CDP Technical Note: EU Taxonomy

CDP Climate Change Questionnaire
## Version

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1. Introduction

1.1 About this technical note

This technical note contains answers to frequently asked questions about the EU Taxonomy for sustainable activities. Its purpose is to inform corporates and stakeholders about the EU taxonomy, and the integration of sustainable finance taxonomy criteria into the CDP questionnaires and scoring. The information provided here will support companies responding to the CDP climate change questionnaire.
2. CDP’s integration of the EU taxonomy

New content in the 2023 climate change questionnaire is key to driving strategic priorities for CDP’s mission: to see a thriving economy that works for people and planet in the long term. In the Business Strategy module, the inclusion of new questions on sustainable taxonomies is one of the headline changes for 2023.

Standardized disclosure processes and data collection on the use of sustainable finance taxonomies will provide consistent and comparable information across regions and regulatory requirements. CDP will play a crucial role in accelerating the implementation of standards at scale. The 2023 climate change questionnaire includes new and revised questions on EU taxonomy objectives, to collect data on companies’ eligibility and financial accounting alignment.

2.1. Rationale

2.1.1. Why is CDP requesting EU taxonomy datapoints in the 2023 climate change questionnaire?

Corporate reporting on the environmental impact of economic activities is becoming a business norm, leading to better insight, and driving more ambitious action. However, regulation will take time to come into effect and will vary by region and jurisdiction.

In the meantime, investors, governments, and other stakeholders will still require standardized information generated via high-quality disclosure processes that are continually improving, and that enable the tracking of progress against targets, transition plans and performance.

As the only global environmental disclosure system, CDP plays a crucial role in accelerating the implementation of standards at scale – including sustainable finance taxonomies.

From 2023, CDP will focus on integrating best practice sustainable finance taxonomy criteria into its questionnaire and scoring, bringing them to life in the real economy.

By collecting data on corporates’ use of sustainable finance taxonomies in one place, CDP will provide companies, investors and policymakers access to information that is consistent, comprehensive, and comparable across geographies and regulatory requirements.

CDP is introducing questions on sustainable finance taxonomies in its 2023 climate change questionnaire to gather data on companies’ activities under the EU Taxonomy. The questions will gather information on the eligibility of activities and whether their financial accounting is aligned with the taxonomy. CDP’s disclosure system is adaptable to new standards and will integrate other best practice taxonomies as they are finalized. The focus is on disclosure according to the EU Taxonomy for companies subject to the EU Corporate Sustainability Reporting Directive (CSRD), but other sustainable finance taxonomy criteria will be integrated as they emerge.

2.1.2. Does CDP endorse every aspect of the EU taxonomy?

No. The EU Taxonomy is not perfect; the inclusion of activities such as nuclear power generation and natural gas, together with questions about the lack of robustness of certain forestry criteria, are areas in which CDP believes the taxonomy can be improved.

Due to the inclusion of contentious criteria in emerging taxonomies, CDP will selectively integrate best practice sustainable finance taxonomy criteria, rather than endorsing whole taxonomies. This
will allow CDP to support the highest quality disclosure and effectively drive positive environmental impacts.

As stated in CDP’s 2021-2025 strategy, we aim to use our platform to implement the most influential and impactful standards, including the upcoming European Sustainability Reporting Standards (ESRS), in line with our mission to drive transparency and action to tackle the environmental crisis.

2.1.3. Will CDP incorporate the many sustainable taxonomies emerging globally?

CDP’s disclosure system is designed to evolve in line with best practice and to integrate high-quality and impactful disclosure frameworks and standards as they develop. The new taxonomy questions are taxonomy agnostic, to allow for the integration of other emerging taxonomies once they are finalized.

2.2. EU taxonomy datapoints in the CDP climate change questionnaire

2.2.1. Which CDP questions relate to the EU Taxonomy?

New and revised questions in CDP’s climate change questionnaire request data on the two approved EU Taxonomy environmental objectives: climate change mitigation (CCM) and climate change adaptation (CCA).

Questions C3.5 and C3.5a have been modified, and two new questions C3.5b and C3.5c have been introduced, to provide capital market stakeholders with financial information from companies on their taxonomy alignment, at the organizational level and for specific economic activities.

