European Union regulations beyond CSRD

November 2023

What's inside

The European Green Deal is a package of policy initiatives introduced by the European Commission (EC) in December 2019. The Green Deal's objectives are to achieve "no net emissions of greenhouse gases by 2050, economic growth decoupled from resource use, and no person and no place left behind."[1] To deliver on these objectives, sustainable finance has been identified as a key differentiator, meaning that regulators believe that sustainability factors should be considered when financial and investment decisions are made, which they believe will lead to "more long-term investments in sustainable economic activities and projects."[2]

What makes these regulations different from prior EU directives is that the disclosure requirements extend to the operations of non-EU companies. And in some cases, an EU subsidiary would have to submit sustainability information for its non-EU parent company on a global consolidated basis. The mechanisms introduced by the Green Deal, and its February 2023 supplement, the EU Green Deal Industrial Plan, are designed to provide investors and other stakeholders with transparent sustainability information.

Many companies are already focused on one aspect of the Green Deal — the Corporate Sustainability Reporting Directive (CSRD). But the CSRD is far from the only European Union (EU) regulation needing immediate attention. This publication details several other pressing and broadly applicable EU regulations that would also be newly applicable — or possibly already applicable — for both EU and non-EU companies.

This publication summarizes certain regulations that include an element of financial reporting or third-party assurance. Note, however, that it does not address all regulations derived or expected under the European Green Deal. Companies should work with counsel to make sure they understand all of the EU regulations with potential impact.

EU Taxonomy	Sustainable Finance Disclosure Regulation (SFDR)	Carbon Border Adjustment Mechanism (CBAM)	Foreign Subsidies Regulation (FSR)	Corporate Sustainability Due Diligence Directive (CSDDD)

In addition, we have issued several publications about the CSRD; the most up-to-date information can be found in our In the loops, Worldwide impact of CSRD - are you ready? and Take the next step — decide how to report under CSRD.

[1] EC, The European Green Deal — Striving to be the first climate-neutral continent
[2] EC, Overview of sustainable finance

	EU Taxonomy	SFDR	CBAM	FSR	CSDDD
Status	Final	Final	Final	Final	Proposed
Primary impact	Disclosure of specified key performance indicators	Disclosure of entity sustainability policies and product sustainability characteristics	Disclosure of emissions transitioning to required purchase of emission certificates	Disclosure related to financial subsidies received from non-EU countries likely to distort the EU single market	Corporate initiatives to protect human rights and the environment in value chains
Scope	Entities subject to the CSRD*	Financial market participants and financial advisors operating in the EU	Specified products imported into the EU	EU deals transactions and public procurement tenders above stated thresholds	EU and non-EU companies that generate revenue above stated thresholds
Location of disclosure	Included with CSRD reporting	A combination of website, pre-contractual agreements, and periodic reporting	Submitted to the EC via an electronic database	New forms submitted to EC	Annual statement on entity website
Assurance	Yes	No, although may be instituted by EU Member States	Yes	No	No
Compliance date	Effective now for certain EU companies; follows CSRD phased-in application for those newly in scope, beginning as soon as 2024	Effective now	Reporting effective now with transition to carbon market in 2026	Effective now	Expected to be applicable in 2026

* EU Taxonomy disclosures are not required in the additional global consolidated reporting for non-EU entities beginning in fiscal year 2028 (reporting in 2029).

The European Green Deal brought a wave of sustainability requirements that have been enacted or proposed. Recognizing the potential challenge of compliance with this volume of regulation, the European Commission has pledged to support companies by reducing reporting obligations at the European level by 25%. On 17 October 2023, the EC adopted a delegated act that would increase the asset and net turnover (revenue) thresholds under the Accounting Directive by 25% to account for inflation, as the size thresholds have not been modified since 2013.[3] The delegated act will now face scrutiny from the European Parliament and Council of the European Union (for two months with a possible two month extension) before going into effect.

In the meantime, for all of these regulations, it is vital that companies determine the applicability, interoperability, and disclosure requirements based on how they are written today.

[3] EC, Delegated Act, Adjusting SME size criteria for inflation.

> The main centre of our work is the EU Taxonomy, a guide to economic activities, their environmental impact and whether they can be considered sustainable.

Mairead McGuinness

European Commissioner for Financial Services, Financial Stability and Capital Markets Union

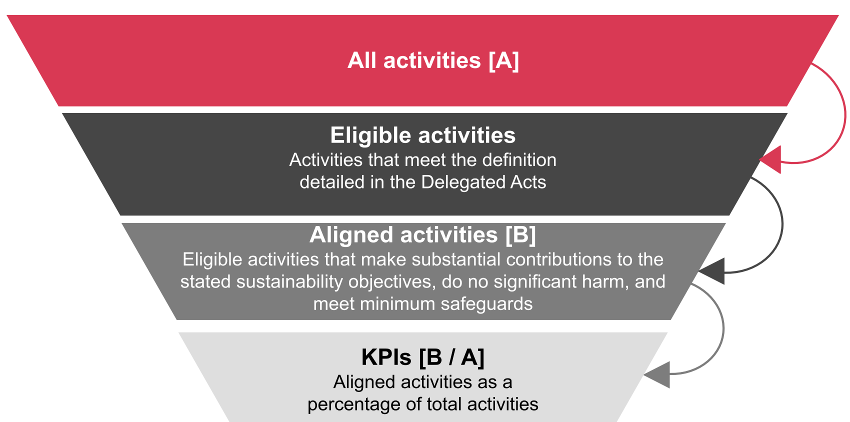
3 November 2022[4]

EU Taxonomy

The EU Taxonomy Regulation imposes new and highly prescriptive disclosure requirements based on six environmental objectives.

Climate change mitigation	Economic activities that contribute substantially to the stabilization of greenhouse gas concentrations by avoiding or reducing emissions, or enhancing emission removals
Climate change adaptation	Economic activities that contribute substantially to reducing the negative effects of the current and expected future climate change, or preventing an increase in the negative effects from climate change
Protection of water and marine resources	Economic activities that contribute substantially to sustainable use and protection of water and marine resources
Transition to circular economy	Economic activities that contribute substantially to the transition to a circular economy and waste prevention and recycling
Prevention of pollution	Economic activities that contribute substantially to pollution prevention and control
Protection of biodiversity and ecosystems	Economic activities that contribute substantially to protecting, conserving, and enhancing biodiversity and ecosystem services

At its core, the EU Taxonomy is a classification system. A subset of a company's activities will qualify as "eligible." And among those, activities that meet specified criteria will be deemed to be EU-Taxonomy aligned.



[4] EC, Speech by Commissioner McGuinness on 'Beyond the Horizon: the Future of Financial Services' at Central Bank of Ireland Financial Services Conference, 3 November 2022.

Based on this evaluation, companies are required to report key performance indicators (KPIs) representing the proportion of their activities that are "environmentally sustainable" — that is, that support the six environmental objectives and are aligned to specified criteria.[5] This transparency is intended to enable and inspire a shift in the direction of capital flows towards a more sustainable economy. The determination of which activities are "environmentally sustainable" (or taxonomy aligned) is complex and requires methodical analysis as discussed below.

Eligible economic activities

Eligible economic activities

For each of the objectives established in the EU Taxonomy, additional delegated acts provide detailed lists of the related eligible economic activities.

