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Commissioner for Implementation and
Simplification
Mr Valdis Dombrovskis
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January 9th, 2025

Simplifications regarding Taxonomy reporting

Dear Commissioner Albuquerque,
Dear Commissioner Dombrovskis,

the Institut der Wirtschaftsprüfer in Deutschland e.V. [Institute of Public Auditors in Germany, Incorporated Association] (IDW) is a privately run organisation established to serve the interests of its members who comprise both individual Wirtschaftsprüfer [German Public Auditors] and Wirtschaftsprüfungsgesellschaften [German Public Audit firms]. The IDW is representing around 80% of all German Public Auditors. The auditing profession contributes to the green transformation, e.g. through providing high-quality assurance on sustainability reporting. Therefore, auditors take a close look to recent developments in this regard.

The European Council reaffirmed in the Budapest Declaration its intent for a drastic reduction of administrative, regulatory and reporting burdens for European companies as this has been identified as a central issue for the competitiveness of the European economy. In this context, the development of targeted proposals on reducing reporting requirements by at least 25 % in the

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first half of 2025 was set as a key objective in ensuring a clear, simple and smart regulatory framework for businesses.

Regarding reporting requirements, the legal framework for sustainability reporting – namely the Corporate Sustainability Reporting Directive (CSRD) and in the EU Taxonomy Regulation (Taxonomy) – is currently perceived by companies as a particular burden. Even if companies do understand and accept the central importance of the transformation to a sustainable European economy, the question arises as to whether the scope and depth of detail of the reporting requirements contribute to the achievement of this goal in an appropriate manner.

The CSRD and the Taxonomy are new and very comprehensive sets of rules. Their implementation is particularly challenging because the legal texts are subject to considerable interpretation uncertainties. Against this background, we welcome the development of Questions and Answers (FAQs) by the European Commission and EFRAG to support companies in implementing the new regulations. Many of these FAQs are helpful; however, some of them represent views that appear to go beyond the legal texts or create inconsistencies with earlier FAQs. We have highlighted some of the FAQs of the European Commission regarding Taxonomy reporting where this is the case in the annex to this letter.

These particular FAQs are problematic for reporting undertakings not only because they can lead to significant administrative effort in themselves, but also because undertakings have already adjusted their reporting systems on the basis of the binding legal texts or earlier sets of FAQs. Against the background of current efforts to reduce reporting burdens – as announced in the Budapest Declaration – this seems contradictory.

In accordance with article 34 of the Accounting Directive as amended by the CSRD, assurance practitioners express an opinion as regards the compliance with the reporting requirements provided for in Article 8 of Regulation (EU) 2020/852 as part of providing assurance on the sustainability reporting and the disclosures in accordance with the Taxonomy Regulation contained therein. If there is room for interpretation of the binding legal texts, FAQs can play an important role to inform our assessment. But if reporting undertakings derive a consistent and coherent interpretation of the binding legal texts which differs from the understanding presented in the European Commission's recent FAQs, there are no compelling grounds for a qualification of our assurance opinion. We acknowledge that the European Commission shares the intended meaning of the binding legal texts through FAQs, however, if the intended approach

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requires an interpretation that goes beyond the legal texts and/or contradicts other FAQs, the FAQs can hardly be the basis for the modification of an audit opinion.

If the understanding of certain provisions presented in the recent FAQs is of essential importance or based on shortcomings identified in the legal texts itself, we see an urgent need for the legislator to adjust the Taxonomy Regulation and the complementary Delegated Acts accordingly. This would not only bring legal certainty to reporting undertakings but would also put those requirements through the ordinary legislative procedure. Both legal certainty and the democratic due process are in our view essential elements for sustainably reducing the administrative burden.

We hope that you find our detailed examples in the annex to this letter helpful. We would be happy to answer any questions you may have and would welcome the opportunity to discuss our views in a meeting.

With regard to the announced EU initiative to reduce sustainability reporting burdens for undertakings, we will send you another letter with proposals shortly.

