EU Platform on Sustainable Finance

Simplifying the EU Taxonomy to Foster Sustainable Finance

Report on Usability and Data

February 2025

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Disclaimer

The EU Platform on Sustainable Finance (the Platform, or PSF) is an advisory body that has been established under Article 20 of the Taxonomy Regulation and is subject to the Commission's horizontal rules for expert groups.

This document is not an official European Commission document nor an official European Commission position. Nothing in this document commits the European Commission, nor does it preclude any policy outcomes.

This report represents the overall view of the members of the Platform. However, although it represents such a consensus, it may not necessarily, in all details, represent the individual views of member institutions or experts. The views reflected in this report are the views of the experts only. This report does not reflect the views of the European Commission or its services.

The considerations below are compiled under the aegis of the Platform and cannot be construed as official guidance by the European Supervisory Authorities (ESAs). As a result, the views and recommendations do not purport to represent or anticipate any future official guidance and views issued by the ESAs, which may differ from the contents of this report.

The inclusion of market practices in this report cannot be construed as their endorsement or validation, in particular for the purpose of assessing Taxonomy alignment of exposures or use of proceeds by the PSF, the ESAs, nor the European Commission. The market practices described in the Annex to this report shall not be deemed to be automatically compliant with the legal obligations under the Commission Delegated Regulation (EU) 2021/2178 or other relevant EU legislation or Commission guidance documents.

List of abbreviations

AUM	Assets Under Management
BTAR	Banking Book Taxonomy Alignment Ratio
CapEx	Capital expenditure
CEAOB	Committee of European Auditing Oversight Bodies
CGT	Common Ground Taxonomy
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSO	Civil society organisation
CSRD	Corporate Sustainability Reporting Directive
CSDDD	Corporate Sustainability Due Diligence Directive
CTB	Climate Transition Benchmarks
DNSH	Do no significant harm
EEA	European Environment Agency
EBA	European Banking Authority
EFRAG	European Financial Reporting Advisory Group
ESEF	European Single Electronic Format
EIA	Environmental impact assessment
EIOPA	European Insurance and Occupational Pensions Authority
EPBD	Energy Performance of Buildings Directive
EPC	Energy Performance Certificate
ESAs	European Supervisory Authorities
ESG	Environmental, social and governance
ESMA	European Securities and Markets Authority
ESRS	European Sustainability Reporting Standards
FinGuar KPI	Financial Guarantees KPI
FMP	Financial Market Participant
FV	Fair value
GAR	Green Asset Ratio
GBS	Green Bond Standard
GHG	Greenhouse gas
GIR	Green Investment Ratio
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IPSF	International Platform on Sustainable Finance
ISSA	International Standard on Sustainability Assurance
ITS	Implementing Technical Standards
IFC	International Finance Corporation
KPI	Key performance indicator
M-CGT	Multi-Jurisdiction Common Ground Taxonomy

MiFID	Markets in Financial Information Directive
MS	Minimum safeguards
NCP	National Contact Point
NFRD	Non-financial Reporting Directive
OECD	Organization for Economic Cooperation and Development
OpEx	Operational expenditure
PAB	Paris Aligned Benchmarks
PAI	Principal adverse impact
PED	Primary Energy Demand
PSF	Platform on Sustainable Finance; also referred to as 'the Platform'
R&D	Research and development
SASB	Sustainability Accounting Standards Board
SC	Substantial contribution
SFDR	Sustainable Finance Disclosures Regulation
SI	Sustainable investment
SMEs	Small and medium-sized enterprises
SSA	Sovereign, supranational and government agency
TSC	Technical screening criteria
UNGP	UN Guiding Principles on Business and Human Rights
UoP	Use of proceeds

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Foreword

The EU Taxonomy is a breakthrough tool for steering investments towards a climate-resilient, net-zero and sustainable economy, further cementing Europe's position as a leader in sustainable finance. It provides the first consistent framework for measuring sustainability of both investments and companies' activities, translating environmental performance into financial metrics. Its novel nature explains both its success and its complexity, as well as the ongoing learning process involved in its implementation.

The Taxonomy is already delivering a tangible measure of green investment outcomes. However, to unlock its full potential, ongoing refinements and simplifications are essential. Criticism regarding its operationality is valid and warrants careful attention.

Over the past six years, experts on the Platform on Sustainable Finance (the Platform) and their predecessors have gained valuable insights into the Taxonomy's application and how to refine it. The previous Platform had issued 64 recommendations aimed at improving the coherence of the Taxonomy and its alignment with regulatory frameworks such as Sustainable Finance Disclosures Regulation (SFDR), Benchmarks Regulation (BMR) and the EU Green Bond Standard (GBS). This final report, fulfilling our mandate from March 2023 and building on two years of Taxonomy-aligned reporting, underscores the need for simplification.

A pivotal development in this regard is the announcement by European Commission President Ursula von der Leyen in November 2024 to consolidate EU sustainability reporting obligations into a single 'Omnibus' regulation while maintaining the integrity of the framework. The European Commission has committed to streamline reporting requirements, thus improving implementation across the EU.

Simplification requires the review of the Taxonomy Regulation Disclosures Delegated Act and its Climate and Environmental Delegated Acts, which are already scheduled for evaluation. Addressing key operational hurdles through these updates is essential for reducing the reporting burden on companies. Our report presents specific proposals to revise the Taxonomy Disclosures Delegated Act, leading to a reduction of over a third in the reporting burden for non-financial companies and a significant simplification for financial institutions. The Platform has also worked on the review of the Climate Delegated Act, placing a central focus on usability, and further work – as highlighted in our technical criteria (draft) report – should be conducted.

Furthermore, the Platform advocates for enhanced capacity building within the market to support regulatory implementation. We also emphasise the importance of increasing interoperability between the EU Taxonomy and other Taxonomies internationally, which will promote cross-border investment flows and encourage broader global adoption of the EU model. While this was not a specific task of our mandate, it remains a key priority for future developments of implementation tools to better support companies transitioning towards full Taxonomy reporting compliance.

By prioritising these initiatives, we can help simplify significantly reporting processes while maintaining the Taxonomy's ambition and ensuring that it remains a vital tool in directing capital to finance the transition to a sustainable future.

Helena Viñes Fiestas
Chair of the Platform

About this report

This report responds to the European Commission's mandate to the Platform on Sustainable Finance (the Platform) to help simplify and improve the effectiveness of the Taxonomy framework by enhancing its usability.

The report identifies key areas for improvement, including simplification, data access and coherence with other regulations. It offers recommendations to the European Commission grounded in two years of market observations, pilot projects and outreach to stakeholders, including investors, credit institutions, insurers, corporates, small and medium-sized enterprises (SMEs), auditors and consultants, that are affected by the EU sustainable finance regulatory framework. The report also provides suggestions on areas that it believes should be prioritised during its next mandate. Finally, the report builds on previous Platform work, such as the Recommendations on Data and Usability published in October 2022 as well as the Compendium of Market Practices published in January 2024.

The report makes four core proposals to the European Commission for simplifying taxonomy reporting:

1. More than one-third reduction in corporate reporting burden with:
    - Adjusting the OpEx KPI as a voluntary disclosure, except for R&D.
    - Introducing a materiality threshold for reporting the Turnover, OpEx, CapEx KPIs and the combined KPIs of financial companies, in line with the Accounting Directive.
    - Enhancing the alignment with financial reporting.
    - Simplifying reporting templates, with a clear reduction of data points to limit the reporting to information that is relevant for making business decisions.
2. A simplified GAR that encourages green and transition lending:
    - Ensuring a symmetrical GAR with similar numerator and denominator composition.
    - Simplifying retail exposure reporting, focusing on substantial contribution.
    - Allowing for estimates and proxies for reporting, in conjunction with safe harbours to protect against greenwashing allegations.
    - The materiality principle should apply to the combined KPI for financial undertakings, excluding immaterial business segments not consolidated under the Accounting Directive.

3. A practical approach to DNSH criteria:

- Introducing a lighter compliance assessment process (regarding evidence of compliance, documentation and/or on EU regulations).
- All DNSH criteria should be reviewed as part of the scheduled reviews of various delegated acts, prioritising their usability and practicality for financial and non-financial companies.
- Introducing a "comply or explain" approach for DNSH assessment of the Turnover KPI, as a temporary measure.

4. Helping SMEs access sustainable finance:

- Adopting a streamlined and voluntary approach for banks and investors' exposures to unlisted SMEs.
- Adopting a simplified approach to the Taxonomy for listed SMEs.

The Platform estimates that the above four proposals together will contribute to reducing the reporting of non-financial companies by over a third compared to the current state. The use of estimates and proxies, combined with a streamlined DNSH assessment process, is essential for rapidly and significantly reducing the reporting burden on financial companies. Additionally, both financial and non-financial companies will benefit from the introduction of a materiality approach, further enhancing proportionality and efficiency in reporting.

If adopted, these recommendations will be pivotal in maintaining Europe's competitive edge, fostering sustainable growth, bolstering economic resilience and securing its global leadership, all while advancing the Green Deal's ambitious goals. The EU Taxonomy focuses on six environmental objectives and is a fundamental cornerstone of the EU's sustainability policy architecture. Together with other regulations such as the Corporate Sustainability Reporting Directive (CSRD), Sustainable Finance Disclosures Regulation (SFDR) and the Corporate Sustainability Due Diligence Directive (CSDDD), the Taxonomy helps companies and financial institutions identify opportunities, set transition targets, manage risks and ultimately reorient capital towards a more competitive, equitable and prosperous net-zero economy.

Mandate of the EU Platform on Sustainable Finance

The Platform is an advisory body subject to the European Commission's horizontal rules for expert groups. Its main purpose is to advise the European Commission on several tasks and topics related to further developing the Taxonomy and assist the European Commission in the technical preparation of delegated acts to support implementation of the rules. The Subgroup on Usability and Data (SG1) advises the European Commission on the usability and simplification (where appropriate) of the EU Taxonomy and wider sustainable finance framework. The Subgroup has worked on the following three main focal areas, from both regulatory and non-regulatory angles, in line with the Platform's mandate (Article 20 of the Taxonomy Regulation):

- Advising the Commission on the usability and simplification of the EU Taxonomy.
- Advising the Commission on the usability, coherence and effectiveness of the wider sustainable finance framework.
- Advising the Commission on data quality and availability under the Taxonomy Regulation and wider sustainable finance framework.

More information about the mandate of the EU Platform on Sustainable Finance.

The EU Taxonomy: uptake on the ground

In its first two years of alignment reporting, the EU Taxonomy has proven its ability to steer investments towards net zero, climate resilience and sustainability. Globally, its influence is undeniable, inspiring over 58 taxonomies worldwide and establishing itself as a cornerstone of the financial landscape. Despite the complexities and challenges faced by businesses, which ought to be addressed, the Taxonomy continues to drive significant progress towards achieving the EU's climate and environmental goals.

In its second year of reporting, progress is evident: green revenue across entities reporting EU Taxonomy alignment in FY2022 and FY2023 has grown from €670bn to €814bn (up 22%), while green CapEx increased from €220bn to €291bn (up 32%).[1]

CapEx disclosures have started to signal companies' commitment to sustainability through tangible investments aligned with substantial contribution per the EU Taxonomy's objectives, e.g., a 1.5°C trajectory. Based on reported FY2023 numbers across all reporting entities (including those that reported for the first time in FY2023), Taxonomy-aligned CapEx reached €310bn.[2] Over €530bn was reported as investment in key sectors such as

[1] Bloomberg.
[2] Ibid.

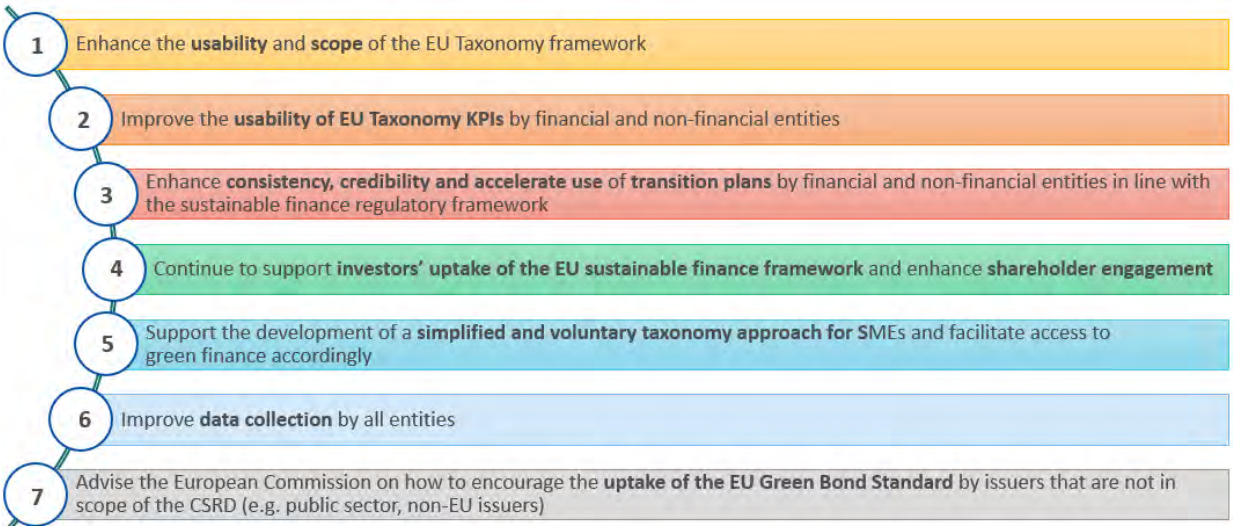
utilities, automotive and transportation over FY2022-2023, illustrating the EU Taxonomy's effectiveness in mobilising real-world investments[3].

The Taxonomy also enhances and validates the robustness of transition plans. Investments in Taxonomy-aligned activities, as well as plans to become Taxonomy-aligned, as part of an overall investment plan, act as a stamp of approval, indicating that those investments are on a trajectory to align with EU objectives. While achieving immediate compliance may not always be feasible, companies can set voluntary targets for future compliance, as many already do.

The Compendium of Market Practices

In January 2024, the Platform published a Compendium of Market Practices, discussing early implementation successes and challenges of the EU Taxonomy reporting framework. The report suggests that the usability of the EU Taxonomy and wider framework needs to be further improved and simplified to fully support market stakeholders and companies, to inform their financing decisions, and to transition their business models to align with the EU's sustainability objectives. It proposed seven priorities for the Platform to address.

Figure 1: Priorities of the EU Platform of Sustainable Finance, Compendium of Market Practices



[3] Idem.

Taxonomy Regulation Disclosures Delegated Act

The EU Taxonomy is the cornerstone of the EU sustainable finance framework. Covering six environmental objectives and over 150 economic activities, the EU Taxonomy has created a common language for financial and non-financial companies to identify and report on green activities. It connects to other regulatory pieces, such as the EU Green Bond Standard (GBS), the SFDR, the CSRD / European Sustainability Reporting Standards (ESRS), the Markets in Financial Information Directive's (MiFID's) sustainability preferences, and the Pillar 3 Implementing Technical Standards (ITS) disclosure on environmental, social and governance (ESG) risks of the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD).

In 2021, the European Commission adopted the Delegated Act supplementing Article 8 of the Taxonomy Regulation (Taxonomy Disclosures Delegated Act), which requires large financial and non-financial companies to disclose information about the environmental performance of their assets and economic activities. Undertakings are subject to the obligation to publish non-financial information pursuant to Article 19a or Article 29a of the Accounting Directive and to include in their non-financial statements or consolidated non-financial statements information on how, and to what extent, their activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of the Regulation.

The Taxonomy Disclosures Delegated Act entered into force on 1 January 2022. It specifies the content, methodology and presentation of information to be disclosed by large financial and non-financial undertakings on the share of their business, investments or lending activities that are aligned with the Taxonomy Regulation.

According to Article 8(2) Taxonomy Regulation, non-financial undertakings are required to disclose the share of their turnover, CapEx and OpEx associated with environmentally sustainable economic activities, as defined in the Taxonomy Regulation and the EU Taxonomy Climate, Environmental, Nuclear and Gas Delegated Acts, as well as any future delegated acts. In the case of financial companies (investment firms, asset managers, insurers and credit institutions), KPIs relate to the proportion of environmentally sustainable economic activities in their financing activities, such as lending, investment and underwriting.

At the time of writing, non-financial companies have reported two years of Taxonomy-alignment KPIs (FY2022, FY2023), while financial institutions have reported their Taxonomy-alignment KPIs for the first time in 2024 (FY2023).

Article 9 of the Disclosures Delegated Act stipulates that the Commission shall review the application of the regulation by 30 June 2024. As of now, this review has not yet been completed.

EU Platform principles for simplification

The Platform considered the following key principles when formulating simplification recommendations. These key principles apply consistently across sections in this report.

1. Principle of Consistency: Ensure consistency across regulation by eliminating redundancies and discrepancies, ensuring common definitions and calculation methods for reporting, enhancing complementarity, and facilitating third-party verification and assurance.

2. Principle of Relevance: Ensure reporting obligations fairly and effectively reflect market actors' transition efforts while minimising unnecessary burdens. When aligned with other policies, these obligations can support lower capital costs for businesses successfully transitioning to sustainable models.

3. Principle of Proportionality: Ensure a fair distribution of the reporting burden across the finance and reporting value chain, considering the timing of disclosures and data access for financial institutions while avoiding unnecessary costs and reporting obligations on SMEs, including small Financial Market Participants (FMPs).

4. Principle of Applicability: Ensure that all recommendations are practical and feasible to implement, aligning with and integrated into the existing regulatory framework (Level 1 of the regulation), with the exception of the recommendations on the SFDR. This ensures that proposed changes are actionable and consistent with the broader regulatory structure.

5. Principle of Precaution: While the aim is to strike the right balance between (i) maintaining the robustness of the EU sustainable finance framework by addressing information needs of different economic stakeholders to facilitate the achievement of EU climate and environmental objectives and (ii) avoiding unnecessary reporting burden, this principle is considered overarching to protect the environmental integrity of the framework.[4]

[4] The Principle of Precaution is enshrined in Article 191of the Treaty on the Functioning of the European Union, which clarifies to which environmental objectives the EU policy shall contribute. These objectives include preserving, protecting and improving the quality of the environment; protecting human health; prudent and rational utilisation of natural resources; and promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change.

Summary recommendations

The considerations below and in this report are compiled under the aegis of the Platform on Sustainable Finance and cannot be construed as official guidance by the European Commission or by the European Supervisory Authorities (ESAs). As a result, the views and recommendations do not purport to represent or anticipate any future official guidance and views issued by the ESAs, which may differ from the contents of this report.

'Do No Significant Harm' criteria

The Platform has assessed the application of the DNSH criteria across various use cases, including early reporting practices, and has developed recommendations relevant to the Climate, Environmental and Disclosure Delegated Acts of the Taxonomy Regulation. However, the Platform has not undertaken a comprehensive review of each DNSH criterion individually within these acts.

Additionally, the Platform proposes recommendations to support the gradual, voluntary adoption of DNSH criteria by public entities. These recommendations are designed to ensure that estimates used for financial products investing in non-EU companies – or credit institutions' reporting of their non-EU exposures – do not gain an undue advantage over products investing in EU companies that are subject to reporting obligations under the Taxonomy Regulation.

The Platform recommends the European Commission:

For non-financial companies:

- **Conduct a comprehensive review of all DNSH criteria,** prioritising usability, particularly regarding turnover (distinguishing between turnover and CapEx if and where relevant), to ensure their practicality during the scheduled reviews of the various delegated acts.
- **Allow DNSH compliance for turnover-alignment to be assessed on a comply-or-explain basis only,** for specific activities, where the assessment is burdensome and challenging due to the backward-looking nature of the evaluation. This should only be a temporary measure until the review of the full DNSH in the three delegated acts has been conducted.
  Comply or explain would apply to:

- backward-looking criteria that concern decisions which have been made before the criteria entered into force and for which compliance cannot be achieved in current operations.
- for those criteria, it should be sufficient to show that the decisions were consistent with legal requirements at the time of the decision, and that all legal obligations deriving from these decisions are still complied with (this relates to, e.g. the requirements of paragraphs 2 and 3 of Appendix D).

Comply or explain would not apply to:

- any criteria that can be complied with based on current operations, e.g. thresholds for greenhouse gas (GHG) and other pollutants emissions, or process criteria applicable to current operations, like ensuring the good status of waterbodies or continuing required adaptation actions.
- any criteria for which non-compliance continues to inflict significant harm through current operations, although the decision cannot be reversed anymore, e.g., for activity sites located in protected areas or areas of high biodiversity value, or for adaptation measures that continue to adversely affect the adaptation efforts of others.

Companies should clearly state which DNSH they have not met and provide additional information explaining why they are currently unable to fulfil all the requirements. Such evidence provided by companies on DNSH assessment and compliance will be valuable in the perspective of the review of the Climate and Environmental Delegated Acts. Assurers and supervisors shall play an important role in preventing misuse by ensuring robust explanations.

When developing and/or reviewing the DNSH criteria through the lens of usability:

- **Where possible, adopt clear and unambiguous Taxonomy criteria with parameters that enable pass/fail outcomes** that are objectively verifiable through the form of documents, tests, third-party verifications, etc.
- **To the extent possible, DNSH criteria requirements should be within the control of the non-financial company** and not depend on external factors or entities beyond their control. However, in some cases, obtaining information from other stakeholders may be necessary as the only viable way to define credible criteria.
- **Take account of international standards and discussions with international partners/in international fora (such as the International Platform on Sustainable Finance) to elaborate indicators** that can be compatible or interoperable with such standards when creating/reviewing DNSH criteria. This should help financial and non-financial companies elaborate proxies and estimates as necessary for their own disclosures of non-EU exposures and activities.

- Guidance on the frequency of assessments required under the DNSH criteria is needed to explicitly clarify that impact or risk assessments for biodiversity, climate risks and vulnerability, and water objectives may not need to be repeated annually.

For more detail, refer to the Platform on Sustainable Finance Draft Report on Activities and Technical Screening Criteria to be Updated or Included in the EU Taxonomy.

For financial companies:

- **Clarify which DNSH criteria are set on par with legislation and relieve the requirement on financial institutions and FMPs to verify compliance with those criteria.** Alternatively, the European Commission could clarify the documentation needed to verify compliance with DNSH criteria that are not set on par with EU legislation – for example, in the EU Taxonomy Compass.
- **Allow for estimates and proxies in DNSH criteria for exposures of entities that are not in scope of the CSRD including retail, local governments, etc.** The precautionary principle is essential in this assessment as multiple methodologies may be fit for purpose in the interim and the foreseeable future.

For use of proceeds (UoP) debt instruments:

- For UoP instruments, the taxonomy alignment reporting of a CSRD entity should not require further scrutiny if independently audited with limited assurance with a positive conclusion[5].
- Consider the recommendations from the previous Platform on the grandfathering of stock and green loans.
- Allow for specific DNSH-related contractual conditions to be defined at time of approval and monitored during implementation to verify compliance with these conditions over time. If possible, indicate any minimum requirements for reporting before verification can occur. The DNSH criteria apply at the maturity of the project or financing. However, determining whether an activity will meet the DNSH criteria in the future can be problematic when the criteria rely on observed outcomes.

[5] The use of the assured taxonomy-alignment assessment from a CSRD entity is subject to conditions linked to the nature and location of the investment, the financing type and the type of economic activity reported as taxonomy aligned by the financed entity. Therefore, a case-by-case assessment is necessary to validate the use of this approach at the time of appraisal and/or disbursement. Where applicable, DNSH-related contractual conditions can be defined at time of approval and monitored during implementation to verify compliance with these conditions over time.

- Assess adjustment of DNSH criteria for UoP financing for non CSRD entities including those provided by local governments in the GAR and allow for use of estimates on local government exposures.