- **Climate Delegated Act** (and subsequent amendments) — defines economic activities for the two climate-related environmental objectives[6,7]
- **Environmental Delegated Act** — defines economic activities for the remaining four environmental objectives[8]

It is easy to see how some eligible economic activities support sustainable objectives; for example, the construction of a wind-powered electricity generation facility is listed as an eligible economic activity supporting climate change mitigation and adaptation. See Appendix 1 for the current complete list of eligible economic activities. These lists are a work in progress. The delegated acts prioritized economic activities that can contribute the most to the environmental objectives. More activities will be added, but until they are, activities cannot be considered EU Taxonomy-eligible unless they are identified as such in the delegated acts.

The lists of eligible activities are organized by what is referred to as "sector" (e.g., forestry, manufacturing, energy, construction and real estate activities), which are essentially groupings of economic activities by topic. These headings are not intended to imply that the eligible activities apply exclusively to companies operating in a specific sector. Rather, companies need to read the description of the activities to assess any matches with their own activities in order to determine their eligibility.

The EU Taxonomy Compass, a website maintained by the European Commission, provides a helpful visual presentation of eligible activities in different sectors that are designated as eligible under the environmental objectives.[9]

Aligned economic activities

Aligned economic activities

After determining which of its activities are "eligible," a company needs to apply gating criteria to determine which ones are aligned with the EU Taxonomy. The same delegated acts that identify eligible economic activity also provide "technical screening criteria" to help companies assess whether a particular activity (1) provides a substantial contribution to one or more of the six stated environmental objectives and (2) causes no significant harm to any of the environmental objectives.

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[5] EC, Regulation (EU) 2020/852 as published on 22 June 2020 in the Official Journal of the European Union, L 198, page 13.
[6] EC, Commission Delegated Regulation (EU) 2021/2139 as published on 9 December 2021 in the Official Journal of the European Union, L 442, page 1, as amended.
[7] EC, Commission Delegated Regulation (EU) 2023/2486 as published on 21 November 2023 in the Official Journal of the European Union, L 164, page 1.
[8] EC, Commission Delegated Regulation (EU) 2023/2485 as published on 21 November 2023 in the Official Journal of the European Union, L 69, page 1.
[9] EC: EU Taxonomy Compass.

These technical screening criteria — along with minimum safeguards identified in the EU Taxonomy — must be considered in making the assessment of which activities are EU Taxonomy-aligned.

EU Taxonomy-aligned criteria = Provides a **substantial contribution** to one or more of the six stated environmental objectives + Causes **no significant harm** to any of the environmental objectives + Performance complies with specified **minimum safeguards**[10]

The first two screens are specific to the EU Taxonomy's environmental objectives. While social and governance objectives are expected to be developed, none have yet been published. Ensuring an activity meets the minimum safeguards is intended to prevent environmental objectives from being met at the expense of social well being or appropriate governance.

Appendix 2 provides an example of the process that would be applied to assess whether an eligible activity related to climate change mitigation (freight transport services by road) would qualify as EU-Taxonomy aligned. Companies are encouraged to peruse the delegated acts to understand the criteria applicable to their eligible activities.

On 20 October 2023, the European Commission issued clarifying guidance that companies may report activities that are not material as "not Taxonomy-aligned without any further assessment" if they are not able to ascertain compliance due to a lack of data or evidence, although companies would still need to report their eligible activities in this case.[11]

Scope and timing

EU entities subject to the CSRD are also subject to the EU Taxonomy. It is important to note that some companies that currently report under the EU's Non-financial Reporting Directive (NFRD), the predecessor to the CSRD, are already required to provide Taxonomy disclosures, beginning with fiscal year 2021. But the CSRD has a much broader scope than the NFRD. CSRD reporting generally will be required for companies with debt or equity securities listed on an EU-regulated market as well as companies that are not listed and that are (1) "large" or (2) the parent of a "large" group, as defined. As a result, many companies will come into the scope of the Taxonomy concurrent with their first CSRD report.

See our In the loop, *Worldwide impact of CSRD — are you ready?*, for details regarding the scope of the CSRD.

Timing

Companies are in scope of the CSRD as soon as fiscal year 2024, although those companies are likely already reporting under the Taxonomy by virtue of being in scope of the NFRD. Companies that are in scope of the CSRD for calendar year 2025, reporting in 2026, are expected to be the first round of companies that will newly have to comply with the Taxonomy.

[10] EC, Regulation (EU) 2020/852, L 198, Article 3, page 27.
[11] EC, Commission Notice, as published on 20 October 2023 in the Official Journal of the European Union, page 14.

Disclosure requirements

The Disclosures Delegated Act provides methodology and additional guidance on the disclosure requirements.[12] Companies are required to follow prescribed templates to present their non-eligible activities, eligible activities, Taxonomy-aligned activities, and Key Performance Indicators (KPIs) related to specific types of financial accounts and measures. The KPI represents the ratio of Taxonomy-aligned activities (referred to as sustainable activities) to total activities. By providing the proportion of sustainable activities compared to total activities, the KPIs are intended to allow for comparisons between companies in similar industries and/or with similar economic activities, assisting investors in making informed decisions for investing in a way that supports a sustainable economy.

The KPIs required depend on whether a company is a financial company — referred to as a financial "undertaking" — or not. Financial undertakings in scope are asset managers, credit institutions, investment firms, and insurance or reinsurance undertakings. All other companies are non-financial undertakings.

Due to the lack of eligible criteria, companies in some sectors are unlikely to have many activities that would be deemed eligible under the currently available definitions, which may drive very low KPIs. In these cases, a company may consider providing supplemental explanation.

Non-financial undertakings

The KPIs for non-financial undertakings are derived from the numbers reported in the financial statements, although the definitions often differ from similarly titled captions (e.g., capital expenditures, operating expenditures).

- Net sustainable turnover/revenue as a percent of total net turnover/revenue
- Sustainable capital expenditures as a percent of total capital expenditures
- Sustainable operating expenditures as a percent of total operating expenditures

The KPIs must be accompanied by qualitative disclosures to provide background and context, including the following:

- The nature of their Taxonomy-eligible and Taxonomy-aligned economic activities;
- How turnover, capital expenditures, and operating expenditures were determined and allocated to economic activities;
- Information on the assessment of compliance with the EU Taxonomy;
- The turnover, capital expenditures, and operating expenditures related to any activity that contributes to more than one environmental objective; and
- Contextual information explaining the components of each KPI and the reasons for any changes in those amounts in the reporting period.

Specific considerations for non-financial undertakings in calculating their KPIs are highlighted below.

Net sustainable turnover/revenue

The definition of net turnover for non-financial companies refers to the EU's Accounting Directive and revenue as presented under IFRS® Accounting Standards, specifically in International Accounting Standard (IAS) 1 *Presentation of Financial Statements* paragraph 82(a).[13]

It includes "the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover," but also includes "interest revenue calculated using the effective

[12] EC, Commission Delegated Regulation (EU) 2021/2178 as published on 10 December 2021 in the Official Journal of the European Union, L 443, page 9.
[13] Ibid., Annex I, section 1.1.1, page 17.

interest method and insurance revenue."[14] Companies applying other accounting frameworks, such as US GAAP or local GAAP, could use revenue as reported under those frameworks.

Sustainable capital expenditures (CapEx)

The definition of capital expenditures used in the EU Taxonomy differs in some respects from how this term may be used in the financial statements. The Disclosures Delegated Act defines capital expenditures as follows:

> Additions to tangible and intangible assets during the financial year considered before depreciation, amortisation, and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes. The denominator shall also cover additions to tangible and intangible assets resulting from business combinations.[15]

The delegated act also clarifies that this definition includes additions pursuant to IFRS 16, *Leases* (i.e., right-of-use assets).[16] All additions that meet this definition are included in "total capital expenditures" in the calculation of the sustainable capital expenditures KPI.

