Taxonomy-related disclosures

Position paper on the draft delegated act to be adopted under Article 8 of the Taxonomy Regulation

June 2021

Afep welcomes the opportunity to comment on the draft delegated regulation to be adopted under Article 8 of the Taxonomy Regulation (TR).

Our members support the objectives of the Sustainable Finance Action Plan but consider that the framework being established is extremely complex and that **the new disclosure requirements need clarification on several points**. **Without full clarity about the definitions, scope and methodology, companies will not be able to implement properly the draft delegated act.** Allowing some flexibility is also essential in order to **avoid disproportionate burden and costs** for preparers and **provide meaningful information** to stakeholders. In this regard, Afep member companies welcome the transitional year put forward by the Commission, but consider that:

- **the publication of the KPIs should be postponed until 2024** considering the complexity and the need for clarification mentioned above, and in order to ensure consistency with the future non-financial reporting standards to be established by the EFRAG ; a longer transitional period would allow time for companies to test and learn and for more guidance to be developped;
- therefore in 2022 and 2023, non-financial undertakings should only be required to publish the share of their revenue associated with Taxonomy-eligible economic activities;
- **financial undertakings should be required to publish their green asset ratio only from 2025**;
- the **disclosure requirements should be restricted to Taxonomy-aligned activities** in accordance with Article 8 of the TR ; non-eligible and non-aligned activities shall not be reported and **companies whose activities are not yet covered by the Taxonomy shall not have to disclose any information** ; **a clear statement from policy makers on this point would be welcome**;
- **as regards the publication of objective and targets, this requirement is contrary to the TR** which does not mandate any forward-looking disclosure and would potentially raise confidentiality and liability issues;
- **requiring companies to publish the KPIs for the previous 5 years would constitute an excessive requirement that shall not be enacted**;
- **the turnover generated through joint ventures and CapEx included in joint ventures**, which can be significant for certain companies, **should be taken into account** to determine the revenue and Capex KPIs to allow **stakeholders to assess the real contribution of the concerned activities** to the environmental objectives of the TR;
- as regards the OpEx KPI, which is not mentioned in annexes III, IV, V, VI, VII VIII, IX and X of the draft delegated act, **flexibility should be given to non-financial undertakings to select, within the definition laid down in the draft delegated act, expenditures that are material to their activities or to assess their strategies regarding the environmental objectives;**
- for both CapEx and OpEx KPIs, **when there are no capital or operational expenditures meeting the criteria to be included in the numerator, a negative statement should suffice** to comply with the disclosure requirements;

- **companies should not have to include in the numerator the purchase of output from Taxonomy-aligned economic activities ;** this should be an option;
- the review clause should **expressly include an assessment of the relevance of the KPIs, of their methodology and of the templates used for their publication**.

Finally, we consider that **the draft delegated act should be improved on several points** in particular to clarify **how activities contributing to several objectives shall be reported**, to **avoid introducing new or undefined terms** and to **strike the right balance regarding the level of granularity** required in the accompanying information (please refer to our detailed position paper including drafting suggestions). **We would also welcome the publication of a glossary** of all the terms used in the regulations adopted under the Sustainable Finance Action Plan.

Afep, the French association of large companies, welcomes the opportunity to comment on the draft delegated regulation supplementing the TR and specifying the content and presentation of information to be disclosed under Article 8.

Generally speaking, Afep member companies consider that **the draft delegated act needs to be clarified and its wording improved** on several points. As it is, financial and non-financial undertakings **cannot implement the new requirements in an effective way**. In this regard, **a longer transitional period is necessary and guidance on the implementation would be welcome**. The complexity of the implementation of the new disclosure requirements and their potential costs have been underestimated since no appropriate impact assessment has been performed.

Looking in detail at the draft delegated act, we would like to **make the following comments and suggest some drafting amendments (please refer also to the annex of this position paper)**:

Article 2 – Definitions

- **The disclosure requirements should not apply to Taxonomy-non-eligible and Taxonomy-non-aligned activities :** Article 8 of the TR refers to the proportion of turnover, CapEx and OpEx derived or associated with economic **activities that qualify as environmentally sustainable under Articles 3 and 9**. Non-eligible and non-aligned activities are therefore not in the scope of Article 8. Companies can still on a voluntary basis publish information regarding non-eligible and non-aligned activities but such disclosure should not be mandatory. This implies that **companies whose activities are not eligible (not yet covered by the delegated acts defining the technical screening criteria) should not have to disclose any information**. We would welcome a clear statement on that point for instance on the occasion of the publication of the new Sustainable Finance package in July 2021.

Article 9 – Common rules for disclosures by financial undertakings and non-financial undertakings

- **Article 9 should be amended to clearly refer to the « non-financial statement » and the « annual financial report » :** the concept of « financial report » is not defined in EU Legislation. The Transparency Directive defines the annual financial report (Article 4) and the half-yearly financial report (Article 5). The Accounting Directive refers to the (consolidated) financial statements, to the (consolidated) management report and to the non-financial statement. For the sake of clarity and to ensure legal certainty, we consider that **new concepts should not be introduced**. We understand that the accompanying information should be included in the non-financial statement with the KPIs as per Article 8 of the TR or cross-references should be provided to the other parts of the annual financial report or universal registration document where the accompanying information is located.

