



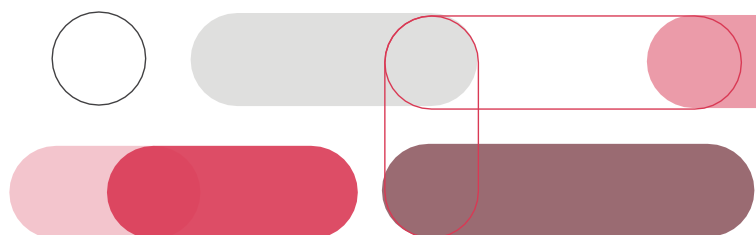
Chapter 19: EU Taxonomy reporting — Introduction

December 2024

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19.1 EU Taxonomy reporting — Introduction — Chapter overview

The Taxonomy Regulation is a key component of the European Commission's *Action Plan: Financing Sustainable Growth* published in March 2018.¹ It represents an important step in the European Union (EU)'s pursuit of meeting the goals of the Paris Agreement and achieving climate neutrality by the EU by 2050. The Sustainable Finance Action Plan aims to, among other objectives, reorient capital flows towards a more sustainable economy and foster transparency and long-termism in financial and economic activities. Such a shift of capital flows needs to be underpinned by a shared understanding of what constitutes 'environmentally sustainable' activities. The Taxonomy Regulation is unrelated to XBRL and other digital tagging taxonomies; however, Taxonomy disclosures also need to be tagged electronically under the Corporate Sustainability Reporting Directive.²

The Taxonomy Regulation establishes a unified classification system that supports the evaluation of economic activities to determine those that can be considered 'environmentally sustainable' based on science-based technical screening criteria contributing to six different environmental objectives. Environmentally sustainable activities are also referred to as 'taxonomy aligned'.

The six environmental objectives and the sections within this chapter where each is discussed are detailed in Figure SRG 19-1.

Figure SRG 19-1
Index to descriptions of environmental objectives

Environmental objectives	Reference
Climate Change Mitigation	SRG 19.3.1
Climate Change Adaptation	SRG 19.3.2
Sustainable Use and Protection of Water Resources and Marine Resources	SRG 19.3.3
Transition to a Circular Economy	SRG 19.3.4
Pollution Prevention and Control	SRG 19.3.5
Protection and Restoration of Biodiversity and Ecosystems	SRG 19.3.6

Initial plans were to expand the designated objectives to consider social and governance matters in separate Taxonomies. The timeline for such expansion is currently unclear.

The Taxonomy Regulation provides a framework to determine which of an entity's economic activities are taxonomy aligned. How to apply that framework to

¹ European Union (EU), [Regulation \(EU\) 2020/852](#) of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance); "[Sustainable finance: Commission's Action Plan for a greener and cleaner economy](#)", European Commission, 7 March 2018.

² EU, [Directive \(EU\) 2022/2464](#) of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (Text with EEA relevance).

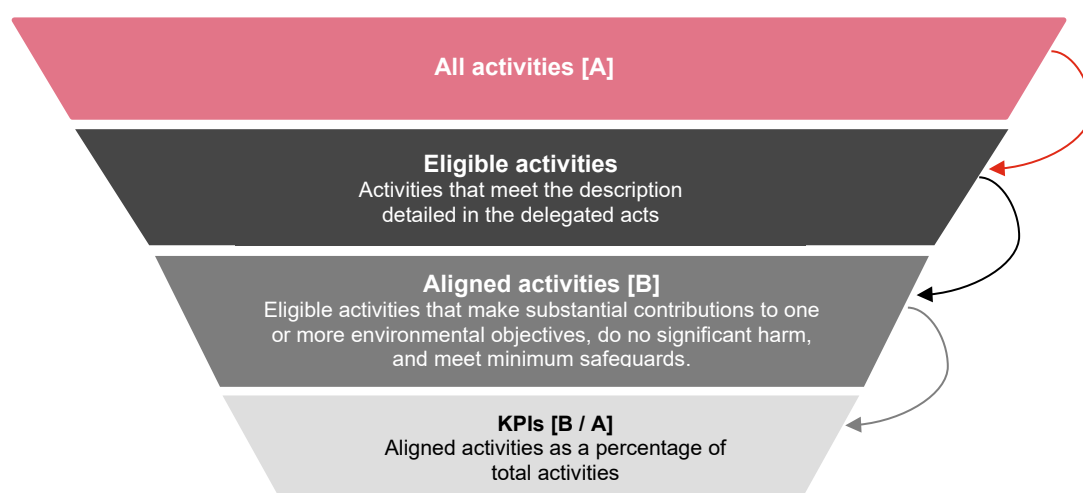
designated eligible economic activities is detailed in several delegated acts (see SRG 19.2.2 for a description of the relevant delegated acts). Figure SRG 19-2 illustrates the required criteria for an eligible activity to be considered taxonomy aligned.

Figure SRG 19-2
Taxonomy alignment criteria



The taxonomy-aligned economic activities are used as a basis to calculate specific key performance indicators (KPIs). At a high level, this is a filtering system, as illustrated in Figure SRG 19-3.

Figure SRG 19-3
Illustration of the Taxonomy filtering process



This chapter (1) provides an overview of the delegated acts, which detail the legal requirements of the Taxonomy Regulation, (2) explains each of the environmental objectives of the Taxonomy Regulation, and (3) introduces a five-step approach to determining KPIs. The required KPIs to be reported differ depending on whether the entity is a financial undertaking or not.

The following are identified as financial undertakings:³

- asset managers
- credit institutions

³ EU, [Commission Delegated Regulation \(EU\) 2021/2178](#) of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation (Text with EEA relevance), Article 1, paragraph 8.

- investment firms
- insurance and reinsurance undertakings

A non-financial undertaking is an undertaking that is not a financial undertaking.⁴

See SRG 20, *EU Taxonomy reporting — Non-financial entities*, for details regarding the application of the Taxonomy Regulation by non-financial undertakings and SRG 21, *EU Taxonomy reporting — Financial entities* [coming soon], for application by financial undertakings.

19.2 Legislation overview

The Taxonomy Regulation establishes the legal framework for determining whether an economic activity qualifies as environmentally sustainable; that is, the degree to which an investment is environmentally sustainable.

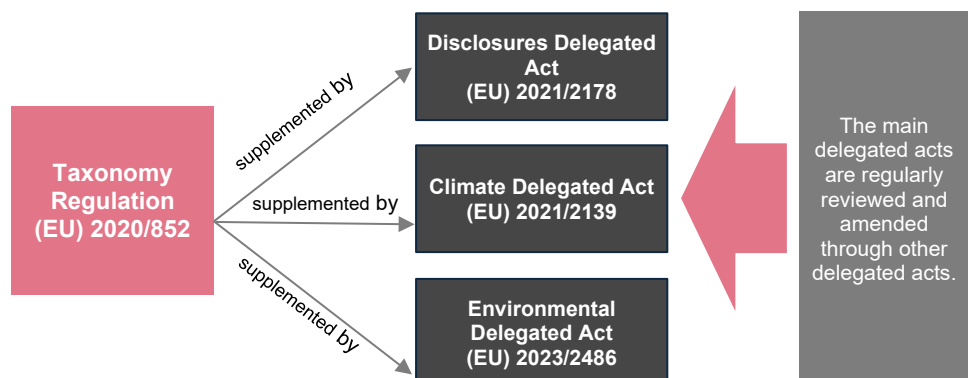
19.2.1 Scope

The Taxonomy Regulation requires financial and non-financial entities in scope to disclose how and to what extent the entity's activities are associated with environmentally sustainable economic activities. The scope generally aligns with the Corporate Sustainability Reporting Directive. See SRG 2, *Applicability of sustainability reporting requirements*, for details on entities in scope.

19.2.2 Delegated acts

The Taxonomy Regulation provides the overarching legal framework and broad requirements but does not specify the technical screening criteria or the disclosures. Several delegated regulations (referred to as 'delegated acts') supplement the Taxonomy Regulation and provide fundamental information necessary for applying the principles established by the Taxonomy Regulation. The delegated acts specify the criteria against which to evaluate an entity's economic activities (referred to as 'technical screening criteria') and the disclosures to be made. The delegated acts, prepared by the European Commission, are subject to scrutiny by the European co-legislators — the European Council and the European Parliament. During the scrutiny period, either of the co-legislators can reject the proposed delegated acts. If no objections are made, the delegated act enters into force after publication in the Official Journal. Figure SRG 19-4 illustrates the relevant delegated acts.

