

INCEPTION IMPACT ASSESSMENT

Inception Impact Assessments aim to inform citizens and stakeholders about the Commission's plans in order to allow them to provide feedback on the intended initiative and to participate effectively in future consultation activities. Citizens and stakeholders are in particular invited to provide views on the Commission's understanding of the problem and possible solutions and to make available any relevant information that they may have, including on possible impacts of the different options.

TITLE OF THE INITIATIVE	Commission Delegated Regulation on taxonomy-related disclosures by undertakings reporting non-financial information.
LEAD DG (RESPONSIBLE UNIT)	Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), Unit B2 – Sustainable Finance
LIKELY TYPE OF INITIATIVE	Commission Delegated Act
INDICATIVE PLANNING	Q2 2021
ADDITIONAL INFORMATION	https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

The Inception Impact Assessment is provided for information purposes only. It does not prejudice the final decision of the Commission on whether this initiative will be pursued or on its final content. All elements of the initiative described by the Inception impact assessment, including its timing, are subject to change.

A. Context, Problem definition and Subsidiarity Check

Context

In order to meet the EU's [climate and energy targets for 2030](#) and reach the objectives of the [European Green Deal](#), it is fundamental to reorient investments towards sustainable projects and activities. To that end, the lack of a clear definition of 'environmentally sustainable economic activities' presents one of the biggest obstacles, as indicated in the European Commission's [Action Plan on financing sustainable growth](#). The recently adopted [Regulation on the establishment of a framework to facilitate sustainable investment](#) (i.e., 'Taxonomy Regulation') creates a classification system of environmentally sustainable economic activities for investment purposes (i.e., 'EU taxonomy'). This initiative complements the Taxonomy Regulation with a delegated act specifying the requirements for entities subject to the Non-Financial Reporting Directive or NFRD (i.e., large listed undertakings, large banks and large insurance undertakings with more than 500 employees; hereafter, undertakings) to publish information on how and to what extent their activities are associated with the EU taxonomy. The delegated act will be adopted by June 2021 and it is distinct from two other delegated acts under the Taxonomy Regulation that set technical screening criteria for six environmental objectives and are to be adopted by [31 December 2020](#) and 31 December 2021. Importantly, the delegated act will complement the ongoing revision of the NFRD and development of regulatory technical standards by the European Supervisory Authorities under the Regulation on sustainability-related disclosures in the financial services sector (i.e., Disclosure Regulation). Together, these initiatives will interact to help undertakings, financial intermediaries and end-investors enhance capital flows towards environmentally sustainable projects and activities in a consistent manner.

Problem the initiative aims to tackle

This initiative will propose methodologies and indicators to help undertakings determine the extent to which their economic activities can be considered environmentally sustainable according to the EU taxonomy. More transparency about how undertakings' activities are related to the EU taxonomy is necessary for financial market participants to design financial products and portfolios based on this information. Without this clarity, financial intermediaries and investors would not have a commonly accepted way of determining when an undertaking is truly green or making investments in that direction. This could result in some crucial data gaps that could hinder financing those activities considered to make a substantial contribution to the Union's environmental objectives. This represents an obstacle and source of additional costs not only for investors and financial market participants, but also for businesses that want to reorient their economic activities in line with sustainability objectives and attract capital from prospective green investors. Additionally, creating consistency for undertakings to assess their degree of alignment with the EU taxonomy would help improve coherence between the NFRD, Taxonomy Regulation and Disclosure Regulation, enhance consistency of information disclosed by undertakings and limit administrative burden on them.

Basis for EU intervention (legal basis and subsidiarity check)

The delegated act is required under Article 8 of the Taxonomy Regulation, which in turn is based on Article 114 of the Treaty on the Functioning of the European Union as an initiative seeking to improve the functioning of the internal market, in this case pertaining to the market for sustainable investments.

There is a potential lack of clarity on how the activities of certain companies and portfolios of certain financial institutions are related to the EU taxonomy. This could be exacerbated by parallel and uncoordinated attempts by undertakings themselves to report this information to gain a competitive edge or by Member States to develop national disclosure schemes in this area. This could increase fragmentation of the single market for sustainable financial products and create obstacles for market participants to invest in a sustainable way across the EU. Just as the rules on what is an environmentally sustainable economic activity are being harmonised at Union level, disclosure by undertakings of their degree of alignment with the EU taxonomy should be adopted at EU level.

B. Objectives and Policy options

The objective of this initiative is to specify an appropriate set of rules for undertakings under the NFRD to include in their non-financial statements, consolidated non-financial statements or other relevant separate reports, when allowed, information on how and to what extent their operations are associated with economic activities that qualify as environmentally sustainable under the EU Taxonomy. This requirement will apply from 1 January 2022 for the two climate-related objectives of the Taxonomy and from 1 January 2023 for the other four environmental objectives.

The Taxonomy Regulation already specifies that, in particular, non-financial undertakings under the NFRD are legally obliged to disclose:

- The proportion of their turnover derived from products or services associated with environmentally sustainable economic activities.
- The proportion of their total investments (CapEx) and expenditures (OpEx) related to assets or processes associated with environmentally sustainable economic activities.

It will be examined whether these three indicators for non-financial undertakings under the NFRD should be further specified and whether different indicators for financial undertakings under the NFRD (i.e., large banks and insurance companies) should be developed for that purpose. Based on the results of the analysis, the appropriate indicators would be set out in the delegated act together with a methodology that would help undertakings to disclose information according to those indicators.

