IFIEC response to EU Taxonomy disclosure obligations (Art. 8)

IFIEC welcomes the opportunity to provide Feedback on the Draft delegated regulation – Ares (2021)3080956. The Taxonomy Regulation aims to support companies in adapting their business strategy towards sustainability and help them finance their investments on the way to reach the Green Deal ambitions. It is acknowledged, that reliable, comparable and relevant data provide transparency to institutional and private investors to make informed choices to invest in activities supporting companies’ path to contribute to Net Zero emissions target. Consequently, companies are required to disclose how and to what extent their activities are associated with environmentally sustainable economic activities. To avoid that such disclosure requirements lead to competitive disadvantages and substantially higher workload, IFIEC asks to consider the following issues:

1. Ensure competitiveness safeguarding reporting

The draft Art. 8 Delegated Act goes beyond the objectives described above. It will lead to overreporting and proposes a level of granular information that is on the one hand not necessary for investors’ decisions and on the other hand requires companies to provide information to an extent that may even harm their competitiveness.

We see such a risk especially in not only requiring companies to disclose how and to what extent their activities are ‘Taxonomy-aligned’, but also force them to report about their activities that are ‘Taxonomy-eligible but not aligned’ and ‘not eligible’. Such detailed information was not foreseen in the Taxonomy Regulation. It provides competitors in and outside the EU access to company’s data that will not be reported by Non-EU businesses and therefore may undermine the EU’s competitiveness.

Furthermore, companies are requested to disclose their future objectives and targets for their KPIs and their plans to achieve them. This goes beyond what is requested for the CapEx and OpEx plans and the level-1 legislation and should be revised, especially as such reporting will contain commercially sensitive information and requires publishing even business confidential details.

2. Fair and feasible implementation timeline

Companies’ future obligations will require new reporting processes and structures. But it is extremely challenging to start preparing for complying with the Taxonomy Regulation, as the basis of the corporate disclosure requirements has still not been finalized. The proposed simplifications for the first reporting year are not far-reaching enough and the scope is still not clear and delimited.

There is still a high level of uncertainties for both companies and auditors. Given the complex requirements and very short time to prepare and agree on common definitions, we suggest to extend any Taxonomy’s requirement by one year, starting with a phased-in implementation in 2023, given the current expected timeline to have all relevant DAs in Place around mid-2022.

3. Transparent and stakeholder-friendly disclosure

Annex II of the draft DA includes a detailed template for the corporate report. It does not give any flexibility to the reporting company, adds considerable reporting complexity and potentially discloses sensitive data. The template is complex and granular and does not apply in the same way to financial market participants, bringing up the question of relevance.

To reflect sectorial peculiarities, ensure comprehensibility and limit the reporting costs we strongly recommend to requiring companies to only report on their Taxonomy-aligned criteria without splitting per environmental objective. Companies may decide to disclose more granular data, but this should be a voluntary decision to be accorded to each undertaking.
The draft DA requires 5 year of retrospective information from the first application date (Art. 9-2). Typically, financial statements are required to provide a one-two year comparison.

A compliant reporting for 5 years back before the implementation is not possible. Even if the 5 years retrospective information requirement was to be implemented progressively, it would entail complex and recurring re-assessment of historical data based on a framework that will continuously update. We therefore suggest accepting ESMA’s recommendation to the Commission to provide a one-year comparability.

The draft Art. 8 uses multiple terms that so far have not been defined in the legal framework of the European Union or in other reporting standards (e.g. IFRS), leaving substantial room for uncertainty and misinterpretation. In addition, not all references to other standards are clearly traceable and should be thoroughly revised and updated. Amongst others, the definition of CapEx and OpEx should be clarified by referring to International Accounting Standards.

4. Take into account project implementation time

The 7-year maximum time limit for activities to become Taxonomy aligned does not reflect projects for transformation efforts with a longer timeframe and should be cancelled.

Summary

The draft Delegated Act in the context of the EU Taxonomy aims to provide comparative and material reporting for investors at adequate cost for the companies.

To obtain such objectives it is essential to provide clear, unique definitions. The reporting must be relevant and adequate. Companies must be given a realistic time for implementation.

Finally, it is absolutely mandatory that no competitively sensitive information or disclosure of trade secrets is requested.