- **The KPIs should be published only for the previous reporting period :** requiring undertakings to report the KPIs for the previous five reporting periods is excessive and would impose a disproportionate burden on preparers without proven benefits for potential end-users. These indicators are new to many companies, meaning that internal reporting procedures need to be structured entirely, and data for previous reporting period do not exist. In addition, the delegated acts related to the taxonomy are bound to evolve as the technical screening criteria of sustainable activities become more precise or expand to new sectors. Reporting these 3 indicators over a 5 year-period would imply complex and recurring re-assessment of historical data based on a framework that could be updated every year. In comparison, when the IFRS entered into application undertakings were not required to restate and publish their consolidated financial statements for the 5 previous reporting periods ! **Therefore undertakings should be required to publish the KPIs only for the previous reporting period**, taking also into account that the templates put forward by the Commission do not allow to present 2 (or more) years in a tabular format. This requirement should apply in the second year of application of the disclosure requirements in line with financial reporting obligations and ESMA's advice. This will not make access to data more difficult since according to the CSRD proposal, Taxonomy-related disclosures could be published in an electronic format and stored in a single access point (ESAP).

Article 10 - review

- **The review clause should explicitly mention the assessment of the relevance of the KPIs, of their calculation methodology and of the templates used for their publication.** These disclosure requirements are new to all market participants and in order to ensure that they are effective, an assessment should be made on a periodic basis with due consideration to the non-financial standard that the EFRAG will develop.

Article 11 – Entry into force and application

- **The disclosure requirements should not apply to Taxonomy-non-eligible and Taxonomy-non-aligned activities :** please refer to our comment regarding Article 2. Furthermore in paragraph 1, the **reference to Section 1.2.1 of Annex I should be deleted** (not applicable for 2022).
- **The first publication of the KPIs should be postponed until 2024 considering the complexity of the new requirements** (mapping the activities with the NACE classification to determine eligible activities, assessing the alignment of the eligible activities, collecting and processing the data), **the need to clarify many issues related to definitions and the methodology for determining the KPIs and to ensure consistency with the reporting standards that the EFRAG will establish by 31 October 2022**. This delay could also be an opportunity for the EFRAG to provide further guidance

on the methodology in order to ensure en effective and consistent implementation of article 8, regarding in particular activities contributing to multiple objectives.

- **As a consequence, clarification is needed regarding the information that non-financial undertakings should publish in 2022 and 2023**: non-financial undertakings should be required to publish **the percentage of their revenue associated with Taxonomy-eligible activities regarding, in 2022, the first two objectives and, in 2023, the six environmental objectives.**
- **Financial undertakings should be allowed to publish their reporting starting in 2025 to enable them to collect and factor in the data** published by non-financial undertakings.

Annex I – KPIs of non-financial undertakings

1.1.Definition of KPI

- **We suggest using the wording of the Prospectus Delegated Regulation 2019/980 : «** ***as endorsed in the Union based on Regulation (EC) n°1606/2002*** **» (Section 1.1.1 KPI related to turnover)**: On several occasions the draft delegated act refers to IFRS « *as adopted by Commission Regulation (EC) 1126/2008* » but the said standards have been subsequently amended and the amendments adopted by different regulations.
- **The reference to intangibles is irrelevant and should be deleted (Section 1.1.1 KPI related to turnover)** (« *including intangibles* »).
- **The reference to IAS12 is a mistake (Section 1.1.1 KPI related to turnover)** ; a reference to IAS1 *Presentation of Financial Statements* would seem more relevant.
- **The proposed definition of the turnover KPI should be amended as to allow undertakings to account for a portion of the revenue generated inside a joint venture** (i.e. equity consolidated investments) based on the investor's equity stake. While IFRS would not show this figure on the face of the consolidated income statement, it is important to remind that the objectives of the two regulations are different (IAS Regulation vs TR): whereas IFRS focuses on control, the Taxonomy reporting aims at capturing the efforts of a company in and towards sustainable economic activities. In this regard, the focus of the IFRS on control is not relevant anymore since non-financial undertakings do not individually control the technology necessary to achieve carbon neutrality and these undertakings therefore need to build partnerships to meet the climate objectives of the EU. IFRS rules applicable to consolidation methods (in particular IAS 28 *Investments in Associates and Joint Ventures*) can hence not justify the exclusion of this part of revenue under the revenue KPI, depriving companies of being rewarded by investors for sustainable investments through equity method joint ventures.
- **The definition of Capex should also be amended to take into account CaPex included in joint ventures, consolidated using the equity method of accounting in accordance with IAS 28, in the numerator** ***pro rata*** **the equity stake (Section 1.1.2 KPI related to capital expenditure):** the objective of the Commission is to identity the actors that invest and reorient capital flows towards sustainable investments and as such enable investors to identify the companies whose economic activities, products and/or services contribute substantially to any one of the environmental objectives set out in the TR. Undertakings can also substantially contribute whilst investing in joint ventures and if they are not able to reflect these investments in the CapEx reported, it gives an incomplete picture of their green investments which cannot be rewarded or assessed by investors. Since in the specific case of joint ventures, none of the partners controls (and thus does not fully

consolidates), there is no risk of double-counting CapEx (see also our comment above regarding revenue KPI).

