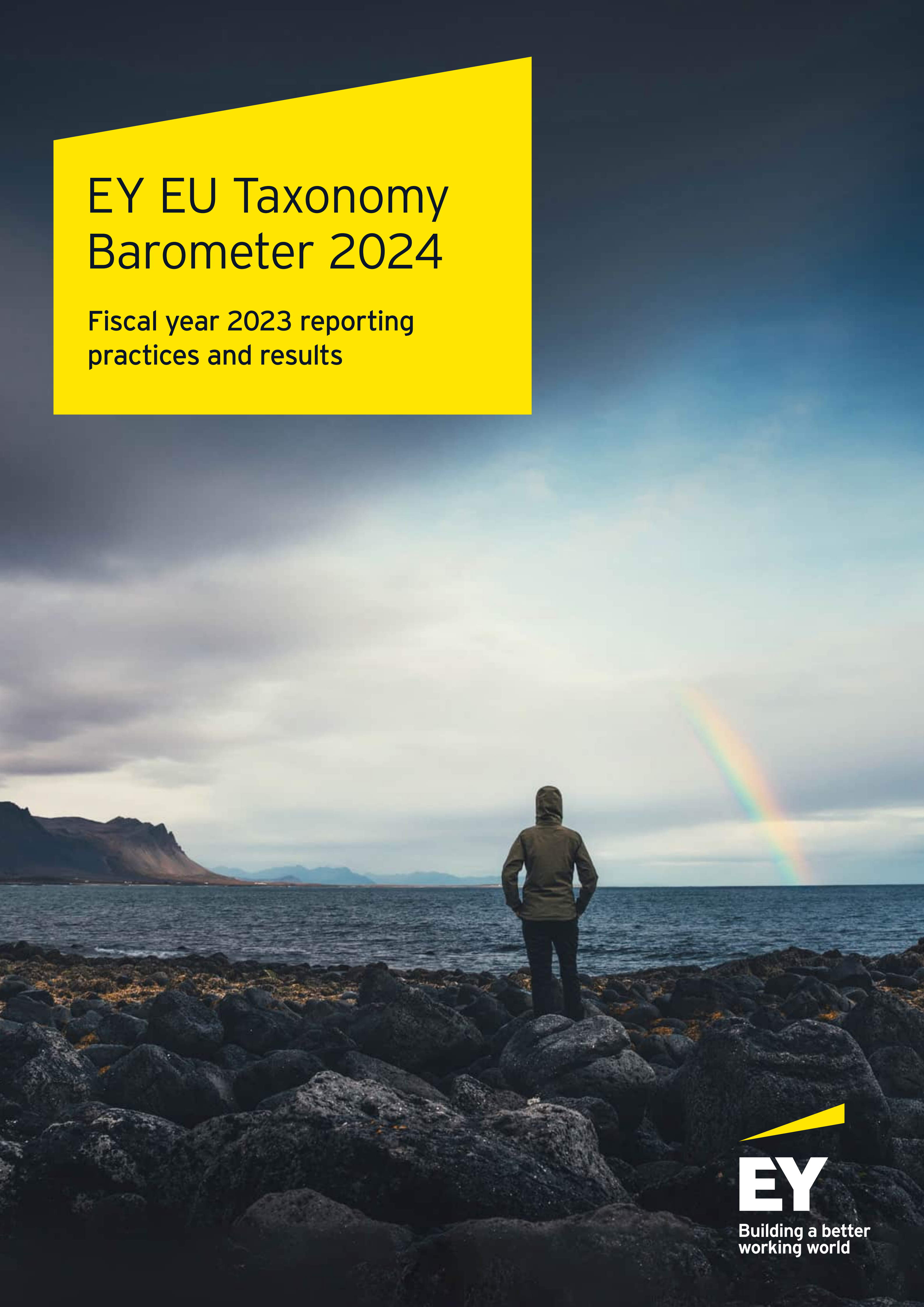
EY EU Taxonomy Barometer 2024

Fiscal year 2023 reporting practices and results



Building a better working world

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Introduction

In March 2018, the European Commission proposed the "Action Plan on Sustainable Finance," a strategic initiative aimed at directing investments toward sustainable projects and activities, with the ultimate goal of making Europe the world's first climate-neutral continent.

A cornerstone of this plan was the creation of a classification system to provide a common language and clear definition of what a sustainable economic activity is. The EU Regulation 2020/852, known as the "Taxonomy Regulation" or "EU Taxonomy," was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. This regulation outlines the criteria for an economic activity to be deemed environmentally sustainable, providing companies, investors and policymakers with precise definitions to determine whether an activity can be considered environmentally sustainable.

The Taxonomy Regulation is applicable to **undertakings** that are required to publish a **nonfinancial statement**[1] or a consolidated nonfinancial statement. This includes public interest entities (PIEs) with more than 500 employees, and either more than €40 million in revenue or €20 million on the balance sheet. The Regulation is also applicable to **financial market participants** who offer financial products.

Under the Regulation, undertakings must disclose the proportion of their activities that are Taxonomy eligible and Taxonomy aligned.

Eligible activities are not necessarily environmentally sustainable, but have the potential to contribute to one of the six environmental objectives outlined in Article 9 of the Taxonomy Regulation:

1. Climate change mitigation (CCM)
2. Climate change adaptation (CCA)
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

For an activity to be **Taxonomy aligned**, it must not only be eligible, but also meet additional criteria that classify it as environmentally sustainable:

- The activity must comply with the **substantial contribution criteria** established for each of the EU Taxonomy environmental objectives.
- The activity must **not significantly harm any other environmental objectives** of the EU Taxonomy.
- The undertaking must carry out the activity **in compliance with the minimum safeguards**, ensuring alignment with the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises[2], and the United Nations (UN) Guiding Principles on Business and Human Rights[3]. Additionally, the activity should adhere to the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labor Organization on Fundamental Principles and Rights at Work[4], and the International Bill of Human Rights[5].

[1] Obligation under the Nonfinancial Reporting Directive.
[2] "Guidelines for multinational enterprises," OECD website, oecd.org/corporate/mne/.
[3] "Guiding Principles on Business and Human Rights," United Nations Global Compact website, unglobalcompact.org/library/2.
[4] "ILO Declaration on Fundamental Principles and Rights at Work," International Labour Organization website, ilo.org/declaration/lang--en/index.htm.
[5] "International Bill of Human Rights," United Nations websiteohchr.org/en/what-are-human-rights/international-bill-human-rights.

In the coming years, the Taxonomy Regulation will extend its applicability to the same entities that will fall in scope of the new Corporate Sustainability Reporting Directive (CSRD). The timeline for this expansion is as follows:

- Starting in 2024, the regulation will apply to large EU public-interest companies with over 500 employees that are already subject to the nonfinancial reporting directive.
- Starting in 2025, it will include large EU-listed companies not currently under the nonfinancial reporting directive, as well as insurance companies, credit institutions, and large companies that exceed at least two of the following thresholds: 250 employees (previously 500); €50 million in turnover (previously €40 million); €25 million in balance sheet total (previously €20 million).
- From 2026, listed SMEs, small credit institutions and captive insurance companies will also be required to comply.
- By 2028, the regulation will also cover companies headquartered outside Europe but with significant activity in the EU market (over €150 million in net turnover[6] in the EU) and at least one branch (with net turnover exceeding €50 million) or a subsidiary (listed in the EU, unless it is a micro-enterprise[7]) within in the EU. In particular, EU-based undertakings with non-EU parent companies will be required to include Taxonomy disclosures in their management reports, or, where applicable, in the consolidated sustainability reporting carried out by the non-EU parent company. For this latter group, uncertainties remain whether a non-EU parent company should also consolidate the activities of its non-EU subsidiaries. This is a point of attention that could mark a significant divergence from the requirements set out in the CSRD, and it is expected to be clarified in the coming months.