"Sustainable capital expenditures" (i.e., the numerator in the CapEx KPI) includes three components: (1) capital expenditures associated with economic activities determined to be Taxonomy-aligned (see page 4); (2) capital expenditures incurred as part of a plan to increase Taxonomy alignment; and (3) capital expenditures related to Taxonomy-aligned output.

Sustainable CapEx (numerator)	**=**	Related to assets or processes that are associated with Taxonomy-aligned economic activities	**OR**	Part of a plan to expand Taxonomy-aligned economic activities or to allow Taxonomy-eligible economic activities to become Taxonomy-aligned (CapEx plan)	**OR**	Related to the purchase of output from Taxonomy-aligned economic activities and individual measures enabling the target activities to become low-carbon or to lead to GHG reductions within 18 months[17]

To be included as part of a CapEx plan, the company must expect the plan to achieve its objective within five years and the plan must be approved by the management body of the company or its delegate.

Sustainable operating expenditures (OpEx)

Operating expenditures under the EU Taxonomy also differ in some respects from similarly titled totals in the financial statements. Operating expenditures for the purpose of the EU Taxonomy may generally be described as investments that are not capitalized that are incurred to service property, plant, and equipment. Thus, these amounts are mainly viewed as complementing capital expenditures and do not include

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[14] EC, Directive 2013/34/EU as published on 29 June 2013 in the Official Journal of the European Union, L 182, Article 2(5), p 27; EC, Commission Regulation (EU) 2021/2036 as published on 23 November 2021 in the Official Journal of the European Union, L 416, page 74.
[15] EC, Commission Delegated Regulation (EU) 2021/2178, L 443, Annex I, section 1.1.2, p 17.
[16] Ibid.
[17] Ibid., page 18.

other costs associated with operations, such as costs of goods sold and employee and administrative costs.

As defined in the Disclosures Delegated Act, operating expenditures are:

> Direct non-capitalised costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the undertaking or third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets.[18]

A non-financial undertaking that applies local GAAP and does not capitalize right-of-use assets is required to also include all lease costs in its operating expenditures. In addition, intangible assets are specifically referenced in the definition of capital expenditures but not in the definition of operating expenditures. Regardless, we believe expenses to support intangible assets could also be considered operating expenditures.

All costs that meet this definition are included in “total operating expenditures” in the calculation of the sustainable operating expenditures KPI. “Sustainable operating expenditures (i.e., the numerator in the OpEx KPI) includes three components: (1) operating expenditures associated with economic activities determined to be Taxonomy-aligned (see page 4) and certain research and development costs; (2) operating expenditures incurred as part of a qualifying CapEx plan; and (3) operating expenditures related to Taxonomy-aligned output.

Sustainable OpEx (numerator)	**=**	Related to assets or processes associated with Taxonomy-aligned economic activities and direct non-capitalized research and development costs	**OR**	Part of a CapEx plan to expand Taxonomy-aligned economic activities or to allow Taxonomy-eligible economic activities to become Taxonomy-aligned	**OR**	Related to the purchase of output from Taxonomy-aligned economic activities and to individual measures enabling the target activities to become low-carbon or to lead to GHG reductions as well as individual designated building renovation measures within 18 months[19]

The operating expenditures KPI is only required if operating expenditures, as defined, are material to the company’s business model. If not, a company would still disclose total operating expenditures, but would disclose the sustainable operating expenditures as zero, with an explanation that the amount is not material. There is no similar provision that would allow a company to omit the eligible capital expenditures KPI if it is not material to the company’s business model.

[18] EC, Commission Delegated Regulation (EU) 2021/2178, L 443, Annex I, section 1.1.3, p 18.
[19] Ibid., pages 18 and 19.

Financial undertakings

The list of KPIs for financial undertakings is more expansive than that for non-financial undertakings and depends on the type of entity:[20]

Asset managers	• Investments in sustainable activities of investees as a percent of total investments, known as the Green Investment Ratio (GIR)
Credit institutions	• Assets financing and invested in sustainable activities as a percent of total relevant assets, known as the Green Asset Ratio (GAR) • Financial guarantees supporting debt instruments financing sustainable activities as a percent of all financial guarantees • Assets under management from companies financing sustainable activities as a percent of total assets under management • Fees and commission income derived from products and services other than lending associated with sustainable activities as a percent of total fees and commission income other than lending • Trading book portfolio (absolute purchases plus absolute sales) of environmentally sustainable activities as a percent of total absolute purchases plus absolute sales for the trading book portfolio
Investment firms	• Assets associated with Taxonomy-eligible activities as a percent of total assets • Assets associated with Taxonomy-aligned activities as a percent of (1) assets associated with Taxonomy-eligible economic activities and (2) total assets
Insurance / reinsurance undertakings	• Investments directed at funding, or are associated with, sustainable activities as a percent of total investments • Gross premiums written for underwriting activities for sustainable activities as a percent of total gross premiums written

In each case, the Taxonomy-aligned activities would exclude: (1) exposures to central governments, central banks, and supranational issuers (these amounts are also excluded from the denominator); (2) derivatives; and (3) exposures to undertakings that are not subject to the CSRD.

Additional disclosure is required of the components of the numerator (when applicable) and denominator of the key performance indicators to show exposures to and investments in financial and non-financial undertakings, with further separate disclosure of undertakings not subject to the CSRD in the EU and outside the EU. The KPIs will also need to be supplemented by qualitative disclosures that provide insights into the KPIs as well as the impacts to, and evolution of, the business strategy including:

- Contextual information in support of the quantitative indicators;
- Explanations of the nature and objectives of Taxonomy-aligned economic activities and the evolution of the Taxonomy-aligned economic activities over time; and
- Description of compliance with the EU Taxonomy in the business strategy.

Further, credit institutions that are not required to disclose quantitative information for trading exposures will need to disclose qualitative information on the alignment of trading portfolios with the Taxonomy Regulation as well as information in support of

[20] EC, Commission Delegated Regulation (EU) 2021/2178, L 443, Annex IV-X, pages 35-66.

The disclosures required by the EU Taxonomy will be subject to the same assurance requirements as other disclosures under the CSRD.

their strategies and the weight of the financing of Taxonomy-aligned economic activities in their overall activity.

Assurance / verification

The EU Taxonomy disclosures are part of the sustainability statement under the CSRD, meaning they should be presented alongside the disclosures required by the European Sustainability Reporting Standards in a dedicated section of the company's management report. As such, the disclosures will be subject to the same assurance requirements as other disclosures under the CSRD. That is, limited assurance will initially be required, and will progress to reasonable assurance at a future date.

Prior to the CSRD's effective date, there are no EU-wide assurance obligations imposed on the EU Taxonomy disclosures. Individual jurisdictions may establish incremental assurance requirements in the process of transposing the CSRD into local law. For example, while not required by the NFRD, some EU Member States instituted incremental assurance requirements on NFRD disclosures.

Learn more

To assist preparers, the European Commission released frequently asked questions relating to the application of the EU Taxonomy.[21] Also read our In depth, *Art. 8 of the EU Taxonomy Regulation in practice* and our In brief, *EU Taxonomy: The European Commission has published the final Delegated Acts under its sustainable finance package*, for further information.

Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation (SFDR) is another initiative designed to achieve the goals of the EU Green Deal and is intended to harmonize how sustainability-related information about financial products is disclosed.[22] It is thematically connected to the EU Taxonomy in its efforts to enhance transparency about sustainable activities. Financial market participants and financial advisors, such as investment advisers and managers, that sell financial products that expose the buyer to market risk in the EU, are required to disclose information about how they integrate sustainability risks and consider adverse sustainability impact in their investment decision-making processes and provide sustainability-related information with respect to financial products.

