

2022 CDP EUROPE WORKSHOP LEADING THE DECADE OF DELIVERY

Wednesday 27 April 2022 – 10:00 – 12:00 CEST

IMPLEMENTING EU TAXONOMY

SPEAKERS



Axelle Blanchard

Policy Manager
CDP Europe



Emily Pepper

Technical Manager,
Climate Change Questionnaire
Evolution
CDP

AGENDA

- ▼ **EU Taxonomy Regulation : theory and practice**
 - ▼ **Key features**
 - ▼ **Link with other key EU policies**
 - ▼ **Implementation and reporting**
- ▼ **EU Taxonomy in the CDP questionnaires**
 - ▼ **Approach to integrating frameworks & standards**
 - ▼ **EU Taxonomy in the 2022 CDP climate change questionnaire**
 - ▼ **What CDP is doing to align further**

HOUSEKEEPING NOTES

- ▼ Submit your questions anytime in the chat section
- ▼ Slides will be shared with you after the event
- ▼ The event is being recorded

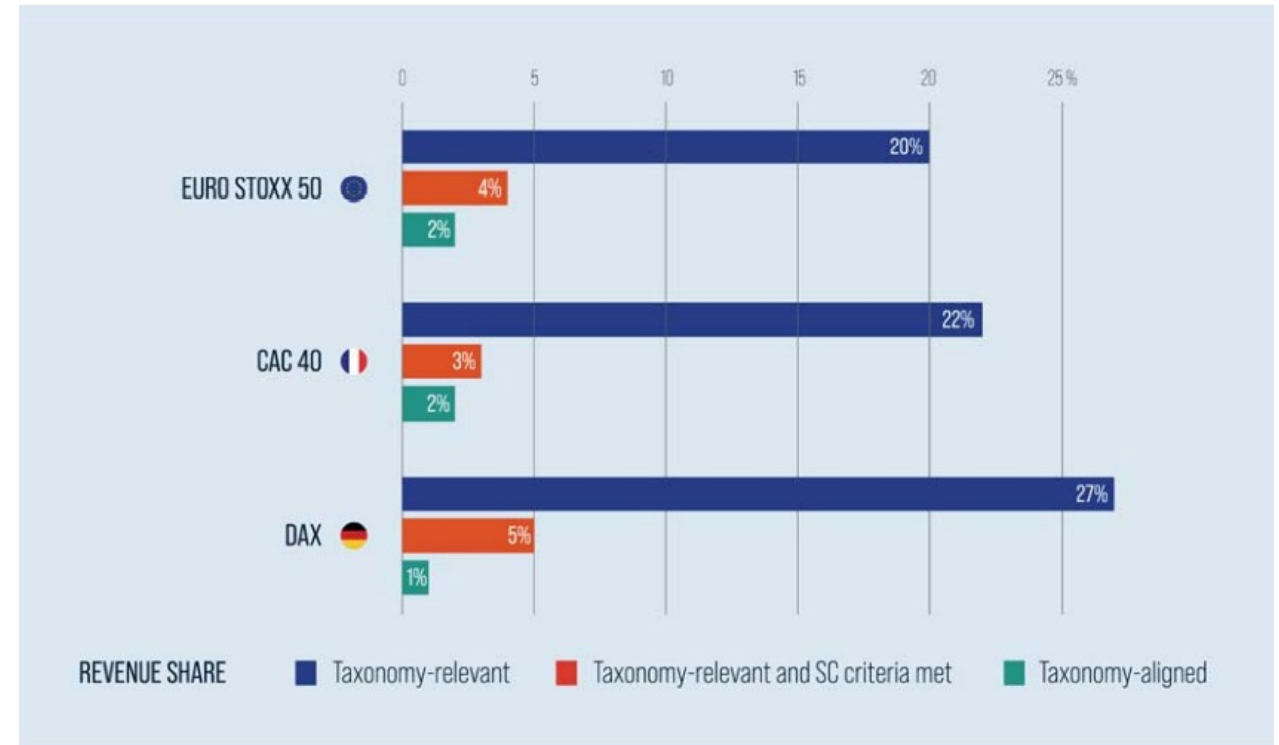
EU Taxonomy : what is it ?