In total there are four questions that request data relating to the EU Taxonomy included in the Business Strategy module of the CDP climate change questionnaire:

(C3.5) In your organization’s financial accounting, do you identify spending/revenue that is aligned with your organization’s climate transition?

(C3.5a) Quantify the percentage share of your spending/revenue that is aligned with your organization’s climate transition.

(C3.5b) Quantify the percentage share of your spending/revenue that was associated with eligible and aligned activities under the sustainable finance taxonomy in the reporting year.

(C3.5c) Provide any additional contextual and/or verification/assurance information relevant to your organization’s taxonomy alignment.

2.2.2. In which questions do companies report on their taxonomy alignment? C3.5b seems to be the direct question, but C4.5a also has the option to select ‘The EU Taxonomy for environmentally sustainable economic activities’ in column 2.

C3.5b is on taxonomy alignment. Taxonomy alignment reporting refers to a very specific set of financial KPI disclosures prescribed by Article 8 of the taxonomy regulation.

C4.5a is only asking companies to select which classification system they follow to classify their low carbon products. EU Taxonomy is one such system of classification.

For more information on these questions see the reporting guidance on the CDP website.
2.3. Scoring of EU taxonomy questions

2.3.1. Are the taxonomy-related questions in the CDP questionnaire being scored?

In 2023, questions C3.5 and C3.5a have light touch scoring, with the remaining two questions not scored. Full scoring details are available in the Scoring methodology for these questions.

These questions are open to all companies completing the full version of the questionnaire. For now, the legal obligation to report under the taxonomy regulation is on companies subject to the EU Corporate Sustainability Reporting Directive (CSRD) (formerly the EU Non-Financial Reporting Directive (NFRD)).

2.4. The business case

2.4.1. What is the business case for EU Taxonomy compliance?

- Disclosing through CDP can help protect and improve a company’s reputation, allowing them to build trust through transparency and respond to rising environmental concerns among the public.
- It can help boost competitive advantage, with companies gaining an edge in performance on the stock market, access to capital and winning tenders.
- It can help companies uncover risks and opportunities that would otherwise be overlooked, to inform a data-driven strategy.
- Companies can also track and benchmark their progress against industry peers and receive yearly feedback.
- Disclosing well now can help companies get ahead of and comply with disclosure regulation which is coming in thick and fast.

Non-EU companies can stay ahead of the curve by learning how to screen their financial metrics against the EU Taxonomy. By doing so, they can prepare for when this process becomes best practice, regardless of their location.

2.4.2. Why should non-European companies pay attention to the EU Taxonomy?

The EU Taxonomy changes the disclosure requirements for entities required to disclose under the CSRD/ESRS.

From 2025 onwards, and once the regulation is fully applied, companies operating in the EU subject to CSRD will be required by law to disclose their taxonomy alignment in their annual reports.

A non-EU parent company would be subject to the CSRD if it has:

a) substantial activity in the EU i.e., it generated net turnover greater than €150 million in the EU for each of the last two consecutive years; and

b) at least:
   (i) one subsidiary that meets the general scope of the CSRD; or
   (ii) one branch (in general, a physical presence) that generated net turnover greater than €40 million in the preceding year.

The globally integrated nature of economies and the applicability of ESRS to companies’ entire value chains mean this regulation will have a vast global reach.
The EU is driving ambition globally by raising the standard for most companies and demonstrating leadership in adopting a disclosure approach that embraces both companies’ value creation and impacts on people and the planet.

While CDP is introducing taxonomy-related questions in its 2023 climate change questionnaire, its disclosure system is designed to be flexible and adaptable to new standards. As additional sustainable finance taxonomies are developed, CDP plans to integrate them into its system.

While the current focus is on the EU Taxonomy for companies subject to CSRD, understanding how to apply taxonomy criteria to financial metrics will increasingly be a best practice requirement relevant for companies from all regions.

Please refer to question 8 on page 7 in the following document for more detail on value chain reporting: [Publications Office (europa.eu)](https://www.europa.eu).

You can find more detailed information in the [CDP Policy Explainer on CSRD and ESRS](https://www.cdp.net).

2.4.3. As our annual report (including EU Taxonomy reporting) is due in March, how does disclosing through CDP help with our reporting?

