



Department for
Business & Trade

PUBLIC

THE EU TAXONOMY FRAMEWORK: RESEARCH ON THE IMPACT ON COMPANIES

November 2024

Acknowledgements

We would like to thank all the organisations and businesses that participated in this research.

Disclaimer

This report compiles the views of those businesses that were interviewed as part of the research and do not necessarily reflect the views of the UK government.

Executive Summary

The UK's 2021 climate target of a 78% emission reduction by 2035 lays the groundwork for sustainable investing and green finance. In the 2023 Green Finance Strategy, the previous Government committed to introducing a usable and useful UK Taxonomy, which would define green activities with science-based criteria, mitigating market fragmentation and greenwashing.

In 2023, the Department for Business and Trade (DBT) commissioned PUBLIC to undertake research and prepare this report on the impact of the EU Green Taxonomy on companies. This report focuses on the impacts to date of the EU Taxonomy Framework, exploring the challenges, costs and benefits through research interviews with relevant businesses in the UK, EU and internationally.

At the time of interviews, the EU Taxonomy was still in the process of being developed and deployed in phases. As such, there was a limited research base to understand its effects on companies. However, as the EU Taxonomy was currently the most developed taxonomy globally, this research aimed to provide learnings and insights based on companies' interactions and experiences with it thus far.

This research is ultimately designed to identify lessons and insights to support the design of a UK Green Taxonomy, rather than to propose reforms to the EU Taxonomy.

Research Objectives

The purpose of this research is to:

1. **Develop a better understanding of the journey to compliance.** Gain insights into the compliance journey of EU reporting corporates falling under the scope of the EU Taxonomy disclosure obligations and develop some unit cost estimates for compliance for each stage of the journey.

Executive Summary

2. **Identify the greatest challenges and drivers of cost.** Identify the most challenging aspects encountered during the compliance journey and determine the primary cost drivers, as well as the benefits to reporting.
3. **Understand how the information is being used and what the gaps may be.** Explore the perspectives of reporting corporates towards the framework, and whether there is a demand from investors and other users for this type of information. This includes understanding how current disclosures related to eligibility are being utilised, exploring the potential future uses of alignment disclosures, and identifying any significant information gaps that can be addressed through these disclosures.

Methodology

This research is primarily based on qualitative 45-minute to one-hour interviews that we conducted with stakeholders, who are currently subject to, or will be subject to, the EU Taxonomy reporting requirements, as well as other relevant business stakeholders that we recruited through outreach. The interviews were conducted between October and December 2023, and the report findings were compiled in the first half of 2024.

Interview profile types

This research is primarily based on qualitative interviews with a range of stakeholders, but the primary interviewee type were companies who are currently subject to, or will be subject to, the EU Taxonomy reporting requirements. Other interviewee types include financial institutions, consultancies and data providers. We conducted a total of 72 interviews:

Interviewee type	Interviews
Reporting corporates. This refers to companies who have reported against the EU Taxonomy or will likely report against the EU Taxonomy in the future. This group was intended to be the focus of the research.	We interviewed 39 reporting corporates.
Financial institutions. This refers to companies that are subject to the EU Taxonomy on the basis of their investments. We chose this group to be the secondary profile type of focus because financial institutions are intended to be the primary user of the EU Taxonomy data. In addition, this group will be critical in determining whether the EU Taxonomy's objectives are successful.	We interviewed 23 financial institutions.

Executive Summary

Consultancies. This refers to companies that provide advisory services to reporting corporates. This profile type provides expert insight into the reporting process across multiple clients.	We interviewed 6 consultancies.
Data providers. This refers to companies that provide EU Taxonomy data and calculations as a service. This profile type has extensive experience accessing and working with reporting corporate's disclosures and data. They are an important intermediary between reporting corporates and financial institutions.	We interviewed 4 data providers.

Table 1: A breakdown of the different interview profile types

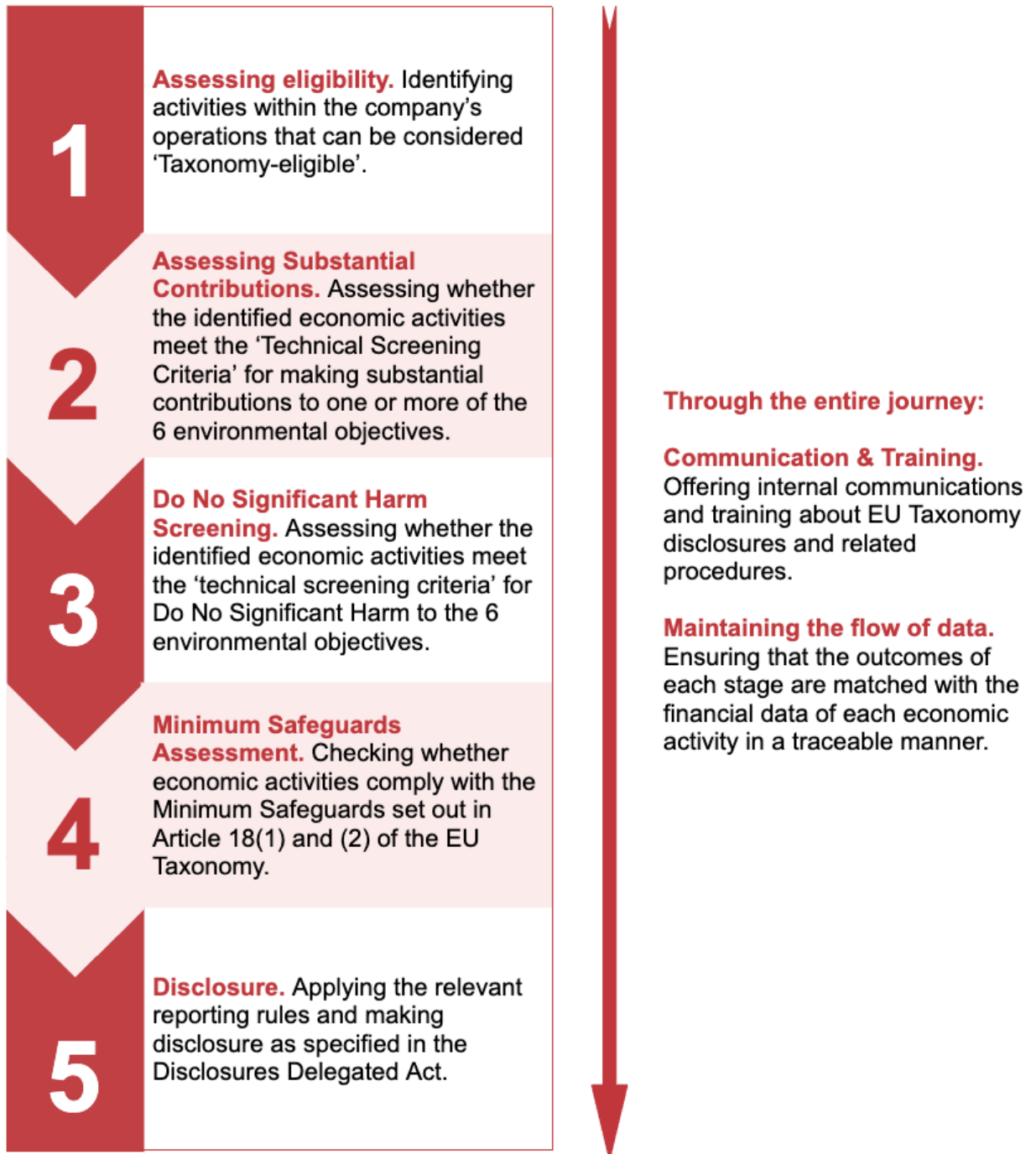
Ahead of the interviews, DBT developed a compliance journey (based on the stages of the framework) to approximate the process that companies would need to follow to comply with the EU Taxonomy. The primary purpose of the research was to test this compliance journey and assess its accuracy through the interviews, as well as ask further questions about the impacts of the EU Taxonomy.

Findings

Through our interviews, we identified challenges specific to reporting corporates during their disclosure process, which we categorise according to stages of the compliance journey outlined by DBT. In addition, we have found three overarching 'Challenge Areas' for both reporting corporates and financial institutions.

The compliance journey and the challenges to reporting corporates

We tested the overall compliance journey with reporting corporates, establishing the



sequence of stages and the corresponding challenges set out below in *Figure 1*:

Figure 1: The compliance journey

Executive Summary

Stage	Challenges
<p>Assessing eligibility. Identifying activities within the company's operations that can be considered 'Taxonomy eligible'.</p>	<ul style="list-style-type: none"> ● Initial reporting challenges stem from categorising activities using the EU Taxonomy's NACE code system.¹ ● Ambiguities in NACE codes lead to months-long efforts to determine eligibility, often requiring consultancy services. ● The Energy sector especially faces scope issues and struggles with eligibility criteria, impacting revenue calculations.
<p>Assessing Substantial Contributions. Assessing whether the identified economic activities meet the 'Technical Screening Criteria' for making substantial contributions to one or more of the six environmental objectives.</p>	<ul style="list-style-type: none"> ● Alignment proves challenging due to the scale of many reporting corporates' activities, often across many geographies. Moreover, corporates with project-based models (e.g. real estate advisory firms) struggle to aggregate the necessary information in the form needed to report, which may be spread across thousands of projects. ● The Energy sector especially faces hurdles in meeting conditions and thresholds, particularly for 'green' technologies. ● Specific sectors, such as Telecoms, encounter scope issues in defining activities within the Taxonomy, hindering their reporting.
<p>Do No Significant Harm Screening (DNSH). Assessing whether the identified economic activities meet the 'Technical Screening Criteria' for Do No Significant Harm to the six environmental objectives.</p>	<ul style="list-style-type: none"> ● DNSH poses documentation challenges due to the internal lack of the required data within reporting corporates, particularly for real estate activities and those taking place outside the EU that have different reporting standards and practices. ● Real estate companies find data requirements especially challenging to fulfil. ● Reporting corporates express difficulty meeting certain criteria that they feel may set too high a bar or are not specific enough. For example, regulations on chemicals pose challenges, with evolving definitions

¹ NACE refers to a system of industrial classification, similar to the UK's Standard Industrial Classification (SIC) system.

Executive Summary

	causing issues due to many possible interpretations.
<p>Social Safeguards Assessment. Checking whether economic activities comply with the minimum social safeguards set out in Article 18(1) and (2) of the EU Taxonomy.</p>	<ul style="list-style-type: none"> ● Establishing safeguards at the corporate level is less challenging than DNSH (which is done at the activity level) but interpreting the requirements as well as sourcing the data needed to document completion is reportedly difficult for corporates. ● There is a lack of guidance on how companies should transpose global human rights standards into corporate disclosures. ● Applying safeguards to diverse supply chains and downstream customers creates friction and challenges, where suppliers may be small and specialist or unable to provide the data needed by the reporting corporate.
<p>Disclosure. Applying the relevant reporting rules and making disclosure as specified in the Disclosures Delegated Act.</p>	<ul style="list-style-type: none"> ● Most reporting corporates find the Disclosure stage to be less challenging than the other stages. ● However, some reporting corporates used this stage to share the difficulty of developing and maintaining a system to track the reporting steps alongside the financial data needed to calculate the final KPIs. ● Consolidating financial data for Taxonomy reporting requires coordination between sustainability and finance teams, a relationship which has often been non-existent prior to Taxonomy reporting at many corporates.
<p>Communication & Training. Offering internal communications and training about EU Taxonomy disclosures and related procedures.</p>	<ul style="list-style-type: none"> ● Reporting corporates shared very few challenges in this stage because the communication of the Taxonomy outcomes are very limited outside of the mandatory disclosure report. ● Future training requirements may pose challenges in upskilling stakeholders across different functions within organisations as reporting corporates aspire to shift their dependency away from consultancy services.

Table 2: Challenges by stage of the compliance journey

The challenge areas for both reporting corporates and financial institutions

In interviews with reporting corporates and financial institutions, we invited them to share overarching challenges that they faced in reporting for the EU Taxonomy and provide supporting examples. We categorise the findings into three main 'Challenge Areas':

1. The scope of what the EU Taxonomy reporting process includes and excludes
2. The technical design of the EU Taxonomy regulation
3. The implementation process of the EU Taxonomy regulation

Challenge Area 1: The scope of what the EU Taxonomy reporting process includes and excludes

A. Companies find the scope of sectors included in the Taxonomy to be too limited

Reporting corporates cannot include the full view of their economic activities because the framework lacks a comprehensive list of criteria which covers all economic activities. However, they are still required to report on their core activity. For example, a clothing and retail company only has its real estate activity as eligible and not manufacturing activity.

Financial institutions cannot use Taxonomy disclosures to compare a full range of investments because many sectors are not covered by the Taxonomy.

B. Companies struggle with the geographic scope of reporting requirements

Reporting corporates need to report on their global activities, including activities in countries where the standards don't align with those of the EU and the capacity to deal with reporting requirements is reduced.

Financial institutions cannot find Taxonomy data for many investments because they are not in the EU and are not obligated to disclose EU Taxonomy data. This means non-EU based investments cannot be reported as Taxonomy aligned, even though they are 'green' investments.

Challenge Area 2: The technical design of the EU Taxonomy

A. Companies find ambiguity and complexity in the regulation

Reporting corporates and financial institutions find that the regulation is complex and spread across many documents. Certain parts of the regulation are ambiguous, allowing for multiple, varying interpretations between organisations.

B. Companies find certain requirements in the Taxonomy are too prescriptive

Reporting corporates find that certain requirements are very difficult to evidence as companies do not collect data at that level of granularity (i.e. activity level) and in some instances, requirements relating to certain economic activities may be impossible to fulfil.

Financial institutions find that the level of information required of them is too detailed and not possible at the scale and/or contents of their funds. For example, they may have thousands of investments in mid-size businesses that do not report against the EU Taxonomy and therefore cannot source this data from them.

C. The Taxonomy deviates from existing sustainability and financial industry reporting standards

Reporting corporates in some sectors, such as Real Estate, find that certain industry standards are not referenced in the Taxonomy. More generally, the Taxonomy definition of OpEx does not align with conventional accounting practices, which means more custom analysis is required on financial data to ensure that it matches the definitions of the Taxonomy. Many reporting corporates stated that they did not think that this KPI generates helpful insights into their business.

D. The final reporting templates are very large and complex for companies

Reporting corporates find that mandatory reporting templates are highly detailed. Corporates are concerned their reporting will not be interpreted correctly or appropriately.

Financial institutions report they are required to produce a significant number of tables in their reporting. They also struggle to find what they need from reporting corporates in their templates, which are complex and sometimes do not follow mandatory requirements.

E. GAR calculation methodology can create non-representative ratios

Financial institutions find that due to the aforementioned challenges around the scope of sectors and geographies, many of the investments required to be in the denominator of the Green Asset Ratio (GAR)² will be considered not 'green' and thereby lower the calculated ratio. For example, an investment in a wind farm in the US may not be Taxonomy aligned because of its geography. It would not be considered in the numerator, but it still would be considered in the denominator and create a lower ratio.

F. Data can be unreliable from reporting corporates

² The Green Asset Ratio is a ratio of EU Taxonomy aligned assets as a percentage of total covered assets.

Executive Summary

Financial institutions have found abnormalities in the reported data of reporting corporates, as well as non-standard reporting practices employed by reporting corporates.

G. There are gaps in data from reporting corporates and it is difficult for financial institutions to fill them

Financial institutions need to calculate and provide reporting, even if the required data is not provided by reporting corporates. Financial institutions had been required to report on the KPIs of their investments, prior to reporting corporates being required to disclose them, meaning financial institutions had to source substitute data from third parties and other sources.

H. There are concerns about the reliability and quality of the data provided by third-party data providers

Financial institutions pay for services from third-party data providers to help fill data gaps, but several have concerns around the methodology of how the data is being estimated.

Challenge Area 3: The implementation process of the regulation by the EU

A. Corporates found a lack of clear roadmaps and communication

Reporting corporates find that they struggle to understand what to expect from the EU Commission, including how the Commission intends to implement the next objectives and expand the scope of sectors.

B. Companies found that there is no clear process through which to clarify issues with the Taxonomy

Reporting corporates and financial institutions struggle to find the means through which to clarify the regulation with the EU Commission or to provide feedback or requests. This requires them to develop their own interpretations, which risks being incorrect, and/or to pay for consulting services for advice and assistance.

C. Companies found the EU's timing and method of issuing clarifications and Frequently Asked Questions (FAQs) to be disruptive

Reporting corporates and financial institutions find the publication of Frequently Asked Questions (FAQs) to be infrequent and commonly published shortly before disclosures are due to be finalised. However, the FAQs can completely change the way in which companies have interpreted the Taxonomy and demand significant changes to their almost finalised reporting.

Costs for reporting corporates and financial institutions

We asked both reporting corporates and financial institutions to estimate the different types of costs that they faced implementing the EU Taxonomy. While some companies were able to share specific values or an estimated range of values, many companies were not able to share precise estimates due to how they calculate their expenditure or because Taxonomy costs were bundled with the wider costs of addressing the requirements of CSRD.

Staff costs

Reporting corporates shared that the Taxonomy reporting requirements could be covered by two team members at the lowest end, and up to fifty people at the highest end. Many corporates have already expanded their teams to address the Taxonomy, but these same team members also commonly cover other reporting requirements. Across sectors, companies commonly reported a group of two to four people that form the core team focused on the Taxonomy. The time dedicated to Taxonomy reporting can range from 5% to 50% of their total annual working time. Where larger corporates knew they would need to imminently expand their team, they estimated the costs of hiring staff to be between £350,000 and £600,000.

Financial institutions were most commonly unable to provide cost estimates of staff but report that staff time and costs likely dominate their total disclosure costs. Based on discussions with financial institutions, the salary of the staff required is likely to be higher than those in reporting corporates, which increases the cost per additional staff member working on the EU Taxonomy for financial institutions. Financial institutions commonly quoted the total number of staff working on the EU Taxonomy to be between 15 and 30 people, although this is often not full-time staffing.

Data systems and data costs

Reporting corporates have generally not yet invested in updating their data systems. Interviewees shared three explaining factors. Firstly, the Taxonomy itself is still novel and the IT offerings by large enterprise software providers have not been updated to address the Taxonomy. Secondly, the Taxonomy is changing regularly through the introduction of new objectives as well as clarifications issued by the EU. More stability and consistency over time is needed before reporting corporates can identify, plan and implement significant changes. Lastly, given the high cost they will incur, corporates cannot yet make the business case to boards for investment in this area.

Executive Summary

For upgrades to their existing systems, mostly in the short to medium term to adjust, corporates estimated in the low hundreds of thousands of euros. To completely overhaul systems in the longer term, estimated costs were several million euros. Some provided estimates that could be tens of millions. However, those sharing these estimates warned that it involved scoping exercises that had not yet taken place and they are not technical experts.

Financial institutions were more likely to have already adjusted their data systems for the EU Taxonomy because of the nature of their reporting requirements. Costs reported included several million pounds.

Financial institutions also purchase datasets from major third-party data providers and estimate that contracts are £100,000s annually for each provider. Financial institutions commonly reported having contracts with several different providers to increase coverage and ensure quality.

Consultancy costs

Reporting corporates identified consultancies as the most expensive cost incurred in Taxonomy reporting to date. Most reporting corporates used or are actively using consultancy services for reporting against the EU Taxonomy.

Reporting corporates in fifteen separate interviews quoted between £50-100,000 as the cost of a consultancy service for the first-year reporting. Very large corporates reported having significant amounts of information to process and quoted estimates of hundreds of thousands for Taxonomy reporting alone, with one major corporate estimating it could be in excess of £1 million.

Reporting corporates also reported that they incurred assurance from their auditors. However, this cost was not possible to be differentiated from the wider cost of auditing.

Financial institutions were less likely to report costs from consultancies. Certain fund managers needed to pay for consultancy services to assess the companies inside their portfolios and quoted similar cost estimates to those of reporting corporates.

Legal costs

Financial institutions were far more likely to report legal costs than reporting corporates, including relying on in-house and external legal services. Not all

Executive Summary

financial institutions raised it as a significant cost driver, but several reported costs of several hundred thousand pounds per year.

Benefits & Impacts

The benefits of the Taxonomy are quite similar for both reporting corporates and financial institutions. Many reported that the consistent and technical standards can help to guide best practices and allow for more meaningful comparisons over time. For reporting corporates, the Taxonomy requirements have created closer ties between financial and ESG departments. Most companies believe they will have clearer and more granular sustainability data based on what they need to document, record and retrieve.

Both interview profile groups expressed scepticism about the effectiveness of the Taxonomy as a disclosure framework and its ability to drive investment into corporates based on their Taxonomy disclosures. Very few reporting corporates had received engagement from investors to discuss the Taxonomy. However, both groups viewed the Taxonomy as a valuable method to evaluate Green Bonds.

UK Taxonomy

Across all interviewed stakeholder groups, there were suggestions for improvement for the EU Taxonomy, which they hoped would also be considered for a future UK Taxonomy. These would address the specific challenges within the reporting stages, as well as those that we have identified and categorised into the three Challenge Areas.

Many interviewees expressed the desire that a strong business case be made by the UK Government prior to the introduction of the UK Taxonomy, especially if a UK Taxonomy will be significantly divergent from the EU Taxonomy.