For equity:

- **No further due diligence from the financial entity exposed to the company in scope of the CSRD** that reports compliance with all applicable DNSH criteria in its Taxonomy reporting should be required.
- **Provide flexibility in turnover alignment for the compliance of the DNSH criteria** for specific activities, as a temporary measure, similar to the recommendation for non-financial companies above. Turnover reporting requires that DNSH criteria are met at the time the report is submitted and obtaining information for past operations may prove impossible in some cases.

For retail lending:

- **Car loans and mortgages: Relieve credit institutions of the requirement to verify compliance with DNSH criteria, as a temporary measure** until (i) the relevant information for retail operations is systematically accessible to financial institutions (ii) the Climate and Environmental Delegated Acts have been reviewed, enabling banks to perform such assessments.
- In the medium to long term, for car loans specifically, explore possibilities for car manufacturers to centralise and disclose information on DNSH compliance. In addition, clarify which DNSH criteria are set on par with legislation and relieve the requirement on credit institutions to verify compliance with those criteria. Clarify the documentation needed to verify compliance with DNSH criteria that are not set on par with EU legislation, e.g. in the EU Taxonomy Compass. The Platform notes that DNSH criteria are not embedded in Energy Performance Certificate (EPC) label schemes and recommends they should be added in the future to ease future compliance.

Mortgages and car loans represent important portfolios for European credit institutions and data is especially difficult to obtain as credit institutions do not have the capacity to reach out to each individual client. In turn, borrowers do not have EU Taxonomy reporting obligations and cannot be expected to conduct a DNSH test themselves.

For estimating DNSH:

- **Allow the use of estimates and proxies to assess DNSH criteria for non-EU, non-CSRD and retail exposures of financial entities.** The Platform provides a methodological approach to the use of estimates for DNSH criteria in the Climate and Environmental Delegated Acts. In addition, the Platform has developed the Streamlined Approach for unlisted SMEs for voluntary use to help increase sustainable finance investments for unlisted SMEs, by removing the hurdles they would encounter should they apply the DNSH criteria.

Corporate KPIs

These recommendations aim to reduce the reporting burden in a targeted way through OpEx simplification, further alignment with financial reporting, and the introduction of a materiality threshold for the KPIs, in line with financial reporting. The proposed approach for OpEx notably stems from a survey conducted by the Platform in August 2024, disseminated to European companies subject to the CSRD via Business Europe and CSR Europe.

The Platform recommends the European Commission:

- **Make the OpEx KPI mandatory only for research and development (R&D) costs** to further reduce the reporting burden for non-financial undertakings (reporting on OpEx is already not required by Financial Institutions[6]), while supporting access to green finance for R&D financing**.** Companies should be allowed to disclose beyond R&D to enhance transparency.
- **Simplify the OpEx calculation and enhance its relevance by aligning it more closely with corporate financial statements reporting reference standards** and mapping expense categories to accounting ones to facilitate reporting preparation. To further enhance its relevance, adaptation-related costs such as insurance should be added to the Taxonomy OpEx definition[7]**.**
- **Clarify what type of investments qualify as Type C CapEx.**
- **Review whether greater alignment could be achieved between the segmentation seen in CSRD-scoped financial and non-financial reporting.** This

[6] The Platform has also consistently recommended eliminating OpEx Taxonomy alignment at the financial product level.

[7] Guidance could be given for highly climate vulnerable sectors that reporting of adaptation OpEx such as, but not limited to non-life insurance, should also be included. The definition of this threshold should be supported by a burden reduction assessment to ensure it effectively balances transparency with proportionality.

would ensure that the process of breaking out business segments for reporting purposes is consistent and comparable.

- **Establish a materiality threshold for the calculation of KPIs in non-financial corporate reporting.**[8] The materiality threshold should be based on cumulative exposure, rather than the level of individual economic activities. In some cases, an additional absolute threshold could be considered alongside the materiality threshold in percentage terms, to prevent large companies from deeming significant business segments immaterial and ensure their broader impact is not overlooked. The reporting of the specific nuclear and gas energy activities included in the Complementary Climate Delegated Act should be exempt from the application of the materiality threshold.
- **Mandate companies to provide clear evidence and rationale when applying the materiality threshold** to justify the non-disclosure of certain activities, ensuring transparency to prevent selective reporting.
- **Allow non-financial undertakings to voluntarily disclose the KPIs below the threshold.** This flexibility enables companies to provide meaningful information when relevant.
- **Provide clear guidance to support an effective implementation** and aligned understanding by all stakeholders, including preparers, auditors and supervisors. Guidance should specify the required evidence and disclosures.

Financial Institutions Reporting

The Platform recommends that the materiality principle be applied to the calculation of the combined KPI for financial undertakings. This means that immaterial business segments, such as a small insurance arm within a banking group, should be excluded from the Taxonomy combined KPI if these segments are not consolidated within the financial statements in accordance with the Accounting Directive.

[8] While the Platform will not recommend a specific threshold, it notes that materiality thresholds in current practices typically range from 5% (e.g., SEC, Spain, Poland) to 10% (as seen in some interpretations of IFRS). The definition of this threshold should be supported by a burden reduction assessment and consider the materiality of the Taxonomy with regards to the company's activities and the impact in the environment.

Green Asset Ratio

Credit Institutions' disclosures (GAR) are designed to help banks assess and explain the environmental quality of their balance sheet in order to attract environmentally conscious customers and investors. The aim of this disclosure is to create more transparency into the 'green' qualities of credit institutions' balance sheets, thus attracting investors and future customers from achieving higher GAR. This, in turn, would result in cost of capital advantages to qualifying lending activities that go towards taxonomy aligned activities.

When reviewing whether GAR disclosure is achieving this objective, the Platform was unable to substantiate that it was met. The Platform has identified several limitations in the way GAR is reported today, that has meant it is not comparable or functioning as designed.

On a sample of 97 credit institutions' taxonomy alignment reports (FY 2023), PwC reveals an average turnover- and CapEx-based alignment GAR of 2%, with national averages ranging from 0% to 13%.[9] This first year of alignment reporting has highlighted evident challenges for credit institutions in relation to asymmetry of the GAR including its exclusion of significant green finance volumes, data access, complexity of Taxonomy criteria and uncertainty in light of the review of the Taxonomy Disclosures Delegated Act.

The recommendations below outline ways in which the GAR can be better aligned with the original objective.

The Platform formed a GAR workstream comprising Platform members, observers and external ad-hoc experts that reviewed challenges associated with the application of the GAR, building on credit institutions' experiences.

The Platform recommends the European Commission:

Ensure the numerator and denominator are symmetrical:

- Address the structural asymmetry in the ratio by aligning the numerator and denominator. Exclude asset classes from the denominator when the Taxonomy is inherently inapplicable due to their nature (e.g. cash, goodwill, non-UoP sovereigns and interbank loans), rather than based on whether potential underlying investments relate to economic activities covered by the Taxonomy.

Allow for the use of estimates and proxies:

[9] PwC. 2024. "EU Taxonomy Reporting 2024."

- **Allow for the use of estimates and proxies in the numerator of the ratio for exposures to non-EU entities and, where applicable, retail exposures, which are outside the scope of the CSRD for both stock and flow.** This should be accompanied by a clear indication of the percentage of estimated data in the ratio and full transparency on the estimation approaches used. Under no circumstances should Taxonomy estimates take precedence over a company's disclosures in alignment with the Taxonomy Regulation. Entities within the scope of the CSRD are encouraged to voluntarily adopt Taxonomy-aligned disclosures, even if incomplete, to gradually implement the Taxonomy, ultimately enhancing their readiness and easing future compliance efforts.

Allowing the use of estimates and proxies would help address asymmetry issues by aligning the numerator with the denominator. It would also facilitate reporting on non-EU operations, supporting credit institutions with significant non-EU exposures, and creating a level playing field for green and transition finance between European and non-European entities.

- **Provide clear and harmonised principles on estimate methodologies that adhere to precautionary principles**. These include simplification of DNSH criteria and minimum safeguards (MS). While establishing a framework or set of principles and criteria is essential to mitigate greenwashing risks for financial institutions, it is equally important to strike a balance between offering guidance to prevent greenwashing and fostering innovation, given the evolving nature of data availability and these methodologies. A phased approach may be necessary, as multiple estimation methodologies are likely to coexist in the interim and foreseeable future. Regular updates to the framework will be critical to adapt to emerging best practices and advancing data capabilities.
- **Provide a safe harbour for reporting entities that are using estimates to report in their non-CSRD exposures.** That shall exempt them from certain liabilities, including the corresponding audit/assurance statements, provided they are reporting estimates based on this framework.
- Simplify the identification of CSRD in-scope entities by providing a reference list, e.g. of entities included in the consolidation of the GAR ratio.

Simplify retail assessment:

Lack of data and difficulty in interpreting and assessing Taxonomy criteria are the main challenges for credit institutions related to retail exposures. Few credit institutions have managed to assess some of the DNSH criteria and MS on retail exposures, restraining their inclusion in GAR. Allowing a simplified process would improve usability.

- **Review inoperable criteria and provide general relief of the burden to verify compliance with DNSH criteria of retail exposures that are on par with legislation,** where such legislation is aligned with EU environmental objectives.
- **Allow for the use of EPCs, including (implied) changes in EPC for renovation, as well as building codes and building years as proxies and estimates for credit institutions to assess their mortgages against the Taxonomy**, as relevant. Mortgages make up a significant portion of many credit institutions' reported GAR.
- **Simplified technical screening criteria (TSC) are needed on the notion of 'major renovation' as introduced in the Energy Performance of Buildings Directive (EPBD),** as well as guidance on a simplified application, including for Member States to provide definitions to facilitate the assessment of renovation loans.
- **Car loans and mortgages: Relieve credit institutions of the requirement to verify compliance with DNSH criteria, as a temporary measure until (i) the relevant information from retail clients is systematically accessible to financial institutions and (ii) the Climate and Environmental Delegated Acts have been reviewed, enabling banks to perform such assessments.**
  In the medium to long term, for car loans specifically, explore possibilities for car manufacturers to centralise and disclose information on DNSH compliance. In addition, clarify which DNSH criteria are set on par with legislation and relieve the requirement on credit institutions to verify compliance with those criteria. Clarify the documentation needed to verify compliance with DNSH criteria that are not set on par with EU legislation, e.g. in the EU Taxonomy Compass. The Platform notes that DNSH criteria are not embedded in Energy Performance Certificate (EPC) label schemes and recommends they should be added in the future to ease future compliance.
  For the DNSH adaptation, the Platform notes that most credit institutions do not have information on mitigating actions for the assessment of climate change adaptation DNSH. Climate change adaptation DNSH analysis has to date often been done by leveraging credit institutions' Pillar 3 ESG disclosure methodologies related to climate-related physical risk, currently based on Template 5 in the Annex to the ITS. The Platform recommends taking account of prudential practices when reviewing the Climate and Environmental

Delegated Acts and to clarify that, for retail clients, the methodology used for physical risk assessment in the European Banking Authority (EBA) Pillar 3 could be used for assessing physical risk in accordance with climate change adaptation DNSH criteria.

- **Relieve credit institutions of MS assessments on their retail exposures.** This is in line with the previous Platform' report on MS – for example, by clarifying that MS obligations only apply to direct corporate clients.
- **Clarify the inclusion of other retail loans,** e.g. those related to energy efficiency and renovation. Other retail activities would be those that can be assessed against technical screening criteria in the Taxonomy Regulation. These loans are important in the greening of the economy.

Consider a progressive integration of exposures into the GAR:

- **Consider integrating exposures progressively into the GAR based on the ability of credit institutions to build internal capabilities and access information, while maintaining total symmetry between the numerator and the denominator.** For example, the Commission might consider limiting the GAR to the corporate lending portfolio for the next reporting year (in-scope CSRD and non-EU using estimates), bringing in retail and other exposures into the following reporting years, e.g. 2027, 2028.

UoP:

- Avoid further due diligence requirements for the financial entity exposed to the company in scope of the CSRD for EU operations.
- Clarify that CSRD in-scope borrowers', i.e., loan counterparties', audited statements on Taxonomy alignment can be used as sufficient documentary evidence for known-UoP loan assessments in the GAR.[10] By doing so, this would decrease the reporting burden and potentially increase reported UoP that are taxonomy aligned. Note that the reporting of UoP Taxonomy alignment after the first year of reporting was zero or close to zero for most credit institutions. This simplification could be complementary to the incorporation of taxonomy assessment metrics (SC, DNSH, MS) in loans' terms and conditions.

[10] E.g. a UoP loan could be accompanied by forward-looking commitments by the loan counterparties on the future environmental performance of the investment. If additionally needed for certain specific standalone investments, such as a new building, the counterparties' audited statements on Taxonomy alignment, upon investment completion, would then be sufficient to confirm the original UoP loan taxonomy-alignment reporting.

Listed and unlisted SMEs:

Lack of reported information is the key challenge for credit institutions in regard to SME exposures. Allowing information from the Simplified and Streamlined Approaches for reporting the GAR would be a way to facilitate this, while avoiding any supplementary burden on SMEs.

- Allow listed SMEs that report using the Simplified Approach developed by the Platform to be included in the numerator of the GAR and GIR. Listed SMEs are in scope of the CSRD and will therefore be included in the numerator of the GAR as per the phase-in of CSRD obligations.

Consider the following options for the reporting of unlisted SMEs in the GAR:

- Option 1: Encourage voluntary reporting of a separate SME sustainability ratio by credit institutions for unlisted SMEs using the Streamlined Approach proposed by the Platform. Consequently, remove unlisted SMEs from the denominator of the GAR and do not include them in numerator as part of the Taxonomy Disclosures Delegated Act review.
- Option 2: Include unlisted SMEs in the numerator using the Streamlined Approach proposed by the Platform. Unlisted SMEs are already included in the denominator. A clear indication of the percentage of reporting against the Streamlined Approach should be included as part of the breakdown of the overall ratio, detailing the portions calculated from actual Taxonomy reporting, estimates and the Streamlined Approach. With the Streamlined Approach included, the GAR might be more adequately referred to as the Sustainable Asset Ratio, as the Streamlined Approach primarily reflects financing directed towards activities transitioning to environmental sustainability[11].

Consistency between Taxonomy and Pillar 3 ESG risk disclosures:

Allowing for similar methodologies and datapoints simplifies the process, helping to avoid additional burdens on reporting by credit institutions. From an investor point of view, it could also streamline the number of assessment metrics required.

[11] The Platform notes there may be ways to further identified green finance as part of the wider transition finance concept.

- **Ensure alignment and full consistency of obligations and reporting methods across the Taxonomy Disclosures Delegated Act and Pillar 3 ESG risk disclosures (including GAR).** If such alignment and full consistency is not possible, then consider the most appropriate and complementary reporting for credit institutions between their Taxonomy and Pillar 3 ESG risk disclosures.
- **Consider a similar approach to ensure alignment and consistency for BTAR depending on the final outcome of the GAR review.** Including with regards the use of estimates, and the treatment of SMEs as part of the Taxonomy Disclosures Delegated Act review and in the overall sustainable finance framework.

Sovereign, supranational and government agencies (SSAs):

- **Include SSA UoP exposures, similar to local governments, in the numerator and denominator of the ratio,** in line with Platform 1.0 recommendations. Doing so recognises the importance of SSAs' contribution to sustainable finance, allows for alignment with other regulations like the EU GBS and aligns the treatment of SSAs with local governments. Allow for estimates on those exposures as well.

The Platform recommends that the next mandate of the Platform:

- **Review the usability and relevance of the Trading Book KPI, and Fees and Commission KPI,** in light of credit institutions' reporting experience in 2025. The Platform notes the overwhelming wish from the industry to delete these KPIs from the reporting obligation as they are not deemed decision useful.
- **Support the Commission with harmonised principles on estimate methodologies and necessary safe harbour in the GAR,** as per recommendations above.
- **Review all TSC for real estate to enable credit institutions to assess their mortgage portfolios.** Mortgages make up a significant portion of many credit institutions' reported GAR and simplified TSC criteria are needed to enable credit institutions to account for all their real estate exposures. Meanwhile, credit institutions should be encouraged to use estimates and proxies, as per recommendations above.

Underwriting KPI

The Platform reviewed challenges associated with the application of the Underwriting KPI, building on insurers and reinsurers' observations on the first reporting year for taxonomy alignment. An insurance workstream was established, comprising Platform members, observers and external ad-hoc experts.

The Platform recommends the European Commission:

- **Clarify that premiums should be accounted for in a similar way when determining the eligibility and the alignment ratios.** Ensure consistency in methodology.
- **Allow for the use of proxies in the numerator of the ratios,** with a requirement that transparency is provided by the preparers on the methodologies used.
- **Measure the consolidated contribution from insurance and reinsurance companies by utilising the Investment KPI for CapEx disclosures and the Underwriting KPI for turnover.**
- **Enhance consistency in requirements for reinsurance in the Taxonomy Disclosures Delegated Act and Climate Delegated Act,** clarifying it is expected to compute alignment based on a review of compliance with TSC and not a look-through approach.
- **Establish a materiality threshold for the ratio on underwriting for activities exposed to the Taxonomy,** in line with the proposal for non-financial companies.

The Platform recommends that the next mandate of the Platform:

- **Explore the broader contribution of insurers to environmental objectives, beyond climate adaptation, and how this may be better integrated into the Taxonomy framework going forwards.** The Platform has initiated discussions among the industry and determined it was too early to form a final position within the timeframe of its mandate, given the need to ensure complementarity and consistency of a proposal with ongoing work from the European Financial Reporting Advisory Group (EFRAG) on insurance sector-specific standards.

Reporting templates

The Platform reviewed the reporting templates of the Taxonomy Disclosures Delegated Act that apply to non-financials, credit institutions and insurers, and suggests a clear reduction of data points to limit the reporting to information that is relevant for making business decisions for investors and companies themselves. The Platform also acknowledges the

2024 European Securities and Markets Authority (ESMA) statement recalling entities in scope of the Taxonomy Disclosures Delegated Act to report against and comply with said templates.[12]

The Platform recommends that the European Commission:

- Ensure coherence across different reporting regulations and simplify templates by reducing fields or combining templates to focus reporting on company-relevant information and avoid redundancies of information collected, including removal of non-decision-useful templates or fields. Include formulas for clarification across templates, clarify terminology and automate for machine-readability as much as possible.

The Platform recommends that the next mandate of the Platform:

- Advise the Commission concerning the review of the Taxonomy Disclosures Delegated Act to simplify the reporting templates and ensure coherence across different reporting obligations by reducing fields or combining templates, in particular for Annex II (reporting of non-financial undertakings). The next mandate of the Platform should ensure close interaction with the industry so that relevant fields and data points that are redundant and not machine readable can be amended, while preserving the integrity of the framework and reporting obligation.

Use of estimates across the framework

Companies within the scope of the Taxonomy Regulation, subject to CSRD reporting requirements, will provide the necessary data needed for financial undertakings to comply with their own obligations. When investee companies or counterparties lack Taxonomy data, financial institutions may need to use estimates for companies or debt products that are not in scope for CSRD. A taxonomy estimation model can help capture a fair view of assets in line with the EU Taxonomy's climate and environmental criteria, namely for international companies or international operations outside CSRD. To ensure consistency, the Platform has set criteria and guidance for using estimates and proxies on eligibility, substantial contribution (SC), DNSH and MS.

[12] ESMA. 2024. "European Common Enforcement Priorities for 2024 Corporate Reporting."

The Platform recommends the European Commission:

Allow for Taxonomy estimates in the following cases:

- For use in financial disclosures under Article 8 and financial product disclosures under Articles 5 and 6 of the Taxonomy Regulation.[13]
- Only to be used for companies or use of proceeds lending activities that are not subject to Taxonomy reporting themselves. The taxonomy alignment reported by non CSRD companies or related to UoP instruments would not require further scrutiny if independently audited with a positive conclusion[14]. Where there is sufficient information to test or proxy the Taxonomy alignment of a sustainable use of proceeds instrument, an estimate could be used.
- In no cases should a Taxonomy estimate be used in preference to a company's disclosure against the Taxonomy Regulation.
- Provide clear and harmonised guidance on estimate methodologies to abide by precautionary principles, which includes simplification of DNSH criteria and MS, as per below. This may need to be a phased approach as in the interim and foreseeable future, multiple estimation methodologies may apply. Financial institutions may face increased greenwashing risks in the absence of harmonised and agreed-upon estimation models.
- All estimates or proxies used will have to comply with the standards and guidelines from the Commission.

Recommendations can apply to Taxonomy estimates for:

- Activities contained in the Climate and Environmental Delegated Acts.
- Primary KPIs of non-financial companies – Turnover, CapEx.
- Financial reporting for the GAR and GIR.
- UoP instruments.

Estimation for eligibility:

- Is scoped to activities contained in the Climate and Environmental Delegated Acts only.

[13] Note that the Commission has clarified that the use of complementary (i.e. additional) assessments and estimates for companies not in scope or not yet reporting under the CSRD/Taxonomy Regulation is permitted for financial product disclosures. European Commission (2023), Commission Staff Working Document – Enhancing the usability of the EU Taxonomy and the overall EU sustainable finance framework, Accompanying the Communication A sustainable finance framework that works on the ground SWD 2023, 317 final, Brussels.

[14] The use of the assured taxonomy-alignment assessment from a CSRD entity is subject to conditions linked to the nature and location of the investment, the financing type and the type of economic activity reported as taxonomy aligned by the financed entity. Therefore, a case-by-case assessment is necessary to validate the use of this approach at the time of appraisal and/or disbursement. Where applicable, DNSH-related contractual conditions can be defined at time of approval and monitored during implementation to verify compliance with these conditions over time.

- Uses financial statements made by the company as the basis for estimating eligibility.
- Provides a clear, publicly disclosed mapping table of the Taxonomy activity to the Classification system used.
- Applies the precautionary principle.

Estimation for Taxonomy SC and DNSH criteria:

- Is scoped to activities contained in the Climate and Environmental Delegated Acts only.
- Uses financial and non-financial statements and reports made by the company as the basis for estimating Turnover and CapEx KPIs.
- Is included in the prospectus and/or impact and allocation report of the UoP instruments, for lending activities
- Applies the precautionary principle.

Recommendations on MS:

- Is applied to a legal entity and not to a specific activity or project.
- Estimation models should seek to determine social violations, without a suitable plan to remediate the issues identified.
- Uses financial and non-financial statements and reports made by the company as the basis for estimating compliance.
- Can use third-party sources for controversy and adverse media to screen for violations (for example, consisting of final convictions/judgements), or listing in either the OECD database of specific instances or of well-recognised international institutions, but compliance ought to be based on due diligence.
- Provides a clear, publicly disclosed mapping table of the MS testing criteria to the pass/fail determination in the estimation model.
- Applies the precautionary principle.

International interoperability:

- Explore further work to be undertaken by the IPSF and other relevant international interoperability initiatives to continue the work on a Multi-jurisdiction Common Ground Taxonomy (M-CGT). Yet, at the time of writing the Common Ground Taxonomy (CGT) has only analysed SC criteria related to the climate change mitigation objective. It is important to extend this work to cover all environmental objectives, DNSH and MS. Once the IPSF work is completed (i.e. the CGT covers SC, DNSH and MS), reporting by a non-EU company under its own domestic taxonomy that meets the IPSF standards could be considered by financial institutions as a proxy for the EU Taxonomy for the purposes of green ratio or financial product disclosures. Such reporting would be

considered as an estimate unless it is equivalent to the EU Taxonomy. It is important to note that the CSRD includes an equivalence regime for non-EU companies.

Treatment of derivatives

At the time of writing, derivatives are excluded from the numerator of Taxonomy KPIs and may be integrated post review of the Taxonomy Disclosures Delegated Act. According to the current SFDR texts, including Level 3 (ESAs Q&As) as consolidated in the ESAs Report, derivatives are accounted in full (long and short positions) in principal adverse impact (PAI) metrics but only partially in Taxonomy-alignment metrics (short derivatives positions only) and are silenced in sustainable investment (SI) and netted at issuer level.