Figure SRG 19-4
Taxonomy-related delegated acts



⁴ EU, [Commission Delegated Regulation \(EU\) 2021/2178](#), Article 1, paragraph 9.

The main delegated acts are:

- *The [Disclosures Delegated Act](#), as amended*
Specifies reporting requirements on Taxonomy KPIs and related qualitative disclosures — sometimes referred to as the Article 8 Delegated Act⁵
- *The [Climate Delegated Act](#), as amended*
Defines economic activities and technical screening criteria for 'Climate Change Mitigation' and 'Climate Change Adaptation'
- *The [Environmental Delegated Act](#)*
Defines economic activities and technical screening criteria for the remaining four environmental objectives — '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'.⁶

The main delegated acts and their annexes have been and will continue to be amended. For example, amendments to the Climate Delegated Act have already been made through the Gas and Nuclear Delegated Act and through a separate delegated act amending the Climate Delegated Act.⁷

Given the large number of economic activities and the complexity of the technical parameters of each activity, the Taxonomy is regularly undergoing reviews and, as such, it continues to evolve. The European Commission has prioritised the most environmentally impactful activities for each environmental objective for which science-based technical screening criteria could be determined. New activities continue to be analysed and will be added as economic activities to the delegated acts. In this process, the European Commission is advised by the Platform on Sustainable Finance (see SRG 19.2.4).

As the content of the delegated acts continues to expand and evolve, an entity will need to ensure it is relying on the latest information as the Taxonomy Regulation and the delegated acts are legally binding.

In this chapter, the term 'Taxonomy' is used to refer to the whole classification framework, inclusive of the Taxonomy Regulation and the related delegated acts.

19.2.3 **Commission guidance**

Since the Taxonomy introduces an entirely new concept — determining whether economic activities are sustainable — stakeholders asked for clarifications on how to apply the provisions of the Taxonomy Regulation and the different delegated acts. The European Commission has issued several Commission notices with frequently asked questions (FAQs) and answers on different aspects of the Taxonomy Regulation and its delegated acts. The FAQs aim to clarify the content of the different delegated acts supplementing the Taxonomy Regulation to aid in

⁵ Although referred to this way, it should not be confused with Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.

⁶ The Environmental Delegated Act also amended the Disclosures Delegated Act with regard to the mandatory reporting templates.

⁷ EU, [Commission Delegated Regulation \(EU\) 2022/1214](#) of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities (Text with EEA relevance); EU, [Commission Delegated Regulation \(EU\) 2023/2485](#) of 27 June 2023 amending Delegated Regulation (EU) 2021/2139 establishing additional technical screening criteria for determining the conditions under which certain economic activities qualify as contributing substantially to climate change mitigation or climate change adaptation and for determining whether those activities cause no significant harm to any of the other environmental objectives.

its implementation. The following FAQs have been issued by the European Commission:

- [Disclosures Delegated Act — first Commission Notice \(October 2022\)](#)
This Commission notice contains 33 FAQs that address different topics within the Disclosures Delegated Act relevant to the eligibility reporting of both financial and non-financial entities.
- [Disclosures Delegated Act — second Commission Notice \(October 2023\)](#)
This Commission notice contains 34 FAQs that address general topics within the Disclosures Delegated Act relating to eligibility and alignment reporting particularly relevant to non-financial entities.
- [Disclosures Delegated Act — third Commission Notice \(November 2024\)](#)
This Commission notice contains 71 FAQs that provide interpretive and implementation guidance on the reporting under the Disclosures Delegated Act by financial institutions and insurers. This Commission notice has yet to be published in the Official Journal.
- [Climate Delegated Act — Commission Notice \(October 2023\)](#)
This Commission notice contains 187 FAQs that address various topics within the Climate Delegated Act. The FAQs provide guidance on the application of the substantial contribution criteria for a wide range of economic activities while also outlining how to apply the ‘do no significant harm’ criteria.
- [Environmental, Climate, and Disclosures Delegated Acts — draft Commission Notice \(issued in draft November 2024\)](#)
This Commission notice contains 155 FAQs that provide interpretive and implementation guidance on various topics within the Climate Delegated Act and Environmental Delegated Act as well as on the reporting under the Disclosures Delegated Act mainly for non-financial entities. This Commission notice has yet to be published in the Official Journal.
- [Minimum safeguards — Commission Notice \(June 2023\)](#)
This Commission notice contains 4 FAQs that provide clarification on how an entity should consider compliance with minimum safeguards under Article 18 of the Taxonomy Regulation. The FAQs clarify how the minimum safeguards are linked to the principal adverse impact (PAI) indicators pursuant to the Sustainable Finance Disclosure Regulation (SFDR; Regulation (EU) 2019/2088) following Article 18, paragraph 2 of the Taxonomy Regulation.

The FAQs are not authoritative and do not introduce new guidance. The status of the FAQs is addressed in common language preceding the FAQs in each of the Commission notices listed above.

Standard disclaimer regarding the FAQs in each Commission Notice

The FAQs do not extend in any way the rights and obligations deriving from such legislation nor do they introduce any additional requirements for the operators concerned and competent authorities. The ... FAQs intend to assist financial and non-financial undertakings in the implementation of the relevant legal provisions. Only the Court of Justice of the European Union is competent to authoritatively interpret Union law. The views expressed in European Commission FAQs cannot prejudice the position that the Commission might take before the Union and national courts.

Although the Commission FAQs are not legally binding, the European Securities Markets Authority (ESMA) “strongly encourages issuers to consider [the FAQs]

when preparing their disclosures as they provide guidance which supports the consistent application of the Taxonomy requirements".⁸ There may be instances when the FAQs may be perceived to contradict or exceed the requirements of the legal text in the Taxonomy Regulation and related delegated acts.

In addition, [Commission Staff FAQs](#), published in December 2021 and updated in January 2022, provide guidance on the content of the Disclosures Delegated Act. These FAQs contain the views of Commission staff but, unlike the later FAQs, they have not been published in the Official Journal as a Commission notice. These staff FAQs were released early and generally cover high-level questions which were further clarified by the FAQs subsequently released in Commission notices. As a result, an entity may find the staff FAQs less useful than the other FAQs referred to above.

19.2.4 Platform on Sustainable Finance

The Platform on Sustainable Finance is the European Commission's official expert group consisting of different stakeholders representing a wide range of expertise. It is designed to facilitate the development and implementation of sustainable finance policies, including the Taxonomy Regulation, within the European Union.⁹ Its primary purpose is to advise the Commission on various aspects of sustainable finance and contribute to the ongoing efforts to align financial flows with environmentally sustainable, socially responsible, and economically viable activities.

The Platform on Sustainable Finance's responsibilities include the following:

- advising on technical screening criteria for economic activities
- ensuring consistency across different sustainability-related regulations
- promoting transparency and disclosure of sustainable finance information

The Platform on Sustainable Finance also monitors and reports on capital flows into sustainable investment, recommends measures to improve data quality, and provides guidance on the usability of technical screening criteria.

As part of its activities, the Platform on Sustainable Finance published a report on how to apply the minimum safeguards as outlined in Article 18 of the Taxonomy Regulation.¹⁰ Although this report is not authoritative, it provides helpful interpretations that have been generally accepted and are referred to in the Minimum safeguards — Commission notice.

The Platform on Sustainable Finance continues to gather questions and suggestions through the Stakeholder Request Mechanism, which are provided to the European Commission to inform their consideration of new or amended economic activities.

19.2.5 International standards related to human rights

As depicted in Figure SRG 19-2, one of elements required for an eligible activity to be considered taxonomy aligned is for it to meet minimum safeguards. The minimum safeguards are designed to ensure that taxonomy-aligned economic activities are carried out in accordance with specified international social and governance standards.

⁸ European Securities and Markets Authority (ESMA), [Public Statement: European common enforcement priorities for 2023 annual financial reports](#), 25 October 2023.

⁹ EU, [Regulation \(EU\) 2020/852](#), Article 20.

¹⁰ Platform on Sustainable Finance, [Final Report on Minimum Safeguards](#), October 2022.

The following documents are the foundation of the minimum safeguards.

