked to the possible inconsistency of the requirements with the formatting / machine readability requirements which may be mandated in the revised NFRD

Option 2	Presentation based on a less granular template with no formatting
Benefits	Disclosure would be streamlined, thereby improving comprehensibility
Costs to regulator	Costs of monitoring would be reduced due to better comparability
Compliance costs	Minor additional one-off and ongoing costs can be envisaged in order to adapt the reporting systems
Costs to other stakeholders	-

4.4 Annex IV – SMSG opinion

ADVICE TO ESMA

SMSG Response to ESMA's Consultation on the Draft Advice to the European Commission under Article 8 of the Taxonomy Regulation

I. Background

1. On 15 September 2020, ESMA received a call for advice from the Commission, requesting input on how the three KPIs to be disclosed by non-financial undertakings should be further specified and what information asset managers subject to the Non-Financial Reporting Directive should disclose on how their activities are directed at funding environmentally sustainable economic activities.

2. On 5 November 2020, ESMA launched a consultation on its draft advice to the European Commission under article 8 of the Taxonomy Regulation. This report presents the SMSG's advice to ESMA in view of this consultation.

3. The SMSG largely supports ESMA's draft advice to the European Commission. Nevertheless, the SMSG makes a number of general comments and advises ESMA to change or refine its approach in respect of specific aspects of the draft.

II. General comments

4. The SMSG is aware that neither the decision on timing, nor on the scope, nor on the size of non-financial undertakings falling under the scope of the NFRD fall within ESMAs remit. Some members, however, deemed it important to point to certain observations in that regard.

   The timing of alignment of the different pieces of legislation and phasing of disclosure obligations

5. The SMSG would like to begin with reiterating its previous advice (see SMSG advice on ESG disclosure[55]) to consider carefully the timing issue and phasing of disclosure obligations and the relation between the timings of various consultations.

6. The timeline for the application of the new reporting requirements is very challenging for companies, in particular in the aftermath of the COVID pandemic. EU corporates are in need of their Working

[55] See SMSG, 'Advice to the ESA's - Joint Consultation Paper on ESG Disclosures' (ESMA22-106-2858, 14 September 2020) at II.12.b, https://www.esma.europa.eu/sites/default/files/library/esma22-106-2858_smsg_advice_on_esg_disclosure.pdf.

Capital and liquidity to support their operations in the face of a dual supply and demand shock that has produced a very deep recession in the EU and globally. Moreover, the required adjustments necessitate a reorganisation of corporations' business models and strategies as well as the adaptation of their resources and education of their teams. In a nutshell, compliance with the new reporting requirements will take time and will also generate considerable additional costs. In addition, asset managers will need to report in percentages the "green" proportion of their investment portfolios and these will depend on the time non-financial undertakings will disclose and make available information from the KPIs.

7. As non-financial undertakings are in need of flexibility to adapt and asset managers rely on the disclosure provided by non-financial undertakings, the SMSG recommends a phasing in of the new disclosure requirements or an extension of the deadline for implementation and/or a pilot phase. The SMSG understands that the new disclosure requirements will apply in 2022 regarding FY 2021 (e.g. publication in 2022 of revenue, CapEx and if relevant OpEx related to financial year 2021). Since the delegated act (DA) is to be adopted by 1 June 2021, at the latest, and the Parliament and Council benefit from a three-month objection period, the DA is unlikely to be published in the Official Journal before Q4 2021. As already explained, companies will not have sufficient time to prepare their accounting and reporting to comply with the new requirements.

8. The SMSG is mindful of the continuous work of the Platform on Sustainable Finance, as well as continuous legislative efforts in areas closely related to the subject of this Consultation, such as the pending review of the Non-Financial Reporting Directive. This Advice is not meant to interfere with these processes or pre-empt in any way their findings.

Geographical Scope

9. The SMSG recommends further clarification regarding how the proportion of revenue, Capex and if relevant OpEx realised outside the EU – in third countries – should be assessed and accounted for against the Taxonomy Regulation criteria. This proportion can be significant for non-financial undertakings operating worldwide. The SMSG advises ESMA to provide guidance regarding how to account for activities carried out in third countries, e.g. by providing a standardised table.

10. Asset managers invest in assets of issuers outside the EU, which do not provide Taxonomy-related disclosures. The SMSG advises ESMA to provide guidance to asset managers how to deal with such situations, e.g. (i) by providing that asset managers should engage with such companies to encourage them to produce Taxonomy-related disclosures on a voluntary basis; and (ii) by providing examples of disclosures of the proportion of assets on which asset managers could not obtain the necessary data.

Consistency of approach between supervisory bodies

11. EBA and EIOPA are also invited to provide similar advice on the delegated act, to be adopted within their respective remits. The SMSG advises that ESMA, EBA and EIOPA take a consistent approach when coordinating the three pieces of advice which will be delivered to the Commission.

Size of Non-Financial Undertakings under the scope of the Non-Financial Reporting Directive

12. Article 8 of the Regulation applies to non-financial undertakings falling under the present scope of the Non-Financial Reporting Directive. Some members of the SMSG suggest that the proposed KPIs should be broadened in view of the expected enlargement of the NFRD's scope, so that it is feasible

to include companies that are currently not under the scope today but which might be under the scope of the Directive in the future.

13. Moreover, some members of the SMSG note that in the ESMA questionnaire there is no question as regards the distinction between small and medium size companies that already fall under the scope of the Taxonomy Regulation and might face increased difficulty to comply with complex reporting methodologies. The SMSG believes that this is in contradiction with the Commission's policy to think small first.

Methodology and data reporting

14. The SMSG deems it important to clarify who should be in charge of using the proposed methodology described by ESMA in "Annex V: Estimates for the three KPIs for the EU economy as a whole and by NACE macro sector". This is an important clarification since it would shed light on whether it is ESMA's intention that non-financial undertakings should do this by themselves or rating agencies should make use of it.

15. The methodology proposed by ESMA seems practicable. Nevertheless, the SMSG believes that the methodology generalizes companies' sales too much (e.g. 20% of Production of electricity sales are green/sustainable) without considering the individual characteristics of each company, the "do no significant harm" (DNSH)-approach or minimum safeguards. The use of industry averages is quite common, but it should be reconsidered with regard to the calculation of coefficients for the EU taxonomy.

16. The SMSG believes that it is important to encourage companies to provide data instead of using an industry average. Companies who provide data should not be placed in a less favourable situation than companies who do not deliver any data. It is unclear how the investor can distinguish between "good/investable" companies and "bad" ones (with regard to ESG) if the information of any company can be expressed on the basis of industry average.

17. Therefore, the SMSG advises to use a methodology based on existing company-specific and common ESG data (e.g. CO_2 intensity) instead of using only industry averages. The process can be implemented on the basis of a multi-step approach: if there is a lack of data then the use of industry averages apply; if there is sufficient data, existing ESG data applies.

18. Taxonomy data needs to be reliable for financial data analysts, not everyone should be permitted to calculate or estimate this data. The SMSG advises that ESG rating agencies provide taxonomy data, if the company itself cannot provide it.

19. The SMSG observes that the definition of some activities is missing, as pointed out in the Final report of the Technical Expert Group on Sustainable Finance. The activities as defined by the NACE codes framework capture all economic sectors and hence almost all economic activities. However, there are economic activities that are not directly covered by the NACE classification. Some of these activities are important for climate change mitigation and adaptation. When activities of companies are defined and assessed, two situations may occur. In some cases, the activity of a site, factory or unit of the company falls under NACE codes, whilst in other cases, there are several activities on one plant. There is no guidance on how to assess what percentage of those activities is taxonomy aligned, does significantly contribute or does not significantly harm the different environmental objectives. Neither the assessment of the percentage of activities that are taxonomy aligned, nor their level of contribution are explained.

20. The SMSG advises ESMA to develop a methodology to calculate the information from those units or plants or sites on a more consolidated level.

21. For the reporting, you need the delegated act to article 8 which is the right place to define what activity is met in the taxonomy regulation.