Similar to the EU Taxonomy, the initial requirements of the SFDR continue to be supplemented by the European Parliament and the Council of the European Union. The European Supervisory Authorities launched a public consultation on amendments to the Regulatory Technical Standards that ended in July 2023.[23] If adopted, there would be expanded disclosures related to the principal adverse impacts, although the effective date of those additional disclosures has not yet been determined. Affected financial market participants and financial advisors are therefore urged to monitor ongoing developments related to the SFDR.

[21] EC: FAQs on the EU Taxonomy and its delegated acts.
[22] EC, Regulation (EU) 2019/2088 as published on 9 December 2019 in the Official Journal of the European Union, L 317, page 1.
[23] EC, European system of financial supervision. The European Supervisory Authority is made up of the European Banking Authority, the European Insurance and Occupational Pensions Authority, and the European Securities and Markets Authority (ESMA); ESMA: Joint consultation on the review of SFDR Delegated Regulation.

> The Taxonomy works hand in hand with the Sustainable Finance Disclosure Regulation. … The SFDR will increase accountability, discipline and efficiency in financial markets.

Mairead McGuinness

European Commissioner for Financial Services, Financial Stability and Capital Markets Union

23 March 2022[27]

The EC has issued two public consultations related to the SFDR to obtain input regarding:

- the process of implementation, specifically to obtain input from stakeholders who are familiar with the SFDR and the EU's sustainable finance framework,[24] and
- how the SFDR is working in practice today.[25]

Comments on both consultations are due by 15 December 2023.

Scope and timing

The SFDR applies to financial market participants that sell products in the EU and financial advisors providing investment advice in the EU. As defined in the SFDR:

- **Financial market participants** include investment firms and credit institutions that provide portfolio management services, alternative investment fund managers, institutions for occupational retirement provision, as well as insurance companies that provide insurance-based investment products.
- **Financial advisers** include investment firms and credit institutions that provide investment advice as well as insurance (intermediate) companies that provide insurance advice on insurance-based investment products.[26]

Financial market participants and financial advisors could be in scope of the SFDR and have disclosure obligations even before they are in scope of the CSRD and the EU Taxonomy.

Timing

With one exception, the disclosures were required to be posted to the applicable entity's website and included in pre-contractual disclosures effective as of 1 January 2023. Disclosures about how the principal adverse impacts of investment decision-making on sustainability factors were considered were required starting 30 June 2023.

Disclosure requirements

The SFDR requires disclosures at both the entity level and product level. Depending on the entity type and product type, different disclosures are required on a company's website and in information presented to prospective investors prior to investing in the financial products, such as a prospectus (pre-contractual disclosures). Financial market participants also have periodic disclosure requirements. Companies are required to keep the disclosures on their websites up to date, noting the dates of original publication and any updates.

The European Supervisory Authorities developed Regulatory Technical Standards that supplement the SFDR to describe the content, methodologies, and presentation of information about sustainability indicators. These technical standards include detailed templates that should not be changed (except for font size or format) for providing the product-specific disclosures. General information about the disclosures follows; Appendix 3 includes detailed tables of the requirements for financial market participants and financial advisors.

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[24] EC, Targeted consultation on the implementation of the Sustainable Finance Disclosures Regulation (SFDR).
[25] EC, Sustainable Finance Disclosure Regulation - assessment.
[26] EC, Regulation (EU) 2019/2088, L 317, Article 2(1) and Article 2(11), pages 7 and 8.
[27] EC, Speech by Commissioner Mairead McGuinness at ALFI European Asset Management Conference 2022, 23 March 2022.

Financial market participants are required to disclose information about their policies related to the integration of sustainability risks in investment decision making and how remuneration policies are consistent with this integration. Additional disclosures are also required, depending on the type of investment. Products are divided into three categories, named after the applicable section of the SFDR that defines them, as follows:

- Article 6 - mainstream products not classified as Article 8 or Article 9
- Article 8 - products promoting environmental or social characteristics
- Article 9 - products with sustainable investment objectives

Financial market participants must also state whether Article 8 and Article 9 products with an environmental investment commitment are aligned with any of the EU Taxonomy's objectives. The frequency and location of the periodic disclosures for Article 8 and Article 9 products depend on the type of company; for most companies, the disclosures would be required in the annual reports. For certain companies (e.g., insurance undertakings, portfolio managers), the disclosures would need to be included in periodic reports as required by directives or regulations specific to those types of financial market participants.

The disclosures for **financial advisors** are more limited, although similar information about integration of sustainability risks and related remuneration policies is required.

Assurance / verification

The SFDR in and of itself does not mandate assurance, although some EU Member States (e.g., Germany) have instituted assurance requirements in local law. In other cases, an EU Member State may require information to be included in the EU entity's management report, which is subject to third-party assurance.

Learn more

Refer to the articles in the first issue and third issue of our EU Sustainability Newsletter for more information on the application of the SFDR.

EU Carbon Border Adjustment Mechanism

The EU Carbon Border Adjustment Mechanism (CBAM) was issued as part of the EU Green Deal as a means to protect the EU's own climate goals and encourage fair competition.[28] CBAM is broadly aimed at equalizing the price of imported goods when compared to the potentially higher prices of EU products operating under the EU Emissions Trading System (EU ETS), which factors in the price of carbon.[29] The EU ETS is the EU's carbon market, a "cap and trade" system whereby free emissions allowances are granted to companies, and additional certificates can be purchased or sold into the market. CBAM was designed to maintain the competitiveness of EU companies' products against imports and therefore level the playing field.

Scope and timing

CBAM will initially apply to EU imports of iron and steel, aluminum, electricity, certain fertilizers, cement, and hydrogen, as well as certain precursors (i.e., certain materials used in the production of the stated materials) and a limited number of products made from these materials, such as screws and bolts. The European Commission will

[28] EC, Carbon Border Adjustment Mechanism.
[29] EC, EU Emissions Trading System (EU ETS).

To avoid that our carbon emissions are pushed into other places – the so-called carbon leakage, we are also establishing a carbon border adjustment mechanism (CBAM). This will put a price on the carbon-content of imported products made with high carbon emissions, such as steel and cement.

Frans Timmermans

European Commission Executive Vice President

7 October 2022[30]

evaluate CBAM during a transitional period — prior to 2026 — to assess its overall functioning. Currently, the scope of CBAM is expected to be expanded to cover most product groups currently addressed by the EU ETS. The expanded scope would relate primarily to those products for which the manufacturing process generates carbon dioxide (e.g., glass, ceramics, cardboard), nitrous oxide, and perfluorocarbons. While the expansion is currently targeted by 2030, in the transitional period, the EC will consider whether the scope of products should be expanded.

Certain non-EU countries that currently apply or link to the EU ETS (i.e., Iceland, Liechtenstein, Norway, and Switzerland) are exempted from the CBAM. Other exemptions may apply, including for imports used by the military in EU Member States and for imports of negligible value. In addition, a credit is available if a carbon price was already paid in the country of origin.

Other companies impacted

Although the CBAM reporting obligation lies with the EU entity importing the goods, the compliance burden will extend throughout the value chain to the exporter and producer of CBAM goods. It is these parties that will need to provide the data on the direct and indirect emissions embedded in their products to be used in the reporting. A company's projections regarding sales in the EU may also be impacted by the expected additional costs, which may impact other elements of its overall financial planning and reporting.