- **Furthermore, concession arrangements are not correctly translated into the proposed KPIs**. Under the Intangible asset model, the right of the operator of a concession arrangement would be accounted for under IAS 38 and any additions would be included in the CapEx KPI as defined today while any receivable recognized in accordance with IFRIC 12 would not affect this KPI. In those investments, companies orient capital flows (CapEx) towards long-term investment that will be recovered on the long run through payments from the grantor or from the users (typically concession arrangements have a long duration, often higher than 20 years). These construction or upgrade services that translate into long-term assets (receivable / intangible) are typically considered as CapEx by udertakings involved into those transactions and should therefore be included accordingly into the KPI. It should be noted that double-counting will be avoided (1) as the grantor is a public entity not in the scope of the Taxonomy reporting and (2) to the extent that the construction / upgrade revenue is excluded from the revenue KPIs calculated in accordance with Article 1.1.1 of Appendix 1.
- **The CapEx plan raises many issues (Section 1.1.2.2 Numerator)**:
    - In particular **when should the alignment be assessed and what would be the consequences if the alignment objectives are not met** because the technical screening criteria have been tightened for instance? **This point should be clarified.**
    - **Making public the details of the CapEx plan could raise confidentiality issues:** therefore, flexibility should be allowed to companies to avoid disclosing sensitive information as per ESMA's advice.
    - Furthermore we **disagree with the maximum horizon of seven years** and supports ESMA's proposal to require a « ***maximum period of five years unless a longer period can be justified**…* ».
    - We also support ESMA's proposal to refer to an approval of the plan by the non-financial undertaking's administrative, management or supervisory body ***« or another corporate function to which such approval has been formally delegated to*** ». In this regard the draft delegated act refers to an approval by the Management Board but **all undertakings do not have a dual governance structure** (Monitoring Board and Management Board). **A more general reference to the appropriate governance body would be at least more appropriate in order to include companies with a Board of Directors.**
    - **Companies should not have to include in the numerator the purchase of output from Taxonomy-aligned economic activities.** This should be an option. Requiring companies to include those purchases would result in disproportionate costs and burden for companies and their suppliers : for all their suppliers, companies will have to identify taxonomy-aligned activities ; when the concerned suppliers are not subject to the NFRD, companies will have to perform the assessment themselves or require the suppliers to perform the assessment.
- **Companies should be allowed to select, within the definition of OpEx laid down in the draft delegated act, expenditures that are material to their activities or to make an informed assessment of their strategy as regards the environmental objectives (Section 1.1.3)**: the publication of the OpEx KPI will impose an undue burden on preparers without always providing relevant information. For some undertakings, the reporting of OpEx will be extremely difficult as there are no accounting rules to refer to and these expenditures are not consolidated at global

level in their reporting processes. The said undertakings are therefore not able to track and provide the requested data. Furthermore how this KPI will be used by investors is still unclear: annexes of the draft delegated act applicable to asset managers and credit institutions for instance do not contain any reference to the OpEx KPI. Therefore, within the definition of OpEx laid down by the draft delegated act (« *research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the undertaking or third party outsourcee that are necessary to ensure the continued and effective functioning of such assets* »), some flexibility should be allowed to preparers in the determination of the OpEx KPI and the choice of the expenditures to include in the KPI. Pros are that Companies will be able to deliver more relevant and useful information to allow stakeholders to assess the alignment trajectory/efforts of the said companies.

- **When there are no capital or operational expenditures meeting the criteria to be included in the numerator, a negative statement should suffice** to comply with the disclosure requirements.
- Clarification is required regarding the **link between the Taxonomy CapEX/OpEx plan and other 'sustainable plans', such as the one mentioned in the CSRD proposal** in Article 19a (« the plans of the undertaking to ensure that its business model and strategy are compatible with the transition to a sustainable economy…»).

1.2.Specification of disclosures accompanying the KPIs of non-financial undertakings

- **We suggest replacing « substantial » by « material »:** annex I of the draft delegated act uses a term not customary in the sphere of reporting, « substantial ». While substantial is used in the Taxonomy Regulation (substantial contribution) we would recommend, for the sake of clarity and as regards the delegated act defining the content and methodology, to use a term with which preparers are more familiar in the field of reporting, ie « material ».
- **As a consequence, only material changes should be explained with a reasonable level of details:** annex I of the draft delegated requires detailed disclosures regarding material changes that seem excessive compared to the requirements for financial reporting. Therefore we recommend using a more customary and reasonable language based on the wording of the Prospectus Regulation (please refer to the annex of this position paper for drafting suggestions). Regarding material changes to the financial situation of a company, the Prospectus Regulation uses for instance he following language: « *Where the historical financial information discloses material changes in net sales or revenues, provide a narrative discussion of the reasons for such changes*. » (Commission delegated regulation (EU) 2019/980, Annex I, Item 7.2.2).
- **How economic activities contributing to multiple objectives shall be reported needs clarification (Section 1.2.2.2)**: we understand that the revenue associated with Taxonomy-aligned activities shall not be double-counted. However how the KPIs should be allocated to each envrionemental objective these activities contribute to is not clear. If the Commission's intention is to allow companies to exert their judgment as suggested by ESMA, this should be clearly stated.
- **Non-financial undertakings should not be required to disclose objectives and targets regarding the KPIs and their plans to achieve these objectives and targets (Section 1.2.3.4)**: the draft delegated act cannot impose obligations not foreseen by the Level 1 Legislation. In this regard the Taxonomy Regulation establishes a classification for sustainable activities and imposes specific disclosure requirements regarding 3 KPIs without any forward-looking consideration. Requiring non-financial undertakings to establish targets and publish them would thus be contrary to Level