Compliance facilitated by sound corporate governance

22. The SMSG observes that for some asset managers the new regulation will not provide more transparency when undertakings are below the reporting threshold of 500 employees. The 500+ employee rule excludes firms which are, nevertheless, large in terms of assets under management. Moreover, in some markets, annual reports on the largest domestic asset management firms are available via the company filings from the commercial register at a cost. In the present scheme, some affluent markets would not require any asset manager to report on its own company-specific criteria like diversity of decision-making bodies which are considered as risk-relevant. All this means that investors will not have easy access to information on the cognitive diversity of investment decision making, even though it is a crucial element of the overall investment process.

III. Advice relating to non-financial undertakings

23. *Definitions – questions related to the KPI 'proportion of turnover derived from products / services associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation'*

Question 1: For this KPI, do you agree with the proposed approach to defining turnover (bullet a in the draft advice)?

24. The SMSG agrees, subject to the following reservation and advice.

25. The SMSG notes that it will be very challenging for companies to produce this KPI considering the deadline and the fact that internal reporting processes are not based on NACE classification. The SMSG advises ESMA to provide explanatory examples.

Question 2: For this KPI, do you agree with the proposed approach to when turnover can be counted (bullet b in the draft advice)?

26. The SMSG agrees, subject to the following reservations and advice.

27. On the proposed approach to when Turnover can be counted, ESMA's approach seems very restrictive. As a matter of fact, if paragraph (b) of article 11 can be understood as enabling other activities to undergo climate change adaptation, paragraph (a) clearly refers to the adaptation of the activity (company) itself. Therefore, the SMSG is of the opinion that for the environmental objective climate change adaptation, turnover can be counted where the activity enables other activities to undergo climate change adaptation as put forward by ESMA, but also where the activity includes adaptation solutions that substantially reduce the risk of an adverse impact on the current climate or the expected future climate of that economic activity.

28. The DNSH principles are mainly based on EU rules and, as such, applying them outside the EU in the absence of equivalence regimes is a complex exercise. It is also unclear whether the assessment of a company endorsement of the minimum social safeguards should be done at the global entity level, whether this entity performs activities outside of the EU or not.

29. The SMSG therefore advises (i) to clarify the reporting on the Do Not Significantly Harm (DNSH) principles on an activity by activity basis, as well as for activities or parts of the value chain exercised outside of the EU, needs clarification or (ii) to develop a step by step approach in this respect.

30. *Definitions – questions related to the KPI 'proportion of capital expenditure related to assets / processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation'*

Question 3: For this KPI, do you agree with the proposed approach to defining CapEx (bullet a in the draft advice)?

31. The SMSG agrees with the proposed definition of CapEx. As expressed for the Turnover KPI, it considers however that it will be very challenging for companies to produce this KPI considering the deadline and the fact that internal reporting processes are not based on NACE classification.

Question 4: For this KPI, do you agree with the proposed approach to when CapEx can be counted, including the definition of 'plan' (bullet b in the draft advice)?

32. The SMSG has a number of reservations.

33. On the approach of counting CapEx, Article 8 of the Taxonomy Regulation requires companies to disclose the proportion of their capital expenditure and the proportion of their operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable. The SMSG notes that adding a requirement that CapEx should be part of a plan in order for the activity to be counted as sustainable, results in adding a condition not laid down in level 1. Setting a uniform time horizon (5 years) may not be suitable for all companies which plan in very different time horizons. The SMSG recommends that the time horizon of the investment plan, whether short, medium or long term is defined by companies. This approach would be aligned with TCFD Recommendations and Commission Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01) that require companies to disclose climate-related risks in short-, mid- and long term and leave the definition of these horizons to the company. That solution would be inclusive of investments for projects that run over 6, 10 or even 15 years in the different sectors. The procedure for approval of investments by the board varies according from company to company and it is not possible to determine a common threshold. Finally, disclosing the plan should be sufficiently high-level

34. The SMSG therefore advises to delete the condition that the Capex should be part of a plan. If ESMA would not agree to do so, it should at least delete the 5-year period and allow projects running over longer periods to be counted. Moreover, ESMA should allow that disclosure of the plan should be sufficiently high-level.

35. The SMSG also advises to clarify whether the variation of intangible and tangible assets accounted for on the balance sheet should be considered gross or net of disposals.

36. As for the first KPI, the SMSG advise ESMA to provide examples on the calculation of this KPI based on different business cases.

37. *Definitions – questions related to the KPI 'proportion of operating expenditure related to assets / processes associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation'*

Question 5: For this KPI, do you agree with the proposed approach to defining OpEx (bullet a in the draft advice)?

38. As of today, the IASB's Primary Financial Statements project has not yet resulted in any amendment to IAS1 endorsed by the EU and therefore companies remain free to determine the relevant operational indicator to measure their performance. Therefore, the SMSG advises that the definition remains general, allowing flexibility for companies. This will ensure alignment and consistency of this KPI with alternative performance measures used by companies to measure their operational performance.

39. The SMSG agrees with the definition put forward by ESMA that « non-financial undertakings should include in the amount of OpEx all items of expense that arise from the undertaking's main business activities, which are generally identified as the principal revenue-producing activities of the entity. »

40. In this regard, determining the proportion of OpEx associated with sustainable activities will be very complex and burdensome for companies with limited added value, if the purpose is to show the transition path/demonstrate the trajectory of the company.

41. The SMSG observes that the disclosure of this KPI could be redundant with the proportion of revenue associated with sustainable activities.

Question 6: For this KPI, do you agree with the proposed approach to when OpEx can be counted, including the definition of 'plan' (bullet b in the draft advice)? With reference to the TEG's inclusion of the words "if relevant" in relation to OpEx, in which situations should it be possible to count OpEx as Taxonomy-aligned?

42. The same comment applies – see answer to Question 4.

Definitions – questions related to all three KPIs

Question 8: Do you agree that sectoral specificities should not be addressed in the advice, as proposed in Section 3.2.3?

43. The SMSG agrees with this approach. Companies with sectoral specificities will disclose information in order for the KPIs to be similar and comparable regardless of the particular sector. Asset managers will publish KPIs at portfolio level. Furthermore, it is of utmost importance to get harmonised KPIs without sectoral differentiation, in order to consolidate the data.

Accompanying information – questions related to all three KPIs

Question 9: Do you agree with the requirements for accompanying information which ESMA has proposed for the three KPIs?

44. The SMSG agrees, subject to the following observations.

45. The SMSG believes that accompanying information is potentially useful for the interpretation of the KPIs and to make them more comprehensive and accessible. Quantitative indicators seldom tell the whole story and we can imagine that there are users of data who want to be able to look behind the figures. Specifying the content of the accompanying information (i) could be cost-effective for the reporting companies (depending on how it is done) as it would indicate the information which is to be provided, and (ii) increase understandability for the users.

46. On the other hand, the SMSG is concerned that this could impact on the downstream use of the data and the ability to present clear information to investors. Financial undertakings will be relying on the KPIs to assess and report on the alignment of their investments and financing activities with the taxonomy and will not be in a capacity to incorporate all the accompanying qualitative information for each single issuer or borrower. For the financial reporting on taxonomy-alignment to be efficient, digitalisation and automation will be critical given the multitude of different issuers and borrowers on which taxonomy-alignment will have to be assessed. Care should be exercised to avoid any shift in the focus of the accompanying information away from the primacy of the KPIs; for investors and other users of this information, having to interpret accompanying information that is long and non-standardised or comparable could ultimately lead to confusion and undermine comparability between non-financial undertakings.

47. Finally, depending on how this information is presented, it could be subject to very different interpretations from non-financial undertakings. Establishing additional requirements on the content of this accompanying information in its delegated act to ensure comparability across the information provided by different non-financial undertakings is necessary, but should be done in such a way that it does not bring further operational complexities for companies in addition to the reporting information for the three KPIs.

Question 11: Do you agree with ESMA's suggestion to permit compliance by reference, so that non-financial undertakings may present the accompanying information elsewhere in the non-financial statement than in the immediate vicinity of the KPIs, as long as they provide a hyperlink to the location of the accompanying information?

48. The SMSG agrees with ESMA's suggestion to permit compliance by reference, but has a preference for providing the information in the immediate vicinity of KPIs is possible.

Question 12: Do you consider there are additional topics that should be considered by ESMA in order to specify the content of the three KPIs? If yes, please elaborate and explain the relevance of these topics.

49. First, for the non-financial reporting on taxonomy-alignment to be efficient, digitalization and automation will be critical given the multitude of different issuers and borrowers on which taxonomy-alignment will have to be assessed.