Only a limited number of interviewed corporates recommended not adopting a Taxonomy at all. Some suggested that the UK could make significant changes from the EU in its approach to developing its Taxonomy to prioritise the interests of the subset of UK businesses who do not currently report under the EU Taxonomy.

Across all stakeholder groups, the majority of interviewees shared hopes that the UK would adopt the same standard as the EU Taxonomy. If this would not be possible or if the UK aimed to pursue targeted changes, interviewees wanted a system that would allow for interoperability and mutual recognition between the two Taxonomies. This push for close alignment was driven by a strong desire to limit or prevent duplicating disclosure reporting processes, which would increase costs to businesses. Companies also expressed concerns around the possibility that different

Executive Summary

standards would create different KPIs for the same corporates, limiting their use for financial institutions.

Significantly, even stakeholders that would benefit from divergent standards, such as third-party data providers and consultancies, acknowledged that aligned Taxonomies between the EU and the UK would be best for businesses that would be required to report across both geographies.

Consequently, while companies expressed facing challenges with the EU Taxonomy, there was limited appetite for divergence in a UK Taxonomy even if these were to improve on the EU's framework, if they were not reflected in the EU Taxonomy. However, several reporting corporates and financial institutions raised this as an opportunity area where the UK could take leadership to 'close the gaps' they had identified in the EU Taxonomy. Suggestions included providing guidance around major sectors that are not yet included. Their hope would be that this, in turn, would prompt the EU to also take action in its own Taxonomy.

Contents

Executive Summary	3
Contents	16
Introduction	19
Structure of this report	20
Research objectives	20
Research questions	21
Overview of the EU Taxonomy	21
Other international green taxonomies	24
Corporate Disclosures	26
Methodology	30
Interviewee profile types	30
Interview structure and Topic Guide	31
Testing	31
Screening	32
Recruitment	33
Analysis method	34
Methodological limitations	34
Findings for Reporting Corporates & Consultancies	36
The teams involved in the EU Taxonomy reporting process	36
The compliance journey visualised	38
Overarching challenges	41
Challenge Area 1: Scope of what the EU Taxonomy reporting process includes and excludes	41
Challenge Area 2: The technical design of the EU Taxonomy regulation itself	46
Challenge Area 3: The implementation process of the EU Taxonomy regulation	50
The challenges by reporting stage	53
Assessing eligibility	53
Substantial contribution	54
Do No Significant Harm (DNSH)	56
Minimum Safeguards	59
Reporting	60
Communications and Training	60
Data systems	62
	16

Contents

Assurance	63
Costs	64
Staff time costs	64
Consultancy costs	65
Data systems costs	66
Future costs	67
Benefits & Impacts	69
The short-term impacts	69
Wider outcomes	69
Findings for Financial Institutions & Data Providers	71
Challenges	72
Challenge Area 1: Scope of what the reporting process includes and excludes	72
Challenge Area 2: The technical design of the EU Taxonomy	74
Challenge Area 3: The implementation process of the regulation by the EU	78
Costs	80
Staff costs	80
Consultancy costs	82
Legal services costs	82
Data and systems costs	83
Benefits & Impacts	85
Benefits	85
Investor interest and awareness	85
Impacts	86
Conclusions	88
Challenges	88
Data systems in comparison	91
Costs in comparison	91
Benefits & Impacts	93
UK Taxonomy	94
Use case	94
The strong demand for interoperability or mutual recognition	95
Balancing the desire for improvements with the demands for consistency	97
The case for more substantial changes and differences	98
Areas and opportunities for improvement	99
Further research	103

Contents

Appendix	104
Interview participant base	104
References	110

Introduction

In 2021, the UK Parliament enacted legislation that set the world's most ambitious climate-change target: a 78% reduction in emission by 2035, compared with 1990 levels.³ This laid out a clear trajectory and paved the way for the creation of a roadmap towards sustainable investing and green finance. In the Green Finance Strategy published in 2023, the previous UK Government committed to develop and deliver a usable and useful UK Green Taxonomy. This was intended to provide a definition of green activities, which could be used in related standards, labels and disclosures.⁴

A Green Taxonomy is a classification system which aims to create a common language around green activities for both investors and companies by using clear, science-based criteria and translating them into climate and environmental targets on an industry activity level. The aim is to support companies in their effort to plan and finance their low carbon transition, help mitigate market fragmentation (where companies define their own standards of what is considered sustainable, making it harder to compare sustainability disclosures), protect against greenwashing (unsubstantiated or exaggerated claims that an investment is sustainable) and accelerate financing of those projects that are already considered sustainable and those in transition.

The EU Taxonomy for sustainable activities is one of the earliest, and currently the most advanced, taxonomies of its kind.⁵ Its design has been influential, and many other countries are now in the process of devising their own taxonomies. The EU Taxonomy disclosure obligations for non-financial companies to disclose eligibility⁶ came into force at the beginning of 2022, and alignment⁷ at the beginning of 2023. As such, evidence on its impact is still limited.

Commissioned by the Department for Business and Trade in early 2023, the purpose of this research is to better understand the implementation and usability challenges with the introduction of a Green Taxonomy Framework; more specifically to improve the evidence base around the costs, benefits and wider considerations with the introduction of a Taxonomy.

As the EU Taxonomy is the most developed, we use this as a blueprint to assess the

³ Department for Business, Energy and Industrial Strategy (2021). *UK Enshrines New Target in Law to Slash Emissions by 78% by 2035*.

⁴ HM Government (2023). *Mobilising Green Investment 2023 Green Finance Strategy*.

⁵ Technical Expert Group (2020). *Taxonomy: Final report of the Technical Expert Group on Sustainable Finance*. p. 2.

⁶ Eligibility refers to an economic activity that is defined and has set Technical Screening Criteria (TSC) within the EU Taxonomy.

⁷ Alignment refers to whether an 'eligible' activity makes a substantial contribution to one of the six environmental objectives and does not significantly harm the others, as well as meeting the minimum safeguards.

impacts of the framework and the requirement to disclose against it. The research aims to gain a better understanding of the compliance journey and gathers insights from reporting corporates on their preparedness for reporting.

Structure of this report

The Department for Business, Business and Trade (DBT) commissioned PUBLIC to undertake research interviews with Taxonomy reporting corporates, consultancies, data providers and financial institutions to explore the impacts of the Taxonomy on them. This report presents the findings from the interviews and wider research. It is structured as follows:

1. Executive summary
2. Introduction
3. Methodology
4. Findings
 - a. For reporting corporates and consultancies
 - b. For financial institutions and data providers
5. Conclusions

Research objectives

The research objectives are to:

1. **Develop a better understanding of the journey to compliance.** Gain insights into the compliance journey of EU reporting corporates falling under the scope of the EU Taxonomy disclosure obligations and develop some unit cost estimates for compliance for each stage of the journey.
2. **Identify the greatest challenges and drivers of cost.** Identify the most challenging aspects encountered during the compliance journey and determine the primary cost drivers, as well as the benefits to reporting.
3. **Understand how the information is being used and what the gaps may be.** Explore the perspectives of reporting corporates towards the framework, and whether there is a demand from investors and other users for this type of information. This includes understanding how current disclosures related to eligibility are being utilised, exploring the potential future uses of alignment

disclosures, and identifying any significant information gaps that can be addressed through these disclosures.

Research questions

DBT had developed a compliance journey, which we tested in the interviews with reporting corporates. The core research question we aimed to address was: what is the reporting corporate's compliance journey when preparing disclosures against the EU Taxonomy Framework? Alongside this, we focused on the following three areas:

1. **Navigating the disclosure process.** How do reporting corporates navigate the process of preparing disclosures in accordance with the EU Taxonomy Framework. What are the stages and sequences of steps, and what are the specific challenges they encounter at each stage of this journey?
2. **Making changes to businesses.** What adjustments have reporting corporates made, if any, to ensure their readiness for this type of reporting, and what additional costs have they incurred as a result? In cases where changes have been implemented, did they vary based on the size or sector of the company? Are these changes implemented throughout the entire business or limited to the jurisdictions covered by the Taxonomy?
3. **Engaging the wider financial community.** To what extent are investors (and/or other users) advocating for these disclosures? Are they actively engaging with companies and requesting more information or data to inform their investment decisions?

Overview of the EU Taxonomy

The EU passed the European Green Deal in 2019, outlining a list of green transition initiatives aimed at making Europe the first climate-neutral continent by 2050. As part of the EU's overall efforts to reach the climate objectives, the EU Taxonomy Regulation and the Sustainable Finance Disclosure Regulation (SFDR) were implemented in 2020 and 2021 respectively. Both regulations share the goal of enhancing the transparency of green activities and fostering long-term sustainable investment and economic activities.

As detailed in the EU Taxonomy Navigator⁸ published by the European Commission (EC), the EU Taxonomy is an official classification system that defines criteria for economic activities that are aligned with the six environmental objectives:

⁸ European Commission (n.d.). [EU Taxonomy Compass](#). (Accessed 22 April 2024).

Introduction

1. Climate change mitigation;
2. Climate change adaptation;
3. Sustainable use and protection of water and marine resources;
4. Transition to a circular economy;
5. Pollution prevention and control; and
6. Protection and restoration of biodiversity and ecosystem, and the minimum safeguards.

With regards to aligning with the six objectives, the EU Taxonomy serves as a transparency tool supporting the companies and investors in making informed and sustainable decisions, avoiding greenwashing and driving capital flows towards green transitions.

To establish a consistent reporting practice using the standardised definition and metrics outlined in the Taxonomy, the Taxonomy Regulation introduces four overarching conditions that an economic activity must satisfy to be qualified as environmentally sustainable. Following the Taxonomy User Guide,⁹ it includes:

1. Making a substantial contribution to at least one environmental objective; or fall into the category of 'enabling activities'; or 'transitional activities' under the climate change mitigation objectives;
2. Doing no significant harm (DNSH) to any of the other five environmental objectives;
3. Complying with minimum safeguards; and
4. Complying with the technical screening criteria set out in the Taxonomy delegated Acts.

Within the framework of these four conditions, the Taxonomy allows the companies to identify whether their economic activities are 'Taxonomy eligible', assess whether they meet the technical screening criteria and can be recognised as 'Taxonomy aligned', and check compliance of the activities with minimum safeguards. These four conditions cover the initial three steps in assessing the alignment of activities, leaving the final steps which involve the application of relevant reporting and corporate disclosure rules.

The Taxonomy Regulation requires companies that fall under the scope of the Non-Financial Reporting Directives (NFRD) / Corporate Sustainability Reporting

⁹ European Commission (2023). *A User Guide to Navigate the EU Taxonomy for Sustainable Activities*.

Introduction

Directives (CSRD)¹⁰ to mandatorily disclose alignment under the reporting requirements specified in the Disclosure Delegated Act. The scope of NFRD covers companies that:

1. Are a large undertaking, exceeding two out of the three criteria for two successive accounting periods:
 - a. More than 500 employees; and
 - b. A net turnover of EUR 40 million in a financial year; or
 - c. A balance sheet total of EUR 20 million.
2. Are an EU Public Interest Entity (PIE), meaning an entity which is:
 - a. Trading transferable securities on the regulated market of any Member State; or
 - b. A credit institution; or
 - c. An insurance undertaking; or
 - d. Designated by a Member States as a public interest entity.

CSRD was published in 2020 to replace the NFRD with a broader scope by reducing the employee threshold from 500 employees to 250 employees. It also amends the reporting requirements. NFRD currently covers approximately 11,700 companies and CSRD is expected to expand this coverage to approximately 49,000 companies.¹¹

In terms of reporting requirements, non-financial organisations would have to disclose the proportion of their green activities with specific key performance indicators (KPIs) related to turnover, capital expenditure (CapEx) and operational expenditure (OpEx). They must also provide narrative explanations and calculation methodologies alongside the data required. In the case of financial organisations, such as asset managers, credit institutions, investment firms and insurance companies, the reporting requirement differs based on the type of financial undertakings. Credit institutions, for instance, must disclose information related to Green Asset Ratio (GAR) starting from 2024.

For asset managers and insurance companies, weighted average portfolio-level information and underwriting-based indicators are required respectively. The timeline for reporting requirements across various non-financial and financial entities are structured as a series of progressive steps, with implementation spanning from 2022

¹⁰ European Commission (n.d.). [Corporate sustainability reporting](#). (Accessed 22 April 2024).

¹¹ KPMG (n.d.). [Corporate Sustainability Reporting Directive: Is your organization ready for the Corporate Sustainability Reporting Directive?](#) (Accessed 22 April 2024).

to 2026. As of January 2024, both non-financial and financial entities will have to report Taxonomy eligibility and alignment for the previous calendar year.

Other international green taxonomies

While the EU Taxonomy was the world's first taxonomy for environmentally sustainable activities, there has been a significant surge in the global proliferation of green taxonomies around the world in recent years. This expansion reflects a growing awareness and commitment to fostering a greener and more sustainable finance around the world. In 2021, Goldman Sachs reported that the EU and countries such as China, Japan and Russia have successfully implemented national sustainable finance taxonomies. Currently, nations such as Colombia, South Korea, Malaysia, New Zealand and South Africa, as well as ASEAN, are actively engaged in the creation and publication of taxonomy drafts since 2021.¹²

To date, over thirty taxonomies globally are now in development or implemented. In February 2023, Green Technical Advisory Group (GTAG)¹³ published reviews on the international landscapes of taxonomies.¹⁴ These are summarised in Table 1.

¹² Goldman Sachs Equity Research (2022). *Progress on the Journey to Alignment*. p. 7.

¹³ GTAG was established in June 2021 and served the Government until 2023. It functioned as an advisory group and assumed the role of providing comprehensive guidance, assessing metrics and conducting research to inform the development of a UK Taxonomy.

¹⁴ GTAG (2023). *Promoting the international interoperability of a UK Green Taxonomy*. pp. 19–24.

Country	Development and approach of the taxonomies
<p>South Africa and Colombia</p>	<p>Both countries have closely aligned their taxonomy approach with the EU Taxonomy and have cited the EU's science-based process in their TSCs. For the DNSH criteria, the two countries formulated it in reference to local regulations.</p> <p>In the case of South Africa, instead of adopting the EU's forestry criteria, it incorporated the Climate Bonds Initiative criteria for its existing forestry management. Colombia, on the other hand, is in the process of developing its own agriculture criteria, which will include a menu of qualifying agricultural practices.</p>
<p>Malaysia and Singapore</p>	<p>In Malaysia, the central bank led the development of the Malaysian Taxonomy, implementing a three-level traffic light approach to categorise activities. These activities are labelled as 'green', 'amber' and 'red' based on their alignment with the green taxonomy. The 'amber' list indicates activities that represent improvements over current practices and reward incremental improvements. This taxonomy is principles-based, built upon 5 key guiding principles.</p> <p>In Singapore, the Green Finance Industry Task Force (GFIT) led the development of the taxonomy. The taxonomy combines the principles-based criteria with quantifiable thresholds for activities, and places focus on transitional activities. The scope of taxonomy also includes relevance to institutes that are active across ASEAN.</p>
<p>Bangladesh</p>	<p>Bangladesh's approach to taxonomy development closely mirrors the framework of the EU Taxonomy. In December 2020, the central bank of Bangladesh published the Sustainable Finance Policy for Banks and Financial Institutions. This policy employs a negative screening approach, providing two 'exclusion lists' that indicate economic activities which are to be considered ineligible for financing and sustainable finance.</p>
<p>Chile</p>	<p>Chile published its Taxonomy Roadmap in 2021, setting a direction that aligns with international objectives to foster trading relationships with international partners such as the EU and China. Chile's taxonomy emphasises strongly on international interoperability and adopts an 'adopt, adapt and lead' approach to its development.</p>
<p>Russia</p>	<p>Russia's taxonomy was published by their state development bank VEB.RF in 2021. While closely aligned with the EU Taxonomy as its framework base, the Russian framework simplifies the approach to DNSH. An activity or project is deemed compliant with the DNSH if it adheres to Russian Federation environmental protection laws. Moreover, Russia is less strict on the thresholds for some specific controversial activities and does not include the additional criteria used in the EU.</p>

Introduction

Table 3: Examples of the international landscape of taxonomies extracted from the 2023 GTAG report.

It is important to note that one of the biggest differences among countries lies in their approach to determining eligibility. Different nations adopt varying levels of detail and apply distinct screening criteria. This diversification emphasises the unique strategies employed by different countries in their pursuit of sustainable financial frameworks. While most of the taxonomies have been inspired by the design of the EU Taxonomy, they deviate significantly enough that they cannot be considered interoperable.

Corporate Disclosures

Different consultancies and ESG service providers have analysed the early EU Taxonomy disclosures and reporting corporates averaged their overall eligible and aligned KPIs across samples. These are summarised in *Table 3*. Eligibility refers to an economic activity that is defined and has set Technical Screening Criteria (TSC), whereas 'alignment' refers to whether an 'eligible' activity makes a substantial contribution to one of the six environmental objectives and does not significantly harm the others, as well as meeting the minimum safeguards. It is a positive assessment that the eligible activity meets the criteria to substantially contribute.

Literature	Sample Size	Eligibility and Alignment	Highlights and Implications
ESG Book: Challenging Road Ahead ¹⁵	Analysed 683 companies on their Taxonomy alignment data.	Aligned Turnover: 8% Aligned CapEx: 13% Aligned OpEx: 10%	Only 6 out of the 683 companies have achieved 100% alignment turnover, other aligned turnover rates remain low. CapEx and OpEx follow a similar pattern, with 4 and 3 companies achieving 100% respectively. Most of the companies have turnover, CapEx and OpEx alignment below 10%.
EY EU Taxonomy Barometer 2022 ¹⁶	Analysed 204 non-financial undertakings and 41 financial undertakings on their Taxonomy eligible data	Eligible Turnover: 27% Eligible CapEx: 35% Eligible OpEx: 28%	The percentage for the eligible turnover is the lowest among the three KPIs' and greatly depends on the geographic location of the companies. Around 9% of the companies decided to create their individually defined KPIs that were different from those outlined in the EU Taxonomy.
EY EU Taxonomy Barometer 2023 ¹⁷	Analysed reports from 277 reporting corporates in 17 countries	Eligible Turnover: 25% Aligned Turnover: 8% Eligible CapEx: 36% Aligned CapEx: 15% Eligible OpEx: 28% Aligned OpEx: 12%	EY reported that they found that many of the reporting corporates struggle with the complex KPI disclosure template, the room for interpretation, TSC compliance and minimum safeguards.
KPMG: Setting the baseline towards transparency ¹⁸	Analysed 224 reporting corporates and 275 non-financial undertakings on their Taxonomy eligible data	Eligible Turnover: 61% Eligible CapEx: 79% Eligible OpEx: 60%	CapEx reporting statistics are comparatively higher compared to Turnover and OpEx, with 24% of companies did not report turnover at all. Calculation of CapEx and OpEx are in accordance with revenue-generating activities and investments that do not generate revenue yet. This shows that companies have the potential to

			<p>substantially contribute to climate change mitigation and adaptation with investments in other than revenue-generating activities.</p> <p>The highest EU Taxonomy eligible Turnover was reported by the Real Estate, and Automobiles and Parts sectors. Almost no EU Taxonomy eligible turnover was reported in sectors such as Travel and Leisure, Healthcare and Retail.</p>
<p>Let's Talk Numbers: EU Taxonomy Reporting Companies¹⁹</p>	<p>Analysed 42 large German reporting corporates on their Taxonomy eligible data</p>	<p>Eligible Turnover: 26%</p> <p>Eligible CapEx: 40%</p> <p>Eligible OpEx: 30%</p>	<p>CapEx has the highest percentage compared to the other two KPIs. This may suggest that the companies are starting to transform their business models to further align with the Taxonomy objectives.</p> <p>Regarding sectors, the Real Estate sector boasts the highest average eligible Turnover rate, while Health Care and Consumer Staples exhibit the lowest, both at zero percent. The Utility industry stands out with the highest alignment to the EU Taxonomy in terms of turnover, CapEx and OpEx overall.</p>
<p>PwC: EU Taxonomy 2022²⁰</p>	<p>Surveyed a total of 170 reporting corporates from Germany, Austria, Switzerland and the Netherlands</p>	<p>Focus on the significance of sustainability at undertakings and other statistical insights instead.</p>	<p>Not applicable.</p>
<p>PwC: EU Taxonomy Reporting 2023²¹</p>	<p>Analysed reports from 706 reporting corporates in 12 countries</p>	<p>Eligible Turnover: 26%</p> <p>Aligned Turnover: 7%</p> <p>Eligible CapEx: 37%</p> <p>Aligned CapEx: 10%</p>	<p>PwC reported that collecting data on the Technical Screening Criteria (TSC) was a particular challenge and could explain the difference between Taxonomy eligibility and alignment.</p>

Introduction

		Eligible OpEx: 27%	
		Aligned OpEx: 8%	

Table 4: The main literature that provides quantitative summaries of reporting corporates for the EU Taxonomy

In our interview discussion with a major third-party data provider, an EU Taxonomy specialist estimated that there are approximately 80 companies that are non-EU companies voluntarily reporting, mostly in European but non-EU countries such as Norway. For UK companies, they estimate there are only 7 companies out of the FTSE100 currently reporting.