1. Furthermore companies may have set targets that they do not wish to make public for confidentiality reasons. Therefore non-financial undertakings should not be required to disclose objectives and targets regarding the KPIs and their plans to achieve them. Nevertheless when such targets and plans have been set and made public by a company, they could be included in the non-financial statement.

2.Methodology for reporting of KPIs to be disclosed by non-financial undertakings

- **Non-financial undertakings should only report on Taxonomy-aligned activities. We therefore recommend to delete the requirements under bullet (d) and (e):** Article 8 of the TR refers to the proportion of turnover, CapEx and OpEx derived or associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9. Furthermore, as mentioned in the draft delegated regulation, Taxonomy-non-eligible activities are not described in the delegated acts adopted pursuant to Articles 10(3), 11(3), 12(2), 13(2), 14(2) and 15(2) of the TR. Therefore companies should only report on Taxonomy-aligned activities.
- Overall, for a more meaningful and proportionate disclosure, **we expect the delegated act to concentrate on qualitative data reporting** (i.e. relevant to the interested stakeholder), **whilst remaining as much as possible coherent and aligned with existing, well-established definitions, sector-specific customs and existing reporting processes and formats.**

About Afep

Transparency Register identification number: 953933297-85

Since 1982, Afep brings together large companies operating in France. The Association, based in Paris and Brussels, aims to foster a business-friendly environment and to present the company members' vision to French public authorities, European institutions and international organisations. Restoring business competitiveness to achieve growth and sustainable employment in Europe and tackle the challenges of globalisation is Afep's core priority. Afep has over 110 members. More than 8 million people are employed by Afep companies and their annual combined turnover amounts to €2,600 billion. Afep is involved in drafting cross-sectoral legislation, at French and European level, in the following areas: economy, taxation, company law and corporate governance, corporate finance and financial markets, competition, intellectual property and consumer affairs, labour law and social protection, environment and energy, corporate social responsibility and trade.

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ANNEX – Edited version of the draft delegated regulation

~~NNNN~~ : text deleted
NNNN : text added

COMMISSION DELEGATED REGULATION (EU) …/...
of XXX
supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation

(…)

Article 2
Definitions

For the purposes of this Regulation, the following definitions apply:
(1) 'environmental objective' means one of the environmental objectives laid down in Article 9 of Regulation (EU) 2020/852;
(2) 'Taxonomy-aligned economic activity' means an economic activity that complies with the requirements laid down in Article 3 of Regulation (EU) 2020/852;
(3) 'transitional economic activity' means an economic activity that complies with the requirements laid down in Article 10(2) of Regulation (EU) 2020/852;
(4) 'enabling economic activity' means an economic activity that complies with the requirements laid down in Article 16 of Regulation (EU) 2020/852;
(5) 'Taxonomy-eligible economic activity' means an economic activity that is described in the delegated acts adopted pursuant to Articles 10, paragraph 3, 11, paragraph 3, 12, paragraph 2, 13, paragraph 2, 14, paragraph 2 and 15, paragraph 2, of Regulation (EU) 2020/852, irrespective of whether that economic activity meets all of the technical screening criteria laid down in those delegated acts;
~~(6) 'Taxonomy-non-eligible economic activity' means an economic activity that is not described in the delegated acts adopted pursuant to Articles 10, paragraph 3, 11, paragraph 3, 12, paragraph 2, 13, paragraph 2, 14, paragraph 2 and 15, paragraph 2, of Regulation (EU) 2020/852;~~
(7) 'asset manager' means an undertaking that is subject to the disclosure obligations laid down in Articles 19a and 29a of Directive 2013/34/EU and is either of the following:
(a) an AIFM as defined in Article 4(1), point (b), of Directive 2011/61/EU of the European Parliament and of the Council21;
(b) a management company as defined in Article 2(1), point (b), of Directive 2009/65/EC of the European Parliament and of the Council22;
(c) an investment company authorised in accordance with Articles 27, 28 and 29 of Directive 2009/65/EC and that has not designated for its management a management company authorised in accordance with Articles 6, 7 and 8 of that Directive.

