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# EU taxonomy for sustainable activities

IAASA
Irish Auditing & Accounting Supervisory Authority

## Disclaimer

## Vision

Public trust and confidence in quality auditing and accounting

## Mission

Upholding quality corporate reporting and an accountable profession

## Our Values

### Excellence

Striving to be the best we can be

### Independence

Regulating impartially and objectively

### Integrity

Being trustworthy and respectful

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# 1. Executive summary

IAASA undertook a desktop review of the Taxonomy Regulation disclosures of a sample of issuers' financial statements. This Paper sets out IAASA's findings from that review, with the aim of providing stakeholders with information on the extent to which those issuers disclose how they undertake economic activities that are aligned with Europe's net zero trajectory by 2050.

IAASA conducted a desktop review of the annual financial statements of 20 equity issuers[1] listed on the main market of Euronext Dublin. Seventeen of these issuers have 2022 reporting dates and the remaining three have 2023 reporting dates. The sample selected includes non-financial undertakings, credit institutions and insurance undertakings.

This Paper shares insights noted from IAASA's perspective and builds on the fact-finding exercise[2] performed by the European Securities and Markets Authority (ESMA).

# 2. Background to the EU taxonomy for sustainable activities

The EU taxonomy is a cornerstone of the EU's sustainable finance framework and is seen by the EU as an important market transparency tool. It guides direct investments to the economic activities most needed for the transition, in line with the European Green Deal objectives.

The EU taxonomy is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate.

To meet the EU's climate and energy targets for 2030 and to reach the objectives of the European Green Deal, it is fundamental that investments are directed towards sustainable projects and activities. To achieve this, a common language and a clear definition of what is 'sustainable' is required. This is the reason why the action plan on financing sustainable growth called for the creation of a common classification system for sustainable economic activities, or an "EU taxonomy".

The EU taxonomy allows financial and non-financial undertakings to share a common definition of economic activities that can be considered environmentally sustainable. It plays an important role in helping the EU scale up sustainable investment by creating security for investors, protecting private investors from greenwashing, helping undertakings become more climate-friendly and mitigating market fragmentation.

The Taxonomy Regulation entered into force on 12 July 2020. It establishes the basis for the EU taxonomy by setting out the four overarching conditions that an economic activity must meet to qualify as environmentally sustainable.

Under the Taxonomy Regulation, the European Commission was required to establish the actual list of environmentally sustainable activities by defining technical screening criteria for each environmental objective through delegated and implementing acts.

Appendix I to this Paper sets out an overview of the Taxonomy Regulation.

[1] The financial reports selected for inclusion in this desktop review are set out in Appendix II to this Paper
[2] ESMA Paper "Summary of Findings - Results of a fact-finding exercise on corporate reporting practices under the Taxonomy Regulation"

# 3. Scope of review

IAASA undertook a desktop review of the Taxonomy Regulation disclosures of a sample of issuers' financial statements.

This Paper sets out IAASA's findings from that review and aims to provide stakeholders with information on the extent to which those issuers undertake economic activities that are aligned with Europe's net zero trajectory by 2050.

IAASA conducted a desktop review of the annual financial statements of 20 issuers[3] listed on the main market of Euronext Dublin. Seventeen of these issuers have 2022 reporting dates and the remaining three have 2023 reporting dates. The sample selected includes non-financial undertakings (15 issuers), credit institutions (4 issuers) and insurance undertakings (1 issuer).