Disclosure requirements

Under the "Disclosure Delegated Act," **nonfinancial undertakings** are obligated to disclose the proportion of their activities that are Taxonomy eligible and Taxonomy aligned. This disclosure must be made in terms of three KPIs:

- Turnover
- Capital expenditures (CapEx)
- Operating expenditures (OpEx)

For **financial undertakings**, the Regulation mandates the disclosure of information regarding how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable (aligned activities). The KPIs for these financial institutions are tailored to capture the share of investments or insurance premiums directed toward environmentally sustainable economic activities, differing from the KPIs required for nonfinancial undertakings.

*For instance, credit institutions are required to disclose the green asset ratio (GAR), which indicates the share of undertakings and projects in their portfolios that are connected to Taxonomy aligned activities. Meanwhile, insurers must report the share of their premiums linked to policies covering climate perils and the extent of their investments in funding environmentally sustainable activities.

[6] The term "net turnover" refers to the revenue generated from the sale of products and the provision of services, after deducting sales rebates, value added tax (VAT), and other taxes directly related to turnover.

[7] The term "micro-undertakings" refers to undertakings that do not exceed at least two of the following three criteria: (a) a balance sheet total of €450,000; (b) a net turnover of €900,000; (c) an average number of employees during the financial year of 10, as specified in Article 3, point (1) of Directive 2013/34/EU of the European Parliament and of the Council.

Disclosure requirements for fiscal year (FY) 2023

The European Commission has adopted a phased approach to introduce Taxonomy disclosures into the reporting of nonfinancial undertakings:

Fiscal year	Reporting requirement
2021	Companies were required to disclose the share of Taxonomy KPIs related to Taxonomy eligible activities for CCM and CCA objectives (outlined in the Climate Delegated Act).
2022	Companies were required to disclose the share of Taxonomy KPIs related to both Taxonomy eligible and Taxonomy aligned activities for CCM and CCA objectives (outlined in the Climate Delegated Act). These shares were to be reported in three mandatory tables, one for each KPI.
2023	In June 2023, the Commission adopted the Environmental Delegated Act and an amendment to the Climate Delegated Act. For FY 2023, nonfinancial undertakings had to disclose the percentage of eligibility for activities introduced in June 2023. The Environmental Delegated Act also required undertakings to disclose the shares of Taxonomy KPIs related to Taxonomy eligible activities for the four remaining environmental objectives, without assessing alignment. Amendments to existing activities within the Climate Delegated Act needed to be included in the alignment analysis, but new climate-related activities released in June 2023 were not subject to the alignment analysis (only eligibility disclosure was required). The amendments introduced updated and complementary templates for the Taxonomy KPIs.

The Disclosures Delegated Act requires financial companies to include the KPIs reported by their counterparties in their own KPI calculations, such as the GAR. Because of this, financial companies had a two-year transition period to get ready. Starting in FY 2023, they began reporting essential KPIs that show how well they align with climate goals, such as reducing climate change and adapting to it. Before this, financial companies only reported how much of their business was eligible or not eligible under the Taxonomy rules.

The EY EU Taxonomy Barometer, now in its third edition, was created to analyze and present a detailed overview of reporting practices across European countries and sectors. It aims to highlight the most significant trends in disclosure practices in response to the evolving nature of the Regulation.

Nonfinancial undertakings

The average share of eligibility and alignment can vary by country and sector. According to the EU Taxonomy Barometer 2024, companies disclosed an average share of eligible turnover and OpEx at 35%, while CapEx was higher at 43%. Key observations include:

- In line with last year's results, CapEx maintains the highest eligibility percentage among the three Taxonomy KPIs, showing a notable 7% increase compared with the previous year. This may be attributed to the fact that CapEx also includes the purchase of output from Taxonomy aligned economic activities.
- Consistent with previous years, turnover and OpEx show similar patterns of eligibility, being mostly related to the core business activities of the undertakings.
- CCM continues to dominate the eligibility share among the six objectives of the EU Taxonomy, contributing to 25% of the 35% total result for turnover KPI, 38% of the 43% total result for CapEx KPI, and 30% of the 35% total result for OpEx KPI.[8]
- For FY 2023, the eligibility shares for the four environmental objectives included in the Environmental Delegated Act were modest, peaking at 3% for each KPI. It is important to highlight that the newly added objectives encompass less than 40 activities, in contrast to the first two objectives, which cover over 100 activities.

Regarding alignment, companies reported an average of 10% turnover, 16% CapEx, and 12% OpEx. In line with FY 2022, CapEx continued to show the largest discrepancy between eligibility and alignment (27 percentage points), while turnover and OpEx had smaller gaps (25 and 23 percentage points, respectively). A significant gap between eligibility and alignment quantifies a company's ability to conduct activities sustainably (alignment) versus its potential to do so (eligibility). Moreover, such a discrepancy may negatively impact the company's ability to attract investments from external parties. A significant gap between eligibility and alignment should drive a company's investment strategy toward sustainability, aiming to increase the percentage of KPIs that can contribute to one of the six environmental objectives.

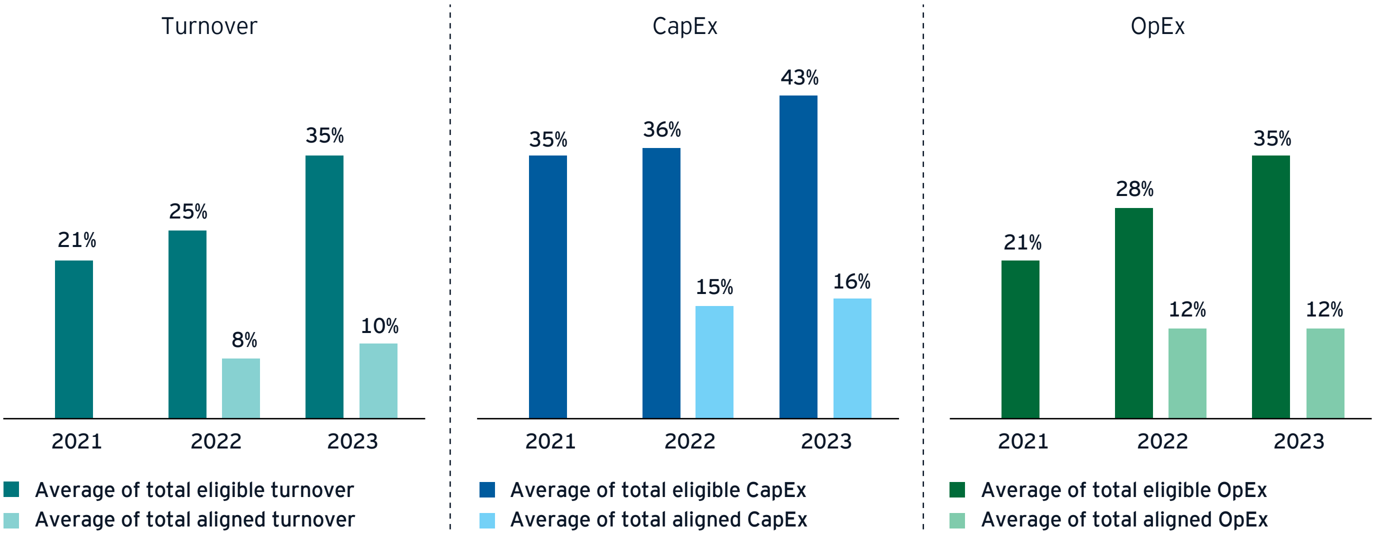
Key findings on qualitative disclosure

The analysis presented in this report offers significant insights into Taxonomy disclosure practices across Europe:

- The Taxonomy Regulation mandates that companies provide a qualitative description of their determination and allocation methods for Taxonomy KPIs, referred to as the "accounting policy." This year's edition of the EY EU Taxonomy Barometer indicates that 88% of nonfinancial undertakings within the scope (271 out of 307) have complied with this qualitative disclosure requirement, marking a 9% increase from FY 2022.
- Approximately one in 10 nonfinancial undertakings – 31 out of 307 – has restated eligibility or alignment for some data published in the previous reporting year.[9]
- Almost 35% of nonfinancial undertakings in scope (107 out of 307) have incorporated additional tables in their Taxonomy disclosures, concerning Taxonomy eligible and Taxonomy aligned activities related to fossil gas and nuclear energy.
- The new additional table required for nonfinancial undertakings to disclose the percentage of eligibility and alignment for each environmental objective of Taxonomy activities has been included in the disclosures by 47% of the undertakings in scope – 145 out of 307.
- Approximately 27% of Taxonomy disclosures (83 out of 307 nonfinancial undertakings) have been assured by an independent auditor. Of these, over 60% (52 out of 83) were from Spain, where assurance is mandatory, and Germany, where assurance is a common practice for most undertakings (93.5%), even though it is not legally required. Of the seven companies that received reasonable assurance, six were listed in Germany and one in Spain for their Taxonomy disclosure.

[8] It should be noted that the Climate Delegated Act still accounts for approximately 85% of the activities (CCA 107 and CCM 101).
[9] The percentage changes in the three KPIs will be traceable from this year onward, thanks to the updated main table template that now includes an N-1 column.

Figure 1: Average KPIs (EU panel) — eligibility vs. alignment



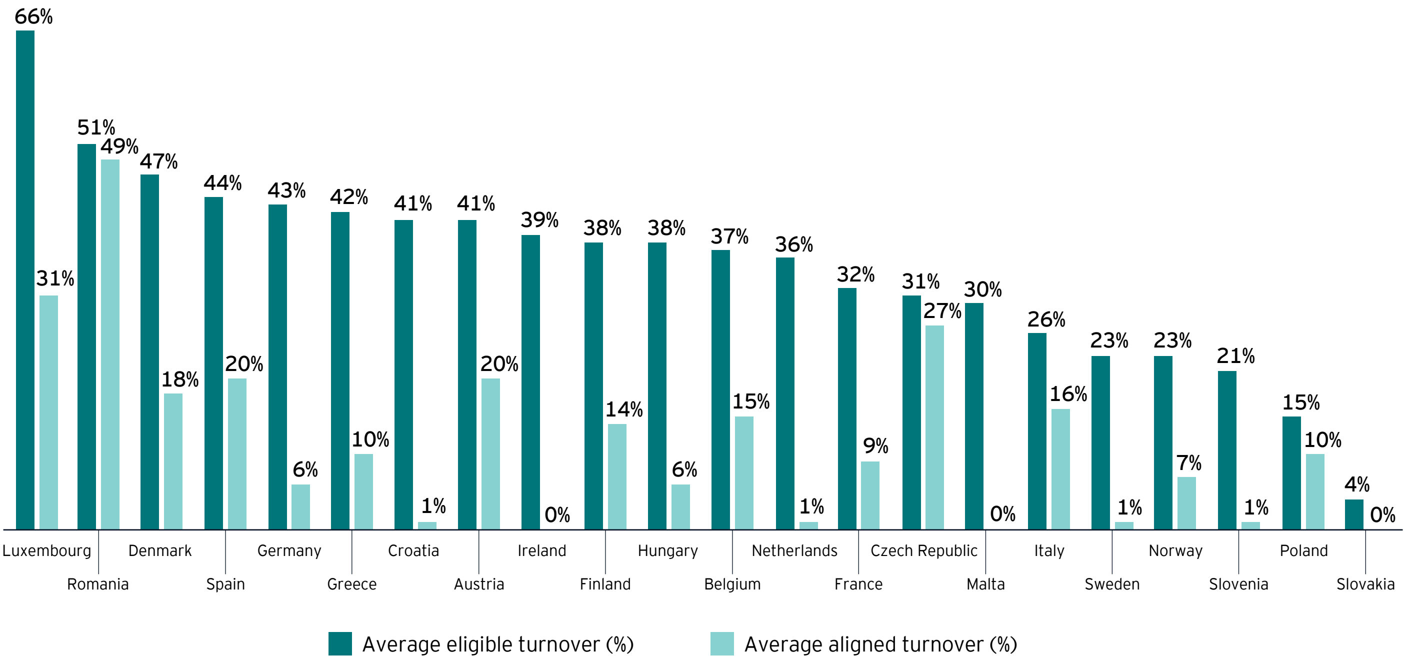
Compared with the previous edition of the EY Taxonomy Barometer, there has been a general increase in the percentages of eligibility and alignment for all three KPIs. The rise in eligibility for each KPI can partly be attributed to the introduction of four new environmental objectives. Meanwhile, the slight increase in alignment may be due to factors, such as the intrinsic experience gained from the previous year and the implementation of a stronger reporting infrastructure.

Compared to last year, the percentages for the three KPIs now include contributions from the other four environmental objectives, accounting for 9% of turnover, 5% of CapEx, and 5% of OpEx.

Turnover

The EU Taxonomy Barometer 2024 shows a notable increase in the eligibility percentages for turnover, which climbed from 25% in the reporting year 2022 to 35%, marking the most substantial growth among the three KPIs. Notably, the alignment share for the CapEx KPI also increased from 15% to 16%, as well as the turnover KPI from 8% to 10%. It is important to point out that about one in five companies in scope – 56 out of 307 (18%) – reported 0% of eligible turnover, a sharp decline from the 34% in FY 2022. Half of the companies – 155 (50%) – reported 0% of aligned turnover, a slight decrease from 54% in fiscal year 2022.