(8) 'financial undertaking' means an undertaking that is subject to the disclosure obligations laid down in Articles 19a and 29a of Directive 2013/34/EU and is an asset manager, a credit institution as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council[23], an investment firm as defined in Article 4(1), point (2), of Regulation (EU) No 575/2013, an insurance undertaking as defined in Article 13, point (1), of Directive 2009/138/EC of the European Parliament and of the Council[24] or a reinsurance undertaking as defined in Article 13, point (4) of Directive 2009/138/EC;
(9) 'non-financial undertaking' means an undertaking that is subject to the disclosure obligations laid down in Articles 19a and 29a of Directive 2013/34/EU and is not a financial undertaking;
(10) 'Taxonomy-aligned insurance or reinsurance activity' means an insurance or reinsurance activity that is Taxonomy-aligned according to the criteria laid down in Sections 10.1. and 10.2. of Annex II to Delegated Regulation [on climate change mitigation and climate change adaptation]
(…)

Article 9
Common rules for disclosure by financial undertakings and non-financial undertakings

1. Financial undertakings and non-financial undertakings shall include all additional disclosures accompanying the key performance indicators in the same parts of the **non-**financial **statement** ~~report~~ that contain those indicators or shall provide cross-references to the parts of the **annual** financial report **or universal registration document** that contain those ~~indicators~~ **additional disclosures**.
~~2. Information disclosed in accordance with this Regulation in a given calendar year shall cover the annual reporting period of the previous year.~~
2~~3~~. Financial undertakings and non-financial undertakings shall provide in the **non-**financial **statement** ~~report~~ the key performance indicators covering the previous ~~five~~ reporting period~~s~~.
3~~4~~. Financial undertakings and non-financial undertakings shall, where relevant, and for the purposes of the disclosures provided for in Article 8 of Regulation (EU) 2020/852 and specified in this Regulation use the same currency as in their financial statements.
4~~5~~. The key performance indicators shall cover only the objectives of climate change mitigation and climate change adaptation until the technical screening criteria for the other environmental objectives are defined in accordance with Article 12(2), 13(2), 14(2) and 15(2) of Regulation (EU) 2020/852.
(…)

Article 10
Review

By 1 January 2025, the Commission shall review the application of this Regulation. The Commission shall assess in particular the **relevance of the key peformance indicators, of their calculation methodology and of the templates used for publication as well as the** need for any further amendments with the regard to inclusion of:
(a) exposures to central governments and central banks in the numerator and denominator of key performance indicators of financial undertakings;

(b) exposures to undertakings not subject to an obligation to publish non-financial information pursuant to Article 19a or 29a of Directive 2013/34/EU in the numerator of key performance indicators of financial undertakings.
The review for SME exposures will be accompanied by an Impact Assessment assessing the administrative burden, access to finance and the potential impacts on SMEs of a possible extension to cover SMEs that are not covered by the Directive 2013/34/EU and/or provide such information voluntarily.
(…)

Article 11
Entry into force and application

1. ~~From 1 January 2022 n~~**N**on-financial undertakings shall only disclose**, in 2022,** the share **of their revenue associated with** ~~of~~ Taxonomy-eligible ~~and Taxonomy non-eligible~~ economic activities ~~in their total activities and the qualitative information referred to in Section 1.2.1 of Annex I.~~ **as regards the objectives of climate change mitigation and climate change adaptation and, in 2023, the share of their revenue associated with Taxonomy-eligible economic activities as regards the objectives of Article 9 of Regulation (EU) 2020/852.**

The key performance indicators mentioned in Article 8(2) of Regulation (EU) 2020/852 pertaining to these objectives, including any accompanying information pursuant to this Regulation, shall be disclosed from 1 January 2024.

2. From 1 January 2022, financial undertakings shall only disclose:

(a) the share of their exposures to ~~Taxonomy non-eligible and~~ Taxonomy-eligible economic activities in their total assets;
(b) the share of exposures referred to in Article 8(1) and 8(2) in their total assets;
(c) the share of exposures to undertakings referred to in Article 8(3) in their total assets;
(d) qualitative information referred to in Annex XI.

Credit institutions shall also disclose the share of their trading portfolio and on demand inter-bank loans in their total assets.

3. The key performance indicators, including any accompanying information pursuant to this Regulation, shall be disclosed from 1 January ~~2023~~**2025**.

4. Credit institutions shall disclose from 1 June 2024 the elements of key performance indicators concerning retail exposures related to immovable property for stock in accordance with Article 4.

5. The exposures and investments in undertakings that are not subject to an obligation to publish non-financial information pursuant to Article 19a and 29a of Directive 2013/34/EU and provide such information voluntarily may be included in the numerators of key performance indicators of financial undertakings from 1 January 2025 subject to a positive assessment/review indicated in Article 10(c).