# 4. Summary of findings

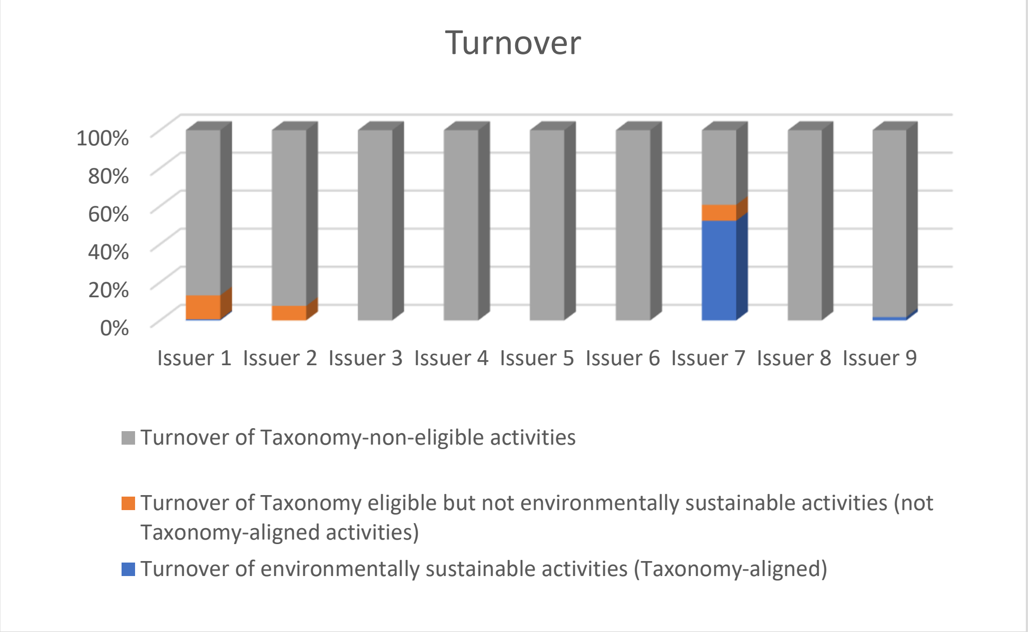
Six of the 20 issuers in IAASA's sample did not fall within the scope of the Taxonomy Regulation requirements as those six were below the size criteria[4] for providing the disclosures and, consequently, did not include taxonomy disclosures.

It should be noted that issuers included in the findings below are operating from a range of different sectors. The findings below are analysed by the nine non-financial undertakings (section 4.1), the four credit institutions (section 4.2) and the one insurance undertaking (section 4.3).

[3] The financial reports selected for inclusion in this desktop review are set out in Appendix II to this Paper
[4] Size criteria:
(a)average number of employees during the financial year exceeds 500, and
(b) balance sheet total exceeds €20million; or
(b) net turnover exceeds €40million on their balance sheet date.

## 4.1 Non-financial undertakings

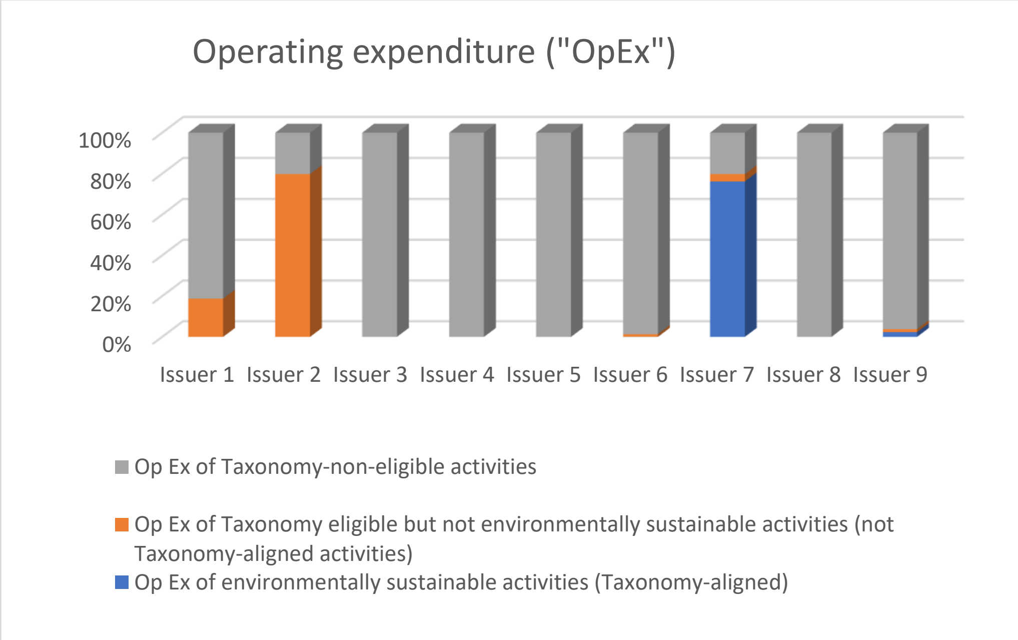
### 4.1.1 Turnover Key Performance Indicators (KPIs)




Two thirds of issuers reported that their total turnover was non-eligible under the Taxonomy Regulation [denoted by grey in table above]. These issuers concluded that their activities were not currently in scope of the Taxonomy Regulation and, therefore, were non-eligible activities.

One third of issuers reported turnover in the categories of "Turnover of environmentally sustainable activities (Taxonomy-aligned)" and "Turnover of Taxonomy eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)" [denoted by orange and blue in table above].