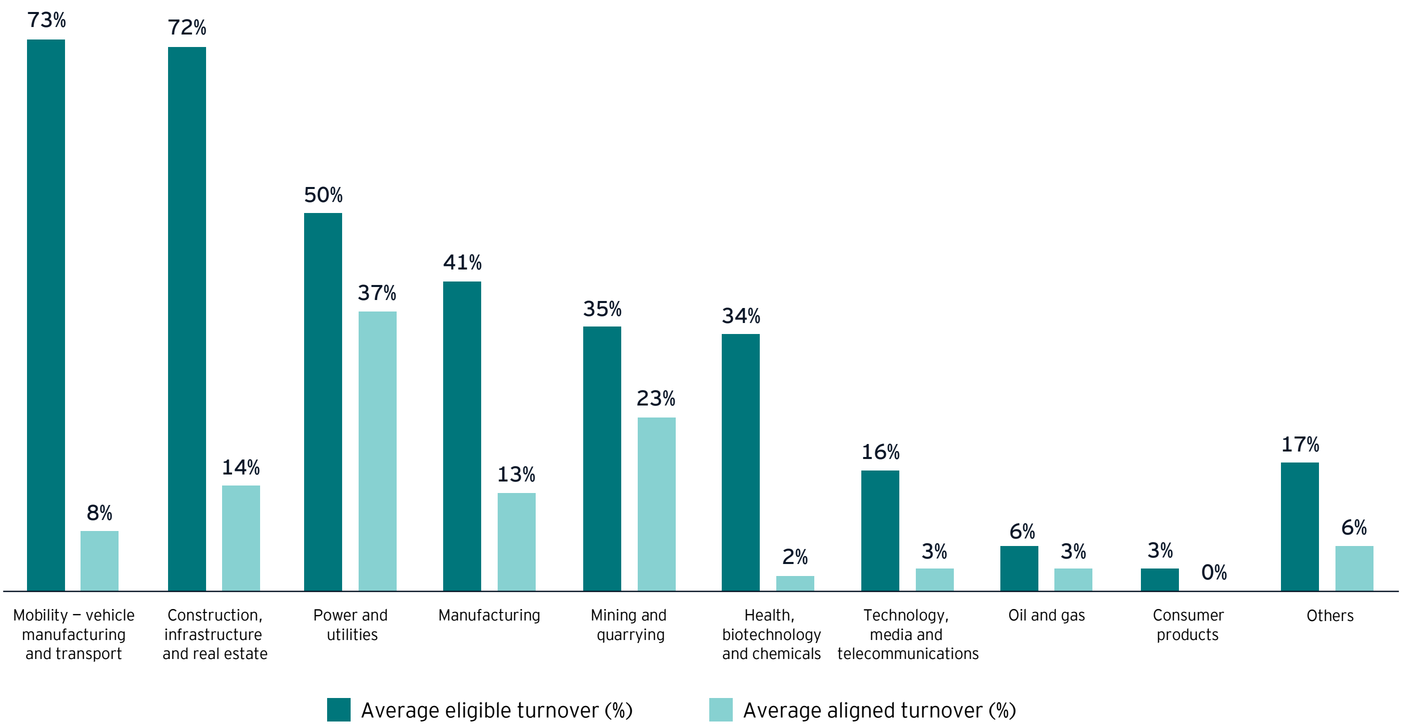
Figure 2: Turnover by country



As illustrated in the graph above, the average share of eligibility and alignment can significantly vary across countries. Luxembourg continues to have the highest percentage of eligible turnover (66%), with Romania following with 51% (four companies), which is also leading in alignment share with an impressive 49%, far surpassing Luxembourg's 31% (one company), second-best in ranking. Conversely, Slovakia (one company) has the lowest percentage of eligible turnover at 4%.

Among the 22 countries in scope, Malta, Slovakia and Ireland generally report a 0% of alignment (0.34% for Ireland). Croatia, the Netherlands (17 companies), Slovenia (five companies) and Sweden (21 companies) show minimal shares of alignment (1%). Croatia (40% – 14 companies), Ireland (38% – seven companies), Germany (37% – 31 companies), the Netherlands and Luxembourg (35%) have recorded the highest gaps. For the Dutch companies, the gap increased from 9% to 35% and this is related to eligibility associated with the new environmental objectives, which do not mandate the disclosure of alignment; therefore, the eligible turnover increased, while the aligned turnover stayed the same.

Figure 3: Turnover by sector



Average eligibility and alignment can also vary widely across industries. For the turnover KPI, as in FY 2022, the top three most eligible sectors remain mobility (73%); construction, infrastructure and real estate (72%); and power and utilities (50%), with the consumer products sector registering the lowest eligibility at 3%. The sectors with the highest alignment are power and utilities (37%); mining and quarrying (23%); and construction, infrastructure and real estate (14%).

The mobility sector, in particular, exhibits the largest gap between eligible and aligned turnover (65%), due to the widespread difficulty companies in this sector face in complying with technical screening criteria (TSC). Furthermore, the construction, infrastructure and real estate sector also shows a significant gap (58%), based on the evidence collected during the analysis. The primary cause for the nonalignment is the failure to meet the substantial contribution criteria (SCC) and do no significant harm (DNSH) criteria, which have proven to be a considerable obstacle.

CapEx

In line with the 2023 edition, CapEx presents the highest eligibility percentage among the three Taxonomy KPIs at 43%, showing a notable 7% increase from the previous year. The average share of Taxonomy aligned CapEx also experienced a slight increase, reaching 16% compared with 15% in FY 2022.

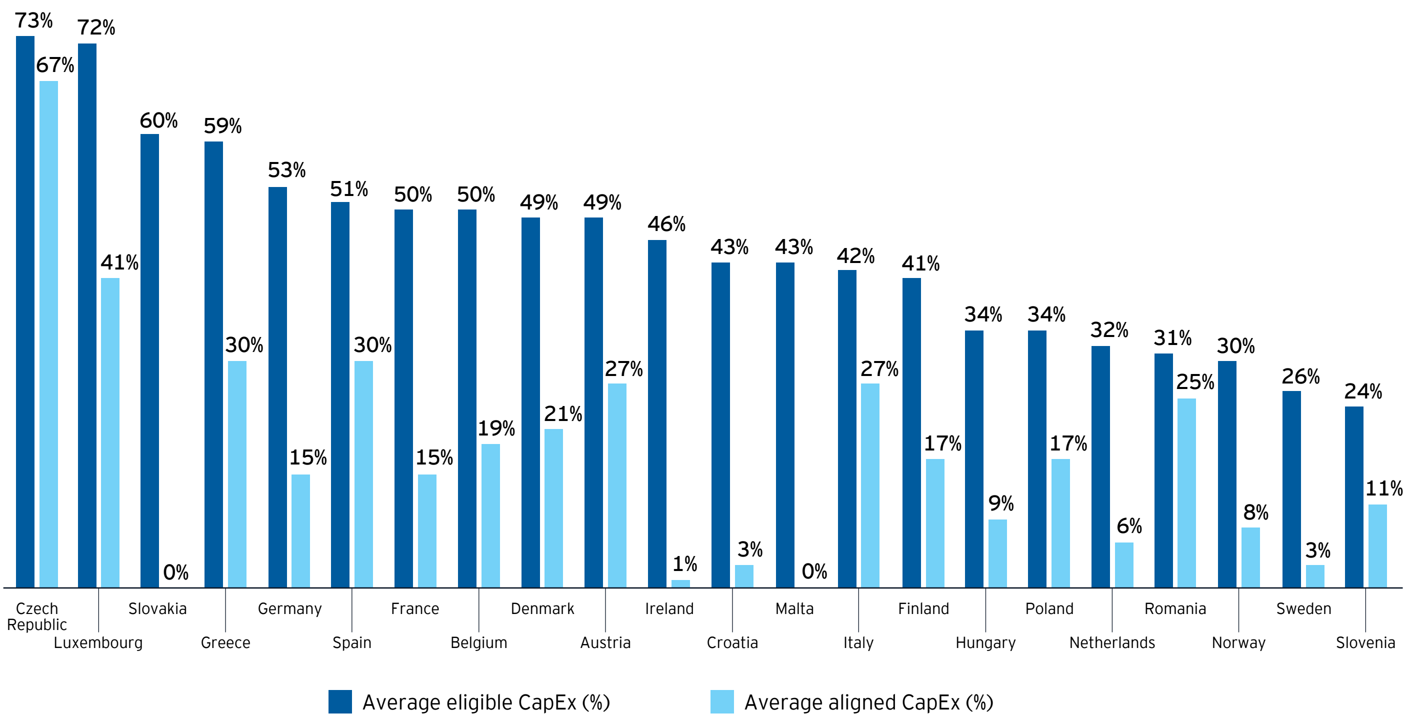
While only a small fraction of companies – 13 companies out of 307 (4% of the sample) – reported 0% CapEx eligibility, significantly down from 12% in the 2023 edition, the proportion of companies reporting 0% alignment is considerably higher at almost 36% (109 companies out of 307). The low number of companies with 0% CapEx eligibility is likely due to the inclusion of CapEx related to eligible turnover and investments aimed at reducing greenhouse gas (GHG) emissions, such as those connected to activity 7.2, Renovation of existing buildings of the CCM objective. The higher number of companies with 0% alignment may indicate challenges in meeting the TSC.

