CDP Policy Explainer on the EU Taxonomy Regulation

Including links with CDP's disclosure system

December 2023

About the EU Taxonomy

The EU taxonomy is a **cornerstone of the EU's sustainable finance framework** and an important market transparency tool. It shall help direct investments to the economic activities most needed for the transition, in line with the European Green Deal objectives. The taxonomy is a **classification system that defines criteria for economic activities** that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate.

The Taxonomy Regulation establishes six climate and environmental objectives:

- Climate change mitigation
- Climate change adaptation
- The sustainable use and protection of water and marine resources
- The transition to a circular economy
- Pollution prevention and control
- The protection and restoration of biodiversity and ecosystems

Context of the EU Taxonomy

In order to meet the EU's climate and energy targets for 2030 and reach the objectives of the European green deal, it is vital that investments are directed towards sustainable projects and business activities. To achieve this, a **common language and a clear definition of what is 'sustainable'** is needed.

The EU action plan on financing sustainable growth[1] from 2018 called for the creation of a common classification system for sustainable economic activities, or an "EU taxonomy".

The need for the EU Taxonomy

The EU taxonomy shall allow financial and non-financial companies to share a common definition of economic activities that can be considered environmentally sustainable.

It is expected to achieve multiple objectives such as:

- Help scale up investments in projects that make a substantial contribution to at least one of the six environmental objectives of the EU Taxonomy and therefore accelerate the implementation of the European Green Deal;
- Protect investors from "greenwashing";
- Help companies to plan and finance their green transition;
- Help mitigate market fragmentation and information asymmetry, by harmonizing what is classed by investors as green;
- Help shift investments to where they are most needed to meet the EU's climate and environmental objectives.

[1] Renewed sustainable finance strategy and implementation of the action plan on financing sustainable growth (europa.eu)
CDP and the EU Sustainable Finance Action Plan

Links with other legislation

- In its communication of 8 March 2018, the Commission published its **action plan on financing sustainable growth**, launching an ambitious and comprehensive strategy on sustainable finance. One of the objectives set out in that action plan is to reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth. The establishment of a **unified classification system for sustainable activities is the most important and urgent action envisaged by the action plan**. The action plan recognizes that the shift of capital flows towards more sustainable activities has to be underpinned by a shared, holistic understanding of the environmental sustainability of activities and investments. As a first step, **clear guidance on activities that qualify as contributing to environmental objectives would help inform investors about the investments that fund environmentally sustainable economic activities**. Further guidance on activities that contribute to other sustainability objectives, including social objectives, might be developed at a later stage.
- The disclosure obligations laid down in the EU Taxonomy Regulation **supplement the 'Sustainable Finance Disclosure Regulation (SFDR)'** ((EU) 2019/2088). The EU Taxonomy Regulation requires all financial products falling under Articles 8 (financial product promotes environmental characteristics) and 9 (financial product has sustainable investment as objective) of the SFDR to disclosure the proportion of their underlying investments that is aligned with the EU Taxonomy. This is to enhance transparency and to provide an objective point of comparison by financial market participants to end investors on the proportion of investments that fund environmentally sustainable economic activities.
- The EU Taxonomy complements the **'Corporate Sustainability Reporting Directive'** (CSRD) ((EU) 2022/2464).
- The EU Taxonomy facilitates the **European Green Bond Standard**[2].

Related CDP Policy Explainer

- CDP Policy Explainer on the 'EU Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS)'
- CDP Policy Explainer on the 'Sustainable Finance Disclosure Regulation' (SFDR)

Both including links with CDP's disclosure system

[2] European green bond standard

EU Taxonomy overview

Entry into force of the EU Taxonomy Regulation

- The EU Taxonomy Regulation[3] entered into force 12 July 2020.
- It established the basis for the EU taxonomy by setting out the four overarching conditions that an economic activity has to meet in order to qualify as environmentally sustainable.
- By July 2022, and subsequently every three years thereafter, the European Commission shall publish a report on the application of this Regulation.
- Under the EU Taxonomy Regulation, the actual lists of environmentally sustainable activities are defined by technical screening criteria for each environmental objective and adopted through delegated and implementing acts[4]:

Applicable from 1 January 2022

Climate Delegated Act ((EU) 2021/2139): Defines the technical screening criteria for economic activities that can make a substantial contribution to climate change mitigation and adaptation and the technical screening criteria for DNSH.

Disclosure Delegated Act ((EU) 2021/2178): Called "Article 8 Delegated Act". It specifies the content, methodology and presentation of information to be disclosed by non-financial and financial companies subject to NFRD/CSRD.

