



# Focus on The European Taxonomy

mazars

# Focus on

## The European Taxonomy

### What are we talking about?

The "Taxonomy"<sup>1</sup> regulation was adopted in June 2020 by the European Union and is a key element of the European plan to finance sustainable growth<sup>2</sup>. The Taxonomy objectives are twofold: to encourage economic players to identify their positioning in relation to the EU's sustainable transition trajectory, in order to enable financial players to prioritise the allocation of funding to projects and assets recognised as the most supportive of this trajectory.

To this end, the regulation creates a classification (Taxonomy) of economic activities according to their potential contributions to the EU's six environmental objectives (hence the common name of "green Taxonomy").

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

The requirement then directs companies to identify the activities in their portfolio that meet specific technical criteria and indicate the share they represent in their overall activity.

Implementing the Taxonomy therefore requires:

- Analysing the position of companies activities in relation to the standard
- Publishing information on the process and results of this analysis.

<sup>1</sup> EU Regulation (2020/852) - the establishment of a framework to facilitate sustainable investment

<sup>2</sup> EC publication - Renewed sustainable finance strategy and implementation of the action plan on financing sustainable growth

### Who is concerned?

The scope of companies targeted by the Taxonomy is currently the same as that of the NFRD.

As a result, when the CSRD (Corporate Sustainability Reporting Directive) succeeds the NFRD in 2024, this scope will apply to the following:

- All companies listed on a European market (including non-European companies and SMEs but excluding micro-enterprises with less than 10 employees)
- All large unlisted companies: defined as meeting two of the three following criteria: more than 250 employees, €20m balance sheet or €40m turnover

Further information on the CSRD can be found in our CSRD brochure.



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### How does the Taxonomy work?

The Taxonomy is based on a three step approach:

## 01

### Eligibility analysis

Activities explicitly listed in the Taxonomy are considered "eligible". There are currently about 80 such activities, spread across 13 macro-sectors chosen because they account for more than 90% of greenhouse gas emissions. This is where the biggest effort is needed to meet **the EU's commitment to reduce its emissions by 55% by 2030 and to be carbon neutral by 2050**. The eligibility analysis consists of comparing a company's activities to the description given by the Taxonomy of so-called "eligible activities"<sup>3</sup>. There is no room for improvement at this stage: it is purely an exercise of mapping activities.

## 02

### Alignment analysis

Eligible activities become "aligned" with the Taxonomy (and thus with the EU environmental objectives) when they meet 3 requirements:

- **Contribute substantially to at least one** of the 6 environmental objectives - this contribution is determined by environmental performance requirements defined on the basis of scientific technical criteria ("Technical Screening Criteria" or TSC) detailed by the standard, activity by activity
- **Do not cause significant harm to any of the other** 6 environmental objectives. Again, harm is determined according to criteria set out in the standard
- **Respect the minimum guarantees** of respect for human rights, governed by the guidelines of the OECD, the UN and the ILO

At this stage, companies must review each of their eligible activities against a defined set of technical criteria, which requires access to granular information pertaining to environmental performance.

## 03

### Contribution analysis

Once the "aligned" activities have been identified, companies must calculate and publish the amount these aligned activities represent across the overall activity of the business, thus illustrating their degree of alignment with the EU transition path.

3 Eligible activities and alignment criteria are detailed in a so-called "Climate" delegated act

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### What information should be published?

This degree of alignment with the European transition path is reflected in the publication of **financial indicators** that differ depending on whether a company is a financial or non-financial<sup>4</sup> player.

For **non-financial players**, the 3 indicators required are:

<h2 style="margin: 0;">01</h2> <p style="margin: 0;"><b>Share of turnover from aligned activities</b></p>	<h2 style="margin: 0;">02</h2> <p style="margin: 0;"><b>Share of CAPEX related to aligned activities</b></p>	<h2 style="margin: 0;">03</h2> <p style="margin: 0;"><b>Share of OPEX related to aligned activities</b></p>
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In connection with these indicators, companies must also indicate their methods for identifying eligible and aligned activities, the list of these activities, and describe their methods for calculating the indicators.

To justify the aligned CAPEX amounts, companies must present their transition investment plan, validated by the Board of Directors or its delegation, with the objective of extending the scope of the aligned activities over a 5-year period (or up to 10 years, with an exemption that must be justified).