Timing

CBAM will take effect in phases, initially requiring only disclosure. Beginning in 2026, companies will be required to purchase "CBAM certificates" representing the direct and indirect emissions embedded in their products — predominantly for carbon dioxide — imported into the EU. The price of these certificates will be linked to the price paid to purchase an allowance under the existing EU ETS.

Disclosure requirements

Effective 1 October 2023, importers are required to submit to the European Commission (via an electronic database) quarterly reports detailing the quantity of goods imported into the EU in the preceding quarter and the embedded direct and indirect greenhouse gases expressed as CO^2 equivalent tons in total and per type of good. Beginning in 2026, an annual declaration regarding the emissions of the prior year will need to be made and accompanied by the corresponding number of CBAM certificates.

Assurance / verification

The emissions declaration will be subject to what the regulation refers to as "verification" by an external independent body beginning in 2026. The legislation that will specify the verification requirements is expected to be prepared in 2024 and implemented as a delegated act in 2025. At this stage, the extent of third-party assurance required (e.g., limited or reasonable assurance or some other verification) is uncertain.

Learn more

For further information, listen to our podcast, How will the EU's Carbon Border Adjustment Mechanism impact you?, watch our webcast series, or read the document released by the European Commission, Questions and Answers: Carbon Border Adjustment Mechanism (CBAM).

[30] EC, Opening remarks EVP Timmermans at the Japanese Global Green Transformation Conference, Tokyo, 7 October 2022.

> The Foreign Subsidies Regulation aims to preserve the level playing field vis-à-vis subsidies granted by non-EU countries that benefit companies that do business here…
>
> And, if necessary, it allows us to act and prevent unfair advantages that distort competition on European markets as a result of foreign financial support.
>
> Margrethe Vestager
>
> European Commission
> Executive Vice President
>
> 6 March 2023[31]

Foreign Subsidies Regulation

The advancement of substantial new regulations in the EU has raised concerns about the ongoing competitiveness of EU industries. Chief among these concerns is the risk that foreign subsidies could distort the EU's foundational principle of a single market. That is, companies doing business in the EU and that receive a subsidy directly or indirectly from a government outside of the EU could be at an unfair advantage. In response, the EU Green Deal Industrial Plan, a supplement to the EU Green Deal, included provisions to solidify fair competition and geopolitical independence for EU industries. The wide range of policies in this plan focuses on the removal of legislative barriers and introduces targeted subsidies for specific industries, but also resulted in issuance of the Foreign Subsidies Regulation (FSR), which aims to limit the effect of foreign state aid on the competitiveness of the EU internal market.[32]

The FSR is intended to level the playing field by providing transparency about the foreign subsidies that companies submitting a tender offer or entering into certain transactions have received and is based on existing state aid laws. A foreign subsidy "should be understood as a financial contribution which is provided directly or indirectly by a third country, which confers a benefit, and which is limited to one or more undertakings or industries."[33] This includes not only subsidies, but also benefits in other forms, such as loans, loan guarantees, debt forgiveness, provision of goods or services, and more.

Scope and timing

The Foreign Subsidies Regulation applies based on the type and size of a transaction and requires in-scope entities to disclose the extent to which they have relied on financial contributions from non-EU countries. Covered transactions include mergers, acquisitions, and joint ventures, subject to size criteria. Some public procurement procedures, defined as "the process by which public authorities, such as government departments or local authorities, purchase work, goods or services from companies," are also in scope.[34]

Mergers, acquisitions, and joint ventures

The acquired business, one of the merging parties, or the joint venture meets all of the following criteria:

- Established in the EU
- Generates turnover (revenue) in the EU of at least €500 million (approximately $529 million as of 31 October 2023)
- The parties to the transaction were granted combined aggregate foreign financial contributions of at least €50 million (approximately $53 million as of 31 October 2023) over the past three years

Public procurement tenders

Both of the following apply:

- Estimated contract value is at least €250 million (approximately $265 million as of 31 October 2023) **and**
- Bid involves a combined aggregate foreign financial contribution of at least €4 million (approximately $4 million as of 31 October 2023) per non-EU country over the past three years[35]

All companies engaging in (a) mergers and acquisitions activity or (b) a public procurement procedure in the EU triggering the thresholds in the FSR will be required to submit formal notification of all state aid received in the previous three years and await the European Commission approval. The European Commission has far

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[31] EC, Keynote of EVP Vestager for the Concurrences Conference on the Foreign Subsidies Regulation: "Foreign Subsidies - a piece in the geopolitical puzzle," 6 March 2023.
[32] EC, Regulation (EU) 2022/2560 as published on 23 December 2022 in the Official Journal of the European Union, L 330, page 1.
[33] Ibid., paragraph 11, page 2.
[34] EC, Public procurement.
[35] EC, Commission adopts rules for implementing the Foreign Subsidies Regulation.

reaching powers in case of non-compliance. It can impose significant penalties — up to 10% of worldwide annual group revenue. It also has the power to dissolve a completed transaction, block a pending transaction, or prohibit the award of a contract to a bidder in a public tender.

Timing

The provisions of the FSR became effective on 12 July 2023 and reporting requirements started on 12 October 2023.

Disclosure requirements

The disclosures vary depending on the type of transaction and whether the foreign financial contributions are viewed as "most likely to distort" the EU's single market, as described in Article 5 of the FSR (transactions are referred to as "Article 5 financial contributions").[36] Examples of potentially distortive subsidies include those granted to a company that is likely to go out of business in the absence of the subsidy, and subsidies in the form of unlimited guarantees, among others. Detailed information is required to be disclosed about the background of the transaction, and information about foreign financial contributions per the following table.

	Mergers, acquisitions, and joint ventures	Public procurement tenders
For foreign financial contributions that are considered Article 5 financial contributions	Detailed information about all financial contributions of an individual amount of at least €1 million (approximately $1 million as of 31 October 2023), granted over the prior three years	Detailed information about all financial contributions of at least €1 million (approximately $1 million as at 31 October 2023), granted in the three years prior to the notification
For all other foreign financial contributions	An overview of all financial contributions: ● of an individual amount of a least €1 million (approximately $1 million as of 31 October 2023) and ● for those countries that have granted to the parties to the transaction at least €45 million (approximately $48 million as of 31 October 2023), over the prior three years, subject to a number of exceptions.[37]	An overview of all financial contributions: ● of an individual amount of at least €1 million (approximately $1 million as of 30 October 2023), and ● for those countries that have granted to the notifying party/ies at least €4 million (approximately $4 million as of 31 October 2023), over the three years prior to the notification.[38]

The disclosures are required on new notification forms that are to be submitted with the request to participate in the tender (Form FS-PP) or submitted to the European Commission prior to the conclusion of a merger agreement (Form FS-CO); the specific form requirements are found in the Implementing Regulation.[39]

Assurance / verification

FSR does not include any third-party assurance or verification requirements.

Learn more

Read more about the FSR in our Tax Policy Alert or in our article, The EU's FSR could have a dramatic impact on EU inward investment. Is your business ready?, and listen to our podcast, Talking ESG: Preparing for the EU's Foreign Subsidies Regulation.

[36] EC, Regulation (EU) 2022/2560, L 330, Article 5, page 15.
[37] EC, Commission implementing regulation (EU) 2023/1441 as published on 12 July 2023 in the Official Journal of the European Union, L 177, page 29.
[38] Ibid., page 43.
[39] Ibid., page 1.

> [The CSDDD] proposal is a real game-changer in the way companies operate their business activities throughout their global supply chain. With these rules, we want to stand up for human rights and lead the green transition.