50. Secondly, depending on how this qualitative information is presented, it could be subject to very different interpretations from non-financial undertakings. Establishing additional requirements on the content of this accompanying information in its delegated act to ensure comparability across the information provided by different non-financial undertakings would bring further operational complexities for companies.

51. The SMSG therefore considers that additional topics to specify the content of the three KPIs should not be considered by ESMA as publishing the three KPIs will already be a great challenge for companies.

Questions relating to the methodology of preparing KPIs

Question 14: Do you agree that non-financial undertakings should provide the three KPIs per economic activity and also provide a total of the three KPIs at the level of the undertaking / group? If not, please provide your reasons and address the impact of your proposal to financial market participants along the investment chain.

52. The SMSG agrees with ESMA's proposal that both levels of information, per economic activity and at entity level, should be requested. Non-financial undertakings should provide the three KPIs per economic activity, provided that the economic activity is defined as the activity used to determine the environmental objective to which it makes a substantial contribution. As such, non-financial issuers should possess this level of information. The provision of this information is important for asset managers as certain companies have very different activities.

Question 15: Do you agree that where an economic activity contributes to more than one environmental objective, non-financial undertakings should explain how they allocated the turnover / CapEx / OpEx of that activity across environmental objectives and where relevant the reasons for choosing one objective over another?

53. The SMSG agrees with ESMA's proposal, notwithstanding our reservations about disclosing the proportion of OpEx associated with sustainable activities. Furthermore, transparency is of the utmost importance in order for asset managers to process this information at portfolio level. However, it should be a brief explanation, in order to avoid that the message would be blurred.

Question 16: Do you agree that non-financial undertakings should provide information on enabling and transitional activities?

54. Most SMSG members agree, given that enabling and transitional activities are central to the Taxonomy and as banks will be required to publish a green asset ratio for each type of activities. One member indicated that transitional activities are only mentioned in article 10 paragraph 2 of the Taxonomy Regulation. Therefore, transitional activities are by definition activities that substantially contribute to the first objective of climate change mitigation.

Question 17: Do you agree that the three KPIs should be provided per environmental objective as well as a total at undertaking or group level across all objectives? If not, please provide your reasons and address the impact of your proposal to financial market participants along the investment chain.

55. The SMSG agrees with ESMA's proposal that the three KPIs should be provided per environmental objective as well as a total at undertaking or group level across all objectives, notwithstanding our reservations about disclosing the proportion of OpEx associated with sustainable activities.

Question 18: Do you agree that non-financial undertakings should be required to provide the three KPIs for economic activities which are covered by the Taxonomy, economic activities which are covered by the Taxonomy but for which the relevant criteria are not met and therefore are not Taxonomy-aligned as well as for economic activities which are not covered by the Taxonomy?

56. The SMSG agrees, subject to the following changes.

57. First, the SMSG advises ESMA to provide for a phasing approach in the disclosure obligations. Non-financial undertakings should first be required to disclose the three KPIs for economic activities which are covered by the Taxonomy and the technical screening criteria. Then, they would be required to disclose the requirements on economic activities which are covered by the Taxonomy but for which the relevant criteria are not met and therefore are not Taxonomy-aligned as well as for economic activities which are not covered by the Taxonomy. This phased approach would allow them to adapt to these new requirements and publish reliable KPIs.

58. Second, the delegated act (DA) should clarify the obligations of companies whose activities are not yet covered by the taxonomy and technical screening criteria. Since the delegated act is to be adopted by 1 June 2021 and the Parliament and Council benefit from a three-month objection period, the DA is unlikely to be posted on the official journal before Q4 2021. As a consequence, companies and financial institutions having to collect the data from issuers and borrowers will have too little time to prepare their accountancy systems to comply with the new requirements. Moreover, as already expressed it will be even more challenging to apply them retroactively to the first months of the reporting period. The SMSG therefore recommends that the DA takes 2022 as the reference period instead of 2021 for the first two climate objectives and 2023 as the reference period for the four other environmental objectives for both non-financial and financial undertakings.

Question 19: Do you agree with the proposal not to require retroactive disclosure concerning the four environmental objectives relating to the financial year 2021?

59. We agree with ESMA's proposal not to require retroactive disclosure concerning the four environmental objectives relating to the financial year 2021. If the DA would lead to the implementation of new methodologies by companies, it would indeed be challenging to apply them retroactively to the first months of the reporting period.

Question 21: Are there points that should be addressed in ESMA's advice in order to facilitate compliance of financial market participants across the investment chain? If yes, please specify.

60. In addition to the elements referred to above, the SMSG raises to the following issues.

61. The compliance of financial market participants across the investment chain relies on reliable data being provided by investee companies. As such, the information on KPI's data reported by non-financial undertakings should be reliable. Therefore, to ensure compliance of financial market participants across the investment chain, the SMSG recommends a formal verification process to review the reliability of disclosed information.

62. As expressed in the general comments, the entirety of concepts introduced by the sustainability legislation, is new and also requires that sufficient attention is given to competence development of staff. Nevertheless, as long as the different sets of legislation are in different stages of development and not yet fully aligned with one another, full compliance across the investment chain will be very difficult.

Questions relating to the presentation of KPIs

Question 24: Do you agree that in order to ensure the comparability of the information disclosed under Article 8(2) of the Taxonomy Regulation and as such facilitate its usage, ESMA should propose the use of a standardised table?

63. The SMSG recognises that the advice is very detailed and precise in explaining to non-financial companies how they should determine CapEx, OpEx, turnover and how the decision to determine which activities are aligned or not with the taxonomy will be taken. The proportion of revenue associated with sustainable activities is however – and to a certain extent – the easiest KPI to calculate and publish. The SMSG therefore advises ESMA to also provide templates for CapEx and OpEx KPIs. The SMSG supports a common reporting table that would help a better use of data by asset managers. It will also help preventing dichotomy between companies by giving them a standard framework which would serve as an example for companies with the flexibility to choose a different format.

Question 25: Do you consider that the standard table provided in Annex III of this Consultation Paper is fit for purpose? Do you think the standard table provides the right information, taking into account the burden on non-financial undertakings of compiling the data versus the benefit to users of receiving the data? If not, please explain and provide alternative suggestions to promote the standardisation of the disclosure obligations pursuant to Article 8 of the Taxonomy Regulation.

64. See answer to Question 24.

IV. Advice relating to asset managers

Asset managers - Questions relating to the content of the KPI

Question 28: Do you agree that a share of investments is an appropriate KPI for asset managers? If you do not, what other KPI could be appropriate, please justify.

65. The SMSG agrees that the share of investments is an appropriate KPI for asset managers and that alternative approaches should not be used. The alternative model based on fees is not the best approach as it offers less pertinent data compared to turnover. Moreover, an approach based on share of eligible investments seems more appropriate than total assets under management (some asset classes can be assessed against the taxonomy). The list of 'eligible investments' could be widened as the taxonomy regime evolves (criteria for remaining environmental objectives) and once the NFRD is reviewed.

Question 29: This advice focuses on the collective portfolio management activities of asset managers. Should this advice also cover potentially any other activities that asset managers may have a license for, such as individual portfolio management, investment advice, safekeeping and administration or reception and transmission of orders ('RTO')?

66. Most SMSG members are, in theory, open to extend the reporting to other portfolios, in particular individual mandates, but not to activities that do not involve discretionary management, such as advice, safekeeping, etc. However, they are worried that this would come with a granular public reporting obligation, which could be problematic for client confidentiality reasons. One member however pointed out that these disclosures would always be made on an aggregate basis and the risk of disclosing confidential information would therefore be minimal.

Question 30: Do you agree that for the numerator of the KPI the asset manager should consider a weighted average of the investments exposed to investee companies based on the share of turnover derived from Taxonomy-aligned activities of the investee companies? If not please propose and justify an alternative.

67. The SMSG agrees that for the numerator of the KPI, the asset manager should consider a weighted average of the investments exposed to investee companies based on the share of turnover derived from Taxonomy-aligned activities of the investee companies.

Question 31: Do you agree that in addition to a main turnover-derived Taxonomy-alignment KPI, there is merit in requiring the disclosure of CapEx and OpEx-derived figures for Taxonomy-alignment of an asset managers' investments?