Applicable from 1 January 2023

Complementary Climate Delegated Act ((EU) 2022/1214): Adds specific nuclear and gas energy related activities to the list of economic activities covered by the EU Taxonomy.

Applicable from 1 January 2024

Environmental Delegated Act ((EU) 2023/2486): EU Taxonomy criteria for economic activities making a substantial contribution to one or more of the non-climate environmental objectives, namely:

- 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

[3] EU taxonomy for sustainable activities
[4] Implementing and delegated acts – Taxonomy Regulation

	Complementary Climate Delegated Act ((EU) 2023/2485): Targeted amendments to the EU Taxonomy Climate Delegated Act, which expand on economic activities contributing to climate change mitigation and adaptation not included so far – in particular in the manufacturing and transport sectors.
Environmentally sustainable economic activities ("Taxonomy-aligned" activities)	• Contribute substantially to one or more of the environmental objectives, see under 'About the EU Taxonomy'; • Do not significantly harm (DNSH principle) any of the other five environmental objectives; • Comply with minimum safeguards; and • Comply with technical screening criteria.
"Enabling activities"	• Can help contribute substantially to one or more of the environmental objectives by "directly enabling" other activities to improve their performance and make a substantial contribution to one or more of the objectives. • This is provided that the "enabling economic activity": - does not lead to a lock-in of assets that undermine long-term environmental goals, considering the economic lifetime of those assets; and - has a substantial positive environmental impact, on the basis of life-cycle considerations.
"Transitional activities"	• Activities for which no low-carbon alternatives are yet available, but which are extremely important to support the transition to a net-zero economy. • Substantially contributing to the objective of climate change mitigation, and can be included as Taxonomy-aligned" activities provided that they have GHG emissions levels that correspond to the best performance in the sector or industry. • Do not hamper the development and deployment of low-carbon alternatives and do not lead to lock-in of carbon-intense assets.
When do the reporting rules come into force?[5]	• **As of January 2022** - Non-financial companies to report EU climate[6] taxonomy eligibility for the previous calendar year - Financial companies to report EU climate taxonomy eligibility for the previous calendar year • **As of January 2023** - Non-financial companies to report EU climate taxonomy eligibility and alignment for the previous calendar year - Financial companies to report EU climate taxonomy eligibility for the previous calendar year • **As of January 2024** - Non-financial companies to report EU climate taxonomy eligibility and alignment for the previous calendar year

[5] How should financial and non-financial undertakings report Taxonomy-eligible economic activities and assets in accordance with the Taxonomy Regulation Article 8 Disclosures Delegated Act?

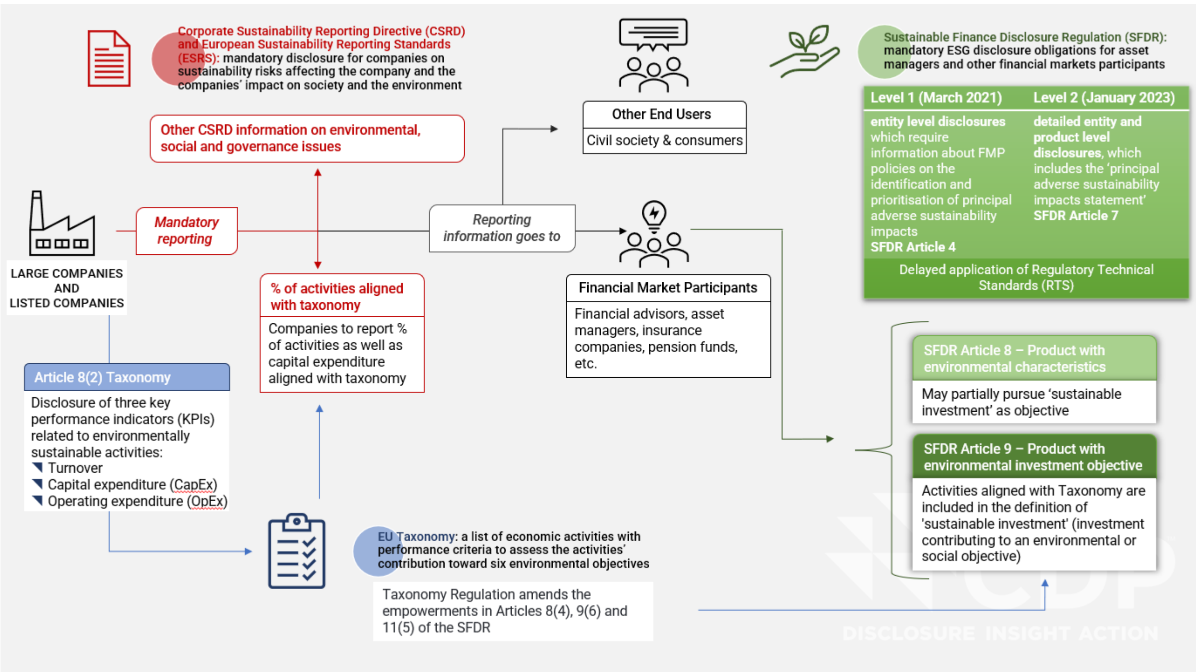
[6] 'climate' means the EU Taxonomy on climate change mitigation and adaptation