The graph below displays significant differences in average eligibility and alignment across countries. The Czech Republic (73%; one company), Luxembourg (72%) and Slovakia (60%) present the highest eligibility for CapEx. This variation from the top three in turnover may be due to the inclusion of investments targeting GHG emission reductions within the CapEx KPI. Conversely, Sweden (26%; 21 companies) and Slovenia (24%; five companies) report the lowest percentages of eligible CapEx, which are still significantly higher than the lowest percentages for turnover and OpEx.

The Czech Republic also leads in average aligned CapEx (67%), followed by Luxembourg (41%), Greece and Spain (30%). Ireland, Malta and Slovakia, however, show the lowest share of aligned CapEx at 1% and 0%.

When examining the disparity between average CapEx eligibility and alignment, Slovakia (one company) stands out with a substantial 60% deviation.

Figure 4: Capex by country



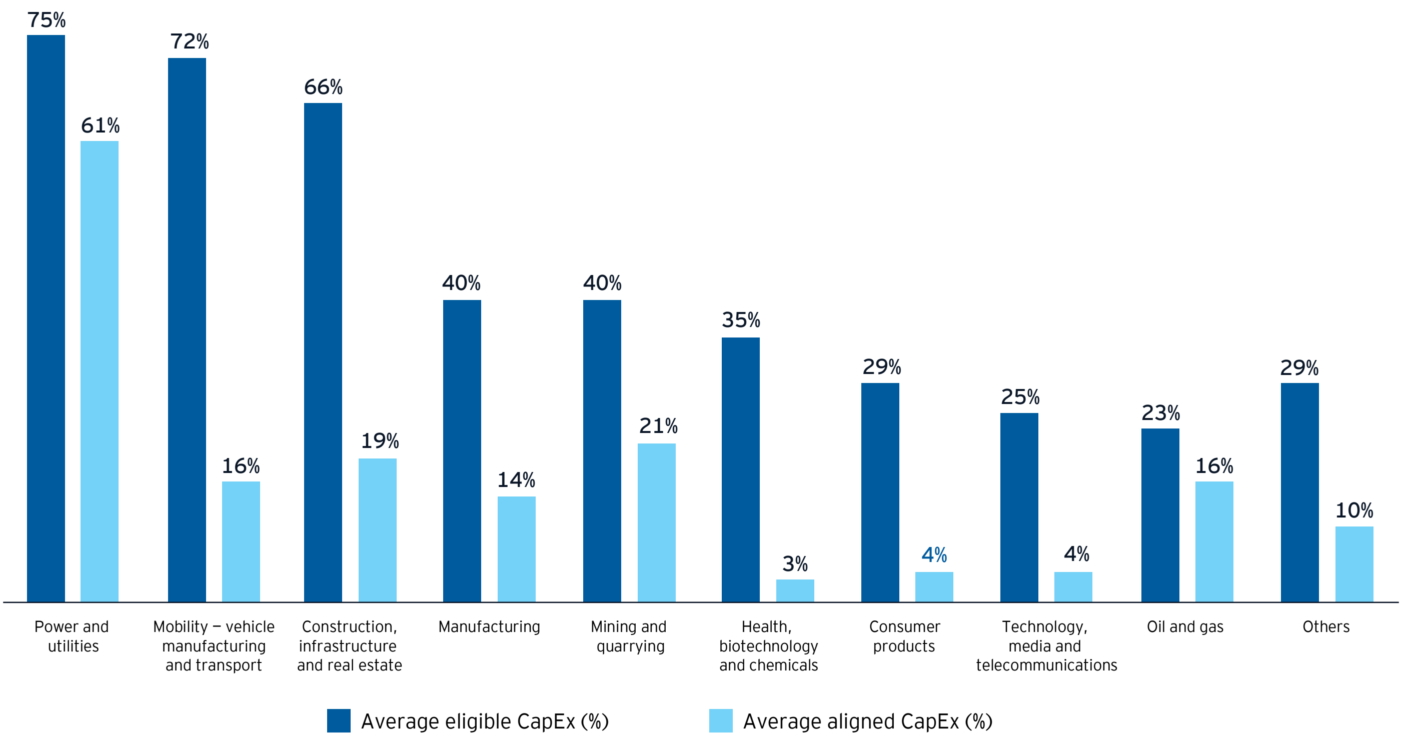
In line with last year's findings, the power and utilities sector (75% eligibility and 61% alignment); mobility (72% eligibility); and construction, infrastructure and real estate (66% eligibility) continue to have the highest eligibility rates. The lowest eligibility percentages are seen in oil and gas (23%); technology, media and telecommunications (25%); and consumer products (29%).

Regarding alignment, mining and quarrying (21%); and construction, infrastructure and real estate (19%) trail behind power and utilities in the top-aligned sectors.

In contrast, technology, media and communication, consumer products (both 4%); and health, biotechnology and chemicals (3%) sectors show the lowest alignment levels for CapEx KPI.

Similar to turnover, the mobility sector has the largest gap between average eligibility and alignment (56%), followed by construction, infrastructure and real estate (47%). The range of gaps across sectors stretches from 56% in mobility to 7% in oil and gas.