Methodology

The section covers the research methodology that spans two phases:

1. **Literature review.** We conducted a desk-based review of over 25 reports and resources from industry, government and academia in order to identify gaps for primary research and to inform the creation of our Topic Guide.
2. **Qualitative research.** We interviewed 72 companies between October and December 2023. Each interviewee company had between one and five employees in attendance. All quotations have been anonymised to maintain confidentiality.

The section of the report contains more information on the research methodology, covering interviewee profiles, interview structure and testing, screening, recruitment, analysis and the methodological limitations.

Interviewee profile types

We conducted research interviews with four different interviewee profile types:

1. **Reporting corporates.** This refers to companies who have reported against the EU Taxonomy or will likely report against the EU Taxonomy in the future. We interviewed 39 reporting corporates. This group was intended to be the focus of the research.
2. **Financial institutions.** This refers to companies that are subject to the EU Taxonomy based on their investments. We interviewed 22 financial institutions. We chose this group to be the secondary profile type of focus because financial institutions are intended to be the primary user of the EU Taxonomy data. In addition, this group will be critical in determining whether the EU Taxonomy's objectives are successful.
3. **Consultancies.** This refers to companies that provide advisory services to reporting corporates. We interviewed 6 consultancies. This profile type provides expert insight into the reporting process across multiple clients.
4. **Data providers.** This refers to companies that provide EU Taxonomy data and calculations as a service. We interviewed 4 data providers. This profile type has extensive experience accessing and working with reporting corporate's disclosures and data. They are an important intermediary between reporting corporates and financial institutions.

Methodology

To best illustrate the points in the report, we've used direct quotations from respondents. However, these have been anonymised to maintain confidentiality.

For further detail on the composition of the interview participant base, see the Appendix.

Interview structure and Topic Guide

The duration of the interviews was between 45-60 minutes. We guided the respondents using a Topic Guide that we developed in conjunction with DBT. The Guide followed a structure containing a series of open-ended and targeted questions, organised by the following sections:

1. **Introduction and opening questions.** Understanding their role and responsibilities, including the team they are in and how this interacts with Taxonomy reporting. Understanding their overall experience in implementing the Taxonomy and whether there is a demand for this information.
2. **Navigating the Compliance Journey.** Understanding the challenges across each of the reporting stages for reporting companies. Understanding how long it takes to complete the assessment process and how many staff are involved. Understanding the biggest drivers of cost and complexity. In this section, we tested using an interactive exercise to estimate the timing and resourcing of different reporting stages. However, we found that interview participants were not able to provide this level of precision and so we removed this exercise after the testing stage and asked respondents a series of questions relating to compliance by stages.
3. **Data collection, management and verification.** Understanding the process for collecting and preparing data used to make assessments against the Taxonomy criteria.
4. **Benefits, improvements and the UK Taxonomy.** Understanding the main benefits, if any, that they foresee as a result assessing activities and reporting against the EU Taxonomy. Understanding how, if at all, the framework and/or the disclosure requirement should be revised before any implementation in the UK to reduce the reporting burden on companies. Understanding how the UK Taxonomy should look like.

Testing

The Topic Guide was tested on a randomly selected sample of eleven reporting corporates and consultancies at the beginning of the interview recruitment process who responded to our first wave of outreach. At the end of the sampling process, these interviews were analysed using the following criteria:

1. **Relevance.** We tested to ensure that each relevant and necessary theme from the research questions and literature review was covered, and that all major themes that came up systematically during interviews with the sample companies were included. This also included modifying or removing from the Topic Guide questions that consistently yielded ambiguous or unconstructive responses from the sample.
2. **Structure and timing.** We tested the 'flow' of the interview components, with an emphasis on the interactive exercise to ensure that the Topic Guide broadly followed the conversational direction of sample interviews. The timing allocation was checked to see if there were imbalances in the time allotted to some sections versus others.
3. **Clarity.** We tested whether the questions were clear, easy to understand and used terminology that respondents were familiar with (especially when referring to EU or other sustainability directives and regulations). It also included testing whether the questions were phrased in an intuitive way to encourage conversation with interviewees and solicited follow-on responses.

The three criteria were tested by signposting opportunities for the interviewees to provide any further comments, which were then reviewed against the Topic Guide's structure. At the end of the sample interviews, interviewees were asked for feedback on the interview process, including the areas of focus, the flow of questions and whether the questions were clear to understand and answer.

The interviews were uploaded into Dovetail and coded according to the themes covered in the interviews.²² For the sample group, all instances of ambiguity expressed by the interviewees and other strong responses to questions were coded. Then, the responses were aggregated into clusters according to themes and their frequency to determine the themes that were most frequent, questions that worked well and those that did not.

It was at this stage that we learned that reporting corporates struggled to create precise estimates of resourcing, and so we decided to remove the interactive exercise to estimate the resources used at different Taxonomy reporting stages. This was replaced with high-level questions on resourcing and cost.

Screening

Our target population was primarily EU companies in scope of reporting under the EU Taxonomy Framework. However, we were interested in recruiting UK companies

²² Dovetail is a software service that allows users to create tags to perform transcription analysis and coding interpretation of interviews.

Methodology

(i.e. subsidiaries of EU companies) to understand the implications of reporting in a UK context.

While many stakeholders inside a given company contribute to parts of the Taxonomy disclosure process, we sought to reach senior management who would have an overall view of the EU Taxonomy and its impacts on their organisation.

In the absence of an existing sampling frame, we used the contact finding and outreach tool Apollo²³ to source and contact relevant stakeholders. Rather than profiling companies in the first instance, we applied specific filters available in Apollo to maximise the likelihood of reaching senior ESG stakeholders at organisations likely to be in scope of the NFRD. These filters followed the criteria below:

1. Belong to a company that has 500 or more employees; and
2. Are based in the UK or the EU; and
3. Have a seniority level of: 'Owner', 'Founder', 'C-suite', 'Partner', 'VP', 'Head' or 'Director'; and
4. Contain 'Sustainability', 'ESG' or 'Environment' in their job title.

We used this approach to build a pool of 5,000 individuals employed at organisations that are likely in scope of NFRD. There were often multiple contacts who fit these criteria at a single company, and it was helpful to approach companies through several contacts to maximise the positive response rate of the outreach. We supplemented this sampling process with referrals, which formed a small minority of the total number of interviews that we conducted.

Recruitment

We sent all 5,000 contacts an outreach email that explained the purpose of the research project. We relied on self-selection and requested individuals to contact us if they were interested in participating. We developed two different invitations using different phrasing and structure in order to A/B test the positive response rate and iterate adjustments accordingly. For contacts who requested more information, we provided a brief agenda of the interview and where requested, the main questions we intended to ask during the interview.

Where contacts believed they were not the appropriate person from their company to interview, we requested that they refer us to the appropriate colleague/s. We also asked contacts to recommend other companies or organisations we should contact;

²³ Apollo is a software service and leads database that allows users to manage systematic email outreach.

Methodology

thereby adopting a snowball approach. For contacts who did not engage with the original outreach email, we sent a short follow-up email to give them a second opportunity to respond and engage with us.

The outreach emails were sent in batches daily across the span of approximately two months. We originally targeted to interview 50 stakeholders, but we exceeded this number (to interview 72) because we had a greater than expected response rate to our outreach.

Analysis method

We analysed the interview transcripts and notes in Dovetail. We marked up interview notes with tags, which we clustered into themes. These became the organising principle for developing and comparing different experiences and data from interviews. We used the organised and grouped tags as the basis of the 'Findings' sections of this report, and to keep track of quotations and supporting examples. Where interviewees reported opposing viewpoints on a matter, we attempted to draw attention to this in the 'Findings' sections of this report and attempt to give a sense of how frequently the different viewpoints were expressed.

Methodological limitations

Below we outline a few limitations with this research:

- The focus of this project was on companies who have experience reporting against the EU Taxonomy. We still engaged with companies who had not yet reported, but who were preparing to disclose or had extensively researched what the Taxonomy could mean for their business, such as UK companies who do not meet the criteria required to report against the EU Taxonomy. However, this group of companies intentionally was not the focus of the research, which aimed to find detailed information around the realised challenges, costs and benefits.
- Companies who chose not to participate were not required to provide a reason and most companies chose not to respond to our outreach. Of those that did, several UK and several EU companies responded to our outreach with explanations that they were not required to report and were not familiar with the Taxonomy. We suspect, therefore, that self-selection took place based on the strength of knowledge of the Taxonomy.
- With that said, several UK companies (who do not need to report under the EU Taxonomy) still chose to participate in our interviews because they have proactively reviewed the EU Taxonomy for general preparedness and best practices. Future research could focus and consider UK companies who will

not be required to report for the EU Taxonomy under CSRD but may be required to report for the future UK Taxonomy.

- Of the companies who were in scope of the EU Taxonomy but chose not to participate, the most cited reason was that they had “too limited resources” to do so. Given that our findings frequently corroborate those shared in other literature, we have confidence this research reflects the broad experiences of companies in scope of complying with the Taxonomy.
- We originally aimed to develop some reliable unit cost estimates for compliance based on costs shared during interviews. However, companies struggled to provide precise costs in many instances. The reasoning for this is explained in greater detail in the ‘Findings’ sections of the report. However, the broad estimates that we have collected could potentially form the basis for a more dedicated, quantitative-focused research in the future.
- Lastly, one of the objectives of the project was to understand the demand for this information from investors and other users. The intention was always to gather these insights from the perspective of those covered in this study, primarily reporting corporates. However, future research could look to explore this demand with investors themselves.

Findings for Reporting Corporates & Consultancies

Reporting corporates form the basis of the Taxonomy disclosure and reporting process, with their disclosure used in turn by financial institutions. Reporting corporates, therefore, form the core of this research and are the single largest profile type we interviewed.

A significant majority of reporting corporates told us that they had used the services of consultancies in the EU Taxonomy reporting process. The most common service providers were the Big Four, but specialised environmental consultancies were also used, especially where technical assessments such as Life Cycle Analysis (LCA) were needed.

The teams involved in the EU Taxonomy reporting process

The EU Taxonomy requires expertise and data from across business functions and teams inside reporting corporates. The most substantial contribution to the EU Taxonomy reporting comes from staff in the sustainability-related and finance teams. Sustainability-related teams' nomenclature varies significantly and can include terms such as 'CSR', 'ESG' and 'Sustainability Reporting'. In interviews, reporting corporates said that their teams had grown in recent years to address the requirements of the Taxonomy as well as wider EU and international legislation.

A sustainability specialised consultancy summarised their experience with reporting corporate clients:

'It would be rare for a Head of Sustainability or the Chief Sustainability Officer to "lead" the Taxonomy work because it requires a lot of granular analysis, and they have other responsibilities they need to manage. So typically, it tends to be managed by one level down, such as a Sustainability Manager, who spends about 50% of their time on Taxonomy and 50% of their time on other areas of sustainability.'

The other interviews we conducted generally corroborate this summary. Our interviewees were in the most senior sustainability roles at organisations. It was clear from our discussions that while senior leadership in sustainability relies on more junior staff to manage the details of the EU Taxonomy, they carefully oversee the reporting process and are responsible for dealing with the associated challenges.

Findings for Reporting Corporates & Consultancies

From our interviews, the same applies to the finance teams of some reporting corporates, though in this case, such responsibility is generally with less senior staff. Reporting corporates often share the Taxonomy reporting requirements and outcomes with the executive board, especially when they seek additional investment (e.g. for changes to the corporate data system).

However, the Taxonomy requires far wider inputs from an extensive number of teams that can include policy, project, health & safety, compliance, business units and legal teams.

Depending on the reporting corporate's sector and its business structure, the involvement of project or business unit managers can significantly increase the number of staff involved in the Taxonomy reporting process. For example, a real estate development company would commonly have a project manager overseeing several different sites. This manager would ultimately be responsible for facilitating the completion and transfer of Taxonomy-related information requested by a central corporate function in the sustainability or finance teams.

The number of teams and staff involved in the Taxonomy reporting is higher in reporting corporates that have numerous business functions and subsidiaries across geographies. The EU Taxonomy requires activity-level assessments, which means that reporting corporates need to collect and calculate data from all subsidiaries/business functions. Because of this requirement, many UK subsidiaries of international companies already have experience or are currently preparing for EU Taxonomy reporting while being outside of the EU because of requirements of CSRD.

Case Study 1: A real estate service provider demonstrates what a Taxonomy reporting process looks like for a project-based corporate having to make activity level assessments

A real estate service provider explained how they need to navigate their extensive project structure as a business to source the necessary data to disclose against the Taxonomy:

'To get the necessary data to report, we need to go to the project level. We will have to train project managers, tenant managers and system team managers for each of our seven markets. We also have one director per market, that's seven people, plus some of them have some team support and I think next year they're going to spend a good portion of the assignment on this.'

There are also some client discussions that will have to take place also to identify alignment. It goes all the way down to the way we manage

projects. Data has to come from the service delivery or performance delivery level. So, it means we cannot do it top-down, it must be bottom up. The project managers get the data bottom up because we understand the data they have is a requirement. We have to make changes in our own systems and ask project managers and tender managers to spend time to give us this information at the appropriate quality and fidelity level.

We don't know how many project managers are working with eligible projects. We're working on doing this full mapping across our markets but in total we have approximately 30,000 projects a year so you can imagine the scale of work we are undertaking.'

Project-based corporates exist across different sectors, although they tend to concentrate within Services. Project-based corporates generally expressed challenges to reconcile their approach of documenting activity on a project level with the Taxonomy's requirements at an activity level.

Reporting corporates shared that when engaging a consultancy, they typically bring further several part-time or full-time consultants to increase their internal teams' capacity and to help guide and structure the reporting process.

Many teams we interviewed are also responsible for other reporting disclosures, most commonly and significantly CSRD, which takes priority due to its scale of requirements. A European airline company reported:

'It's a challenge in all of Europe. The context of the Taxonomy is groundbreaking, but it also comes at the same time as the CSRD, which is a whole new reporting framework. And some would say it is the biggest change in reporting standards in 25 years, since the IFRS (International Finance Reporting Standards), got developed. Those standards were developed on the drip. This is a one-time huge compliance burden, which is hitting a lot of corporates. So, the Taxonomy is a subset of a bigger whole.'

The UK also has its own reporting context that interviewees mentioned as competing for time and resources including the Task Force on Climate-related Financial Disclosure (TCFD).

The compliance journey visualised

Prior to the interviews, DBT developed a compliance journey (Figure 1) based on desk research and extensive stakeholder engagement. We tested it during interviews to assess the validity of its stages and updated it to the additional step of

'Maintaining the flow of data' in response to feedback from interviewees.

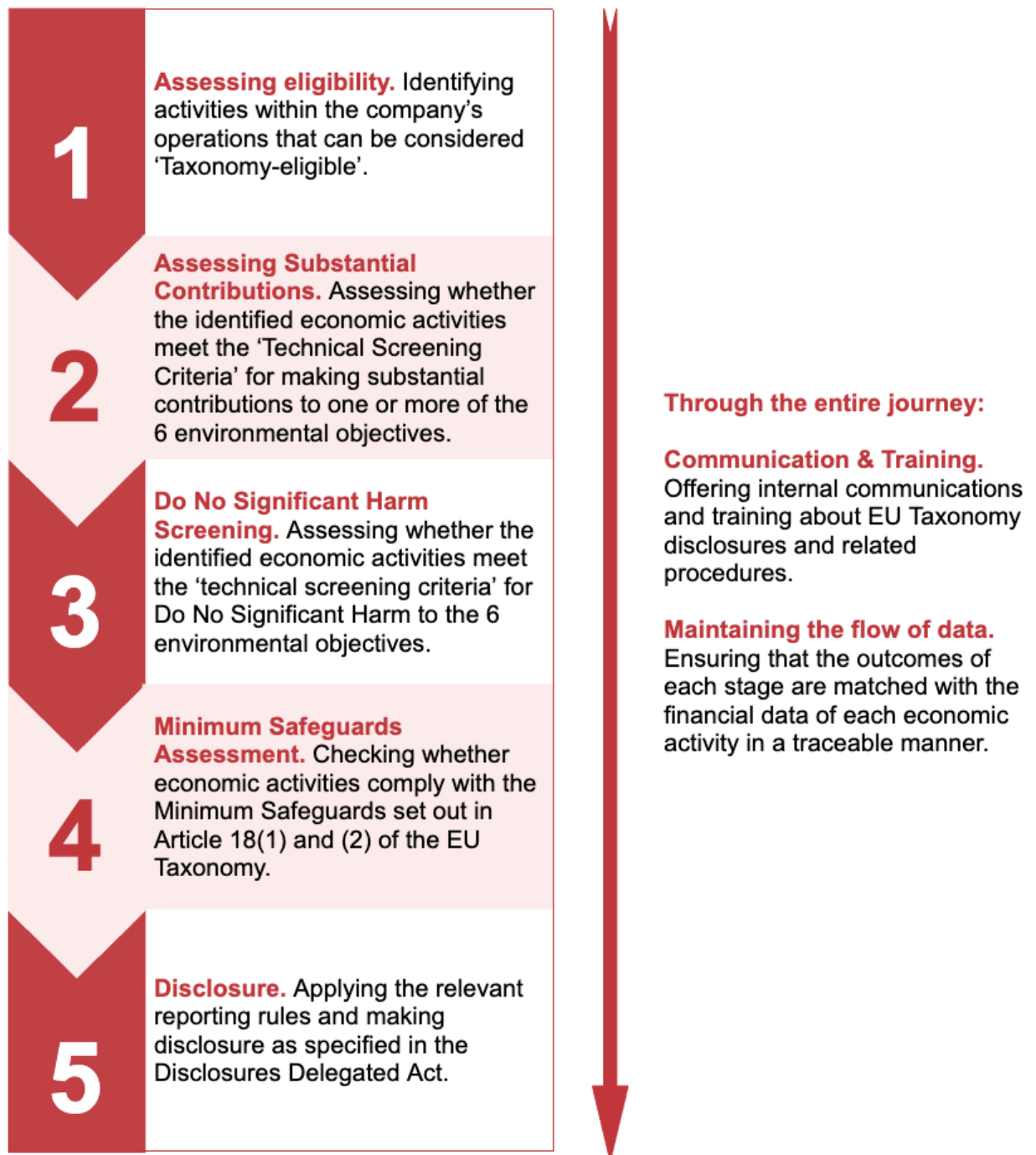


Figure 2: The compliance journey

The majority of interviewees validated the structure and content of each stage of the compliance journey. Reporting companies identified the sequence of reporting stages as the primary difference between their compliance journey and that outlined above. For example, some corporates choose to complete DNSH and Minimum Safeguards concurrently to meet deadlines or for general efficiency.

Findings for Reporting Corporates & Consultancies

A specialised sustainable consultancy validated the visualisation and provided a typical process for a reporting corporate:

'It is done the exact way you have in the diagram. They will sit down with a group of people from across the organisation, often with financial controllers. Usually in a big spreadsheet, they will look at what activities are eligible, and they will get a list of what the company engages in: where they're generating turnover, what they're putting CapEx towards, etc., and whether it is eligible. Then they will do their alignment assessments. Generally, a first step that a lot of companies take will be if the revenue associated with fossil fuel production? If it is, they then omit most of that straight away as being not eligible.'

It should also be noted that the original, more detailed journey mapped out by DBT included legal review at the end of each stage but reporting corporates told us that they very rarely referred to legal advice and instead focused on guidance by consultancies.

However, a minority of reporting corporates, therefore, stated that the compliance journey map may imply a false sense of simplicity. Reporting corporates that gave this feedback explained that throughout each stage in addition to other requirements, they collect financial data at an economic activity level. One shared that:

'Alongside all of what is in the diagram, you're also collecting the associated financial data for each stage. You can't leave the financial data collection until the calculation and disclosure stage at the end.'

This means that they must document the financial data's various stages, such as Alignment or DNSH, in a traceable and auditable method. This requirement to track the economic activity and the associated financial data with supporting evidence is an entirely new technical process that can be intensive to set up, maintain and carry out. Reporting corporates stated the summary visualisation of the compliance journey underrepresents this complexity.

According to a Sustainable Finance Project Manager at a British energy company, the effort of linking Taxonomy activities with financial data could constitute as a stage of its own:

'There's a stage in between what you've got there in the diagram between Social Safeguards and Disclosure. And that's integrating the technical screening and the financial reporting on eligibility. I would say that's actually a stage in itself, because that's essentially where you say in stage one, I figured out which activities were in scope. I connected assets to those activities and then I connected dollars to those assets. Then in the next stage, I screened the assets and then in the next stage, based on the screening of the assets I determined whether the dollars were aligned or not aligned. And putting that

Findings for Reporting Corporates & Consultancies

back together is quite a big process in itself because there's a lot of manual work involved in linking dollars to assets.'

Lastly, while the flow of reporting stages is applicable to the Taxonomy overall, companies must undertake this compliance journey for all of the objectives, which the EU has been introducing in phases. A reporting corporate shared that:

'A big challenge with the phased approach is to not have all the objectives available right away. So, you can start with the analysis from the stages you have illustrated, but you start for the first two objectives and then cycle back once they release more. It is not so linear.'