In this report, the Platform has reviewed how derivatives should be accounted for in a consistent way across the framework but has not debated whether they should be included in the numerator of Taxonomy KPIs. The Platform has built upon the recommendations of the previous Platform regarding the inclusion or exclusion of derivatives.

The Platform recommends that the European Commission:

- Apply a consistent approach to account for derivatives across the sustainable finance framework and related indicators (e.g. Taxonomy, SFDR PAI, SFDR SI), regardless of intentionality. At the time of writing, the treatment of derivatives, such as clarified in Commission FAQs, is not consistent between the SFDR and the Taxonomy Regulation, which may constitute additional reporting challenges and comparability issues for investors.
- Apply a look-through approach for derivatives assessment across the frameworks (i.e. assessment of the underlying asset). This is how the markets already assess taxonomy and SFDR PAIs.
- Apply the delta and conversion methodology for the calculation and reporting of derivatives across the framework.
- Consider the netting approach for calculation and reporting of derivatives. Netting is not specific to derivatives and is already used with existing regulations; therefore, netting should apply across physical and derivative positions at each component (i.e. individual issuer) level. This is in line with the ESA 2024 Q&A.[15]

[15] EBA, EIOPA, ESMA. 2024. "Consolidated Questions and Answers (Q&A) on the SFDR (Regulation (EU) 2019/2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022/1288)." Joint Committee of the European Supervisory Authorities.

- Consider applying the flooring methodology at portfolio level and not at issuer level. To enhance consistency across the frameworks, flooring at portfolio level could be applied to all indicators, including Taxonomy, SFDR PAIs and SFDR SI. This is in line with the ESA 2024 Q&A.16
- Consider the following positions for product-level derivatives disclosures: cash investments, net long derivatives, net short derivatives and net position. The Platform notes that the SFDR already requires qualitative explanations on what is or is not included in sustainability considerations, and that intentionality should not be considered in the quantitative accounting.
- The Platform does not opine on the difference in impact for physically held or synthetic replication and recommends keeping both types in scope of the disclosures.

Auditors and assurance

In this section, the Platform elaborates on the assurance perspective related to the Disclosures Delegated Act and broader related items and provides assurance-related recommendations that require consistent collaboration among key stakeholders.

The Platform recommends the European Commission:

- **Develop timely guidance on the 'assurance' of Taxonomy reporting, including the application of the materiality threshold and/or materiality principle,** ideally before 2028, to ensure fair presentation and support the transition to mandatory reasonable assurance.
- **Provide sufficient level of detail in the limited assurance standards to be adopted by 1 October 2026, at the latest.** ISSA 5000 provides a solid framework. Yet, the level of detail and ambition of the European standards might require specific guidelines for those areas not covered by ISSA 5000. These will ensure that assurance providers are properly guided, minimising the risk of subjective interpretation.

The Platform recommends the next mandate of the Platform:

- Ensure auditors and assurance providers participate in the next Platform and promote common approaches to data interpretation and assurance. Foster dialogue with consultants as key stakeholders in reporting. Establish linkages

[16] Ibid.

between the next Platform, EFRAG, and CEAOB to align assurance efforts ahead of the 2028 transition to reasonable assurance, as outlined in CSRD Recital 60. Additionally, connect with ISSA 5000 to support a unified approach.

Simplifications for SMEs

The Platform was tasked with reviewing the treatment of SMEs and SME finance in the EU sustainable finance framework. In this capacity, the Platform supported the measures outlined in the SME Relief Package and contributed to the development of the reporting standards for listed SMEs (LSME standards) and unlisted SMEs (VSME standards) under the CSRD as developed by EFRAG. In addition, the Platform worked on two approaches to address the challenges that both listed and unlisted SMEs face in greening their activities and in accessing external financing for their climate-related sustainability efforts.

The Platform recommends the European Commission:

- **Adopt two tailored approaches to be used by credit institutions or other financiers to classify the loans or other type of financing they provide to SMEs as sustainable (green or transition) finance:**

  1. a Simplified Approach for listed SMEs (green finance).
  2. a Streamlined Approach for unlisted SMEs (transition finance).

The Platform recommends the next mandate of the Platform:

- Consider expanding the Simplified and Streamlined Approaches to cover also the remaining four Taxonomy environmental objectives, subject to the Commission's approval of the proposed approaches for the climate objectives.
- Support the Commission in the development of the online tool proposed under the Streamlined Approach.

Simplifying reporting under the EU Taxonomy

In the following sections, the Platform formulates recommendations to improve and streamline the taxonomy-related disclosure requirements applying to financial and non-financial entities, in scope of the Taxonomy Disclosures Delegated Act. In doing so, the Platform has considered additional guidance that has been provided by the European Commission through the dedicated FAQs on the EU Taxonomy Regulation. The published FAQs are available on the European Commission website, through the dedicated page of the EU Taxonomy Navigator, and the Official Journal of the European Union.

At the time of writing, non-financial companies have reported two years of Taxonomy-alignment KPIs (FY2022, FY2023), while financial institutions have reported their Taxonomy-alignment KPIs for the first time in 2024 (FY2023).

Figure 2: Average and median Taxonomy turnover alignment by sector, full year 2023, Bloomberg.

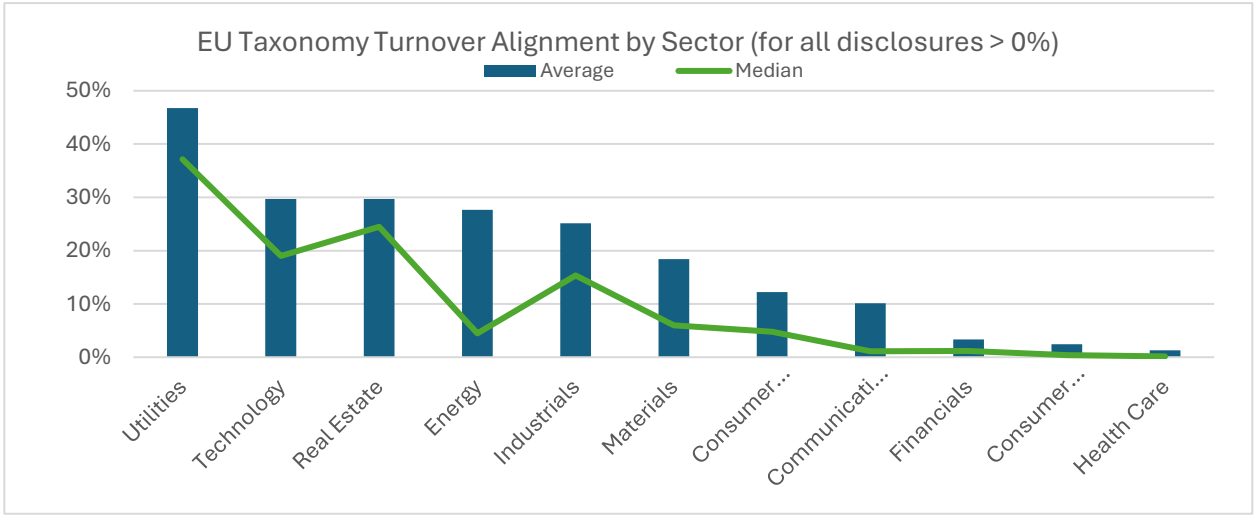
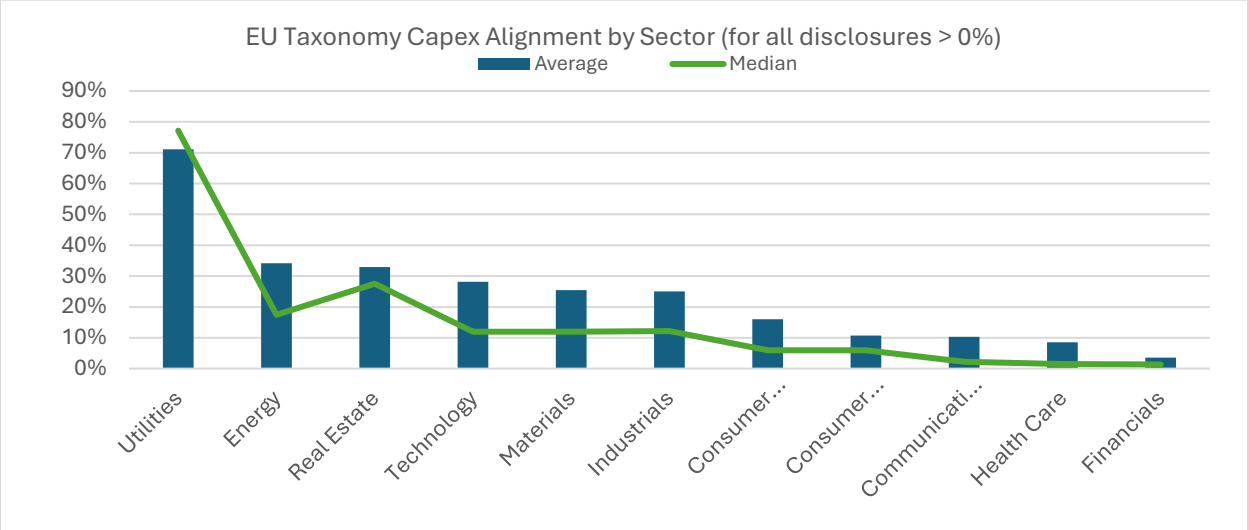


Figure 3: Average and median Taxonomy CapEx alignment by sector, full year 2023, Bloomberg.



Companies in the EU have made significant efforts to implement the EU Taxonomy over the past several years. In 2024, for the very first time, it is possible to reflect on a full year's worth of reporting.[17] Companies are making significant investments in sustainable activities or in greening their activities. The average alignment of CapEx is significant, suggesting that companies will be even greener once those investments bear fruit. Taxonomy-aligned revenue across entities reporting EU Taxonomy alignment in FY2022 and FY2023 has grown from €670bn to €814bn (up 22%), while green CapEx increased from €220bn to €291bn (up 32%).[18]

While an improvement in the quality of data reported by undertakings in scope of the EU Taxonomy has been observed over the past years, the quality of data reported still needs to improve to enhance usability and comparability, for both financial and non-financial undertakings. As noted in a report published by the ESMA,[19] recurring issues are still observed in the use of reporting templates, e.g. missing mandatory datapoints. Those issues can result in reduced comparability and divergences in the data being distributed by data providers to their clients, which are mostly financial institutions. The Data Science Hub of the Platform ran a second iteration of the data vendor survey with the objective to continue the work on understanding where the data market stands regarding EU Taxonomy data in terms of both eligibility and alignment, and additionally data points commonly used in exclusions. While results reflect enhancement in data quality and comparability, in

17 Bloomberg. 2024. "EU Sustainable Finance Trends."

18 Bloomberg.

19The reporting templates have generally been used, but for 30% of the sample they were either modified or not fully completed, which may impact comparability and make access to the data more difficult for users. Full reporting using the complete templates is mandatory. ESMA32-992851010-1098 - Summary of findings Results of a fact-finding exercise on corporate reporting practices under the Taxonomy Regulation.

particular for the turnover metric, areas of improvement remain. Capacity-building efforts by stakeholders across the sustainable finance value chain remain crucial to ensuring the EU sustainable finance framework functions effectively in practice.

'Do no significant harm' criteria

In January 2024, the Platform published a Compendium of Market Practices, assessing the main challenges that companies and other stakeholders encounter when reporting under and using the Taxonomy. The report delves into the specifics of these challenges and concludes that usability of the technical criteria of DNSH remains an issue.

Companies and financial institutions' first reporting year has highlighted persistent issues, including incomplete access to information, disproportionate due diligence efforts and the complexity of the criteria as written in the Climate and Environmental Delegated Acts.

One of the main challenges with the DNSH criteria relates to the fact that some of the criteria are relevant for new projects or investments, where they are useful and need to be considered upfront by those conducting the activity. However, it has proven challenging to assess compliance retrospectively, when the assessor is not directly involved in the activity, or when deciding on whether to provide finance to a new project or investment. While the DNSH criteria is crucial to address unintended consequences, maintain the interconnectedness of environmental objectives and avoid loopholes, a more practical approach is required – one that is adapted to the different uses and users.

1. DNSH criteria compliance for non-financial companies

Usability concerns with DNSH criteria can be characterised in the following themes:

1. Asymmetry between the different users and uses, and between stock and flow applications of DNSH.
2. Consistency and usability of testing criteria.
3. Control over the verified outcome (assurance).
4. International applicability.

As mentioned in the previous section TSC in the Climate and Environmental Delegated Acts are predominantly qualitative (88% of DNSH criteria), and for the 12% that are quantitative, 72% of those do not reference any standards. That means only 3% of the criteria are quantitative and linked to a standard. In other words, only 3% of the criteria can have data that can be consistently collected and transformed to build an accurate assessment.

The very nature of certain environmental objectives, such as biodiversity, coupled with the fact that measuring the impact of economic activities on these objectives is still in its early stages, makes it difficult to establish clear and quantitative criteria. The ability to establish quantitative criteria is expected to grow over time as measurement methods and data availability improve and more standards are developed.

Table 1: Classifying EU Taxonomy DNSH criteria, source EU Platform, 2022

Type	Name		Example	Assessment
A	Second Threshold		*Climate Change Mitigation:* "The direct GHG emissions of the activity are lower than 270g CO2e/kWh."	Quantitative
B	Process Measure		*Ecosystems:* "Where relevant, maintenance of vegetation along road transport infrastructure ensures that invasive species do not spread. Mitigation measures have been implemented to avoid wildlife collisions."	Quantitative & Qualitative
C	International Standards & EU Legislation		*Pollution:* "Measures in place to minimise toxicity of anti-fouling paint and biocides as regulated in the Biocidal Products Regulation: (EU) 528/2012, which implements (in the EU) the International Convention on the Control of Harmful Anti-fouling Systems on Ships, which was adopted on 5 October 2001."	Quantitative & Qualitative
D	EU Only Legislation	D1.1 EU Regulation	*Pollution:* "The activity complies with Regulation (EU) 2019/1009 or national rules on fertilisers or soil improvers for agricultural use."	Quantitative & Qualitative
		D1.2 EU Directive	*Ecosystems:* "An Environmental Impact Assessment (EIA) or screening has been completed in accordance with Directive 2011/92/EU."	
E	Non-assessable Ambition		*Circular Economy:* "Peat extraction is minimised."	Not possible

The Platform classifies DNSH criteria from Type A to D in its 2022 Data and Usability Report (see Table 1). Type D (EU-only legislation) and Type E (non-assessable ambition) were already considered the hardest to assess from a usability perspective. The majority of DNSH criteria were classified as Type D (41%), Type B (process measure, 38%) and Type E (9%).

Over the course of its second mandate, the Platform has analysed the shortcomings of DNSH criteria further from several perspectives, including those of companies, finance institutions, auditors, SMEs and public sector entities. It has assessed the key usability constraints of the DNSH framework, clearly distinguishing between actors who conduct the activity and those who assess whether a third party has complied with the criteria.

The Platform highlights that the DNSH technical criteria are fit for purpose for the use by corporates for new projects or investments made by non-financial large corporates conducting activities within the EU. This means that the full criteria can be complied with in relation to new investments and CapEx in its current form[20]. By reporting CapEx alignment, companies are effectively declaring that they have integrated the DNSH criteria from the outset, as they must comply with these criteria during the construction, upgrade,

[20] Acknowledging a need to address interpretative and consistency challenges and provide guidance in certain cases, in case of external financing being involved.

or transformation of the asset or activity being financed. This commitment is typically formalised in the contracts or contractual conditions attached to the investment.[21]

However, non-financial companies may face challenges in terms of measuring revenues generated from Taxonomy-aligned activities for certain activities when assessing compliance with some DNSH criteria retrospectively. For instance, evaluating DNSH on circular economy for a specific activity can be very difficult or even impossible once the activity has already taken place. The DNSH criteria states that "70% of construction and demolition waste will be prepared for reuse and recycling". It is possible that this was the case but without data collected at the time it cannot be demonstrated.

The Platform recommends that the European Commission undertake a comprehensive review of the Climate and Environmental Delegated Acts, with a particular focus on improving the usability of the DNSH criteria. This review should prioritise practical considerations, especially regarding turnover, to ensure that the criteria remain feasible and effective during the scheduled updates of the various delegated acts. In developing or reviewing the DNSH criteria, the Commission should aim to make them as clear and unambiguous as possible, incorporating Taxonomy criteria with parameters that allow for pass/fail outcomes (see Table 3). These criteria should be verifiable through a range of objective means, such as documents, tests and third-party verifications. Furthermore, the Commission should ensure that to the extent possible the DNSH criteria are under the control of non-financial companies, ensuring they do not rely on external factors or entities that the companies cannot influence except those rare cases where it is not possible to design robust criteria otherwise. The Platform's Technical Working Group has further worked to address challenges to process measure through accompanying guidance that simplifies these process-based tests. Further details are available in the Platform (draft) report on Activities and Technical Screening Criteria to be Updated or Included in the EU Taxonomy.[22]

It is also important that the review distinguishes between turnover and CapEx where relevant, as this will help to refine the criteria's applicability and practical implementation. The Commission should provide flexibility in turnover alignment for compliance with DNSH criteria for specific activities, particularly where assessment is challenging due to the backward-looking nature of the evaluation. The Platform recommends allowing DNSH compliance for turnover-alignment to be assessed on a comply-or-explain basis only, for specific activities, where the assessment is burdensome and challenging due to the

[21] Non-financial companies" does not cover listed and unlisted SMEs, which have been considered separately and for which recommendations in relation to a simplification of the DNSH criteria are proposed in a separate forthcoming Platform report on simplified and streamlined approaches for SMEs.
[22] (e.g. Review of Climate Delegated Act on page 19 and the construction and real estate sector section on page 85, which summarises issues around reporting at the entity, economic activity and asset level)

backward-looking nature of the evaluation. This should only be a temporary measure until the review of the full DNSH in the three delegated acts has been conducted.

Comply or explain would apply to:

- backward-looking criteria that concern decisions which have been made before the criteria entered into force and for which compliance cannot be achieved in current operations.
- for those criteria, it should be sufficient to show that the decisions were consistent with legal requirements at the time of the decision, and that all legal obligations deriving from these decisions are still complied with (this relates to, e.g. the requirements of paragraphs 2 and 3 of Appendix D).

Comply or explain would not apply to:

- any criteria that can be complied with based on current operations, e.g. thresholds for greenhouse gas (GHG) and other pollutants emissions, or process criteria applicable to current operations, like ensuring the good status of waterbodies or continuing required adaptation actions.
- any criteria for which non-compliance continues to inflict significant harm through current operations, although the decision cannot be reversed anymore, e.g., for activity sites located in protected areas or areas of high biodiversity value, or for adaptation measures that continue to adversely affect the adaptation efforts of others.

Companies should clearly state which DNSH they have not met and provide additional information explaining why they are currently unable to fulfil all the requirements. Such evidence provided by companies on DNSH assessment and compliance will be valuable in the perspective of the review of the Climate and Environmental Delegated Acts. Assurers and supervisors shall play an important role in preventing misuse by ensuring robust explanations.

In addition, when investments are made outside the EU and the DNSH criteria refer to EU-specific labelling schemes or regulations, the Platform recommends supporting companies by incorporating the suggested improvements below to ensure the criteria's international applicability.

As part of this review process, the Commission should also provide indications on relevant international standards where possible, indicators of compatible standards in guidance materials. Table 2 suggests improvements to DNSH criteria for international application.

Table 2: Suggested improvements to DNSH criteria for international application

Theme	Description / key points	Suggested improvements
International application	DNSH testing criteria point to a number of European directives and regulations as the baseline for testing criteria. Many EU companies with non-EU operations and international companies wishing to report under the EU framework have no clear way of modelling their business to the requirements.	DNSH criteria should comply with European law and take account of international law or environmental standards as a baseline. Additional testing criteria can be added to improve the environmental standard, where existing laws are considered inadequate. Recommended usability improvements include: ▪ Any use of legislation translated into quantitative and/or process-based wherever possible. ▪ As far as possible, references to widely adopted international standards and reporting guidelines, which can allow for the application of tests to international operations. Compatibility with EU regulatory requirements should be developed wherever possible. The options to do so could be: ▪ Establishing compatibility on a one-to-one basis, or ▪ Establishing interoperability mechanisms with international standards only to be used outside the EU.[23]

Table 3: Suggested improvements to DNSH criteria for consistency, usability and control over verified outcome (assurance)

Theme	Description / key points	Suggested improvements
Consistency and usability	▪ DNSH testing criteria should be objectively measurable by the reporting firm, financing firm, auditor, and any consultant or third party. Currently, the Platform observes the following	▪ Where possible, adopt clear and unambiguous testing criteria with parameters that enable pass/fail outcomes. ▪ Where possible, criteria should be objectively verifiable through the

[23] Note that direct reference to EU law can be advantageous for EU companies who already comply with the existing regulatory requirements.

	issues with DNSH testing criteria: ▪ Use of ambiguous and subjective definitions, e.g. “minimise” or “reduce” where the quantifiable value of reduction is not provided. ▪ Criteria where proof of compliance is not clear, such as what evidence is required to demonstrate the testing needs are met.	form of documents, tests, third-party verifications, etc. ▪ Support DNSH alignment assessment with the help of independent third-party verification, i.e. audited taxonomy alignment assessment with limited assurance would not require further scrutiny (if the auditor’s conclusions are positive).[24]
Control over verified outcome (assurance)	▪ Certain DNSH testing criteria are based on permits or provisions from third parties and Member States, and thus are not in the control of the reporting entity. In some cases, DNSH testing criteria look to directives that are still in development or not fully mature. This can be problematic for a company to claim compliance, when not in their direct control.	▪ As far as possible, ensure the DNSH criteria requirements are under the control of the non-financial company and do not depend on external factors/entities over which the final user has no control, except when the design of robust criteria is otherwise impossible. ▪ Develop DNSH criteria considering, where possible, internationally recognised references/standards.

2. DNSH compliance for financial market participants and financial institutions

Credit institutions or private equity funds could in some cases have an advantage, as they can gather information at the time when providing a loan/investment or underwriting a bond. Similar for certain flow transactions. However, gathering past data for stock, retail clients, or clients in general not publicly reporting, may not always be possible (also refer to recommendations on DNSH application in the GAR section). In addition, this type of additional information gathering requests need to be put in the context of the size and risks related to the financing being provided and what it will mean in terms of the pricing of the financing for the client. Likewise, there is an increasing skills gap globally, including in the financial sector. [25].

24 The use of the assured taxonomy-alignment assessment from a CSRD entity is subject to conditions linked to the nature and location of the investment, the financing type and the type of economic activity reported as taxonomy aligned by the financed entity. Therefore, a case-by-case assessment is necessary to validate the use of this approach at the time of appraisal and/or disbursement. Where applicable, DNSH-related contractual conditions can be defined at time of approval and monitored during implementation to verify compliance with these conditions over time.

25 As highlighted by recent data, refer to https://www.ftadviser.com/better-business/2024/12/19/we-need-to-bridge-the-green-skills-gap-in-finance/

UoP debt or CapEx assessments

For UoP debt or CapEx assessments, the DNSH criteria apply at the maturity of the project or financing. However, determining whether an activity will meet the DNSH criteria in the future can be problematic when the criteria rely on observed outcomes. In these cases, compliance is based on a commitment, with future impact reporting required for all funding directed towards new projects, rather than on actual outcomes.

This contrasts with the relative ease of complying with DNSH when conducting new investments or projects for the non-financial company actually conducting the activity as the criteria can be integrated at the outset.