□ [OECD Guidelines for Multinational Enterprises on Responsible Business Conduct](#)¹¹

The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (the OECD Guidelines) are recommendations addressed by governments to multinational enterprises. They aim to encourage positive contributions entities can make to economic, environmental, and social progress, and to minimise adverse impacts on matters that may be associated with an enterprise's operations, products, and services. The OECD Guidelines address all key areas of business responsibility, including human rights, labour rights, environment, bribery, consumer interests, disclosure, science and technology, competition, and taxation.

□ [UN Guiding Principles on Business and Human Rights](#)

The UN Guiding Principles on Business and Human Rights (the UNGPs), including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights, consist of three pillars, and provide 31 principles for implementation. The United Nations has summarised the three pillars as follows.

Excerpt from [Frequently Asked Questions](#) about the Guiding Principles on Business and Human Rights

- All States have a duty to protect everyone within their jurisdiction from human rights abuses committed by companies.
- Companies have a responsibility to respect human rights—i.e., avoid infringing on the rights of others wherever they operate and whatever their size or industry, and address any impact that does occur. This responsibility exists independently of whether States fulfil their obligations.
- When abuses occur, victims must have access to effective remedy, through judicial and non-judicial grievance mechanisms.

The [International Bill of Human Rights](#) consists of (1) the Universal Declaration of Human Rights, (2) the International Covenant on Civil and Political Rights, and (3) the International Covenant on Economic, Social and Cultural Rights.

These documents are also referenced in ESRS 1 *General requirements*, ESRS 2 *General disclosures*, and each of the ESRS Social topical standards (ESRS S1 *Own workforce*, ESRS S2 *Workers in the value chain*, ESRS S3 *Affected communities*, and ESRS S4 *Consumers and end-users*).

19.2.6 Assessing compliance with the OECD/UNGP

In accordance with Article 18 paragraph 1 of the Taxonomy Regulation, an entity whose economic activities are to be considered taxonomy aligned must have implemented due diligence and remedy procedures to ensure the alignment with the standards for responsible business conduct detailed in the OECD Guidelines and the UNGPs.

¹¹ The Taxonomy Regulation refers to the OECD Guidelines for Multinational Enterprises, which was the title of the 2011 edition. An update was released in 2023 and is now titled: OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. Entities should refer to the latest version.

The key requirement under paragraph 1 is that an entity should implement appropriate procedures, including procedures to continuously identify, prevent, mitigate, or remediate the relevant actual and potential adverse impacts connected with its own operations, value chains, and business relationships in order to ensure that its economic activities are carried out in line with the referenced standards.¹²

The following are the topics identified by the Platform on Sustainable Finance in the OECD Guidelines that should be considered in relation to the minimum safeguards:

- human rights (including labour and consumer rights)
- anti-corruption and bribery
- taxation
- fair competition

While the Taxonomy Regulation generally does not require consideration of activities in an entity's value chain, it requires compliance with the OECD Guidelines and the UNGPs. These documents both refer to the consideration of the value chain for the topics of human rights, and anti-corruption and anti-bribery.

For each topic, the Platform recommends that the following dimensions be evaluated:

- existence of adequate due diligence processes (see SRG 19.2.6.1)
- absence of material breaches and final convictions in court (see SRG 19.2.6.2)

According to the Platform, both dimensions need to be met for an economic activity to be considered aligned with the minimum safeguards.

19.2.6.1 *Existence of adequate due diligence processes*

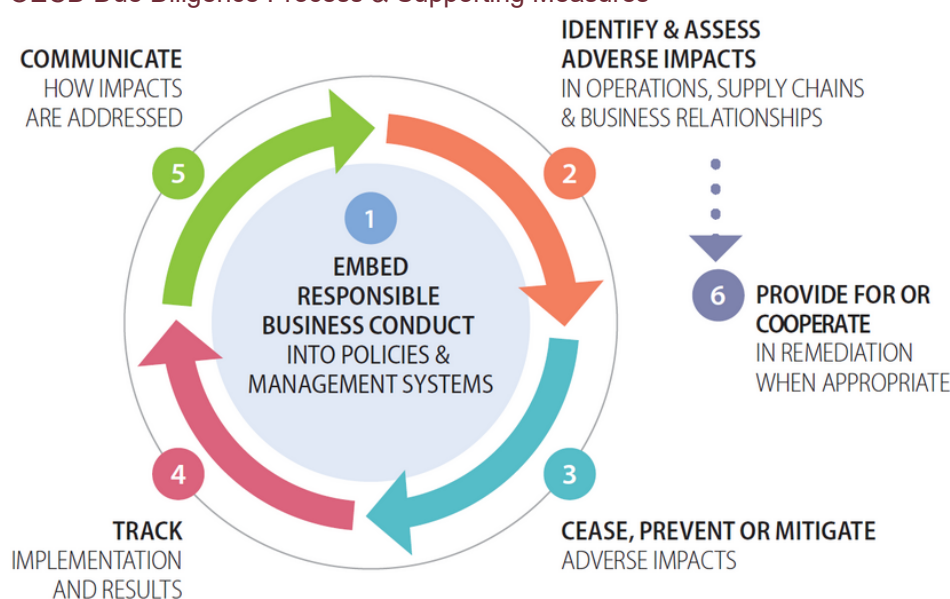
Assessing the adequacy of a due diligence process requires a qualitative assessment of its effectiveness in preventing negative consequences and how such consequences are addressed when necessary. In this context, the elements described in the following sections should be included in the implementation of the due diligence processes for the relevant topics.

Human rights (including labour and consumer rights)

The OECD issued Due Diligence Guidance for Responsible Business Conduct intended to provide practical support on the implementation of the OECD Guidelines specific to the conduct of due diligence. It illustrates a six-step process that was endorsed by the Platform on Sustainable Finance in its final report on minimum safeguards as a means to assess human rights.

¹² European Commission, [*Commission notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation*](#), question 3.

Figure SRG 19-5
OECD Due Diligence Process & Supporting Measures



Source: OECD (2018), *OECD Due Diligence Guidance for Responsible Business Conduct*, <https://mneguidelines.oecd.org/due-diligence-guidance-for-responsible-business-conduct.htm>.

The following is a summary of the steps detailed by the OECD:

- **Step 1. Embed responsible business conduct into policies and management systems**
 To ensure responsible business practices, an entity should update existing policies to align with OECD Guidelines, develop specific policies for identified risks, and make them publicly available. These policies should also be communicated to employees. Regular updates ensure ongoing relevance, adapting to emerging risks in the entity's operations, supply chain, and business relationships.

 An entity should integrate its responsible business conduct policies into oversight bodies and management systems. This integration should be seamless within regular business processes, with consideration given to potential independence, autonomy, and legal structures as per local laws. Additionally, the entity should incorporate responsible business conduct expectations and policies into its engagement with suppliers and business partners. This approach should ensure the effective implementation of responsible business conduct principles throughout the organisation and in external partnerships.
- **Step 2. Identify and assess adverse impacts in operations, supply chains, and business relationships**
 A thorough scoping exercise to identify areas with potential responsible business conduct risks in an entity's operations, relationships, and supply chains should be conducted. High-risk areas should be prioritised for further assessment based on factors like sector, geography, and past experiences. Next, the entity's involvement in these impacts, considering causation, contribution, or direct linkage through business relationship should be assessed in order to guarantee a thorough understanding of adverse impacts.

 Based on the information collected on adverse impacts, an entity should prioritise the most significant risks based on severity and likelihood. Once the most significant impacts are identified and appropriately addressed, the entity

can proceed to manage and mitigate less significant impacts. This approach ensures a strategic and focused response to challenges.

□ *Step 3. Cease, prevent, or mitigate adverse impacts*

An entity should cease activities that cause adverse human rights impacts and implement plans aimed at proactively preventing and mitigating potential adverse impacts. Prioritisation is key, focusing on developing a plan to address both actual and potential impacts associated with the entity's operations through various business relationships. Responses to risks within these relationships should be tailored and may involve continuation, temporary suspension, or disengagement, contingent upon ongoing risk mitigation efforts and the severity of adverse impacts. These plans should detail specific actions and expectations for suppliers, buyers, and other business relationships.

□ *Step 4. Track implementation and results*

The execution and effectiveness of the due diligence activities should be monitored. This includes assessing the measures taken to identify, prevent, mitigate, and when necessary, support the remediation of impacts, especially in business relationships. Subsequently, an entity should leverage the insights gained from this monitoring process to enhance and refine these procedures for future improvements.