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.
(…)

ANNEX I KPIs of non-financial undertakings

1. CONTENT OF KPIs TO BE DISCLOSED BY NON-FINANCIAL UNDERTAKINGS
1.1. Definition of key performance indicators (KPI)
1.1.1. *KPI related to turnover (turnover KPI)*
The proportion of turnover referred to in Article 8(2), point (a), of Regulation (EU) 2020/852 shall be calculated as the part of the net turnover derived from products or services~~, including intangibles,~~ associated with Taxonomy-aligned economic activities (numerator) divided by the net turnover (denominator) as defined in Article 2, point (5), of Directive 2013/34/EU. The turnover shall cover the revenue recognised pursuant to International Accounting Standard (IAS) 1~~2~~, paragraph 82(a) as **adopted by Commission Regulation (EC) 1126/200825 and the revenue generated by joint ventures consolidated using the equity method of accounting in accordance with IAS 28, *pro rata* the undertakings' equity stake.**
The KPI referred to in the first subparagraph shall exclude from its numerator the part of the net turnover derived from products and services associated with economic activities that have been adapted to climate change in line with Article 11(1)(a) of the Taxonomy Regulation and in accordance with Annex II to Delegated Regulation (EU) year/number unless those activities:

a. qualify as enabling activities in accordance with Article 11(1), point (b) of Regulation 2020/852, or
b. are themselves Taxonomy-aligned.

1.1.2. *KPI related to capital expenditure (CapEx)(CapEx KPI)*
The proportion of CapEx referred to in Article 8(2), point (b), of Regulation (EU) 2020/852 shall be calculated as the numerator divided by the denominator as specified in Sections 1.1.2.1. and 1.1.2.2. of this Annex.

1.1.2.1. Denominator
The denominator shall cover additions to tangible and intangible assets during the financial year considered before depreciation, amortisation and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes. The denominator shall also cover additions to tangible and intangible assets resulting from business combinations**, the CapEx included in joint ventures consolidated using the equity method of accounting in accordance with IAS 28, pro rata the undertakings' equity stake, and receivable recognized under the Financial asset model in accordance with IFRIC 12 Service concession arrangements.** For non-financial undertakings applying international financial reporting standards (IFRS) as ~~adopted by Regulation (EC) 1126/2008~~ **endorsed in the Union based on Regulation (EC) n°1606/2002**, CapEx shall cover costs that are accounted based on:
– IAS 16 Property, Plant and Equipment, paragraphs 73, (e), point (i) and point (iii);
– IAS 38 Intangible Assets, paragraph 118, (e), point (i);
– IAS 40 Investment Property, paragraphs 76, points (a) and (b) (for the fair value model);
– IAS 40 Investment Property, paragraph 79(d), points (i) and (ii) (for the cost model);

– IAS 41 Agriculture, paragraph 50, points (b) and (e);
– IFRS 16 Leases, paragraph 53, point (h).

For non-financial undertakings applying national generally accepted accounting principles (GAAP), CapEx shall cover the costs accounted under the applicable GAAP that correspond to the costs included in the capital expenditure by non-financial undertakings applying IFRS.
Leases that do not lead to the recognition of a right-of-use over the asset shall not be counted as CapEx.

1.1.2.2. Numerator
The numerator shall include the part of the capital expenditure included in the denominator that is:

- related to assets or processes that are associated with Taxonomy-aligned economic activities, or
- part of a plan to expand Taxonomy-aligned economic activities or to allow Taxonomy-eligible economic activities to become Taxonomy-aligned ('CapEx plan') within a predefined timeframe as further defined in the next paragraph~~, or~~**.**

The numerator may also include capital expenditure related to the purchase of output from Taxonomy-aligned economic activities, notably activities listed in sections 7.3 to 7.6 of Annex I of the [Climate Delegated Act], as well as other economic activities listed in the delegated acts referred to in Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of Regulation (EU) 2020/852 and provided that such measures are implemented and operational within 18 months.

The CapEx plan referred to in the paragraph above shall be disclosed**, unless such disclosure causes prejudice to business confidentiality,** and be approved by the ~~Management Board of non-financial~~ **undertakings' administrative, management or supervisory body or another corporate function to which such approval has been formally delegated to** and meet one of the following conditions:

(a) the plan aims to expand the undertaking's Taxonomy-aligned economic activities and such an expansion is planned for completion within a period of five years;
(b) the plan aims to upgrade Taxonomy-eligible economic activities to render them Taxonomy-aligned within a period of five years.

The CapEx plan mentioned under point (b) can exceed five years only where a longer period is objectively justified by specific features of the economic activity and the upgrade concerned~~, with a maximum of seven years~~. This justification **and the time period** shall feature ~~in the CapEx plan itself and~~ in the contextual information detailed under section 1.2.3..
The numerator shall also contain the part of the CapEx for adaptation of economic activities to climate change in accordance with to Annex II to Delegated Regulation. The numerator shall provide for a breakdown for the part of CapEx allocated to substantial contribution to climate change adaptation.
When there is no capital expenditure meeting the criteria mentioned in the first two sub-paragraphs above, non-financial undertakings shall include a negative statement.

1.1.3. *KPI related to operating expenditure (OpEx) (OpEx KPI)*

The proportion of OpEx referred to in Article 8(2), point (b), of Regulation (EU) 2020/852 shall be calculated as the numerator divided by the denominator as specified in Sections 1.1.3.1. and 1.1.3.2. of this Annex.

1.1.3.1. Denominator

~~The denominator shall cover direct~~ **OpEx shall be defined as the following** non-capitalised costs **:** ~~that relate to~~ research and development**,** building renovation measures, short-term lease, maintenance and repair~~,~~ and ~~any other direct~~ expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the undertaking or **a** third party outsourcee that are necessary to ensure the continued and effective functioning of such assets.

