

ALLEN & OVERY

Article 8 Taxonomy – reporting obligations

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Taxonomy Regulation

Level 1

Taxonomy Regulation

- establishes a classification system, a list of environmentally sustainable economic activities

Level 2

Delegated Act on sustainable activities for climate change adaptation and mitigation objectives

- lists environmentally sustainable activities by defining technical screening criteria for climate change mitigation and adaptation

Level 2

Delegated Act supplementing article 8 of the Taxonomy Regulation

- specifies the content, methodology and presentation of information to be disclosed by financial and non-financial undertakings concerning the proportion of environmentally sustainable economic activities in their business, investments or lending activities

Level 2

Complementary Climate Delegated Act

- includes gas and nuclear energy in the EU taxonomy of environmentally sustainable activities
- Political agreement on the text, it will be formally adopted once translations are available in all EU languages and after having been scrutinised by the co-legislators (Council and MP). Once the scrutiny period is over and if neither of the co-legislators objects, the Complementary Delegated Act will enter into force and apply as of 1 January 2023

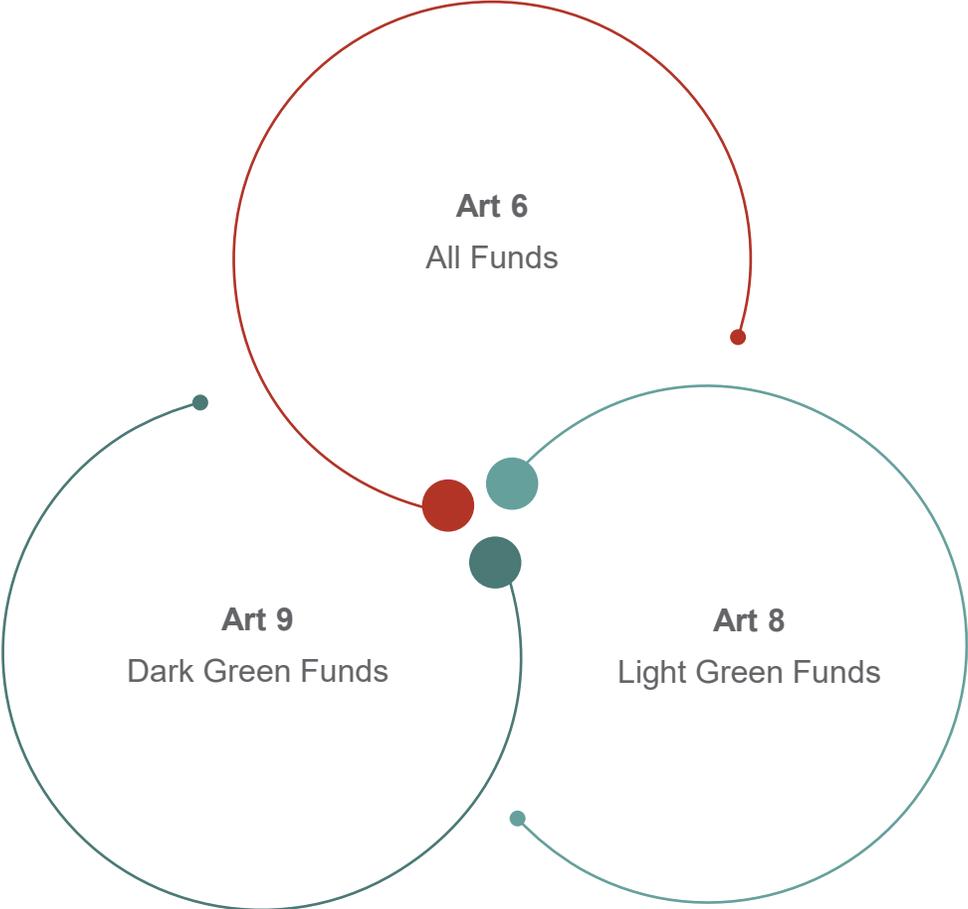
RTS under SFDR and Taxonomy Regulation

Level 2

Regulatory Technical Standards (6 April 2022)

- technical standards to be used by financial market participants when disclosing sustainability-related information under the Sustainable Finance Disclosures Regulation
- First drafts in February 2021 and October 2021

SFDR: no product labelling! But disclosures apply to categories of funds...