C. Preliminary Assessment of Expected Impacts

Likely economic impacts

Depending on the uptake of the EU taxonomy and further to the impact assessment underpinning the Taxonomy Regulation, this initiative would contribute to direct investments towards environmentally sustainable economic activities. This delegated act would help investors to better identify and compare those entities that carry out economic activities with a significant positive impact on the environment. This initiative would increase the harmonisation of information that investors and other economic actors can access and use. It would also help companies to signal the taxonomy-alignment of their activities and boost their green credentials in the market for sustainable investments, potentially increasing their ability to raise external financing.

Nevertheless, undertakings under the scope of the NFRD would probably have to face costs to comply with this delegated act:

- Data collection processes would need to be set up or strengthened to gather information according to the EU taxonomy (e.g., relevant NACE codes, technical screening criteria, information on taxonomy-alignment in loan and investment portfolios of banks and insurers).
- Internal accounting systems would need to be set up or strengthened to break down financial and environmental data by economic activity, in line with the EU taxonomy.
- Internal due diligence and/or environmental management systems would need to be set up or strengthened in order to assess their 'performance' (i.e., 'substantial contribution', 'do not significant harm', minimum social safeguards) against the EU taxonomy's technical screening criteria.

Likely social impacts

Depending on the uptake of the EU taxonomy and further to the impact assessment underpinning the Taxonomy Regulation, this initiative may have both positive and negative indirect social impacts. By helping economic actors to direct investments into environmentally sustainable economic activities which are also carried out in accordance with minimum social standards, more harmonised information on the alignment of undertakings with

<p>the EU taxonomy is set to help promote positive social impacts. Together with other policies under the European Green Deal, this could also contribute to changes in specific economic sectors, business models and skill requirements. The impacts will be asymmetrical for Member States, depending on the existing industrial and economic configurations and social challenges linked to the transition process. Importantly, the Taxonomy Regulation requires the Commission to analyse by end-2021 how the EU taxonomy could be extended to cover social objectives.</p>
<p>Likely environmental impacts</p>
<p>Depending on the uptake of the EU taxonomy and further to the impact assessment underpinning the Taxonomy Regulation, this initiative is expected to have positive indirect environmental impacts. By furthering the availability and access to harmonised information on the environmental performance of undertakings, it would allow more capital to be channelled into those economic activities that contribute most to the EU's climate and environmental objectives.</p>
<p>Likely impacts on fundamental rights</p>
<p>This initiative is expected to have positive indirect impacts on fundamental rights. The Taxonomy Regulation is coherent with the EU Charter of Fundamental Rights and includes minimum social safeguards, as laid down in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work, and reflected in the OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, and International Bill of Human Rights.</p>
<p>Likely impacts on simplification and/or administrative burden</p>
<p>This initiative is expected to simplify the challenges investors and other financial market participants would face in accessing information on the degree of taxonomy-alignment of undertakings under the NFRD. As such it is expected to reduce related transaction costs to a significant degree. At the same time, undertakings are expected to face additional costs in collecting, organising and disclosing taxonomy-relevant information.</p> <p>Although we do not foresee direct impacts on SMEs, since these are currently excluded from the NFRD, there might be indirect impacts caused by: (i) non-financial undertakings under the scope of the NFRD requesting taxonomy-specific information from their SME suppliers; and/or (ii) financial undertakings under the scope of the NFRD requesting taxonomy-specific information from SME clients and investees. Moreover, as part of the current revision of the NFRD, the possibility of including more undertakings under its scope is being considered. If the Commission decides to propose an extension of scope of the NFRD, the impact of this extension as regards the requirements of the current initiative, including impacts on SMEs, would be assessed by this impact assessment.</p> <p>Public authorities at EU and national levels will incur some additional costs in monitoring these new disclosure requirements, although these may be counter-balanced by the standardised nature of information on the degree of taxonomy-alignment that undertakings would disclose.</p>
<p>D. Evidence Base, Data collection and Better Regulation Instruments</p>
<p>Impact assessment</p>
<p>An appropriate assessment of impacts is foreseen to accompany this initiative.</p>
<p>Evidence base and data collection</p>
<p>This initiative will benefit from: (i) the impact assessment accompanying the Taxonomy Regulation; (ii) the on-going impact assessment on another delegated act complementing the Taxonomy Regulation, which will determine the conditions under which an economic activity contributes substantially to climate change mitigation and/or adaptation; (iii) the on-going impact assessment on the review of the NFRD; and (iv) the Commission's guidelines on reporting climate-related information. Additionally, to further increase the evidence base at its disposal, the Commission will seek advice notably from the European Supervisory Authorities and from the soon-to-be-launched Platform on Sustainable Finance, which will be composed of experts on this topic.</p>
<p>Consultation of citizens and stakeholders</p>
<p>Consultation activities will be considered to inform the initiative, with the aim of gathering the views of relevant stakeholders and collect quantitative and qualitative data on the expected impacts, costs and benefits of the methodology and indicators proposed. The following stakeholder groups will be targeted by the consultation activities: (i) Member States, EU bodies and international partner organisations; (ii) undertakings subject to the NFRD; (iii) investor groups, buy-side investors and other financial market participants; and (iv) civil society.</p>
<p>Will an Implementation plan be established?</p>

As the Delegated Act does not have to be transposed, an implementation plan is not foreseen. However, if deemed necessary, additional Commission guidance on the application and use of the disclosure requirements for companies according to the EU taxonomy may be considered.