- ▼ Dynamic science-based classification to define sustainable investments and accompany transition to carbon neutrality
- ▼ Common EU framework to align investment decisions with European Green Deal objectives
- ▼ Covering sectors responsible for 80% of GHG emissions
- ▼ Economic activity lens

C25, C27, C28	Manufacturing	3.1	Manufacture of renewable energy technologies
C25, C27, C28	Manufacturing	3.2	Manufacture of equipment for the production and use of hydrogen
C29.1, C30.1, C30.2, C30	Manufacturing	3.3	Manufacture of low carbon technologies for transport
C27.2, E38.32	Manufacturing	3.4	Manufacture of batteries
C16.23, C23.11, C23.20,	Manufacturing	3.5	Manufacture of energy efficiency equipment for buildings
C22, C25, C26, C27, C28	Manufacturing	3.6	Manufacture of other low carbon technologies

EU Taxonomy : what is it ?

- ▶ More ambitious than existing technologies or sectorial policies
- ▶ Low level of taxonomy alignment
- ▶ Covering green, transitional and enabling economic activities
- ▶ Living instrument with review process every 3 years



European Sustainable Finance survey 2020



Corporate Sustainability Reporting Directive (CSRD):
mandatory disclosure for companies on sustainability risks affecting the company and the companies' impact on society and the environment



Sustainable Finance Disclosure Regulation (SFDR):
mandatory ESG disclosure obligations for asset managers and other financial markets participants

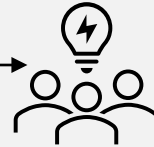
Other CSRD information on environmental, social and governance issues

Mandatory reporting

Reporting information goes to

Other End Users

Civil society & consumers



Financial Market Participants

Financial advisors, asset managers, insurance companies, pension funds, etc.

% of activities aligned with taxonomy

Companies to report % of activities as well as capital expenditure aligned with taxonomy



EU Taxonomy: a list of economic activities with performance criteria to assess the activities' contribution toward six environmental objectives

Taxonomy Regulation amends the empowerments in Articles 8(4), 9(6) and 11(5) of the SFDR

Level 1 (March 2021)

entity level disclosures which require information about FMP policies on the identification and prioritisation of principal adverse sustainability impacts
SFDR Article 4

Delayed application of Regulatory Technical Standards (RTS)

Level 2 (January 2023)

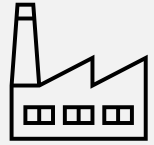
detailed entity and product level disclosures, which includes the 'principal adverse sustainability impacts statement'
SFDR Article 7

SFDR Article 8 – Light green fund

May partially pursue 'sustainable investment' as objective - the 'light green' products'

SFDR Article 9 – Dark green fund

Activities aligned with Taxonomy are included in the definition of 'sustainable investment' (investment contributing to an environmental or social objective)



LARGE COMPANIES AND LISTED COMPANIES

Article 8(2) Taxonomy

Disclosure of three key performance indicators (KPIs) related to environmentally sustainable activities:

- Turnover
- Capital expenditure (CapEx)
- Operating expenditure (OpEx)

EU Taxonomy : how to use it ?

Assessing alignment of an economic activity with taxonomy objectives



Contribution to at least 1 of the 6 environmental objectives*



Technical screening criteria to define substantial contribution and do no significant harm assessment



Respect of the minimum social safeguards : OECD Guidelines on Multinational Enterprises, UN Guiding Principles on Business and Human Rights, ILO Core Labour Conventions