Overarching challenges

In interviews with reporting corporates, we invited them to share overarching challenges that they faced in reporting for the EU Taxonomy and provide supporting examples. We categorise the findings into three main 'Challenge Areas':

- 1. Scope of what the EU Taxonomy reporting process includes and excludes**
- 2. The technical design of the EU Taxonomy regulation**
- 3. The implementation process of the EU Taxonomy regulation**

Challenge Area 1: Scope of what the EU Taxonomy reporting process includes and excludes

Reporting corporates shared that the Taxonomy is restrictive in terms of industries, and thereby, economic activities that it covers. In implementing the Taxonomy, the EU has so far focused on high-emission industries. This has created challenges for corporates from other industries that were consequently unable to report on their primary business activities. In addition, the Taxonomy's requirement to report on activities globally created challenges in reconciling the difference between reporting standards and processes of EU and non-EU countries.

A. Reporting corporates find the scope of the industries included in the Taxonomy to be too limited. The EU has first focused on defining economic activities in the Taxonomy that belong to the 'highest impact' sectors in terms of emissions. This means that there are several industries—such as pharmaceutical, textile, retail and mining companies—that cannot yet report on their core business activities. Sectors that are outside the EU Taxonomy's focus in its current form will have inherently low eligibility. As a result, these sectors will have low potential alignment to the Taxonomy, and subsequently, lower KPIs. This challenge that we

Findings for Reporting Corporates & Consultancies

found corroborates and expands upon those raised by the Technical Expert Group on sustainable finance (TEG).²⁴

The EU Taxonomy's materiality requirement means that reporting corporates must report on eligibility and alignment, despite being outside of the 'highest impact' sectors. In practice, this requirement obliges these reporting corporates to complete the entirety of the Taxonomy reporting process on their non-core business activities. For example, a large European clothing and retail company with numerous retail and office locations cannot report on its manufacturing or retail activity, but instead, it must report on its real estate activities as these have defined criteria within the Taxonomy, but there are no criteria for retail. This is challenging because real estate is not the primary area of expertise within the company or its ESG team. Moreover, while reporting on non-core business activities demands extensive resources (similar to those of a high-impact sector reporting corporate), it results in only a couple of percentage points of alignment derived from real estate activities.

A Director at a Big Four consultancy shared that:

'A lot of the big global corporates that are captured by this are not going to see any alignment at all because their core business activities aren't addressed. And so how do you persuade a CFO that they need to dedicate 10 FTEs for a year and a half to this when all they're doing is dedicating 10 FTEs to prove that something is zero or a very small number?'

Due to the Taxonomy's limited scope, reporting corporates perceive it to be designed without a consideration of their business, and therefore, struggle to get a general buy-in from senior management and to justify allocating resources to the Taxonomy.

Reporting corporates in this position also expressed concern that without context, investors and the public may misperceive them as 'poorly performing' due to the low alignment reflected in their KPIs.

Interviewees in this situation said that they undergo the 'downside' of Taxonomy reporting without any of the 'upside' of having representative KPIs to share with investors or the ability to demonstrate sustainability efforts in their core activities.

Case Study 2: The challenges for reporting corporates that span multiple sectors

Given that the Taxonomy in its current form prioritises certain sectors and activities and excludes others, it is possible that reporting corporates operating across

²⁴ Technical Expert Group (2020). *Taxonomy: Final report of the Technical Expert Group on Sustainable Finance*. pp. 13-14.

multiple sectors will have unintuitive outcomes. A European manufacturer shared the difficulties across their value chain:

‘The way the Taxonomy is constructed, the classified activities and the eligible activities are in the middle of our value chain. So, we have an upstream business area, mining and refining, which is not classified. This is a very CapEx intensive area, some of which are related to reducing greenhouse gas emissions. But all of that by definition is not eligible and by extension not aligned with CapEx, because the whole upstream business area is not classified.

Then our downstream business area which does not sell pure aluminium but sells aluminium components or aluminium products. That’s where we have most of our revenue generating activities.

The classified activities for us are energy generation and metal aluminium production, both recycled aluminium and primary aluminium that is in the middle of the value chain. A lot of our CapEx is not associated with those classified activities. Also, a lot of our revenue is not associated with those activities because we are value adding downstream activities before we get external revenue generation.

This is complex both because we have to keep explaining to external stakeholders that mitigating climate change actually makes our Taxonomy KPIs look worse, but also a lot of our value-add activities downstream make our revenue KPIs look worse too.

If we sold off the upstream and downstream business areas, we would have much better Taxonomy KPIs without making any changes or without improving our carbon footprint. If we do not invest in decarbonisation of our upstream value chain, we will look better in terms of aligned CapEx.

There is no doubt that the intentions of the Taxonomy are in the right place, but for our business the outcome is counterintuitive and counterproductive.’

Reporting corporates that span sectors that fall inside and outside the scope of the Taxonomy could potentially have the wrong business incentives to improve their reported KPIs. In these instances, they argue that the Taxonomy is not providing them with a roadmap to become more sustainable.

Representation in the Taxonomy is so important for some sectors that they have extensively campaigned to be included. Two reporting corporate interviews confirmed this is true for the aviation sector, discussed further in Case Study 3.

Case Study 3: The aviation sector and the push for certain sectors to be represented in the Taxonomy to shift their perception as ‘brown industries’

There have been discussions on the inclusion and exclusion of certain sectors such as energy and aviation, which have been the source of practical and political debate. A European airline shared their perspective on why they viewed the inclusion of aviation as critical:

‘We engaged very much to be in the EU Taxonomy, just for the reason that we did not want to be declared from the very beginning as a ‘brown industry’. There was a risk until the beginning of 2023 that the aviation sector would not be in it at all. And so we stand close together with the entire aviation industry. Even if your aligned CapEx and OpEx is very little, an airline can have the chance to progress. We can show our progress to be taken into consideration by the capital markets. We can therefore be considered also as a transformation or transitioning activity.’

A European aircraft lessor argued that being excluded has adverse ramifications on the aviation sector’s reputation and the means of facilitating the sector’s transition:

‘From a macro perspective, our key focus is making sure that aviation is included in Taxonomy because it allows for the definition of what’s sustainable to be pushed through to financial reporting and defining what part of your revenue, your OpEx or CapEx is sustainable. You can have stringent criteria, but aviation needs to be in the Taxonomy so that the transition to a sustainable industry and a net zero industry can be funded.

Aviation is highly capital intensive and long term. The pathways to net zero are challenging. They are not in operation yet and will require significant investment. Be that investment in alternative fuels, sustainable aviation fuels, or be that investment in newer technology engines that emit less carbon. So, all of that is multi-year capital intensive projects. If there is not a route to designate those as sustainable investments and activities, then you will not get capital diverted into that spending. If you do not have a way to distinguish the bad part of aviation versus the good part of aviation and you call all of it bad, then capital will just run away from it.’

Findings for Reporting Corporates & Consultancies

A large European clothing and retail company expressed confusion over the EU Taxonomy introducing further objectives—such as those relating to the Circular Economy and Water—while the company’s core activities remain undefined, and therefore, unreported. According to the interviewee, the new objectives were also inconsistent with the EU’s prior guidance on the Taxonomy-related changes that this industry should expect:

‘We were surprised that we were not mentioned in the upcoming delegated Acts for environmental objectives 3 to 6, the EU has put the spotlight onto the textile industry. We were preparing ourselves internally towards Taxonomy readiness. But then in April 2023 when the draft came out, we were actually very surprised that we were not mentioned, which was contrary to the signals we had.’

These examples validate and further detail observations in academic literature. According to Schütze *et al.* (2020), specific activities with the potential to contribute to climate change adaptation and mitigation, emission-intensive activities remain absent from the Taxonomy in the industrial, transportation, wholesale and retail sectors. To date, no established thresholds exist for those activities, and they have not been explicitly classified as unsustainable. Moreover, a clear path to climate neutrality has not been established for the basic materials sector and other transformation activities as well.²⁵

B. Reporting corporates find that geographic inclusion of global activities introduces challenges around standards. The EU Taxonomy requires corporations to report on global activities. However, many of the standards and regulations referred to by the Taxonomy are EU-specific, meaning they draw from existing EU directives and legislation employed in the Union and applied only to Member States. Moreover, for certain corporates, global geographic scope can substantially increase the scale of reporting. For example, an interviewed European logistics company, operating in over two hundred countries said: *‘We would need to have at least one manager fluent in the Taxonomy process requirements in each country location. That’s two-hundred people right there that need to understand the Taxonomy across the world.’*

The Taxonomy reporting can become significantly more complex for reporting corporates operating across extensive geographies for two reasons: firstly, there is commonly a mismatch in standards between geographies (e.g. different methods and units of measuring building efficiency); and secondly, in geographies outside of Europe, the required environmental standards are typically lower and general reporting skills and sustainability knowledge are nascent according to reporting corporates who oversee teams across the world. A specialist sustainability consultancy summarised the challenge:

²⁵ Schütze, F., Stede, J., Blauert, M. and Erdmann, K. (2020). *EU taxonomy increasing transparency of sustainable investments. DIW Weekly Report, 10(51)*. p. 488.

Findings for Reporting Corporates & Consultancies

'A lot of DNSH requirements relate to generic annexes which then in turn relate to pre-existing EU regulations. The EU reporting company should already meet those regulations as part of the permit approval process to operate in the first place. In those instances, it is a bit simpler. Difficulties arise for international companies with activity in another country that has a similar regulation, but it is not the EU one. How do you ensure that it is meeting those same requirements as outlined in EU regulation? Typically, we undertake a gap assessment to see where the differences are and then if it meets criteria.'

This type of scenario commonly increases the demand for consultancy services by companies that have under skilled or insufficient internal resources.

In the case of subsidiaries in the UK or UK-headquartered companies, reporting corporates have not found this to be significantly challenging. A UK energy company summarised that this was because many of the current UK standards and regulations are very similar to those in the EU. However, it is possible that over time, if significant regulatory differences between the EU and the UK emerge, challenges could occur for reporting on UK activity per the EU Taxonomy requirements.

A European manufacturer shared an example of this challenge:

'You have to comply with the requirements in the EU Water Framework Directive or REACH regulation for pollutants, which doesn't have a direct parallel outside the EU. So local emission requirements in the US are completely different. How do you then do these assessments?'

Even in Europe and, and at least in Norway where we have a lot of our operations, a lot of the EU regulations are implemented through local regulations that often are a little bit different from the EU directive. You have a similar challenge there even if the EU regulation is implemented, but the national legislation might be a bit stricter than the original EU regulation. How do we then interpret whether we are compliant?'

Challenge Area 2: The technical design of the EU Taxonomy regulation itself

When teams inside reporting corporates went through the reporting process and interpreted the legislation, they faced challenges around both interpreting the legislation and putting it into practice.

A. Reporting corporates find ambiguity and complexity in the regulation, allowing for differing interpretations. Corporates shared that many of the challenges across the reporting stages result from ambiguity in wording in the regulation texts, which allow for multiple interpretations. This supports findings made

Findings for Reporting Corporates & Consultancies

by EY in their 2022 report that reporting corporates struggle with what they refer to as ‘far reaching scope for interpretation.’²⁶ In a separate report, PwC found that 70% of the companies surveyed had ‘at least some questions regarding how alignment criteria should be applied.’²⁷ The Platform on Sustainable Finance recognises that there are divergent interpretations of ‘equivalent information’ in the DNSH requirements specifically and suggested that this room for interpretation could pose a risk to the reliability of Taxonomy assessments.²⁸

A real estate service provider within the Climate Change Adaptation objective had to show an adaptation plan if an asset was deemed ‘high risk’, but this term was apparently not defined.

These ambiguities create pressure to solicit advice from external providers such as consultancies, who offer their own interpretation. For reporting corporates, external validation frequently is a means to reduce reputational risk incurred through misinterpretation. One of the main reasons cited by corporates for procuring consultancy services was their effort to avoid ‘*accidental greenwashing*’ by adopting an interpretation of the regulation that would not be shared by others. Reporting corporates shared that to date, consultancies have been one of the main drivers of cost. This report analyses the financial burden further in the ‘Costs’ subsection.

The ambiguity stemming the design of different elements of the Taxonomy can reduce trust in the reporting outputs. Firstly, it increases the likelihood that there are discrepancies between the reporting corporate and the auditor, which need to be resolved. Furthermore, it reduces confidence that the interpretations are shared across a sector, and therefore, that KPIs are calculated and compared consistently. One interviewee even stated that the ambiguity actually increases the potential for greenwashing, undermining the stated ambition of the EU Taxonomy to challenge this harmful business practice.

Some reporting corporates expressed concern that complexity and ambiguity could undermine Taxonomy goals for less scrupulous competing corporates. A Sustainable Finance Project Manager at a British energy company, which chose to voluntarily report, said:

‘You do not want to look bad and you do not want people to call you unsustainable. You have an incentive as a company to maximise your score. Combine that with a financial reporting regulation that is extremely complex, and whenever you have high levels of complexity in financial reporting, you have opportunities for aggressive interpretations of the rules.’

²⁶ Ernst & Young (2022). *EY EU Taxonomy Barometer 2022*. p. 39.

²⁷ PwC (2022). *EU Taxonomy 2022: The Transformation of Non-Financial Reporting*. p. 7.

²⁸ Platform on Sustainable Finance (2022). *Platform Recommendations on Data and Usability*. p. 61.

Findings for Reporting Corporates & Consultancies

I think that just creates very ripe conditions for the very types of greenwashing that the Taxonomy was meant to solve. I think it adds a new and even more pernicious form of greenwashing because it is basically impossible for an outsider to figure out what is going on underneath these numbers because you cannot tie them back to the financial statements as an outsider.'

In this case, the reporting corporate doubted the Taxonomy's ability to achieve its purpose. However, it is important to note that the majority of the reporting corporates we interviewed were optimistic about the prospects of future iterations of the Taxonomy resolving these challenges, whilst still wanting to share concerns around accountability and ethics.

Large consultancies have a federated model across countries of operation. In interviews, consultancies stated that different national offices jointly develop in-house company 'codes of practice' to work through interpretations and maintain a shared understanding and approach. This effort is to ensure that a national consultancy office in one European country avoids providing advice contradictory to that of another national office. However, several reporting corporates complained that this effort is not always successful, and the same company still issues conflicting advice across multiple geographies. Moreover, the effort for internal consistency within the same company fails to ensure consistency between different consulting firms.

Many reporting corporates that changed their consulting provider from one year to the next noted the interpretations of the two providers differed. A Head of Global Sustainability at a European energy company said: *'There's no streamlined consensus between the consultancies. We've been delivered eligibility assessments this year from two different consultants and they were not exactly the same.'*

Several sectors have taken matters into their own hands by convening industry working groups, often organising them around pre-existing or newly formed for the EU Taxonomy industry bodies such as the European Green Digital Coalition. Corporates use these to share practices and understandings, and in some cases, effectively ensure a shared and uniform reporting process.

B. Certain requirements in the Taxonomy are too prescriptive for reporting corporates. Reporting corporates find certain parts of the Taxonomy too prescriptive, creating problems for the reporting. They found this is particularly challenging in the DNSH stage of the compliance journey though not limited only to it.

Examples of the Taxonomy's prescriptiveness include specific water-use rates required within the real estate activity reporting, but the required data is unavailable or inaccessible. Some reporting corporates shared that certain prescriptive thresholds are resource intensive to establish and document and also inapplicable to the core activities of their business (e.g. a pharmaceutical company reporting on energy and water use in that building that it owns). In such cases, some interviewees

Findings for Reporting Corporates & Consultancies

reported deciding to simply report the activity as not aligned and forgo the challenges that they would otherwise incur to establish if it meets the Taxonomy conditions.

There are specific requirements that reporting companies view as unrealistic or impossible to meet by definition. A European aircraft lessor shared a challenge for the entire aviation industry:

‘There are very, very significant challenges for the manufacturers, the airlines and the lessor on sustainable aviation fuels (SAF). If you're going to be compliant, that you hit a 15% use of SAF, growing at a rate of 2% every year. That's a big challenge when the available SAF globally is only half that at the moment. It's not a thing that airlines or lessors can all independently go and do. Even if you want to pay the premium, we would not be able to just turn up the volume of production, which depends on the big producers. The criteria are right to be tough, but in some places impossible to meet by default. This risks making the industry ‘brown’.

There are other challenges that are probably unintended consequences. There are things where the manufacturers are worried that by inference, some references to chemicals in the Taxonomy would make no aircraft eligible.’

C. Reporting corporates find that the Taxonomy deviates from existing sustainability and financial industry reporting standards. The Taxonomy requires corporates to track aligned CapEx, OpEx and Turnover. However, interviewees commonly reported that OpEx per the Taxonomy’s definition is counterintuitive to their understanding of OpEx within their business. In many instances, interviewees reported that Taxonomy’s definition of OpEx diverged from conventional, long standing financial accounting standards IFRS (International Financial Reporting Standards). This mismatch requires additional calculations beyond those required for CapEx and Turnover, as companies need more ‘custom’ data to re-calculate OpEx under the Taxonomy’s definition. Given that Taxonomy OpEx misaligns with conventional definitions, reporting corporates frequently questioned the applicability and value of creating a KPI around it.

A Director at a Big Four consultancy shared that:

‘I have not met someone yet who understands why they need to report OpEx, especially in this way. There may be a rationale, but I have never seen it articulated as someone who deals with it with clients every day. You can imagine the confusion it generates with reporting corporates.’

Reporting corporates that found OpEx most challenging shared this sentiment. A minority of interviewees also found CapEx to be divergent from accounting

Findings for Reporting Corporates & Consultancies

standards, and therefore, challenging to report. These challenges and divergences in definitions are also captured in GTAG's dedicated report on Taxonomy KPIs.²⁹

D. Reporting corporates find that the final reporting templates are very large and complex.

The EU requires the Taxonomy to be reported using a template. Many companies find them cumbersome due to the large number of fields and tables that span several pages. Many interviewees expressed concern that their reports will not be interpreted effectively given how much information they are being asked to provide. Our interviews with financial institutions, which review these reports, confirm that such concerns are founded.

A specialist real estate consultant shared:

'The reporting template is quite extensive with what you have to fill out and it is mandatory. But then if you look into everyone's reports, people don't always use it. I've heard someone say, "You can just pick and choose whatever works best for you." Consequently, some reports have this extensive "dry" reporting template and others just have a nice overview. But you're actually supposed to have the extensive report, which I think is not necessarily clear to everyone. Then there is the separate idea that you can also do voluntary reporting and have your own KPIs next to it, which is where people get most creative.'

A minority of reporting corporates expressed frustration at peers and competitors for not completing the mandatory templates with the required methods and formats.

Challenge Area 3: The implementation process of the EU Taxonomy regulation

The final challenge area apparent from interviews with reporting corporates relates to how the EU implements and communicates the Taxonomy's timeline, developments and contents.

A. Many reporting companies were dissatisfied with the Taxonomy roadmap and communication, making it difficult for businesses to plan.

A significant number of interviewees reported being unclear on the Taxonomy's future development beyond the most immediate requirements. Several provided examples of how the EU rapidly changed and ratified core parts of the Taxonomy for their sector, leaving corporates little time to internalise the Commission's decisions and the corresponding Taxonomy changes.

²⁹ GTAG (2023). *Getting KPIs Right: Implementing an effective reporting regime for the UK Green Taxonomy*.

Findings for Reporting Corporates & Consultancies

Reporting corporates stated that while the early stages of EU Taxonomy announcements and implementation were ambitious, the plan on the implementation and the precise design of its subsequent phases has become unclear. For instance, a European clothing and retail company had understood the Circular Economy objective would include their primary business activities, and therefore, invested significant resources into preparing for the Taxonomy. However, they shared in an interview that based on their latest understanding of EU announcements, their economic activities will still not be included. In the case of aviation, interviewees stated that the Commission added the industry in *'the final hour'*, and consequently, there were elements that were rushed or poorly designed.

As a result, many corporates said they are taking the Taxonomy year-by-year, an approach that one referred to as the *'simply wait-and-see method'* rather than a proactive one. For these corporates, the Taxonomy, therefore, is less likely to drive active business decisions and medium-to-long term investment, which is often necessary to meaningfully reform activities and accomplish higher rates of alignment.

This is particularly challenging for 'transitioning' sectors (businesses that are currently fossil fuel dependent) given the extensive investment and planning that is required to reduce their environmental impacts.

Case Study 4: How a reporting corporate in a 'transitioning' industry views the Taxonomy

A Sustainable Finance Project Manager at a British oil and gas company shared that there are challenges specifically for 'transitioning' industries to work within the Taxonomy because of the timeline of business changes in these industries spans longer than those of other included sectors:

'The difficulty with the Technical Screening Criteria is that they are essentially designed for 'dark green' levels of performance and that does not work in "transitioning" sectors like cement, steel and chemicals. Arguably this is true for parts of energy where it is a much more gradual type of a transition. The opposing view would say that we've tried to accommodate that by having the CapEx plan provision and so forth. But most companies either cannot or will not take advantage of that because you have to do it within five years and that timeline just does not work for a chemicals plant. For that you are making investments over say a period of a decade or fifteen years. Or they will not do it because it involves all kinds of forward-looking statements and performance conditions that you have to meet in the future.'

In this case, the Manager was concerned that designing Taxonomy requirements and reporting around the needs of the highest performing sectors (such as renewable energy) would cause corporates in ‘transitioning’ industries to disengage from the Taxonomy and not use it as a proactive tool to transition.