Sustainable investment vs Environmentally-sustainable investment

Sustainable investment under SFDR

1. Contribute to Environmental or Social objective
2. DNSH E or S objective
3. Governance: investee follows good governance

Sustainable investment under Taxonomy Regulation = Taxonomy-aligned

1. Contribute to one of the 6 environmental objectives:
 - Climate change mitigation
 - Climate change adaptation
 - Sustainable use and protection of water and resources
 - Transition to a circular economy
 - Pollution prevention and control
 - Protection and restoration of biodiversity and ecosystems
2. DNSH the environmental objective(s)
3. Complies with the minimum safeguards
4. Complies with the technical screening criteria



Article 8 TR/NFDR

Objectives

Disclosure regarding the portion of environmentally sustainable economic activities – art. 3 TR – ('Taxonomy-aligned activities') of the **undertakings** and the proportion of the Taxonomy-aligned activities based on each environmental objective to which those activities contribute substantially

How ?

Disclosure of three key performance indicators ('**KPIs**'): turnover, capital expenditure ('**CapEx**') and operating expenditure ('**OpEx**') related to environmentally sustainable activities

Others KPIs are adapted to financial undertakings

Who ?

Non-Financial undertakings required to publish non-financial information pursuant to Articles 19a and 29a of Directive 2013/34/EU (the 'Accounting Directive')

And

Financial undertakings, that is credit institutions, asset managers, investment firms and insurance and reinsurance undertakings.

Where?/When

Where: Non-financial statement (ESG information)

When:

- Disclosure of Taxonomy eligibility
 - Non-Financial undertakings: from 1 January 2022 in respect of FY 2021
 - Financial undertaking: 2022 and 2023 in respect of FY 2021 and 2022
- Disclosure of KPIs (taxonomy alignment)
 - Non-Financial undertakings: 2023 in respect of FY 2022
 - Financial undertakings: 2024 in respect of FY 2023

Financial VS non-financial undertakings

Non-Financial Undertakings

- Large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year. This category covers large listed undertakings, but CR
- Public-interest entities which are parent undertakings of a large group exceeding on its balance sheet dates, on a consolidated basis, the criterion of the average number of 500 employees during the financial year. Subsidiaries of such parent undertakings are exempted from this obligation if the parent undertaking covers for them

“Public-interest “entities = companies with securities listed in EU regulated markets, banks (whether listed or not), insurance companies (whether listed or not) and any other companies designated by Member States as such.

Non-FI undertakings are NOT financial products but may be portfolio companies of financial products/ KPIs relevant for own reporting and Financial Products reporting under SFDR/TR

Financial VS non-financial undertakings

Financial Undertakings

- Same size criteria as above

AND

- AIFMs
- management companies
- investment companies
- credit institutions
- investment firms
- Insurance and re-insurance undertakings, or
- any third country entity that carries out similar activities, is subject to the laws of a third country and is supervised by a third-country supervisory authority

Financial undertakings are financial market participants but may be portfolio companies of financial products/ KPIs relevant for own reporting and Financial Products reporting under SFDR/TR

KPIs under Regulation (EU) 2021/2178

| | | Content (information to disclose) | Presentation (form) |
|-----------------------------------|---|-----------------------------------|---------------------|
| NON-FINANCIAL UNDERTAKINGS | | Annex I | Annex II |
| FINANCIAL UNDERTAKINGS | Asset managers | Annexes III and XI | Annex IV |
| | Credit Institutions | Annexes V and XI | Annex VI |
| | Investment firms | Annexes VII and XI | Annex VIII |
| | Insurance and reinsurance undertakings | Annexes IX and XI | Annex X |