Unless the reporting on taxonomy alignment happens after the investment has been fully implemented and/or the activity is operating at the desired levels (which could be several years after the time the investment is approved), the only solution is to ensure specific DNSH criteria related to contractual conditions/incentives are defined at time of approval. For large substantial projects monitoring during implementation could work depending on the financing model. Therefore, the DNSH criteria should be explicitly phrased to allow for this possibility – indicating, if necessary, any minimum requirements for reporting before verification can occur in line with lending and/ or green bond issuance practices. For example, a green bond issuer has included funding for its electricity generation from hydropower as part of its green bond framework. The tenor of the bond is 7 years. The issuer states that funding for this project meets TSC for taxonomy alignment. As part of this assessment, MS and DNSH categories are checked at the time of bond issuance, e.g. DNSH for water: "technically feasible and ecologically relevant mitigation measures have been implemented to reduce adverse impacts on water as well as protected habitats and species directly dependent on water." At the time of issuance, relevant DNSH has been met; hence it was taxonomy aligned. Relevant monitoring practices could be explicitly stated in the contractual conditions to ensure proper monitoring during the tenor of the bond and not just at the date of issuance. In light of the above, testing criteria could be considered to allow for:

- Specific DNSH-related contractual conditions/incentives to be defined at the time of approval and monitored during implementation to verify compliance with these conditions over time.
- If possible, indicate any minimum requirements for reporting before verification can occur.

The previous Platform further analysed grandfathering options in its 2022 report on data and usability, which are worth considering for stock and green loans.

In the spirit of reducing unnecessary burden on financial institutions, the Platform has come to conclude that where financial institutions or FMPs ought to assess compliance with DNSH criteria that refer to the EU legislation (e.g., DNSH Type D) for use-of-proceeds instruments, no further due diligence from the financial entity exposed to EU operations of entities should be required. In this case, DNSH criteria adherence should be automatic, without further need for assessment by financial entities for their own disclosures. The European Commission should clarify which DNSH criteria are set on par with legislation and relieve the requirement on financial institutions and FMPs to verify compliance with those criteria. Alternatively, the European Commission should clarify the documentation needed to verify compliance with DNSH criteria that are not set on par with EU legislation – for example, in the EU Taxonomy Compass.

This could be clarified in supplementary guidance such as an FAQ to the Taxonomy Disclosures Delegated Act or as part of the review of the Taxonomy Disclosures Delegated Act.

Equity and revenue:

Equity and revenue reporting related to companies within the scope of the CSRD that have already reported their KPIs should not entail further due diligence by the financial entity. This is also in line with recommendations in the GAR section of this report. For the rest, equity and revenue reporting requires that DNSH criteria are met at the time the report is submitted. However, as explained above, obtaining information for past operations (stock) or where the company is not in control of the information, may prove impossible in some cases, for example, in assessing compliance with the DNSH criteria for activities conducted before the implementation of the relevant regulations.

In such cases, the Platform recommends that the European Commission allow the use of estimates and proxies, as well as provide flexibility in revenue alignment for compliance with DNSH criteria. This flexibility should be specifically applied to activities where assessment is particularly burdensome and challenging due to the backward-looking nature of the evaluation.

Retail market:

For financial instruments aimed at the retail market, it is currently the responsibility of the credit institution to ensure compliance with the DNSH criteria. However, for most of these cases, the necessary information is not yet readily or systematically accessible to financial institutions. More work is required to provide financial institutions with the relevant data. The European Commission should relieve credit institutions of the requirement to verify compliance with DNSH criteria, as a temporary measure until (i) the relevant information from retail clients is systematically accessible to financial institutions and (ii) the Climate

and Environmental Delegated Acts have been reviewed, enabling banks to perform such assessments.

In the medium to long term, for car loans specifically, explore possibilities for car manufacturers to centralise and disclose information on DNSH compliance. In addition, clarify which DNSH criteria are set on par with legislation and relieve the requirement on credit institutions to verify compliance with those criteria. Clarify the documentation needed to verify compliance with DNSH criteria that are not set on par with EU legislation, e.g. in the EU Taxonomy Compass.

The Platform notes, in addition, that DNSH criteria are not embedded in EPC label schemes, which complicates data access. The Platform believes that the most effective way to ensure compliance with the DNSH criteria of the Taxonomy – not only for mortgages but also in practical application – is to integrate the criteria and themes into EPC certificates26. Until then, the Platform considers that flexibility in the assessment of compliance should be provided for credit institutions when evaluating green mortgages.

For the DNSH adaptation, the Platform notes that most credit institutions do not have information on mitigating actions for the assessment of climate change adaptation DNSH. Climate change adaptation DNSH analysis has to date often been done by leveraging credit institutions' Pillar 3 ESG disclosure methodologies related to climate-related physical risk, currently based on Template 5 in the Annex to the ITS. The Platform recommends taking account of prudential practices when reviewing the Climate and Environmental Delegated Acts and to clarify that, for retail clients, the methodology used for physical risk assessment in the European Banking Authority (EBA) Pillar 3 could be used for assessing physical risk in accordance with climate change adaptation DNSH criteria. The Commission should seek to improve access to data on mitigating actions necessary for assessing alignment with the climate change adaptation DNSH criteria – for example, by working together with insurers and European Insurance and Occupational Pensions Authority (EIOPA), noting the data privacy issues raised by credit institutions.

3. Estimating DNSH criteria where data is unavailable.

In particular, for non-EU and non-CSRD exposures of financial entities that do not voluntarily report against the EU Taxonomy, the Platform recommends that the European Commission allow for the use of estimates to assess DNSH criteria. The Platform provides a methodological approach to the use of estimates for DNSH criteria in the Climate and Environmental Delegated Acts. The approach suggests that if a company does not disclose the underlying data needed for testing, it cannot be deemed to pass, unless a due diligence-based approach to testing is clarified in supplementary guidance. The Platform concludes that, for example, the combined use of controversies, ESG datapoints and information, can

[26] e.g., concept EPC++ so the integration of environmental performance additional to only the energy performance of buildings, noting that Member States run EPC schemes and these are not harmonised. An alternative is the use of EU Taxonomy aligned voluntary green building schemes and EU Taxonomy verification and assurance services, as approved by the EC, at the building or district level to prove compliance.

facilitate adoption and possibly address the lack of data available. A proportional due diligence process either based on OECD Guidelines or one that relies on audits, questionnaires or evidence-based data analysis may be used.

4. Estimating DNSH for SME exposures.

The Taxonomy Regulation does not apply to unlisted SMEs, which are thus not required to conduct a DNSH and MS assessment. The Platform has developed the Streamlined Approach for unlisted SMEs for voluntary use. The following elements are proposed to ensure that unlisted SMEs that qualify under the approach adhere to minimum environmental and social safeguards:

1. As a first and self-evident element, the unlisted SME complies with applicable laws in scope in its jurisdiction.
2. As a second element, the unlisted SME cannot finance activities in the excluded sectors defined in the EU Benchmark Regulation for Paris-Aligned Benchmarks and in case of general-purpose finance, the SME itself cannot fall under these excluded sectors or provide dedicated services or products for an excluded activity.
3. As a third element, microenterprises can report using the sustainability indicators of the VSME standards Basic Module and for larger unlisted SMEs VSME standards Comprehensive Module on the indicators related to due diligence regarding human rights policies and processes (C 6) and severe negative human rights incidents (C 7).

The fulfilment of the above elements ensures that unlisted SMEs comply with minimum environmental and social safeguards, which could serve as a basis for estimating their compliance with DNSH criteria when applicable.

Corporate KPI

The Taxonomy Disclosures Delegated Act requires non-financial undertakings in scope of the CSRD to disclose (i) the proportion of their turnover derived from products or services associated with economic activities that qualify as environmentally sustainable under the EU Taxonomy, and (ii) the proportion of their CapEx and the proportion of their OpEx related to assets or processes associated with economic activities that qualify as environmentally sustainable.

The Taxonomy Disclosures Delegated Act Annex I paragraph 1.1.3 defines the OpEx KPI as the proportion of the OpEx associated with Taxonomy-aligned activities or to the CapEx plan. The OpEx covers direct non-capitalised costs relating to R&D, renovation measures, short-term leasing, maintenance and other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment that are necessary to ensure the continued and effective use of such assets.

Where the OpEx is not material for the business model of non-financial undertakings, the Taxonomy Disclosures Delegated Act Annex stipulates that undertakings are exempted from the calculation of the numerator of the OpEx KPI and shall disclose that numerator as being equal to zero.

Within the Compendium of Market Practices, the Platform identified some challenges with the usability of Corporate KPIs, some of which are further investigated in this report. Others will deserve further attention in the future, as highlighted in Table 4.

Table 4: Key Corporate KPIs observations

Topic	Observations
Turnover CapEx and OpEx metrics, Financial KPI – Materiality	▪ Possible reporting burden for certain companies with very limited exposure to Taxonomy activities.
OpEx KPI Relevance	▪ Turnover and CapEx seen as self-sufficient for a number of sectors. ▪ Limited relevance for external stakeholders, such as financial institutions, which do not report on OpEx.
OpEx KPI Metric	▪ Expense categories are insufficiently defined. While the current OpEx definition aims to reduce the burden, it falls short by neither fully easing

definition and calculation	the reporting requirements nor capturing the complete scope of relevant operating expenses for a given activity. ▪ The current definition of OpEx is not aligned with the one commonly used for financial statements as per internationally recognised accounting standards, making computation burdensome, preventing comparability and affecting data quality. ▪ The calculation process is generally not directly reconcilable to a company's software systems for financial statements, thus increasing the difficulty in data collection and workload.
CapEx Metric calculation	▪ While Annex I of the Article 8 Delegated Act27 clearly states that alignment with the financial statement is required, a review of reporting shows cases where there is a misalignment in the way companies are reporting their taxonomy eligible and aligned capital expenditure relative to their financial accounts. ▪ Lack of clarity on which investments and measures qualify under CapEx Type C.
All KPIs Coverage of manufacturing processes	▪ Ambiguity in Accounting for Manufacturing Processes: There is observed uncertainty regarding how to account for manufacturing processes involving intermediary steps under Article 8. ▪ Challenges in Reflecting Environmental Sustainability in Financial KPIs: Since 'environmental sustainability' is reported based on financial KPIs rather than individual production asset performance, the EU Taxonomy should recognise the complexity of certain manufacturing processes. In these cases, environmental sustainability does not always directly translate from production metrics to financial indicators, potentially leading to misrepresentation. ▪ Future Considerations for Platform 3.0: The next phase of the Platform could explore ways to better reflect the complexity of such manufacturing processes. Possible solutions include allowing revenues from multi-step processes to be accounted for or introducing additional sub-economic activities to improve recognition.
Scope of activities covered by the EU Taxonomy	▪ Certain activities that appear relevant from an environmental transition perspective are not included in the EU Taxonomy.

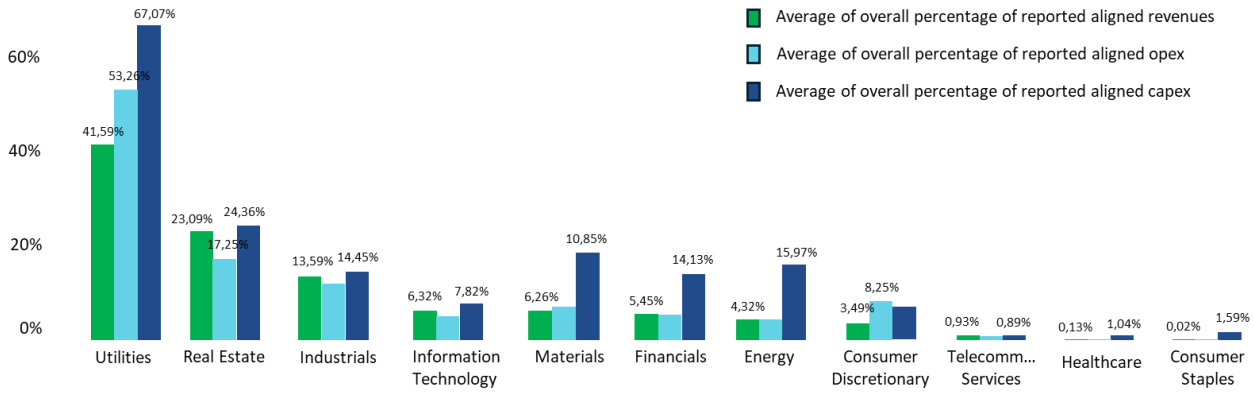
[27] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2178

1. Materiality Threshold

While adoption of the EU Taxonomy by companies is progressing, the overall figures on eligibility and alignment on the three KPIs are still fragmented across and within sectors, with 28% of Non-financial Reporting Directive (NFRD) companies having reported below 2% revenue eligibility, 9% having reported below 2% CapEx eligibility and 22% having reported below 2% OpEx eligibility[28].

The activities currently integrated in the Taxonomy Climate Delegated Act represent around 67% of GHG emissions in the European Union. Given certain sectors contribute more materially to GHG emissions, significant variability is observed across sectors, reflecting the greater relevance of the EU Taxonomy in its current form for some sectors.

Figure 4: Average Taxonomy-alignment reported, by sector and by metric



Source: Morningstar Sustainalytics, data as of June 2024, Average Taxonomy-alignment reported, by sector and by metric

Reducing reporting burden when Taxonomy eligibility is immaterial.

For companies for which the EU Taxonomy is less material at this stage (i.e. very low eligibility) preparing Taxonomy reporting represents a cost, with a potentially limited relevance in terms of strategy-setting for the company or in terms of the company's analysis by external stakeholders, such as investors.

During its current mandate, the Platform has worked on new activities, and increasing the scope of eligible activities should remain a key priority going forward for the European Commission. In the meantime, acknowledging the current coverage and to limit unnecessary reporting burden, for non-financial undertakings, the Platform recommends introducing a materiality threshold in the calculation of the Taxonomy KPIs. This will ensure proportionality in requirements by reducing burden when only a very limited portion of a

[28] Morningstar Sustainalytics, NFRD scope, data reported as of FY2023, Taxonomy data.

company's activities are covered by the EU Taxonomy. Whilst non-financial undertakings qualifying for this materiality threshold should be able to utilise this principle to reduce burden, they should equally be allowed to continue to report if they wish too.

The materiality threshold should be based on cumulative exposure rather than individual economic activities. However, the assessment should account for the relevance of each activity both individually and in aggregate to ensure a comprehensive evaluation of the company's exposure to the Taxonomy.

Under this approach, non-financial undertakings would assess the extent to which their business model—and specifically the activities they operate—corresponds to the descriptions in the Climate or Environmental Delegated Acts, potentially identified through NACE codes. If the assessment finds that these activities fall below the materiality threshold set by the European Commission, the undertaking would report that while certain activities meet the description of economic activities under the EU Taxonomy, they are deemed immaterial. A concise supporting rationale would be required, but the undertaking could choose not to report alignment for activities considered immaterial. As examples:

- A company operating in the health services industry and operating residential care facilities as a small part of its activities would meet the description of the activity "Residential care activities contribution to climate adaptation", corresponding to NACE code Q87. If this specific activity is immaterial to the overall business of the health services company, and to its expenditures, then it should only disclose that this activity is relevant under the EU Taxonomy but was assessed as immaterial. Alignment would not be assessed.
- A company operating in the real estate industry would meet the description of multiple activities under the EU Taxonomy. Some of those activities would be considered as material under the EU Taxonomy, representing a significant portion of their turnover or Capex, but it may also be that other activities are immaterial, representing only a few percent of their turnover. In such case the company would i) for those activities deemed to be material to the company from a financial perspective, continue to disclose relevance and assess alignment and ii) for those activities deemed to be immaterial, only disclose that this activity meet the description of a given activity under the EU Taxonomy but was assessed as immaterial. Alignment would not be assessed.

When considering how this materiality threshold would work, the Platform notes that the way companies segment their turnover (revenue) in their financial statement differs from the granularity seen in the Taxonomy turnover disclosure from non-financial corporates. When establishing a materiality approach, it is crucial to minimize, where relevant, any unnecessary inconsistencies with business segment reporting in annual financial

statements. Ensuring alignment in segment breakdowns across different reporting frameworks will enhance consistency and comparability. The materiality approach should be aligned with existing financial reporting regulations regarding materiality application and related explanatory requirements. A clear guidance should be provided by the Commission to support an effective implementation and aligned understanding by all stakeholders, including preparers, auditors, supervisors and investors.

The Platform recommends the guidance specifically:

- Defines thresholds to facilitate the assessment: the Platform observes that current materiality definitions vary across geographies, ranging from range from 5% (e.g., SEC, Spain, and Poland) to 10% (IFRS). The threshold calibration should be guided by the relevance of the information, but also be accompanied by a burden reduction assessment, with the table below providing an indication of the number of companies reporting less than 10%, 5% and 2% eligibility to the Taxonomy considering cumulative exposure. Thresholds could be reviewed over time as the coverage of taxonomy activities increases.
- Guides the materiality assessment with thresholds considering the materiality of the Taxonomy with regards to the company's business model and activities. To ensure sufficient information remains available including to investors, thresholds should consider the cumulative exposure to taxonomy eligible activities considered for exemption. As an example, the environmental goals addressed by the EU Taxonomy may be relevant to several small business segments within a same company, which in this case should not be able to exempt all activities from the alignment assessment.
- Threshold guidance could also consider the overall size of a company by setting an absolute threshold in terms of turnover above which an activity could not be exempted from alignment assessment. Such absolute threshold would mitigate the risk of large companies treating sizable business segments as immaterial relative to their overall size, while ignoring their broader impact where necessary.
- Companies should provide evidence and explain their rationale when using the materiality approach to justify non-disclosure. The guidance should set out the type of information to be provided to justify the absence of detailed disclosure. The Platform recommends a balance is found between the objective of delivering simplification and the objective of avoiding greenwashing.
- The reporting of the specific nuclear and gas energy activities included in the Complementary Climate Delegated Act should be exempt from the application of the materiality threshold.

- The Platform notes that such a principle may increase fragmentation in reported data across sectors and therefore reduce its perceived usefulness, which is why the extension of the scope of the Taxonomy continues to be critical.

Figure 5: Proportion of Companies reporting less than 10%, 5% and 2% of cumulative Eligibility to the EU Taxonomy, for the three KPIs

REVENUE
Eligibility of NFRD non-financial undertakings
- <10%: 538 out of 1323 cies= 41%
- <5%: 459 out of 1323 cies = 35%
- <2%: 372 out of 1323 cies = 28%

CAPEX
Eligibility of NFRD non-financial undertakings
- <10%: 263 out of 1323 cies= 20%
- <5%: 186 out of 1323 cies = 14%
- <2%: 118 out of 1323 cies = 9%

OPEX
Eligibility of NFRD non-financial undertakings
- <10%: 399 out of 1323 cies= 30%
- <5%: 339 out of 1323 cies = 26%
- <2%: 287 out of 1323 cies = 22%

Source: Morningstar Sustainalytics, data as of June 2024

2. Improving the usability of the OpEx KPI

The OpEx definition under the EU Taxonomy only includes certain expenses like R&D, short-term leasing, maintenance costs and other day-to-day OpEx related to maintenance, while excluding significant items such as cost of materials, personnel expenses (including contractors) and other day-to-day OpEx unrelated to maintenance.

Building on feedback from companies compiled in the Compendium of Market Practices, the Platform issued a survey focused on assessing the usability and relevance of the OpEx KPI. The survey was disseminated to European companies subject to the CSRD through Business Europe and CSR Europe in August 2024. It focused primarily on the limitations and potential for improvement of the OpEx KPI. The analysis and recommendations in this section build on the Platform survey results, outreach to selected non-financial companies, and publicly available studies by consulting and assurance companies.

Turnover and CapEx KPIs under the EU Taxonomy are regarded by about two thirds of respondents to be self-sufficient, with the OpEx KPI seen as particularly important to capture activities reflected in the Taxonomy that are not captured by revenues or CapEx, such as R&D or maintenance. In ongoing outreach, some companies have, as an example, expressed the importance of OpEx for specific activities such as green hydrogen.

For certain sectors, having the OpEx as an independent reporting metric enables the market to see how sustainably the company runs their operations, even when the activities performed are not revenue generating or not related to their core business. As an example, a paper and forestry company reported 28% OpEx alignment and 10% streaming from "forestry management" – an activity for which they have no revenue alignment. Similar cases arise for an airline company in terms of renovation of existing buildings and energy efficiency efforts.

Observed issues

Survey respondents nevertheless also raised several issues regarding the usability of the OpEx KPI – particularly its definition, which is disconnected from financial reporting standards, making it difficult to compute and reducing its relevance. Some respondents observed that its narrow definition does not allow them to reflect some of their efforts to run their operations in a more sustainable manner (e.g. use of greener sources of energy, etc.). They also found the guidance on the materiality exemption mechanism unclear.

The materiality exemption mechanism illustrated in Annex I paragraph 1.1.3.2 of the Taxonomy Disclosures Delegated Act allows companies to compute only their OpEx denominator, and if this is assessed as non-material to the business model, it allows them to disclose the related OpEx KPI as equal to zero using a specific template. The mechanism is largely used by non-financial undertakings, with as an illustration the AMF noting in its analysis of the 2022 Taxonomy disclosures of 31 non-financial undertakings that a third of the sample had relied on the materiality exemption mechanism. [29] Significant discrepancies are, however, noted with regards to the use of the mechanism at this stage, with issuers either applying the mechanism incorrectly (e.g. applying the exemption considering the numerator instead of denominator) or not providing required supporting information (e.g. the total value of the OpEx denominator is not disclosed).[30]

While the current OpEx definition and associated materiality exemption mechanism aimed to reduce the burden, they fall short by neither fully easing the reporting requirements, nor capturing the complete scope of relevant operating expenses for a given activity. Furthermore, the classification of expenses under the OpEx definition remains insufficiently clarified. Despite clarifications in FAQs, these still allow for varying interpretations and practical applications, creating challenges in both application and comparability.

[29] AMF. 2023. Report on Taxonomy disclosures of listed non-financial undertakings ("Étude sur le reporting taxonomie des sociétés cotées non financières)

[30] ESMA. 2023. Results of a fact-finding exercise on corporate reporting practices under the Taxonomy Regulation – ESMA

Proposed solutions

Therefore, to enhance the relevance of the OpEx metric, simplifying its computation and reducing reporting complexity more effectively, this metric should only remain mandatory for R&D expenditures, being made voluntary for other types of operational expenses. This would allow to assess the Taxonomy-alignment of R&D expenses that are critical for the transformation of business models but cannot be captured by turnover and CapEx. This would enable companies to include R&D expenses in their green use-of-proceeds issuances. Making reporting voluntary for other expense categories would reduce the reporting burden for certain sectors, while still allowing it for those sectors and undertakings for which the OpEx metric appears the most relevant.

In addition, to facilitate its computation, expense items should be linked to precise definitions that are ideally reconcilable with the accounting standards used by companies, with sector-specific guidance where possible. As part of this review of the calculation methodology, an enhanced integration of OpEx related to adaptation measures (e.g. insurance, hazard training, staff warning system upkeep, smaller equipment, etc.) should be considered for especially vulnerable sectors, This would allow companies most at stake to disclose on a voluntary basis, to respond notably to interest from investors, lenders and insurance providers which may increase capital availability for them due to demonstrated climate risk management.

Lastly, to allow non-financial undertakings to use the exemption mechanism in a more transparent, comparable and usable manner, clearer guidance should be provided by the Commission, in line with the recommendations outlined above.

Other identified challenges

Coverage of the EU Taxonomy

Whilst the activities in the Taxonomy Climate DA represent around 67% of GHG emissions in the EU, the survey results show that more than 50% of respondents report that a substantial part of their business activities is not currently covered by the EU Taxonomy. 30% of respondents indicated they used the Stakeholder Request Mechanism (“SRM”) to proactively propose a new activity or revision of the TSC. The Platform recalls that the SRM now also allows stakeholders to submit clarification and implementation questions on the Taxonomy in general, the technical screening criteria or reporting requirements.