B. Reporting corporates shared that there is no clear process through which reporting corporates can clarify issues with the Taxonomy. While certain corporates have had access to the Commission, the channels have been unclear for most reporting corporates. Some corporates reported having channels or other means to provide feedback to the EU on issues with the Taxonomy’s design or implementation. Others felt that they could only represent their challenges in industry groups, through which a member could communicate their shared challenges to the EU. However, the majority of corporates said they lacked a line of communication to give feedback or request assistance. They shared that they would have benefited from a Helpdesk or Portal to clarify issues and provide feedback.

C. Reporting corporates shared that the EU’s timing and method of issuing clarifications and Frequently Asked Questions (FAQs) is disruptive. The EU issues clarifications to its legislation as well as FAQs to improve the common understanding of the legislation and how it should be interpreted and applied. However, the reporting corporates expressed their dissatisfaction with the fact that the Commission issued them infrequently (once or twice a year). In particular, the EU collected many answers to questions and clarifications, and then published them as FAQs in December, shortly before reports were due. These publications can have significant ramifications to how corporates interpret their reporting process and obligations. However, the timing means corporates often have only two to three months from becoming aware of these changes until the reporting deadline.

A European telecoms company explained how the FAQ system limits industry engagement and adjustments:

‘At the end of December 2021, we were almost finished with all of the work we did for identifying alignment, including those that required LCA. Then the FAQs were released that month, which clarified against the interpretation we had taken. We had only two months to change everything.’

The challenge is that the FAQs are Commission Draft Notices, which then gets finalised. There is no public consultation and engagement that was needed and took place for the Delegated Acts. This means that if reporting corporates or other stakeholders think there are problems with what has been drafted in the FAQ, there is very limited means to have the FAQ adjusted. In practice, the process of shifting from the Draft to the final version is just preparing translations into different languages from what we can see.’

The challenges by reporting stage

During our interviews with the reporting corporates, we invited them to break down the challenges they faced at particular stages and parts of the compliance journey. Overall, Substantial Contributions and DNSH came up most frequently as the stages that were the most resource intensive to complete and where the most ambiguities and difficulties existed.

Assessing eligibility

Reporting corporates did not rank assessing eligibility as a highly challenging stage (relative to the others), generally because they viewed it as '*a one-time process*'. Once corporates address the difficulties in the first reporting period, they are unlikely to recur later on unless their business activities fundamentally change.

However, for many reporting corporates assessing their eligibility for the first time, the EU Taxonomy's organisation of economic activity by NACE code (Statistical Classification of Economic Activities in the European Community³⁰) is challenging because they typically do not categorise their activities using this system.

Moreover, there is ambiguity as to whether specific activities fit within specific NACE codes. Companies reported spending several months on this stage. Those that undertook a voluntary report were surprised by how long the stage took, extending beyond their original time estimates. The most common solution to ambiguities around NACE codes and definitions in this stage was to seek consultancy services. They have, relative to reporting corporates, extensive experience systematically breaking down activities and completing a match-process to NACE codes for this purpose across many clients.

This is especially true for foreign companies (i.e. outside of the EU). For example, one UK energy company believed they had eligible activity for BECCS (Bioenergy with carbon capture and storage) but were incapable of providing the necessary evidence to prove it. The same company reported that the eligibility criteria described used a Greenhouse Gas methodology that was different from the Greenhouse Gas Protocol (GHGP),³¹ which was standard in their business.

Several UK energy companies found that they were unable to include selling energy to business customers. For the companies in question, this business stream is a large volume, with small margins. For the purpose of Taxonomy reporting, it

³⁰ [Glossary: Statistical classification of economic activities in the European Community \(NACE\) - Statistics Explained \(europa.eu\)](#)

³¹ [Homepage | GHG Protocol](#)

Findings for Reporting Corporates & Consultancies

contributes significantly to revenue calculations but not profits, which *'pulls the KPI scores down.'*

However, many companies expressed that they provide the same business offering and viewed the work at this stage as a *'one-time'* effort that could be re-used in subsequent reporting years with minimal changes.

Case Study 5: How eligibility can become more complex for certain businesses with a large number of subsidiaries

A major US technology company shared that disaggregating their business and financial activity was particularly challenging:

'Some of the criteria relate to our physical infrastructure in our data centres. We need to figure out how we map certain parts of our revenue, of which only a subset is eligible, such as our cloud platform where we sell our data storage capabilities to third parties. We need to identify that revenue, which is very technical and then figure out which data centres host that revenue. Then we have to figure out how to change the infrastructure to align to one bit of criteria and how that flows through to a disclosure. That's just for one criterion for one bit of the Taxonomy for one company. You can imagine multiplying that by 120 companies and considering various other activities.'

'You get into attribution splitting which feels artificial with how our business works.'

Larger reporting corporates are more likely to have more complex subsidiary structures and from interviews, reporting corporates share the view that the cost of the Taxonomy disclosure process often scales with business size and complexity.

Substantial contribution

Assessing the substantial contribution proves to be one of the most challenging stages for reporting companies. This stems from both its requirements and its scale when applied across different projects, business units and geographies.

A pharmaceutical company shared that the *'TSCs are a challenge to make clear what we want and need, and from whom, within the business.'* A British multinational company, that has not yet reported, stated that they would *'need to go through 200 different ESG project teams to collate the necessary information.'* Indeed, companies

Findings for Reporting Corporates & Consultancies

that operate on a project-based model commonly found the scale of the required information and the number of locations where it is stored to be a significant challenge. This challenge is acutely pertinent to the Substantial Contribution stage but is also present through the entire Taxonomy. A European real estate developer and advisory firm reported *‘Substantial contributions is difficult because it cannot be centrally managed and will be done at the project level and we are running over 20,000 projects. Sometimes ensuring alignment could entail changing a tender and it could cost more.’*

Energy companies reported struggling with some of the conditions and threshold requirements. A UK-based company found that a gas peaking plant was Taxonomy eligible but that it was *‘very difficult to pass the ten or so conditions, which can also be easily misinterpreted.’* A different UK energy company sought clarifying support with the EU but could not find the appropriate helpline.

A European energy company found that the conditions in Substantial Contributions can be difficult even for ‘green’ technologies such as hydrogen. The TSCs refer to requirements around Life Cycle Analysis (LCA) impacts, which are still ‘not fully developed’ according to an interviewee. The Taxonomy lacked specific guidance on how to carry out the assessment, and therefore, the reporting corporate had to refer to documentation by VGBE, a German technical association of energy plant operators. These types of assessments, which must be done on-site, are routine for gas-based power generation. However, the reporting corporate will need to hire an expert specialist LCA agency to assess their hydrogen plant and be accredited by a third party, which is more expensive for this type of innovative technology.

Case Study 6: A European telecoms company’s challenges with Substantial Contribution and how the sector’s role is defined in the Taxonomy

A European telecoms company shared their activities matched the NACE codes used in the Taxonomy; however, once they started reporting, the FAQs and other interpretations clarified that their activity was actually outside the Taxonomy’s scope:

‘The ICT sector is one of the six sectors included in the EU Taxonomy, so we are there technically but the point is how activities have been defined, which do not let us actually report the impact that we have in terms of mitigation of climate change. We have an activity of data centres. For these, there is a code of conduct that was not auditable when the Taxonomy was approved. So, we worked with the European Commission after the Taxonomy was approved in a working group so that that criteria can be auditable, almost three years ago. But for these three years, none of us in this activity area have had the chance to align to 8.1.’

Findings for Reporting Corporates & Consultancies

There's the activity 8.2, which is called Data Driven Solutions. It covers how digitalization enables other activities to decarbonize more or less. That would be the idea. And the point with this is that our NACE code is there: J61 (Fixed and Mobile Network), but a lot of services that we provide including 5G connectivity apparently should not be included in the Taxonomy because of interpretations and clarifications made in the FAQs. Networks are not supposed to be there per se, but rather what they enable.

However, we have already been issuing sustainable bonds as per our pre-existing framework and strategy. It just is not coherent with the EU Taxonomy.'

While we engaged with a limited number of corporates in telecoms/technology, we heard in interviews general feedback that the Taxonomy did not seem to fully account for the ways in which they believe they contribute with 'green' activity.

Reporting corporates generally find the substantial contribution stage to be very intensive because of the scale of data that needs to be collected. The European team of a multinational vehicle rental and leasing described the challenge:

'You really have to then dig into your product portfolio and your core business to check it against the Technical Screening Criteria. And when you look at TSCs for freight, road freight transport, you can see that there are specific requirements like tailpipe emissions and acid types used. You need to check this for each and every product and service that you are offering and that's quite a cumbersome endeavour.'

Do No Significant Harm (DNSH)

Where reporting corporates commonly found Substantial Contributions to be technical and 'engineering' focused, DNSH for the same companies seemed more open-ended and less clearly defined. Many corporates, therefore, stated a preference for more guidance at this stage on how to practically fulfil the conditions being outlined. The PRI found in their report that a lack of clarity and specific guidance for DNSH was one of the main challenges in reporting for the EU

Findings for Reporting Corporates & Consultancies

Taxonomy.³² It is also because of these types of challenges that GTAG has advocated for a simplification of the DNSH requirements.³³

Many interviewees shared that DNSH was the most *'documentation heavy'* in its demands. A European energy company referred to the process of collection and storage as *'arduous, especially to satisfy the standards and demands of auditors.'* As a consequence, a significant amount of time had to be spent internally building up principles of approach and working through their methodology with their auditor. Another European energy company stated that the stage requires extensive internal mapping and training to make it clear what types of information is needed from whom: *'the process of creating memos on how to generate this documentation and what constitutes sufficient proof has been very time intensive.'* Most of the interviewed reporting corporates undertook a similar process, often with the assistance of a consultancy.

For the European energy company, even though the objectives of Biodiversity and Water align with EU directives, they found that passing the evidential burden was challenging even within EU countries: *'a lot of the DNSH criteria refer to EU directives towards air pollution, water and biodiversity. But the application in the different Member States varies through their own national laws.'*

In some instances, the DNSH criteria, particularly the risk assessments, can exceed what corporates have completed previously. A specialised consultancy shared:

'The requirements of the physical climate risk assessments are much more detailed than what has been needed in the past. If you compare it to the TCFD, these requirements are a lot more in-depth. A lot of companies, especially if it's a retroactive assessment, will fall short.'

This challenge became even more significant for activities outside the EU such as in China or the US. One reporting corporate summarised, *'the further you get away from the EU, the more challenging it becomes.'* It's also more challenging for some sectors over others, real estate is an example of this.

For certain reporting corporates, DNSH presented the greatest challenge when applied to their real estate activities, which are frequently not the core activities within their business. One corporate stated that in certain countries such as Germany or Italy, the data requirements on energy use and efficiency are very difficult to fulfil. This is the case because reporting corporates need to request the data from the landlord, who may not have the data calculated and is not obligated to provide it. A European real estate consulting company corroborated this point based

³² Principles for Responsible Investment (2022). *Implementing the EU taxonomy: An update to the PRI's 'Testing the Taxonomy' report.*

³³ GTAG (2023). *Streamlining and increasing the usability of the Do No Significant Harm (DNSH) criteria within the UK Green Taxonomy.*

Findings for Reporting Corporates & Consultancies

on extensive knowledge across geographies, saying that certain data in some countries is *'hard to come by'* and *'right now is aspirational to have in the Taxonomy.'*

A European logistics company found the requirements particularly challenging because the documented evidence is required at a site-level in order for it to be aggregated to an activity level for the overall company. They were confident that they meet these requirements given they are subject to the related pre-existing environmental standards, regulations and laws. However, they expressed that finding affirmative means of proof at every site is time-consuming and not always possible.

Case study 7: How undefined terms can cause challenges in DNSH

Several requirements in DNSH are designed in a way that reporting corporates state *'are not possible'* to meet. A European car manufacturer was attempting to follow the DNSH criteria for 'pollution prevention and control regarding use and presence of chemicals'. This is outlined in Appendix C of EU Taxonomy regulation, which refers to a series of other EU regulations.³⁴

The reporting corporate stated that in 2022 there was an essential use clause that would permit them to use certain chemicals. However, 'essential' was not defined. The Commission communicated that this would come later, but in the meantime, the reporting corporate interpreted their use of the chemical as essential. In 2023, the EU revised this clause to 'no other suitable alternative'. The reporting corporate stated that this significantly shifted the basis of their interpretation, which has resulted in a very different type of assessment that is still ambiguous. They stated: *'if a standard was outlined on what was permitted or not, and for what purposes, making an assessment would be simple. The Appendix C makes this impossible.'*

Reporting corporates who have faced similar challenges share that they often rely on advice from consultancies (increasing costs) or choose to not report alignment as an act of caution.

A UK energy company found almost all of the DNSH criteria to be straightforward but faced a similar challenge in one instance:

'The Taxonomy talks about what we call "accident tolerant fuel" in relation to nuclear power, i.e. using fuel which cannot lose its integrity or melt. And the Taxonomy says that you have to be using that type of fuel by 2025 or 2026 in

³⁴ European Commission (n.d.). [Appendix C: generic criteria for DNSH to pollution prevention and control regarding use and presence of chemicals](#). (Accessed 22 April 2024).

Findings for Reporting Corporates & Consultancies

order to meet the requirements of the Taxonomy. But that is not commercially available anywhere by that date.'

While a reporting corporate may have found only one challenge, such as in the example above, the impact can be significant on calculating Taxonomy alignment and KPIs.

Minimum Safeguards

Interviewees reported minimum safeguards as a less challenging stage, in part because they can establish it at a corporate, and not activity level. However, companies reported struggling to interpret precisely how to document that they have accomplished minimum safeguards for the purpose of Taxonomy reporting. Having already conducted human rights assessments at a corporate level, many interviewees expressed confidence that their company policies already cover the minimum safeguards requirements. However, some stated that the principles outlined in the Taxonomy are *'very high level'* compared to some of the requirements in other stages, which means reporting corporates are unclear about what evidence to apply to these requirements. Some reporting corporates stated that they needed to rely on in-house or external legal advice, as well as consultancies to clarify what this stage means for their business.

The primary challenge for reporting corporates appeared to derive from the transposition of global human rights standards (often defined for governments) to companies without enough supporting guidance. A Director at a Big Four consultancy said on the matter *'you can't simply refer to the OECD guidelines and the UN guiding principles and expect organisations to understand what that means in practice.'*

A mitigating factor for the minimum safeguards and the challenge that they pose is that reporting corporates can assess them at the group or corporate level rather than at an activity level, which circumvents the challenges faced in other reporting stages. In addition, in most instances the majority of effort to meet minimum safeguards is *'one time'*. A specialised sustainability consultancy validated and clarified this:

'Ultimately, the Minimum Safeguard assessment only needs to be undertaken really in depth the first time. And then after that, it is just rechecking that compliance. Some parts are really difficult to do because they are very subjective. There are no actual questions requirements. It just says it has to comply with these enormous documents from the OECD from the ILO. They should be me through the policy documentation. The biggest grievances come in the subjective qualitative nature of the requirements.'

A UK energy company said that applying the safeguards is more difficult when considering all of their suppliers. In their case, the supply chain is very diverse, and

Findings for Reporting Corporates & Consultancies

they rely on small, specialised suppliers that may not be tracking these types of information and are not obligated to do so. This creates friction for the reporting company that is obligated to source this information.

A large European insurance provider also faced a challenge around scope because they found the regulation was unclear if the minimum safeguards principle should apply 'downstream' to the customers that they are insuring.

Reporting

Most reporting corporates did not find significant challenges in the reporting and disclosure stage. Several reporting corporates used this stage to share wider feedback on the challenge of collecting financial data linked with different economic activities and 'carrying' that data through all of the stages of the Taxonomy prior to the final reporting. They stated that the consolidation of this data is challenging because it is different from how their business and technical systems are organised. Moreover, consolidating data requires a strong linkage between sustainability reporting and finance teams, which reporting corporates establish for the purpose of Taxonomy reporting.

Communications and Training

The EU Taxonomy official literature does not outline this stage specifically, but the DBT compliance journey includes it to account for the potential challenges and costs it could pose to reporting corporates. Very few interviewees raised challenges around this area, in part because there is very limited outward communication relating to the Taxonomy reporting beyond what is mandatory to disclose. Currently, the reporting outputs go in annual reports, and they also come up occasionally in discussions with investors. Many corporates mentioned the future requirements of training only in passing but acknowledged that it is too early to formalise this process.

Although most reporting corporates have not yet tracked or extensively planned what internal training or upskilling, it will likely present challenges, as a Director from a Big Four consultancy shared:

'Upskilling the entity and the stakeholders to understand the Taxonomy can be a drive of cost. Whilst you will have a core of two or three people that probably do get it, it is so cross organisation cross function that you need people in finance, operations, sustainability, legal and tax.'

The moment you change stakeholder groups, you then have to completely upskill those individuals and then you have to persuade their senior team. In

Findings for Reporting Corporates & Consultancies

my experience in working with reporting corporates, the upskilling stakeholder management process is very helpful but also challenging to accomplish.'

A large European insurance provider reported having started to provide online modules to upskill employees: *'Of the couple of training sessions we have for different management levels and experts, we have about 500 participants worldwide so far.'* The total number of employees for this company is over 150,000 and they operate in over 70 countries.

Data systems

The EU Taxonomy requires the collection and provision of aligned financial data throughout the reporting stages with the aim of calculating the final KPIs (CapEx, OpEx and Turnover). Given that this process is entirely new, it requires adjustments to corporates' internal business function systems that are used for planning and accounting, also known as Enterprise Resource Planning (ERP) software. The software is used to centralise the collection, storage and interpretation of data from the various business activities that a corporate undertakes. This includes financial data, which can be inputted at various levels in the company chain and aggregated to produce financial metrics at the group level.

A reporting company summarised a challenge that was expressed across many interviews:

'The combination of the financial information with qualitative Taxonomy information is a challenge because of our system environment. We do not have a single data repository where everything comes together. It's a big challenge to bring the financial and non-financial pieces of information together.'

Another shared a more fundamental but also common challenge around not just data-management, but whether it exists and is recorded in the first place:

'It may sound kind of incredible. It's not always easy to kind of clearly link dollars to physical assets in the way that the Taxonomy wants you to do. That's just not really the way companies' financial reporting systems are generally set up.'

Many of the reporting corporates operate at a significant enough size and geographic distribution that it is rare for a single technical system to be in place. The reporting corporates instead rely on a variety of systems, often customised to fulfil their business needs. Many reporting corporates stated that the current market offering of Software-as-a-Service (SaaS) products, specialising in the EU Taxonomy, were not appropriate for their scale of operation, given these products can only provide 'off-the-shelf' solutions that would be insufficient for the needs and complexities of their businesses.

The vast majority of reporting corporates use SAP or Oracle as one of their primary software providers. They commonly reported that no modules for the EU Taxonomy were yet available. As a consequence, teams were making minor adjustments to the way their existing system worked. An example would include a European pharmaceutical company enabling the ability to 'tag' certain financial transactions as they happen (or shortly thereafter), which prevents a manual tagging process later at the point of data extraction and calculations for the Taxonomy reporting process.

Findings for Reporting Corporates & Consultancies

However, the interviewee shared that the gains and savings are ‘*marginal*’ and ‘*significant changes would need to happen to the system to remove manual elements.*’

Almost all of the reporting corporates stated that in practice, they requested data from various parts of the business via a simple survey or through sharing spreadsheets. This demonstrates that little has developed since a 2022 report by PwC found that only 9% of reporting corporates use specialised tools for collecting and reporting their Taxonomy-related data. They found that corporates were instead commonly using combinations of Microsoft Excel spreadsheets, Word documents, PowerPoint presentations and email.³⁵ Much of the data required would need to be located and extracted from the existing systems and manually reformatted in spreadsheets. One reporting corporate shared concerns that ‘*such a process is prone to human error and makes it hard to document a trail that is necessary to be audited smoothly.*’ For this reason, many anticipate a significant change to their data and technical systems. However, given the scale of changes and the cost associated, the reporting corporates told us that they intend to continue with their current methods for the foreseeable future.

Assurance

Currently, the Taxonomy itself does not require reports to have externally conducted assurance. It will require ‘limited assurance’³⁶ at a minimum and raise the standard of auditing requirements in the subsequent years, once CSRD is introduced. However, Spain is an example of a jurisdiction which has implemented requirements for assurance within their own national legislation.

We found that in practically all instances where reporting corporates had published an official Taxonomy disclosure, they had chosen to complete limited assurance with their auditor. This derives from common company policies that non-financial disclosures need to have a level of assurance prior to publication. In all cases, reporting corporates could not share the cost of Taxonomy assurance because it is incorporated into the total cost of assurance.

Even at the level of limited assurance, reporting corporates frequently expressed challenges in ensuring they had a shared interpretation as their auditors, which took further engagement to resolve.

³⁵ PwC (2022). *EU Taxonomy 2022: The Transformation of Non-Financial Reporting*. p. 25.

³⁶ [Limited assurance vs reasonable assurance | ICAEW](#)

Costs

During interviews, we asked reporting corporates to systematically break down estimates of costs incurred by the Taxonomy reporting process. This proved to be challenging because the Taxonomy-related costs overlap with those incurred by other simultaneous and new reporting requirements such as those stipulated by CSRD. For example, sustainability reporting teams hire staff to work on a variety of ESG projects, in addition to the EU Taxonomy.

Therefore, it was very rare for teams to precisely measure their time against different reporting requirements. Similar challenges of disaggregating costs applied to procuring consulting services. The Taxonomy reporting assistance is often only one part of a more comprehensive non-financial reporting service that reporting corporates seek, including extensive services pertaining to CSRD.