Kind regards

Melanie Sack

Dr. Daniel P. Siegel

Annex

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1. Should a consolidated sustainability reporting also provide subsidiary level Taxonomy KPIs?

i. Background

In accordance with Article 8 of Regulation (EU) 2020/852 ("Taxonomy Regulation"), any undertaking that is subject to an obligation to publish information pursuant to Article 19a or Article 29a of Directive 2013/34/EU ("Accounting Directive") shall include in its sustainability reporting or consolidated sustainability reporting information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable economic activities in accordance with Article 3 and Article 9 of the Taxonomy Regulation.

The Taxonomy Regulation itself does not contain any further specification regarding consolidated reporting in accordance with Article 8. The Commission Delegated Regulation (EU) 2021/2178 ("Disclosure Delegated Act") deals with consolidated reporting on a selective basis: According to this, the taxonomy KPIs must be disclosed at group level if the undertaking prepares consolidated non-financial statements or consolidated sustainability reports.¹

ii. Understanding presented in European Commission's recent FAQs

The answer to question 12 of the Commission Notice C/2023/305² ("second Commission Notice") ("Where a reporting undertaking is required to provide consolidated KPIs, should it also provide KPIs of its subsidiaries?")³ states the following:

¹ See Annex I, Chapter 2(f) of the Disclosure Delegated Act on consolidated reporting by non-financial undertakings, Annex III, Chapter 2(g) of the Delegated Act on Article 8 of the Taxonomy Regulation on consolidated reporting by asset managers and Annex V, Chapter 1.1.1 of the Disclosure Delegated Act on consolidated reporting by credit institutions. With regard to the reporting of credit institutions, it is stated that they shall disclose the relevant KPIs on the basis of the scope of their prudential consolidation determined in accordance with Title II, Chapter 2, Section 2 of Regulation (EU) No 575/2013. In the annexes for investment firms, insurance undertakings and reinsurance undertakings, no statement is made on reporting at group level.

² Commission Notice on the interpretation and implementation of certain legal provisions of the Disclosures Delegated Act under Article 8 of EU Taxonomy Regulation on the reporting of Taxonomy-eligible and Taxonomy-aligned economic activities and assets (second Commission Notice) (C/2023/305).

³ In question 8 of the Commission Notice on the interpretation and implementation of certain legal provisions of the Disclosures Delegated Act under Article 8 of the EU Taxonomy Regulation on the reporting of Taxonomy-eligible and Taxonomy-aligned economic activities and assets (third Commission Notice) (C/2024/6691), reference is made to questions 11 and 12 of the second Commission Notice.

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“Article 29a of the Accounting Directive requires parent undertakings of large groups to publish a consolidated sustainability reporting at the level of the group. The objective is to report information necessary to understand the group's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the group's development, performance and position. Under paragraph (4) of Article 29a of the Accounting Directive as amended by CSRD, if the parent undertaking identifies significant differences between the risks or impacts of the group and the risks or impacts of one or more of its subsidiaries, the parent must provide an adequate understanding of the risks and impacts of these subsidiaries. The parent undertakings must also indicate which subsidiaries included in the consolidation are exempted from annual or consolidated sustainability reporting pursuant to paragraph (9) of Article 19a or paragraph (8) of Article 29a respectively. In such situations, the consolidated sustainability reporting should also provide subsidiary level Taxonomy KPIs in the contextual information.” (emphasis added)

iii. Our understanding

According to the Disclosure Delegated Act, an undertaking subject to an obligation to publish information pursuant to or Article 29a of the Accounting Directive has to publish a consolidated reporting in accordance with Article 8 Taxonomy Regulation on group level.