Companies subject to the EU Taxonomy must disclose the information in their annual reports. However, disclosing this data through CDP is a useful step for companies subject to the EU Taxonomy that need to disclose taxonomy alignment in their annual filings because it ensures this information reaches decisionmakers, such as investors.

Disclosing on CDP’s sustainable taxonomy questions means organizations will share data on their taxonomy alignment and activities directly with their stakeholders – the 740 CDP capital market signatories with $130 trillion in assets, 280+ supply chain members, governments in our new [dashboard](https://www.cdp.net), or the wider ESG data market that relies on our data.

2.4.4. As a non-publicly listed company, reporting is not mandatory until 2025. What benefits are there for disclosing this information?

Voluntary reporting against the EU Taxonomy provides an opportunity to get ahead of the regulations and gain valuable insights ahead of mandatory reporting. The resulting data and learnings from assessing the eligibility and alignment against the EU Taxonomy early on can help companies to adjust their business strategy to protect against climate and nature-related risks, while improving internal data collection processes can help prepare for more complete and coherent reporting later down the line.

2.4.5. Will Swiss companies be affected by the EU Taxonomy? If so, how should they be responding to C3.5b?

Yes, Swiss companies will be affected by the EU Taxonomy, either directly or indirectly.

Directly:

- If they have subsidiaries within the EU that individually meet the criteria of large public interest entities, or;
- If they act as a parent of a large public interest group.

Indirectly:

- Swiss financial institutions may be approached by EU financial institutions to collect Taxonomy related information;
- EU investors (pension funds, insurance companies etc.) directly under the Taxonomy Regulation scope may approach their Swiss fund managers or managers of segregated portfolios, or;
Swiss fund managers performing portfolio management on behalf of an EU Management Company (ManCo) or Alternative Investment Fund Manager (AIFM).

Swiss companies should be responding to C3.5b if they are directly affected by the taxonomy regulation, i.e. they meet either of the two criteria above.

2.4.6. If CDP’s EU Taxonomy related questions are not mandatory, what benefit is there for disclosing this information?

Disclosure is increasingly demanded by capital markets and customers. In 2022, a record 18,700+ companies disclosed through CDP – 42% more than the previous year. Disclosure offers a company a structured way to avoid the accusation of greenwash and simultaneously gives them the confidence to communicate their work on climate and nature by providing a universal framework to measure commitments.

With mandatory disclosure fast approaching, including the EU’s European Sustainability Reporting Standards (ESRS) scheduled for adoption in June 2023, companies must get up to speed or risk falling victim to more aggressive legislation or market trends. Disclosing through CDP remains vital as a standardized, global, and comparable data platform.

By disclosing to CDP, companies share their progress directly with investors and confirm they are doing more than just making commitments. Getting better data on their portfolio companies helps investors measure and manage their environmental risk and assists them with mandatory regulation such as the Sustainable Finance Disclosure Regulation (SFDR).

2.4.7. Given the new requirement to report both on eligibility and alignment, a significant disparity appears to exist between the two. What potential consequences may arise from this for our reputation and/or access to finance in the future?

The EU Taxonomy is a classification system establishing a list of environmentally sustainable economic activities, providing a legal framework for green finance rules. It is also an opportunity for companies to measure their climate-related operational risks and make informed adjustments to future-proof their business strategy.

Low levels of alignment are expected at this stage; disclosure is an opportunity to demonstrate progress year on year, supporting the transition to carbon neutrality by 2050.

Supporting information provided by companies in their response can provide context and justifications for the data provided and the potential traffic light system can help to provide more transparency and opportunities for stakeholders.

2.4.8. At this point, with upcoming changes including the refinement of technical screening criteria (TSC) and the addition of the remaining four objectives, do investors consider the current data to be relevant?

For financial products: investors that manage and market financial products in the European Union fall under Sustainable Financial Disclosure Regulation (SFDR). Since 2022, they must report any targets and minimum investments in taxonomy-aligned economic activities for each financial product. Since January 2023, regardless of any commitment to taxonomy-related objectives, products that promote environmental and social characteristics (from ESG) or have sustainable objectives must report on their percentage of taxonomy-aligned investment periodically.