For **financial players**, the indicators are:

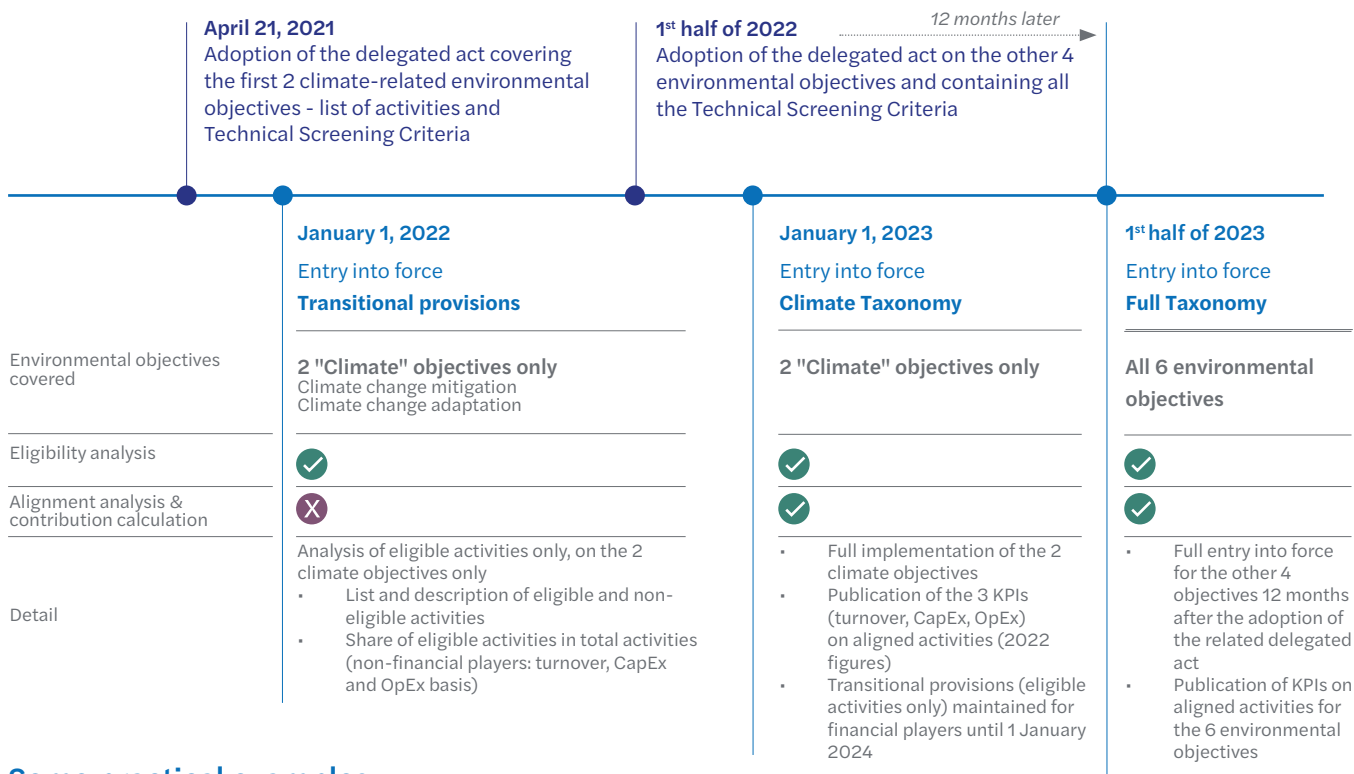
<b>Asset managers</b>	Weighted average of investments in Taxonomy-aligned activities as a proportion of total assets under management	
<b>Credit institutions</b>	Green Asset Ratio (GAR) = assets financing Taxonomy-aligned activities as a proportion of total assets covered	
<b>Investment companies</b>	<b>Own account</b>	Amount of assets associated with Taxonomy-eligible and Taxonomy-aligned activities as a percentage of total assets
	<b>Third party account</b>	Amount of revenues associated with Taxonomy-eligible and Taxonomy-aligned activities as a percentage of total revenues
<b>Insurance and reinsurance companies</b>	<b>Investments</b>	Weighted average of investments associated with Taxonomy-aligned activities
	<b>Insurance underwriting</b>	Percentage of non-life insurance (or reinsurance) revenues ("gross premiums written") corresponding to Taxonomy-aligned activities

<sup>4</sup> The details of the calculations and the information to be provided are specified in a delegated act called "Article 8"

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## When is it expected to come in effect?

The first provisions will come in effect on 1 January 2022, as expected by the "Climate" delegated act<sup>5</sup>.