Didier Reynders
European Commissioner for Justice
23 February 2022[40]

Corporate Sustainability Due Diligence Directive — proposed regulation

The Corporate Sustainability Due Diligence Directive (CSDDD or also referred to as CS3D) was proposed by the European Commission in February 2022.[41] The objective is to establish rules for companies to protect human rights (e.g., prevent child labor and worker exploitation) and the environment (e.g., prevent pollution and biodiversity impacts) in global value chains for a fair and sustainable economy, and to hold directors responsible for doing so.

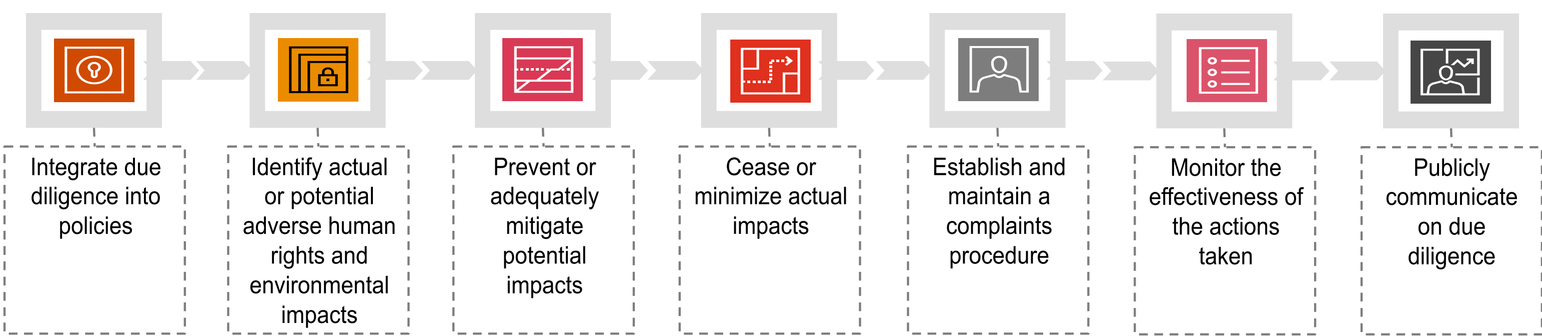
The CSDDD would require a company to take appropriate measures to prevent, end, or mitigate its:

- impacts on the rights and prohibitions included in international human rights agreements and
- environmental impacts that run contrary to a number of multilateral environmental conventions.

Examples of such agreements and conventions include the Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

In addition, the CSDDD ascribes a significant obligation to the directors of in-scope companies. They would be required to implement and oversee the due diligence, and "take steps" to make changes to the corporate strategy in response to identified actual and potential adverse impacts related to human rights, climate change, and the environment.[42]

To comply with the proposed CSDDD, a company would need to:



Scope and timing

The CSDDD's scope would include EU companies that exceed a specified employee count and worldwide net turnover. Non-EU companies are only subject to a threshold based on EU-generated net turnover. Whether a company is subject to the EU or non-EU rules would depend on where it is formed (e.g., a Spanish subsidiary of a US headquartered company would be subject to the EU rules, the parent would be subject to the non-EU rules).

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[40] EC, Keynote of EVP Vestager for the Concurrences Conference on the Foreign Subsidies Regulation: "Foreign Subsidies – a piece in the geopolitical puzzle," 23 February 2022.
[41] EC, Proposal for a directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937.
[42] Ibid., page 66.

As proposed, the following companies would be in scope.

CSDDD applies to companies with the following characteristics	EU companies	Non-EU companies
	Either: ● >500 employees and ● > €150 million in net turnover (revenue) worldwide (approximately $159 million as of 31 October 2023) **or** ● > 250 employees and ● > €40 million in net turnover (revenue) worldwide (approximately $42 million as of 31 October 2023) *Provided that at least 50% of the company's net turnover was generated in defined high impact sectors, such as manufacturing of textiles, agriculture, and extraction of mineral resources*[43]	Either: > €150 million in net turnover (revenue) generated in the EU (approximately $159 million as of 31 October 2023) **or** Between €40 million and €150 million in net turnover (revenue) generated in the EU (approximately $42 million and $159 million as of 31 October 2023, respectively) *Provided that at least 50% of the company's net turnover was generated in defined high impact sectors, such as manufacturing of textiles, agriculture, and extraction of mineral resources*

Companies that meet the larger thresholds above (i.e., more than 500 employees and €150 million in net turnover for EU companies and more than €150 million in net turnover for non-EU companies) are also required to adopt a plan to ensure that their business strategy is compatible with limiting global warming to 1.5°C, in line with the Paris Agreement. This plan will have to be factored into directors' remuneration in order to give them a financial incentive to meet these parameters.

Timing

Trilogue negotiations — among the European Parliament, the Council of the European Union, and the European Commission — are ongoing, and it is expected that final agreement on the text will likely be reached in early 2024, with the CSDDD becoming effective not long thereafter. The extent of changes that may result from these negotiations is as of yet unclear. The CSDDD will apply to companies on a phased-in basis, proposed to start two years after the CSDDD is declared effective.

Disclosure requirements

The CSDDD would trigger a requirement for companies to publish an annual statement on their website, although the content and criteria of what will need to be disclosed has yet to be developed and will be the topic of a future delegated act.

Assurance / verification

CSDDD has no proposed requirement for companies to obtain third-party assurance or verification.

Learn more

Read more about the CSDDD in the second issue of our EU Sustainability Newsletter.

[43] EC, Article 2(1) of the Proposal for a directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937.

With the European Green Deal, we broke down silos between policy areas. We made green business everybody's business. Now we need to do this at a global level too.

Frans Timmermans

European Commission Executive Vice President

9 May 2023

Final thoughts

It is crucial for all companies to take stock of the impact of the EU regulations mentioned above and to have adequate processes to continually monitor for others. Missed regulatory requirements could have significant implications on a company's ability to conduct business in the EU and/or result in significant penalties.

We have noted that some of the requirements of enacted and proposed regulations share a common theme (e.g., a focus on carbon emissions). As new regulations continue to promulgate, it may be helpful to focus on central data quality as opposed to compliance with individual regulations. Companies need to comply with each regulation, but adopting a data-first integrated approach may prove to be more efficient. It is in the interconnectedness of these regulations that the EU hopes will drive meaningful change in corporate sustainability practices.

Our EU Sustainability Newsletters provide periodic updates on the EU Taxonomy, the SFDR, the CSRD, and other regulations. And, for more PwC accounting and reporting content specific to sustainability matters, visit the US ESG/Sustainability reporting page or the global Environmental, Social and Governance page.