68. The SMSG recommends to first use turnover. Comparability of the information is of utmost importance and turnover is a relatively simple data to collect.

69. CapEx would make sense because it helps understanding investment challenges, hence forward-looking but the main issue is its feasibility and perimeter. The CapEx KPI is probably the most interesting metric for investors. It helps understand the direction of travel of the company and validate companies' strategies whilst it is also useful for investment funds focusing on companies in transition (vs already green). Nevertheless, to cumulate the account for both figures, green capex and revenues of investment in equities or corporate debt, is probably unrealistic and a separate reporting would be needed (on an optional basis).

70. Furthermore, the granularity of communication for non-financial companies varies as quarterly reports are much lighter in certain sectors. This challenge does not relate only to taxonomy but also to classic accounting and financial reporting. The SMSG questions how data providers would ensure comparability of CapEx and OpEx data in view of the issues underlined by ESMA in the first part of the consultation.

71. As such the SMSG recommends to use turnover and when possible, with a best effort approach, to disclose CapEx and OpEx-derived figures for Taxonomy-alignment of an asset managers' investments.

Question 32: Do you think sovereign exposures, such as sovereign bonds (but excluding green bonds complying with the EU Green Bond Standard) should be considered eligible investments and if so under what methodology?

72. The SMSG is of the opinion that the following distinction should be made.

73. Sovereign analysis is not mature enough yet. Therefore, classic sovereign exposure should not be considered as eligible investment as it would mean asset managers will do national cost accounting which is not the objective. Moreover, there is no upstream allocation of the debt. Asset managers are not equipped to check whether countries are keeping their commitments. If sovereign bonds were considered eligible investment, it is unclear how corporate debt and sovereign debt would have to be aggregated and how the debt of state entities with mixed activities, such as sovereign wealth funds, would be classified. Thus, the information sent to investors would be less relevant.

74. Having said that, sovereign Green Bonds should be treated differently. When talking about Sovereign debt, only sovereign Green Bonds complying with the EU GBS should be taken into account. This will encourage Member States to issue Green Bonds.

75. However, the SMSG notes that EU Green Bonds are eligible investments only if compatible with the EU Green Bond Standard. The SMSG questions whether the same criterion applies where the issue is in compliance with a similar type of standards that is not an EU standard. The SMSG is of the opinion that the value of sovereign Green Bonds cannot be limited to those that comply with the EU GBS. The SMSG therefore advises that, while those that comply with the EU GBS should be counted for their entire value (100%), other sovereign Green Bonds should be included for their value aligned with the Taxonomy.

Question 33: Do you agree that the denominator should consist of the value of eligible investments in the funds managed by the asset manager or should it be simply the value of all assets in the funds managed by the asset manager?

76. The SMSG agrees, subject to the following reservations.

77. The SMSG recommends that the exclusion for sovereign Green Bonds is removed and that they are included as part of the denominator for those calculations. They are an important part of the market and there is no reason for excluding them from the scope. Furthermore, the EU commission will be issuing Green Bonds in the future under the scheme. The objective is to provide the capital and private funds to finance the economic growth and the transition and transformation of the European economy.

78. Some members of the SMSG believe the scope of the denominator should consist of the value of eligible investments in the funds managed by the asset manager, whilst other members believe it should consist in the value of all assets in the funds managed by the asset manager. In any event, consistency between numerator and denominator is important.

Question: 34: Do you support restricting the denominator to funds managed by the asset manager with sustainability characteristics or objectives (i.e. governed by Article 8 or 9 of Regulation (EU) 2019/2088)? What are the benefits and drawbacks of such an approach?

79. The SMSG agrees with ESMA's view, as set out in section 183 of the Discussion Paper, that the definition of "eligible investments" should be broad and not limited to funds that qualify as sustainable investments under Article 9 or investments with ESG characteristics under Article 8 of SFRD. This objective would be best served by a definition of "eligible investments" that includes green bonds (compliant with the EU Green Bond Standard), public and private equity, real estate and corporate bond investments in investee companies, as suggested in section 188 of the Discussion Paper (first option). This broad approach provides a more accurate view as to what proportion of an asset manager's total investments is invested in environmentally sustainable economic activities, which is the ultimate objective of the proposed disclosures.

80. One member of the SMSG supports an approach based on article 8 and 9 (section 188, second option), arguing that it allows a precise perimeter that will be controlled by the asset manager, hence checked, compliant and secured. We therefore recommend using the application of the Article 8 and 9 funds denominator only as an additional indicator, but it should not replace the eligible investments indicator in question 33.

Question 35: Is it appropriate to combine equity and fixed income investments in the KPI, bearing in mind that these funding tools are used for different purposes by investee companies? If not, what alternative would you propose?

81. The SMSG agrees that is appropriate to combine equity and fixed income investments in the KPI as most shares are bought on the secondary market anyways. Moreover, it allows focusing on funds with sustainability claims and tackling more accurately concerns around greenwashing

Asset managers - Questions relating to the methodology for preparing the KPI

Question 37: What are the benefits and drawbacks of limiting Taxonomy-aligned activities to those reported by Non-Financial Reporting Directive companies?

82. Some member, representing asset managers, support asking companies as much information as possible because they know their own business model. They are of the opinion that, in the meantime, the use of standardised proxies provided by a public entity seems like a sensible idea to avoid capital only flowing towards large issuers (review of the NFRD is expected to take several years).

83. Other members of the SMSG disagree with the proposed use of proxies. The ultimate purpose of imposing a KPI disclosure framework is to encourage, and enforce the production of authentic, empirical data that inform investment decisions and the general political and societal debate. The introduction of proxies would only reduce incentives for companies and financial intermediaries to furnish actual data. Moreover, it could also dilute the quality of the disclosures provided. Finally, if the use of such proxies by asset managers would be optional only, this potentially expensive and time-consuming exercise would be much less informative.

Question 38: Do you agree with ESMA's recommendation that the Commission develop a methodology to allow a sector-coefficient to be assigned for non-reporting investee companies?

84. The SMSG agrees with ESMA's recommendation that the Commission develop a temporary methodology to allow a sector-coefficient to be assigned for those non-reporting investee companies. To avoid conflicts of interest, the SMSG encourages the Commission to develop a dedicated transitional methodology. This transitional methodology should be time-limited, however that should be replaced by the Non-Financial Reporting Directive as soon as this is in place, and actual data should be prioritised and encouraged whenever possible.

Question 39: Should netting be allowed, on the lines of Article 3 of the Short-Selling Regulation?

85. The SMSG agrees with ESMA to allow for netting short positions on the lines of Article 3 of the Short-Selling Regulation at fund level, and with the adequate transparency.

Question 40: How should derivatives be treated for the calculation purposes? Should futures be considered as potential Taxonomy-aligned investments?

86. The SMSG agrees with ESMA's position that the calculation on taxonomy-alignment should exclude derivatives.

87. **Question 41: What are the costs and benefits associated with the different options for non-reported activity coverage, netting and derivatives treatment presented above? Please provide a** quantitative estimate for each option, distinguishing between one-off and on-going costs.

88. Regarding non-reported activity coverage and companies that do not publish the information, asset managers need data and hence a methodology developed by the European Commission.

89. Regarding netting, the SMSG agrees. Regarding derivatives, for now, since derivatives are off-balance sheet, the SMSG suggests to exclude them.

Asset managers - Questions relating to the presentation of the KPI

Question 42: Do you have any views on the proposed advice recommending a standardised table for presentation of the KPI for asset managers in Annex IV?