Figure 5: CapEx by sector



OpEx

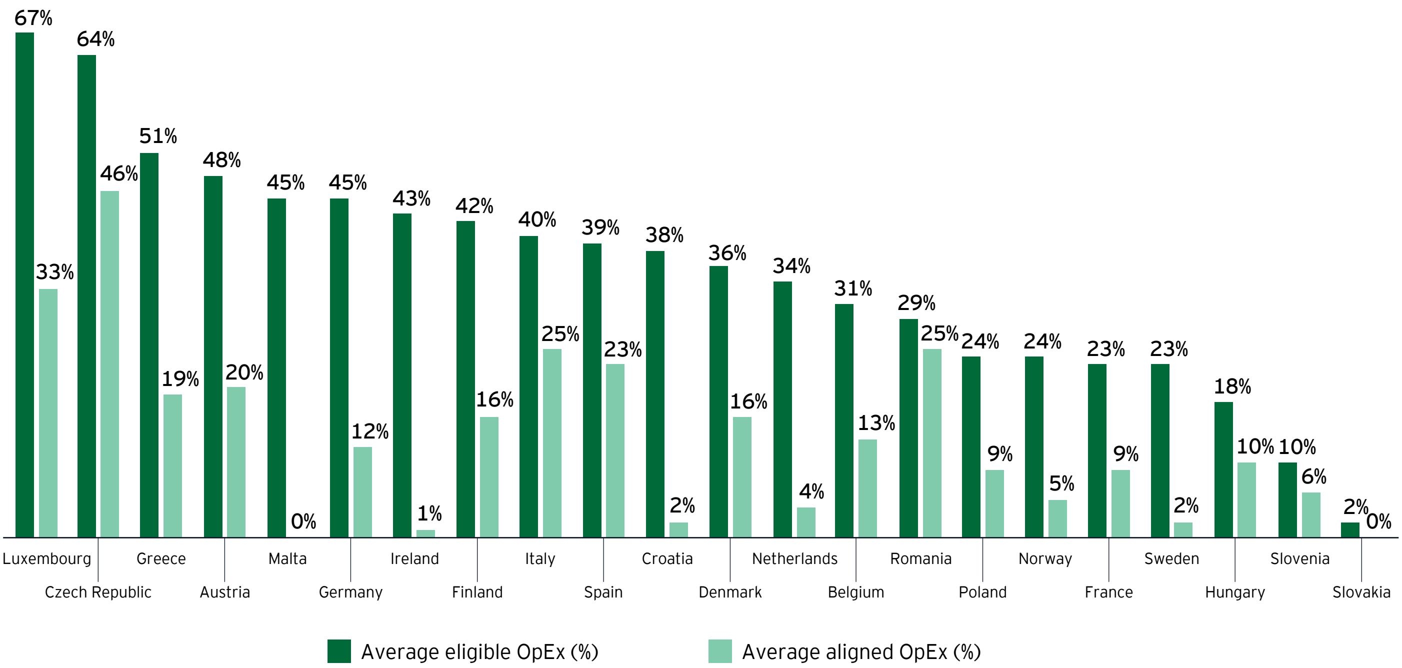
In line with the trends observed in the EY EU Taxonomy Barometer 2023, OpEx continues to mirror turnover with similar eligibility and alignment percentages. Eligibility for OpEx has risen from 28% to 35% since last year, while alignment remains stable at 12%. Out of the 307 companies in scope, 64 (21%) reported 0% eligibility, while 152 (50%) reported 0% of alignment. It is important to note that the Regulation allows companies to disclose just the value of the OpEx denominator, indicating the eligibility as 0%, when OpEx is considered "not material" to their business model. Out of the 307 companies in scope, 30 (10%) used the so-called "exempt from reporting" option for the OpEx KPI.

The country-level data for 2023 shown below indicates that, as for turnover, Luxembourg leads in OpEx eligibility at 67%. The Czech Republic stands out with 64% eligible OpEx and a high alignment rate of 46%. In line with last year, Austria (11 companies) reports 48% eligible OpEx (highest average eligibility share in 2023 edition) and has improved its alignment to 20%.

Conversely, Slovakia remains at the lower end of the spectrum with only 2% eligible OpEx and 0% reported alignment. Hungary and Slovenia also have lower eligibility rates at 18% and 10%, respectively, with Hungary reporting 10% alignment and Slovenia at 6%.

In relation to the disparity between average eligibility and alignment, Malta (45% – seven companies) and Ireland (42% – seven companies) show the largest gaps.

Figure 6: OpEx by country

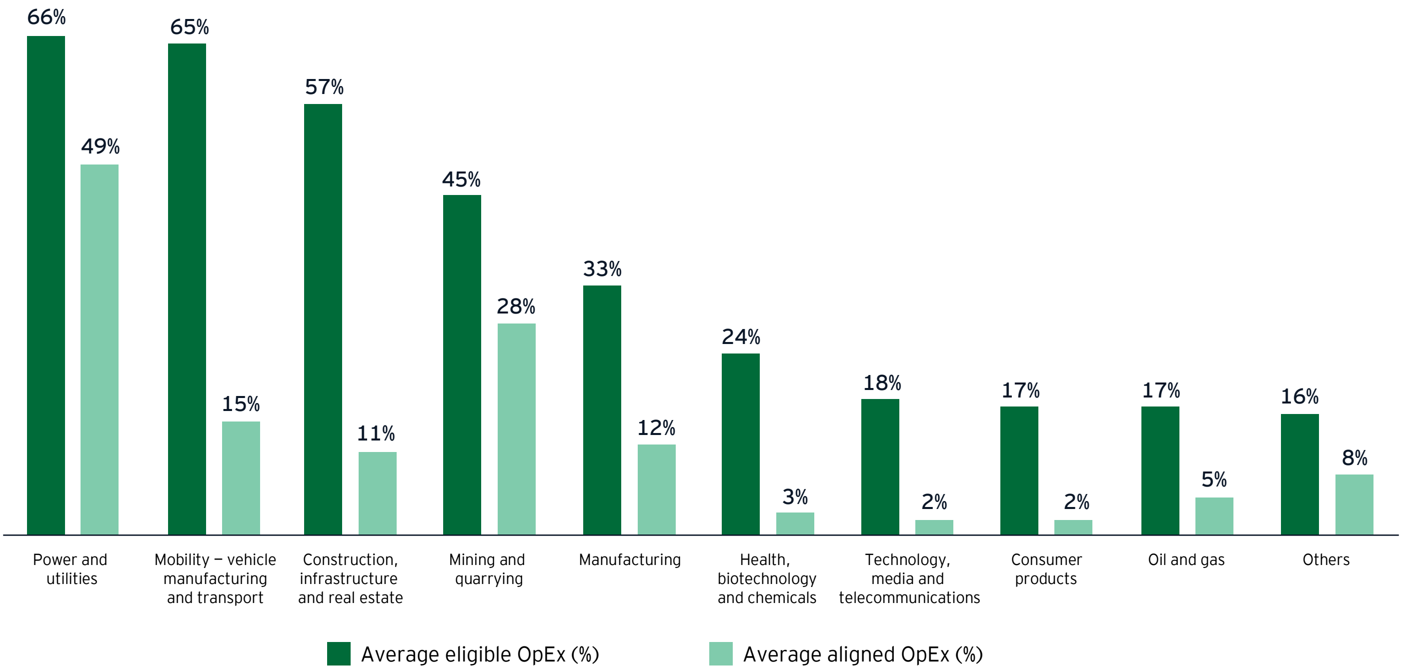


The power and utilities sector shows the highest OpEx eligibility at 66%, followed by the mobility sector — encompassing vehicle manufacturing and transport — at 65%, and construction, infrastructure and real estate at 57%. The lowest shares of eligibility OpEx are in technology, media and telecommunications (18%), consumer products, and oil and gas (17%).

In terms of alignment, power and utilities lead at 49%, a slight increase from 48%, with mining and quarrying at 28%, up 5% from last year. The consumer products sector has a small increase in alignment to 2%, and the health, biotechnology and chemicals showed marginal improvement to 3% aligned OpEx.

The mobility sector now shows a 50% gap between 65% average eligibility and 15% alignment. Similarly, construction, infrastructure and real estate also has a 46% gap, a significant rise from the previously reported 36%.

