



## **FAQ: What is the EU Taxonomy Article 8 delegated act and how will it work in practice?**

The purpose of this FAQ document is to provide guidance on the content of the EU Taxonomy Article 8 delegated act (disclosures delegated act). It is not legal advice and it contains only the views of Commission services, which do not bind the College of Commissioners.



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## **1. What is the EU Taxonomy Article 8 disclosures delegated act?**

### *Article 8: Transparency of undertakings in non-financial statements*

Article 8 of the Taxonomy Regulation (Taxonomy Regulation) aims to increase transparency in the market and help prevent greenwashing by providing information to investors about the environmental performance of assets and economic activities of financial and non-financial undertakings.<sup>1</sup> This provision aims also to increase the space for green finance through transparency about companies' environmental performance.

Under Article 8(1) of the Taxonomy Regulation large undertakings that are required to publish non-financial information pursuant to the Non-Financial Reporting Directive (NFRD) ('relevant undertakings')<sup>2</sup> shall disclose information to the public on how and to what extent their activities are associated with environmentally sustainable economic activities.<sup>3</sup> Other companies (e.g. SMEs, non-EU companies) may decide to disclose this information on a voluntary basis for the purpose of getting access to sustainable financing or for other business-related reasons.

Article 8(2) specifies the key performance indicators (KPIs) related to turnover, capital expenditure (CapEx) and operational expenditure (OpEx) that non-financial undertakings must disclose. It does not specify equivalent indicators for financial undertakings, mainly large banks, asset managers, investment firms and insurance/reinsurance undertakings.

Article 8(3) specifies the publishing parameters of reporting both against the Taxonomy Regulation and the NFRD.

Article 8(4) of the Taxonomy Regulation requires the Commission to adopt a delegated act to specify the content, methodology, and presentation of information to be disclosed by both non-financial and financial undertakings by June 2021. This disclosures delegated act specifies further the disclosure obligations under Article 8 of the Taxonomy Regulation.

## **2. What are the main benefits for financial and non-financial companies associated with this disclosures delegated act?**

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<sup>1</sup> Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (OJ L 198, 22.6.2020, p. 13–43).

<sup>2</sup> The Commission proposed to extend the scope of undertakings that are required to publish non-financial information in its proposal to review the NFRD adopted on 21 April 2021. Impact assessment accompanying the proposal for a Directive amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (europa.eu).

<sup>3</sup> Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ L 330, 15.11.2014, p. 1–9).



The Article 8 disclosures delegated act will increase transparency in the market, mitigate risks of greenwashing and subsequent reputational risks for financial institutions. This provision will also increase the space for green finance and encourage financial market participants to design financial products and portfolios on the basis of these disclosures.

Financial institutions need a homogenous and rigorous evaluation of the climate and environmental performance of the companies and assets that they finance. Under this disclosures delegated act, they will be able to use common ratios per company based on turnover, CapEX and OpEx to calculate the overall alignment of their portfolios and balance sheets through weighted aggregation.

Non-financial companies will be able to communicate the degree of environmental performance of their economic activities and assets to financial institutions, stakeholders and peers. It will enable them translate long-term climate transition and environmental objectives into tangible business strategies.

With this disclosures delegated act, environmental and social benefits are expected due to an increase in capital flows towards environmentally sustainable economic activities, helping to deliver the EU's climate and environmental objectives as targeted by the Taxonomy Regulation.

### **3. How does this disclosures delegated act interact with the climate delegated act adopted on 4 June and the future environmental delegated act specifying the technical screening criteria for the remaining environmental objectives?**

The Taxonomy climate delegated act formally adopted on 4 June 2021 provides the first technical screening criteria for companies and financial market participants on which economic activities can be considered to make a substantial contribution to climate mitigation and adaptation objectives.<sup>4</sup> To complete the climate delegated act, the Commission will subsequently issue a complementary delegated act setting out technical screening criteria for climate mitigation and adaptation objectives notably for some energy sectors and agriculture.

The taxonomy will also be extended over time to additional environment objectives and should integrate more sectors and activities that make a positive contribution to these objectives through another delegated act to be adopted later.