### 4.1.2 Operating expenditure KPI's

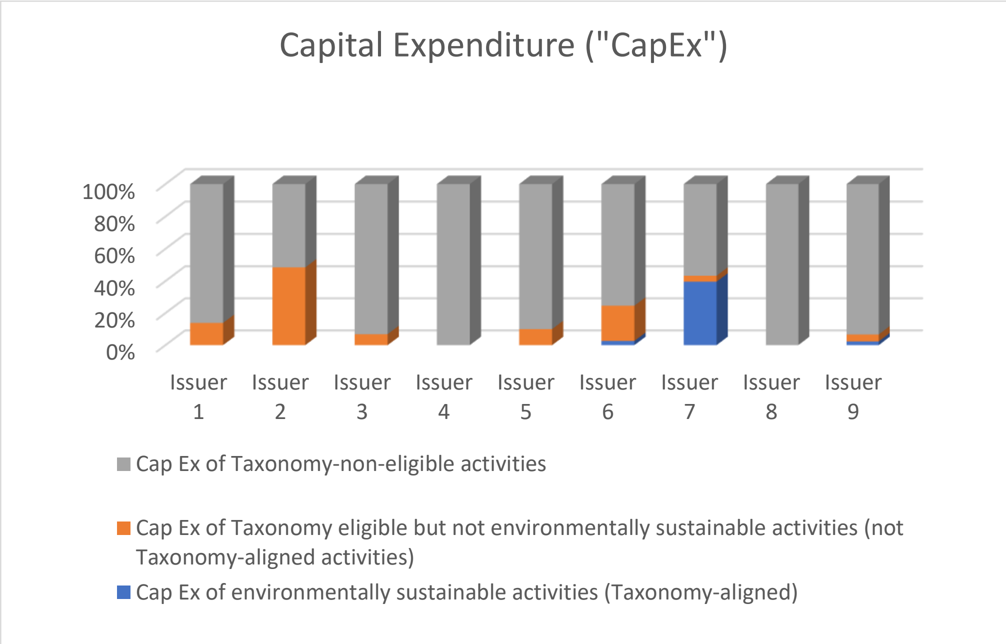



44% of issuers disclosed that their operating expenditure comprised taxonomy non-eligible activities [denoted by grey in table above].

Of the remaining 56% of issuers [denoted by orange and blue in the table above]:

- one issuer recorded 76% of its OpEx of environmentally sustainable activities to be taxonomy aligned, and
- the remaining issuers reported OpEx of environmentally sustainable activities to be taxonomy aligned at levels less than 2%.
- for OpEx of environmentally sustainable activities which are not taxonomy aligned activities, one issuer reported revenues of 80% in this category, with the remaining issuers reporting less than 20%.

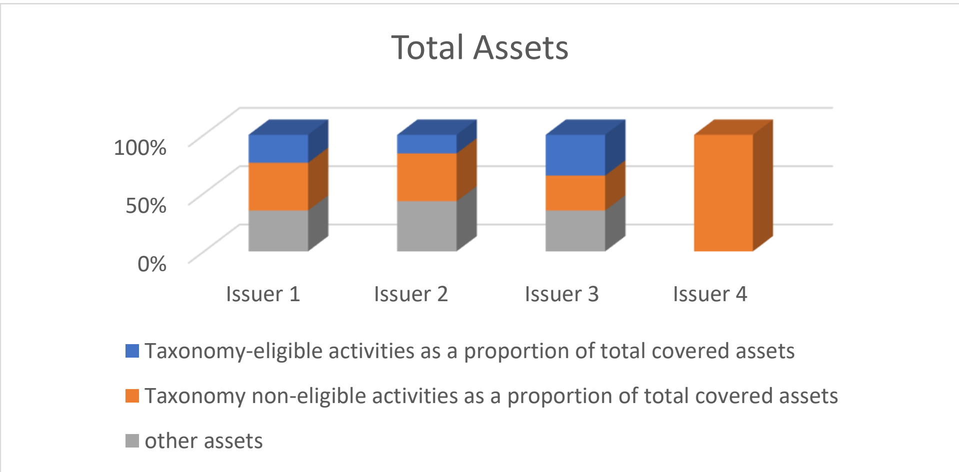
### 4.1.3 Capital expenditure KPI's




Two out of the nine issuers disclosed that all their CapEx was in taxonomy non-eligible activities.