The Taxonomy Regulation does not contain an analogous provision to Article 29a (4) of the Accounting Directive as amended by the Directive (EU) 2022/2464 (“CSRD”). There is also no direct application requirement for Article 29a (4) of the Accounting Directive as amended by the CSRD, as Taxonomy Regulation merely refers to the provisions of Articles 19a and 29a of the Accounting Directive in its scope of application. It should also be noted that Article 29a (4) of the Accounting Directive as amended by the CSRD requires the reporting parent undertaking to “provide an adequate understanding of, as appropriate, the risks for, and impacts of, the subsidiary undertaking or subsidiary undertakings concerned” and does not require the reporting parent undertaking to include the disclosures of the included subsidiary undertaking on an individual level. (With regard to the question whether a reporting parent undertaking needs to include the disclosures of the included subsidiary undertaking on an individual level, if this subsidiary undertaking is exempted from reporting on an individual level we refer to the second example).

Therefore, our understanding based on the binding legal text is that there is no obligation to provide subsidiary level Taxonomy KPIs in a consolidated

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sustainability report. However, undertakings are free to provide corresponding voluntary disclosures in a consolidated sustainability report where they consider that this is relevant to investors to gain a better understanding of the entity's taxonomy position.

This understanding is in line with the European Commission's first Q&A document from December 2021.⁴ The answer to question 4 of the Q&A document ("How should mixed groups composed of financial and non-financial undertakings, or with diversified and multiple lines of activities report?") states the following:

"Undertakings that have to prepare a non-financial statement in accordance with Chapter 6 of the Article 19a of the Accounting Directive (2013/34/EU), or where applicable, a consolidated non-financial statement according to Article 29a of that Directive, should comply with the disclosure requirements of Article 8 of the Taxonomy Regulation. In the case of the latter, the information should be disclosed on a consolidated basis. [...] Consolidated non-financial statement disclosures should be based on the same consolidation principles that apply to the group's financial reporting under the applicable accounting principles, in order to ensure comparability of this reporting with the group's financial information."
(emphasis added)

2. Are subsidiaries only exempted from making Taxonomy-related disclosures under Article 8 (1) on an individual level if those disclosures of the exempted undertaking are included in the consolidated sustainability report?

i. Background

In accordance with Article 8 of the Taxonomy Regulation, any undertaking that is subject to an obligation to publish information pursuant to Article 19a or Article 29a of the Accounting Directive shall include in its sustainability reporting or consolidated sustainability reporting information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable economic activities in accordance with Article 3 and Article 9 of the Taxonomy Regulation.

⁴ European Commission, FAQs: 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?, available at: https://finance.ec.europa.eu/document/download/e20a2929-e39f-4087-997c-9c35bebd2b06_en?filename=sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq_en.pdf (last accessed: 18 December 2024).

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According to Article 19a (Article 29a) an undertaking (a parent undertaking) can be exempted from that obligation, if that (parent) undertaking is a subsidiary and if that (parent) undertaking and its subsidiary undertakings are **included** in the management report/ a separate report of another undertaking which is in accordance with the requirements.

ii. Understanding presented in European Commission's recent FAQs

The answer to question 11 of the second Commission Notice (“Can a subsidiary falling within scope of the NFRD/CSRD be exempted from making Taxonomy related disclosures if its parent undertaking discloses Taxonomy-related information at consolidated level where required or on a voluntary basis?”)⁵ states the following:

“Currently, undertakings that are exempt from publishing non-financial information pursuant to paragraph (3) of Article 19a and paragraph (3) of Article 29a of the Accounting Directive are also exempted from making Taxonomy related disclosures under Article 8(1) of the Taxonomy Regulation, if the conditions in those provisions are met (i.e. the Taxonomy-related disclosure of the exempted undertaking is included in the consolidated non-financial statement, or a separate report, of another (parent) undertaking). [...] The CSRD introduces similar exemptions in paragraph (9) of Article 19a and paragraph (8) of Article 29a of the Accounting Directive [...]” (emphasis added)

iii. Our understanding

According to Article 19a (9) of the Accounting Directive as amended by the CSRD⁶ there are two ways of exemption from an obligation to publish information pursuant to Article 19a

1. provided that the conditions set out in the second subparagraph of Article 19a (9) are met, an undertaking which is a subsidiary undertaking shall be exempted from the obligations set out in paragraphs 1 to 4 of this Article (“the exempted subsidiary undertaking”) if such an undertaking and its subsidiary undertakings are **included** in the consolidated management report of a parent undertaking, drawn up in accordance with Articles 29 and 29a of the Accounting Directive,

⁵ In question 8 of the third Commission Notice, reference is made to questions 11 and 12 of the second Commission Notice.