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<sup>4</sup> Available on the website of the Commission: [taxonomy-regulation-delegated-act-2021-2800\\_en.pdf](https://ec.europa.eu/economy_finance/press_corner/press_releases/press_release_20210604_en.pdf) ([europa.eu](https://europa.eu)).



Article 8 of the Taxonomy Regulation will rely on the above mentioned climate and environmental delegated acts to mandate companies to assess and report the alignment of their financial and non-financial activities with the EU Taxonomy.

The Article 8 disclosures delegated act and subsequent reporting obligations of financial and non-financial companies is structured so that it automatically integrates upcoming evolutions of the taxonomy and possible amendments brought to the Taxonomy Regulation.

**4. How does this delegated act interact with the Non-Financial Reporting Directive (NFRD) and related proposal for a Corporate Sustainability Reporting Directive (CSRD)?**

Article 8(1) of the Taxonomy Regulation stipulates that any financial and non-financial undertaking in the scope of the NFRD is required to report the extent to which its activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation ('Taxonomy-aligned economic activities').

This disclosures delegated act, therefore, complements the NFRD by providing a common reference point for taxonomy-related reporting requirements under the two Directives. This disclosures delegated act is also consistent with the specific rules about non-financial reporting provided by the NFRD.

The Commission, through the CSRD proposal published on 21 April 2021, proposes to extend the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises)<sup>5</sup>. It responds to demands from investors for sustainability information from such companies.

The scope of undertakings subject to Article 8 of the Taxonomy Regulation will adjust automatically to the changes brought to the NFRD by the CSRD as and where relevant.

**5. How will this disclosures delegated act interact with the SFDR and the forthcoming Ecolabel and EU Green Bond Standard?**

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<sup>5</sup> [Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation \(EU\) No 537/2014, as regards corporate sustainability reporting \(COM/2021/189 final\).](#)



Taxonomy-related reporting is set to serve as a basis for various future and ongoing initiatives in sustainable finance.

This disclosures delegated act is developed after the adoption of the SFDR<sup>6</sup> and should therefore be consistent with the upcoming ‘Regulatory Technical Standards’ (RTS)<sup>7</sup> developed under this regulation. Under the SFDR, financial market participants are required to disclose the extent to which their financial products are environmentally sustainable and address adverse sustainability impacts. They shall equally report the extent to which their financial products are aligned with the climate and future environmental delegated acts. While the RTS will specify the taxonomy-alignment of financial products, the Taxonomy Regulation is a classification-system of economic activities: this disclosures delegated act specifies the extent to which the assets of financial institutions are taxonomy-aligned at the entity level.<sup>8</sup>

The disclosure obligations under this disclosures delegated act will also facilitate the development of Union-wide standards for environmentally sustainable financial products and the establishment of labels that recognise compliance with these standards. Notably, the Commission proposals for an EU Green Bond Standard (EU GBS) and an EU Ecolabel for financial products are expected to rely on the Taxonomy Regulation to demonstrate the alignment of those sustainable financial products with the sustainability goals.

Taxonomy-related disclosures will therefore enable an entire ecosystem of other sustainable finance tools, including standards, labels and access to a coherent and relevant set of sustainability data, which are necessary to channel capital towards the investments needed to reach Union goals.

## **6. What should non-financial companies report under this disclosures delegated act?**

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<sup>6</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (OJ L 317, 9.12.2019, p. 1–16).

<sup>7</sup> The European Supervisory Authorities (ESAs) are developing through the Joint Committee (JC) the Regulatory Technical Standards (RTS) with regard to the content, methodologies and presentation of sustainability-related disclosures under empowerments Articles 2a, 4(6) and (7), 8(3), 9(5), 10(2) and 11(4) of Regulation (EU) 2019/2088 (Sustainable Finance Disclosure Regulation “SFDR”).

<sup>8</sup> Entity level refers to the financial institution as a whole and not only to the individual products it offers.



Non-financial companies shall disclose the proportion of environmentally sustainable economic activities that align with the EU Taxonomy criteria. The translation of environmental performance into financial variables (turnover, CapEx and OpEx KPIs) allows in turn investors and financial institutions to have clear and comparable data to help them with their investment and financing decisions. The main KPIs for non-financial companies include:

The **turnover** KPI represents the proportion of the net turnover derived from products or services that are taxonomy-aligned. The Turnover KPI gives a static view of the companies contribution to environmental goals.