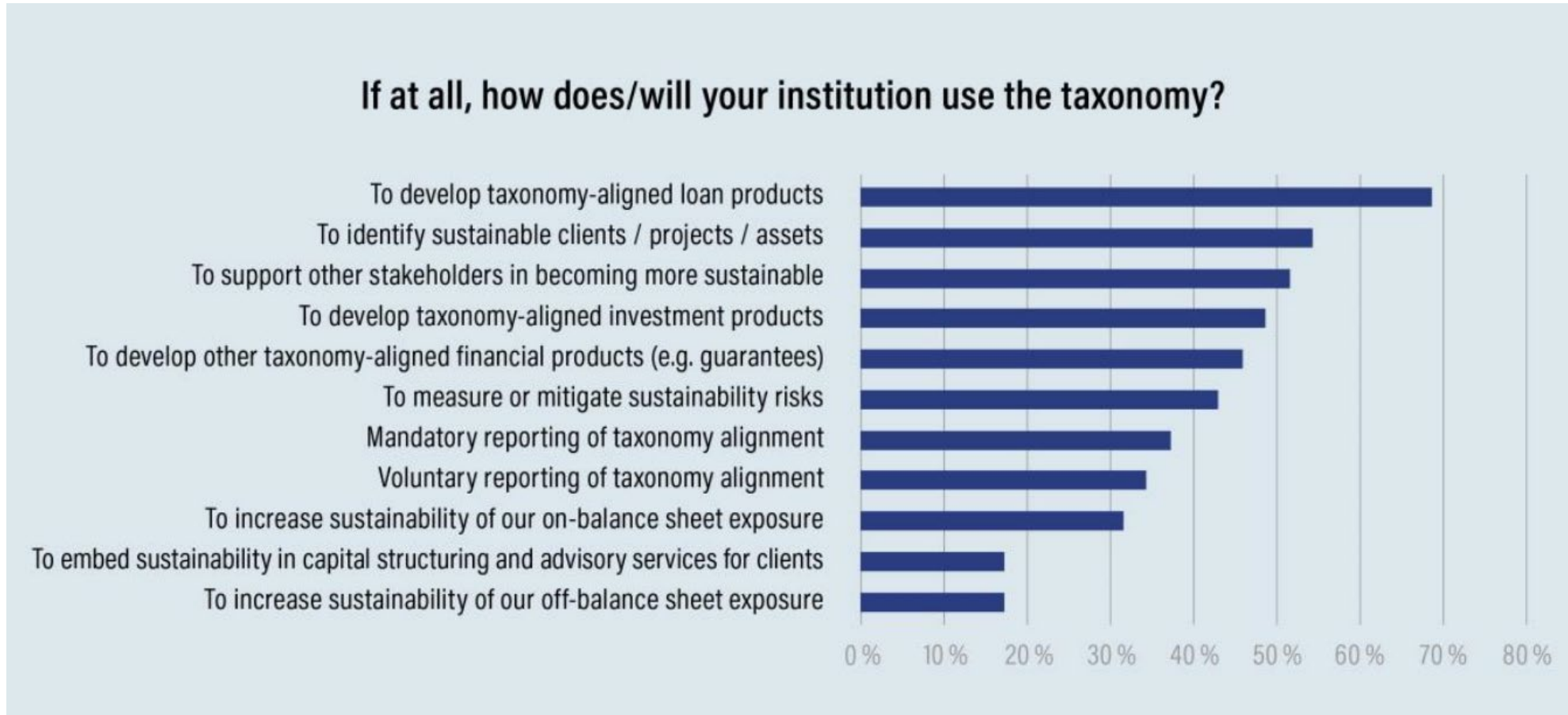
* climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and protection and restoration of biodiversity and ecosystems

EU Taxonomy : what to report ?

- ▼ Part of sustainability reporting
- ▼ For all companies in scope of the Corporate Sustainability Reporting Directive (CSRD)
- ▼ For non-financial undertakings: share of turnover, Capex ; and Opex aligned with the Taxonomy (eligibility in 2022, alignment in 2023)
- ▼ For FIs : Green Asset Ratio (GAR) or Green Investment Ratio from 2024 onwards
- ▼ Disclosure on eligibility for climate objectives as of January 2022 for financial year 2021