90. The SMSG supports the proposed template except for:

   a. The inclusion of OpEx: the SMSG sees little value in including OpEx at asset management level.

   b. While the breakdown by environmental objective makes perfect sense, the activities of one company might contribute to more than one objective. And while for the calculation of the overall taxonomy-alignment there cannot be double-counting and investors will use the overall % disclosed or estimated per company, an accurate reporting per environmental objective should be done based on the companies' breakdown disclosures, and should allow the inclusion of one activity in more than one environmental objective.

c. A number of asset managers raised concerns regarding the merits of having to break down their AuM by economic activity, as recommended by ESMA in section 4.4.2 of the draft advice on page 77 ("the presentation of the disclosure should identify which environmental objectives the investments contribute to and where possible the activities in-vested in should be identified for each environmental objective"). There are a total of 21 NACE macro sectors, with 7 of these having been identified as relevant by the TEG for climate mitigation. These 7 macro sectors have been further broken down into over 70 more detailed economic activities. As the remaining four environmental objectives are screened, we are likely to see this list multiply considerably. Given that most asset managers invest across the market, disclosures by economic activity would become extremely cumbersome for asset manager. Such level of reporting is also not useful to either investors or distributors.

d. The proposed template assumes that for all environmental objectives there are and/or will be transitioning and enabling activities. However, that is not the case for climate adaptation and no decision has been taken regarding the other objectives. The SMSG is of the opinion that the breakdown should only be applied – for the time being – to climate change mitigation activities.

Question 44: Do you agree that there would be merit in including in the accompanying information a link, if relevant, to an asset managers' entity-level disclosures on principal adverse impacts of investment decisions on sustainability factors?

91. Some members of the SMSG believe there would be no merit in including a link and recommend to keep this link on a voluntary basis, since both types of information fall under different regulations. Other members find it is a good proposal as information on principle adverse impacts will be very helpful for investors to better evaluate sustainability of the investment, especially in the absence of a Taxonomy of environmentally harmful activities. Providing a reference to those disclosures in the accompanying information will make it is easier to locate such disclosures.

This advice will be published on the Securities and Markets Stakeholder Group section of ESMA's website.

Adopted on 16 December 2020,

[signed]	[signed]
Veerle Colaert Chair Securities and Markets Stakeholder Group	Florence Bindelle Rapporteur

4.5 Annex V: Standard tables for the disclosure required under Article 8 of the Taxonomy Regulation (non-financial undertakings)

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^ - disclosure covering year N

				Substantial contribution criteria						DNSH criteria (Do No Significant Harm')									
Economic activities (1)	Code(s) (2)	Absolute turnover (3)	Proportion of turnover (4)	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)	Climate change adaptation (12)	Water and marine	Circular economy (14)	Pollution (15)	Biodiversity and	Minimum safeguards (17)	Taxonomy-aligned proportion of turnover, year N (18)	Taxonomy-aligned proportion of turnover, year N-1 (19)	Category (enabling activity / transitional activity) (20)
		Currency	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E/T
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%**																

* 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.

** Total of turnover KPI associated with enabling and transitional activities.

Column 18 presents a breakdown of the turnover KPI per activity for year N.

Column 20 should be filled in only for enabling or transitional activities. For activities making own contribution to environmental objectives the column should remain blank given that this information is already provided under columns 5 to 19 relating to the substantial contribution criteria. The concept of transitional activities is related to the environmental objective of climate change mitigation in accordance with the Taxonomy Regulation. For that reason, this column should indicate whether an activity is transitional only in case it substantially contributes to climate change mitigation. Where an activity is neither transitional, nor enabling the cells in this column, should remain blank.

Table 2: Proportion of CapEx from products or services associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Taxonomy Regulation - disclosure covering year N

				Substantial contribution criteria						DNSH criteria (Do No Significant Harm')									
Economic activities (1)	**Code(s) (2)**	**Absolute CapEx (3)**	**Proportion of CapEx (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and**	**Minimum safeguards (17)**	**Taxonomy-aligned proportion of CapEx, year N (18)**	**Taxonomy-aligned proportion of CapEx, year N-1 (19)**	**Category (enabling activity / transitional activity) (20)**
		Currency	%	&	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E/T
A. ELIGIBLE ACTIVITIES																			
A.1. Eligible Taxonomy-aligned activities																			
Activity A			30%	100%	0%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	**Y**	30%		E
Activity B			15%	0%	0%	100%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	15%		
CapEx of eligible Taxonomy-aligned activities (A.1)			**45%**	**30%**	**0%**	**15%**	**0%**	**0%**	**0%**								**45%**		**30%***
A.2 Eligible not Taxonomy-aligned activities																			
Activity D			17%	0%	0%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	0%		T
Activity E			30%	50%	0%	0%	0%	0%	0%	Y	Y	N	Y	Y	Y	**Y**	0%		
CapEx of eligible not Taxonomy-aligned activities (A.2)			**47%**																
Total (A.1 + A.2)			**92%**	**30%**	**0%**	**15%**	**0%**	**0%**	**0%**								**45%**		**30%***

*Total of CapEx KPI associated with enabling and transitional activities.

Column 18 presents a breakdown of the CapEx KPI per activity for year N.

Column 20 should be filled in only for enabling or transitional activities. For activities making own contribution to environmental objectives the column should remain blank given that this information is already provided under columns 5 to 19 relating to the substantial contribution criteria. The concept of transitional activities is related to the environmental objective of climate change mitigation in accordance with the Taxonomy Regulation. For that reason, this column should indicate whether an activity is transitional only in case it substantially contributes to climate change mitigation. Where an activity is neither transitional, nor enabling the cells in this column, should remain blank.

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

				Substantial contribution criteria						DNSH criteria (Do No Significant Harm')									
Economic activities (1)	**Code(s) (2)**	**Absolute OpEx (3)**	**Proportion of OpEx (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum safeguards (17)**	**Taxonomy-aligned proportion of OpEx, year N (18)**	**Taxonomy-aligned proportion of OpEx, year N-1 (19)**	**Category (enabling activity / transitional activity) (20)**
		Currency	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E/T
A. ELIGIBLE ACTIVITIES																			
A.1. Eligible Taxonomy-aligned activities																			
Activity A			8%	100%	0%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	**Y**	8%		E
Activity B			15%	0%	0%	100%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	15%		
OpEx of eligible Taxonomy-aligned activities (A.1)			**23%**	**8%**	**0%**	**15%**	**0%**	**0%**	**0%**								**23%**		**8%***
A.2 Eligible not Taxonomy-aligned activities																			
Activity D			12%	0%	0%	0%	0%	0%	0%	Y	Y	Y	Y	Y	Y	Y	0%		T
Activity E			22%	50%	0%	0%	0%	0%	0%	Y	Y	N	Y	Y	Y	**Y**	0%		
OpEx of eligible not Taxonomy-aligned activities (A.2)			**34%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**										
Total (A.1 + A.2)			**57%**	**8%**	**0%**	**15%**	**0%**	**0%**	**0%**								**23%**		**8%***

* Total of OpEx KPI associated with enabling and transitional activities.

Column 18 presents a breakdown of the OpEx KPI per activity for year N.

Column 20 should be filled in only for enabling or transitional activities. For activities making own contribution to environmental objectives the column should remain blank given that this information is already provided under columns 5 to 19 relating to the substantial contribution criteria. The concept of transitional activities is related to the environmental objective of climate change mitigation in accordance with the Taxonomy Regulation. For that reason, this column should indicate whether an activity is transitional only in case it substantially contributes to climate change mitigation. Where an activity is neither transitional, nor enabling the cells in this column, should remain blank.

4.6 Annex VI: Standard table for the disclosure required under Article 8 of the Taxonomy Regulation (asset managers)

<table>
<tr><td colspan="2">Overall Taxonomy-alignment of investments: X%</td><td>Value breakdown: disclose figures for numerator (net value of Taxonomy-aligned investments) and denominator (net value of all investments)</td></tr>
<tr><td colspan="2">(Optional) Taxonomy-alignment of investments measured by CapEx contribution to Taxonomy-aligned activities of investee companies: Y%</td><td>(Optional) Taxonomy-alignment of investments measured by OpEx contribution to Taxonomy-aligned activities of investee companies: Z%</td></tr>
<tr><td colspan="3">Breakdown of X by environmental objective and by transitional[56] or enabling activities invested in</td></tr>
<tr><td>(1) Climate change mitigation</td><td>%</td><td>Transitional activities: A%
Enabling activities: B%</td></tr>
<tr><td>(2) Climate change adaptation</td><td>%</td><td>Transitional activities: A%
Enabling activities: B%</td></tr>
<tr><td>(3) The sustainable use and protection of water and marine resources</td><td>%</td><td>Transitional activities: A%
Enabling activities: B%</td></tr>
<tr><td>(4) The transition to a circular economy</td><td>%</td><td>Transitional activities: A%
Enabling activities: B%</td></tr>
<tr><td>(5) Pollution prevention and control</td><td>%</td><td>Transitional activities: A%
Enabling activities: B%</td></tr>
<tr><td>(6) The protection and restoration of biodiversity and ecosystems</td><td>%</td><td>Transitional activities: A%
Enabling activities: B%</td></tr>
</table>

[56] The concept of transitional activities is related to the environmental objective of climate change mitigation in accordance with the Taxonomy Regulation.