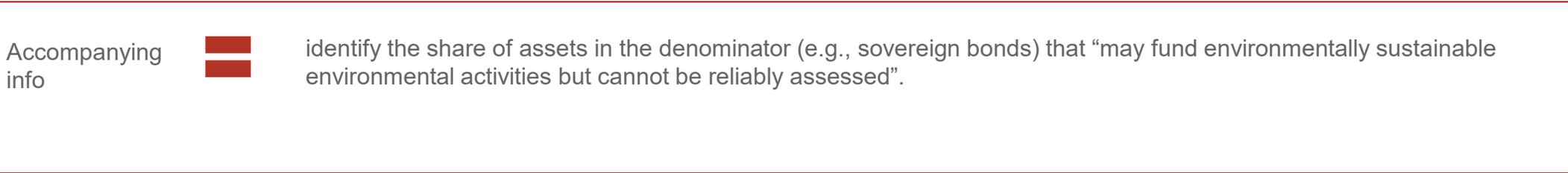
KPIs for non-Financial Undertakings

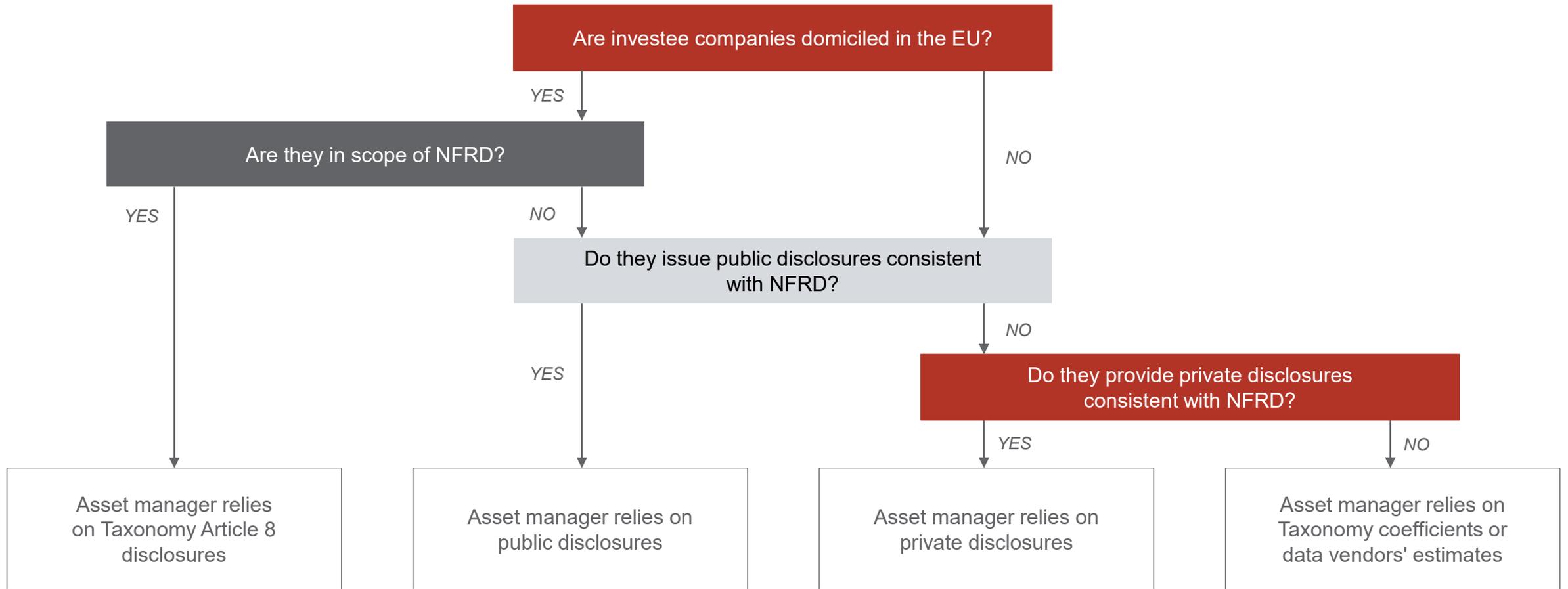
| | Turnover | CapEx | OpEx |
|-------------|--|--|--|
| Numerator | Turnover derived from products or services associated with Taxonomy-aligned activities | Expenditure on tangible or intangible assets or processes where Taxonomy-aligned, or which are part of a five year plan to achieve Taxonomy-alignment, or related to the purchase of output from Taxonomy-aligned activities | Expenditure related to assets or processes where Taxonomy-aligned, or which are part of a five year plan to achieve Taxonomy-alignment, or enabling activities |
| Denominator | Net turnover | Total expenditure of the business in the financial year on tangible or intangible assets | Direct non-capitalised costs, eg. servicing of property, plant and equipment |