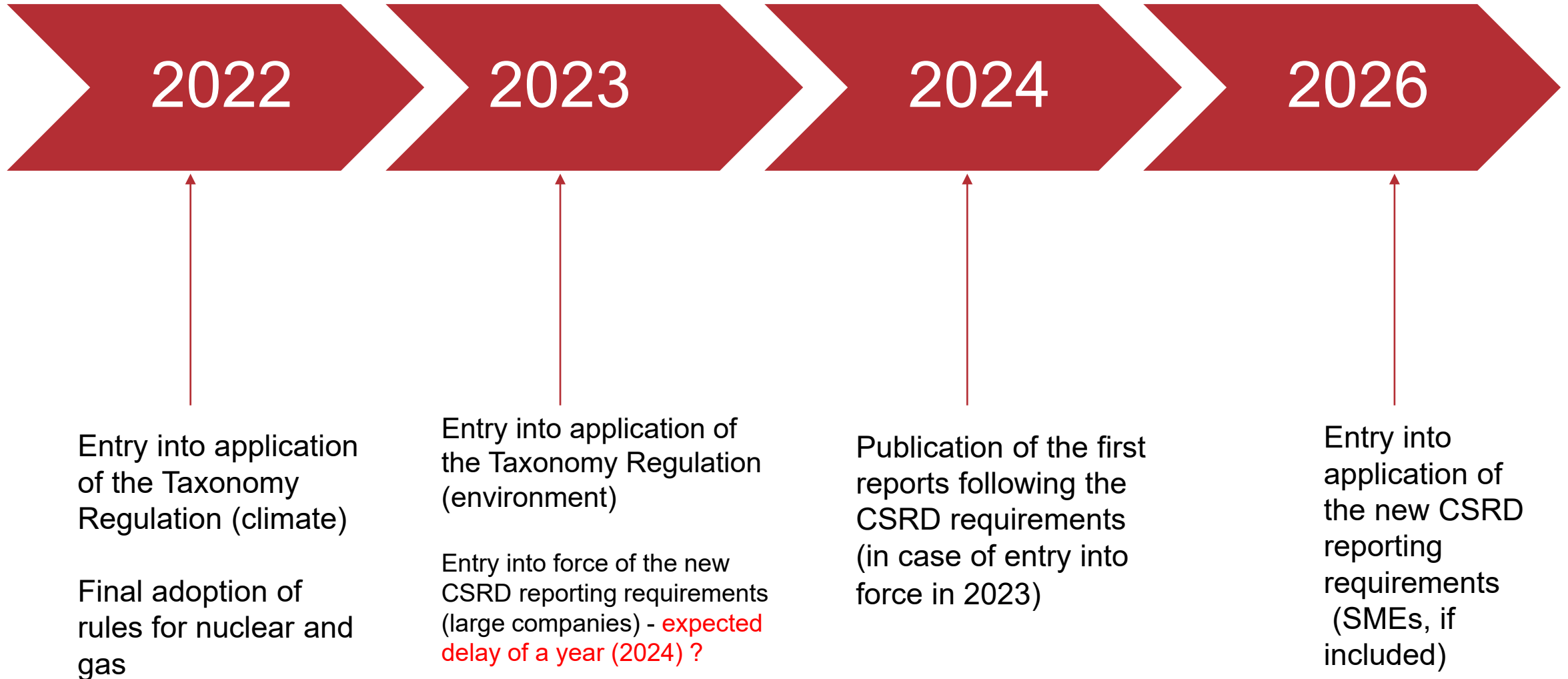
EU Taxonomy : what for ?

Potential use cases for companies and FIs



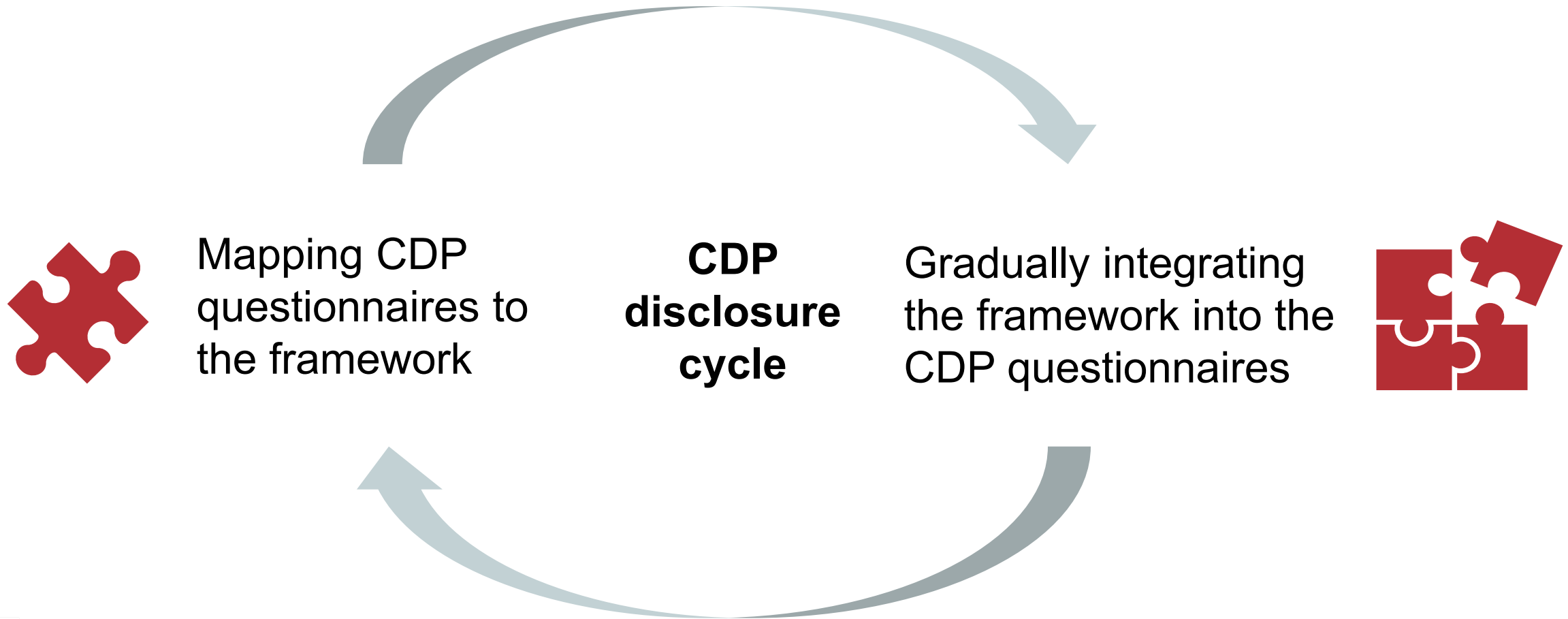
European
Sustainable
Finance
survey 2021