CapEx computation

The Article 8 Disclosures Delegated Act in section 1.2.1 of Annex I requires the inclusion of references to the relevant line items in relation to revenue and CapEx to allow companies

and other economic actors to reconcile the reported figures with the financial statements. The Platform has reviewed certain FY2023 reporting and based on anecdotal evidence see some misalignment in the way companies are reporting their taxonomy eligible and aligned capital expenditure relative to their financial accounts. The Platform encourages issuers to ensure the KPIs disclosed under the Taxonomy Regulation are consistent with the information disclosed in their financial statements as stipulated in the Disclosures DA. The Platform recommends the European Commission to assess whether additional guidance is needed to support corporates and auditors. These findings also highlight the importance of mandatory assurance on sustainability statements, including taxonomy disclosures, as required by the CSRD.

Separately, evidence gathered through stakeholder outreach and report review highlights a heterogeneous understanding of what qualifies as Type C Capex. Under the Disclosures Delegated Act, Type C Capex correspond to capital expenditures related to the acquisition of production from Taxonomy-eligible economic activities and individual measures that enable the target activities to become low-carbon or lead to greenhouse gas reductions (non-sales-related Capex), therefore being critical in the assessment of transition efforts from corporates. The Platform recommends that further guidance is provided by the Commission to clarify what type of investments qualify as Type C Capex aiming to ensure comparability and allow corporates as well as investors to utilise this metric in a more meaningful manner. The Platform recommends examining how to expand this coverage to include measures and green investments under all six objectives and to provide clear guidance.

Approach to Manufacturing processes with intermediary steps

On-going outreach also pointed to usability issues for certain manufacturing processes that contain intermediary steps, such as the fertiliser industry. Indeed, because the 'environmental sustainability' is not reported per production asset performance but per financial KPIs, the complexity of certain manufacturing processes where the 'environmental sustainability' does not translate 1-on-1 from production to financials currently leads to challenges when computing Taxonomy KPIs in a comparable manner. The Taxonomy Regulation should recognise manufacturing processes that involve multiple steps, with some possible options being to either allow reporting of revenue where inputs from the intermediary steps are used in producing the finished and sold product or to increase the scope of the Taxonomy Regulation to all the economic activities relevant for a manufacturing process. Current guidance31 suggests that such data should be reported as part of the contextual information allowing reporting undertakings to explain whether

[31] Official Journal, 2023, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C_202300305

and how the outputs of internal sales or consumption of Taxonomy-aligned economic activities have evolved the reporting period. While some companies in the fertilizer industry, for example, have begun disclosing information based on this guidance, comparability remains limited at this stage. Additionally, contextual information is not integrated into the official templates, which impacts the accuracy of taxonomy-eligibility and taxonomy-alignment KPIs—both essential for investors. The Platform recommends that the next iteration of the Platform further explore this issue.

Financial Institutions Reporting

Financial Institutions operating multiple business segments (e.g. banking, insurance, asset management, etc.) are expected to disclose a Combined KPI, aggregating the Taxonomy KPIs calculated for each of these segments[32]. The Platform recommends that a materiality principle applies to the calculation of the combined KPI for financial companies, allowing them not to include in the calculation of the KPI business segments considered as immaterial from a financial perspective. As an example, an insurance company with a minor banking activity which is not consolidated into the financial statement of the parent company given its immateriality from a financial perspective should not be expected to consolidate the related GAR into its combined KPI.

[32] European Commission. 2023. https://finance.ec.europa.eu/news/sustainable-finance-commission-provides-additional-guidance-help-financial-undertakings-report-about-2023-12-21_en

Green Asset Ratio

Disclosures are essential in translating taxonomies into the capital markets reporting landscape. The Platform continues to believe that a well-functioning reporting framework leveraging the EU Taxonomy can help facilitate green bond issuances, aid green labelling to combat greenwashing, and can significantly contribute to shaping transition plans, by providing credible, robust indicators of a company's sustainability over time.
In this section of the report, the Platform considered whether the existing reporting frameworks are meeting their objectives to facilitate company behaviour to promote the financing of and investment in a company's operations to become more environmentally sustainable.

Credit Institutions' disclosures (GAR) are designed to help the bank assess and explain the environmental quality of their balance sheet in order to attract environmentally conscious customers and investors. The aim of this disclosure is to create more transparency into the 'green' qualities of credit institutions' balance sheets, thus attracting investors and future customers from achieving higher GAR. This, in turn, would result in cost of capital advantages to qualifying lending activities that go towards taxonomy aligned activities.

When reviewing whether GAR disclosure is achieving this objective, the Platform was unable to substantiate that it was met. The Platform has identified several limitations in the way GAR is reported today, that has meant it is not comparable or functioning as designed. The recommendations in this report outline ways in which the GAR can be better aligned with the original objective, and the observed limitations with it today.

The GAR is the main Taxonomy-related disclosure KPI for credit institutions, which is defined in Annex V of the Disclosures Delegated Act as the proportion of the credit institution's assets invested in Taxonomy-aligned economic activities as a share of total covered assets. The GAR is further divided into five complementary metrics, to showcase the totality of credit institutions on balance and off-balance exposures: a main lending GAR, the Financial Guarantees KPI (FinGuar KPI), the Assets Under Management (AUM) KPI, the Fees and Commissions KPI, and the Trading Book KPI.

To help address the usability challenges and improve the effectiveness of the GAR, the Platform set up a dedicated workstream composed of members of the Platform and ad-hoc external representatives from the main credit institutions in the EU, with the objective of proposing solutions to simplify and facilitate the GAR reporting for credit institutions while maintaining the robustness of the Taxonomy framework. Figure 6 summarises the proposed simplifications for the GAR by the Platform.

In 2024 (FY2023), credit institutions in scope of the EU Taxonomy Regulation reported on their GAR alignment for the first time. Table 5 presents a sample of GAR reported by large EU banks. The following trends were observed from the credit institutions' reports:

- Most credit institutions' GAR from the sample of the workstream was low, ranging from 0.7% to 10% for stock and 0.3% to 4% for flow (Turnover-based KPI).
- Retail mortgages represented the majority of reported exposures in GAR.[33]
- Most credit institutions did not report on corporate known UoP due to difficulties in assessing in-scope entities, including the DNSH criteria and MS.

Table 5: 2024 GAR figures for FY2023 from a sample of credit institutions

	GAR (%) Turnover		GAR (%) CapEx	
	Eligibility	Alignment	Eligibility	Alignment
ABN AMRO	51.00	10.00	51.00	10.00
CDP	12.87	3.53	17.62	6.32
ING	44.00	7.00	44.00	7.00
Intesa Sanpaolo	27.00	2.65	27.51	3.32
RBI	22.62	0.42	22.93	0.71
Santander	36.10	2.40	36.20	2.60
SEB	34.70	2.00	36.00	2.40
Société Générale	20.20	1.42	20.40	1.61

Source: Public figures from a sample of credit institutions, based on their financial and sustainability reports

[33] Note that not all EU credit institutions that reported taxonomy alignment were surveyed.

Figure 6: Proposed simplification of the Green Asset Ratio (baseline current Disclosures Delegated Act)

NUMERATOR: Taxonomy-aligned assets

- Use of estimates allowed for all assets, except in-scope CSRD exposures.
- Mortgages and car loans assessment simplified (no DNSH as temporary measure).
- Simplified Approach allowed for listed SMEs exposures.
- Streamlined Approach allowed for unlisted SMEs exposures, based on two options proposed: 1) SMEs are excluded and disclosed in a separate voluntary ratio, or 2) unlisted SMEs are included in a Sustainability Asset Ratio.
- Include taxonomy aligned SSA UoP exposures, similar to local governments.

Exclusions mirrored from the denominator:

- Exposures to general government, central banks, SSA (general debt)[34].
- General purpose SSA bonds, on demand interbanks loans, cash and cash-related assets, goodwill, commodities, intangibles etc.

DENOMINATOR: Total covered assets (on balance sheet)

Total assets with the following exclusions:

- Exposures to general government, central banks, SSA (general debt)[35]
- General purpose SSA bonds, on demand interbanks loans, cash and cash-related assets, goodwill, commodities, intangibles etc.

The Platform establishes that the GAR does not allow credit institutions to showcase their efforts to green their portfolios for a variety of reasons.

1. Asymmetry of the numerator and denominator

For some assets in the denominator of the GAR, it will never be possible for credit institutions to assess them against the EU Taxonomy TSC due to the nature of the assets, as is the case for cash, goodwill, intangibles and interbank loans. Moreover, the GAR denominator includes assets that are currently not reflected in the numerator, as is the

[34] Per Art.7 of the Disclosures Delegated. Noting Article 7(4): *Without prejudice to paragraph 1, environmentally sustainable bonds or debt securities with the purpose of financing specific identified activities that are issued by an investee undertaking shall be included in the numerator of key performance indicators up to the full value of Taxonomy-aligned economic activities that the proceeds of those bonds and debt securities finance, on the basis of information provided by the* investee undertaking.
35 Ibid.

case for unlisted SMEs and non-EU exposures, creating a distortion in the computation of the final ratio.

It is important to note that another contributing factor to the ratio asymmetry, is the current exclusion from the eligible scope of certain activities that may form a large part of credit institutions' portfolios. Many of these activities will gradually become part of the Taxonomy over time. In that sense, the EU Stakeholder Request Mechanism allows stakeholders to submit suggestions, based on scientific and/or technical evidence, on new economic activities that could be added to the EU Taxonomy, in addition to potential revisions of TSC of existing activities.

Recommendation:

- The Platform recommends resolving the structural asymmetry of the ratio, by excluding assets that cannot be measured against the Taxonomy from the denominator (and therefore the numerator), such as cash, goodwill, intangibles, general purpose SSA, interbank loans, etc. Other specific recommendations for aligning the numerator and denominator in terms of inclusion of assets including in the denominator are in the recommendations below.

2. Use of estimates in the numerator

The Taxonomy Disclosures Delegated Act and EU Taxonomy Regulation currently exclude the option for credit institutions (and all financial undertakings when reporting at entity level) to use estimates and proxies for assessing the exposure to and investments in both financial and non-financial undertakings.

The only exception to using estimates under the current regulation applies to DNSH assessments for non-EU undertakings outside the scope of CSRD, starting in January 2025. In such cases, estimates may be included in the numerator of KPIs, subject to a positive assessment during the review of the delegated act.[36] Stringent rules apply, requiring credit institutions to report the methodology used and establish a timeline to demonstrate compliance with the DNSH criteria.

Estimates and proxies provide a way to bridge the existing data gaps and estimate the taxonomy alignment of certain assets for which it has proven difficult to retrieve accurate data (e.g. unlisted SMEs and non-EU companies). As mixing information from estimates and proxies with real data is not a favourable option for the computation of the GAR, there is a need for clear guidance on methodologies and principles, to avoid misinterpretation and greenwashing accusations, while enabling comparability across disclosures.

[36] See Article 7(7) of the Taxonomy Disclosures Delegated Act.

In no cases should a Taxonomy estimate be used in preference to a company's disclosure against the Taxonomy Regulation.

Recommendations:

- Allow for estimates and proxies in the numerator of the GAR for non-CSRD, including non-EU and retail exposures, in line with recommendations made in the estimation approaches report published by the Platform. Estimates should be allowed on both Stock and Flow KPIs.
- The share of alignment estimated, and the methodology used should be publicly disclosed with the credit institution's reports, clearly indicating the percentage of estimated data included in the GAR.
- Provide clear and harmonised principles for estimation methods and common proxies, to ensure robustness and comparability and to prevent greenwashing, building on recommendations made in the section on estimate approaches. Such methods should be regularly updated to reflect advances in disclosure regimes across non-EU jurisdictions and market data developments.
- Safe harbour clauses should be provided for reporting entities that use estimates and proxies as per above to exempt them from certain liabilities, including the corresponding audit/assurance statements.
- The next Platform should support the European Commission with harmonised principles on estimate methodologies in the GAR, as per the recommendations above.

3. Third-country and non-EU exposures

Subject to the Taxonomy Disclosures Delegated Act review, the regulation currently prevents credit institutions from including third-country non-CSRD exposures in the GAR numerator, except in the case of sustainable bonds or debt securities with specific UoP. This discrepancy increases the asymmetry between the GAR numerator and denominator and contributes to a misrepresentation of credit institutions' portfolios that have large exposures in non-EU countries.

Recommendations:

- Include non-EU large corporates in the numerator of the GAR by allowing for the use of estimates and proxies for determining alignment, as per above.
- Facilitate principles and metrics for non-EU exposure compatibility. For example, the European Commission could explore with the IPSF the continuation of work on an M-CGT and extend it to all EU Taxonomy environmental objectives as well as to DNSH and MS to support non-EU Taxonomy assessments and estimates. Work towards developing proxies or compatible metrics would facilitate Taxonomy implementation for credit institutions and improve the accuracy of proxies.

- The next Platform should support the European Commission with international principles for non-EU exposures and reporting interoperability, as per the recommendations above.

4. SSA UoP and local authorities

Most SSAs are currently excluded from the scope of the GAR, both from the numerator and the denominator, i.e. sovereigns and supranational issuers. At the same time, the Commission's FAQs from December 2023 clarified that UoP loans to regional and local public authorities, including municipalities, should be included in the GAR numerator and denominator.[37] However, local public authorities are not covered under the scope of the CSRD, leading to a bottleneck where data is not available to assess taxonomy alignment.

Recommendations:

- Include SSA UoP in the GAR numerator and denominator similar to local governments.
- Allow for the use of estimates and proxies for determining alignment of exposures towards SSA and local governments, as per the recommendations on estimates above.

5. Assessment of mortgages

The Taxonomy Disclosures Delegated Act and its related FAQs[38] clarify that credit institutions reporting on their Taxonomy alignment are required to obtain evidence on SC, DNSH and MS compliance, and to compute their exposure towards retail goods and services (e.g. real estate, mortgages, car loans). The analysis and outreach to credit institutions showcased that household exposures constitute a majority of credit institutions' Taxonomy-aligned assets.

Table 6: Amount of total GAR (stock) related to Taxonomy-aligned mortgages

Bank	A	B	C	D	E	F	G	H	I	J	K
GAR (stock)	2.42%	1.24%	3.98%	5.50%	0.53%	4.12%	10.24%	0.20%	0.33%	2.20%	0.15%
Of which mortgages	1.75%	1,09%	3.82%	5.18%	-	4.08%	10.17%	-	0.11%	2.07%	0.03%

Bank	L	M	N	O	P	Q	R	S	T	U	V
GAR (stock)	2%	0.52%	0.78%	1.42%	2.96%	1.16%	2.65%	1.30%	2.34%	6.96%	1.97%
Of which mortgages	1.3%	0.16%	-	0.08%	0.86%	0.60%	1.76%	1.14%	1.25%	6.81%	1.79%

[37] European Commission Notice, December 2023 – FAQ, Question 15.
[38] European Commission Notice, December 2023 – FAQ, Questions 33–36.

Specific usability challenges currently impede credit institutions from fully assessing their households' exposures and computing the GAR accordingly, in a way that can showcase their efforts towards aligning with the Taxonomy. The key usability challenges include:

- For the assessment of the SC of activity 7.7 on acquisition and ownership of buildings, credit institutions are required to either assess the EPC of buildings or verify their Primary Energy Demand (PED). For example, without formalised procedures for collecting this information from builders, the availability of information on EPCs and PEDs differs substantially among EU Member States. As a result, some credit institutions are better positioned to assess their household portfolios than others. Lack of available information may not be the only issue, it also depends on how MS allows banks to interpret the Taxonomy alignment, e.g., in some cases DNSH is not really checked.
- For the assessment of the DNSH of activity 7.7, credit institutions have reported challenges in verifying the criteria on climate change adaptation, which requires them to identify physical climate risks, assess their materiality and double-check the mitigating actions.
- For the assessment of activities 7.1 and 7.2 on construction of new buildings and renovation of existing buildings, none of the credit institutions surveyed included exposures towards these activities in their GAR computation, due to challenges in the assessment of DNSH and MS.

The Platform further acknowledges that while the forthcoming EPBD recast is an important development expected to improve credit institutions' access to information necessary for assessing alignment of retail real estate loans, improvements will take time to materialise as the revised directive will not be transposed into national law until 2026.

Moreover, these recommendations do not replace or anticipate any of the technical work done by the Platform's Technical Working Group.

Recommendations:

- Allow for the use of EPCs, including (implied) changes in EPC for renovation, as well as building codes and building years as estimates and proxies for credit institutions to assess their mortgages against the Taxonomy, as relevant and possible.
- Clarify that the methodology used for physical risk assessment in EBA Pillar 3 can be used for assessing physical risk in accordance with climate change adaptation DNSH criteria for retail real estate, until better information is systematically accessible to credit institutions.
- Improve access to data on mitigating actions, e.g. by working together with insurers and EIOPA.
- Simplified TSC criteria are needed, as well as guidance on a simplified application of the notion of 'major renovation' as introduced in the EPBD for Member States to provide definitions to facilitate the assessment of renovation loans. In some EU

countries, green building councils exist that offer Taxonomy assessments or certifications and technical assistance. These can be used by credit institutions to facilitate the Taxonomy assessment of real estate exposures.

- Clarify that CSRD in-scope counterparties' audited statements on Taxonomy-alignment can be used as sufficient documentary evidence for UoP assessments in the GAR.

Recommendations for DNSH assessment:

- Relieve credit institutions of the requirement to verify compliance with DNSH criteria, as a temporary measure until (i) the relevant information from retail clients is systematically accessible to financial institutions and (ii) the Climate and Environmental Delegated Acts have been reviewed, enabling banks to perform such assessments.
- In addition, clarify the documentation needed to verify compliance with DNSH criteria e.g. in the EU Taxonomy Compass. The Platform notes that DNSH criteria are not embedded in Energy Performance Certificate (EPC) label schemes and could be added in the future to ease future compliance. One potential approach is the "EPC++" concept, which extends beyond energy performance to encompass broader environmental performance criteria for buildings. It is important to acknowledge that Member States implement EPC schemes independently, and these are not harmonised at the EU level. Alternatively, voluntary green building schemes aligned with the EU Taxonomy, along with EU Taxonomy verification and assurance services approved by the European Commission, could be utilised at the building or district level to demonstrate compliance.

Additional recommendation:

Clarify the inclusion of other retail loans, e.g. those related to energy efficiency and renovation in the GAR. Other retail activities would be those that can be assessed against technical screening criteria in the Taxonomy Regulation These loans are important in the greening of the economy.

6. Assessment of retail car loans

Similar to the case for households and mortgages, credit institutions are required to verify the TSC compliance for car loans. For the purpose of assessing and reporting this exposure, credit institutions refer to activity 6.5 on transport by motorbikes, passenger cars and light commercial vehicles, which refers to the "purchase, financing, renting, leasing and operation of vehicles". The description of this activity differs from other transport-related activities, which are targeting the car manufacturers, implying that for verification purposes credit institutions cannot refer directly to the disclosure by the company. Moreover, usability challenges have been reported on credit institutions' ability to verify the DNSH compliance with the criteria on pollution prevention and control, and circular economy,

which require credit institutions to obtain specific information on tyres and waste management strategies at the end of the life of the vehicle. Additionally, for the DNSH to climate change adaptation, it is necessary to apply a physical risk assessment and check related mitigation measures.

Data for car loans (and for mortgages) – important portfolios for European credit institutions – is especially difficult to obtain as credit institutions do not have the capacity to reach out to each individual client. In turn, borrowers do not have EU Taxonomy reporting obligations and cannot be expected to conduct a DNSH test themselves.

Recommendations:

- Relieve credit institutions of the requirement to verify compliance with DNSH criteria, as a temporary measure until (i) the relevant information from retail clients is systematically accessible to financial institutions and (ii) the Climate and Environmental Delegated Acts have been reviewed, enabling banks to perform such assessments.
- References to financing should be removed from transport activities, including activity 6.5, to align descriptions with other activities, ensure MS obligations are not transferred to credit institutions and maintain consistency.

7. MS assessment for retail exposures

The MS requirements for undertakings in scope of the Accounting Directive are stated in Article 18 of the EU Taxonomy Regulation. The Article refers to "undertakings", which many credit institutions interpret as excluding household exposures. However, Article 3 of the Taxonomy Regulation requires an activity to comply with MS to be considered aligned. According to the Commission's FAQs from December 2023, credit institutions do not need to verify compliance with MS by retail clients but by the producers of retail goods and services. However, uncertainties persist on whether and how credit institutions should assess MS for retail exposures, leading to different case-by-case interpretations. Of the credit institutions surveyed, none have practically managed to assess MS compliance for retail exposures, neither for the stock or flow of loans.

Recommendations:

- Clarify that credit institutions do not have to check MS compliance on retail exposures, in line with the previous Platform report on MS, e.g. by clarifying that MS checks are only applicable to direct corporate clients. The necessary information is not yet readily or systematically accessible to financial institutions, and more work is required to provide financial institutions with the relevant data.

8. SMEs

While SMEs are essential to Europe's sustainability transition, they are not properly captured in the GAR ratio. Subject to the review of the Taxonomy Disclosures Delegated Act (Article 9 review clause), unlisted SMEs exposures are currently only included in the denominator of GAR, except for UoP bonds which can be included in the numerator (as per Commission FAQs) and to the extent that they are aligned according to the requirements provided in the Commission's January 2022 notice.

From 2026, listed SMEs will fall under the scope of CSRD (with a possibility to opt out until 2028), meaning that they will be captured by the Taxonomy Disclosures Delegated Act reporting requirements.

As expressed in a Platform public statement in May 2024, the Platform proposes two tailored approaches for credit institutions and other financiers to classify the loans or other types of financing they provide to SMEs as sustainable (green or transition) finance, thereby simplifying related reporting. The first is a Simplified Approach for listed SMEs (green finance) and the second is a Streamlined Approach for unlisted SMEs (transition finance). The objective of the Simplified Approach is to ease the demonstration of compliance with the Taxonomy criteria for listed SMEs, which are already subject to disclosure requirements under the Taxonomy Disclosures Delegated Act. The objective of the Streamlined Approach is to provide unlisted SMEs with a framework to help them demonstrate their sustainability efforts and thereby more easily access external financing for these efforts (please note that there is currently no established formula or methodology to account for unlisted SMEs).

Recommendations for listed SMEs:

- Allow listed SMEs that report using the Simplified Approach developed by the Platform to be included in the numerator of the GAR and GIR. Listed SMEs are in scope of the CSRD and will therefore be included in the numerator of the GAR, as per the phase-in of CSRD obligations.

Recommendations for unlisted SMEs:

Consider the following options for the reporting of unlisted SMEs by credit institutions:

- Option 1: Encourage voluntary reporting of a separate SME sustainability ratio by credit institutions for unlisted SMEs using the Streamlined Approach proposed by the Platform. Consequently, remove unlisted SMEs from the denominator of the GAR and do not include them in numerator as part of the Taxonomy Disclosures Delegated Act review.
- Option 2: Include unlisted SMEs in the numerator using the Streamlined Approach proposed by the Platform. Unlisted SMEs are already included in the denominator. A clear indication of the percentage of reporting against the Streamlined Approach

should be included as part of the breakdown of the overall ratio, detailing the portions calculated from actual Taxonomy reporting, estimates and the Streamlined Approach. With the Streamlined Approach included, the GAR might be more adequately referred to as the Sustainable Asset Ratio, as the Streamlined Approach primarily reflects financing directed towards activities transitioning to environmental sustainability[39].