Figure 7: OpEx by sector



Financial undertakings

Key observations

The analysis in the following sections of the report provides insights into Taxonomy disclosure practices among financial undertakings in Europe:

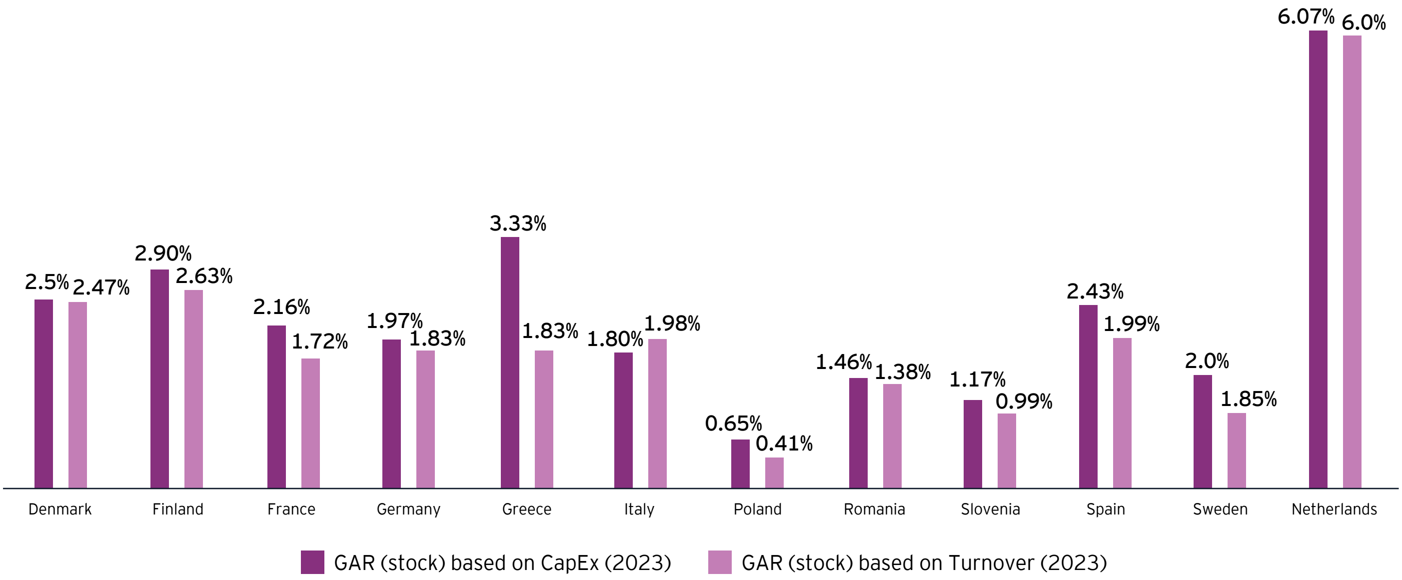
- Out of 79 financial undertakings, 15 did not provide the relevant Taxonomy disclosures in either their FY 2023 annual report or sustainability report.
- As expected, disclosed templates were limited to Taxonomy eligibility and alignment for climate-related environmental objectives. Voluntary information on the other four environmental objectives was absent, with financial undertaking citing unavailability of data from counterparties as the reason.
- A substantial 75% of financial undertakings in scope (59 out of 79) included the additional templates on Taxonomy eligible and Taxonomy aligned activities related to fossil gas and nuclear energy in their Taxonomy disclosures. Among these, 39 financial undertakings published all the related templates based on both turnover and CapEx.
- Only 22% of Taxonomy disclosures (17 out of 79) were assured by an independent auditor. Of these, over 64% (11 out of 17) were from Spain (where assurance is mandatory) and Germany. Almost all the assurances provided were limited, with only one insurance undertaking obtaining reasonable assurance.
- Some insurance companies restated eligibility on data published in the previous reporting year.
- Due to new reporting requirements introduced for FY 2023, it is not possible to compare the current disclosures with those from previous years.

Credit institutions

The contribution of banks to the EU's environmental objectives is reflected in the Taxonomy eligibility of exposures financing economic activities and assets. This indicates the banks' potential contribution of the credit and investment portfolio to the environmental objectives, with figures ranging from 0% to 88.25% and an average of 33.24%. On the other hand, credit institutions have reported Taxonomy alignment of exposures financing economic activities and assets for the first time, displaying the banks' actual contribution of the credit and investment portfolio to the environmental objectives.

The key metric, known as the GAR stock, specifies the proportion of relevant Taxonomy aligned assets to the total covered assets. The range for GAR stock based on turnover is from 0% to 10%, with an average of 1.77%, and for GAR stock based on CapEx, it also ranges from 0% to 10%, with an average of 2.01%.

Figure 8: GAR by country



In addition to the GAR, banks have reported the following mandatory additional KPIs for the first time:

- **GAR (flow)**: This KPI indicates the inflow of new Taxonomy aligned assets relative to the total covered assets. It ranges from 0% to 10.40%, with an average of 1.90% for GAR (flow) based on turnover, and from 0% to 23.90%, with an average of 3.02% for GAR (flow) based on CapEx.[10]
- **Financial guarantees (FinGuar)**: This KPI shows the proportion of Taxonomy aligned financial guarantees in relation to the total covered financial guarantees. It ranges from 0% to 25%, with an average of 2.32% for FinGuar based on turnover, and from 0% to 42.50%, with an average of 5.50% for FinGuar based on CapEx.
- **Assets under management (AuM)**: This KPI indicates the proportion of Taxonomy aligned assets under management in relation to the total covered assets under management. It ranges from 0% to 84%, with an average of 3.48% for AuM based on turnover, and from 0% to 92%, with an average of 4.47% for AuM based on CapEx.

Banks' exposure to Taxonomy eligible and Taxonomy aligned assets mainly includes retail mortgages and consumer loans for vehicles and building renovation.

The compilation of mandatory templates has become more challenging due to the extensive information required and the introduction of complex templates for the additional KPIs. This has also led to increased interpretative uncertainties. The taxonomy disclosures have increased significantly compared with FY 2022, with the number of pages peaking at 90 for the taxonomy templates without consideration of the qualitative disclosures.

Almost all banks calculated their KPIs using both their counterparties' turnover and CapEx and published the information in separate templates. Moreover, the nuclear and fossil gas templates were disclosed for the first time by the majority of the banks.

[10] Some credit institutions chose not to disclose the GAR flow KPI due to inconsistencies between the existing regulation and the draft commission notice for financial undertakings, which at the time had conflicting definitions of 'flow'.

Insurance undertakings

The contribution of insurance companies to the EU's environmental objectives is expressed by two key metrics:

- Underwriting KPI: This reflects the actual contribution of the insurers' underwriting portfolio to CCM and CCA. The range for this KPI is from 0% to 9.8%, with an average of 2.6%.
- Investment KPI: This indicates the actual contribution of the investment portfolio to the climate objectives. The alignment share for CCM is still the highest, with ranges from 0.13% to 3.37% based on turnover (average of 1.69%) and from 0.17% to 5.34% based on CapEx (average of 2.41%).

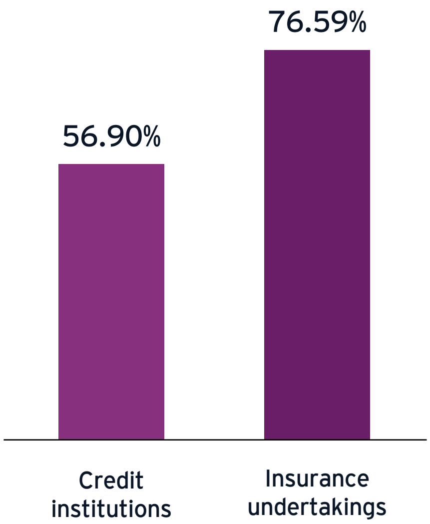
When comparing the two KPIs, insurers contribute more to climate-related objectives through their underwriting activities in relative terms. However, in absolute terms, the potential contribution through the investment portfolio is much larger due to its size. All insurers calculated their Taxonomy aligned activities using both their counterparties' turnover and CapEx.

However, as Taxonomy alignment information is based on investee companies' disclosures, insurers faced challenges in obtaining the necessary data from their counterparties. Typically, the KPIs only included nonfinancial investee undertakings, as alignment data from financial undertakings was not readily available.

In a comparison between banks and insurers, banks' Taxonomy aligned assets appear relatively higher than those of insurers. This may indicate that banks are "greener" than insurers, but the difference is primarily due to data availability, which is influenced by the business model and the extent of access to information about counterparties.