EU Taxonomy : what's next?



EU Taxonomy in the CDP Questionnaires

CDP APPROACH TO INTEGRATING SUSTAINABILITY REPORTING FRAMEWORKS



EU Taxonomy in the CDP 2022 Climate Change Questionnaire



▼ Chronic & acute physical risk drivers in C2.3a have been aligned with the EU

Taxonomy

Table 5 - Classification of climate-related hazards

	Temperature-related	Wind-related	Water-related	Solid mass-related
Chronic	Changing temperature (air, freshwater, marine water)	Changing wind patterns	Changing precipitation patterns and types (rain, hail, snow/ice)	Coastal erosion
	Heat stress		Precipitation and/or hydrological variability	Soil degradation
	Temperature variability		Ocean acidification	Soil erosion
	Permafrost thawing		Saline intrusion	Solifluction
			Sea level rise	
			Water stress	

EU Taxonomy Technical Annex p28 Table 5

Primary climate-related risk driver drop-down options (column 4)

Chronic physical

- Changing precipitation patterns and types (rain, hail, snow/ice)
- Changing temperature (air, freshwater, marine water)
- Changing wind patterns
- Coastal erosion
- Heat stress
- Ocean acidification
- Permafrost thawing
- Precipitation and/or hydrological variability
- Saline intrusion
- Sea level rise
- Soil degradation
- Soil erosion
- Solifluction
- Temperature variability
- Water scarcity
- Other, please specify



EU Taxonomy in the CDP 2022 Climate Change Questionnaire



▼ Chronic & acute physical risk drivers in C2.3a have been aligned with the EU

Taxonomy

Primary climate-related risk driver drop-down options (column 4)

Acute	Heat wave	Cyclone, hurricane, typhoon	Drought	Avalanche
	Cold wave/frost	Storm (including blizzards, dust and sandstorms)	Heavy precipitation (rain, hail, snow/ice)	Landslide
	Wildfire	Tornado	Flood (coastal, fluvial, pluvial, ground water)	Subsidence
			Glacial lake outburst	



Acute physical

- Avalanche
- Cold wave/frost
- Cyclone, hurricane, typhoon
- Drought
- Flood (coastal, fluvial, pluvial, groundwater)
- Glacial lake outburst
- Heat wave
- Heavy precipitation (rain, hail, snow/ice)
- Landslide
- Storm (including blizzards, dust, and sandstorms)
- Subsidence
- Tornado
- Wildfire
- Other, please specify

EU Taxonomy Technical Annex p28 Table 5

Cost of response to risk	Description of response and explanation of cost calculation
Numerical field [enter a number from 0-999,999,999,999,999 using a maximum of 2 decimal places]	Text field [maximum 2,500 characters]

EU Taxonomy in the CDP 2022 Climate Change Questionnaire



EXAMPLE

A water utility company that has responded to acute flood risk by installing early warning systems could, in C2.3a:

- Select “Flood” as the **risk driver**
- Report **CAPEX/OPEX** associated with the warning systems in “Cost of response to risk”
- Describe the implementation of the warning systems & how the CAPEX/OPEX was calculated in “Description of response and explanation of cost calculation”

Primary climate-related risk driver drop-down options (column 4)

Acute physical

- Avalanche
- Cold wave/frost
- Cyclone, hurricane, typhoon
- Drought
- Flood (coastal, fluvial, pluvial, groundwater)
- Glacial lake outburst
- Heat wave
- Heavy precipitation (rain, hail, snow/ice)
- Landslide
- Storm (including blizzards, dust, and sandstorms)
- Subsidence
- Tornado
- Wildfire
- Other, please specify

Cost of response to risk	Description of response and explanation of cost calculation
Numerical field [enter a number from 0-999,999,999,999,999 using a maximum of 2 decimal places]	Text field [maximum 2,500 characters]

EU Taxonomy in the CDP 2022 Climate Change Questionnaire



▼ Companies can report % Taxonomy-aligned Revenue, OPEX & CAPEX in new question C3.5a:

(C3.5a) Quantify the percentage share of your spending/revenue that is aligned with your organization’s transition to a 1.5°C world.