Staff time costs

Many teams shared that they had grown in headcount in part because of the Taxonomy. Moreover, while several reporting corporates expressed the ambition to reduce reliance on consultancies over time, they acknowledged that the number of staff is likely to be at least constant or increase, representing a fixed or increasing annual cost. Overtime, staff could, therefore, become a more dominant factor in the overall distribution of the total cost incurred. This supports a continuation in the trajectory observed by PwC in their 2022 report where they found almost half of their corporate respondents 'believe that additional personnel will be required over the course of the year.'³⁷

A large UK-headquartered supermarket with operations in several EU countries reported that they will have 6 people focused in 2024 on both CSRD and the Taxonomy, which costs approximately £600,000, excluding the time of more senior management. A pharmaceutical company reported that a team dedicated to the same reporting costs the company €400-500,000.

Across sectors, companies commonly reported a group of two to four people that form the core team focused on the Taxonomy. The time dedicated to Taxonomy reporting can range from 5% to 50% of their total annual working time. As a representative example, a European telecoms company said that they have hired three people within their reporting team and two people within finance to work on the Taxonomy, as well as other requirements such as CSRD.

Another important factor to consider, which is difficult even for this 'core' team to estimate, is how many people the Taxonomy involves in a more limited capacity

³⁷ PwC (2022). *EU Taxonomy 2022: The Transformation of Non-Financial Reporting*. p. 16.

Findings for Reporting Corporates & Consultancies

through the rest of the organisation. This could include project managers, business unit managers and international regional management. In very large reporting corporates, requests for Taxonomy data pass through a distributed system of referrals down to different teams along reporting chains.

The Head of ESG at a UK reporting corporate providing design and engineering services provided more detailed estimates because of his prior experience in a consultancy focused on EU Taxonomy services. He reported that it would take one to two days of their time per working week as well as a day per week for someone who manages their internal data system for the Taxonomy. It would require a day per working week from the finance team for half the year. Lastly, for each project manager (there are thousands) it would be two to three days of work per year. These project managers are also considered to be relatively senior within the business and would be paid salaries each of £50-60,000 per year.

Consultancy costs

Reporting corporates identified consultancies as the most expensive cost incurred in Taxonomy reporting to date. The vast majority of reporting corporates used or are actively using consultancy services for reporting against the EU Taxonomy. Moreover, reporting corporates often stated they imagine the costs to be higher in the earlier years due to one-time processes to initiate their approach and system.

The approach to use of consultancies differed across reporting corporates to fulfil different needs, but the most common method of engagement in the first reporting year (or the year preceding the first reporting year) is to use a consultancy to conduct gap analysis, map the data requirements with internal systems and establish eligibility. These consultancy teams were commonly from the Big Four and could include small external teams of 2 to 5 people. One European energy company said that they engaged with consultants to *'effectively buy more capacity on a flexible basis'*.

Reporting corporates said consultancies were most expensive when used to complete specialist tasks, such as Life Cycle Analysis, which is required for certain TSCs. On a site-by-site basis, a European energy company estimated nuclear and gas assets to cost €30-50,000 each and for smaller assets to cost €10,000 each.

Some reporting corporates stated they intend to get support from consultancies for the Taxonomy reporting to build internal knowledge and practices in the first few years, before moving on to approach future reporting years independently. However, in an interview, a Director at a Big Four consultancy was sceptical about the viability of these types of corporates being able to do this independently given the many future reporting stages that are to come, as well as the changes that are incrementally rolled out by the EU in FAQs and clarifications:

Findings for Reporting Corporates & Consultancies

'The issue comes when all new objectives get released and the reporting corporates just do not have the knowledge or awareness on how to bring that on. It can then become slightly more annualised than I think organisations were hoping. There is also just a lack of available talent in the market as well, in that you can't just hire in the resources to do this with existing knowledge.'

Some reporting corporates understood that future changes and developments would be a challenge and so they intend to budget for consultancy services for future years of reporting.

Several other reporting corporates shared with us that it is difficult to recruit talent because experience is limited and widely sought after by competitors within the same sector, but also from outside in entirely different sectors too.

Reporting corporates in fifteen separate interviews quoted between £50-100,000 as the cost of a consultancy service for the first-year reporting. This aligns with estimates provided by a large sustainability specialised consultancy for the Taxonomy alone. They shared that this cost would often sit within the wider context of CSRD, where a large multinational could expect to pay £50-100,000 for a readiness assessment and £200-600,000 for implementation. From their industry discussions, that range seems to represent the costs of the Big Four consultancies too.

However, in our interviews, the very large corporates reported having significant amounts of information to process and quoted estimates of hundreds of thousands for Taxonomy reporting alone. For example, a larger reporting corporate estimated a first-year costs of £200,000, with recurring annual costs of £80,000. A US food conglomerate estimated it could be in excess of £1 million but they had not yet undertaken Taxonomy reporting.

Data systems costs

Very few reporting corporates attributed incurred costs to changing their data systems. This reflects how few corporates have undertaken investment or made significant changes to their data systems. Interviewees shared three explaining factors. Firstly, the Taxonomy itself is still novel and IT offerings for large enterprise software has not yet responded. Secondly, the Taxonomy is changing regularly through the introduction of new objectives as well as clarifications issued by the EU. More stability and consistency over time is needed before reporting corporates can identify, plan and implement significant change. Lastly, given the high cost they will likely incur, corporates cannot yet make the business case to boards for investment in this area.

A US chemical industry company stated that segmenting the Taxonomy-relevant data alone would cost *'tens of thousands.'* According to a European airline, their data

Findings for Reporting Corporates & Consultancies

systems deal with financial data, and therefore, changes to it will need to integrate with or 'feed into' SAP, which is their ERP of choice. They estimated this process to cost a minimum of €1 to 2 million.

Changes to data systems within a reporting corporate can be costly and complex when data systems and technology are not necessarily consistent across the different countries of operation. A European telecoms company could only estimate that changes would cost *'hundreds of thousands in Spain, but we would not have the numbers for Germany.'* This phenomenon can be more prevalent in certain sectors, such as food companies where mergers and acquisitions are common and many of the underlying brands (and their original means of operations) stay intact. A large US food company estimated that overhauling changes to the *'local system'* in SAP for the UK could cost £10 million, but globally *'could be £100 million.'* For this reason, work-arounds and manual solutions would likely persist for the foreseeable future.

However, some reporting corporates were quite quick to adapt their system and did so successfully. Reporting corporates that already had a robust integration of operational and financial activity were best prepared to fulfil the new requirements set out by the Taxonomy, and thereby, faced significantly fewer challenges. A European logistics company managed to make internal adjustments to data recording in their procurement system, which allowed them to capture data around maintenance and repair parts of the business. *'This would have taken maybe forty hours to change and implement, so it was turned around at a very low cost.'* However, for the same corporate, making changes to the ERP system and ESG reporting will need substantial effort and apparently require a consultancy engagement of approximately €100-250,000.

A Big Four consultancy validated these costs:

'We have seen everything from the hundreds of thousands into the millions. And that depends on how much they need to capture and what their existing system environment looks like. There is no silver bullet system solution yet. There are modules and add-ons and shiny start-ups, but I have yet to come across one that actually solves the client problem in a complete way.'

Future costs

Reporting corporates anticipate forming a more extensive team to work on the EU Taxonomy, especially given the upcoming inclusion of future objectives. They expressed mixed views on whether the scale of consultancy involvement will remain constant or gradually decrease.

A consultant shared that they suspect the Taxonomy will present a creeping cost to reporting corporates, which may frustrate senior stakeholders:

Findings for Reporting Corporates & Consultancies

‘Organisations feel like they are experiencing Groundhog Day when they have to run eligibility on two objectives, then run them again for alignment, and then the process all over again for four more objectives. From a budgetary perspective it’s complicated because senior stakeholders say, “Didn’t we sign off on costs for these 12 months ago? What’s different now?”’

The consensus among reporting corporates is that as the Taxonomy matures and solidifies, the underlying data systems will need significant adjustment or even overhaul. Reporting corporates estimated this to be the largest future drive of cost of any category.

Benefits & Impacts

The short-term impacts

Reporting corporates identified the clarity in the standards required by the Taxonomy as one of its main strengths and benefits. One interviewee said, *'it has really brought clarity into what direction the strategy should be taken'*.

An energy company shared that *'The Taxonomy Framework is very powerful in guiding companies in how to transition. It gives them clear guidance on how to approach hydrogen in our case'*.

In particular, reporting corporates found value in the fact that Taxonomy reporting can facilitate comparability within a sector and limit the potential scope for greenwashing.

Some corporates found beneficial the way in which the Taxonomy, because of its design, requires the sustainability and financial business functions to work closely together, which could facilitate better informed business decision making.

Approximately a quarter of interviewees viewed the ability to raise green finance through the Taxonomy at a favourable rate of interest as their main anticipated benefit. Many of the corporates that had interest in this area are already issuing sustainability bonds that spanned several different sectors including energy (the most common sector for this anticipated benefit), logistics, water, telecoms and consumer goods.

A minority of reporting corporates stated that they had not realised any benefits at all and were pessimistic about the EU Taxonomy prospects in improving their business or accomplishing its stated goals. Many reporting corporates caveated their viewpoints that it is too early to make judgements around the success of the Taxonomy, and that benefits will be realised in the coming years.

Wider outcomes

Within real estate, one corporate shared that the Taxonomy is already impacting liquidity of major deals:

'The Taxonomy is definitely a big driver. I do not think necessarily it is impacting price, but it is impacting liquidity. We have heard of instances from our brokers where buyers have walked away because something is not

Findings for Reporting Corporates & Consultancies

Taxonomy aligned. It is very rare, but it does happen. But this is still a significant business impact.'

Most reporting corporates shared that there was limited or no engagement through investor relations teams, but this would not necessarily always be the case in the future. One reporting corporate stated a sentiment that was representative of many others' stance:

'Until today, no one really knows. The Taxonomy has been constructed for the sake of the capital markets and for the sake of directing capital flows to sustainable activities. If you ask today, banks or institutional investors after the first year of reporting, they said there is not that much information from the Taxonomy that they really need to make informed decisions. No one really can tell how big the impact will be in the future, so it is an open question.'

This sentiment was widespread among reporting corporates, who would often state that it is premature to make an assessment on whether the Taxonomy will become a major part of decision making for investors and by extension, a major part of decision making for reporting corporates.

Some reporting corporates expressed concerns about the burden of Taxonomy reporting within the wider context of disclosure and reporting requirements. A specialised consultancy shared:

'We've seen a lot of pushback recently from clients who are inundated with reporting requirements and they tell us, "I'm disclosing all of my risks and impacts to the climate in society, but I'm not actually mitigating them because I'm so busy reporting on them."

The Taxonomy appears to be competing with a variety of other reporting tasks, disclosures and standards from the same stakeholders within businesses. Moreover, the complexity of the Taxonomy presents a risk, where simpler reporting systems exist. A US technology company summarised:

'One of the big risks of this exercise, which is probably an unintended consequence, is it just becomes a really resource intensive reporting exercise rather than actually moving the needle on driving change because of its complexity.'

Findings for Financial Institutions & Data Providers

Financial institutions are the primary user of the EU Taxonomy KPI data produced by reporting corporates. As such, they are the second largest profile type represented in the recruited interview research group. Large data providers that collect both financial and non-financial data and provide it to financial institutions as a service have extended their market offerings to also include EU Taxonomy data; we interviewed several of them as part of this research.

Challenges

Financial institutions faced challenges that can be categorised into the same three groups as reporting corporates, with many of the challenges inside each group being very similar to those of reporting corporates.

1. **Scope of what the reporting process includes and excludes**
2. **The technical design of the EU Taxonomy**
3. **The implementation process of the EU Taxonomy**

Challenge Area 1: Scope of what the reporting process includes and excludes

A. Financial institutions find the scope of the industries included in the Taxonomy to be too limited. Financial institutions reported that the limitations in the scope of sectors defined within the Taxonomy reduces its applicability to investing methodologies, which consider companies across all sectors including those that are transitioning. The limited scope of sectors, as well as geographies, according to an investor, means that the *'universe of investable equities becomes very limited.'*

Another investor shared that *'the alignment numbers are a drop in the ocean. If you want to have this become meaningful, more industries will need to be included.'* In fact, it seemed that the lack of coverage of sectors was one of the main reasons among investors for why the Taxonomy could not be factored into making investment decisions.

B. Financial institutions find that the geographic scope is too limited. Financial institutions reported that the geographic scope of the Taxonomy means in practice that almost everything that is not in the EU and reporting for NFRD (to be replaced by CSRD), cannot be considered 'green' in their own Taxonomy reporting. This includes major centres of investment for renewable energy and energy transitioning industries that are concentrated in the US and Asia. A US bank reported that:

'The unintended consequence of that is we could lend money, as we are a global bank, to develop a wind farm in the US and that's not green. We can lend money to a coal mine in Europe and that's not green. They get treated the same way in this EU Taxonomy. That is not intuitive, that cannot be the intended consequence.'

As a result of this scope, brown investment in Europe and green investment outside of Europe have the same consequences for KPI reporting purposes.

This challenge shared by financial institutions supports the findings of the Principles of Responsible Investment (PRI), where they found that reporting companies struggle to obtain data from non-EU issuers that are not compelled by the Taxonomy because they have no obligation to measure and collect EU Taxonomy relevant statistics.³⁸

Case Study 8: The challenges in setting up a fund focused on Taxonomy alignment

A fund manager we interviewed had intended to set up a fund that would be focused on climate solutions, managing £20 million and aiming initially for a 50% alignment. Previously he had been using the FTSE Russell Green Revenue Data Model, but he wanted to use the Taxonomy once it went live because he believed it is more comprehensive in its design and more standardised:

'An Article 9 Fund gives you the option of setting a minimum percentage of the fund that is going to be Taxonomy aligned. Initially, I was assuming it would be over 50%. Then as it became less certain, we would be able to qualify the data, I reduced that to 30%. And then just before the first reporting round happened, I realised it was not going to be possible for me to qualify really any revenues as Taxonomy aligned. So, I reduced it to zero.'

'In the end, my fund, which was launched on the basis that it was going to be a high Taxonomy percentage fund, ended up without any Taxonomy goals at all. Which is very big, big shame, big pity because I think the Taxonomy inherently is actually quite a good framework. It's just got a few problems with it that are hard to solve but, but problems that the UK Taxonomy doesn't need to replicate.'

Many of the challenges that this fund manager raised corroborated the challenges shared by reporting corporates, including difficult TSC for certain economic activities and an intensive process to fulfil DNSH.

The most challenging factor was around the scope of geography, given how a significant number of climate solution companies (such as electric vehicle and solar panel manufacturers) are based in China, and do not report against the Taxonomy. The fund manager argued that:

'Given Europe is only about 15% of global equity benchmarks and maybe slightly more for a bond benchmark, but a small minority of

³⁸ Principles for Responsible Investment (2023). *Addressing EU taxonomy usability issues.*

global portfolios, that means you're never going to get a decent EU Taxonomy percentage for a fund.'

Challenge Area 2: The technical design of the EU Taxonomy

A. Financial institutions find that the guidance is complex to interpret and internalise, and the requirements are very challenging to fulfil. All financial institutions acknowledged the complexity of the Taxonomy. Structurally, the legislation is spread across several sources, which makes it harder to ensure total coverage and comprehension. A UK active investor manager summarised:

'Interpreting the regulation is hard because it is spread across disclosure texts, SFDR texts and Taxonomy texts, as well as the User Guide and follow-on FAQs. It is hard to disentangle some, and it needs to be consolidated into one text. All of this material is needed to produce one report, but we get pointed everywhere.'

B. GAR calculation methodology can create non-representative ratios according to financial institutions. The Green Asset Ratio must be published by EU banks. The ratio quantifies the EU Taxonomy aligned assets held as a percentage of total covered assets. Many financial institutions reported difficulties with this ratio, stemming from the two challenges in 'Challenge Area 1' of the limited scope of geography and sector of the EU Taxonomy. Banks who hold investments that may commonly be considered 'green' but are not Taxonomy aligned (because they are not Taxonomy reporting due to their geography or sector), cannot be included in the numerator but must be included in the denominator, therefore lowering the ratio.

One bank reported that this calculation could have quite heavy '*unintended consequences*', depending on how the GAR will be used for issuing green products. Another reported that '*marketing structured green products will be a focus, which is worrying because we have this non-representative GAR. This may hinder us from issuing even our own corporate bonds or shares. This is not just a reporting exercise.*'

A bank also reported that communicating the GAR is difficult because the template provides no simple table, but rather a selection of complex data points: '*We wanted a simple table for GAR and use it for a couple of years, so people become accustomed to it. We went from no GAR to 19 templates around GAR. I struggle to explain this to my auditing committee.*'

This challenge in the communication of the GAR and its potential limitations is connected to another general challenge in the scale and complexity of the

mandatory reporting templates for financial institutions that many interviewees shared with us.

C. Financial institutions find that the templates are unwieldy to provide and interpret. The reporting templates are unwieldy for financial institutions and ‘Needs to be done in a proportionate manner.’ A US bank reported needing to provide the same types of data across several tables with slight variations in the calculation method and the variables. As a consequence, the reporting templates become extensive in length. The required tables can become so large that they cannot be provided in the conventional A4 format:

‘Templates are a real thorn in my side, and I am just being pragmatic. The templates don't fit in the documents that they are asking us to put them in. You need to unfold A4 paper, and they do not fit in the published documents they want them to fit in. So, you have to shrink it to a readability which is not friendly to those who have eye problems. We have yet to figure out how to actually report this information. I know that sounds silly.’

The interviewee used this as an example of how he felt that the reporting requirements in their totality may not have been thought out in practice. This scale of reporting requirements without communicative clarity was shared by another bank:

‘We'll have to publish more than 20 templates. It's better to have one or two tables that are higher level or more concise. Then give a clear message of where the company stands on its journey, rather than have this proliferation of tables going to the lowest level of detail you can imagine. Currently it does not give a view on the whole matter.’

D. Financial institutions find that the data can be unreliable from reporting corporates. Financial institutions and data providers reported concerns about some of the data being reported by corporates in their official disclosures. Issues included significantly divergent KPIs among reporting corporates in a similar geography and sector, which they suggested could stem from varying interpretations and applications of the EU Taxonomy legislation or errors in the calculation. It is likely that many of the changes raised in the ‘Findings for Reporting Corporates’ section of this report explain the sources of some of these errors.

Financial institutions and data providers also reported ways in which reporting corporates did not follow official templates and guidelines, providing slightly different calculations or ranges of calculations. This means that the data collection process can introduce inconsistencies in the outcomes depending on how the collector interprets the data they are presented with.

Findings for Financial Institutions & Data Providers

One financial institution reported that *'companies are not reporting consistently. We now have interpretative functions to understand counterparties, which really should not need to exist if you consider the function and aim of the Taxonomy.'*

Another tried to benchmark their accuracy by comparing data points for their peer institutions:

'I met with my peers that have similar portfolios. Our hit rate when we go and try and manually source information from counter parties is in the 10% range. We could have interpreted something a little bit differently than some of the peers on an apples-to-apples basis. So, what that means is for all of the counter parties that are allegedly in scope of this reporting, we're only able to find what we need for 10% of them. Something is not working. I made that a very specific topic of one of our round tables with my peers and learned that 10% is even better than what they're getting.'

This investor questioned whether they could be accomplishing the EU Taxonomy goal of a consistent disclosure standard if there is this level of variance in the collection and interpretation of data.

E. There are gaps in data from reporting corporates and it is difficult for financial institutions to fill them. Where gaps may exist from reporting corporates, financial institutions are still expected to fill them. A UK asset manager found that there were not clear principles on how these gaps should be approached: *'For us, data availability is still an open question. With data gaps, do you engage with companies privately? Where this is not possible, do you just complete reporting with assumptions?'*

An area where this can be particularly challenging is in real estate, which we also note is a challenge for reporting corporates in this research report. A European investor shared that:

'Real estate is extremely demanding, including requirements such as water flow for sanitation. This cannot be doable if you do not have the information from the company. It is good as an aspiration, but simply is not practical. The companies need to report on this themselves. Investors cannot be chasing or estimating this type of information.'

As a consequence of these gaps, financial institutions reported deciding to not report alignment in order to save the resources required to source the information or because there was no way to do it without too many assumptions. An investor told us, *'with gaps that are too intensive to fill, we will choose to not report alignment.'*

A UK alternative asset manager invests extensively in private companies and shared that *'the vast majority of third-party data does not cover these private companies,*

Findings for Financial Institutions & Data Providers

due to their size and lack of public data that would allow them to model estimates.' For this asset manager, they understand that there is an expectation for them to facilitate the reporting of these private companies, but it is unclear how this obligation or role should be conducted.