To have a deeper discussion, contact your local PwC sustainability specialist or:

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Appendix 1 — List of eligible activities

Climate change mitigation and climate change adaptation[44]

1. Forestry

1.1. Afforestation
1.2. Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event
1.3. Forest management
1.4. Conservation forestry

2. Environmental protection and restoration activities

2.1. Restoration of wetlands

3. Manufacturing

3.1. Manufacture of renewable energy technologies
3.2. Manufacture of equipment for the production and use of hydrogen
3.3. Manufacture of low carbon technologies for transport
3.4. Manufacture of batteries
3.5. Manufacture of energy efficiency equipment for buildings
3.6. Manufacture of other low carbon technologies
3.7. Manufacture of cement
3.8. Manufacture of aluminium
3.9. Manufacture of iron and steel
3.10. Manufacture of hydrogen
3.11. Manufacture of carbon black
3.12. Manufacture of soda ash
3.13. Manufacture of chlorine
3.14. Manufacture of organic basic chemicals
3.15. Manufacture of anhydrous ammonia
3.16. Manufacture of nitric acid
3.17. Manufacture of plastics in primary form

4. Energy

4.1. Electricity generation using solar photovoltaic technology
4.2. Electricity generation using concentrated solar power (CSP) technology
4.3. Electricity generation from wind power
4.4. Electricity generation from ocean energy technologies
4.5. Electricity generation from hydropower
4.6. Electricity generation from geothermal energy
4.7. Electricity generation from renewable non-fossil gaseous and liquid fuels
4.8. Electricity generation from bioenergy
4.9. Transmission and distribution of electricity
4.10. Storage of electricity
4.11. Storage of thermal energy
4.12. Storage of hydrogen
4.13. Manufacture of biogas and biofuels for use in transport and of bioliquids
4.14. Transmission and distribution networks for renewable and low-carbon gases
4.15. District heating/cooling distribution
4.16. Installation and operation of electric heat pumps
4.17. Cogeneration of heat/cool and power from solar energy
4.18. Cogeneration of heat/cool and power from geothermal energy
4.19. Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels
4.20. Cogeneration of heat/cool and power from bioenergy
4.21. Production of heat/cool from solar thermal heating
4.22. Production of heat/cool from geothermal energy
4.23. Production of heat/cool from renewable non-fossil gaseous and liquid fuels
4.24. Production of heat/cool from bioenergy
4.25. Production of heat/cool using waste heat
4.26. Pre-commercial stages of advanced technologies to produce energy from nuclear processes with minimal waste from the fuel cycle
4.27. Construction and safe operation of new nuclear power plants, for the generation of electricity or heat, including for hydrogen production, using best-available technologies
4.28. Electricity generation from nuclear energy in existing installations
4.29. Electricity generation from fossil gaseous fuels
4.30. High-efficiency co-generation of heat/cool and power from fossil gaseous fuels
4.31. Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system

5. Water supply, sewerage, waste management and remediation

5.1. Construction, extension and operation of water collection, treatment and supply systems
5.2. Renewal of water collection, treatment and supply systems
5.3. Construction, extension and operation of waste water collection and treatment
5.4. Renewal of waste water collection and treatment
5.5. Collection and transport of non-hazardous waste in source segregated fractions
5.6. Anaerobic digestion of sewage sludge
5.7. Anaerobic digestion of bio-waste
5.8. Composting of bio-waste
5.9. Material recovery from non-hazardous waste
5.10. Landfill gas capture and utilisation
5.11. Transport of CO2
5.12. Underground permanent geological storage of CO_2

6. Transport

6.1. Passenger interurban rail transport
6.2. Freight rail transport
6.3. Urban and suburban transport, road passenger transport
6.4. Operation of personal mobility devices, cycle logistics
6.5. Transport by motorbikes, passenger cars and light commercial vehicles

[44] EC, Commission Delegated Regulation (EU) 2021/2139, L 442, pages 12 and 146, as amended; EC, Commission Delegated Regulation (EU) 2023/2485, L 69, Annex I, page 8 and Annex II, page 43.

Appendix 1 — List of eligible activities (continued)

6.6. Freight transport services by road
6.7. Inland passenger water transport
6.8. Inland freight water transport
6.9. Retrofitting of inland water passenger and freight transport
6.10. Sea and coastal freight water transport, vessels for port operations and auxiliary activities
6.11. Sea and coastal passenger water transport
6.12. Retrofitting of sea and coastal freight and passenger water transport
6.13. Infrastructure for personal mobility, cycle logistics
6.14. Infrastructure for rail transport
6.15. Infrastructure enabling low-carbon road transport and public transport
6.16. Infrastructure enabling low carbon water transport
6.17. Low carbon airport infrastructure

7. Construction and real estate activities

7.1. Construction of new buildings
7.2. Renovation of existing buildings
7.3. Installation, maintenance and repair of energy efficiency equipment
7.4. Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)
7.5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings
7.6. Installation, maintenance and repair of renewable energy technologies
7.7. Acquisition and ownership of buildings

8. Information and communication

8.1. Data processing, hosting and related activities

Climate change mitigation

3. Manufacturing

3.18. Manufacture of automotive and mobility components
3.19. Manufacture of rail rolling stock constituents
3.20. Manufacture, installation, and servicing of high, medium and low voltage electrical equipment for electrical transmission and distribution that result in or enable a substantial contribution to climate change mitigation
3.21. Manufacturing of aircraft

6. Transport

6.18. Leasing of aircraft
6.19. Passenger and freight air transport
6.20. Air transport ground handling operations

8. Information and communication

8.2. Data-driven solutions for GHG emissions reductions

9. Professional, scientific and technical activities

9.1. Close to market research, development and innovation
9.2. Research, development and innovation for direct air capture of CO_2
9.3. Professional services related to energy performance of buildings

Climate change adaptation

5. Water supply, sewerage, waste management and remediation

5.13. Desalination

8. Information and communication

8.2. Computer programming, consultancy and related activities
8.3. Programming and broadcasting activities
8.4. Software enabling physical climate risk management and adaptation

9. Professional, scientific and technical activities

9.1. Engineering activities and related technical consultancy dedicated to adaptation to climate change
9.2. Close to market research, development and innovation
9.3. Consultancy for physical climate risk management and adaptation

10. Financial and insurance activities

10.1. Non-life insurance: underwriting of climate-related perils
10.2. Reinsurance

11. Education

12. Human health and social work activities

12.1. Residential care activities

13. Arts, entertainment and recreation

13.1. Creative, arts and entertainment activities
13.2. Libraries, archives, museums and cultural activities
13.3. Motion picture, video and television programme production, sound recording and music publishing activities

14. Disaster risk management

14.1. Emergency Services
14.2. Flood risk prevention and protection infrastructure

Water and marine resources[45]

1. Manufacturing

1.1. Manufacture, installation and associated services for leakage control technologies enabling leakage reduction and prevention in water supply systems

2. Water supply, sewerage, waste management and remediation activities

2.1. Water supply
2.2. Urban Waste Water Treatment
2.3. Sustainable urban drainage systems (SUDS)

3. Disaster risk management

3.1. Nature-based solutions for flood and drought risk prevention and protection

[45] EC, Commission Delegated Regulation (EU) 2023/2486, L 164, page 1.

Appendix 1 — List of eligible activities (continued)

4. Information and communication

4.1. Provision of IT/OT data-driven solutions for leakage reduction

Circular economy[46]

1. Manufacturing

1.1. Manufacture of plastic packaging goods
1.2. Manufacture of electrical and electronic equipment

2. Water supply, sewerage, waste management and remediation activities

2.1. Phosphorus recovery from waste water
2.2. Production of alternative water resources for purposes other than human consumption
2.3. Collection and transport of non-hazardous and hazardous waste
2.4. Treatment of hazardous waste
2.5. Recovery of bio-waste by anaerobic digestion or composting
2.6. Depollution and dismantling of end-of-life products
2.7. Sorting and material recovery of non-hazardous waste

3. Construction and real estate activities

3.1. Construction of new buildings
3.2. Renovation of existing buildings
3.3. Demolition and wrecking of buildings and other structures
3.4. Maintenance of roads and motorways.
3.5. Use of concrete in civil engineering

4. Information and communication

4.1. Provision of IT/OT data-driven solutions

5. Services

5.1. Repair, refurbishment and remanufacturing
5.2. Sale of spare parts
5.3. Preparation for re-use of end-of-life products and product components
5.4. Sale of second-hand goods.
5.5. Product-as-a-service and other circular use- and result-oriented service models
5.6. Marketplace for the trade of second-hand goods for reuse