⁶ The exemption rules according to Article 29a (8) of the Accounting Directive amended by the CSRD are similar. Therefore, only Article 19a (9) is discussed here.

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2. provided that the conditions set out in the second subparagraph of Article 19a (9) are met, an undertaking which is a subsidiary undertaking of a parent undertaking that is established in a third country shall also be exempted from the obligations set out in paragraphs 1 to 4 of this Article where such an undertaking and its subsidiary undertakings are **included** in the consolidated sustainability reporting of that parent undertaking that is established in a third country and where that consolidated sustainability reporting is carried out in accordance with the sustainability reporting standards adopted pursuant to Article 29b or in a manner equivalent to those sustainability reporting standards.

First way of exemption: being included in the consolidated management report drawn up in accordance with Article 29 and 29a of the Accounting Directive

According to Article 29 (1) of the Accounting Directive the consolidated management report shall, as a minimum, in addition to any other information required under other provisions of this Directive, set out the information required by Articles 19 and 20, taking account of the essential adjustments resulting from the particular characteristics of a consolidated management report as compared to a management report in a way which facilitates the assessment of the position of the undertakings included in the consolidation taken **as a whole**. An undertaking being **included** in the consolidated management report of another undertaking therefore means, that the included undertaking is regarded as part of the group of the other undertaking, therefore is part of the group disclosures of the other undertaking and the report of the other undertaking does not mandatorily have to include the disclosures of the included undertaking on an individual level.⁷

According to Article 29a (1) of the Accounting Directive as amended by the CSRD the parent undertakings of a large group as referred to in Article 3 (7) shall include in the consolidated management report information necessary to understand the **group's** impacts on sustainability matters, and information necessary to understand how sustainability matters affect the **group's** development, performance and position. An undertaking being **included** in the consolidated management report of another undertaking therefore means, that the

⁷ The same understanding of an undertaking being included is seen with regard to the consolidated financial statements: According to Article 24 (2) of the Accounting Directive, the assets and liabilities of undertakings **included** in a consolidation shall be incorporated in full in the consolidated balance sheet. Consolidated financial statements shall show the assets, liabilities, financial positions, profits or losses of the undertakings included in a consolidation (therefore after elimination of business transactions between the undertakings included) as if they were a single undertaking (Article 24 (7)).

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included undertaking is regarded as part of the group of the other undertaking, therefore is part of the group disclosures of the other undertaking and the consolidated management report does not have to include the disclosures of the included undertaking on an individual level. This is also the understanding of consolidated sustainability reporting as presented in the Commission Delegated Regulation (EU) 2023/2772 (“ESRS”).⁸

As the reporting parent undertaking is subject to an obligation to publish information pursuant to Article 29a (1) of Accounting Directive as amended by the CSRD it prepares taxonomy reporting at group level (see example 1) in which the exempted subsidiary is included. Therefore, our understanding based on the binding legal text is that there is no obligation to include the Taxonomy-related disclosure of the exempted undertaking additionally on a legal-entity basis. However, undertakings are free to provide corresponding voluntary disclosures in a consolidated sustainability report where they consider that this is relevant to investors to gain a better understanding of the entity's taxonomy position.