The UK branch of a European investment firm reported challenges in resolving ambiguities through legal advice. One team member described it *'like the blind leading the blind. We find hugely divergent viewpoints from different legal counsel, sometimes to a worrying degree.'*

G. While financial institutions rely on data providers to support their reporting needs, some are concerned about the reliability and quality of the data provided. Many financial institutions reported that there was a two-year gap where much of the information that they needed for reporting corporates was not published in time for their own EU Taxonomy reporting requirements. Consequently, they relied on data provided by major data providers who provide ESG data as a service, such as MSCI, Bloomberg and Sustainalytics by MorningStar. A UK asset manager reported:

'To fill in the void, we used the data vendors who were providing assumption-based material. However, there is ambiguity to me in how vendors assess DNSH and Social Safeguards. I know that the reality is a lot more involved than the assumptions that are being made. The vendors are assessing a whole business around DNSH, when that needs to be established at an activity level. It is possible that the same reporting corporate would be reported differently in different funds as a consequence of this.'

Another international investment fund reported similar concerns stemming from the methodologies employed, *'third party data is not meeting the requirements, based on their methodologies. The methodology we have seen from a major provider is not good enough. On the listed side, we are doing our own analysis and due diligence to get the data.'* PRI found similar concerns shared by financial institutions around the transparency of methodologies by third-party data providers in their 2023 report on Taxonomy usability issues.³⁹

A bank reported that *'vendors are simply not keeping pace with the data that we require.'* Consequently, they dedicate resources with an off-shore team for the data collection and processing tasks.

³⁹ Principles for Responsible Investment (2023). *Addressing EU taxonomy usability issues.*

Challenge Area 3: The implementation process of the regulation by the EU

A. Financial institutions report that the timing of EU reporting requirements and the method issuing clarifications and Frequently Asked Questions (FAQs) is disruptive. The way in which the Taxonomy was introduced and implemented meant that financial institutions needed to complete Taxonomy reporting prior to reporting corporates publishing their own Taxonomy disclosures. This meant financial institutions were not able to use reporting corporate disclosures in their calculations and they required additional resources in order to fill these gaps. This meant they had to make documented assumptions and rely on third-party data providers.

One European bank said, *‘there was quite a significant time that we needed to bridge things over, which seemed impractical.’* Many financial institutions found that this challenge inflated the costs of reporting and expressed frustration that if the sequencing of requirements was reversed or delayed, they would have had all of the official disclosures from reporting corporates to hand. A similar finding was made by the PRI in their 2023 report on Taxonomy usability issues.⁴⁰

Another European bank shared that, *‘the pace of the clarification on the side of the Commission is definitely slower than the quantum of questions that we have in the industry that are being generated.’*

B. Financial institutions report the lack of an EU overarching repository to bring the data together has increased internal costs to collect data and external costs from third party sources. A common challenge among financial institutions pertains to the availability of the input data that they are required for their own calculations and reporting. Even where the necessary data from reporting corporates exist, financial institutions expressed frustration that there was no ‘central repository’ for where the information gets stored.

Currently, the data exists in published reports uploaded onto the websites of reporting corporates. It is often shared as a PDF, which is not machine readable and increases the manual time required to source, locate and extract the data. Financial institutions reported employing teams to source the data, and using a process to validate what was sourced with an independent round secondary collection as a means of quality assurance on what is a very manual process. Data providers also collect this data as part of their service offering.

A manager at a bank expressed frustration that given the *‘rigid and highly specific’* mandatory templates and data fields that there is no infrastructure in place at the EU

⁴⁰ Ibid.

Findings for Financial Institutions & Data Providers

level to receive, store and retrieve this data. This gap has consequently created a secondary industry of data services that drives costs.

Another European bank explained:

'The expectations that I think were embedded in the Commission is that the market will just pick up this data collection task and create some kind of infrastructure via the third-party data providers, the likes of MSCI, Reuters, Bloomberg, etc. Things are developing in that direction, but they are not there yet because the reports are not published in a digital format outside of PDFs.'

The third-party data providers, similar to the banks, have to go to the individual investor relations websites and look up the numbers. That's quite a tedious exercise, meaning that the level of coverage is not great and meaning that we have gaps in our portfolio where we do not know what the parameters are that we should be applying. This ultimately means that the final KPI is clearly less powerful.'

C. Financial institutions report that there is no clear process through which clarifying questions can be asked. Several financial institutions struggled to find an appropriate channel to file questions that would then be included in the EU's clarifying documents and FAQs. They stated that they were unsure how the EU selected the questions to answer. A European bank shared, *'there is no formal way that I know of to submit a question, no Q&A channel where you report your issues.'*

Overall, companies expressed the need for a speedier response, from the commission, to the clarification questions being posed by companies to ensure they could prepare disclosures in a timely fashion.

Costs

The main categories of costs for financial institutions are very similar to reporting corporates, which include staff, data systems and consultancies. Investors in the private markets were the primary users of consultancy services because they need assistance in having Taxonomy assessments done on their investments. The use of consultancies was less common across the other types of institutions that we interviewed.

Financial institutions also reported a greater use of legal advice and third-party data services. Like reporting corporates, financial institutions struggled to break down costs in their totality incurred by reporting for the EU Taxonomy. This is in part because they do not track staff time spent on Taxonomy specific tasks, and otherwise because work for the Taxonomy is blended with other SFDR requirements.

One asset manager stated very openly that *'costs will get passed on to the investor'*. Financial institutions likely have more direct and immediate means (such as increased fees on funds managed) than reporting corporates to pass on the costs incurred by the EU Taxonomy.

There were quite significant ranges of staff deployed to work on the EU Taxonomy, which reflects the variance in the sizes in financial institutions. Additionally, banks have additional and further requirements than other types of financial institutions, which will increase their overall costs incurred by the Taxonomy.

Staff costs

Many of the financial institutions reported that staff time and costs likely dominate their total disclosure costs. Based on discussions with financial institutions, the salary of staff required is likely to be higher than those in reporting corporates, which increases the cost per additional staff member working on the EU Taxonomy for financial institutions.

On the lower end of the scale, an investment team inside a European bank stated that it is hard to disaggregate the Taxonomy from other requirements such as SFDR but that they would estimate that across the entire ESG team, *'It's in the low single digits in terms of percent across everyone. You could say half an FTE is actually working actively on Taxonomy disclosure a year.'*

But for another European banking and investment management group, the picture looks very different. A manager shared that *'the single biggest cost driver is ESG specialist time.'*

Findings for Financial Institutions & Data Providers

A large bank headquartered in London but operating extensively across Asia reported:

'We have approximately 15 to 20 people working on the Taxonomy. We have several ESG specialist project managers in Asia, dedicating each 10-20% of their time to the Taxonomy. We have 8 to 10 people in the technology team who are dedicated practically full time to the build. Lastly, we have some European colleagues in the finance team dedicating about 10% of their time.'

A European bank calculated:

'All in all, in terms of the staff working on the EU Taxonomy reporting on the finance side, we probably have around 10 people who are permanently working on the actual reporting side. We have another 10 to 15 across IT and operations.'

Case Study 9: A large bank breaks down the team that is has assembled for Taxonomy reporting

A large bank gave a complete and systematic overview of the staffing requirements for the EU Taxonomy:

'I've got a dedicated project team of about five people, and they are just project managers and business analysts who are helping us write requirements because we have to make technology changes to accommodate the Taxonomy we have to create data capture processes.'

I have a project team fully dedicated of about five people. I've got ESG reporting resources that spend about three head count equivalent on this throughout the year. Then I have several work streams. I have a data capture team offshore in India, they're not full time. We leverage the peaks and valleys of their normal workload. But you have to establish a fairly significant data capture team to capture this data because it's not available anywhere. For every template that we have to produce, we have to go grab all those cells from every one of our counterparties to be able to produce that data. So, you can imagine the significance of the data capture team.'

Then we have work streams that are within the business for which we're reporting on their information, and they are aligned to our project and they're accountable for the data capture work stream that's offshore. I'm gonna wager I guess seven data capture resources offshore.'

And then an estimable amount of time spent from people on the side of their desk, part time to help move this forward. Not to mention the

technology resources that are actually building the technology and those are across multiple teams because we have to build the technology to consume the data. Then we have to build the technology to move the data through to our reporting platform. We're leveraging the existing reporting platform that we have for other regulatory reporting.

I shared with you the number of fully dedicated people and you have to appreciate that there are many, many more partially dedicated.'

This case study clearly shows how financial institutions have invested significantly more resources into their data systems, as well as the methods employed to mitigate the costs of collecting and validating data, which is a significant concern.

Consultancy costs

Financial institutions who specialise in private markets were the largest procurers of consultancy services in our interviews, and they reported using consultancy services to help fill the gaps on Taxonomy data of their investments. One investor reported that for an investment in a single geographic location to be assessed, the costs would start at £10,000 and would scale from there, noting that *'there is very little economy of scale because of the granular requirements.'*

Another private market investor reported using a Big Four consultancy at a discounted rate because it was provided through an initiative as a pilot for two portfolio companies. They reported that it took a month to assess their alignment level. Outside of pilot pricing, it would typically be £120,000 for a typical company that they invest in for the first two objectives.

The UK branch of a US private equity company found that the consultancy cost for their five portfolio companies, which were relatively small, cost in total £100,000.

A private market investor shared that *'these types of assessments are not tenable where there are funds of thousands of different private companies.'*

Legal services costs

Where reporting corporates relied more so on consultancies in interpretation of the Taxonomy legislation, financial institutions sought advice through in-house legal teams and externally provided legal services. Financial institutions struggled to interpret guidance that demanded binary classifications but that they felt were open to interpretation, and advice was commonly sought around DNSH and Social Safeguards. One legal advisor to an investing team shared that *'it is hard to understand how rules such as those by the World Labour Organisation (WLO) that*

Findings for Financial Institutions & Data Providers

are referenced under Social Safeguards, apply to a company where the rules have been designed for nation states and not corporates. Guidance is needed to bring that into place.'

The costs of legal services were hard to estimate because many financial institutions have in-house legal counsel. External legal counsel is also commonly bundled with other legal services and requests. Nearly all of the relevant financial institutions that we interviewed were incurring some level of costs from legal services.

A UK bank reported legal advice for CSRD, NFRD and Taxonomy to cost them in the *'range of hundreds of thousands of pounds so far.'*

Significantly, financial institutions reported seeking legal advice far more frequently than reporting corporates. One asset manager explained that *'we need to abide by regulatory requirements, but also by client requirements and investment strategies.'*

Data and systems costs

For changes in the data systems used at financial institutions, this often presented a significantly greater cost than reporting corporates. A large bank reported:

'In terms of the actual technology costs and the and those project managers, it ranges by year because the requirements have been changing each year, of course. This was a big year of implementation and cost. I assume that when we bring in the trading book, it's going to be another incremental step change. This upcoming year, we're planning it'll probably cost about four or five million dollars. That's just the project management and technology delivery costs.'

The nature of the Taxonomy reporting requirements means that banks have already had to invest in updating their in-house data and systems in order to provide the necessary data for reporting. PwC reported that *'overall, the implementation of the EU Taxonomy will result in enormous expenditure for undertakings. The expenditure for banks will be many times greater because, in many cases, they must carry out classifications both at the level of the undertakings concerned and at the level of individual transactions.'*⁴¹

For financial institutions, they need to update their internal systems like reporting corporates, but they also have the additional costs of acquiring data from third party sources. Practically all the relevant financial institutions that we interviewed subscribed to data from one or more major providers. These costs are frequently supplemented by additional staff resourcing required to fill gaps from the third-party data sources and to conduct due diligence on the reported data.

⁴¹ PwC (2022). *EU Taxonomy 2022: The Transformation of Non-Financial Reporting*. p. 8.

Findings for Financial Institutions & Data Providers

Like other costs, it was hard for interviewees to place precise cost estimates because these data subscriptions frequently are included among a wider collection of services that they subscribe to that would be providing both financial and non-financial data. A UK investor reported that, *'we have an overall contract, which gets bundled under a EU regulation package. But I assume that the Taxonomy sub-part is a material cost to our business.'*

A European investment firm shared that:

'The data cost is probably the biggest cost to us. The modules can be considered part of existing contracts and added on. The providers are savvy and charge additional costs. If we have a lot more Taxonomy standards, they would like to charge more.'

For the firm, the data being provided is not sufficient because they want to *'get several levels further down in the data, which is not provided at all. This presents a time cost to our analysts. We find we are building whole new teams to build out ESG reporting.'* However, they still require a baseline of data and estimated that contracts are low £100,000s annually for each provider.

One UK headquartered bank that we interviewed found in their experience that many of the *'most advanced'* providers were newer, Taxonomy-specialised FinTech companies. They did a cost analysis of the options and *'quotations went from several £100,000 to over a million.'* For their purposes, they only wanted to use one service for the sake of simplicity and opted for one of the newer FinTech providers because they felt that *'they have a stronger group of analysts.'*

Benefits & Impacts

Benefits

Financial institutions focused on two benefits of the Taxonomy: a consistent methodology for comparability of sustainability performance, and a useful way to rigorously define Green Bonds.

A large global asset manager shared that *‘EU Taxonomy is actually quite useful as a tool. Perhaps the only standard that defines what good looks like across different sectors.’* Relatedly, many other investors appreciated that the Taxonomy could act as a North Star to define what high standards and performance could represent. To those who shared these types of comments, they viewed the Taxonomy as one of several data points they would use for non-financial assessments of prospective investments. Some investors did share that they assume that increasingly, sustainable performance will also drive the financial evaluation of a business (i.e. successfully ‘transitioning’ corporates will attract higher valuation and investment) and the Taxonomy should be one of the primary ways to assess this.

A European national investment fund voluntarily uses the Taxonomy to screen investments:

‘We use the Taxonomy for mainstream strategies (without sustainability aims). The Taxonomy is a helpful differentiator for other potential investor opportunities. It could reflect risk or business opportunities. This is not done for the reporting process; it is done for strategy purposes and guidance.’

A UK bank reported that *‘we’ve been able to do much better data mapping, find exposures to particular ESG topics, which then allows us to manage our client relationships better. We have more transparency in the balance sheets.’*

Investor interest and awareness

Many of the financial institutions shared the view that the knowledge of the Taxonomy was still limited among investors looking to allocate capital to their firm or fund, but that knowledge and awareness is significantly stronger in the EU.

A private equity investment firm shared that:

‘Our client base is on a spectrum. European headquartered clients that invest in the European market are more aware of the Taxonomy. But there is a huge amount of capital not based in the EU and not aware of the Taxonomy.’

Findings for Financial Institutions & Data Providers

A global asset manager shared a similar viewpoint, stating that:

'Investors in the EU are quite active in engaging with corporates generally. Clients are also interested. Outside of the EU, the understanding of the Taxonomy is very low. The US part of the company does not understand this. Emerging market taxonomies are different, which is a large challenge. This proliferation of different taxonomies is not helpful at all and is actually a hindrance for investors.'

Others corroborated that knowledge of the Taxonomy is significantly less developed in the US, Middle East and Asia among investors. However, a global investment company and asset manager that had intended to establish a high Taxonomy alignment investment fund reported strong interest among UK investors:

'A lot of our clients said that you're able to demonstrate really high levels of alignment. The pension funds and the wealth managers that we talk to, who are mostly UK based, were actually quite impressed by that Taxonomy story. They liked the idea that there was an objective framework to measure fund performance.'

Impacts

A very limited number of investors felt like the Taxonomy is a major guide on their current investment process in public or private equities, because of its novelty and the implication such a strategy would have in restricting the pool of investible opportunities.

A global asset manager explained that *'there are very few companies that are purely transitioning. If you only rely on Taxonomy alignment, you will end up with an extremely limited universe of companies which will put too many constraints on a portfolio.'*

A private equity investment firm corroborated a similar viewpoint *'companies that have thresholds would in this case, have nothing to invest in.'*

The Head of ESG research at a European multinational bank shared there had been speculation of a 'green squeeze' where the limited number of Taxonomy aligned reporting corporates would receive large investment flows, increasing their valuation. However, he did not believe that this came to pass, based on the analysis of his team. Overall, he was sceptical of the value of the Taxonomy and that it *'may be valuable for Green Bonds, but not for equities, which only make sense in a global context.'*

Many of the financial institutions that we interviewed saw greater value in the application of Green Bonds, over investment in equities. However, given that the

Findings for Financial Institutions & Data Providers

European Green Bond Standard has yet to be implemented, they could not comment on what they would estimate the impact to be.

A global financial services group shared that they only have one fund *'doing Taxonomy aligned investing in public bonds, with six people doing analysis.'*

A global investment management firm wanted to raise the potential risk of *'regulatory arbitrage'* if such regulation in the EU made it more attractive to raise bonds in other geographies such as the US and suggested that caution must be taken in the implementation process of Green Bonds.

Conclusions

The EU Taxonomy has arrived at a time where both reporting corporates and financial institutions are grappling with a high volume of non-financial reporting requirements. These requirements are being instituted by the EU, the UK and other national jurisdictions.

The EU Taxonomy, has been developed and continues to be adjusted at a comparatively rapid pace within the context of many existing reporting requirements and standards,. This has consequences for its design and implementation, which many companies and financial institutions believe has created some of the challenges that they shared with us during the interviews. However, they also acknowledge that this means that the regulation is neither static nor unable to adapt. Four more objectives are being introduced from 2025 for reporting corporates and from 2026 for financial institutions. Furthermore, it is adapting on a continuous basis through clarifications and FAQs.

Of the total interview group, only a limited subset was opposed to the Taxonomy in its entirety, and many suggested how they would like to see it productively reformed and adapted. These suggestions applied to both the EU Taxonomy and a future UK Taxonomy. This demonstrates a level of buy-in among stakeholders who have already undertaken the reporting process.

Challenges

The challenges for reporting corporates and financial institutions are similar enough that they can be divided across the same three main Challenge Areas:

Challenge Area 1: The scope of what the EU Taxonomy reporting process includes and excludes

A. Companies find the scope of sectors included in the Taxonomy to be too limited

Reporting corporates cannot include the full view of their economic activities because the framework lacks a comprehensive list of criteria which covers all economic activities. However, they are still required to report on their core activity. For example, a clothing and retail company only has its real estate activity as eligible and not manufacturing activity.

Financial institutions cannot use Taxonomy disclosures to compare a full range of investments because many sectors are not covered by the Taxonomy.

B. Companies struggle with the geographic scope of reporting requirements

Conclusions

Reporting corporates find that certain requirements are very difficult to evidence as companies do not collect data at that level of granularity (i.e. activity level) and in some instances, requirements relating to certain economic activities may be impossible to fulfil.

Financial institutions find that the level of information required of them is too detailed and not possible at the scale and/or contents of their funds. For example, they may have thousands of investments in mid-size businesses that do not report against the EU Taxonomy and therefore cannot source this data from them.

Challenge Area 2: The technical design of the EU Taxonomy

A. Companies find ambiguity and complexity in the regulation

Reporting corporates and financial institutions find that the regulation is complex and spread across many documents. Certain parts of the regulation are ambiguous, allowing for multiple, varying interpretations between organisations.

B. Companies find certain requirements in the Taxonomy are too prescriptive

Reporting corporates find that certain requirements are very difficult to evidence as companies do not collect data at that level of granularity (i.e. activity level) and in some instances, requirements relating to certain economic activities may be impossible to fulfil.

Financial institutions find that the level of information required of them is too detailed and not possible at the scale and/or contents of their funds. For example, they may have thousands of investments in mid-size businesses that do not report against the EU Taxonomy and they cannot source this data from them.

C. The Taxonomy deviates from existing sustainability and financial industry reporting standards

Reporting corporates in some sectors, such as Real Estate, find that certain industry standards are not referenced in the Taxonomy. More generally, the Taxonomy definition of OpEx does not align with conventional accounting practices, which means more custom analysis is required on financial data to ensure that it matches the definitions of the Taxonomy. Many reporting corporates stated that they did not think that this KPI generates helpful insights into their business.

D. The final reporting templates are very large and complex for companies

Reporting corporates find that mandatory reporting templates are highly detailed. Corporates are concerned their reporting will not be interpreted correctly or appropriately.

Financial institutions report they are required to produce a significant number of tables in their reporting. They also struggle to find what they need from reporting

Conclusions

corporates in their templates, which are complex and sometimes do not follow mandatory requirements.

E. GAR calculation methodology can create non-representative ratios

Financial institutions find that due to the aforementioned challenges around the scope of sectors and geographies, many of the investments required to be in the denominator of the Green Asset Ratio (GAR)⁴² will be considered not 'green' and thereby lower the calculated ratio. For example, an investment in a wind farm in the US may not be Taxonomy aligned because of its geography. It would not be considered in the numerator, but it still would be considered in the denominator and create a lower ratio.

F. Data can be unreliable from reporting corporates

Financial institutions have found abnormalities in the reported data of reporting corporates, as well as non-standard reporting practices employed by reporting corporates.

G. There are gaps in data from reporting corporates and it is difficult for financial institutions to fill them

Financial institutions need to calculate and provide reporting, even if the required data is not provided by reporting corporates. Financial institutions had been required to report on the KPIs of their investments, prior to reporting corporates being required to disclose them, meaning financial institutions had to source substitute data from third parties and other sources.

H. There are concerns about the reliability and quality of the data provided by third-party data providers

Financial institutions pay for services from third-party data providers to help fill data gaps, but several have concerns around the methodology of how the data is being estimated.

Challenge Area 3: The implementation process of the regulation by the EU

A. Corporates found a lack of clear roadmaps and communication

Reporting corporates find that they struggle to understand what to expect from the EU Commission, including how the Commission intends to implement the next objectives and expand the scope of sectors.