	- Non-financial companies to report EU environmental[7] taxonomy eligibility for the previous calendar year - Financial companies to report EU climate taxonomy eligibility and alignment for the previous calendar year **As of January 2025** - Financial companies may include estimates on EU taxonomy alignment for DNSH assessment of non-NFDR/CSRD companies[8] - Non-financial companies to report EU environmental taxonomy eligibility and alignment for the previous calendar year - Financial companies to report EU environmental taxonomy eligibility for the previous calendar year **As of January 2026** - Credit institutions to include EU taxonomy alignment of their trading book and fees and commissions for non-banking activities
Which companies are required to report?	Both a classification system and a set of disclosure obligations, the regulation creates disclosure requirements on Taxonomy alignment for financial market participants under the Sustainable Finance Disclosure Regulation (SFDR) and for large firms subject to the Corporate Sustainability Reporting Directive (CSRD). Reporting under CSRD: - **Companies in the scope of the CSRD**: Companies that fall under the scope of the Corporate Sustainability Reporting Directive (CSRD)[9] have to report in their annual reports to what extent their activities are covered by the EU Taxonomy (Taxonomy-eligibility) and comply with the criteria set in the Taxonomy delegated acts (Taxonomy-alignment). - **Companies outside the scope of the CSRD**: Other companies that do not fall under the scope of CSRD can decide to disclose this information on a voluntary basis to get access to sustainable financing or for other business-related reasons. Reporting under SFDR: - **Products and portfolios in the scope of SFDR**: Pre-contractual disclosures in the scope of the SFDR[10] should indicate whether the fund makes any sustainable investments that are defined using the EU Taxonomy, the minimum investment into environmentally sustainable activities as defined by the EU Taxonomy, the minimum share of investments in transition and

[7] "environmental" means the EU Taxonomy on the four non-climate environmental objectives
8 Subject to positive assessment by the European Commission
[9] CDP_Policy_Explainer_CSRD_ESRS.pdf
[10] CDP_Policy_Explainer_SFDR.pdf

enabling activities, and the investments into fossil gas and nuclear energy that comply with the EU Taxonomy. Periodic disclosures need to include Taxonomy alignment of investments, per KPI (Turnover, CapEx, OpEx) and with the same breakdowns reflected in the pre-contractual disclosures.

Reporting obligations	The reporting obligations are set out in the Disclosures Delegated Act[11] supplementing Article 8 of the Taxonomy Regulation. The Disclosures Delegated Act specifies the content, methodology and presentation of information to be disclosed by financial and non-financial undertakings concerning the proportion of environmentally sustainable economic activities in their business, investments or lending activities. **Oher CDP resources** - CDP Technical Note on EU Taxonomy for 2023 disclosure cycle - CDP 2023 climate change questionnaire guidance, includes list of European Commission reference materials on taxonomy reporting