□ *Step 5. Communicate how impacts are addressed*

Key information on due diligence policies, processes, and activities, including efforts to address adverse impacts, should be externally communicated. This involves sharing findings and outcomes considering confidentiality and competitive concerns, through reports or other suitable means.

The disclosed information should cover policies, integration efforts, identified significant risk areas, prioritised adverse impacts, action criteria, risk prevention/mitigation measures, ways of monitoring effectiveness, and remediation.

An entity should ensure this information is easily accessible, such as available on its website and in local languages. For human rights impacts, especially those caused or contributed to by the entity, relevant details should be communicated to affected rights holders in a timely, sensitive, and accessible manner, particularly when concerns are raised by or on their behalf.

□ *Step 6. Provide for or cooperate in remediation when appropriate*

Upon recognising its responsibility or contribution to actual adverse impacts, an entity should take corrective action by facilitating or cooperating in the remediation of adverse impacts. As part of remediation mechanisms, affected stakeholders and rights holders should be able to raise complaints and seek resolution with the entity. Facilitating a legitimate remediation mechanism will prove useful in situations involving disagreements on the entity's role in causing or contributing to adverse impacts, or when there is uncertainty regarding the nature and extent of necessary remediation.

For an overview of the assessment of the minimum safeguards, see SRG 19.4.4. See SRG 20.4 for a detailed discussion of the assessment of the minimum safeguards by non-financial entities.

Anti-corruption and anti-bribery

The OECD Guidelines require entities to implement adequate due diligence processes concerning anti-corruption and anti-bribery. This includes internal controls, ethics, and compliance programmes, and measures for preventing and detecting corruption and bribery, including within the value chain.

Adequate due diligence processes could include impact-based corruption risk assessments that consider the unique circumstances of the entity and its value chain, including factors like geographical location and industrial sector of operation. Note that corruption and bribery, as defined by the OECD Guidelines, encompass activities such as offering, promising, giving, requesting, agreeing to, or accepting bribes, along with other forms of corruption like trading in influence, embezzlement, and misuse of sponsorships and charitable donations.

Employee training is a fundamental component of the anti-corruption framework. Conducting training sessions help enhance employee understanding of anti-corruption policies, guidelines, and relevant regulations. This includes promoting awareness of entity policies regarding bribery (including bribe solicitation and extortion) and other forms of corruption.

Taxation

Due diligence processes relating to taxation involve a thorough examination of tax-related aspects within various business activities, transactions, and investments. The primary objective is to identify, assess, and manage potential tax risks and liabilities that may impact the entity.

In particular, an entity must comply with both the letter and spirit of tax laws and regulations of the countries in which it operates. Complying with the spirit of the law means discerning and following the intention of the legislature. An entity is, however, not expected to make payments in excess of the amount legally required following such interpretation.

Management must adopt tax risk management strategies to ensure that the financial, regulatory, and reputational risks associated with taxation are fully identified and evaluated.

Fair competition

An entity should carry out its activities in a manner consistent with all applicable competition laws and regulations, taking into account the competition laws of all jurisdictions in which the activities may have anti-competitive effects.

Due diligence processes related to anti-competitive behaviour involve a thorough assessment of business practices and operations to identify and assess potential risks associated with violations of competition laws. An entity should refrain from entering into or carrying out anti-competitive agreements, including agreements to:

- ☐ fix prices
- ☐ make rigged bids (collusive tenders)
- ☐ establish output restrictions or quotas
- ☐ share or divide markets by allocating customers, suppliers, territories, or lines of commerce

When an entity is formally accused of anti-competitive behaviour, the entity should cooperate with investigating competition authorities by, among other things and subject to applicable law and appropriate safeguards:

- ☐ providing responses as promptly and completely as practicable to requests for information

- considering the use of available instruments, such as waivers of confidentiality where appropriate, to promote effective and efficient cooperation among investigating authorities

An entity should regularly promote employee awareness of the importance of compliance with all applicable competition laws and regulations and, in particular, senior management should be trained regarding these types of risks.

Questions SRG 19-1 and SRG 19-2 discuss these safeguards in additional detail. Example SRG 19-1 illustrates the consideration of minimum safeguards that have not been in place for the full financial period.

Question SRG 19-1

Do the minimum safeguards need to be effective for the full year in order to claim Taxonomy alignment for the reporting year?

PwC response

Yes. Since the key performance indicators reported under the Taxonomy Regulation are based on cumulative numbers from the statement of profit or loss or statement of financial position for a reporting period, an entity needs to consider whether economic activities throughout the year complied with the minimum safeguards in order to report Taxonomy alignment for that same period. Only looking at the amounts and circumstances at year end is not appropriate.

Question SRG 19-2

Do entities need to completely avoid certain risks or eliminate all negative impacts in order to comply with the minimum safeguards?

PwC response

In some cases, even when all the necessary due diligence processes are put in place, entities may still be unable to address certain risks or completely eliminate negative impacts.¹³ This does not, however, necessarily indicate non-compliance with the minimum safeguards as long as the entity has transparently disclosed these potential impacts and provided an explanation of the steps taken to identify, prevent, mitigate, or rectify them, along with reasons for being unable to eliminate certain impacts.

Example SRG 19-1

Achieving compliance with the minimum safeguards during the reporting year

Amber Enterprises is an EU large entity that generated taxonomy-eligible turnover of more than €60 million from one economic activity evenly throughout the financial year (€5 million per month). The substantial contribution and DNSH criteria for this economic activity are met throughout the entire financial year. Adequate due diligence processes for all four topics of the minimum safeguards were established effective 1 April 20X4. No material breaches were reported during the year.

What amount should Amber Enterprises consider when calculating the share of taxonomy-aligned turnover?

¹³ EU, [*Commission notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation*](#), question 3.

Analysis

Although the other criteria are met for the full year, Amber Enterprises only met the minimum safeguards beginning 1 April. The economic activity would not be considered taxonomy aligned for the period prior to establishment of adequate due diligence processes. As a result, Amber Enterprises would only be allowed to consider €45 million for the share of taxonomy-aligned turnover (€5 million x 9 months). See SRG 20.5.2 for details on the calculation of taxonomy-aligned turnover.

19.2.6.2 *Absence of material breaches and convictions in court*

The second dimension of compliance with the minimum safeguards is a negative criterion requiring an absence of particular impacts or events. This criterion focuses on the outcomes of ineffective due diligence processes resulting in human rights abuses or violations in the areas of anti-corruption and anti-bribery, taxation, and fair competition.

When an entity is found to have violated human rights, been involved in corruption and bribery, violated tax governance requirements and tax compliance, or failed to comply with applicable competition laws and regulations, as proven by a final judgement in court, the affected economic activities need to be critically assessed regarding the relevant procedures applied to prevent such incidents. In this assessment, differentiating between serious and minor rulings by court may be necessary, in particular with regard to decisions in tax matters. Assessing the severity of tax violations may be complex even when there has been a conviction as rulings against an entity could relate to serious misconduct (such as tax fraud) or minor violations (for example, applying a different interpretation on VAT guidelines). Less judgement is required when assessing material breaches and convictions in court related to the other areas, such as human rights and corruption.

For human rights matters, there are additional criteria that could result in non-compliance with the minimum safeguards. An activity could also be considered non-aligned if an entity refuses to engage in a dialogue with an OECD National Contact Point or if the OECD National Contact Point's report concludes that an entity breached the OECD Guidelines (see Question SRG 19-4). The refusal to engage suggests that an entity is not properly interacting with affected stakeholders or their representatives, as required by the UNGPs.

In addition, an entity's failure to respond to concerns raised in the past two years by the Business & Human Rights Resource Centre within three months may indicate inadequate engagement with affected stakeholders or their representatives, leading to a non-alignment status with respect to the minimum safeguards. (See Question SRG 19-4 for more information about the Business & Human Rights Resource Centre). Failure to address allegations is considered non-alignment only when these allegations are less than two years old.

To be compliant, senior management should not have a conviction related to anti-corruption, anti-bribery, or fair competition.

An entity in violation of a minimum safeguards topic cannot deem its economic activities to be taxonomy aligned. If the violations are addressed and measures implemented to avoid such violations in the future, activities after such remediation could still be considered in compliance with the minimum safeguards and therefore taxonomy aligned, assuming all other criteria are met. An entity facing violations may regain alignment by demonstrating tangible changes in its internal policies and procedures.

Question SRG 19-3

Are only final convictions in court considered in the minimum safeguards assessment?