Financial metric	Percentage share of selected financial metric aligned with a 1.5°C world in the reporting year (%)	Percentage share of selected financial metric planned to align with a 1.5°C world in 2025 (%)	Percentage share of selected financial metric planned to align with a 1.5°C world in 2030 (%)	Describe the methodology used to identify spending/revenue that is aligned with a 1.5°C world
Select from: <ul style="list-style-type: none">RevenueCAPEXOPEXOther, please specify	Percentage field [enter a percentage from 0-100]	Percentage field [enter a percentage from 0-100]	Percentage field [enter a percentage from 0-100]	Text field [maximum 4,000 characters]

[Add row]

EU Taxonomy in the CDP 2022 Climate Change Questionnaire



EXAMPLES

- % CAPEX/OPEX associated with low-carbon economic activities as defined by the Taxonomy
- % revenue derived from economic activities which enable others to mitigate climate change

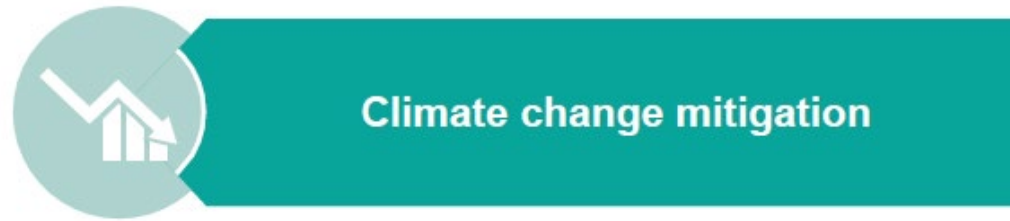
(C3.5a) Quantify the percentage share of your spending/revenue that is aligned with your organization’s transition to a 1.5°C world.

Financial metric	Percentage share of selected financial metric aligned with a 1.5°C world in the reporting year (%)	Percentage share of selected financial metric planned to align with a 1.5°C world in 2025 (%)	Percentage share of selected financial metric planned to align with a 1.5°C world in 2030 (%)	Describe the methodology used to identify spending/revenue that is aligned with a 1.5°C world
Select from: <ul style="list-style-type: none">RevenueCAPEXOPEXOther, please specify	Percentage field [enter a percentage from 0-100]	Percentage field [enter a percentage from 0-100]	Percentage field [enter a percentage from 0-100]	Text field [maximum 4,000 characters]

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What CDP is doing to align further

- ▼ **Mapping of EU Taxonomy climate change mitigation screening criteria → CDP questionnaires**
 - ▼ Metrics within EU Taxonomy climate change mitigation screening criteria have been mapped to CDP questions & datapoints
 - ▼ Degree of alignment identified e.g. partial, full etc.



Insights from EU Taxonomy Climate change mitigation screening criteria mapping exercise



74% of economic activities within the EU Taxonomy include a quantitative metric as part of the screening criteria e.g. tCO₂e/ton of cement



The majority of metrics are either partially or fully aligned with 2022 CDP datapoints



Metric alignment varies by economic activity



Modification of existing CDP questions would improve alignment for majority of misalignment

Next Steps for CDP

- ▼ Preparing for 2023 disclosure, including recruitment of EU framework specialists
- ▼ Increasing alignment within climate mitigation objective to capture required criteria across all activities
- ▼ Looking into DNSH and climate adaptation
- ▼ Exploration of EU taxonomy-related products



THANK YOU!



CONTACT



www.cdp.net



Axelle.blanchard@cdp.net
Emily.pepper@cdp.net

LEARN MORE

▼ CDP corporate guidance page:
[.cdp.net/en/guidance/guidance-for-companies](http://cdp.net/en/guidance/guidance-for-companies)

▼ CDP policy briefings:
[.cdp.net/en/policy-and-public-affairs/policy-briefings/](http://cdp.net/en/policy-and-public-affairs/policy-briefings/)