The **CapEx** KPI represents the proportion of the capital expenditure of an activity that is either already taxonomy-aligned or is part of a credible plan to extend or reach taxonomy-alignment. CapEx provides a dynamic and forward-looking view of companies' plans to transform their business activities.

The **OpEx** KPI represents the proportion of the operating expenditure associated with taxonomy-aligned activities or to the CapEx plan. The operating expenditure covers direct non-capitalised costs relating to research and development, renovation measures, short-term lease, maintenance and other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment that are necessary to ensure the continued and effective use of such assets.

The **plan** that accompanies both the CapEx and OpEx KPIs shall be disclosed at the economic activity aggregated level and meet the following conditions:

- it shall aim to extend the scope of taxonomy-aligned economic activities or it shall aim for economic activities to become taxonomy-aligned within a period of maximum 10 years;
- it shall be approved by the management board of non-financial undertakings or another body which has been delegated this task.

This disclosures delegated act considers that a credible plan is a necessary condition to ensure that companies are embarking on a trajectory aimed to make their economic activities taxonomy-aligned. A credible plan should minimise companies' reputational risks, support their environmental target and develop strategic and forward-looking business decisions.

In addition, non-financial companies should provide for a **breakdown of the KPIs** based on the economic activity pursued, including transitional and enabling activities, and the environmental objective reached.



To ensure greater transparency, specific information should be reported on taxonomy-eligible economic activities<sup>9</sup> and on the share of economic activities that are not covered by the Taxonomy-related delegated acts. Companies are not required to disclose the assessments about the technical screening criteria that Taxonomy-eligible economic activities fail to meet, but may do so voluntarily, in particular to attract investors to finance their plans to reach taxonomy-alignment in the future. The combination of this accompanying information with the three KPIs is important for a company to finance and show over time the transition of its taxonomy-eligible economic activities towards taxonomy-alignment.

Finally, this disclosures delegated act requires non-financial companies to provide for **accompanying qualitative information** about the calculation and the key elements for change of the three KPIs during the reporting period.

## **7. What should financial companies report under this disclosures delegated act?**

The main KPIs for financial companies (banks, investment firms, asset managers, insurers/reinsurers) relate to the proportion of taxonomy-aligned economic activities in their financial activities, such as lending, investment and insurance.

### **a. Credit institutions (banks)**

Credit institutions shall report a main KPI for on-balance sheet assets related to the financing activities (e.g. lending activities). They should report as well KPIs for off-balance sheet assets and, subject to a phase-in period (see Question 11), a KPI for commissions and fees related to other non- financing activities and, where relevant, a KPI for their trading book.

**The main KPI for credit institutions is the Green Asset Ratio (GAR)** that is defined as the proportion of the credit institutions' assets invested in taxonomy-aligned economic activities as a share of total *covered assets*<sup>10</sup>.

The GAR should be calculated based on the on-balance sheet exposures (total covered assets) according to the prudential scope of consolidation for the types of assets. Credit institutions should disclose the aggregate GAR for on-balance sheet covered assets and provide for a breakdown for the environmental objective pursued by environmentally sustainable assets, the type of counterparty, and the subset of transitional and enabling activities.

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<sup>9</sup> "Taxonomy-eligible economic activities" refers to the share of economic activities that are described in the Commission's delegated acts, but that do not yet meet the relevant technical screening criteria.

<sup>10</sup> Total covered assets makes reference to all on-balance sheet exposures except for sovereign exposures and trading portfolio. See also question 9 below.



The main GAR should cover the **stock** of credit institutions (existing on-balance sheet total covered assets). An additional GAR is provided for the **flows** (e.g. new loans and advances).

The definition of the KPIs is based on the following components where:

- the **numerator** covers the loans and advances, debt securities, equities, repossessed collaterals financing taxonomy-aligned economic activities, thus capturing total taxonomy-aligned exposures;
- the **denominator** covers the total on-balance sheet covered assets.