## Some practical examples...

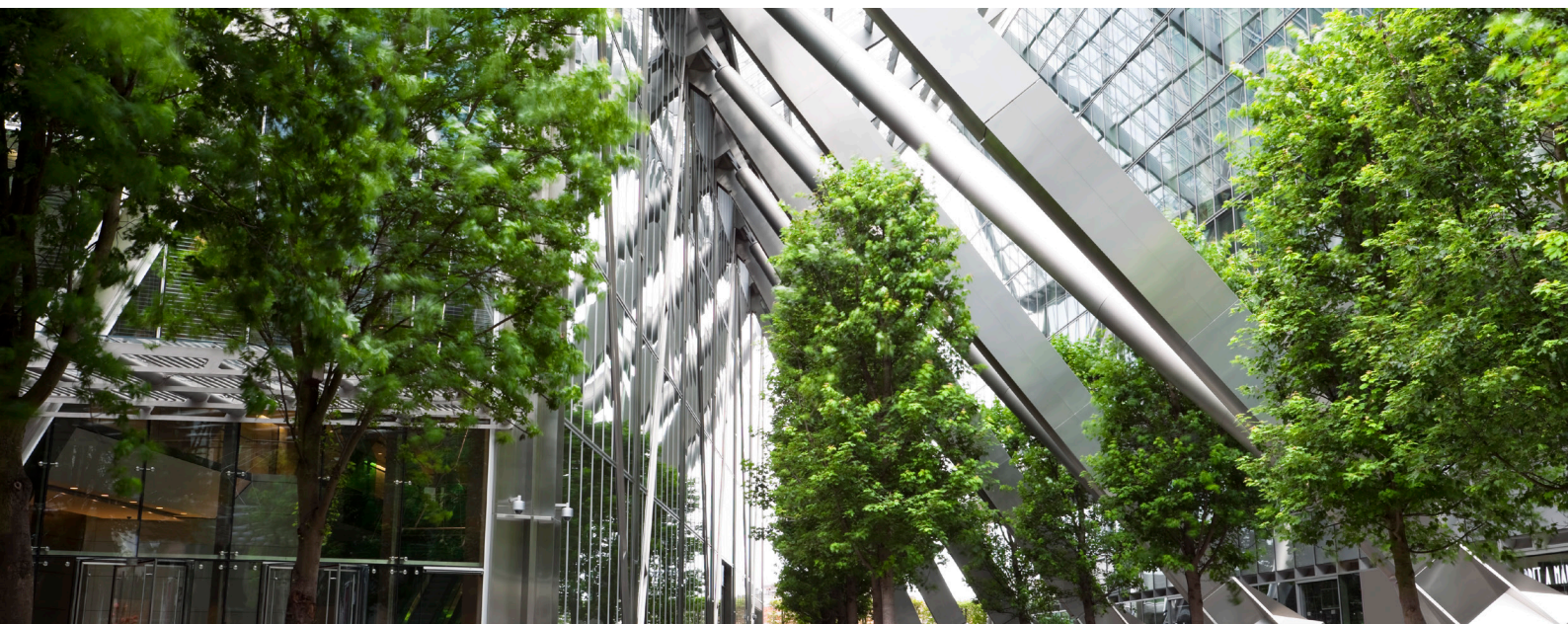
	<b>Subject to Taxonomy?</b>	<b>Eligible activities?</b>
<b>SMEs in the construction sector (not in the NFRD scope)</b>	<b>No</b> Companies have nothing to do (except to monitor future extensions of the perimeter) because they are not within the scope of the companies subjected to the Taxonomy regulation	<b>N/A</b>
<b>Large companies in the construction sector (in the NFRD scope)</b>	<b>Yes</b>	<b>Yes</b> Construction is one of the eligible sectors for the Taxonomy. Companies must complete the entire Taxonomy exercise and publish the 3 indicators (turnover, CAPEX, OPEX) which will indicate the "aligned" proportion of their activities
<b>Large companies in the hotel sector (in the NFRD scope)</b>	<b>Yes</b>	<b>Not at first glance, however...</b> <ul style="list-style-type: none"> <li>The hotel industry is not currently eligible for the Taxonomy. However, companies are still obliged to carry out the entire analysis, even if they ultimately publish indicators equal to zero.</li> <li>In addition, certain CAPEX and OPEX may be eligible even if a company's business activities are not (e.g. investment to supply hotels with renewable energy)</li> </ul>

<sup>5</sup> Eligible activities and alignment criteria are detailed in a so-called "Climate" delegated act

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## What should I do now if my company falls within the scope of the regulation?

<p><b>Project organisation</b></p>	<ul style="list-style-type: none"> <li>• Implementation of regulatory analysis and monitoring</li> <li>• Coordination with internal and external stakeholders</li> <li>• Definition of project governance</li> </ul>
<p><b>Issue awareness</b></p>	<ul style="list-style-type: none"> <li>• Thorough understanding of how the Taxonomy works</li> <li>• Training of internal teams (webinars, conferences)</li> <li>• Assimilation of the issues by the different departments of your business (Financial Department, Operations Department) as well as by the management bodies</li> </ul>
<p><b>State of play</b></p>	<ul style="list-style-type: none"> <li>• Macro-identification of eligible activities in order to evaluate the target - turnover generating activities, but also on investment plans (CAPEX) and operational expenses (OPEX)</li> <li>• Definition of the path to follow and the necessary changes in the organisation (resources, processes, systems, etc.) to successfully produce the reporting Taxonomy reporting ("gap analysis")</li> <li>• If no dedicated / specialised staff, look for the right external support for the first report</li> </ul>
<p><b>Implementation</b></p>	<p>Timeline of implementation:</p> <ul style="list-style-type: none"> <li><b>Today:</b> Eligibility analysis; Transitional reporting</li> <li><b>January 1, 2022:</b> Implementation of the necessary changes in the organisation; Alignment analysis on the two climate objectives; Alignment analysis on the six objectives</li> <li><b>1st half of 2022:</b> Alignment analysis on the six objectives</li> <li><b>January 1, 2023:</b> Climate reporting</li> <li><b>1st half of 2023:</b> Full reporting</li> </ul>



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