The remaining seven issuers disclosed varying levels of CapEx within the categories of taxonomy aligned or not taxonomy aligned, ranging from 2% to 49%.

## 4.2 Credit institutions




IAASA reviewed four credit institutions all with a reporting date of 31 December 2022.

One issuer disclosed that all its covered assets were non-eligible for the purposes of taxonomy disclosure [denoted by orange in the table above].

The remaining three issuers had a relatively even split across the three categories as outlined in the table above reporting taxonomy eligible activities of covered assets at less than 35%.

It is noted that disclosure requirements continue to develop, as the disclosure of the Green Asset Ratio ("GAR") is required from 1 January 2024.

## 4.3 Insurance undertaking

IAASA reviewed one insurance entity with a reporting date of 31 December 2023. The issuer reported that 100% of insurance premiums were taxonomy non-eligible premiums. The issuer noted that due to the variability in their product offering, their systems and data do not directly allocate premiums to climate-related perils at present.

In relation to that insurer's assets, 95% related to taxonomy non-eligible activities, with the remaining 5% being taxonomy-eligible exposures. The issuer reported total covered assets at 76%, with 24% exposure to central governments, central banks and supranational issuers. The issuer disclosed total taxonomy aligned exposures of 1%.

## 5. Conclusions

5.1 The Taxonomy Regulation requires undertakings to disclose how and to what extent their activities are associated with environmentally sustainable economic activities. However, IAASA has no visibility as to how the disclosures are being used by stakeholders.

5.2 It is evident from this desktop review of disclosures that some issuers are explicitly stating in their Taxonomy Regulation disclosures that their activities are not Taxonomy eligible activities.

5.3 IAASA echoes ESMA's call that issuers use the guidance and tools[5] that the European Commission has published, including guidance on the interpretation and application of certain criteria and disclosures, and online tools to assist undertakings in their Taxonomy reporting.

5.4 IAASA highlights the European Commission's June 2023 Communication[6] which stresses the role of the Taxonomy as a "common language" that plays a key role in the EU's Sustainable Finance framework, and which can be further used by undertakings to plan investments and set targets for their transition.

[5] EU Taxonomy Navigator (europa.eu)
[6] EUR-Lex - 52023DC0317 - EN - EUR-Lex (europa.eu)

# APPENDIX I

# OVERVIEW OF THE TAXONOMY REGULATION

## 1. Overview of the Taxonomy Regulation

The Taxonomy Regulation establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable for the purposes of establishing the degree to which an investment is environmentally sustainable.

Under the Taxonomy Regulation, certain undertakings are required to disclose the proportion of their activities that are taxonomy-eligible and taxonomy-aligned.

Taxonomy-eligible activities are not necessarily environmentally sustainable but can potentially contribute to one of the environmental objectives defined by Article 9 of the Taxonomy Regulation:

(a) climate change mitigation,

(b) climate change adaptation,

(c) sustainable use and protection of water and marine resources,

(d) transition to a circular economy,

(e) pollution prevention and control, and

(f) protection and restoration of biodiversity and ecosystems.

Taxonomy-aligned activities, must not only be eligible but also qualify as environmentally sustainable where that economic activity:

(a) contributes substantially to one or more of the environmental objectives set out in Article 9,

(b) does not significantly harm any of the environmental objectives set out in Article 9,

(c) is carried out in compliance with the minimum safeguards laid down in Article 18, and

(d) complies with technical screening criteria that have been established by the European Commission.

## 2. Overview of the Taxonomy Regulation's disclosure requirements

The Taxonomy Regulation requires undertakings to disclose how and to what extent their activities are associated with environmentally sustainable economic activities.

The European Commission adopted a phased-in approach by introducing the option to report only about taxonomy-eligible activities for the first year of application. This requirement was extended to the concept of alignment for non-financial issuers for fiscal year 2022.

Financial issuers (e.g., credit institutions) were granted a two-year phase-in reporting period, with alignment key performance indicators (KPIs) becoming mandatory in fiscal year 2023. Prior to this, financial issuers were required to disclose only the proportion of exposures to taxonomy-eligible activities within their total assets.

## 2.1 Non-financial undertakings

Non-financial issuers must disclose information on the proportion of their KPIs of their activities that are taxonomy-eligible and taxonomy-aligned. These KPIs are:

(a) turnover,

(b) capital expenditure (CapEx), and

(c) operating expenditure (OpEx).