For financial institutions as entities: under the taxonomy regulation, from 2024, financial institutions will, as any company that falls under the scope of NFRD, report on taxonomy eligibility and alignment. The data reported in 2024 should cover the financial year 2023, hence the need for corporate data to be disclosed now.
2.5. Other FAQs

2.5.1. In C3.5a, why is there an option to identify alignment with a “Climate Transition Plan” and/or “Sustainable finance taxonomy”? How will this data be compared?

Please refer to the reporting guidance for C3.5a, which states: Select “Yes, we identify the alignment with both our climate transition plan and a sustainable finance taxonomy” if you can provide information separately on both the alignment of your spending/revenue with your climate transition plan and the alignment of your organization’s activities with a sustainable finance taxonomy.

Disclosing information on both is particularly useful where the ambition of the sustainable finance taxonomy and your climate transition plan differs (e.g., if the temperature goal of the taxonomy is to keep global temperatures to 2°C above pre-industrial levels, but your climate transition plan is 1.5°C aligned).

2.5.2. In C3.5a, about financial metrics at company level, why is there an opportunity to state alignment only, and not eligibility?

Companies are not required to report on eligible but not aligned activities at the company level. The alignment data can be calculated from the response to C3.5b. All companies mandated to report to the EU Taxonomy are legally bound to respond to activity-level disclosures, so they should already have the data available for question C3.5b. In this case they would have company-level eligible but not aligned data.

2.5.3. In C3.5a (columns 7&8), how are companies expected to prepare forward looking statements of financial KPIs aligned with sustainable finance taxonomies or climate transition plans?

These responses form part of a company’s ambitions to increase alignment and provide stakeholders with the planned trajectory. This answer should be derived from the company’s overall transition plan, with reference to the activities targeted for improvement within the period specified.

It is acknowledged that figures for future years will be estimates. Assumptions underlying these estimates should be disclosed in column 9.

2.5.4. In C3.5a, when selecting the option “Other, please specify” in column 1 to provide information for a financial metric that is not listed – what are some examples of other financial metrics?

Companies also use C3.5a to report against their transition plan and may want to break down alignment using other metrics, e.g., specific categories of CAPEX/OPEX or R&D, which can be a combination of OPEX & CAPEX.

A company can make its answer more granular by adding multiple rows and selecting “Other, please specify.” For example, if in addition to total OPEX, a company wishes to report several distinct categories of OPEX (e.g., utilities, business travel, R&D expenses) separately, it may do so by adding multiple rows and using “Other, please specify” to specify the relevant OPEX category.

2.5.5. How do we distinguish between the information required in text fields within C3.5b, and the additional information expected in C3.5c?

Question C3.5b provides text fields to break down the specific process/reasoning used at each assessment stage.
Question C3.5c provides a space to discuss underlying assumptions, the tools and proxies used in calculations and whether the data has been verified externally.

For more details, please refer to the accompanying reporting guidance for C3.5b.

2.5.6. In C3.5b, column 23, what is meant by the listed types of activity (own performance, adapted activity, transitional activity, activity enabling mitigation, activity enabling adaptation)?

Please refer to the reporting guidance for C3.5b, which states:

**Own performance**: the activity is being performed in a way that it itself contributes substantially by making a positive impact or removing a negative impact on climate change mitigation. For example, where the activity is already low-carbon. If you are disclosing alignment against the EU taxonomy for Sustainable Activities, note that activities are considered substantially contributing through own performance if they meet the corresponding technical screening criteria established by the Climate Delegated Act (Annexe I- pg 12- 140).

**Adapted activity**: the activity is being performed in a way that it itself contributes substantially by making a positive impact or removing a negative impact on climate change adaptation. For example, where the activity adopts adaptation solutions. If you are disclosing alignment against the EU taxonomy for Sustainable Activities, note that activities may qualify as substantially contributing through own performance if they meet the corresponding technical screening criteria established by the Climate Delegated Act (Annexe II- pg 146- 346).

**Transitional activity**: the activity does not have a technologically or economically feasible low-carbon alternative, but substantially contributes to climate change mitigation by supporting the transition to a net-zero carbon economy consistent with a pathway to limit the temperature increase to 1.5C above preindustrial levels.