This understanding is in line with the European Commission’s first Q&A document from December 2021.⁹ The answer to question 4 of the Q&A document (“How should mixed groups composed of financial and non-financial undertakings, or with diversified and multiple lines of activities report?”) states the following:

“Undertakings that have to prepare a non-financial statement in accordance with Chapter 6 of the Article 19a of the Accounting Directive (2013/34/EU), or where applicable, a consolidated non-financial statement according to Article 29a of that Directive, should comply with the disclosure requirements of Article 8 of the Taxonomy Regulation. In the case of the latter, the information should be disclosed on a consolidated basis. [...] Consolidated non-financial statement disclosures should be based on the same consolidation principles that apply to the group’s financial reporting under the applicable accounting principles, in order to ensure comparability of this reporting with the group's financial information. In addition, the exemption to subsidiary undertakings - when the parent undertaking is reporting at group level according to Article 29a of the Accounting

⁸ According to ESRS 1.62 the sustainability statement shall be for the same reporting undertaking as the financial statements. For example, if the reporting undertaking is a parent company required to prepare consolidated financial statements, the sustainability statement will be for the **group**.

⁹ European Commission, FAQs: 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?, available at: https://finance.ec.europa.eu/document/download/e20a2929-e39f-4087-997c-9c35bebd2b06_en?filename=sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq_en.pdf (last accessed: 18 December 2024).

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Directive - also applies to disclosures under Article 8 of the Taxonomy Regulation." (emphasis added)

Second way of exemption: being included in the consolidated sustainability reporting of a third country parent undertaking carried out in accordance with the sustainability reporting standards adopted pursuant to Article 29b¹⁰

According to Article 29a (8) second subparagraph, letter c) if the parent undertaking is established in a third country, the disclosures laid down in Article 8 of the Taxonomy Regulation covering the activities carried out by the exempted subsidiary undertaking established in the European Union and its subsidiary undertakings, are included in the management report of the exempted subsidiary undertaking, or in the consolidated sustainability reporting carried out by the parent undertaking established in a third country.

As the reporting parent undertaking is – in contrast to the first way of exemption – not subject to an obligation to publish information pursuant to Article 29a (1) of Accounting Directive as amended by the CSRD, it is not obliged to prepare a taxonomy reporting at group level in which the exempted subsidiary is included. In this case the obligation to include the Taxonomy-related disclosures of the exempted undertaking is justified, but does not change our understanding as regards the first way of exemption.

3. Should reporting parent undertakings report their group-level KPI in the form of a weighted average and do they have to separately consolidate the activities of their financial and non-financial subsidiaries?

i. Background

The Disclosure Delegated Act differentiates between "financial undertakings" and "non-financial undertakings".

Non-financial undertakings as defined in the Disclosure Delegated Act are undertakings that are subject to the disclosure obligations laid down in Articles 19a and 29a of the Accounting Directive and are not financial undertakings as defined in Article 1 No. 8 (see Article 1 No. 9 of the Disclosure Delegated Act).

¹⁰ There is no reference made to preparing the consolidated sustainability reporting in a manner equivalent to those sustainability reporting standards, as there has not been a determination in accordance with an implementing act on the equivalence of sustainability reporting standards adopted pursuant to the third subparagraph of Article 23(4) of Directive 2004/109/EC.

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Financial undertakings as defined in the Disclosure Delegated Act are undertakings that are subject to the disclosure obligations laid down in Articles 19a and 29a of the Accounting Directive and

- an asset manager,¹¹
- a credit institution as defined in Article 4 (1) No. 1 of Regulation (EU) No. 575/2013 ("CRR"),
- an investment firm as defined in Article 4 (1) No. 2 of the CRR,
- an insurance undertaking as defined in Article 13 No. 1 of Directive 2009/138/EC ("Solvency II Directive") or
- a reinsurance undertaking as defined in Article 13 No. 4 of the Solvency II Directive

(see Article 1 No. 8 of the Disclosure Delegated Act).

ii. Understanding presented in European Commission's recent FAQs

In question 7 of the Commission Notice C/2024/6691¹² ("third Commission Notice") ("Which KPIs should be reported by parent undertakings of groups, such as financial conglomerates, that have several activities and business segments at group level such as asset management, investment firm, insurance, and banking activities?") the European Commission states:

"The parent entities of financial conglomerates should follow the prudential scope of consolidation for their activities that fall under prudential regulation and report at group level the consolidated KPIs of their respective business segments. For example, reporting parent undertakings of a financial conglomerate with business segments related to asset management, banking, investment firms or insurance activities carried out by their subsidiaries should report those activities at the consolidated level. Hence, they should report:

¹¹ According to Article 1 No. 7 of the Disclosure Delegated Act an asset manager is an undertaking that is subject to the disclosure obligations laid down in Articles 19a and 29a of the Accounting Directive and that meets one of the following descriptions: a) an alternative investment fund manager (AIFM) as defined in Article 4 (1) lit. b of Directive 2011/61/EU; b) a management company as defined in Article 2(1)(b) of Directive 2009/65/EC; c) an investment company authorised in accordance with Articles 27, 28 and 29 of Directive 2009/65/EC which has not designated for its management a management company authorised in accordance with Articles 6, 7 and 8 of that Directive.

¹² Commission Notice on the interpretation and implementation of certain legal provisions of the Disclosures Delegated Act under Article 8 of the EU Taxonomy Regulation on the reporting of Taxonomy-eligible and Taxonomy-aligned economic activities and assets (third Commission Notice) (C/2024/6691)

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- *KPIs referred to in Annexes III and IV DDA consolidated for their asset management activities performed by subsidiaries that are alternative investment fund managers (AIFMs) or UCITS management companies (asset managers);*
- *KPIs referred to in Annexes V and VI DDA consolidated for their banking activities performed by subsidiaries that are credit institutions;*
- *KPIs referred to in Annexes VII and VIII DDA consolidated for their investment firm activities, performed by subsidiaries that are investment firms; and*
- *KPIs referred to in Annexes IX and X DDA consolidated for their insurance and reinsurance undertaking activities performed by subsidiaries that are insurance or reinsurance undertakings*

Moreover, to fulfil their requirements of reporting at group consolidated level and facilitate the Taxonomy disclosures by their investors and creditors [...], the reporting parent undertakings should compute, and publish in the contextual disclosures referred to in Annex XI DDA, a consolidated group-level KPI in the form of a weighted average of the corresponding KPIs for, where applicable, asset management, banking, investment, and insurance and reinsurance activities with weightings in accordance with the proportion of turnover derived from the corresponding activities in the total consolidated turnover of the conglomerate.". (emphasis added)

In question 9 of the third Commission Notice ("What KPIs should be reported by a reporting parent undertaking which has different types of non-financial and financial subsidiaries?"),¹³ the European Commission states:

"A parent reporting undertaking which has financial and non-financial subsidiaries should:

- *consolidate the activities of its financial subsidiaries and report the corresponding KPIs pertaining to financial undertakings as clarified in responses to questions 2, 7 and 9 of this Notice, and,*
- *separately, consolidate the activities of its non-financial subsidiaries and report corresponding KPIs pertaining to non-financial undertakings as clarified in responses to questions 9 to 12 of the second Commission Notice.*

Moreover, to fulfil their requirements to report at group consolidated level and facilitate the Taxonomy disclosures by their investors and creditors [...], the

¹³ In question 8 of the third Commission Notice, reference is made to questions 11 and 12 of the second Commission Notice.

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reporting parent undertakings should compute, and publish in the contextual disclosures referred to in Annex XI DDA a consolidated group-level KPI in the form of a weighted average of:

- *the KPIs, turnover-based and CapEx-based respectively, related to financial economic activities following the approach laid down in the response to question 3 of this Notice with weightings for those KPIs corresponding to the proportion of turnover derived from the financial economic activities in the total consolidated turnover of the group, where applicable, for asset management, banking, investment, and insurance and reinsurance activities; and*
- *the consolidated turnover and CapEx KPIs, respectively, related to non-financial economic activities with weights corresponding to the proportion of turnover derived from those activities in the total consolidated turnover of the group" (emphasis added)*

iii. Our understanding

The respective disclosure requirements and the templates to be used for reporting are determined by the type of undertaking in the Disclosure Delegated Act. For example, non-financial undertakings disclose the information specified in Article 8 of the Taxonomy Regulation in accordance with Annex I of the Disclosure Delegated Act using the templates in Annex II.¹⁴ On the other hand, credit institutions disclose the information referred to in Article 8 of the Taxonomy Regulation in accordance with Annexes V and XI of the Disclosure Delegated Act and use the templates in Annex VI. Insurance and reinsurance undertakings disclose the information referred to in Article 8 of the Taxonomy Regulation in accordance with Annexes IX and XI of the Disclosure Delegated Act and use the templates in Annex X.

Therefore, our understanding based on the binding legal text is that according to the provisions of the Disclosure Delegated Act for consolidated reporting, the type of reporting undertaking determines the disclosures to be made and the templates to be used. Based on the binding legal text there are no further disclosure obligations, e.g. reporting the group-level KPI in the form of a weighted average. However, undertakings are free and encouraged to provide corresponding voluntary disclosures.

¹⁴ See Article 2 of the Delegated Act on Art. 8 of the Taxonomy Regulation.

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This understanding is in line with the European Commission's first Q&A document from December 2021.¹⁵ The answer to question 4 of the Q&A document ("How should mixed groups composed of financial and non-financial undertakings, or with diversified and multiple lines of activities report?") states the following:

"Consolidated non-financial statement disclosures should be based on the same consolidation principles that apply to the group's financial reporting under the applicable accounting principles, in order to ensure comparability of this reporting with the group's financial information. [...] Therefore, if the parent of a group is a financial company, then the consolidated reporting shall be made as a financial undertaking." (emphasis added)

"The consolidated financial statements could include segmental reporting, which can be mirrored in the consolidated non-financial statement. Entities are free to provide additional voluntary disclosures where they consider that this is relevant to investors to gain a better understanding of the entity's taxonomy-eligibility for the first year of reporting and taxonomy-alignment thereafter." (emphasis added)

4. Do financial undertakings have to comply with minimum safeguards in conducting their activities or is compliance with minimum safeguards only relevant at the level of the investee company?

i. Background

According to Article 3 of the Taxonomy Regulation an economic activity shall qualify as environmentally sustainable where that economic activity – among other conditions – is carried out in compliance with the minimum safeguards laid down in Article 18 of the Taxonomy Regulation.

The rules on the information to be reported by financial undertakings are set out in the Disclosure Delegated Act. According to this, unlike the reporting of non-financial undertakings, which report on their own economic activities, the reporting of financial undertakings predominantly does not relate to the financial company's own economic activities (except non-life insurance and reinsurance

¹⁵ European Commission, FAQs: 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?, available at: https://finance.ec.europa.eu/document/download/e20a2929-e39f-4087-997c-9c35bebd2b06_en?filename=sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq_en.pdf (last accessed: 18 December 2024).

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underwriting activities in Sections 10.1. and 10.2. of Annex II of the Commission Delegated Regulation (EU) 2021/2139 (“Climate Delegated Act”).

ii. Understanding presented in European Commission’s recent FAQs

In question 37 of the third Commission Notice (“Do financial undertakings have to comply with minimum safeguards in conducting their activities or is compliance with minimum safeguards only relevant at the level of the investee company?”) the European Commission states:

“The specific requirement to comply with the minimum safeguards under Article 18 of the Taxonomy Regulation applies to the entity that performs an economic activity and which claims that its activity is Taxonomy-aligned. [...]