Non-financial undertakings that apply national GAAP and are not capitalising right-of-use assets ~~shall~~ **may** include lease costs in the OpEx in addition to the costs listed in the first paragraph of section 1.1.3.1.

Non-financial undertakings shall include in the denominator non-capitalised costs mentioned in the first sub-paragraph that are material to their activities or to assess their strategy regarding the environmental objectives mentioned in Article 9 of Regulation (EU) 2020/852. Non-financial undertakings shall provide a clear description of the denominator in the accompanying information and ensure its comparability over time.

1.1.3.2. Numerator

The numerator shall include the part of the operating expenditure included in the denominator that is:

– related to assets or processes associated with Taxonomy-aligned economic activities, including training and other human resources adaptation needs, and direct non-capitalised costs that present research and development, or

– part of the CapEx plan to expand Taxonomy-aligned economic activities or allow Taxonomy-eligible economic activities to become Taxonomy-aligned within a predefined timeframe as further defined in the next paragraph; or

– related to individual measures enabling the target activities to become low-carbon or to lead to greenhouse gas reductions as well as individual building renovation measures as identified in the delegated acts referred to in Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of Regulation (EU) 2020/852 and provided that such measures are implemented and operational within 18 months.

The CapEx plan referred to in the first sub-paragraph shall meet the conditions specified in section 1.1.2.2.

Research and development costs already accounted for in the CapEx KPI shall not be counted as OpEx.

The numerator shall also include the part of OpEx for the adaptation of economic activities to climate change in accordance with Annex II to [Climate Delegated Regulation]. The numerator shall provide for a breakdown for the part of the OpEx allocated to substantial contribution to climate change adaptation.

When there is no operational expenditure meeting the criteria mentioned in the first sub-paragraph above, non-financial undertakings shall include a negative statement.

1.2. Specification of disclosures accompanying the KPIs of non-financial undertakings
Non-financial undertakings shall disclose the following information accompanying the relevant KPIs.

1.2.1. *Accounting policy*
Non-financial undertakings shall explain:

(a) how turnover, capital expenditure and operating expenditure were determined and allocated to the numerator;
(b) the basis on which the turnover, capital expenditure and operating expenditure were calculated, including any assessment in the allocation of revenues or expenditures to different economic activities.

For turnover and capital expenditure, non-financial undertakings shall include references to all of the following:

(a) to the related line items in the financial statements;
(b) where relevant, to whether the denominators of those KPIs differ from any Alternative performance measures (APMs) defined in ESMA's Guidelines on APMs that depict items of turnover or capital expenditures.

Where the application of relevant definitions has changed since the previous reporting period, non-financial undertakings shall explain why those changes result in more ~~reliable and~~ relevant information and provide for restated comparative figures.
Non-financial undertakings shall provide disclosures about any ~~substantial~~**material** deviations that have occurred during the reporting period in relation to the implementation of the CapEx plans as disclosed in accordance with Sections 1.1.2.2 and 1.1.3.2 ~~in the previous reporting periods~~. Non-financial undertakings shall disclose ~~all of~~ the following:

(a) the ~~substantial~~ **material** changes that have occurred in the plan and the reasons underlying those changes;
(b) the impact of such changes on the potential for the relevant economic activities of the undertaking to become Taxonomy-aligned and on the period of time in which this is expected to take place ;
(c) the restatement of the CapEx and OpEx KPI for ~~each past~~ ~~reporting year covered~~ **the previous reporting period** ~~by the plan~~ whenever changes to the plan had a~~n~~ **material** impact on those KPIs.

1.2.2. *Assessment of compliance with Regulation (EU) 2020/852*
1.2.2.1. Information on assessment of compliance with Regulation (EU) 2020/852:
Non-financial undertakings shall:

- describe the nature of their ~~Taxonomy-eligible and~~ Taxonomy-aligned economic activities~~, by referring to the delegated acts referred to in Articles 10(3), 11(3), 12(2), 13(2), 14(2), 15(2) of Regulation (EU) 2020/852~~ **or provide cross-references to the parts of the annual financial report or universal registration document where these activities are described** ;
- explain how they assessed compliance with the criteria set out in Article 3 of Regulation (EU) 2020/852 and the associated technical screening criteria included in those delegated acts;
- explain how they avoided any double counting in the allocation in the numerator of turnover, CapEx, and OpEx KPIs across economic activities.

1.2.2.2. Contribution to multiple objectives

Where an economic activity contributes to several environmental objectives, non-financial undertakings shall:

- ~~demonstrate compliance with the criteria set out in Article 3 of Regulation (EU) 2020/852, in particular with the technical screening criteria with respect to several environmental objectives;~~
- ~~disclose the turnover, CapEx and OpEx from that activity as contributing to several environmental objectives;~~
- **explain how the KPIs are allocated to the different environmental objectives ;**
- only count once the turnover from that activity in the numerator of the KPIs in Section 1.1 to avoid double counting.