KPIs for Financial Undertakings under Regulation (EU) 2021/2178

| ASSET MANAGERS | CREDIT INSTITUTION | INSURANCE AND REINSURANCE | INVESTMENT FIRMS |
|--|--|---|--|
| <p>Green Investment Ratio (GIR)</p> | <p>Green Asset Ratio (GAR) KPI for fees and commission income (F&C KPI) Green Ratio for financial guarantees or corporates (FinGuar KPI) Green Ratio for assets under management (AuM KPI) Trading KPI</p> | <p>KPI on investments KPI on underwriting activities</p> | <p>Green Asset Ratio KPI for fees and commission income (F&C)</p> |

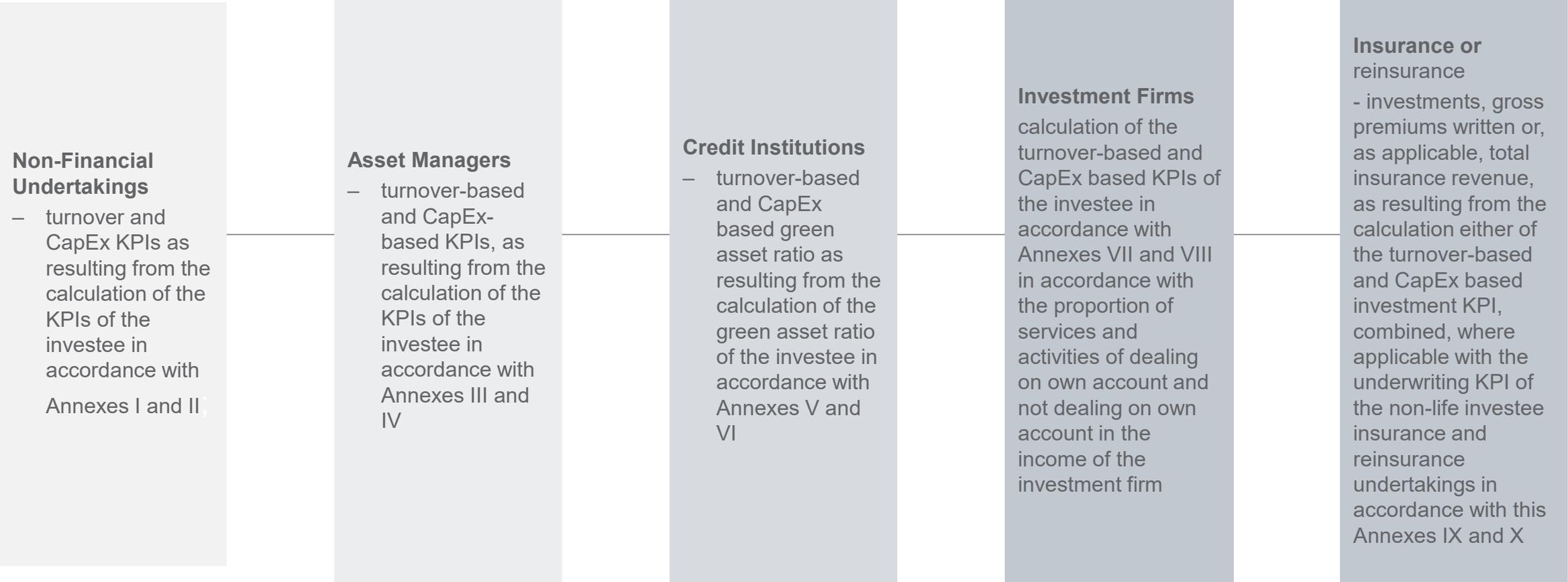
KPIs for Asset Managers (GIR)





Green Investment Ratio: Taxonomy aligned economic activities of investee companies

Numerator consists of a weighted average of the value of investments in Taxonomy-aligned economic activities of investee companies.