The level of taxonomy alignment of banks' exposures should be given by the level of Taxonomy alignment of the assets that they finance or either the turnover KPI or the CapEx KPI of the non-financial companies that banks are financing or investing in.

The green ratio for financial guarantees to corporates (**FinGuar KPI**) is defined as a proportion of financial guarantees supporting debt instruments to undertakings financing taxonomy-aligned economic activities compared to all financial guarantees supporting debt securities to undertakings. The green ratio for assets under management (**AuM KPI**) is defined as a proportion of assets under management (equity and debt instruments) financing taxonomy-aligned economic activities, compared to total *covered* assets under management (equity and debt instruments).

The KPI for fees and commission income (**F&C KPI**) is linked to services associated with taxonomy-aligned economic activities and shall be defined as a proportion of the institution's fees and commission income derived from products or services other than lending associated with taxonomy-aligned economic activities, compared to total fees and commissions from products or services other than lending. Where a trading portfolio plays an important role in the business model of credit institutions, they shall disclose their trading book KPI that determines the proportion of Taxonomy-aligned instruments of in their overall trading.

### **b. Investment firms**

Investment firms shall disclose a KPI for their core investment services and activities dealing on own account and a KPI for those services and activities not dealing on own account.<sup>11</sup>

Investment firms shall rely on the underlying investee companies' KPIs to compute the GAR for investment firms' services and activities dealing on own account.

### **c. Asset managers**

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<sup>11</sup> This includes services and activities listed in Section A of Annex I of Directive 2014/65/EU (MiFID), such as reception and transmission of orders in relation to one or more financial instruments; execution of orders on behalf of clients; dealing on own account; portfolio management; investment advice; underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis; placing of financial instruments without a firm commitment basis; operation of an MTF; operation of an OTF.



Asset managers should report the proportion of taxonomy-aligned investments managed by an asset manager in the value of all covered assets under management from both its collective and individual portfolio management activities (**Green Investment Ratio**)<sup>12</sup>.

The weighted average of taxonomy-aligned investments should be based on the share of taxonomy-aligned economic activities of investee companies. Asset managers shall rely on the underlying investee companies' KPIs to compute their own Green Investment Ratio.

Asset managers shall in addition provide for a breakdown for each environmental objective and for aggregated environmentally sustainable economic activities, a subset of transitional and enabling economic activities and the type of investments.

#### **d. Insurers/reinsurers**

Insurance or reinsurance undertakings shall disclose **the KPIs related to their investments and underwriting activities**. The investment KPI relates to the investment policy of insurers and reinsurance undertakings for the funds resulting from their underwriting activities. The underwriting KPI relates directly to their underwriting activities.

The KPI related to investments shall be calculated as the proportion of the investments of insurance or reinsurance undertakings that are associated with taxonomy-aligned economic activities in relation to their investments (see Green Investment Ratio in the asset management section). As for asset managers, insurers shall rely on the underlying investee companies' KPIs to compute their own investment KPI.

The KPI related to underwriting activities shall be calculated as the proportion of the 'non-life gross premiums written' corresponding to taxonomy-aligned insurance activities as defined in the Taxonomy Climate Delegated Act in relation to total non-life gross premiums written.

### **8. How does this disclosures delegated act treat exposures to companies that are not subject to the reporting under this delegated act (SMEs, non-EU companies) in the reporting of financial companies?**

Companies not subject to the NFRD, including SMEs ('non-NFRD undertakings') may decide to voluntarily disclose their taxonomy-alignment KPIs for the purpose of accessing environmentally sustainable finance, e.g. as part of eco-labelling schemes and environmentally sustainable products based on alignment with Taxonomy Regulation or as part of their overall business strategy based on environmental sustainability.

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<sup>12</sup> Covered assets under management makes reference to all AuM except for sovereign exposures. See question 9 below.