9. Reporting consistency with Pillar 3 ITS on ESG risks

Large listed credit institutions in scope of the EU Taxonomy Regulation also have to report their information on ESG risks according to the Pillar 3 ITS templates on ESG risks developed by the EBA and mandated in the Commission Implementing Regulation 2022/2453. Within the templates included, the Delegated Regulation asks to disclose the GAR, with a similar template as that from the Taxonomy Disclosures Delegated Act. However, several differences exist in the methodology applied to disclose alignment of retail portfolios as part of the Pillar 3 ITS templates compared to the Taxonomy Disclosures Delegated Act, calling for improved alignment between the two disclosure frameworks.[40]

Recommendations to improve GAR and BTAR alignment:

- Ensure alignment and full consistency of obligations and reporting methods across Taxonomy Disclosures Delegated Act and Pillar 3 ESG risk disclosures (including GAR). If such alignment and full consistency is not possible, then consider the most appropriate and complementary reporting for credit institutions between their Taxonomy and Pillar 3 ESG risk disclosures.[41]
- Consider a similar approach to ensure alignment and consistency for BTAR depending on the final outcome on the GAR review, use of estimates and the treatment of SMEs as part of the Taxonomy Disclosures Delegated Act review and in the overall sustainable finance framework.

10. Further recommendations to improve taxonomy eligibility assessment.

As a consequence of the expansion of the NFRD scope to CSRD-covered entities, the identification of counterparties in scope is becoming more complex. This is the case also for the identification of UoP-related financing and in the case of local government financing. As an interim solution pending the full operationalisation of the European Single Access Point, credit institutions have been manually checking which corporate clients are in scope of the CSRD and should be considered for the GAR numerator. However, credit

[39] The Platform notes there may be ways to further identified green finance as part of the wider transition finance concept.
[40] The Platform understands that as part of its revised mandate under 449a CRR, the EBA is reviewing Pillar 3 ITS on ESG risks and in this review, among other actions, it is investigating solutions to fully align the GAR in Pillar 3 disclosures with institutions' Article 8 disclosure requirements.
[41] Ibid.

institutions have adopted a cautious approach to reporting to minimise the risk of errors, which could otherwise lead to legal and reputational consequences.

Additionally, the EU Taxonomy Regulation and its Delegated Acts currently cover only a portion of the real economy, whereas credit institutions finance the entire economy. The Platform has consistently supported the expansion of the Taxonomy to encompass a more substantial share of economic activities. While significant progress has been made, further investments are required to complete the development of criteria for all potential activities. Tools such as the EU Stakeholder Mechanism are essential to support and facilitate the continued expansion of the EU Taxonomy framework.

Green Investment Ratio

The Green Investment Ratio (GIR) is intended to represent the proportion of investments in Taxonomy-eligible and -aligned activities relative to the value of all covered assets under management (AUM), including money managed on behalf of third parties as well as on their own account. The GIR is to be reported by insurance companies as well as asset managers.

For asset managers, the GIR serves as a signal of their sustainability profile to investors and potential clients. While asset managers typically act in an agent capacity, many of their funds are open-ended, providing them with significant discretion over portfolio allocation. This suggests that the GIR could influence investment decisions, provided it aligns with investor demand and regulatory expectations. However, for non-open-ended funds, investment mandates are determined by asset owners, which may limit the GIR's direct impact.

The Platform has previously recommended that Taxonomy alignment be reported for all funds, regardless of their sustainability label. This would enhance comparability, reduce greenwashing risks, and ensure greater transparency, standardisation, and accountability across the market. Historically, ESG funds have faced more stringent reporting requirements than other funds, often leading to higher management fees due to the substantial resources needed for data collection and due diligence. Expanding Taxonomy reporting to all funds could help balance disclosure obligations, potentially reducing cost disparities and fostering a more level playing field.

Given these considerations, the Platform recommends further analysis to assess the added value of the GIR in influencing asset managers' portfolio strategies, operating practices, and engagement with asset owners. This review should also ensure consistency in how asset managers report on clients' assets under the CSRD.

Underwriting KPI

The reporting requirements for insurance and reinsurance undertakings are outlined in the Taxonomy Disclosures Delegated Act, including its Annex IX. Insurance and reinsurance undertakings (other than life insurance) shall calculate the KPI related to underwriting activities and present the "gross premiums written" non-life (re)insurance revenue, which corresponds to Taxonomy-aligned (re)insurance activities in accordance with points 10.1 and 10.2 of Annex II to the Climate Delegate Act.

Through their underwriting capabilities, insurers and reinsurers have an essential role to play in the transition, by providing cover against climate-related losses and also by developing insurance solutions that create an enabling environment for projects that are necessary for the transformation of the European economy (e.g. renewables, green innovation), advising people and companies on actions they can take to minimise their environmental risks and their carbon footprint, and sharing relevant data and knowledge on climate related-perils with public authorities. In addition, the assessment and management of climate risks are essential and inherent to the underwriting business – even more so in recent years with increased rates and severities of climate events.

As clarified above, at this stage for insurers' and reinsurers' non-life insurance activities, the Taxonomy only acknowledges climate change adaptation as a possible SC (see Annex II of the Climate Delegated Act, Economic Activities 10.1 for Insurance and 10.2 for Reinsurance), considering that the insurance of climate-related perils can be an "enabling" activity that assesses how insurers can support an increased resilience against climate events. For that purpose, it identifies eight Solvency II Lines of Business as being eligible for the climate change adaptation objective and defines criteria to assess SC (including leadership in pricing and modelling of climate risks, product design, etc.), DNSH criteria and MS. The assessment considers the alignment of underwriting revenues ("gross written premiums"), accounting only for the portion of insurance premiums that covers climate-related perils ("split premium").

Acknowledging that insurers and reinsurers reported on alignment for the first time in 2024, covering FY2023, the usability work focused on:

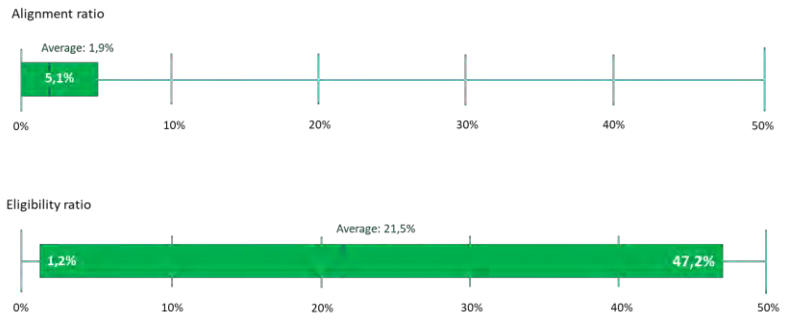
- Identifying key usability issues faced in the preparation of Taxonomy reporting, based on a review of the current state of play.
- Providing potential solutions to articulated challenges that will maintain the robustness of the Taxonomy framework and facilitate reporting preparation for market practitioners.
- Considering the extent to which the current Underwriting KPI helped to measure progress made by insurers in making their non-life insurance activities more sustainable and whether it was, in its current form, a decision-useful metric for insurers and their stakeholders such as investors.

Complementary to their underwriting activities, insurers are large investors and the insurance industry has been integrating climate change considerations into its investment

strategies and processes for a number of years, in some cases prompted by local regulations (e.g. Article 173 of the Energy Transition law in France[42]). At the beginning of 2024, insurers and reinsurers reported for the first time the level of alignment of their investment activities by considering the alignment of underlying investee companies and assets, through the Green Investment Ratio. The assessment considers the alignment of investments. This section focuses on the Underwriting KPI primarily.

The aggregated contribution from underwriting and investment activities is at this stage expected to be assessed in the form of a weighted average of the two KPIs, based on Guidance published by the European Commission in December 2023.

Figure 7: State of play Underwriting ratio reporting



Source: PwC. 2024. "Analysis of reported Taxonomy data for FY 2023."

As visible in Figure 7, European insurers' 2024 reporting highlights significant heterogeneity in the eligibility ratio, which ranges between 1.2% and 47.2%, with an average of 21.5%, while the alignment ratio ranged between 0% and 5.1%, with an average of 1.9%.

Main takeaways from insurers' reporting include:

- Discrepancies in reported figures reveal interpretation and operational challenges, particularly with the eligibility ratio. Key issues cited included inconsistent guidance from auditors, such as whether the "split premiums" approach outlined in the December Commission Notice applies to the eligibility ratio. Additionally, outreach indicated that guidance from local industry associations sometimes led to overly conservative practices, particularly regarding MS.
- In some cases (25% of the peers analysed by the Platform[43]), insurers also reported voluntary metrics to measure progress on their sustainability initiatives, often going beyond climate change adaptation, using different frameworks and definitions when doing so.
- Alignment ratios are likely to remain structurally relatively low, since only the portion of premiums that covers specifically climate-related perils are considered. It should

[42] Article 173 - LOI n° 2015-992 du 17 août 2015 relative à la transition énergétique pour la croissance verte (1) - Légifrance

[43] The working group within the Platform focused on insurers conducted the analysis.

be noted that this approach, while it may address certain greenwashing concerns, does not fully account for the specific business model of the insurance sector and its risk-pooling mechanisms at product level, which are essential to its effective contribution to the climate adaptation objective.

- Despite these challenges, as insurers adapt their product offerings to prioritise climate change adaptation, it is expected that these products will increasingly meet the Taxonomy TSC. Over time and bearing in mind the structural impact of the split of premiums approach on the alignment ratio, this should lead to a relative rise in the alignment ratio as these products begin generating premiums.

The main takeaway for reinsurers is that:

- The review of initial reports reveals a recurring misunderstanding regarding the approach for reinsurers. Some industry stakeholders, including assurers, expected a look-through approach to be applied to assess the alignment of ceded insurance contracts, leading to significant complexity in disclosure preparation and assurance. However, this approach is inconsistent with the Taxonomy TSC defined in the Climate Delegated Act, section 10.2, which identifies reinsurance itself as a Taxonomy-eligible activity.

None of the insurers or reinsurers reported a combined KPI that aggregates green Underwriting and Investment KPIs using a weighted average. While a single metric may be useful, particularly for investors, the relevance of an aggregated KPI based on a weighted average appears limited. This is because the Underwriting Ratio assesses the extent to which non-life insurance products' features support an increased resilience of policyholders against climate-related events – being close in principle to the turnover metric reported by non-financial undertakings. In contrast, the GIR measures the share of Taxonomy alignment of companies and assets in which insurers invested, using a look-through approach. Given the inherently different purposes and economic interpretations of these two ratios, aggregating them appears illogical from an economic perspective.

Some data vendors have taken a different approach, in at least one instance by utilising the Underwriting KPI for the purpose of the Turnover KPI and the Investment KPI for the purpose of the CapEx KPI. Such an approach makes more sense from an economic perspective, considering that the Underwriting KPI effectively allows to measure the extent to which the Gross Written Premiums derived from non-life insurance products that have been sold to policyholders are already contributing to climate change adaptation objectives, in that sense being equivalent to the Turnover KPI for a corporate. The GIR, on the other hand, allows to assess the extent to which the investments made by the insurers contribute to funding the transition of investee companies and assets, in that sense being closer to a CapEx KPI.

Overall, these observations limit the ability of companies and other economic actors (including investors, supervisors and others) to use the Taxonomy as a tool for comparing

insurers on their climate and, in the future, environmental contribution. Preliminary observations do not indicate that the Green Underwriting Ratio is being used at this stage by FMPs to construct their green or transition portfolios, or to support their assessments of insurers' and reinsurers' sustainability profiles.

Table 7 highlights the following issues identified as the main usability concerns:

Table 7: Usability issues for Underwriting Ratio

Structural issues	Technical issues	Interpretive issues
The insurance industry perceives that its contribution to the EU's environmental objectives is only partially acknowledged. Apparent inconsistency between the Climate Delegated Act, which considers how reinsurers incentivise insurers in increasing resilience to climate-related events including through their pricing model with dedicated TSC, and the Taxonomy Disclosures Delegated Act, which implicitly refers to a look-through on approach to reinsurance. Aggregating the Underwriting KPI, which is based on premium alignment with the climate change adaptation TSC, with the Investment KPI, which is based on AUM	The application of the "split of premiums" approach presents significant operational complexity, including challenges in the assurance process.	There is a lack of clarity regarding the applicability of the "split of premiums" approach to the eligibility ratio. Divergences persist in the understanding and application of MS, especially in retail products.

alignment with the Taxonomy, results in a KPI that lacks meaning. The suggested computation methodology is based on an illogical addition, akin to mixing two inherently different ratios.		

To address these challenges and improve the usability and relevance of the Taxonomy KPIs for insurers and reinsurers, the Platform makes the recommendations shown in Table 8 to the European Commission.

Table 8: Recommendations to improve the usability and relevance of Taxonomy KPIs for insurers and reinsurers

Usability challenge	Acknowledgements	Recommendation
Based on its current methodology, eligibility and alignment may be low for the Underwriting KPI	Only the portion of insurance premiums which is specifically related to climate risks is to be taken into account when computing eligibility and alignment for the Underwriting KPI. As a result the Underwriting KPI may be structurally low.	Establish a materiality threshold for the ratio on underwriting for activities exposed to the Taxonomy, in line with the proposal for non-financial companies.
Underwriting KPI is not perceived as decision-useful metric by insurers and stakeholders such as investors	The insurance industry perceives that its contribution to the EU's environmental objectives is only partially acknowledged.	Explore the broader contribution of insurers to environmental objectives, beyond climate adaptation, and how this may be better integrated into the Taxonomy framework going forwards. The Platform has initiated discussions among the industry and determined it was too early to form a final position within the timeframe of its mandate,

		given the need to ensure complementarity and consistency of a proposal with ongoing work from the European Financial Reporting Advisory Group (EFRAG) on insurance sector-specific standards.
There is lack of clarity on how insurance premiums should be treated when determining the eligibility ratio.	December Commission Guidance indicates that only "those insurance premiums, or corresponding shares of insurance premiums in case of multi-risk insurance contracts, that only pertain to the coverage of climate-related perils [should be taken into account] for the purpose of computing Taxonomy-alignment". Although eligibility was not discussed specifically in the guidance, a number of industry players understood that it was implicitly expected a similar approach would apply.	Clarify that premiums should be accounted for in a similar way when determining the eligibility and alignment ratios, ensuring consistency in methodology.
Aggregated KPI does not appear to be meaningful based on the suggested computation methodology: combining the Underwriting and Investment KPIs with a weighted average.	The Platform's proposed approach would be specifically tailored to the specificity of insurers and reinsurers but would not be replicable for other financial conglomerates.	Change the methodology to measure the consolidated contribution from insurance and reinsurance companies' underwriting and investment activities, by utilising the Investment KPI for CapEx and the Underwriting KPI for Turnover.
Operational complexity is linked with application of	In the case of an insurance contract that includes a coverage of climate-related risks, the	Clarify that the use of estimates and proxies is permitted in the

the "split of premiums" approach, including in the assurance process.	documentation of the premium amount pertaining to climate risks specifically may vary depending on the type of assets insured or on when the policy was initially put in place, requiring the use of proxies. Transparency should be provided on the methodologies used, which should only be used for insurance contracts including a coverage of climate-related risks.	numerator of the eligibility and alignment ratios to facilitate reporting preparation and assurance, with a requirement that transparency is provided by the preparers on the methodologies used.
Divergences exist in understanding of MS requirements for retail clients in particular.	It seems an unnecessary burden for insurers to assess MS compliance for retail clients. Additionally, as retail clients are individuals, applying MS in this context may not be appropriate, especially considering that it is the responsibility of EU Member States to ensure that citizens respect human rights. Member States have already incorporated and embedded human rights issues into national regulations and policies.	Clarify that insurers do not have to check MS compliance on retail exposures, in line with the Platform 1.0 report on MS.

Reporting templates

The Platform reviewed reporting templates for Taxonomy KPIs in the Taxonomy Disclosures Delegated Act, namely Annex II KPIs for non-financial undertakings, Annex VI KPIs for credit institutions for the GAR, and Annex X KPIs for insurance and reinsurance undertakings for the Underwriting Ratio. Note that Annex and Template numbers referenced below refer to current numbers as of January 2025.

Table 9 summarises at high level the recommendations to the Commission for the selected templates reviewed by the Platform.

Table 9: Usability concerns and high-level recommendations for all templates

Main usability concerns	High-level recommendations for templates
▪ Large numbers of templates and fields to fill the templates, some of which are not decision useful. ▪ Varying interpretations on calculations and how templates should be filled. ▪ Decision-usefulness of all the ratios for investors, i.e. what the ratios actually show and which ratio investors should use for their own disclosures. ▪ Interoperability with other required disclosures. ▪ The need for automation to make cross-referencing data easier.	▪ Ensure coherence across different reporting regulations and simplify templates by reducing fields or combining templates, to focus reporting on company-relevant information and avoid redundancies of information collected, including removal of non-decision-useful templates or fields. The approach to 'zero reporting' should be considered in this perspective, to ensure consistency with other reporting standards while avoiding greenwashing. ▪ Include formulas for clarification across templates, clarify terminology and automate as much as possible. Add data points to clarify which proportion of the KPI is based on reported data and which proportion is based on estimated data in the main ratio. ▪ Simplify the nuclear and gas reporting templates in Annex XII by reducing fields or combining templates.

Annex II – non-financials

Templates applicable for non-financial undertakings cover the Turnover KPI, CapEx KPI and OpEx KPI, representing a substantial number of data points to be reported. As for other undertakings in scope of the Taxonomy Disclosures Delegated Act, additional templates are to be disclosed covering nuclear and gas.

Those templates comprise:

- Information specific to the non-financial undertaking, enabling to identify the extent to which the Turnover, CapEx and OpEx are eligible and aligned with the EU Taxonomy, providing granularity at activity level on those metrics, and allowing to identify which of the six EU Taxonomy objectives are addressed by the company and the extent to which the company complies with the SC criteria.
- Information not specific to the non-financial undertaking on DNSH and MS, which is expected to be filled in as 'Y' to confirm that the company complies with the corresponding criteria. While acknowledging that the compliance with DNSH and MS is essential to determine Taxonomy alignment and is part of the metric preparation and assurance by auditors, from a simple disclosure perspective, those fields have limited added value, as they are not specific to the company. To reduce the reporting burden and without undermining the integrity and relevance of information disclosed on eligibility and alignment, such fields could be removed from the template. This would significantly reduce the length in terms of pages of the Taxonomy reporting, while allowing readers to focus on decision-useful information.
- Similarly, current templates mandate a lot of zero reporting or blank / N/A reporting, which makes reporting complex. It may be worth allowing preparers not to report those, in which case no-reporting would equal a so-called qualified zero, i.e. a zero should not be reported, as allowed in the implementation of CSRD and ESRS; the potential greenwashing risk should, however, be considered in this context.
- Corporates disclosing under Annex II need to comply with footnote (c) across Turnover, CapEx and OpEx KPIs. This may have an impact on the reporting of financial corporations' own disclosures of impacts across environmental activities (without double-counting): credit institutions must find simple ways in which to showcase that the activities they finance contribute to multiple environmental objectives without double-counting. This could be done by ensuring the split of the contribution is clearly identified in corporates' reporting.[44]

[44] "Where an economic activity contributes substantially to multiple environmental objectives, non-financial undertakings shall indicate, in bold, the most relevant environmental objective for the purpose of computing the KPIs of financial undertakings while avoiding double counting."

- Primary data sources: Entities that report on a consolidated basis should be required to provide a table with all the entity names included in the consolidation of the parents' EU Taxonomy Disclosures.

Annex VI – GAR

There are eight templates in Annex VI alone. Templates 1, 3 and 4 present related or similar information. Templates 6 and 7 are currently not in scope and the Platform has not included them in its analysis.[45] More work on the usefulness and applicability of Templates 6 and 7 will be needed as the regulations come into force.

Template number	Name
0	Summary of KPIs
1	Assets for the calculation of GAR
2	GAR sector information
3	GAR KPI Stock
4	GAR KPI Flow
5	KPI off-balance sheet exposures
6	KPI on Fees and Commissions income from services other than lending and asset management
7	KPI Trading Book portfolio

These eight reporting templates represent a substantial number of data points to be reported by credit institutions:

- **Assets for the calculation of GAR:** 32 columns with 58 rows (rows 34–53 only require one column), which translates into 1,300 data points per disclosure sheet.
- **GAR sector information:** 13 columns of information for up to 148 economic activities, which translates into 1,924 data points per disclosure sheet.
- **GAR KPI Stock:** 32 columns with 33 rows (30 fields not required), which translates into 1,026 data points per disclosure sheet.
- **GAR KPI Flow:** 32 columns with 33 rows (30 fields not required), which translates into 1,026 data points per disclosure sheet.
- **KPI off-balance sheet exposures:** 32 columns and 2 rows, which translates into 64 data points per disclosure sheet.
- **KPI on Fees and Commissions:** 26 columns and 9 rows, which translates into 234 data points per disclosure sheet.

[45] Beyond these templates, there is also a separate gas and nuclear one mandated by the Complementary Delegated Act on Nuclear and Gas.

- KPI Trading Book: 22 columns and 21 rows, which translates into 462 data points per disclosure sheet.
- Total potential disclosure points ≈ 6,000 data points (excluding gas and nuclear disclosure)

The ~6,000 data points double when disclosed against Turnover and CapEx KPIs. The usable information for an investor in the financial company is ~10 data fields per environmental objective + total. An investor using the Taxonomy disclosure in their own reporting does not need a breakdown across the seven reporting templates.

In addition, limiting the calculation to the percentage evolution of assets in stock and flow also limits comparability of the GAR information across institutions. For clarity, the same data should appear in both Taxonomy Disclosures Delegated Act GAR reporting and EBA Pillar 3 ITS reporting. A clear 1-to-1 requirement would ease this process.

Moreover, the Implementing Regulation introduced the BTAR template, where credit institutions can report the alignment of exposures that are excluded from the Taxonomy Disclosures Delegated Act, such as unlisted SMEs. The Environmental Delegated Act of the EU Taxonomy Regulation introduced further changes that create more inconsistencies with the Pillar 3 ITS, such as the lack of inclusion of templates and rows in the Pillar 3 ITS to report on the four other environmental objectives of the EU Taxonomy Regulation.

Simplify the templates by reducing/combining the number of fields, clarify terminology and automate where possible:

- Empty fields, columns and rows should be hidden by the practitioner to facilitate readability and ensure the data that is reported is decision useful. In its digital format, all the fields will remain, and no data will be lost when the new requirements for automatic tagging that will extend to sustainability reporting become applicable via the European Single Electronic Format tagging (ESEF).
- Where possible, tag/number cells in tables to enable automation and comparability, similar to financial reporting, and include formulas to show how calculations should be performed.
- Maintain digitalisation of Article 8 disclosures to facilitate data consumption and comparability.
- Make terminology consistent. For example, definitions of ‘enabling’ and ‘adapted activities’ under Q19 of the December 2022 FAQ are unclear. The Q&A also introduces a new kind of activity – ‘adapted-enabling’ –that does not show in the templates.