Financial undertakings should comply with the minimum safeguards only if the financial services they provide are Taxonomy-eligible and they claim that those services are Taxonomy-aligned. This concerns a small number of activities in Section 6 of Annex I to the Climate Delegated Act on transport, which refers to ‘financing’ as part of the activity description, and non-life insurance and reinsurance underwriting activities in Sections 10.1. and 10.2. of Annex II to the Climate Delegated Act.” (emphasis added)

iii. Our understanding

Non-life insurance and reinsurance underwriting activities in Sections 10.1. and 10.2. of Annex II to the Climate Delegated Act are the only activities carried out by financial undertakings themselves that are relevant for taxonomy reporting. In other cases, the financial undertaking reports about activities carried out by other undertakings. For instance, according to section 1.2.1 of Annex V of the Disclosure Delegated Act the GAR shall show the proportion of the credit institution’s assets financing and invested in taxonomy-aligned economic activities as a proportion of total covered assets in accordance with point 1.1.2 of the same Annex.

Therefore, our understanding based on the binding legal text is that – with the exemption of non-life insurance and reinsurance underwriting activities in Sections 10.1. and 10.2. of Annex II – financial undertakings do not claim that their financing activities are taxonomy-aligned. This is because they do not report their own activities but rather the activities of other undertakings. Therefore – with the exception of non-life insurance and reinsurance underwriting activities in Sections 10.1. and 10.2. of Annex II – there is no obligation for financial

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undertakings based on the binding legal text to comply with minimum safeguards in conducting their activities for reporting taxonomy alignment.

5. Should insurance undertakings provide their Taxonomy disclosures based on regulatory or accounting level of group consolidation?

i. Background

According to Section 1.1.1 of Annex V of the Disclosure Delegated Act credit institutions shall disclose relevant KPIs on the basis of the scope of their prudential consolidation determined in accordance with Regulation (EU) No 575/2013, Title II, Chapter 2, Section 2. There is no reference to prudential consolidation for other undertakings than credit institutions in the Disclosure Delegated Act.

ii. Understanding presented in European Commission's recent FAQs

In question 2 of the third Commission Notice ("Should reporting financial undertakings that own other financial undertakings provide their Taxonomy disclosures based on regulatory or accounting level of group consolidation? What is the level of group consolidation of the reporting entity for the purpose of the Taxonomy disclosures?") the European Commission states:

"In accordance with Annex V DDA, point 1.1.1. concerning the consolidation of the relevant KPIs for credit institutions, those institutions 'shall disclose relevant KPIs on the basis of the scope of their prudential consolidation determined in accordance with Regulation (EU) No 575/2013, Title II, Chapter 2, Section 2'. Similarly, where parent undertakings and their subsidiaries are both financial undertakings other than credit institutions and that are subject to prudential regulation (16), they should make their disclosures based on the prudential consolidation." (emphasis added)

Footnote 16 cites the following: Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.2009, p. 1); Directive 2014/65/EU (MiFID); Regulation (EU) No 575/2013 (CRR).

iii. Our understanding

As the Taxonomy Regulation and the Disclosure Delegated Act make reference to the financial reporting rules and the Accounting Directive, financial reporting

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requirements – with the exemption for credit institutions – should be the basis for Taxonomy Reporting.

Therefore, our understanding based on the binding legal text is that there is no obligation for insurance undertakings to provide their Taxonomy disclosures based on prudential consolidation.

This understanding is in line with the European Commission's first Q&A document from December 2021.¹⁶ Question 17 of the Q&A document ("Should insurers and reinsurers consolidate their eligibility disclosures at group-level?") states the following:

„The Disclosures Delegated Act applies to both the non-financial statement and consolidated non-financial statement in accordance with Articles 19a and 29a of the Accounting Directive. For the consolidated non-financial statement, insurers and reinsurers should disclose eligibility information and the accompanying statement on a consolidated basis. The preparation of these disclosures should be based on the same consolidation principles that apply to the group's financial reporting, in order to ensure comparability of this reporting with the group's financial information. The consolidated financial statement could include segmental reporting, which can be mirrored in the consolidated non-financial statement.“
(emphasis added)

¹⁶ European Commission, FAQs: 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?, available at: https://finance.ec.europa.eu/document/download/e20a2929-e39f-4087-997c-9c35bebd2b06_en?filename=sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq_en.pdf (last accessed: 18 December 2024).