However, to provide SMEs and/or non-EU companies with sufficient time to adjust to the new situation and to decide whether to report voluntarily under the Taxonomy Regulation and financial institutions to collect relevant information from those undertakings, this disclosures delegated act provides that financial undertakings should not include such information in the numerator of their own KPIs. The information may be included from 1 January 2025, subject to a review and outcome of an impact assessment.<sup>13</sup>

Such assets are included in the denominator of the financial institutions' KPIs to show the share of those assets in the total assets of financial undertakings with the relevant accompanying information.<sup>14</sup>

The application of KPIs of financial companies in relation to those undertakings will be reviewed over time, as part of the general review of this disclosures delegated act.

**9. How does this disclosures delegated act treat exposures to government entities in the reporting of financial companies?**

This delegated act excludes sovereign exposures of financial institutions from both the denominator and the numerator of their green ratios<sup>15</sup>.

**10. Does this disclosures delegated act include derivatives in scope of the reporting of financial companies?**

Derivatives are excluded from the numerator of KPIs of financial companies in view of their primary use in mitigating counterparty risk rather than to finance an asset or an economic activity.

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<sup>13</sup> Prior to the inclusion of SMEs exposures in the numerator of KPIs of financial institutions, the Commission will assess the administrative burden, access to finance and the potential impacts on SMEs of such an inclusion and will ensure that any disproportionate impacts on SMEs are avoided.

<sup>14</sup> The reporting of the overall KPI should be qualified by accompanying information to clarify that those assets or companies excluded from the numerator, yet included in the denominator, have been excluded either because their activities are not covered by the Taxonomy framework (e.g. administrative services) or for lack of information, limited data availability from the underlying companies themselves about the activities covered by the Taxonomy framework. Further information about accompanying qualitative information is provided in the next section.

<sup>15</sup> Exposures to central governments, central banks and supranational issuers are excluded from the numerator and denominator of the KPI of financial undertakings. By 30 June 2024, the Commission shall review the application of this Regulation. Financial undertakings may, on a voluntary basis, provide information in relation to exposures to taxonomy aligned bonds and taxonomy aligned debt securities that are issued by central governments, central banks or supranational issuers. The Commission shall assess in particular the need for any further amendments with the regard to inclusion of sovereign exposures in the KPI calculation.



Derivative exposures are, however, included in the denominator of the green ratios of financial institutions as they should cover the total assets of financial institutions.

**11. What is the timeframe for adoption and implementation of this disclosures delegate act, and will there be a phased entry into force?**

Given the time needed to appropriately implement the Delegated Act and the planned entry into force of the Climate Delegated Act by the end of 2021, the following time sequence is outlined in the Delegated Act for the application of disclosures:

- As of 1st January 2022 for the reporting period 2021, only qualitative information and information on the proportion of taxonomy-eligible activities in relation to total activities set out in the Delegated Act must be disclosed.
- As of 1 January 2023 for the reporting period 2022, the Delegated Act will apply fully to non-financial undertakings and as 1 January 2024 for the reporting period 2023 to financial undertakings with the understanding that certain exposures and investments of financial institutions, including in sovereign debt and non-NFRD undertakings, may not have been fully reflected in their KPIs.
- By 30 June 2024, the delegated act will be reviewed in particular with respect to the treatment in the KPIs of exposures of financial undertakings to sovereigns and non-NFRD undertakings;
- As of 1 January 2026 for the reporting period 2025, the Delegated Act will apply for the KPIs of credit institutions for the trading book and non-banking services.

**12. What are the immediate next steps?**

The delegated act will now be scrutinised by the European Parliament and the Council.

After the scrutiny period of the European Parliament and the Council, the disclosures delegated act should come into application from 1 January 2022.

**13. Once adopted, will this disclosures delegated act be reviewed?**

The disclosures delegated act allows for future revisions after an appropriate time following its application. The review shall take into account the application, developments and future



revisions of the Taxonomy Regulation, as well as the regulatory technical standards related to product disclosures (e.g. SFDR) and possible developments related to the review of the NFRD (CSRD proposal).

By 30 June 2024, the Commission shall assess in particular the need for any further amendments to this delegated act with regards to the inclusion of sovereign exposures in the scope of the KPIs of financial institutions and inclusion of exposures to non-NFRD undertakings in the numerator of KPIs of financial institutions.

Frequently Asked Questions for more information about the EU Taxonomy and Climate Delegated Acts: [Q&A \(europa.eu\)](https://europa.eu).