KPI - methodology

Disclosures

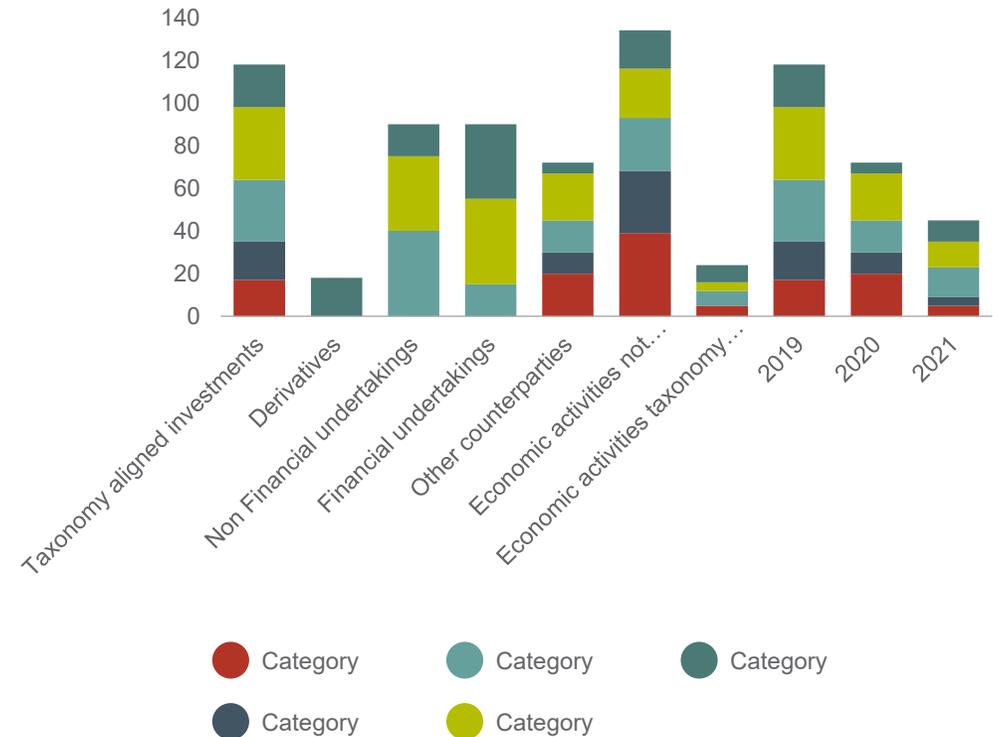
- 1 KPIs for each environmental objective and for aggregated taxonomy aligned economic activities
- 2 Subset of transitional and enabling economic activities, aggregate economic activities
- 3 Breakdown numerator and denominator per type of investment
- 4 KPIs in relation to aggregated taxonomy-eligible economic activities
- 5 % of taxonomy non-eligible economic activities within the AuM
- 6 % in total investments of investments in exposures to public authorities issuers and derivatives
- 7 KPIs at the level of the individual asset manager (if individual non-financial statements) or at group level (if consolidated non financial statements)

Cool tones

Only use for chart colours and infographic elements on a slide

- Infographics standardised
- Follow colour hierarchy
- Two colour schemes – warm tones and cool tones
- Increased use of red
- Graphics need breathing space – do not overload your slide with numerous colourful graphics
- Chart headings – 10pt bold
- Chart subheadings – 10pt non-bold
- Chart labels
 - Value axis 9pt
 - Category axis 9pt
 - Key 9pt
- Text size within charts can be increased for in-room onscreen presentations

Total investment – 10pt bold
USDm – 10pt non-bold



Hyperlinks to the relevant texts



Key contacts



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