Pollution prevention and control[47]

1. Manufacturing

1.1. Manufacture of active pharmaceutical ingredients (API) or active substances
1.2. Manufacture of medicinal products

2. Water supply, sewerage, waste management and remediation activities

2.1. Collection and transport of hazardous waste
2.2. Treatment of hazardous waste
2.3. Remediation of legally non-conforming landfills and abandoned or illegal waste dumps
2.4. Remediation of contaminated sites and areas

Protection and restoration of biodiversity and ecosystems[48]

1. Environmental protection and restoration activities

1.1. Conservation, including restoration, of habitats, ecosystems and species

2. Accommodation activities

2.1. Hotels, holiday, camping grounds and similar accommodation

[46] EC, Commission Delegated Regulation (EU) 2023/2486, L 164, Annex II, page 27.
[47] Ibid., Annex III, page 89.
[48] EC, Commission Delegated Regulation (EU) 2023/2486, L 164, Annex IV, page 116.

Appendix 2 — Determining EU-Taxonomy alignment

As discussed, a company must consider the following screening criteria to determine whether an activity is EU-Taxonomy aligned:

EU Taxonomy-alignment criteria	=	Provides a **substantial contribution** to one or more of the six stated environmental objectives	+	Causes **no significant harm** to any of the environmental objectives	+	Performance complies with specified **minimum safeguards**

Commission Delegated Regulation (EU) 2021/2139 provides descriptions of eligible activities in support of the objective: **Climate change mitigation.** The following example is an excerpt from the regulation illustrating one eligible activity — Freight transport services by road — together with the technical screening criteria to consider in determining whether it is EU Taxonomy-aligned.[49,50]

Eligible activity — Freight transport services by road	**Description of the activity:** Purchase, financing, leasing, rental and operation of vehicles designated as category N1, N2 (240) or N3 (241) falling under the scope of EURO VI (242), step E or its successor, for freight transport services by road. The economic activities in this category could be associated with several NACE codes, in particular H49.4.1, H53.10, H53.20 and N77.12 in accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006. Where an economic activity in this category does not fulfil the substantial contribution criterion specified in point (1)(a), (1)(b) or (1)(c)(i) of this Section, the activity is a transitional activity as referred to in Article 10(2) of Regulation (EU) 2020/852, provided it complies with the remaining technical screening criteria set out in this Section.
Substantial contribution to — (1) Climate change mitigation	1. The activity complies with one of the following criteria: (a) vehicles of category N1 have zero direct (tailpipe) CO2 emissions; (b) vehicles of category N2 and N3 with a technically permissible maximum laden mass not exceeding 7,5 tonnes are 'zero-emission heavy-duty vehicles' as defined in Article 3, point (11), of Regulation (EU) 2019/1242; (c) vehicles of category N2 and N3 with a technically permissible maximum laden mass exceeding 7,5 tonnes are one of the following: (i) 'zero-emission heavy-duty vehicles', as defined in Article 3, point (11), of Regulation (EU) 2019/1242; (ii) where technologically and economically not feasible to comply with the criterion in point (i), 'low emission heavy-duty vehicles' as defined in Article 3, point (12), of that Regulation. 2. Vehicles are not dedicated to the transport of fossil fuels.
Do no significant harm to —	
(2) Climate change adaptation	The activity complies with the criteria set out in Appendix A to this Annex. [The appendix provides steps a company needs to perform when conducting a physical climate risk and vulnerability assessment, including implementation of adaptation solutions.]
(3) Sustainable use and protection of water and marine resources	N/A

[49] EC, Commission Delegated Regulation (EU) 2021/2139, L 442, page 107.
[50] EC, Regulation (EU) 2020/852, L 198, Article 18, page 35.

Appendix 2 — Determining EU-Taxonomy alignment (continued)

(4) Transition to a circular economy	Vehicles of category N1, N2 and N3 are both of the following: (a) reusable or recyclable to a minimum of 85 % by weight; (b) reusable or recoverable to a minimum of 95 % by weight. Measures are in place to manage waste both in the use phase (maintenance) and the end-of-life of the fleet, including through reuse and recycling of batteries and electronics (in particular critical raw materials therein), in accordance with the waste hierarchy.
(5) Pollution prevention and control	For road vehicles of categories M and N, tyres comply with external rolling noise requirements in the highest populated class and with Rolling Resistance Coefficient (influencing the vehicle energy efficiency) in the two highest populated classes as set out in Regulation (EU) 2020/740 and as can be verified from the European Product Registry for Energy Labelling (EPREL). Vehicles comply with the requirements of the most recent applicable stage of the Euro VI heavy duty emission type-approval set out in accordance with Regulation (EC) No 595/2009. Vehicles comply with Regulation (EU) No 540/2014.
(6) Protection and restoration of biodiversity and ecosystems	N/A

Minimum safeguards	The minimum safeguards are procedures to ensure that the activity is carried out in compliance with: ● The OECD Guidelines for Multinational Enterprises ● The 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 the International Bill of Human Rights

Appendix 3 — SFDR disclosures

Financial market participants

	Website disclosures	Pre-contractual disclosures	Periodic disclosures
Corporate-level information	• Policies on integration of sustainability risks in investment-decision making process • Principal adverse impacts of investment decisions on sustainability factors* • Information on how remuneration policies are consistent with the integration of sustainability risks	Not applicable	Not applicable
Product-level information	• Description of the environmental or social characteristics or the sustainable investment objective • Information on the methodologies used to evaluate the environmental or social characteristics or the impact of sustainable investments for the financial product	• Description of integration of sustainability risks into investment decisions, on a comply or explain basis • Results of assessment of likely impacts of sustainability risks on the returns of the financial products they offer • Explanation of whether and how principal adverse impacts on sustainability factors are considered	Not applicable
Article 8 - products promoting environment or social characteristics	Website and pre-contractual disclosures: • Information on how the environmental or social characteristic is met • Information on whether and how an index that was designated as a benchmark for reference is consistent with those characteristics (if an index was designated)		• Information on how the environmental or social characteristic is met
Article 9 - products with sustainable investment objectives	Website and pre-contractual disclosures: • Information on whether and how an index that was designated as a benchmark for reference is aligned with that objective • Explanation of why and how the aligned index is different from a broad market index • Explanation of how the objective is to be attained, if an index was not designated		• Overall sustainability-related impact of the financial product by means of relevant sustainability indicators; or • When an index has been designated as a reference benchmark, a comparison between the overall sustainability-related impact of the financial product with the impacts of the designated index and of a broad market index through sustainability indicators

* Companies with less than 500 employees: disclose on a comply or explain basis, meaning that if the disclosure is not made, the entity needs to provide the reason for its omission. Companies with more than 500 employees: disclosure is mandatory, including a statement on due diligence policies.

Appendix 3 — SFDR disclosures (continued)

Financial advisors

	Website disclosures	Pre-contractual disclosures	Periodic
Corporate-level information	• Policies on integration of sustainability risks in investment / insurance advice • Principal adverse impacts of investment / insurance advice on sustainability factors, on a comply or explain basis • Information on how remuneration policies are consistent with the integration of sustainability risks	Not applicable	Not applicable
Product-level information	Not applicable	• Description of integration of sustainability risks into investment / insurance advice, on a comply or explain basis • Results of assessment of likely impacts of sustainability risks on the returns of the financial products on which they advise	Not applicable