4.7 Annex VII: Methodology to estimate Taxonomy-alignment of non-financial undertakings by other financial market participants using Taxonomy-alignment coefficients

1. Introduction

Until non-financial undertakings within NFRD scope start disclosing Taxonomy KPIs, and for smaller companies outside of the NFRD scope choosing not to disclose KPIs on a voluntary basis, financial market participants may have to estimate the Taxonomy-alignment of their corporate asset holdings in order to compute their own KPIs (e.g. share of Taxonomy-aligned investment portfolio for asset managers; see ESMA's analysis in Section 3.2.2 under Question 38). The objective of this Annex is to illustrate how such estimations may be calculated for EU companies, based on a methodology developed by the EC Joint Research Centre (JRC) report on the EU Taxonomy.[57] It is important to note that this methodology is *not* intended for use by non-financial undertakings, which should disclose company-specific KPIs based on internal calculations.

The JRC (in collaboration with the University of Zurich) has made its Taxonomy-aligned estimated coefficients publicly available through its Taxonomy-Alignment tool. Financial market participants can rely on this information, should they choose to do so, in order to compute sector-level estimates where company-specific information is not available. The JRC tool will be updated to reflect future market developments and as technical screening criteria are further developed for the other environmental objectives of the EU Taxonomy Regulation.

The TEG report (2020) identifies Taxonomy-covered sectors and their associated NACE codes[58]. However, this information is not granular enough to measure environmentally sustainable activities as within most sectors, only a few selected activities are Taxonomy-eligible. For example, activities within 'Production of electricity' (NACE D.35.11) that are Taxonomy-eligible concern mainly the production of electricity from renewable energies (e.g. solar power or wind power) while any production of electricity from other sources is excluded.[59] Moreover, companies can engage in more than one economic activity, making any company-

[57] Alessi, L., Battiston, S., Melo, A. S. and Roncoroni, A., *The EU Sustainability Taxonomy: a Financial Impact Assessment*, EUR 29970 EN, Publications Office of the European Union, Luxembourg, 2019, ISBN 978-92-76-12991-2, doi:10.2760/347810, JRC118663.
[58] NACE is the statistical classification of economic activities in the European Community. For more details see: https://ec.europa.eu/eurostat/documents/3859598/5902521/KS-RA-07-015-EN.PDF
[59] For a full list of Taxonomy-eligible activities by NACE sector, see TEG (2020), *Taxonomy: Final report,* Section 5.1.

wide sectoral classification imperfect for the purpose of measuring economic alignment with the Taxonomy.

Further, it should be noted that sector-wide estimates do not allow for a distinction the individual characteristics of each company, as highlighted by the SMSG, and should not be considered by financial market participants as equivalent to actual company-level disclosures. Nonetheless, top-down market estimates can be useful for the purpose of measuring the alignment of an investment portfolio with the Taxonomy, or to monitor the share of environmentally sustainable activities in the EU.

All calculations and figures in the analysis rely on assumptions and are therefore for illustration purposes only. These do not consider minimum social safeguards and therefore represent a potential upper-bound in terms of Taxonomy-aligned KPIs.

2. Methodology

The methodology relies on two main steps:

a. **Identification of Taxonomy-covered sectors**: based on the TEG report (2020) using 4-digit NACE codes (also available in Excel format on the European Commission website).

b. **Application of JRC-estimated coefficients by NACE code**, available in the JRC Publications Repository, which aim to estimate the share of Taxonomy-eligible activities by sector.[60]

The use of coefficients arises from the insufficient granularity of the data available at company level. These coefficients set a useful bar that can be used to estimate the extent to which a given sector or industry contributes to the transition to a low-carbon economy. To compute these coefficients, the JRC relies on the EU Emissions Trading System benchmarks, based on CO_2 emissions (following the TEG approach), or on the criteria set out in the 2019 TEG report for climate mitigation.

In practice, Taxonomy-aligned coefficients are assigned at 4-digit NACE code level for EU companies based on available evidence for the EU economy. For example, NACE sector "Building Renovation" (F.41.10) has a 40% coefficient corresponding to new rules under the Energy Performance of Building Directive (EPBD).[61] However, not all sectors covered by the EU Taxonomy have a coefficient, reflecting either the marginal level of the corresponding

[60] The CPRS classification preceded the TEG report, therefore not all Taxonomy-covered sectors are included in the CPRS.
[61] Directive (EU) 2018/844 amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2018.156.01.0075.01.ENG.

activities in the EU or insufficient information to compute a coefficient. Where such limitations exist, the JRC conservatively applies a 0% coefficient.

There are some limitations to bear in mind when using sector-level estimates for Taxonomy-alignment. First, the estimates are reliable insofar as NACE codes accurately reflect the main area of activity of each company. Due to the absence of a central register of NACE codes, users need to source this information from private data vendors. However, some inconsistencies between commercial data providers exist, which is problematic for the purpose of computing reliable KPI estimates. Second, since companies usually have one single NACE code, Taxonomy-aligned estimates based on NACE codes do not reflect the whole range of activities that companies may have. [62]

While similar alternative sector-level methodologies to estimate Taxonomy KPIs may exist, they are likely to face similar challenges and limitations. For these reasons, users of such methodologies should review on a regular basis their models and parameters, closely scrutinise the output, and benchmark results with other sources of information when possible.

Finally, it should be noted that the JRC methodology – which is based on historical information – is less suited for estimating the share of Taxonomy-aligned CapEx than Turnover or OpEx (CapEx being a forward-looking indicator).

In this Annex, NACE codes are used for two main purposes: identification of the amount of Turnover, OpEx and CapEx that are covered in the Taxonomy as contributing to climate mitigation; and application of one coefficient to each NACE code in order to estimate the share of Taxonomy-aligned KPIs for the EU non-financial corporate sector.

3. Example of sector-level Taxonomy KPI estimation

a. Data sample

The ISINs of all companies listed in the EEA in 2019 are obtained from ESMA's MiFID II Financial Instruments Reference Data System (FIRDS), including both equity and corporate bond issuers. [63] Company data on parent organisation, domicile, turnover (i.e. revenue), operational expenditure, capital expenditure, number of employees, balance sheet (i.e. total liabilities), 4-digit NACE codes and exchanges rates are from Refinitiv Eikon and Datastream. [64]

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[62] This problem is particularly acute within large companies engaged in multiple activities. However, the largest companies are expected to disclose actual KPIs under NFRD.

[63] FIRDS covers all issuers with financial instruments available for trading in the EEA. See https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_firds

[64] Refinitiv provides the following definitions: Turnover: Revenue from all of a company's operating activities after reducing any sales adjustments and their equivalents; Operational expenditure: Sum of cost of revenue, selling/general/administrative expenses, research and development, depreciation/amortization, interest expense, net operating expense, unusual expense and other operating expenses in a company's standardized income statement; Capital Expenditure: Sum of purchase of fixed assets, purchase/acquisition of intangibles and software development costs for the defined fiscal period.