PwC response

No. A final determination by a court serves at least as a substantial 'red flag' regarding the appropriateness of an entity's procedures. Final convictions, however, can be avoided by agreeing to an out-of-court settlement and negative impacts can occur significantly earlier than the final court ruling. In these cases, even though there is no final conviction, we believe that any indications of an underlying breach need to be considered.

In the event there are extended delays between incidents and a final court ruling, an entity may be able to support compliance with the minimum safeguards by demonstrating how its procedures have been rectified since the incident. Therefore, in our view, all facts and circumstances need to be considered when assessing compliance with the minimum safeguards. Concluding on compliance based only on the occurrence of a final conviction in court would not be sufficient. As a result, even a final conviction during the reporting period may not prevent a conclusion that the minimum safeguards have been met.

Question SRG 19-4

What are the OECD National Contact Points and the Business & Human Rights Resource Centre?

PwC response

The OECD National Contact Points are offices set up by governments that adhere to the OECD Guidelines.

The National Contact Points have two main responsibilities:

- promote the OECD Guidelines, handle enquiries, and respond to questions about the OECD Guidelines
- provide a grievance mechanism to resolve cases relating to non-compliance with the OECD Guidelines

The Business & Human Rights Resource Centre is an independent, international, non-profit organisation working in a collaborative partnership with Amnesty International and leading academic institutions. The purpose of the organisation is to promote greater awareness and informed discussion of important issues relating to business and human rights.

19.2.6.3 Consideration of value chains

An entity is required to consider the adequacy of its due diligence processes within its value chain for the topics of human rights, anti-corruption, and anti-bribery. The upstream and downstream value chain of the entity must be considered, including both direct and indirect business relationships, with a focus on those areas of activities where the risk of negative impacts is most significant.

The due diligence processes should focus on actual and potential negative impacts that an entity is responsible for through its own activities or contributes to as a result of its business relationships.

Question SRG 19-5

Can the purchase of output from taxonomy-aligned economic activities be considered taxonomy aligned if the supplier complies with the minimum safeguards but the purchasing entity does not?

PwC response

According to the Disclosures Delegated Act, certain expenditures are taxonomy aligned if they are “related to the purchase of output from taxonomy-aligned economic activities”.¹⁴ The entity in this case is purchasing the output from a supplier's activity. The wording does not indicate that the reporting entity itself needs to be taxonomy aligned. Allowing these expenditures to be taxonomy aligned is consistent with the overarching goal of the Taxonomy Regulation to redirect capital flows to environmentally sustainable activities. The entity is essentially rewarded for the decision to purchase output from a taxonomy-aligned activity. Accordingly, we believe that a “purchase of output from taxonomy-aligned economic activities” is considered taxonomy aligned when the supplier complies with the minimum safeguards (and the technical screening criteria for the related economic activity) irrespective of whether the purchasing entity complies with the minimum safeguards.¹⁵

19.3 *Environmental objectives*

Article 9 of the Taxonomy Regulation defines six environmental objectives. The subsequent articles and delegated acts describe which activities are eligible and how an entity can make a ‘substantial contribution’ and ‘do no significant harm’ to each objective. These descriptions and parameters allow an entity to identify taxonomy-eligible activities and to assess their alignment. These assessments may be challenging in practice; it is therefore vital that the entity understands the purpose and spirit of each of the environmental objectives.

In each section below, we describe what is encompassed by each environmental objective, the manner in which each can be achieved, and where relevant, the primary regulations that help interpret them.

19.3.1 *Climate Change Mitigation*

The Taxonomy Regulation states that an economic activity pursuing the environmental objective of Climate Change Mitigation should contribute substantially to the stabilisation of greenhouse gas emissions by avoiding or reducing them or by enhancing greenhouse gas removals. This should be consistent with the long-term temperature goal of the Paris Agreement, and the environmental objective should be interpreted in accordance with relevant European Union law.

Taxonomy Regulation, Article 2, paragraph 5

‘Climate change mitigation’ means the process of holding the increase in the global average temperature to well below 2°C and pursuing efforts to limit it to 1,5°C above pre-industrial levels, as laid down in the Paris Agreement.

¹⁴ EU, [Commission Delegated Regulation \(EU\) 2021/2178](#), Annex I, Section 1.1.2.2(c).

¹⁵ EU, [Commission Delegated Regulation \(EU\) 2021/2178](#), Annex I, Section 1.1.2.2(c).

In broad terms this can be achieved by at least one of the following:¹⁶

- generating, transmitting, storing, distributing, or using renewable energy
- improving energy efficiency
- increasing clean or climate-neutral mobility
- switching to the use of sustainably sourced renewable materials
- increasing the use of environmentally safe carbon capture and utilisation and carbon capture and storage
- strengthening land carbon sinks
- establishing energy infrastructure required for decarbonisation
- producing clean and efficient fuels from renewable or carbon-neutral sources
- enabling any of the activities listed above in the sense of an enabling economic activity

The Taxonomy Regulation explains that the term ‘energy efficiency’ is defined broadly and should be interpreted taking into account relevant European Union law; it specifies, among others, the Energy Efficiency Directive (Directive 2012/27/EU) and the different EU energy efficient products regulations.

An economic activity can substantially contribute to Climate Change Mitigation if it aids the transition to a climate-neutral economy, even if there is no technologically or economically feasible low carbon alternative (see definition of transitional activities in SRG 19.4.2). Such activity should aim to limit global warming to 1.5°C above pre-industrial levels, phase out greenhouse gas emissions, especially from solid fossil fuels, and must be an activity that has or does all of the following:¹⁷

- has greenhouse gas emission levels that are the best in its sector or industry
- does not hamper the development and deployment of low-carbon alternatives
- does not lead to a lock-in of carbon intensive assets, considering their economic lifetime

The specific activities identified in the Taxonomy, alongside criteria for determining their substantial contribution to Climate Change Mitigation, are detailed in Annex I of the Climate Delegated Act. Activities that help transition to a climate-neutral activity are marked as such in the Climate Delegated Act.

19.3.2 Climate Change Adaptation

An economic activity that pursues the environmental objective of Climate Change Adaptation should contribute substantially to reducing or preventing the adverse impact of the current climate or expected future climate, or the risks of such adverse impact, without increasing the risk of adverse impact on people, nature, or assets. This environmental objective should be interpreted in accordance with relevant European Union law and the Sendai Framework for Disaster Risk Reduction 2015–2030.¹⁸

¹⁶ EU, [Regulation \(EU\) 2020/852](#), Article 10.

¹⁷ EU, [Regulation \(EU\) 2020/852](#), Article 10.

¹⁸ The United Nations Office for Disaster Risk Reduction, [Sendai Framework for Disaster Risk Reduction 2015-2030](#), 18 March 2015, includes four priorities: understanding disaster

Taxonomy Regulation, Article 2, paragraph 6

'Climate change adaptation' means the process of adjustment to actual and expected climate change and its impacts

All of the environmental objectives detailed in the Taxonomy Regulation, except for Climate Change Adaptation, focus on the impact of the entity on the environment — an inside-out perspective. Climate Change Adaptation is unique insofar as it addresses how the environment (climate) can affect the entity — an outside-in perspective. For this reason, the Taxonomy assessment of Climate Change Adaptation activities can differ conceptually from how all other activities are evaluated. For details, see SRG 20.6.

The specific activities identified in the Taxonomy, alongside criteria for determining their substantial contribution to Climate Change Adaptation, are detailed in Annex II of the Climate Delegated Act.

19.3.3 Sustainable Use and Protection of Water and Marine Resources

An economic activity qualifies as contributing substantially to the Sustainable Use and Protection of Water and Marine Resources when that activity either contributes substantially to (1) achieving the good status of bodies of water, including bodies of surface water and groundwater, and marine waters or (2) preventing the deterioration of bodies of water or marine waters that are already in good environmental status.

The Taxonomy Regulation refers to several other directives for the definition of relevant terms.

Definitions from Directive 2000/60/EC, Article 2

- (1) 'Surface water' means inland waters, except groundwater; transitional waters and coastal waters, except in respect of chemical status for which it shall also include territorial waters.
- (2) 'Groundwater' means all water which is below the surface of the ground in the saturation zone and in direct contact with the ground or subsoil.