It is expected that the investment KPI will further increase as data availability and quality continue to improve. This expectation is supported by the coverage ratio, which represents the share of assets covered by the KPI in relation to total assets. Insurers' coverage ratio is relatively higher than that of banks, indicating a more comprehensive scope of reporting.

Figure 9: Coverage over total assets by financial undertakings



Key challenges

Based on the examination of sample disclosures and the experience gained from assisting undertakings in preparing both qualitative and quantitative information on the EU Taxonomy, the following have been identified as the main challenges in reporting practice:

- **Complex KPI disclosure template**: The extensive information required for each KPI, combined with a new and more complex template and the introduction of additional tables, has increased the difficulty and interpretative uncertainties in compiling mandatory templates.
- **Information sourcing difficulties**: Despite requiring only the eligibility for the other four environmental objectives, the 2023 disclosures demanded a far greater volume of information, which was not directly available and needed to be collected. Some companies faced challenges in the process of documentation collection to provide sufficient evidence for their alignment analysis and may have adopted a conservative approach as a result.
- **Persistent room for interpretation**: Despite the FAQs published by the European Commission in the final version, uncertainties regarding the interpretation of certain aspects of the Taxonomy Regulation persisted. Additionally, there has been a lack of sufficient guidance on the updates introduced by the Environmental Delegated Act, which the Commission has yet to fully address.
- **Meeting the TSC**: The introduction and amendment of TSC, often rendered stricter than before, added complexity to the alignment assessment. Many undertakings found themselves not adequately prepared to provide the required information. Furthermore, while some TSC align with local and European regulations, their application to activities conducted outside Europe presented difficulties in ascertaining alignment expectations.
- **Minimum safeguards uncertainties**: There remained uncertainties regarding how to address the requirements of Article 18 of the Regulation, leading to interpretative doubts about what should be considered "minimum" in reference to safeguards.

Overcoming these difficulties requires ongoing study and training in relation to a regulation that is continuously evolving. Disclosures will need to be increasingly comprehensive, which may call for an adaptation of internal information collection systems. Moreover, to overcome some of the alignment gaps, companies may be required to make investments that allow them to meet the TSC.

In anticipation of the additional requirements set to take into effect in the coming years, it is essential to prepare for what lies ahead and beyond.

What comes "next" and "beyond"?

The 2024 Taxonomy reporting practices show a notable increase in efforts by undertakings to meet disclosure requirements, with new activities added through both the Environmental Delegated Act and amendments to the Climate Delegated Act. Hence, it is imperative that companies continue to develop a robust reporting infrastructure and enhance the quality of sustainability information to align with the standards of financial reporting.

The evolution of Taxonomy reporting: Overall, the disclosure requirements continue to pose significant challenges for companies reporting Taxonomy-related information. Starting from next year, conducting alignment assessments on four other environmental objectives will demand greater effort and an enhanced reporting infrastructure to bridge the gap between financial KPIs and sustainability requirements. Consequently, further guidance through additional documents (e.g., FAQs and Commission notices), and dialogue between institutions and businesses are necessary to ensure a coherent approach across sectors.

The connection with the Corporate Sustainability Reporting Directive (CSRD): The CSRD, approved by the EU Council and EU Parliament in November 2022, mandates that companies covered by it will be required to have their sustainability statements, including their Taxonomy reporting, verified by an independent auditor. Mandatory assurance on Taxonomy disclosure will require companies to prepare in terms of documentability of their analysis on eligibility and TSC.

The connection to the European Green Bonds: For FY 2023, the Council has enacted a regulation that establishes a European green bond standard, setting uniform requirements for issuers who wish to designate their bonds as European Green Bonds (EuGB). By leveraging the EU Taxonomy criteria, this voluntary standard strengthens its position as a benchmark for investors and companies aiming to make significant contributions to the EU's environmental goals. This link with the Taxonomy Regulation will significantly increase the focus on the quality of information regarding eligible and aligned activities, particularly for financial institutions.

In conclusion, the impending enforcement of the CSRD and the integration of the EU Taxonomy with Green Bond standards underscore an enhanced scrutiny of sustainability disclosures. Investors, as key stakeholders, are particularly alert to these developments. Their increasing emphasis on sustainable investment practices means that the quality and comprehensiveness of a company's sustainability reporting will significantly impact its capital-raising capabilities. Therefore, robust and transparent sustainability reporting will improve not just transparency and corporate accountability, but also help to strengthen the confidence of investors and other stakeholders. This confidence is essential for long-term success in an increasingly sustainability-conscious market.

Scope of the study and methodology

This report aims to analyze compliance with the Taxonomy Regulation by European undertakings during its third year of application. The Barometer analyzes a number of companies from selected countries listed on major European stock markets. Compared with the previous year, the sample has been expanded from 16 to 21 stock indexes.

The study is based on Taxonomy disclosures 2023 published by sampled companies in annual or nonfinancial reports until 15 April 2024.

The research focuses on mandatory and voluntary (e.g., additional KPIs) quantitative and qualitative information reported. Moreover, the results have been elaborated at the consolidated level as well as at the sector level to highlight common practices and key differences.

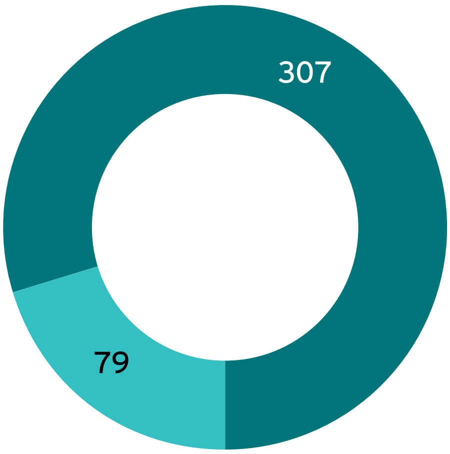
The report analyzed 386 undertakings in total — of which 307 were nonfinancial undertakings and 79 were financial undertakings that published both quantitative and qualitative Taxonomy information.

The companies are sorted by their headquarters country in the table below:

Headquarter country	**Number of nonfinancial undertakings**	**Number of financial undertakings**
Austria	11	-
Belgium	12	1
Croatia	14	-
Cyprus	-	2
Czech Republic	1	2
Denmark	16	3
Finland	21	5
France	31	4
Germany	31	5
Greece	16	4
Hungary	4	4
Ireland	7	-
Italy	28	13
Luxembourg	1	-
Malta	7	13
Norway	16	-
Poland	20	6
Romania	4	1
Slovakia	1	1
Slovenia	5	3
Spain	23	6
Sweden	21	3
The Netherlands	17	3

The criterion for determining the country of an organization is the location of its legal entity. For example, when a company has its legal entity in France but is listed in Italy, it is treated as a French company.

Figure 10: Sample size



The sector-specific analysis was based on the following list of sectors into which companies that published a Taxonomy disclosure were classified:

Sector	Number of EU companies
Nonfinancial	
Construction, infrastructure and real estate	28
Consumer products	41
Health, biotechnology and chemicals	38
Manufacturing	46
Mining and quarrying	8
Mobility – vehicle manufacturing and transport	28
Oil and gas	21
Power and utilities	37
Technology, media and telecommunications	48
Other sectors	12
Financial[11]	
Credit institutions	64
Insurance undertakings	15

Double counting of companies was avoided by considering only one sector and one country per company. The average percentages reported in the study are simple averages. Unless explicitly stated, the reference sample consists of the companies that have published information related to the EU Taxonomy.

[11] The study only covers credit institutions and insurance companies. Asset managers and investment firms are not adequately represented in the sample.

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