Using NACE codes and issuer country of incorporation, the sample is restricted to EU-27 non-financial undertakings. In line with NFRD scope, the sample further excludes companies with fewer than 500 employees, annual turnover below €40 million, or balance sheet under €20 million. Finally, the following data-treatment steps are applied:

- Exclusion of invalid or null entries
- Removal of duplicate entries (i.e. multiple ISINs per issuer)
- Exclusion of companies with reporting older than 2017[65]
- Conversion of Turnover, OpEx and CapEx data to euros.[66]

Table A: Number of EU-27 companies in NFRD scope

Total number of EU firms	EU firms outside NFRD scope	EU firms in NFRD scope
6,634	5,168	1,466

The final sample of EU-27 non-financial undertakings within NFRD scope includes 1,482 companies, i.e. 22% of the number of companies incorporated in the EU 27.[67] The EU-wide aggregate Turnover, OpEx and CapEx for the sample is as follows:

Table B: Total Turnover, OpEx and CapEx of EU-27 non-financial undertakings in NFRD scope (million euro)

Turnover	OpEx	CapEx
6,200,927	5,714,944	423,427

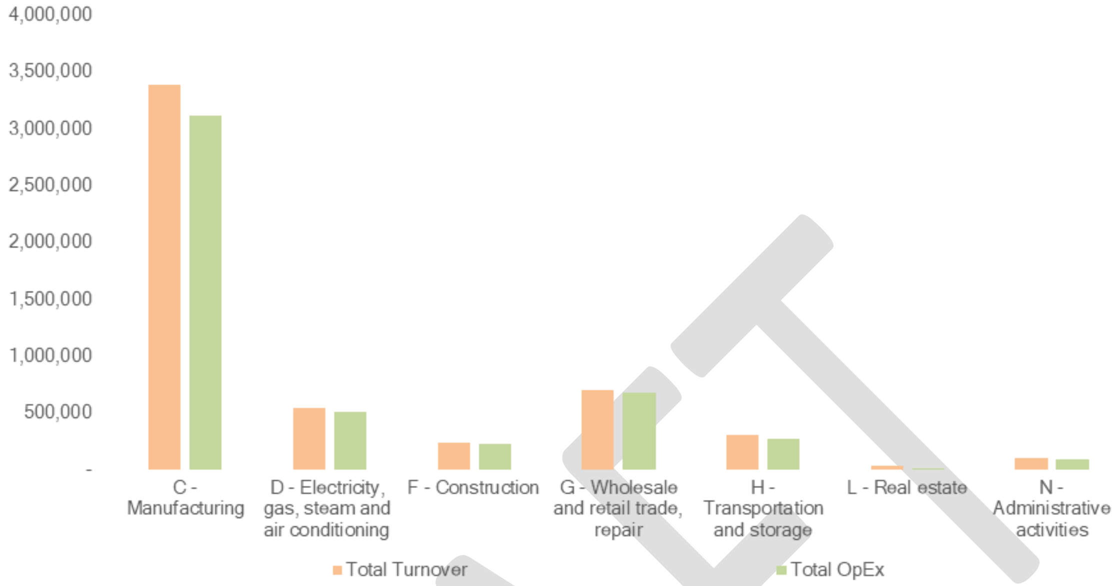
Source: FIRDS, Refinitiv Eikon, ESMA.

Turnover and OpEx data display a very high degree of correlation (99.8%). The corresponding KPIs can generally be expected to be closely aligned.

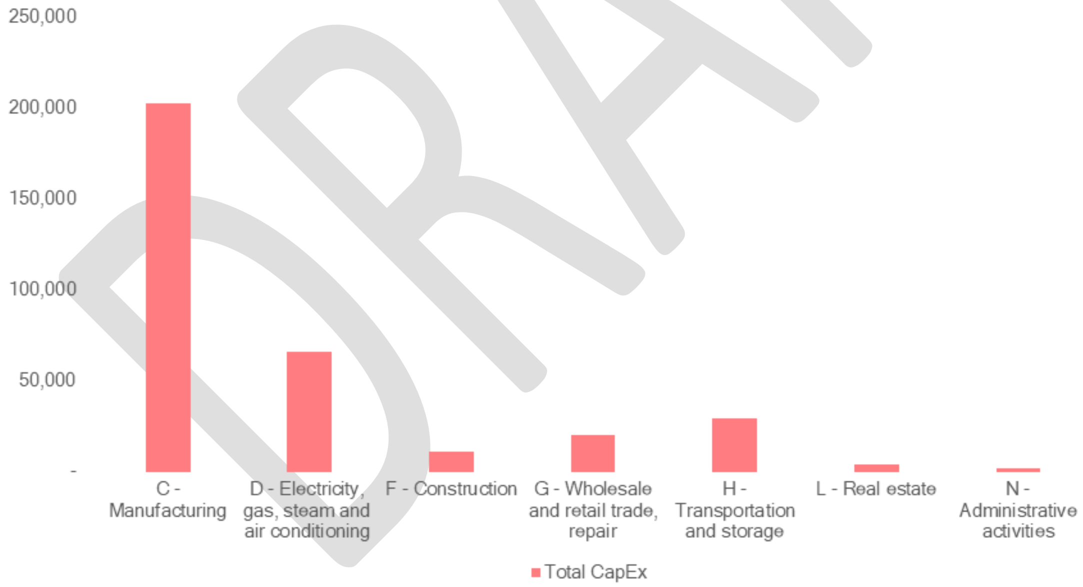
There are 21 NACE Macro-sectors in total but only seven of these include sectors that are covered in the EU Taxonomy. The share of Turnover, OpEx and CapEx of Taxonomy-relevant NACE Macro-sectors correspond respectively to 86% (Turnover), 86% (OpEx) and 79% (CapEx) of the total NFRD sample. A breakdown by relevant NACE Macro-sector is displayed below in Charts A and B.

[65] For the vast majority of companies within the sample, the fiscal year of reference is 2019. Companies with no data reported since 2017 were either assumed to have been delisted or to have gone bankrupt.
[66] Since Turnover, OpEx and CapEx are reported on an annual basis, annual average exchange rates were used.
[67] The sample includes equity and corporate bond issuers and excludes EU-27 companies that are not listed in the EEA.

Charts A and B: Total Turnover, OpEx and CapEx of EU-27 non-financial undertakings in NFRD scope by Taxonomy-relevant NACE-macro sector (million euro)



Note: Turnover and OpEx of EU non-financial undertakings in NFRD scope, in million euro by NACE Macro-sector (relevant sectors only)
Sources: FIRDS, Refinitiv Eikon, ESMA



Note: CapEx of EU non-financial undertakings in NFRD scope, in million euro by NACE Macro-sector (relevant sectors only)
Sources: FIRDS, Refinitiv Eikon, ESMA

b. Main findings

After applying the procedure described above, estimates of Taxonomy-aligned KPIs are obtained by sector, and subsequently grouped into NACE Macro-sectors (Table C).

An estimated €154 billion in turnover from EU-27 non-financial undertakings is aligned with the Taxonomy, i.e. around 2.5% of the total turnover of companies reporting under NFRD. The corresponding figures for OpEx and CapEx are €139 billion (2.4%) and €16 billion (3.7%).

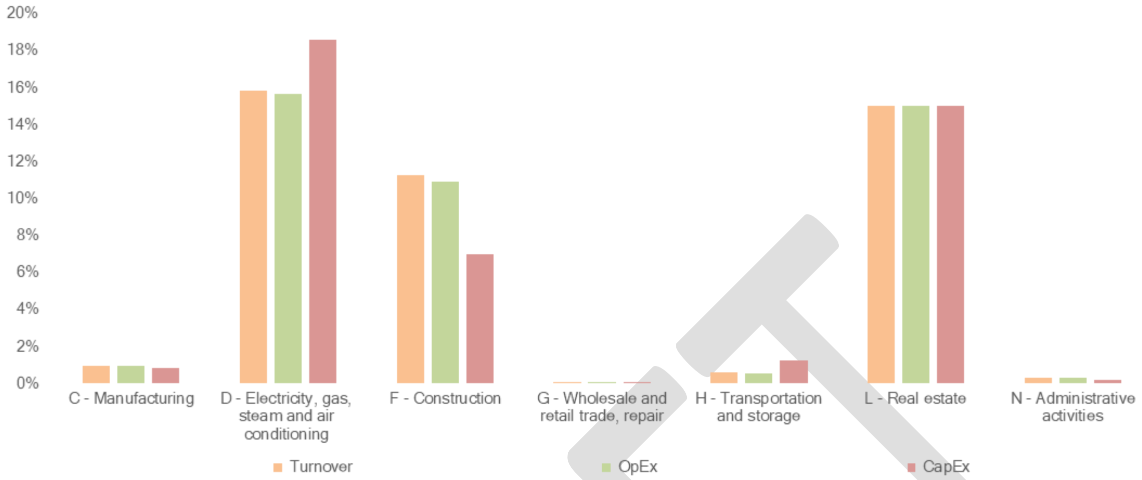
Table C: Estimated Taxonomy-aligned Turnover, OpEx and CapEx of EU-27 non-financial undertakings in NFRD scope, by NACE Macro-sector (million euro)

NACE Macro-sector	Turnover	OpEx	CapEx
C - Manufacturing	32,102	30,052	1,724
D - Electricity, gas, steam and air conditioning supply	87,145	79,984	12,313
F - Construction	27,623	25,368	774
G - Wholesale and retail trade, repair	175	170	6
H - Transporting and storage	1,926	1,514	372
L - Real estate activities	5,140	2,454	622
N - Administrative activities	306	281	3
Estimated Taxonomy-eligible total	**154,419**	**139,735**	**15,818**
Share of total NFRD sample (%)	***2.49%***	***2.45%***	***3.74%***

Sources: FIRDS, Refinitiv Eikon, Alessi et al. (2019), TEG report, ESMA.