Definition from Directive 2008/56/EC, Article 3, paragraph 1

'Marine waters' means:

- a) waters, the seabed and subsoil on the seaward side of the baseline from which the extent of territorial waters is measured extending to the outmost reach of the area where a Member State has and/or exercises jurisdictional rights, in accordance with the UNCLOS [United Nations Convention on the Law of the Sea], with the exception of waters adjacent to the countries and territories mentioned in Annex II to the Treaty and the French Overseas Departments and Collectivities; and
- b) coastal waters as defined by Directive 2000/60/EC, their seabed and their subsoil, in so far as particular aspects of the environmental status of the marine environment are not already addressed through that Directive or other Community legislation

risk; strengthening disaster risk governance to manage disaster risk; investing in disaster risk reduction for resilience; and enhancing disaster preparedness for effective response, and to "Build Back Better" in recovery, rehabilitation, and reconstruction.

Activities qualify as providing a substantial contribution to this environmental objective by:¹⁹

- protecting the environment from the adverse effects of urban and industrial waste water discharges
- protecting human health from the adverse impact of any contamination of water intended for human consumption
- improving water management and efficiency
- ensuring the sustainable use of marine ecosystem services or contributing to the good environmental status of marine waters
- enabling any of the activities listed above in the sense of an enabling economic activity

The Taxonomy Regulation states that the environmental objective of the Sustainable Use and Protection of Water and Marine Resources should be interpreted in accordance with relevant European Union law and communications by the European Commission and specifies, among others, the directives listed in Figure SRG 19-6.

Figure SRG 19-6
Referenced water-related directives

Directive	Topic addressed
Directive 2000/60/EC	A framework for community action in the field of water policy
Directive 2006/118/EC	Protection of groundwater against pollution and deterioration
Directive 91/271/EEC	Urban waste water treatment
Directive 91/676/EEC	Protection of waters against pollution caused by nitrates from agricultural sources

The specific activities identified in the Taxonomy, alongside criteria for determining their substantial contribution to the Sustainable Use and Protection of Water and Marine Resources, are detailed in Annex I of the Environmental Delegated Act.

19.3.4 *Transition to a Circular Economy*

According to the Taxonomy Regulation, an economic activity can contribute substantially to the environmental objective of Transition to a Circular Economy in several ways. It can, for example:²⁰

- increase the durability, reparability, recyclability, upgradability, and reusability of products
- reduce the use of resources through the design and choice of materials, facilitating repurposing, disassembly, and deconstruction in the buildings and construction sector and promote the re-use of materials

¹⁹ EU, [Regulation \(EU\) 2020/852](#), Article 12.

²⁰ EU, [Regulation \(EU\) 2020/852](#), Article 13.

- increase the use of secondary raw materials and their quality
- substantially reduce the content of hazardous substances and substitute substances of very high concern in materials and products throughout their life cycle
- develop 'product-as-a-service' business models and circular value chains, with the aim of keeping products, components, and materials at their highest utility and value for as long as possible
- reduce food waste in the production, processing, manufacturing, or distribution of food
- increase the development of the waste management infrastructure needed for prevention, preparing for re-use, and recycling, while ensuring that the recovered materials are recycled as high-quality secondary raw material input in production, thereby avoiding downcycling
- minimise the incineration of waste and avoid the disposal of waste
- avoid and reduce litter
- enable any of the activities listed above in the sense of an enabling economic activity

Taxonomy Regulation, Article 2, paragraph 9

'Circular economy' means an economic system whereby the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy

The environmental objective of the Transition to a Circular Economy should be interpreted in accordance with relevant European Union law in the areas of the circular economy, waste, and chemicals; it refers to, among others, the regulations and directives listed in Figure SRG 19-7.

Figure SRG 19-7

Referenced directives and regulations related to a circular economy

Directive	Topic addressed
Regulation (EC) No 1907/2006	Registration, Evaluation, Authorisation and Restriction of Chemicals (the REACH Regulation)
Regulation (EU) 2019/1021	Persistent organic pollutants
Directive 94/62/EC	Packaging and packaging waste
Directive 2008/98/EC and Regulation (EU) No 1357/2014	Waste
Directive 2012/19/EU	Waste electrical and electronic equipment (the WEEE Directive)

The specific activities identified in the Taxonomy, alongside criteria for determining their substantial contribution to Transition to a Circular Economy, are detailed in Annex II of the Environmental Delegated Act.

19.3.5 *Pollution Prevention and Control*

The Taxonomy Regulation provides a broad definition of ‘pollution’ as used in the description of the Pollution Prevention and Control objective. The definition refers to other directives that provide more detail specifically in the context of marine and water environments. Those descriptions are similar to how the Taxonomy Regulation defines ‘pollutant’ in that they refer to substances that interfere with the use of the environment.

Definition from [Taxonomy Regulation](#), Article 2, paragraph 10

‘Pollutant’ means a substance, vibration, heat, noise, light or other contaminant present in air, water or land which may be harmful to human health or the environment, which may result in damage to material property, or which may impair or interfere with amenities and other legitimate uses of the environment;

Definition from [Taxonomy Regulation](#), Article 2, paragraph 12

‘Pollution’ means:

- a) the direct or indirect introduction of pollutants into air, water or land as a result of human activity;
- b) in the context of the marine environment, pollution as defined in point 8 of Article 3 of Directive 2008/56/EC;
- c) in the context of the water environment, pollution as defined in point 33 of Article 2 of Directive 2000/60/EC.

An economic activity qualifies as contributing substantially to Pollution Prevention and Control when that activity contributes substantially to environmental protection from pollution by doing at least one of the following:²¹

- ☐ preventing or, where that is not practicable, reducing pollutant emissions into air, water, or land, other than greenhouse gases
- ☐ improving levels of air, water, or soil quality in the areas in which the economic activity takes place whilst minimising any adverse impact on human health and the environment or the risk thereof
- ☐ preventing or minimising any adverse impact on human health and the environment of the production, use, or disposal of chemicals
- ☐ cleaning up litter and other pollution
- ☐ enabling any of the activities listed above in the sense of an enabling economic activity

The environmental objective of Pollution Prevention and Control should be interpreted in accordance with relevant European Union law; it specifies, among others, the directives listed in Figure SRG 19-8.

²¹ EU, [Regulation \(EU\) 2020/852](#), Article 14.

Figure SRG 19-8
Referenced directives related to pollution

Directive	Topic addressed
Directive 2004/35/EC	Environmental liability with regard to the prevention and remedying of environmental damage
Directive 2008/50/EC	Ambient air quality and cleaner air for Europe
Directive (EU) 2016/2284	The reduction of national emissions of certain atmospheric pollutants

The specific activities identified in the Taxonomy, alongside criteria for determining their substantial contribution to Pollution Prevention and Control, are detailed in Annex III of the Environmental Delegated Act.

19.3.6 *Protection and Restoration of Biodiversity and Ecosystems*

The Taxonomy Regulation explains economic activities that can play a significant role in achieving the environmental objective of protecting, conserving, and restoring biodiversity and ecosystems.

Taxonomy Regulation, Article 2, paragraph 13

‘Ecosystem’ means a dynamic complex of plant, animal, and micro-organism communities and their non-living environment interacting as a functional unit;

Taxonomy Regulation, Article 2, paragraph 15

‘Biodiversity’ means the variability among living organisms arising from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part and includes diversity within species, between species and of ecosystems;

The protection, conservation, and restoration of biodiversity and ecosystems in turn enhances ecosystem services. The four categories of services are (1) provisioning services (such as food and water); (2) regulating services (such as climate control and disease prevention); (3) supporting services (such as nutrient cycles and oxygen production); and (4) cultural services (such as spiritual and recreational benefits).²²

An economic activity qualifies as contributing substantially to the Protection and Restoration of Biodiversity and Ecosystems when that activity contributes substantially to protecting, conserving, or restoring biodiversity, achieving the good condition of ecosystems, or to protecting ecosystems that are already in good condition, through at least one of the following:

- ☐ nature and biodiversity conservation
- ☐ sustainable land use and management
- ☐ sustainable agricultural practices
- ☐ sustainable forest management

²² EU, [*Regulation \(EU\) 2020/852*](#), Recital 31.

- enabling any of the activities listed above in the sense of an enabling economic activity

As described in Taxonomy Regulation, the term ‘sustainable forest management’ refers to practices and uses of forest and forest land that contribute to enhancing biodiversity and preventing degradation of ecosystems, deforestation, and habitat loss.²³ The description emphasises the importance of stewardship and use of forests in a way that maintains their biodiversity, productivity, regeneration capacity, and vitality and their ability to fulfil ecological, economic, and social function at local, national, and global levels. It also highlights the need to avoid causing damage to other ecosystems.