[11] EU Taxonomy Disclosures Delegated Act

Reporting area	EU Taxonomy reporting requirements	Links with CDP's disclosure system
Taxonomy KPIs for non- financial and financial companies	Companies subject to the NFRD from 2022 onwards (CSRD from 2025 onwards) are required by the Taxonomy regulation to assess the proportion of their activities that are: A) Taxonomy eligible and B) Taxonomy aligned Companies are required to report the proportion and monetary values of their turnover, CapEx and OPEX arising from activities that are taxonomy eligible, taxonomy eligible but not aligned and taxonomy aligned in accordance with the templates outlined in the annexes of the Disclosure Delegated Act, and their updated versions through the Environmental Delegated Act. Companies should report these Taxonomy KPIs at the entity level and activity level. Companies with low levels or zero taxonomy eligibility or alignment are still obligated to report these taxonomy KPI values (with certain exemptions for OpEx under specific circumstances). Both non-financial and financial companies are required to report on their alignment first to the climate change objectives and subsequently to the other environmental objectives in a phased manner.	☑ As of 2023, CDP allows non-financial companies to report their eligibility and alignment at the entity and activity levels for the two climate change objectives under the 'Business Strategy' module (C3.5, C3.5a, C3.5b and C3.5c). CDP plans to expand taxonomy reporting to financial services companies in 2024, for the climate objectives.
Substantial contribution to environmental objectives	For activities eligible under the EU Taxonomy, companies are required to assess whether their contribution to one of the six environmental objectives of the EU Taxonomy, is substantial as per the criteria established by the Climate and Environmental Delegated Acts.	☑ CDP allows companies to report on the substantial contribution of their activities to the climate change objectives
Significant harm to environmental objectives	For activities eligible under the EU Taxonomy, and substantially contributing to one of the environmental objectives, undertakings are required to assess whether they cause significant harm to the other environmental objectives as per the criteria established under the Climate and Environmental Delegated Acts.	☑ CDP allows companies to report on how they meet their DNSH criteria under the Climate Delegated Act at the activity level.

Minimum safeguards	To assess the alignment of their activities to the EU Taxonomy, undertakings are also required to assess their alignment with the OECD principles for Multinational Enterprises, UN Guiding Principles on Business and Human Rights and ILO principles.	☑	CDP allows companies to report on their minimum safeguards compliance at the activity level.

CDP has piloted EU Taxonomy questions in 2023

- Read our first report exploring the EU Taxonomy as a tool for transition planning, in partnership with Clarity AI; and
- Watch the recording of the report launch webinar

In this report CDP and Clarity AI go beyond the surface to analyze the disclosures from around 1,700 companies, finding that there is more than meets the eye when it comes to Taxonomy eligibility and alignment.

Our report makes a unique contribution, revealing how the EU Taxonomy can be used to support companies' transition planning and how investors should analyze that data to make truly informed sustainable finance decisions. Of course, the EU Taxonomy is only one of dozens of sustainable finance taxonomies around the world against which global companies may need to report.

Our hope is that the insights in this report can help inform the practical implementation of, as well as interoperability between other high-quality taxonomies. That is crucial to reduce fragmentation and increase global momentum towards a net-zero and nature-positive future.

EU sustainable finance policies in the CDP disclosure system

CDP has consistently advocated for the development of impactful and high-quality disclosure standards and frameworks that provide clarity, enhance compliance, and support companies in their reporting needs, including those being developed by the European Union.

CDP's questionnaire includes **taxonomy questions** and already covers approximately 20 out of 30 **corporate adverse impact indicators** on climate, forest, biodiversity, and water.

CDP also collects data on 8 out of 9 **SFDR mandatory principle adverse impacts.** Six can already be calculated leveraging 2022 CDP questionnaire data points (e.g. GHG emissions and renewable and non-renewable energy consumption/production) and 2 of them were included for the first time in 2023 (question C15.4a on activities near biodiversity sensitive areas with potential for negative impact and question W1.2k on emissions to water). Additionally, we collect information for **additional adverse impacts** including carbon reduction initiatives, water consumption, water sourced from areas of stress, and policies related to water and deforestation.

For more information on how CDP is integrating EU sustainable finance regulations, see here.

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CDP Europe and the CDP global system

CDP Europe is a charitable organization registered in Brussels and Berlin and on the EU Transparency Register since 2012. It is part of the CDP Global System, a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 740 financial institutions with over $130 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Nearly 20,000 organizations around the world disclosed data through CDP in 2022, including more than 18,700 companies worth half of global market capitalization, and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. Visit cdp.net or follow us @CDP and on LinkedIn to find out more.

In Europe, CDP Worldwide (Europe) gGmbH is a charitable limited liability company headquartered in Berlin, Germany, registered on the EU Transparency Register since 2012. It is a wholly owned subsidiary of CDP Europe AISBL, a charity based in Brussels, Belgium (together: "CDP Europe"). CDP Europe is part of the non-profit CDP Global System ("CDP"), which refers to three legally separate organizations: CDP Europe (BE), the CDP Worldwide Group (UK), and CDP North America, Inc. (US).

More information on CDP Europe's governance and finances can be found here.

CDP FinACTION project

Under the EU-funded FinACTION project, CDP leverages EU LIFE funding to drive market uptake and scale EU ambition and best practice globally through the CDP system while engaging and enabling companies to disclose and act on their environmental impacts in line with ambitious European regulatory requirements and a science-based transition to a net-zero and nature-positive economy.

More information about this project can be found here.

CDP Europe in European and international media

Important Notice

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