1.2.2.3. Disaggregation of KPIs

Where the KPIs for an economic activity are to be disaggregated, in particular where production facilities are used in an integrated manner, non-financial undertakings shall ensure that:

- any disaggregation is based on criteria that are appropriate for the production process being implemented and reflects the technical specificities of that process;
- appropriate information accompanying the KPIs about the basis of such disaggregation is provided.

1.2.3 Contextual information

Non-financial undertakings shall explain the figures of each KPI and the reasons for any **material** changes in those figures in the reporting period.

1.2.3.1. Contextual information about turnover KPI

Where the turnover KPI discloses material changes, ~~N~~**n**on-financial undertakings shall provide ~~all of the following:~~

~~– a quantitative breakdown of the numerator in order to illustrate the key drivers of change in the turnover KPI during the reporting period, such as revenue from contracts with customers, lease revenue, and/or other sources of income;~~

~~– information about Taxonomy-aligned activities of undertaking generating output for their own consumption;~~

– a narrative discussion of the reasons for such changes ~~a qualitative explanation of key elements of change in the turnover KPI~~ during the reporting period.

1.2.3.2. Contextual information about CapEx KPI

Where the CapEx KPI discloses material changes, ~~N~~**n**on-financial undertakings shall provide ~~a quantitative breakdown of the amounts included in the numerator and qualitative explanation of the key elements of change in CapEx KPI during the reporting period. Such breakdown shall disclose all of the following:~~

~~– additions to property, plant and equipment, to internally generated intangible assets, including in a business combination or acquired, to investment properties acquired or recognised in the carrying amount and, where applicable to capitalised right-of-use assets;~~

~~– additions related to acquisitions through business combinations;~~

~~– expenses incurred in relation to Taxonomy-aligned economic activities and expenses incurred as part of a CapEx plan referred to in sections 1.1.2.2. and 1.1.3.2..~~ **a narrative discussion of the reasons for such changes during the reporting period.**

Non-financial undertakings shall disclose the key information about each of their CapEx plans referred to in sections 1.1.2.2. and 1.1.3.2., including all of the following**, unless such disclosure causes prejudice to business confidentiality**:

– the environmental objectives pursued;

– the economic activities concerned;

– research, development and innovation activities concerned (if applicable);

– the period of time whereby each Taxonomy-aligned economic activity is expected to be expanded or whereby each economic activity is expected to become Taxonomy-aligned, including, in the latter case and where the period of time exceeds five years, an objective justification based on the specific features of the economic activity and the upgrade concerned;

– the total capital expense expected to be incurred for that purpose during the reporting period and during the period of time of the CapEx plans.

1.2.3.3. Contextual information about the OpEx KPI

Where the OpEx KPI discloses material changes, ~~N~~**n**on-financial undertakings shall provide ~~all of the following:~~

~~– a quantitative breakdown of the numerator (operating expenditure determined in accordance with Section1.1.3.2) in order to illustrate the key elements of change in the OpEx KPI during the reporting period;~~

~~– a qualitative explanation of the key elements of change in the turnover KPI during the reporting period;~~

~~– an explanation of the other expenditures relating to the day-to-day servicing of items of property plant and equipment that are included in the calculation of OpEx for both the numerator and denominator.~~ **a narrative discussion of the reasons for such changes during the reporting period.**

Where OpEx is part of a CapEx plan as referred to in sections 1.1.2.2. and 1.1.3.2., non-financial undertakings shall disclose the key information about each of their CapEx plans in line with the requirements of section 1.2.3.2.

1.2.3.4. Other additional information

When ~~N~~**n**on-financial undertakings ~~shall~~ **have set and** disclose**d** ~~their future~~ objectives and targets for the KPIs and their plans to achieve them**, these information shall be included in the non-financial statement.**

2. METHODOLOGY FOR REPORTING OF KPIs TO BE DISCLOSED BY NON-FINANCIAL UNDERTAKINGS

The following requirements shall apply for the purposes of disclosures under Article 8(2) of Regulation (EU) 2020/852:

(a) non-financial undertakings shall identify each **Taxonomy-aligned** economic activity, including a subset of transitional and enabling economic activities ;

(b) non-financial undertakings shall disclose the KPIs for each **Taxonomy-aligned** economic activity and the total KPIs for all **Taxonomy-aligned** economic activities at the level of the relevant undertaking or group;

(c) non-financial undertakings shall disclose the KPIs set out in Sections 1.1.1, 1.1.2. and 1.1.3. for each environmental objective and the total KPIs for all environmental objectives at the level of the undertaking or group across all environmental objectives by avoiding double counting;

~~(d) Non-financial undertakings shall identify the Taxonomy-aligned economic activities and the Taxonomy-eligible economic activities that do not meet technical screening criteria. Within a Taxonomy-eligible economic activity, non-financial undertakings shall identify the proportion of that activity that is Taxonomy-aligned.~~

~~(e) Non-financial undertakings shall identify Taxonomy-non-eligible economic activities and disclose the share in the denominator of the turnover KPI of those economic activities at the level of the undertaking or group;~~

(f) the KPIs shall be provided at the level of the individual undertaking where that undertaking prepares only individual non-financial statements or at the level of the group where the undertaking prepares consolidated non-financial statements.