This objective should be interpreted in accordance with relevant European Union law; it specifies, among others, the regulations and directives listed in Figure SRG 19-9.

Figure SRG 19-9

Referenced directives related to biodiversity and ecosystems

Directive	Topic addressed
Regulation (EU) No 995/2010	The obligations of operators who place timber and timber products on the market
Regulation (EU) No 1143/2014	The prevention and management of the introduction and spread of invasive alien species
Directive 2009/147/EC	The conservation of wild birds
Regulation (EC) No 338/97	The protection of species of wild fauna and flora by regulating trade therein
Directive 92/43/EEC	The conservation of natural habitats and of wild fauna and flora

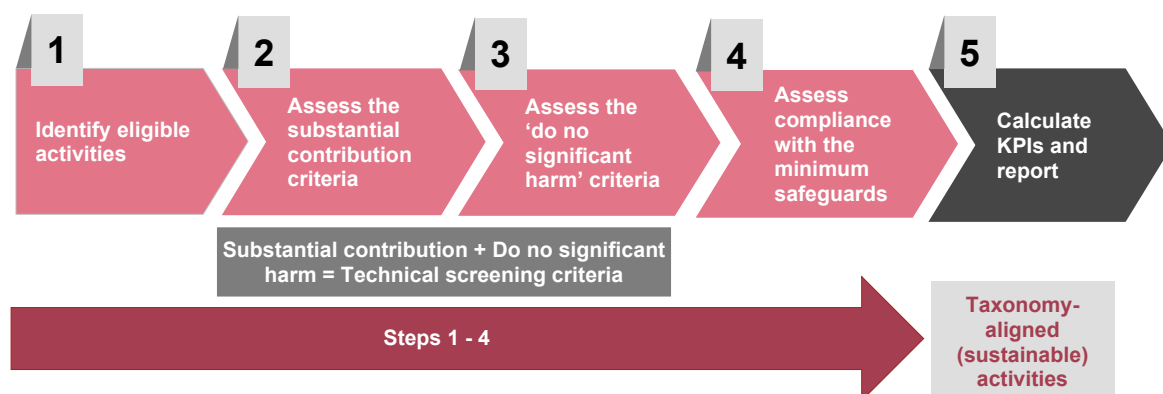
The specific activities identified in the Taxonomy, alongside criteria for determining their substantial contribution to Protection and Restoration of Biodiversity and Ecosystems, are detailed in Annex IV of the Environmental Delegated Act.

19.4 Applying a 5-step approach

As introduced in SRG 19.1, there are several steps necessary to determine which economic activities are sustainable activities that can be included in an entity’s key performance indicators. A 5-step approach, illustrated in Figure SRG 19-10, may be used to fulfill the disclosure requirements of Article 8 of the Taxonomy Regulation.

²³ EU, [Regulation \(EU\) 2020/852](#), Recital 32.

Figure SRG 19-10
The 5-step approach



The substantial contribution criteria and the do no significant harm (DNSH) criteria are together referred to as the 'technical screening criteria'. An activity must meet the technical screening criteria and the minimum safeguards to be considered taxonomy aligned (also referred to as 'environmentally sustainable').

The outcome of the taxonomy assessment is presented in the form of KPIs, representing an entity's share of sustainable activities. The KPIs differ depending on whether the reporting entity is a financial undertaking or a non-financial undertaking; disclosure is required in prescribed templates. See SRG 19.1 for a list of the entities that are financial undertakings.

Refer to SRG 20, *EU Taxonomy reporting — Non-financial entities*, for detailed application guidance of the 5-step approach for non-financial undertakings. Refer to SRG 21, *EU Taxonomy reporting — Financial entities* [coming soon], for financial undertakings.

Question SRG 19-6

Does the evaluation of whether activities are taxonomy aligned need to be performed in a specific order?

PwC response

No. Although the order in Figure SRG 19-10 presents a logical process to assess taxonomy alignment, it may be effective to first focus on any of the criteria an entity does not expect to be able to meet. As soon as one criterion is not met, the economic activity is not taxonomy aligned. Other approaches may also be effective.

19.4.1 Step 1: Identification of eligible activities

An activity must meet the description of an economic activity within the Climate Delegated Act or the Environmental Delegated Act to be taxonomy eligible. Assessing eligibility is the first step to determining taxonomy alignment. That an activity is eligible, however, is not indicative of any specific environmental performance or the sustainability of that activity. Activities that are not eligible, cannot, by definition, be taxonomy aligned.

The Taxonomy is subject to continuous review and development by the European Commission whereby eligible activities will be amended or added. An entity must continue to monitor the list of eligible activities (the relevant delegated acts) for new additions. Conceptually, the European Commission has prioritised the

identification of the most environmentally impactful activities (such as energy production, transport, and manufacturing for the objective of Climate Change Mitigation) in developing the lists of eligible activities to date.

In most cases, the description of eligible activities references NACE codes which indicate the sectors most likely to have the referenced activity.²⁴ An economic activity may still be eligible even if the respective NACE code is not mentioned. See SRG 20.2.2.1 for more information about the effect of NACE codes on taxonomy eligibility.

The annexes of the Climate Delegated Act and Environmental Delegated Act that list all eligible economic activities are structured by sector. Section headings are not intended to imply, however, that the eligible activities apply exclusively to entities operating in a specific sector. Rather, an entity needs to follow the description of the activities to assess whether their activities are taxonomy eligible. In addition, the role or importance of an activity for the business model is not relevant. That is, an activity does not need to be an entity's core activity or generate revenue to be relevant under the Taxonomy.

The excerpt below is an example of how eligible activities are described in the delegated acts.

Excerpt from the [Climate Delegated Act](#), Annex I, Activity 7.1

7.1 Construction of new buildings

Description of the activity

Development of building projects for residential and non-residential buildings by bringing together financial, technical and physical means to realise the building projects for later sale as well as the construction of complete residential or non-residential buildings, on own account for sale or on a fee or contract basis.

The economic activities in this category could be associated with several NACE codes, in particular F41.1 and F41.2, including also activities under F43, in accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006.

Activity descriptions further indicate whether an economic activity is considered enabling or transitional. This categorisation of the type of economic activity is needed in connection with the disclosures related to the calculation of KPIs when the activities are reported in the prescribed templates (see SRG 20.7 for information regarding the templates). How the activity is characterised is based on the type of substantial contribution an economic activity potentially provides. That is, does it allow other activities to make a substantial contribution to an environmental objective (enabling) or is it an activity for which low-carbon alternatives are not yet available that meets certain criteria (transitional).²⁵ Refer to SRG 19.4.2 for details on these activity categories.

19.4.2 Step 2: Assess the substantial contribution criteria

Step 2 is to assess the substantial contribution criteria. That is, whether the eligible activity substantially contributes to at least one of the environmental objectives listed in the Taxonomy Regulation. Substantial contribution is assessed as part of the technical screening criteria, which are specific to each individual

²⁴ NACE codes (Nomenclature des Activités Économiques dans la Communauté Européenne, translated as Nomenclature of Economic Activities in the European Community) are used to identify various statistical classifications of economic activities in the European Union.

²⁵ EU, [Regulation \(EU\) 2020/852](#), Article 10, paragraph 2 and Article 16.

activity. The prescribed criteria for each activity can be found in Annex I and Annex II to the Climate Delegated Act and in Annex I to Annex IV to the Environmental Delegated Act.

There are three basic types of economic activities based on the substantial contribution the respective activity can provide:

□ *Enabling activities*

Activities that indirectly contribute to a given environmental objective by enabling others to make a substantial contribution to an environmental objective

An example is activity 3.3 Manufacture of low carbon technologies for transport under Climate Change Mitigation. By manufacturing electric vehicles, an entity enables the transportation and other sectors to provide transport services with zero direct tailpipe CO₂ emissions.

□ *Transitional activities*

Activities that provide a substantial contribution to Climate Change Mitigation by supporting the transition to a climate-neutral economy under specific circumstances when there is no technologically or economically feasible low-carbon alternative for the respective activity

This type of activity is exclusive to the Climate Change Mitigation objective. An example is activity 3.7 Manufacture of cement, which is a greenhouse gas emission-intensive activity but for which there is currently no low carbon alternative.