Table 10 : GAR Annex VI template recommendations

GAR Annex VI	Recommendation
Templates 1, 2, 3	▪ Combine more efficiently, and add assets for calculation, stock and flow in one template. This could be done by adding columns on percentage of stock and flow versus total. This is more limited than what is currently shown in Templates 2 and 3, but all information included in those templates is based on the information in Template 1. ▪ Under these three templates, there are multiple rows for financial undertakings (rows 4–20), while for non-financial undertakings there are only four rows (rows 22–25). Each financial undertaking type then must be delineated across loans and advances, debt securities, and equities. However, the approach for reporting eligibility/alignment of financial undertakings is similar across all financial counterparty types; therefore rows 4–20 can be consolidated across all financial undertakings, similar to non-financial undertakings.
Template 2	▪ Remove Template 2. It does not provide decision-useful information, as most companies and other economic actors focus their attention on Templates 1, 3 and 4. It is also difficult to reconcile the information provided by credit institutions' counterparties with the information required in the template. In fact, credit institutions' counterparties report their level of alignment activity by activity using the classification provided by Regulation 2021/2139. These activities (i) can have multiple NACE codes and (ii) do not always have a NACE code. ▪ Note also that the breakdown per NACE code is not required under non-financial disclosures and data is not readily available for financial institutions. This adds an extra reporting burden for information that is not necessarily decision-useful. ▪ Should Template 2 be deemed necessary, it should be modified to include only NACE codes for which an alignment ratio has been published.
Template 5	▪ Further assessment of decision-usefulness of Template 5. In its current state, this is not being used by investors nor by

	credit institutions in piloting their strategies. The Platform did not assess this, and it should be further studied. ▪ Certain fields in Template 5 are redundant and should be removed. Reporting on stock is presenting similar information already available in Template 1 in percentages. ▪ For reporting on flow, clarify the calculation methodology. For flow, when calculating only new loans without taking repayments into account, the KPI produces non-intuitive results for certain products. This methodology is taken from the December 2023 Commission Notice.
Nuclear and gas	▪ Reduce the number of specific nuclear and gas templates. Publish only the nuclear and gas templates for the GAR stock and not for all other KPIs. ▪ Include clarification that nuclear and gas should not be applied to segment KPIs nor consolidated KPIs.

Annex X – Underwriting KPI

Annex X of the Taxonomy Disclosures Delegated Act presents the template that should be used by insurers and reinsurers to report on their Underwriting (eligibility and alignment) KPIs.

The added value of the information to be provided on certain elements appears limited as reinsurers do not compute their alignment with a look-through approach based on the Taxonomy alignment of reinsured contracts, but rather by considering how they incentivise insurers to increase resilience to climate change adaptation through their own pricing models; the risk of double-counting is therefore limited. This and operational complexity have led several insurers to leave the field blank.

The Platform recommends simplifying the template as follows:

- Remove lines A.1.1 to A.1.2.1 from the Underwriting template (providing details on reinsured business). The Platform understands the reinsurance lines were added to the template with the intention of avoiding double-counting if the reinsurer was also reporting on those premiums as being aligned. In practice, reinsurers do not compute their alignment ratio with a look-through; they have their own SC, which are based on the incentives they give to insurers, not on insurers' aligned products, so these lines are not relevant.

- Make the DNSH and MS columns voluntary in the template. The preparers will still need to ensure compliance with the DNSH criteria and MS requirements when reporting alignment; only disclosure would be made less cumbersome to the preparer and the reader.

Annexes IV and X – GIR

Annexes IV and X of the Taxonomy Disclosures Delegated Act present the templates that should be used by insurers and reinsurers (Annex X) and by asset managers (Annex IV) to report on their GIR. Those templates are similar, with the exception of a field related to the proportion of the insurance or reinsurance undertaking's investments other than investments held in respect of life insurance contracts where the investment risk is borne by the policyholders which is specific to insurers.

The Platform recommends simplifying templates by:

- Keeping the following two data points as mandatory, considering they are the most decision-useful:
    - The weighted average value of all the investments that are directed at funding or are associated with Taxonomy-aligned economic activities relative to the value of total assets covered by the KPI, to be reported for Turnover and CapEx.
    - The percentage of assets covered by the KPI relative to total investments (total AUM), excluding investments in sovereign entities.

- Modifying the "proportion of the insurance or reinsurance undertaking's investments other than investments held in respect of life insurance contracts where the investment risk is borne by the policyholders which is specific to insurers" into "proportion of the insurance or reinsurance undertaking's proprietary investments". This KPI would focus on insurers' own-account investments, made to offset the liabilities accrued from their underwriting activities only.

Enhancing the availability and quality of data

Use of estimates

The objective of this section is to support the European Commission on the use of estimated data for Taxonomy reporting, both within the scope of the upcoming review for the Taxonomy Disclosures Delegated Act (subject to their acceptance following the review) and for FMPs when calculating the Taxonomy-alignment of their financial products. It explores data estimation and modelling techniques that could be applied to the sustainable finance regulatory framework in the EU. It draws on the data requirements within the Taxonomy Regulation, Benchmark Regulation and SFDR.

The Platform recommends that any guidance on appropriate estimation methods should also be targeted towards auditors, to ensure an equal treatment and acceptance of certain practices to enable Taxonomy and SFDR adoption across stakeholders (financial institutions, data vendors, and EU and non-EU companies).

In providing research related to the Taxonomy, the Platform follows the Taxonomy design principles of eligibility, SC, DNSH criteria and MS – treating each step in the assessment process separately with regard to estimation approaches.

This analysis embeds two principles:

1. Reported data from companies should be prioritised, following the previous recommendations from the Platform.
2. Estimation approaches for TSC should be consistently applied to both SC and DNSH criteria, given the homogeneity between the two.

The analysis examines how to set fair standards for Taxonomy and PAI estimates, ensuring environmental integrity without favouring non-disclosing companies. It also addresses how to handle situations with no data or inadequate proxies to meet TSC.

A conservative approach assumes activities fail without suitable data to evidence compliance, but this limits EU Taxonomy alignment and narrows the investible universe for financial markets, hindering climate-focused capital flows. Conversely, an aggressive approach may overstate alignment by assuming activities pass in the absence of reliable data mapped to the TSC. A balance is needed between these approaches.

In the Climate and Environmental Delegated Acts of the Taxonomy Regulation, most TSC requirements are qualitative (88% of DNSH criteria). Of the quantitative criteria (12%), only 28% reference any standards. That means only 3% of criteria are quantitative and linked to a standard, which, in turn, means that consistent data for precise assessment is limited, and proxies or assumptions are often necessary.

The analysis emphasises that all three Taxonomy tests – SC, DNSH criteria and MS – must be applied for accurate alignment conclusions. Labelling activities as 'auto-aligned' without these checks, even for clear cases like renewable energy, is insufficient under current rules.

Observing current practices, a conservative approach to both Taxonomy and SFDR disclosures is common.

The value of Taxonomy estimates

Companies within the scope of the Taxonomy Regulation, subject to CSRD reporting requirements, will provide the necessary data for financial undertakings to comply with their own obligations.

When investee companies or counterparties lack Taxonomy data, financial institutions may need to use estimates for non-CSRD companies or UoP debt products. A Taxonomy estimation model can help capture a fair view of assets in line with the EU Taxonomy's climate and environmental criteria.

To ensure consistency, the Platform has set criteria and guidance for using estimates and proxies on eligibility, SC, DNSH criteria and MS. These recommendations are designed such that the use of estimates for financial products that invest in non-EU companies are not given an advantage over products that invest in EU companies who are subject to self-reporting under the Taxonomy Regulation.

Reporting under a non-EU domestic Taxonomy

By September 2024, approximately 58 sustainable taxonomies were in development worldwide, each reflecting local priorities, like Australia's focus on transitional sectors or India's emphasis on social justice.

While Taxonomy ought to reflect the economic, financial and environmental specificities of different jurisdictions, the lack of compatibility risks market fragmentation and increased transaction costs. To address this, the Platform promotes principles for cross-border compatibility and has worked on the M-CGT, which is a comparison of the sustainable finance taxonomies of China, the EU and Singapore. Yet, the M-CGT only analysed SC criteria related to the climate change mitigation objective. It is important to extend this work to cover the other environmental objectives, DNSH and MS.

The Platform encourages the European Commission, and the IPSF, to advance efforts on an M-CGT to enhance compatibility between taxonomies. This initiative could provide a foundation for developing reliable proxies.

Lastly, given that the Platform recommends eliminating OpEx Taxonomy alignment at the financial product level, and that reporting on OpEx is already not required by financial institutions as part of their KPIs, the Platform considers estimating OpEx to be unnecessary, as it will not be used by financial institutions and FMPs in their own reporting.

Table 11: Recommendations for use of estimates for eligibility, SC, DNSH criteria and MS

Estimating	Recommendations
Taxonomy eligibility	▪ Is scoped to activities contained in the Climate and Environmental Delegated Acts only. ▪ Uses financial statements made by the company as the basis for estimating eligibility. ▪ Provides a clear, publicly disclosed mapping table of the Taxonomy activity to the classification system used. ▪ Applies the precautionary principle.
Taxonomy SC and DNSH criteria	▪ Is scoped to activities contained in the Climate and Environmental Delegated Acts only. ▪ Uses financial and non-financial statements and reports made by the company as the basis for estimating Turnover or CapEx KPIs. ▪ In included in the prospectus and/or impact and allocation report of the UoP instruments. ▪ Provides a clear, publicly disclosed mapping table of the Taxonomy testing criteria to the pass/fail determination in the estimation model. ▪ Applies the precautionary principle. If a company does not disclose the underlying data needed for testing, it cannot be deemed to pass, unless the Commission is willing to accept a due diligence-based approach to testing.
MS	▪ Criteria are applied to a legal entity and not to a specific activity or project. ▪ Estimation models should seek to determine social violations, without a suitable plan to remediate the issues identified. ▪ Uses financial and non-financial statements and reports made by the company as the basis for estimating compliance. ▪ Can use third-party sources for controversy and adverse media to screen for violations, consisting of final convictions/judgements, or

	listing in either the OECD database of specific instances or other internationally well-recognised institutions, but compliance ought to be based on due diligence. ▪ Provides a clear, publicly disclosed mapping table of the MS testing criteria to the pass/fail determination in the estimation model. ▪ Applies the precautionary principle. Should form part of a due diligence-based process: identify risks, take action, monitor and improve, transparency, and remediation.

This section provides guidance only for the use of Taxonomy estimates and proxies for companies not subject to reporting obligations under the CSRD related to the Taxonomy Regulation. Although analysis was only undertaken for companies, guidance may potentially be extrapolated to cover estimates for all types of non-CSRD entities, both private and public.

In all cases, estimation models should maintain proper levels of:

- Governance
- Traceability
- Transparency
- Input coverage
- Input quality.

Considerations for recommending Taxonomy estimates

Taxonomy estimates are recommended in the following cases:

- For use in financial disclosures under Article 8 and financial product disclosures under Articles 5 and 6 of the Taxonomy Regulation.
- For use only by companies or UoP lending activities that are not subject to Taxonomy reporting themselves.

In no cases should a Taxonomy estimate be used in preference to a company's disclosure against the Taxonomy Regulation.

At the time of writing this advice, the following disclosure rules applied to all financial undertakings:

- Exposures to central governments, central banks and supranational issuers are excluded from both the numerator and denominator of the KPIs required in the Taxonomy Disclosures Delegated Act.
- Exposures to derivatives are excluded from the numerator of the financial institutions' KPIs.

- Financial undertakings should use the most recently available data and KPIs of their counterparties, investee companies and exposures to calculate their own KPIs.

The scope of the recommendations

These recommendations can apply to Taxonomy estimates for:

- Is scoped to activities contained in the Climate and Environmental Delegated Acts.
- Primary KPIs of non-financial companies – Turnover, CapEx.
- Financial reporting KPIs – GAR for credit institutions, and Underwriting and Investment KPIs.
- UoP instruments.
- Equity and general-purpose bonds.

Out of scope of these recommendations are:

- Lending activities such as mortgages, car loans and SME financing.
- Proxies for derivative instruments.
- Exposures to central governments, central banks and supranational issuers (except for green/sustainable use-of-proceeds).

There are some overarching disclosure rules that apply to all in-scope entities:

- Disclosures shall cover the annual reporting period from the previous calendar year of the date of disclosure, as covered in the Commission's FAQs document.
- Disclosures shall use the same currency as in the financial statements of the in-scope entity.
- Wherever possible and practical to do so, corporate reporting should be the base of Taxonomy estimation models – this being the disclosures made by the company within their own corporate sustainability or non-financial reporting practices.
- Supplementary information in the form of media or controversy screening can be applied as a screening tool but should not form the only data point to determine Taxonomy compliance.

Recommendations on estimating eligibility

Eligibility is an indicator that a company's operations or financing could be conducted in a more environmentally sustainable way. Therefore, to estimate eligibility, in line with the precautionary principle, methodologies should consider all possible activities that could be tested to meet the TSC in the Climate and Environmental Delegated Acts. In accordance with the advice given by the Platform in its voluntary guidance paper on estimating eligibility, the Platform makes the following recommendations to the Commission.

Since companies often report revenue by broad segments instead of Taxonomy-specific categories, the Platform provides a mapping tool to help translate segments into

Taxonomy activities. Financial firms using third-party estimates should disclose key elements of the methodology and data verification approaches.

Eligibility reporting should reference the Climate and Environmental Delegated Acts. In principle, if a company generates turnover or CapEx from an activity that could be tested under the Taxonomy, then that activity would count as eligible for the purpose of reporting. For broad segments (e.g. 'Energy Production' including both renewable and non-renewable sources), firms may use total segment revenue as an estimate but must test these activities to prevent overstating alignment. This mirrors the approach to manufacturing cement, steel, plastic, real estate, and transmission and distribution, where both heavy-emitting and lower-carbon practices are considered 'eligible'.

Recommendations on eligibility

- Is scoped to activities contained in the Climate and Environmental Delegated Acts only.
- Uses financial statements made by the company as the basis for estimating eligibility.
- Provides a clear, publicly disclosed mapping table of the Taxonomy activity to the classification system used.
- Applies the precautionary principle.

Eligibility is not an indicator of environmental performance; it is an indicator that an activity is in scope for testing and has the potential to be Taxonomy-aligned. For avoidance of doubt, if the activity could be tested in line with the TSC, then the activity is eligible.

Recommendations on estimating SC and DNSH

TSC in the Climate and Environmental Delegated Acts follow both qualitative and quantitative testing approaches. Both SC and DNSH follow four main types of testing criteria:

1. Quantitative or threshold-based test

- Estimation of SC and DNSH using these test types should be based on non-financial disclosures such as the corporate sustainability reporting from the non-financial company, or the prospectus and/or impact and allocation report of the UoP instruments.
- If a company passes this test, the eligible turnover or CapEx UoP would be deemed to be estimated as aligned (provided it passes the MS test – see below).
- If a company does not disclose the underlying data needed for testing (e.g. its carbon emissions or water use), then estimation models can determine proxy

(carbon/water) metrics based on companies of a similar operational profile and size. These estimation models will typically provide the mean or median performance within a sector, geography or operational profile and thus are unlikely to demonstrate SC (typically top 10% performance). Therefore, the Platform does not recommend the use of proxy systems for SC quantitative tests.

- Sector-based and/or location-based averages may be used to determine if a company is likely to meet TSC or not, given its activities and country/region of operation.

2. Qualitative or process-based test

- Estimation of SC and DNSH using these test types should be based on non-financial disclosures such as the corporate sustainability reporting from the non-financial company, or the prospectus and/or impact and allocation report of the UoP instruments.
- Evidence of compliance could include disclosures of policies, operational practices, or licences.
- Supporting data, such as no environmental fines, sanctions or breaches, could be used to add weight to the estimation approach.
- If a company passes this test, the eligible turnover or CapEx UoP would be deemed to be estimated as aligned (provided it passes the MS test – see below).
- If a company does not disclose the underlying data needed for testing, it cannot be deemed to pass, unless:

  a) A due diligence-based approach to testing is accepted.; and/or
  b) An approach to use reasonable assumptions is accepted. This approach requires a split of the aligned assets into three buckets:

     1. Bucket: Use reported data.
     2. Bucket: Use of estimates as described in this paper.
     3. Bucket: Lack of data and use of reasonable assumptions.

3. International standards

- Where an international standard is required, evidence of the application of this standard to the company's operations should be publicly available or provided in the corporate sustainability report of the company.
- The Platform does not recommend a particular proxy-based approach to such standards.
- For organisations or operations not subject to such standards, they should not be required to evidence compliance. For the avoidance of doubt, only companies or

activities within the scope of the international standard need to provide evidence of compliance to it.
- Supporting data, such as no environmental fines, sanctions or breaches, could be used to add weight to the approach.

4. EU Legislation

- There are two types of TSC related to the EU legislation. Some TSC are very specific about the clauses and requirements an activity must meet, which can be mirrored to quantitative thresholds or process-based metrics (detailed above). Other TSC are more generic about compliance with legislation(s), which makes it challenging to find a proxy metric.
- For legislation that is not applicable outside of Europe, these would require supporting resources, like FAQ material, to help explain the equivalent local legislation or process-based/quantitative/threshold-based tests on which the non-EU company or non-EU activities from EU companies can demonstrate compliance.

The estimation approaches described in this section can serve to either estimate compliance with a single TSC or to estimate compliance at the objective level.

Recommendations on SC and DNSH

- Are scoped to activities contained in the Climate and Environmental Delegated Acts only.
- Use financial and non-financial statements and reports made by the company as the basis for estimating Turnover or CapEx KPIs.
- Included in the prospectus and/or impact and allocation report on the UoP instruments.
- Provide a clear, publicly disclosed mapping table of the Taxonomy testing criteria to the pass/fail determination in the estimation model.
- Apply the precautionary principle.

If a company does not disclose the underlying data needed for testing, it cannot be deemed to pass, unless a due diligence-based approach to testing is accepted.

Table 12: Estimation approaches and where they can be applied

Estimation approach	Applied at TSC level	Applied at the objective level
Use of environmental controversies		X
Compliance with local environmental laws or official standards	X	
Use of thematic environmental scores		X
Use of qualitative and quantitative ESG metrics	X	
Use of sectoral and/or geographical averages	X	

Recommendations on minimum safeguards

MS models should seek to detect areas of violation with the due diligence social norms listed in the Taxonomy Regulation. There are several instances when an undertaking fails to comply with these MS:

- Inadequate or non-existent corporate due diligence processes on human rights, including labour rights and bribery.
- Final liability of companies for breaches in any of the areas mentioned above.
- Lack of collaboration with an OECD National Contact Point (NCP) and an assessment of non-compliance with OECD guidelines by an OECD NCP.
- Non-response to allegations by renowned and well-recognised institutions, such as the Business and Human Rights Resource Centre.

The best possible source of data on whether an undertaking meets MS is within its non-financial report (CSRD, ESRS, Sustainability Accounting Standards Board (SASB), GRI Standard, etc.). Taking into consideration that MS compliance is a summary of implementation of due diligence as well as remedy procedures, examples of estimations using compliance or non-compliance with MS are as below and are similar to tools used to estimate TSC or DNSH. These include for example (also see Table 13):

a. Controversies based on public databases

Public databases can help track controversies, such as OECD findings of non-compliance with its guidelines, although these reports are often delayed by 6–12 months, risking outdated information on MS alignment. Other sources include watchdogs and civil society organisations (CSOs), which monitor issues like human rights violations. However, relying solely on public databases may overlook MS non-compliance if issues are unreported by

CSOs or NCPs. Additionally, a lack of allegations against a company does not guarantee MS compliance.

b. Adverse media screening

Adverse media screening is the process of identifying and monitoring adverse information about undertakings from various media sources. This practice is integral to risk management, compliance and due diligence efforts within an undertaking. Adverse media screening involves: 1) checking for negative news, 2) identifying red flags, and 3) helping to make informed decisions. As with public databases, adverse media reports can help raise flags and identify potential breaches, but they do not guarantee either compliance or a breach by an undertaking.

c. Social scoring models

Social scoring models should validate compliance with the following requirements:

- International Bill of Human Rights.
- International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work.
- ILO 1. Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87).
- ILO 2. Right to Organize and Collective Bargaining Convention, 1949 (No. 98).
- ILO 3. Forced Labour Convention, 1930 (No. 29) (and its 2014 Protocol).
- ILO 4. Abolition of Forced Labour Convention, 1957 (No. 105).
- ILO 5. Minimum Age Convention, 1973 (No. 138).
- ILO 6. Worst Forms of Child Labour Convention, 1999 (No. 182).
- ILO 7. Equal Remuneration Convention, 1951 (No. 100).
- ILO 8. Discrimination (Employment and Occupation) Convention, 1958 (No. 111).
- ILO Convention Added 2022. Occupational Safety and Health Convention, 1981 (No. 155).
- ILO Convention Added 2022. Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187).
- OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.

Proxy systems in the shape of a social score should indicate the company's compliance level with the frameworks listed above. These would be evidenced in a company's non-financial disclosures in the shape of policies, working practices, organisational composition and other areas.

Table 13: Overview of MS

MS Component	a. Controversies based on public databases	b. Adverse media screening	c. Social scoring models
Implementation of human rights policy and procedures for all aspects of OECD Guidance and UNGPs (UN Guiding Principles for Business and Human Rights)*	No	Yes	Yes
Monitoring controversies and adverse impact	Yes	Yes	Yes
Information on breaches and violations	Yes	Yes	Yes
Identify, prevent, mitigate and/or remediate adverse impact	No	Yes	Yes

*According to the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct from 2023,[46] a company should establish a human rights policy when it aims to adhere to responsible business practices. This policy should outline the company's commitment to these guidelines, detailing its approach to due diligence, stakeholder engagement and addressing adverse impacts. The policy should be publicly available and integrated into the company's operational procedures and management.

Recommendations on MS

- Are applied to a legal entity and not to a specific activity or project.
- Estimation models should seek to determine social violations where the company does not have a suitable plan to remediate the issues identified.
- Use financial and non-financial statements and reports made by the company as the basis for estimating compliance.
- Can use third-party sources for controversy and adverse media to screen for violations, consisting of final convictions/judgements, or listing in either the OECD database of specific instances or other well-recognised institutions, but compliance ought to be based on due diligence.
- Provide a clear, publicly disclosed mapping table of the MS testing criteria to the pass/fail determination in the estimation model.
- Apply the precautionary principle.

Should form part of a due diligence-based process: identify risks, take action, monitor and improve, transparency, and remediation.

[46] OECD. 2023. "Guidelines for Multinational Enterprises on Responsible Business Conduct."

Due diligence process and supporting measures

Where there is insufficient information to determine a full pass of DNSH or MS tests, the Platform encourages a due diligence approach. This would entail investors implementing appropriate procedures, including procedures to continuously identify, prevent, mitigate or remediate the relevant actual and potential adverse impacts connected with their own operations, value chains and business relationships in order to ensure their activities are carried out in line with DNSH and MS requirements.

For estimates related to non-EU SMEs, a similar model should apply to any endorsed model for reporting for EU-based SMEs[47].

Even with due diligence, some risks may remain unresolved, which does not imply non-compliance if the undertaking transparently discloses these impacts and explains mitigation efforts. Recognised guidance allows for situations where adverse impacts cannot be entirely prevented despite reasonable efforts.

Financial institutions can enhance DNSH assessments by conducting audits, questionnaires and evidence-based analysis to gauge environmental risks. This risk-based due diligence should be documented for audit purposes, with more in-depth investigation for higher-risk companies or activities.

In private markets, due diligence is essential, as reliable data on smaller, unlisted companies is often unavailable. Financial institutions must assess these investments, especially in emerging markets, against the Taxonomy or comparable standards like those from the IFC (International Finance Corporation), due to limited data and capacity in these companies.

Reasonable assumptions approach – use of buckets and weighting of taxonomy criteria

There is a trade-off between:

- No use of estimates: leads to a small investible universe / less flows in green assets (conservative approach), and
- Comprehensive use of estimates: enables much more flows in green assets but with a higher risk of overstating taxonomy / greenwashing.

The purpose of the 'reasonable assumptions' approach is to achieve an optimum between these two goals, i.e. an appropriate level of requirements that also enables sufficient flows in green assets. The Platform proposes splitting the aligned assets into three buckets (Step 1) based on the nature of the evidence/estimates (with adequate disclosures) used to

[47] https://finance.ec.europa.eu/document/download/d25c1431-79c6-4846-99e6-3441e88b924f_sk?filename=240527-statement-eu-platform-on-sustainable-finance-chair_en.pdf

confirm the SC, DNSH and MS, as well as introducing an appropriate weighting of the taxonomy criteria (Step 2).