**Activity enabling climate change mitigation**: the activity enables a substantial contribution to be made to climate change mitigation in other activities. For example, the activity enables other activities to achieve emissions reductions.

**Activity enabling climate change adaptation**: the activity enables a substantial contribution to be made to climate change adaptation in other activities. For example, the activity is developing adaptation solutions.

If you are disclosing against the EU taxonomy for Sustainable Activities, you are encouraged to use the EU taxonomy Compass tool developed by the EU Commission, to determine whether an activity is enabling or transitional.

If the activity substantially contributes to both climate change mitigation and climate change adaptation, select all types of substantial contribution across both objectives. For example, an activity may contribute substantially to climate change mitigation based on its own performance, and also enable climate change adaptation.

2.5.7. What is meant by "substantial contribution" to climate change mitigation/ adaptation? The specific criteria differ between the two environmental objectives. A breakdown of criteria for both climate change mitigation and adaptation can be found in Articles 10 and 11 of the EU Taxonomy regulation.

2.5.8. What are the best practices to avoid double counting financial metrics?
If an economic activity contributes to several environmental objectives, the company should disclose the turnover, CAPEX and OPEX from that activity as contributing to several environmental objectives depending on the nature of the activity.

Refer below for different cases of reporting financial metrics against multiple objectives, taken from the Commission’s FAQ on Article 8. For further information on how to avoid double counting, please refer to the EU Commission’s guidance on the matter (EU Commission FAQs, p. 15-17).

**Case I - Where possible to distinguish CCM-related and CCA-related CAPEX/OPEX:** Where an activity contributes substantially to CCM and is also adapted to climate change, CAPEX/OPEX associated with the solution which makes the activity adapted may be assessed for CCA if it is possible to clearly distinguish it from CAPEX/OPEX that is associated with the activity’s substantial contribution to CCM. E.g. In the case of an onshore wind farm that is being assessed for substantial contribution to CCM, CAPEX/OPEX associated with protecting the wind farm from sea level rise or erosion may be assessed for CCA.

**Case II - Where not possible to distinguish CCM-related and CCA-related CAPEX/OPEX:** If the adaptation solution is an inherent part of the design of an asset that is CCM aligned, it may be difficult to distinguish the CAPEX/OPEX associated with the activity’s substantial contribution to CCA from the CAPEX/OPEX associated with the activity’s substantial contribution to CCM. E.g. In order to be CCM aligned, a new offshore wind farm would have to be designed to be resilient against sea level rise, (in order to meet a DNSH to CCA criterion). In such cases, CAPEX/OPEX should be assessed for CCM alignment only, as this CAPEX/OPEX will also cover the inherent adaptation solution.

**Case III - CAPEX/OPEX incurred to meet DSNH criteria for non-climate objectives:** Where an activity contributes substantially to CCM and CAPEX/OPEX is incurred to meet the DNSH criteria for non-climate environmental objectives, even if the CAPEX/OPEX is distinguishable, it should be reported under the CCM objective. E.g. A car manufacturing company producing electric cars may incur CAPEX/OPEX to meet the DNSH criteria for the circular economy or pollution prevention objectives, in order to be taxonomy-aligned for CCM. This CAPEX/OPEX should not be reported under the circular economy/pollution prevention objectives since DNSH criteria are not the same as TSC, and TSC have not yet been established for these objectives. Instead, it should be reported under CCM because it was incurred in the context of making an activity aligned to CCM.

**Turnover-specific guidance for adapted activities:** Turnover generated from an adapted activity cannot be counted except in one of the following two cases:

- **Case I:** Where the adapted activity is also aligned with CCM or any non-climate obj. E.g., Turnover from an offshore wind farm that is adapted to climate change can be counted if the wind farm is taxonomy-aligned with respect to CCM, but the turnover should be reported only under the CCM objective.

- **Case II:** Where the adapted activity also enables CCA. E.g.: If a company is afforesting a drought prone area with drought resistant trees (adapted activity), the turnover from selling drought resistant seeds/saplings can be counted towards CCA (with an ‘E’ (enabling) tag). In this case, if the afforestation is also CCM-aligned, turnover can be reported under CCM

Therefore, turnover from an activity that is only adapted to CC cannot be counted.