□ *Own performance activities*

Activities that directly contribute to a given environmental objective and are neither enabling, nor transitional

The specific contribution depends on the objective in question. An example is activity 4.3 Electricity generation from wind power under Climate Change Mitigation. By generating electricity from wind power, the operator of a wind power plant directly contributes to Climate Change Mitigation by generating renewable energy.

Specific to the Climate Change Adaptation objective, enabling activities are further differentiated between enabling and adapted-enabling activities. This distinction takes into account the specific design of this environmental objective. The difference between the two kinds of enabling activities is whether the economic activity needs to itself be adapted to climate change (adapted-enabling activities) or not (enabling activities). See SRG 20.6 for details on enabling and adapted-enabling activities and how eligibility and alignment are assessed under Climate Change Adaptation.

The following excerpt is an example of how the substantial contribution criteria are described in the annexes to the delegated acts.

Excerpt from the Climate Delegated Act, Annex I, Activity 7.1

Construction of new buildings for which:

1. The Primary Energy Demand (PED), defining the energy performance of the building resulting from construction, is at least 10% lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures implementing Directive 2010/31/EU of the European Parliament and of the Council. The energy performance is certified using an as built Energy Performance Certificate (EPC).

2. For buildings larger than 5,000 m², upon completion, the building resulting from the construction undergoes testing for air-tightness and thermal integrity, and any deviation in the levels of performance set at the design stage or defects in the building envelope are disclosed to investors and clients. As an alternative; where robust and traceable quality control processes are in place during the construction process this is acceptable as an alternative to thermal integrity testing.
3. For buildings larger than 5,000 m², the life-cycle Global Warming Potential (GWP) of the building resulting from the construction has been calculated for each stage in the life cycle and is disclosed to investors and clients on demand.

Question SRG 19-7

How does an entity determine whether activities are enabling or transitional?

PwC response

Whether an economic activity is enabling or transitional is not within the entity's discretion. If an activity is enabling or transitional, it will be noted within the activity description in the respective annexes to the Climate Delegated Act or Environmental Delegated Act. If an activity is not enabling or transitional, it is considered to be an own performance activity.

19.4.3 **Step 3: Assess the 'do no significant harm' criteria**

An entity should ensure that the activity does not significantly harm any of the other five objectives to which it does not provide a substantial contribution by assessing whether the activity complies with all established DNSH criteria.

The DNSH criteria are also assessed as part of the technical screening criteria, which like the substantial contribution criteria, is specific to each individual activity. The prescribed criteria for each activity can be found in Annex I and Annex II to the Climate Delegated Act and in Annex I to Annex IV to the Environmental Delegated Act.

The purpose of this step is to ensure that the substantial contribution to one environmental objective does not come at the expense of any of the other objectives. Depending on the economic activity in question, the European Commission may have decided that the activity does not present a risk to the other objectives. In these cases, it is possible that no DNSH criteria are defined.

The following excerpt is an example of how DNSH criteria are described in the delegated acts.

Excerpt from the Climate Delegated Act , Annex I, Activity 7.1	
(2) Climate change adaptation	The activity complies with the criteria set out in Appendix A to this Annex.
(3) Sustainable use and protection of water and marine resources	<p>Where installed, except for installations in residential building units, the specified water use for the following water appliances are attested by product datasheets, a building certification or an existing product label in the Union, in accordance with the technical specifications laid down in Appendix E to this Annex:</p> <ol style="list-style-type: none"> a. wash hand basin taps and kitchen taps have a maximum water flow of 6 litres/min;

	<p>b. showers have a maximum water flow of 8 litres/min;</p> <p>c. WCs, including suites, bowls and flushing cisterns, have a full flush volume of a maximum of 6 litres and a maximum average flush volume of 3,5 litres;</p> <p>d. urinals use a maximum of 2 litres/bowl/hour. Flushing urinals have a maximum full flush volume of 1 litre.</p> <p>To avoid impact from the construction site, the activity complies with the criteria set out in Appendix B to this Annex.</p>
(4) Transition to a circular economy	<p>At least 70 % (by weight) of the non-hazardous construction and demolition waste (excluding naturally occurring material referred to in category 17 05 04 in the European List of Waste established by Decision 2000/532/EC) generated on the construction site is prepared for reuse, recycling and other material recovery, including backfilling operations using waste to substitute other materials, in accordance with the waste hierarchy and the EU Construction and Demolition Waste Management Protocol. Operators limit waste generation in processes related to construction and demolition, in accordance with the EU Construction and Demolition Waste Management Protocol and taking into account best available techniques and using selective demolition to enable removal and safe handling of hazardous substances and facilitate reuse and high-quality recycling by selective removal of materials, using available sorting systems for construction and demolition waste.</p> <p>Building designs and construction techniques support circularity and in particular demonstrate, with reference to ISO 20887 or other standards for assessing the disassembly or adaptability of buildings, how they are designed to be more resource efficient, adaptable, flexible and dismantlable to enable reuse and recycling.</p>
(5) Pollution prevention and control	<p>Building components and materials used in the construction comply with the criteria set out in Appendix C to this Annex.</p> <p>Building components and materials used in the construction that may come into contact with occupiers emit less than 0,06 mg of formaldehyde per m³ of material or component upon testing in accordance with the conditions specified in Annex XVII to Regulation (EC) No 1907/2006 and less than 0,001 mg of other categories 1A and 1B carcinogenic volatile organic compounds per m³ of material or component, upon testing in accordance with CEN/EN 16516 or ISO 16000-3:2011 or other equivalent standardised test conditions and determination methods.</p> <p>Where the new construction is located on a potentially contaminated site (brownfield site), the site has been subject to an investigation for potential contaminants, for example using standard ISO 18400.</p> <p>Measures are taken to reduce noise, dust and pollutant emissions during construction or maintenance works.</p>
(6) Protection and restoration of biodiversity and ecosystems	<p>The activity complies with the criteria set out in Appendix D to this Annex. The new construction is not built on one of the following:</p> <p>a. arable land and crop land with a moderate to high level of soil fertility and below ground biodiversity as referred to the EU LUCAS survey;</p> <p>b. greenfield land of recognised high biodiversity value and land that serves as habitat of endangered species (flora and fauna) listed on the European Red List or the IUCN Red List;</p> <p>c. land matching the definition of forest as set out in national law used in the national greenhouse gas inventory, or where not available, is in accordance with the FAO definition of forest.</p>

19.4.4 Step 4: Assess compliance with the minimum safeguards

Eligible activities also need to comply with specified minimum safeguards to be taxonomy aligned. The minimum safeguards are based on international standards and guidelines addressing human rights, anti-corruption and bribery, taxation, and fair competition. As the objectives delineated by the Taxonomy Regulation to date only address the environment, the minimum safeguards serve to ensure the social and governance elements of ESG are also considered. The minimum safeguards are consistent among all of the environmental objectives and require alignment with the following:

- [OECD Guidelines for Multinational Enterprises on Responsible Business Conduct](#)
- [UN Guiding Principles on Business and Human Rights](#), including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and [International Bill of Human Rights](#)

See SRG 19.2.5 for details regarding these standards.

19.4.5 Step 5: Calculate and report KPIs

Once an entity has identified its taxonomy-eligible and taxonomy-aligned activities, it needs to calculate and disclose specific KPIs based on these activities in its sustainability statement.

The KPIs for a non-financial entities are based on net turnover, capital expenditures, and operating expenditures. The KPIs for financial entities focus on generated income and investments and vary by type of financial entity. See SRG 20.5 for details regarding the calculation of KPIs for non-financial entities. See SRG 21, *EU Taxonomy reporting — Financial entities* [coming soon], for details regarding the calculation of KPIs for financial entities.

The Disclosures Delegated Act mandates the use of standardised reporting templates to present the KPIs, ensuring comparability among entities and sectors.

These templates must be reported along with qualitative disclosure including, for example, an entity's policy on how the KPIs are determined, explanations of how the technical screening criteria are met, and contextual information, such as disaggregated information about the components of the KPIs.

Acknowledgements

The *Sustainability reporting guide* represents the efforts and ideas of many individuals within PwC. The following individuals served as primary authors or technical reviewers for this chapter:

Rasmus Evensen
Peter Flick
Heather Horn
Andreas Ohl
Dennis Pietzka
Nina Schäfer
Mikael Scheja
Olivier Scherer
Martin Wolfgang Schönberger
Hugo van den Ende
Valerie Wieman
Katie Woods

We are also grateful to others whose contributions enhanced the quality and depth of this guide.