Step 1: Splitting the aligned assets into three buckets

The alignment reported in the first bucket is based solely on reported data used to test the SC, DNSH and MS criteria. The second bucket includes the use of estimates in testing the criteria, based on the suggestions in this section. Where there is insufficient information to determine a full pass of the Taxonomy criteria, the third bucket includes reasonable assumptions and a weighting of the Taxonomy criteria in Step 2. The second and third buckets would require additional disclosures on the estimates/assumptions. A breakdown of the aligned assets into three buckets with the relevant additional disclosures is shown in Table 15.

Table 104: Buckets with additional disclosures

Buckets	Taxonomy-aligned volume and asset class	Taxonomy alignment	Additional Taxonomy disclosures
1	Enter volume and asset (class) / structure description	▪ Use reported data (e.g. CSRD entities) ▪ Taxonomy criteria met and all evidence available (e.g. for consolidated retained earnings)	
2	Enter volume and asset (class)/ structure description	▪ Taxonomy criteria met with the use of (significant) estimates	Disclose methodology on which the estimates are based, including the assumptions and datasets used for determining the estimates
3	Enter volume and asset (class) / structure description	▪ Lack of data ▪ Use of reasonable assumptions, apply judgement	Reasoning regarding why, despite a lack of data, Taxonomy alignment is still considered as appropriate (e.g. MS analysis not available in a 'very low risk' EU-country or for a supplier with low interactions)

Step 2: Weighting of taxonomy criteria for bucket 3 assets (lack of data / use of reasonable assumptions)

If there is a lack of data to determine a full pass of the Taxonomy criteria, additional disclosures and a weighting of the taxonomy criteria are needed (e.g. higher weights for SC/DNSH criteria and lower weights for MS criteria in specific cases).

An example from the Taxonomy assessment of a real estate asset is as follows:

1. SC criteria all met (EPC class A, air tightness and thermal integrity results confirmed).
2. DNSH criteria all met (effective tool in place to identify hazards and adaptation solutions).
3. One element of the MS analysis is missing (e.g. questionnaire not completed by one supplier).

Overall assessment: If the real estate asset is located in a 'low MS risk area', Taxonomy alignment for this asset should be possible and reported in the third bucket of Table 15.

Is it possible to audit 'estimates'? – analogy to financial reporting

In the Platform's view, the challenges of using estimates for Taxonomy reporting are similar to (but not greater than) financial reporting. The fair value (FV) hierarchy in International Financial Reporting Standards (IFRS) 13 also requires the use of (significant) estimates for level 3 (illiquid) assets. This corresponds to the concept of using estimates for Taxonomy-aligned assets with the analogy shown in Table 15.

Table 15: Analogy between IFRS 13 FV-hierarchy and buckets for Taxonomy alignment

Level/bucket	IFRS 13 FV-hierarchy (levels 1–3)	Taxonomy alignment (buckets 1–3)
1	Quoted prices in active markets	a) Reported Taxonomy data, or b) Taxonomy criteria met and all evidence available
2	Observable input outside of active markets	Taxonomy criteria met with the use of (significant) estimates
3	Unobservable inputs; use of significant judgement (valuation method, input parameters)	Lack of data; use of reasonable assumptions, apply significant judgement

IFRS 13 FV measurements (particularly for assets, categorised as FV-PL under IFRS 9) affect the level of earnings (and therefore financial flows, e.g. IPOs, bond issues) for which, in the case of level 3 assets, significant judgement is required. Similarly, estimates can affect flows in Taxonomy-aligned (green) assets, where judgement may also be involved. In the Platform's view, it is possible to obtain the same level of (reasonable) assurance for Taxonomy-aligned assets by using reasonable assumptions as for the FV measurement of level 3 financial assets.

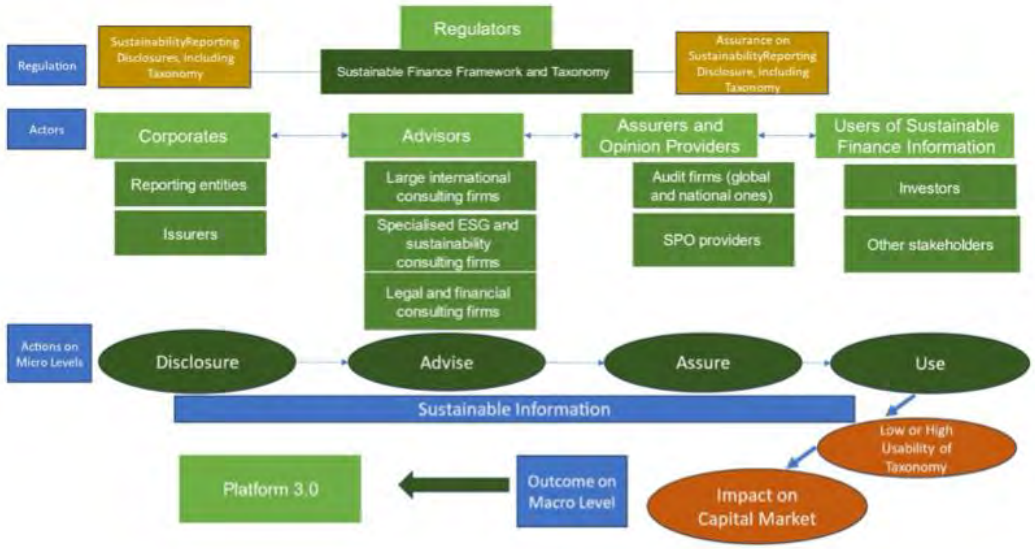
Consultants and auditors

Enhancing consistency and reliability, and harmonising the framework: key recommendations

The sustainable finance framework is established and operational. However, for the framework to realise its full potential, corporates and assurers must further mature and align their approaches to ensure consistency and efficacy. A critical area requiring advancement is obtaining 'assurance', particularly in areas subject to limited assurance under the CSRD, such as the EU Taxonomy reporting and transition plans disclosures.[48]

To achieve assurance, it is essential to streamline the approaches used by the diverse stakeholders involved in the reporting process, as shown in Figure 8.

Figure 8: Overview of the information flow, auditors and consultants



In this section, the Platform explores the assurance perspective and offers recommendations that emphasise the need for greater collaboration among the stakeholders mentioned above.

The Platform suggests two key recommendations to the European Commission :

- To develop timely guidance on the 'assurance' of Taxonomy reporting, including the application of the materiality threshold and/or materiality principle, ideally

[48] It should be noted that the same risk basis, for planning the work and for materialities, applies for both limited and reasonable assurance, and the disclosed information should be subject to good internal controls in both cases. It is the level of assurance provided that differs, e.g. the degree of confidence the assurance conclusion could be expressed with.

before 2028, to ensure fair presentation and support the transition to mandatory reasonable assurance.

- **To provide sufficient level of detail in the limited assurance standards to be adopted by 1 October 2026, at the latest.** ISSA 5000 provides a solid framework. Yet, the level of detail and ambition of the European standards might require specific guidelines for those areas not covered by ISSA 5000. These will ensure that assurance providers are properly guided, minimising the risk of subjective interpretation.

In addition, the Platform has reviewed a number of issues for the Commission' attention:

Effectiveness of the framework

1. The Platform reinforces communication in the CSRD that corporates shall apply the same internal controls for sustainability disclosures as they do to financial filings. Assurance and maturity begin with corporate reporting, and fulfilling the reporting criteria is a prerequisite for obtaining assurance and providing quality disclosures to intended companies and other economic actors.
2. For cases where the debt market, credit institutions and financials provide lending to parties out of scope of the CSRD, these are recommended to obtain limited assurance on a voluntary basis (e.g. apply high-quality internal controls). Limited assurance could be sought on UoP solely or on the wider sustainability information of the company, as relevant and proportionate. Relevant parties could include non-CSRD companies, cities, retail, private households, municipalities and others.

Consistency and harmonisation of assurance across the EU sustainable finance framework

1. While the market continues maturing its approach to assurance, market participants should refer to the Q&As and other guidance provided by the European Commission to enhance assurance, such as:
   - The EC Q&A from 7 Aug 2024 and in particular question 70 related to a fair presentation.
   - The CEAOB's non-binding guidelines on limited assurance on sustainability reporting from 30 September 2024.
2. The Platform suggests that the Commission carefully consider the recommendations regarding Board accountability and assurance outlined in the Platform's papers related to transition plans[49]. Additionally, the Platform provides some assurance use cases in its Compendium of Market Practices and Annex

[49] Building trust in transition: core elements for assessing corporate transition plans, EU Platform, 2025

(including from a 'CSRD-check' to reasonable assurance and reasonable assurance of gradual alignment of green bonds with the EU GBS).

3. As the EU Taxonomy, the double materiality in the ESRS and the transition towards the EU's Environmental Objectives are uniquely European, the Platform emphasises the importance of the limited assurance standards to offer clear guidance for assurance providers on how to provide assurance for Article 8 disclosures and these CSRD elements. Such guidance is not currently available in existing frameworks, such as ISSA 5000, making it essential to develop tailored guidance for the EU context.
4. Recital 60 of the CSRD outlining the steps towards reasonable assurance on the CSRD/ESRS disclosure requirements and EU Taxonomy disclosures (under the Taxonomy Disclosures Delegated Act), which should be adopted by October 2028. In the interim, the Platform recommends creating linkages between the next Platform, EFRAG and CEAOB to harmonise assurance efforts and develop a unified approach. Such linkages could take the form of a cross-sectoral working group that meets on a regular basis (e.g. once per quarter and occasionally in between). The Platform further recommends including the ESAs, both as observers and for contribution when relevant, to these meetings. Expected output would be recommendations to proactively secure assurance on key work, reports and recommendations provided by the respective bodies. Additionally, creating linkages or with ISSA 5000 would be beneficial to further support this process.[50]
5. A key element of the CSRD is the double materiality assessment, which determines material areas that reporters shall disclose and manage. The varied applied quantitative measurement approaches/methodologies and qualitative stakeholder surveys may lead to differing outcomes on what is material, forcing the reporting company to make the final decision and the audit provider to assure it. As this process may lead to different outcomes of materiality, even across one sector or area of operations, it could result in complications in comparing the performance of different companies. The Platform emphasises that timely further guidance and development in this area are essential to achieving assurance. The Platform has previously urged the European Commission to provide guidance on conducting double materiality assessments.[51] The EU Taxonomy plays a vital role in this context, as it explicitly identifies activities that make an SC to environmental objectives. By focusing exclusively on what is genuinely material, companies can enhance their competitiveness while avoiding the inefficiencies of allocating time and resources to non-material impacts, risks and opportunities.

[50] IAASB. 2024. "Understanding International Standard on Sustainability Assurance 5000."
[51] EFRAG. 2024.

6. Pending the adoption of a limited assurance standard by the European Commission, the CEAOB has issued non-binding guidelines on 30 September 2024, to support the harmonisation of the assurance of sustainability reporting across Member States. With these guidelines and the upcoming limited assurance standard, it is crucial to integrate assurance throughout the Platform's recommendations moving forwards. This is particularly important when advising on estimates, proxies, double materiality, value chain and forward-looking information, as these elements are inherently different in nature and more challenging to report on and assure compared to 'internal' disclosures.

Competitiveness within the market

7. To sustain a long-term perspective on implementation, usability and impact measurement, ensuring coherence, fostering a trustworthy transition and delivering high-quality disclosures will be essential prerequisites for competitiveness. This focus will remain a priority moving forwards.

Conclusion

It is important to acknowledge that, despite best efforts, achieving full maturity and transitioning to reliable sustainable finance disclosures will take time. The current Platform (2.0) envisions a balance between a pragmatic approach with best efforts and the recognition that long-term quality may not be fully attainable in the first year of reporting under the CSRD or the EU Taxonomy. However, the focus should be on building knowledge and gaining a clear understanding of both strengths and weaknesses to a reasonable extent. This will enable reporters to be transparent with auditors, companies and other economic actors about any challenges encountered in the assurance process. Significant improvements in quality and closing the gaps are expected by the second and third years of CSRD reporting, ultimately strengthening trust and enhancing competitiveness.

Data vendor survey 2024

The Data Science Hub of the Platform ran a second iteration of the data vendor survey.[52] The objective of the second market-wide data vendor survey was to continue the work on understanding where the data market stands with regard to collecting, treating and estimating EU Taxonomy data in terms of estimating/calculating both eligibility and alignment, and additionally data points commonly used in exclusions. The study took the perspective of an institutional investor who downloads the best available relevant data from a range of vendors at a specific point in time and assesses the comparability of the information on each of the Taxonomy-related indicators.

Overall, with regards to EU Taxonomy data specifically, a significant improvement in terms of alignment across data vendors was noted compared with the previous survey, in particular for EU Taxonomy-alignment data. While they were not investigated in detail, drivers for this improvement could be linked with the fact that the EU Taxonomy has been applied for longer, leading to enhancements in quality of disclosures of companies in scope, but also to enhancements in data vendor-related processes. While some improvement was observed, data still appeared less consistent for eligibility figures. Remaining differences in values may result from time lags in data collection, issues when using Annex II reporting standards, or the inability to rely on machine-readability at this stage. Similarly, interpretation issues, omissions or errors in reported data by issuers and potentially different handling of those by vendors (e.g. removing, overwriting, or keeping as is, which – depending on the type of issue – can all be defendable approaches) can cause divergence. In terms of estimated values, one driver of the divergence in estimated eligibility may be the different mapping of NACE activities by different data providers and difficulties with the Taxonomy-activity names that can be interpreted and mapped differently due to unclear scope – this is an issue that the methodology outlined above could help address.

The following areas of attention are noted, with most of them being consistent with prior recommendations made by the Platform:

- Enhance transparency on data made available by data vendors, including methodologies when using estimates or when treating data reported by issuers (e.g. where issues are observed in the use of templates). To support investors' use of the EU Taxonomy, a focus on reducing time lags would also appear beneficial.
- Address usability issues with issuer-reported data, such as divergence in Annex II reporting standards.

[52] The first data vendor survey can be found under 2.5 in the final report of the Data & Usability Group (SG5) of the first Platform: https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf.

- Focus on Article 10 CTB exclusions (Climate Transition Benchmarks), Article 12 Paris Aligned Benchmarks (PAB) exclusions [53]and Article 12 OECD exclusions and replace UN Global Compact (UNGC) with UN Guiding Principles on Business and Human Rights (UNGP) exclusions.

[53] Please note that the Platform's SFDR paper has recommended to base PAB exclusions on revenue or CapEx as a financial metric.

Facilitating access to sustainable finance for SMEs

The Platform was mandated to review the treatment of SMEs and SME finance in the EU sustainable finance framework. In this capacity, the Platform supported the measures outlined in the SME Relief Package and contributed to the development of the reporting standards for listed SMEs under the CSRD (LSME standards) and the voluntary reporting standards for unlisted SMEs (VSME standards), as developed by EFRAG.

SMEs are pivotal to Europe's sustainability transition: 99% of European businesses are SMEs,[54] which are estimated to contribute over 50% of the EU's GDP while being responsible for more than 63% of enterprise CO_2 and broader GHG emissions.[55] The transition to a net-zero, resilient and environmentally sustainable economy hinges on SMEs' ability to access the necessary financing to decarbonise, green their operations, and develop sustainable products and services. Despite their critical role, SMEs face significant challenges in accessing external financing for their sustainability efforts.

Most SMEs in the EU finance sustainability projects themselves rather than through external financing. The recent Eurobarometer survey (2024) shows that more than 90% of SMEs are implementing resource-efficiency measures, and a recent survey of SMEs conducted by Eurochambres and SMEunited in 2023 for the Platform's Compendium of Market Practices also found that a majority (58%) of those surveyed have already invested in sustainable projects. However, the survey shows that most (65%) of these SMEs financed the projects themselves rather than through external financing, as is the case also for the financing of other, non-sustainable, projects by SMEs in the EU. In terms of external financing, credit institution loans were the most common type of financing sought. The low level of external financing sought and/or classified as sustainable can be explained by a variety of issues in relation to accessing green and sustainability-related financing, ranging from high minimum loan sizes, complex regulatory requirements, insufficient awareness among SMEs, a lack of harmonised simple definitions for green or sustainable loans at the EU level, and a lack of sustainability-related data reported by SMEs, including Taxonomy-related data. Given that the Taxonomy requirements and criteria are perceived to be generally difficult for SMEs to comply with, most do not voluntarily use the Taxonomy as a framework to demonstrate the environmental sustainability of their activities. Yet, the

[54] SME definition – European Commission
[55] Eurobarometer. 2022. "SMEs, resource efficiency and green markets."

Taxonomy is increasingly becoming the norm in the EU for classifying and accessing green finance, with Taxonomy-related information requests trickling down to SMEs from value chain partners or financiers.

To address these challenges, the Platform developed two tailored approaches to be used by credit institutions or other financiers to classify the loans or other type of financing they provide to SMEs as sustainable (green or transition) finance and to simplify related reporting: a Simplified Approach for listed SMEs (green finance) and a Streamlined Approach for unlisted SMEs (transition finance).[56]

The objective of the **Simplified Approach** is to simplify compliance with the Taxonomy criteria for listed SMEs, which are subject to disclosure requirements under the Taxonomy Disclosures Delegated Act. While many of the recommendations made here to improve the use or interpretation of criteria could also be considered for larger companies without changing their level of ambition, and the Technical Working Group of the Platform is looking already into some of these, this proposal focuses on SMEs. The approach proposes to develop an online tool including detailed guidance and explanations of assessment concepts and methodologies, and a database with necessary data points to be used as inputs for the assessments. The tool could also offer training and capacity-building programmes to help listed SMEs understand and apply the assessments. It should be noted that the tool can only be developed and become operational once the content to be included has been discussed and agreed at the level of the European Commission. In addition to an online tool, it is recommended to explore if an amendment of the Taxonomy Disclosures Delegated Act would be helpful to reduce the reporting burden for listed SMEs, e.g. by requiring the listed SME for its DNSH assessment to focus only on its main activity or expenditure being financed, thereby decreasing the overall amount of DNSH criteria that the listed SME would need to assess alignment against. For MS, the following could be considered sufficient for evidencing compliance:

- the listed SME's non-violation of the applicable laws of which it is in scope; and
- the listed SME has due diligence processes in place and reports on them under the upcoming LSME standards indicator GOV-2, and human rights incidents and policies indicator S1-9 and section 3.

It should be noted that at the time of writing the LSME standards are currently in proposal form and still need to be adopted by the European Commission.

The objective of the **Streamlined Approach** is to provide unlisted SMEs with a framework to help them demonstrate their climate-related sustainability efforts and thereby more easily access external financing for these efforts. The approach focuses, as a first stage,

[56] https://finance.ec.europa.eu/document/download/d25c1431-79c6-4846-99e6-3441e88b924f_sk?filename=240527-statement-eu-platform-on-sustainable-finance-chair_en.pdf

on climate change mitigation and adaptation objectives. In doing so, it goes beyond activities currently included in the Taxonomy and distinguishes between:

1. Activities: consisting of activities listed in the Taxonomy Climate Delegated Act, as well as other activities not included but which may be considered in the future. For those activities not included, they can only be considered if they are included on a pre-defined list by the European Commission of have well-recognised labels and/or certifications, which can serve as a proxy for their climate-related sustainability credentials in line with the proposed criteria.

2. Enterprises: consisting of (i) SMEs that have recently incorporated in their business model climate-related practices that pursue the transition to a sustainable economy; or (ii) an SME holding a climate-related certificate from a pre-defined list.

3. Investments: consisting of projects and measures that target activities under point 1, as well as other projects and measures not included under point 1 but for which simple and robust criteria have been developed.

For activities under point 1 that are inspired by the Taxonomy SC TSC, it is recommended to make them more accessible and easier to use for unlisted SMEs. Such simplification is recommended to entail:

- Grouping similar activities to reduce the number of activities to assess and potential reporting lines.
- Removing ambiguity in wording used.
- Clarifying references to EU legislation, such as highlighting in the proposed online tool the national transposed legislation when applicable to SMEs and the key points from these referenced legislations.
- Clarifying references to other sections of the Taxonomy.
- Clarifying the use of NACE codes and that these should not be considered as the only useful classification for SMEs' economic activities.
- Simplifying the life-cycle assessment requirement.

To ensure that the unlisted SME adheres to minimum environmental and social safeguards, the following elements are proposed:

- As a first and self-evident element, the unlisted SME complies with applicable laws of which it is in scope.
- As a second element, the unlisted SME cannot finance activities in the excluded sectors defined in the EU Benchmark Regulation for Paris-Aligned Benchmarks, and in the case of general-purpose finance, the unlisted SME itself cannot fall under

these excluded sectors or provide dedicated services or products for an excluded activity.[57]

- As a third element, microenterprises can report using the sustainability indicators of the VSME standards Basic Module and for larger unlisted SMEs VSME standards Comprehensive Module on the indicators related to due diligence regarding human rights policies and processes (C 6) and severe negative human rights incidents (C 7).

This entity-level approach, in combination with a focus on the main activity of the SME or on what measures or investments are being financed under the Streamlined Approach, supports SMEs in their progressive sustainability efforts, given that it fits their current capabilities. Overtime, the Streamlined Approach would need to be expanded to the remaining Taxonomy objectives and would need to be reviewed in order to reflect relevant progress and changes in the market.

The Streamlined Approach is suggested to be used for both debt and equity finance. The Platform distinguishes between known UoP financing, which supports a specific project or initiative, and general-purpose financing, where the exact use of funds is typically unspecified but the company's activities or business model are known to the financier. An online support tool to help SMEs assess their own and their investments' eligibility under the Streamlined Approach is proposed to be developed. In case of general-purpose finance, none of the activities of the SME is allowed to be an activity included in the fossil fuel or other exclusions from the Paris Aligned Benchmarks, as specified in the EU Benchmark Regulation.

The two proposed approaches aim to support SMEs in accessing external financing for their sustainability efforts and at the same time, to help the financial sector in assessing and reporting on such financing with reduced complexity and administrative burden. While SMEs should be transparent about their exact turnover or expenditures related to activities falling under the two approaches, certain materiality considerations should be allowed for financial institutions when financing SMEs or their projects falling under the two approaches. This is particularly important for loan products and would allow for limited auxiliary costs or side activities to be included under one loan agreement with the same conditions, without requiring the financier to assess minority activities separately or the SME to request separate loans. This is proposed to be based on the main activity (the activity that forms a great majority of the SME's turnover in the case of general-purpose finance or expenditures in the case of known UoP finance).[58] In terms of their own (voluntary) reporting, listed SMEs can use existing Taxonomy reporting templates, while

[57] In case the Streamlined Approach in the future is extended beyond climate objectives, these exclusions need to be extended.

[58] more than 80% or 90% of the SMEs turnover (tbd).

unlisted SMEs can voluntarily report KPIs based on the Streamlined Approach. In the future, FMPs and companies in the SMEs' value chain could use the listed SMEs' Taxonomy reporting for their own Taxonomy reporting and the unlisted SMEs' Streamlined Approach reporting as inputs to their climate-related sustainability reporting.

The proposed Simplified and Streamlined Approaches aim to make it easier for both listed and unlisted SMEs to access external financing for their climate-related sustainability efforts. This is by reducing the complexity of reporting requirements through simplifying the demonstration of compliance with existing Taxonomy criteria and assessments (Simplified Approach) and through providing a framework allowing unlisted SMEs to demonstrate the climate-related efforts of their activities, investments or enterprise (Streamlined Approach). By providing clear guidance, support tools and simplified criteria, these approaches aim to enhance SMEs' access to climate-related sustainable finance and thereby support them in their transition towards low-carbon practices, ultimately contributing to the EU's net-zero goals. These measures will help bridge the gap between SMEs and sustainable finance, ensuring that SMEs can play their essential role in Europe's sustainability transition, and the financial sector can more easily identify and support such investments and companies. The Platform recommends extending the approach to the four remaining Taxonomy environmental objectives at the earliest opportunity.

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