The estimated share of Taxonomy-aligned activities can be further broken down by NACE Macro-sector (Chart 3). The Macro-sectors with the highest shares are: Electricity, gas, steam and air conditioning supply (D); Real estate activities (L) and Construction (F).

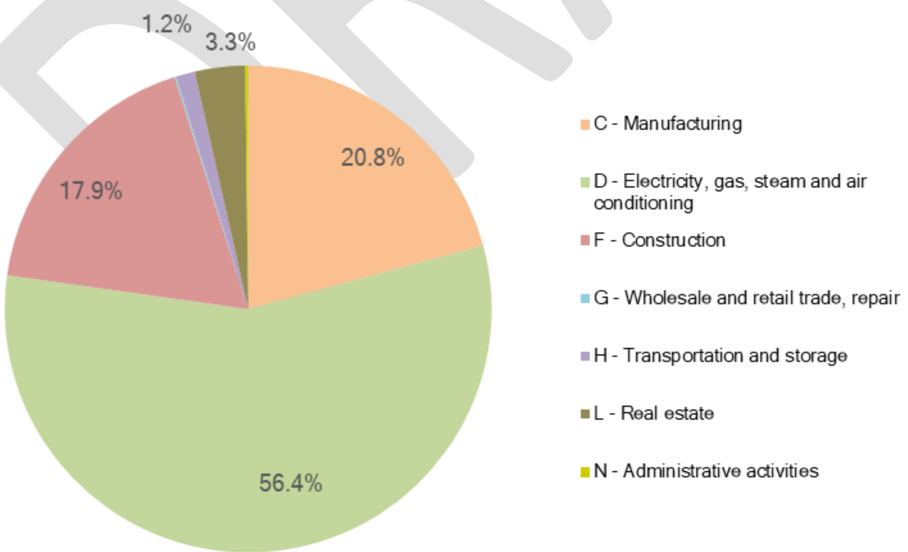
Chart C: Estimated share of Taxonomy-aligned Turnover, OpEx and CapEx of EU-27 non-financial undertakings in NFRD scope, by Taxonomy-relevant NACE Macro-sectors



Note:Estimated share of Taxonomy-aligned Turnover, OpEx and CapEx of EU non-financial undertakings in NFRD scope
Sources:FIRDS, Refinitiv Eikon, Alessi et al. (2019), TEG Report, ESMA

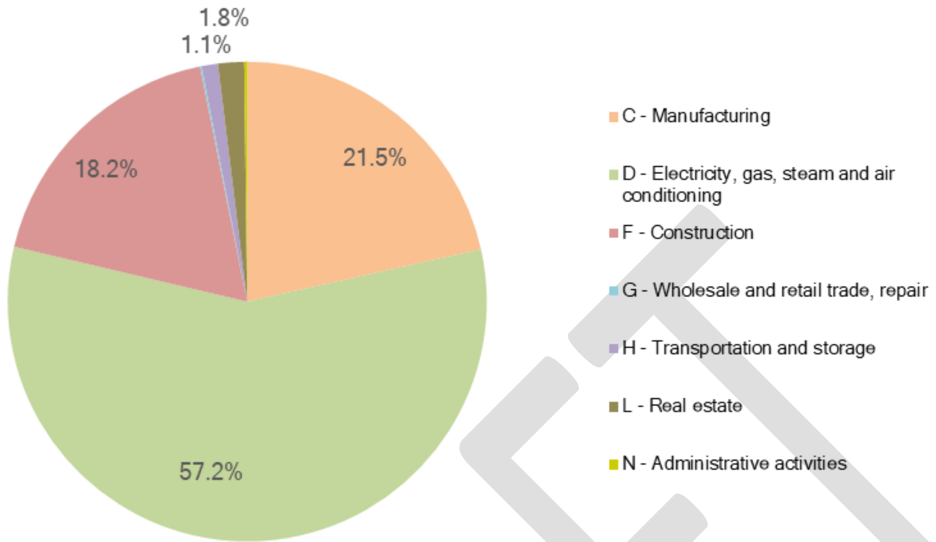
The relative share of each NACE Macro-sector in the estimated Taxonomy-aligned KPIs is displayed in Charts 4, 5 and 6. Based on Turnover and OpEx, (D) Electricity, gas, steam and air conditioning supply and (C) Manufacturing dominate current estimates of Taxonomy-aligned economic activity.

Chart D: Relative shares of NACE Macro-sectors in estimated Taxonomy-aligned Turnover of EU-27 non-financial undertakings in NFRD scope



Note: Share of relevant NACE Macro-sectors in estimated Taaxonomy-aligned Turnover of EU non-financial undertakings in NFRD scope
Sources:FIRDS, Refinitiv Eikon, Alessi et al. (2019), TEG Report, ESMA

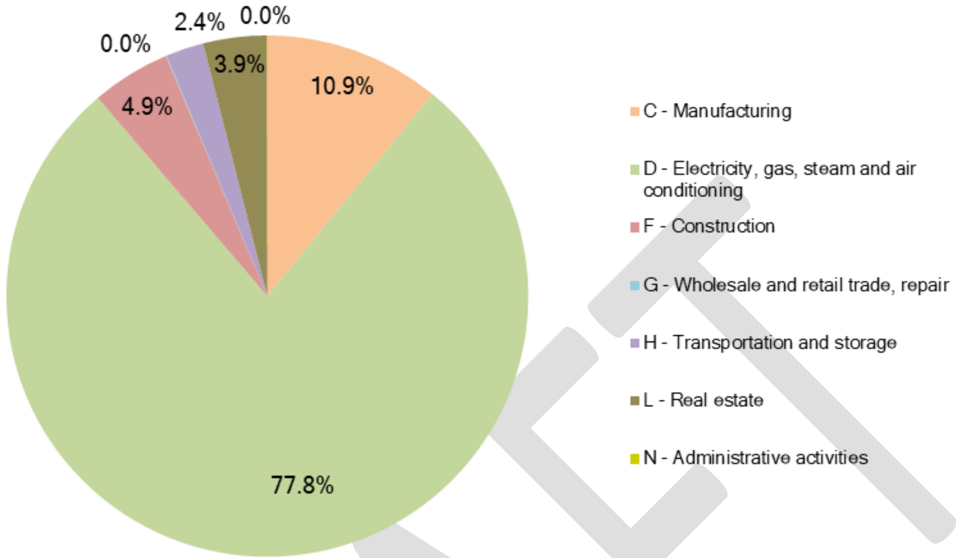
Chart E: Relative shares of NACE Macro-sectors in estimated Taxonomy-aligned OpEx of EU-27 non-financial undertakings in NFRD scope



Note: Share of relevant NACE Macro-sectors in estimated Taaxonomy-aligned OpEx of EU non-financial undertakings in NFRD scope
Sources:FIRDS, Refinitiv Eikon, Alessi et al. (2019), TEG Report, ESMA

Based on CapEx, Electricity, gas, steam and air conditioning supply (D) account for 79% of the estimated Taxonomy-aligned capital expenditure. This reflects the relatively high CapEx-to-Turnover ratio of the sector, combined with a coefficient of 20,87% for the sector based on the current share of electricity production from renewable sources in Europe.

Chart F: Relative shares of NACE Macro-sectors in estimated Taxonomy-aligned CapEx of EU-27 non-financial undertakings in NFRD scope



Note: Share of relevant NACE Macro-sectors in estimated Taaxonomy-aligned CapEx of EU non-financial undertakings in NFRD scope
Sources: FIRDS, Refinitiv Eikon, Alessi et al. (2019), TEG Report, ESMA