These non-financial issuers must also include the following information accompanying the relevant KPIs:

(a) the accounting policy adopted – describing the methodology used to calculate these KPIs,

(b) their assessment of their level of compliance with the Taxonomy Regulation:

- describing the nature of their Taxonomy-eligible and Taxonomy-aligned economic activities,
- explaining how they assessed compliance with the criteria set out in Article 3 of the Taxonomy Regulation, and
- explaining how they avoided any double counting in the allocation in the numerator of turnover, CapEx, and OpEx KPIs

(c) any contextual information – explaining the figures of each KPI and the reasons for any changes in those figures in the reporting period.

In instances where the operating expenditure is not material for the business model of non-financial undertakings, those undertakings are exempted from the calculation of the numerator of the OpEx KPI; however, such undertakings must disclose the total value of the OpEx denominator calculated and explain the absence of materiality of operating expenditure.

## 2.2 Financial undertakings

For the purposes of the Taxonomy Regulation disclosures, financial undertakings can be classified into four categories:

- asset managers,
- credit institutions,
- investment firms, and
- insurance and re-insurance undertakings.

Turnover, capital expenditure and operating expenditure are not relevant for assessing the environmental sustainability of financial activities; therefore, it is necessary to provide specific KPIs and the calculation methodologies for financial undertakings. Any disclosures of those KPIs should be accompanied by qualitative information to enable financial undertakings to explain their determination of KPIs.

### 2.2.1 Credit institutions

The principal KPI for credit institutions should be the green asset ratio (GAR). This shows the proportion of exposures related to Taxonomy-aligned activities compared to the total assets of the credit institution.

The GAR should relate to the credit institution's main lending and investment business, including (i) loans, (ii) advances, and (iii) debt securities and to their equity holdings to reflect the extent to which those institutions finance Taxonomy-aligned activities.

Credit institutions must disclose the proportion of their trading portfolio and on-demand interbank loans in their total assets.

### 2.2.2 Insurance undertakings

The KPIs for insurance and reinsurance undertakings should capture their non-life underwriting activities and investment policy that are part of their business model to show the extent to which those activities are aligned with the Taxonomy.

One KPI should relate to the investment policy of such insurance and reinsurance undertakings for the funds collected from their underwriting activities and should show the proportion of assets invested in Taxonomy-aligned activities in their overall assets.

A second KPI should relate to the underwriting activities themselves and show what proportion of the overall non-life underwriting activities is composed of non-life underwriting activities that relate to climate adaptation and which are performed in accordance with Commission Delegated Regulation (EU) 2021/2139 (Climate Delegated Act).

# APPENDIX II

# FINANCIAL REPORTS SELECTED FOR INCLUSION IN THIS DESKTOP REVIEW

| | Issuer name | Reporting Date | Activity |
|---|---|---|---|
| 1 | Cairn Homes plc | 31 December 2022 | Non-financial undertaking |
| 2 | CRH plc | 31 December 2022 | Non-financial undertaking |
| 3 | Dalata Hotel Group plc | 31 December 2022 | Non-financial undertaking |
| 4 | Glanbia plc | 31 December 2022 | Non-financial undertaking |
| 5 | Glenveagh Properties plc | 31 December 2022 | Non-financial undertaking |
| 6 | Hammerson plc | 31 December 2022 | Non-financial undertaking |
| 7 | Hostelworld Group plc | 31 December 2022 | Non-financial undertaking |
| 8 | Irish Continental Group plc | 31 December 2022 | Non-financial undertaking |
| 9 | Irish Residential Properties REIT plc | 31 December 2022 | Non-financial undertaking |
| 10 | Kenmare Resources plc | 31 December 2022 | Non-financial undertaking |
| 11 | Kerry Group plc | 31 December 2022 | Non-financial undertaking |
| 12 | Kingspan Group plc | 31 December 2022 | Non-financial undertaking |
| 13 | Molten Ventures plc | 31 March 2023 | Non-financial undertaking |
| 14 | Ryanair Holdings plc | 31 March 2023 | Non-financial undertaking |
| 15 | Smurfit Kappa Group plc | 31 December 2022 | Non-financial undertaking |
| 16 | AIB Group plc | 31 December 2022 | Credit institution |
| 17 | Bank of Cyprus Holdings plc | 31 December 2022 | Credit institution |
| 18 | Bank of Ireland Group plc | 31 December 2022 | Credit institution |
| 19 | Permanent TSB Group Holdings plc | 31 December 2022 | Credit institution |
| 20 | FBD Holdings plc | 31 December 2023 | Insurance undertaking |

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