B. Companies found that there is no clear process through which to clarify issues with the Taxonomy

⁴² The Green Asset Ratio is a ratio of EU Taxonomy aligned assets as a percentage of total covered assets.

Conclusions

Reporting corporates and financial institutions struggle to find the means through which to clarify the regulation with the EU Commission or to provide feedback or requests. This requires them to develop their own interpretations, which risks being incorrect, and/or to pay for consulting services for advice and assistance.

C. Companies found the EU's timing and method of issuing clarifications and Frequently Asked Questions (FAQs) to be disruptive

Reporting corporates and financial institutions find the publication of Frequently Asked Questions (FAQs) to be infrequent and commonly published shortly before disclosures are due to be finalised. However, the FAQs can completely change the way in which companies have interpreted the Taxonomy and demand significant changes to their almost finalised reporting.

Data systems in comparison

Data systems will need to be revised in both reporting corporates and financial institutions, but this has happened at a slower pace for reporting corporates who have more complex user requirements for completing the assessment against the framework than financial institutions. This is because of the extensive documentation required to link activities and evidence with financial data. Financial institutions have a more focused quantitative demand to report against the Taxonomy. They also have experience developing systems for other regulatory reporting requirements that have recently been implemented within their sector. Moreover, all qualifying financial institutions have to report the same types of data if they are in-scope.

While reporting corporates must all report to get to the same type of data to calculate their KPIs, corporates whose sectors are not defined within the Taxonomy (and thereby have very low levels of eligibility and alignment) especially struggle to get the buy-in from their most senior leadership to get funding for a large-scale transformation of their data systems.

Costs in comparison

Many companies were not able to share precise estimates due to how they calculate their expenditure or because Taxonomy costs were combined with the wider costs of addressing the requirements of CSRD.

Staff costs

Reporting corporates shared that the Taxonomy reporting requirements could be covered by two team members at the lowest end, and up to fifty people at the highest end. Many corporates have already expanded their teams to address the

Conclusions

Taxonomy, but these same team members also commonly cover other reporting requirements. Across sectors, companies commonly reported a group of two to four people that form the core team focused on the Taxonomy. The time dedicated to Taxonomy reporting can range from 5% to 50% of their total annual working time. Where larger corporates knew they would need to imminently expand their team, they estimated the costs of hiring staff to be between £350,000 and £600,000.

Financial institutions were most commonly unable to provide cost estimates of staff but report that staff time and costs likely dominate their total disclosure costs. Based on discussions with financial institutions, the salary of the staff required is likely to be higher than those in reporting corporates, which increases the cost per additional staff member working on the EU Taxonomy for financial institutions. Financial institutions commonly quoted the total number of staff working on the EU Taxonomy to be between 15 and 30 people, although this is often not full-time staffing.

Data systems and data costs

Reporting corporates have generally not yet invested in updating their data systems. Interviewees shared three explaining factors. Firstly, the Taxonomy itself is still novel and the IT offerings by large enterprise software providers have not been updated to address the Taxonomy. Secondly, the Taxonomy is changing regularly through the introduction of new objectives as well as clarifications issued by the EU. More stability and consistency over time is needed before reporting corporates can identify, plan and implement significant changes. Lastly, given the high cost they will incur, corporates cannot yet make the business case to boards for investment in this area.

For upgrades to their existing systems, mostly in the short to medium term to adjust, corporates estimated in the low hundreds of thousands of euros. To completely overhaul systems in the longer term, estimated costs were several million euros. Some provided estimates that could be tens of millions. However, those sharing these estimates warned that it involved scoping exercises that had not yet taken place and they are not technical experts.

Financial institutions were more likely to have already adjusted their data systems for the EU Taxonomy because of the nature of their reporting requirements. Costs reported included several million pounds.

Financial institutions also purchase datasets from major third-party data providers and estimate that contracts are £100,000s annually for each provider. Financial institutions commonly reported having contracts with several different providers to increase coverage and ensure quality.

Conclusions

Consultancy costs

Reporting corporates identified consultancies as the most expensive cost incurred in Taxonomy reporting to date. Most reporting corporates used or are actively using consultancy services for reporting against the EU Taxonomy.

Reporting corporates in fifteen separate interviews quoted between £50-100,000 as the cost of a consultancy service for the first-year reporting. Very large corporates reported having significant amounts of information to process and quoted estimates of hundreds of thousands for Taxonomy reporting alone, with one major corporate estimating it could be in excess of £1 million.

Reporting corporates also reported that they incurred assurance from their auditors. However, this cost was not possible to be differentiated from the wider cost of auditing.

Financial institutions were less likely to report costs from consultancies. Certain fund managers needed to pay for consultancy services to assess the companies inside their portfolios and quoted similar cost estimates to those of reporting corporates.

Legal costs

Financial institutions were far more likely to report legal costs than reporting corporates, including relying on in-house and external legal services. Not all financial institutions raised it as a significant cost driver, but several reported costs of several hundred thousand pounds per year.

Benefits & Impacts

The benefits of the Taxonomy are quite similar for both reporting corporates and financial institutions. Many reported that the consistent and technical standards can help to guide best practices and allow for more meaningful comparisons over time. For reporting corporates, the Taxonomy requirements have created closer ties between financial and ESG departments. Most companies believe they will have clearer and more granular sustainability data based on what they need to document, record and retrieve.

Both interview profile groups expressed scepticism about the effectiveness of the Taxonomy as a disclosure framework and its ability to drive investment into

Conclusions

corporates based on their Taxonomy disclosures. Very few reporting corporates had received engagement from investors to discuss the Taxonomy. However, both groups viewed the Taxonomy as a valuable method to evaluate Green Bonds.

UK Taxonomy

At the end of the interviews, we invited reporting corporates to provide their views on a prospective UK Taxonomy. To our question whether it should have a different design or features from the EU Taxonomy, interviewees suggested no specific design or features.

Many reporting corporates, including those headquartered outside of the UK, acknowledged the importance of the UK as a country of operation, as well as the significance of the UK's capital markets. Many shared they were enthused to take the interview with us in the first place because a UK Taxonomy has the potential to significantly impact their business. These areas have been outlined below.

Use case

Many reporting corporates focused their thinking and feedback on how the Government could best design and implement a Taxonomy according to their sector's needs. However, some reporting corporates wanted to encourage the UK Government to take a step back and consider the ultimate purpose and ambition of creating a Taxonomy. One shared that it *'should not just be created for the sake of making an equivalent.'* To this point, many reporting corporates perceive that the EU Taxonomy is trying to accomplish too many distinct objectives at once: to set definitions and combat greenwashing, become a framework for investing decisions and to set the terms of raising green finance. As a result, they claim that the overall narrative of the Taxonomy has become muddled to them and that some objectives appear to be more likely to be successful than others.

UK corporates that are not required to report under the EU Taxonomy were particularly supportive of this point that the UK Government needs to clarify and distil a UK Taxonomy's purpose. This is because they stand to face the biggest changes to their non-financial reporting requirements, assuming they would come under the scope of a UK Taxonomy.

One reporting corporate shared:

'The original use case was that the Taxonomy was going to be the technical reference for the EU Green Bond standard. Much more has come after, such as it is becoming an entire disclosure framework. There are so many use cases now, but I think the problem is that in public policy, I think you want one

Conclusions

tool for one policy objective. My question would be, why does the UK need a Taxonomy? Focus on that main objective.'

The strong demand for interoperability or mutual recognition

The most dominant view among reporting corporates was that the UK should match the EU Taxonomy as closely as possible in terms of the criteria, stages, process and outcomes. Equally, many made direct requests for interoperability and mutual recognition between the EU Taxonomy and a future UK Taxonomy. This viewpoint was shared across almost all the interviews and was the most common feedback shared in the project overall. Financial institutions shared a very similar sentiment and commonly requested a system of '*harmonisation*', a term that describes very similar designs and outcomes as interoperability and mutual recognition.

Reporting corporates and financial institutions frequently requested interoperability and mutual recognition as the guiding principle for developing a UK Taxonomy. However, many acknowledged that this cannot be determined by the UK unilaterally. The Platform on Sustainable Finance has also aimed to provide guidance on how the EU Taxonomy can ensure that it is internationally interoperable.⁴³

A European airline said that '*the alignment between Taxonomies has to be done on the TSC level. The same aircrafts need to be aligned across both Taxonomies, otherwise there is no interoperability between the two systems.*'

Significantly, this line of feedback was also shared by many major UK-headquartered reporting corporates. A UK energy company shared, '*the more comparability and consistency, the better. We want to be able to look at data side-by-side and make decisions. Differences in Taxonomies would undermine this.*'

Reporting corporates and financial institutions both expressed hope that interoperability and mutual recognition would allow for an exemption to report against one taxonomy if they already report against the other (e.g. be exempt from reporting for the UK if they report against the EU). In this way, they would avoid the costs and challenges of double reporting as well as generating two different sets of KPIs.

All the consultancies that we interviewed recognised the business incentives for a UK Taxonomy to be divergent, which would expand the scope and demand for their services. However, they collectively recognised that this would be harmful for accomplishing the main goals of any Taxonomy. This also applied to data providers who acknowledged that a UK Taxonomy data module could be an additional point of sale, but that it would likely undermine the success of both taxonomies.

⁴³ Platform on Sustainable Finance (2022). *Platform Recommendations on Data and Usability*.

Conclusions

Reporting corporates expressed a concern that differing designs could result in double-reporting the same activities, which would absorb more resources. Most concretely, this would directly create higher costs through the additional use of staff time, consultancy contracts and changes to data systems that would be required to capture multiple formats of data for both the EU Taxonomy and a future UK Taxonomy and undermine the stated aim of comparability. A European clothing and retail company said that *‘there really should be one principled taxonomy and interoperability across jurisdictions. These emergent differences are the single biggest challenge facing my team right now.’*

A global bank shared their view:

‘Interoperability is critical. That doesn’t mean I would want to see the UK adopt something that is considered broken, but if the UK were to come out and force us to start capturing different data, that’s a real problem. I frame it as not wanting the UK to go its own way and reinvent the imperfect wheel that the EU has made.’

Reporting corporates pointed out that they already spend extensive time on various non-financial reporting requirements, which as a result, places more focus on reporting itself and less on using reporting to drive impactful business decisions.

The Group Head of ESG Reporting at a UK multinational engineering consultancy, when considering the possibility of divergent Taxonomy requirements, said:

‘Let’s say, for argument’s sake, at a European entity level, the minimum social safeguards were different versus our UK entity. That would just be a stone-cold nightmare. If all those kinds of criteria are different, it would be the worst-case scenario for us.’

They shared fears that it would also confuse prospective investors further in what reporting corporates have already considered a communication challenge. This concern was validated in our discussion with financial institutions, who want the broadest, widest and consistent dataset in order to make decisions. A UK asset manager reported, *‘the annual reported KPIs would be extremely low value if there were different reporting provided.’*

A bank headquartered in London but with extensive presence and operations in Asia already has experience of mapping the EU Taxonomy against other Asian taxonomies. They shared:

‘We operate in over 50 jurisdictions and a lot of the Asian jurisdictions have their own Taxonomies. We have attempted high-level mapping but there are many gaps and challenges with divergent standards and directions.’

Conclusions

Similarly, other banks shared that *'the more different taxonomies they are, the less helpful they are'* and *'we think it's critically important that the UK has the same Technical Screening Criteria.'*

Balancing the desire for improvements with the demands for consistency

As much as they expressed a demand for consistency, reporting corporates recognised the practical challenges with the EU Taxonomy design but continued to express a preference for consistency across international taxonomies, even if it meant that the challenges of the EU Taxonomy were not addressed in the creation of a UK Taxonomy. A specialised consultancy found that the reporting corporates they work with would prefer an *'imperfect system that they know'* than trying to work with two similarly structured, but fundamentally different systems. The same sustainability consultancy summarised:

'I think most businesses now just want some consistency. They may not like the rules, they may want them clarified, but they don't want anything new because there is so much already to work with.'

Many reporting corporates shared that while they have expressed challenges with the EU Taxonomy, resolving them unilaterally for the UK Taxonomy would not necessarily improve their circumstances as they will continue to report against the EU Taxonomy. These reporting corporates would rather work with the often-difficult processes set out by EU Taxonomy, as a *'flawed tool'*, than report against a marginally improved UK Taxonomy. This is because they would need to continue reporting for the EU Taxonomy in parallel and develop two separate processes for reporting.

A reporting corporate provided their logic for two scenarios of the UK Taxonomy in how it could diverge, where it is either more 'lenient' or 'strict' than the EU Taxonomy in its requirements. If the UK Taxonomy provides 'stricter' standards, and assuming the reporting corporate would need to report on their global activities, this would mean overhauling and upending the entire EU Taxonomy process to date to meet the stricter and higher standards. Conversely, more 'lenient' standards would provide limited benefits to them, given that the reporting is already done per the standards of the EU Taxonomy, including reporting on activity taking place within the UK. In this scenario, they would experience no benefits of a more 'lenient' standard in the UK Taxonomy.

A commonly shared view, even by those who expressed a strong preference to minimise regulatory differences, was that the UK should avoid minor or *'cosmetic'* changes for sake of setting out differences from the EU Taxonomy. Instead, many

Conclusions

made the case that any change (if it needs to be made) should be substantial and supported by very strong business reasoning.

For example, a major food UK retailer shared, *'if it is going to be different, there needs to be very clear benefits. Nuanced differences don't make sense.'* A European energy company supported this view, *'there should be very good reasons for the rules to be different.'*

From this type of feedback, a hierarchy of preferences for a UK Taxonomy emerged in several interview discussions, which we outline below in order of preference:

1. Adopting or localising the EU Taxonomy for UK purposes with minimal or no changes
2. Adapting the EU Taxonomy per UK Government requirements, but prioritising mutual recognition by the EU and interoperability as a critical guiding principle
3. Making more substantial changes to the design of the UK Taxonomy that address the significant challenges in the EU Taxonomy (which are identified in the 'Findings' sections of this report)

They explained that this preference was based on business pragmatism, with the aim to minimise financial costs and the time burdens for their teams. Interviewees who expressed this view also acknowledged that the EU has a *'first mover advantage'* with its Taxonomy, and that this applies not only relative to the UK but also the to rest of the world. A private equity investment firm shared that *'the EU Taxonomy has evidently required a huge amount of work. A lot of systems have begun to adapt to facilitate it.'* The same firm said that *'the UK Taxonomy should enshrine something where what is considered sustainable is the same across the two geographies (UK and EU). Without this, there would be different access to capital and trade barriers.'*

Some reporting corporates told us that they have already provided extensive feedback along similar lines to other governments creating their own taxonomies, such as the Australian government.

The case for more substantial changes and differences

There was a small contingent of interviewees that encouraged or requested significant differences. Of the reporting corporates that advocated for large-scale shifts from the EU Taxonomy, they were commonly UK-based companies who were not yet required to report under the EU Taxonomy. They advocated for a simpler regulation that is targeted at prioritising the needs of British businesses. However, given their lack of reporting experience to date, they had less direct feedback on particular stages or principles that they would like to see changed. However, as

Conclusions

expressed by one UK company, it is important for the UK Government to solicit further feedback and views from companies in their position, where they do not need to report for the EU Taxonomy, to develop a more comprehensive set of viewpoints.

A small number of reporting corporates and financial institutions suggested that it could be possible that the UK Taxonomy could be a voluntary disclosure framework, but most interviewees operated under the assumption that it would be mandatory like the EU Taxonomy. A Sustainable Finance Project Manager at a British oil and gas company questioned the value of a UK Taxonomy as a reporting standard (over a focus on green bonds), given the UK government's plan to create a UK Sustainability Disclosure Standards (UK SDS).⁴⁴ Another small number of reporting corporates and financial institutions questioned whether the UK should introduce a Taxonomy at all. This viewpoint was driven either by the perspective that the EU Taxonomy has not been proven to be successful in their experience, or because they did not believe that the UK Taxonomy would be additive enough beyond the EU Taxonomy to create value (and not create additional compliance costs).

Areas and opportunities for improvement

Reporting corporates, when reflecting on the challenges they faced thus far with the EU Taxonomy, had recommendations centred around the design of the Taxonomy itself, as well as its implementation process. Many reporting corporates hoped that if the UK were to make clearly beneficial divergences from the EU Taxonomy, that the EU would itself internalise these changes for its own Taxonomy.

One reporting corporate shared the view that while the EU may have the first mover's advantage in implementing influential regulation early, the UK's historical contribution to non-financial and sustainability reporting standards should mean that it can add value to the EU Taxonomy. It could potentially accomplish this through creating stronger supporting guidance and principles, as well as thought alterations. Along these lines, a European mining and manufacturing corporate shared:

'If we should wish for something, it would be that the UK regulation would not be too different from, or a completely different approach than the EU. But we really hope that it will be an improved version of the EU Taxonomy. Something that also could be a learning for the EU to improve their Taxonomy in the future.'

The types of suggestions and recommendations that reporting corporates gave fit into the same three categories identified in the 'Challenges' sections.

⁴⁴ Department for Business and Trade (2023). [UK Sustainability Disclosure Standards](#). (Accessed 22 April 2024).

Conclusions

Improvement Area 1: Changing the scope of what is included in and excluded from the reporting process

A. Widen the scope of sectors. The UK could include additional sectors that do not have economic activities defined in the existing EU Taxonomy. While the EU plans to define and include these activities, there is currently no timeline to do so. Reporting corporates from sectors such as mining, pharmaceuticals, clothing, retail and food stated that it could be an opportunity for the UK to take initiative and lead in this area, assuming that the EU would in turn be influenced by the UK Government's approach.

A third-party data provider shared that they thought *'the UK has the opportunity to lead the standards in new areas, such as mining, textiles and retail.'* Reporting corporates from several sectors requested to be included from the outset, such as aviation, service providers and retailers. Reporting corporates shared that the UK could bypass the EU's patch of clarifications and adjustments over time for these sectors and *'cover the eligible industries from the beginning.'*

A global asset manager shared that *'that UK should take the EU Taxonomy and fill the gaps. This is an opportunity, and then the EU hopefully reciprocates. There needs to be a huge amount of dialogue and engagement to work together on this.'*

B. Consider the scope of geographies that are necessary. Many reporting corporates were unsure about what requirements a UK Taxonomy would have around different countries of operation. For example, whether a UK corporate would need to report on its EU activity if it already does so for the EU Taxonomy, or whether a UK Taxonomy would be interested in global activities (the way in which the EU Taxonomy requires). A European energy company shared that *'equivalence principles of non-EU activities should be in a UK Taxonomy from the start.'*

Improvement Area 2: Changing the technical design of the regulation

A. Adapting eligible activities to align with the needs of the UK. Reporting corporates in the energy sector in particular shared that the UK Government should consider its own net zero and energy security objectives. Many referenced that while the ambition of the EU Taxonomy was to be objective and science-based, they believed that compromises had been made in the interest of different Member States' energy sectors. For this reason, the UK should consider if the eligible activities are appropriate or require differences to support and encourage the types of energy generation that is necessary for a sustainable transition.

A UK asset manager shared that *'the UK needs to explicitly signpost what activities should be encouraged to accomplish its net zero commitments.'* A European energy company shared that *'carbon capture storage, blue hydrogen and green hydrogen, gas, will need to be important for the UK so they need to be captured in its*

Conclusions

Taxonomy. However, the Taxonomy is good because it can be technology agnostic. Several UK energy companies wanted a strong reconsideration of approach to both gas and nuclear.

B. Localise references to relevant UK laws in the UK Taxonomy regulation. The EU Taxonomy regulation points to EU regulation and directives. To improve the ease with which companies can report, reporting corporates suggested that the UK Government point to its own equivalent regulation and standards (many of which exist from the time when the UK was an EU Member State). Corporates shared that UK teams are best equipped to assess and gather data with the UK regulations that they deal with day-to-day, rather than their EU counterparts. A UK energy company reported that:

'We spend a fair amount of time mapping TSCs and Social Safeguards to 1401 ISO and other DEFRA standards. UK regulation duplicates many of these things and there is an opportunity to streamline by focusing on UK legislation for the UK Taxonomy.'

C. Provide simpler, clearer guidance and explanations, using an example-based approach. All reporting corporates struggled with the phrasing of the EU Taxonomy regulation text. Many reported challenges of frequently being referred to other pieces of EU legislation, which made navigating the process *'labyrinthine'* according to one reporting corporate. Consequently, many suggested that the UK take the practical approach of simplifying the regulation text, pulling in what is needed from other legislation into the main regulation document, rather than cross referencing. Specifically, the improved guidance, according to reporting corporates, should aim to avoid ambiguous language and provide examples through hypothetical studies and case studies, which currently do not exist in the main EU Taxonomy documents.

A specialised sustainability consultancy recommended:

'Instead of linking to a 300-page regulation that is going to be hard for many users to read and understand, it could be digested into something that is easier for an assessor to use. The complex regulation can exist, but there should be some type of supporting assessment or template that basically tells people how to do it in practice.'

Many of the reporting corporates stated that they would prefer stringent but quantified and achievable criteria over ambiguous criteria, which currently exist in parts of the EU Taxonomy. A UK energy company shared that this, combined with *'more clear guidance and documentation would mean we could rely less on third-party consultation and reduce costs.'*

Improvement Area 3: Approaching the implementation process of a UK Taxonomy regulation differently

Conclusions

A. Engage with industry bodies in a more open manner to solicit feedback.

Many reporting corporates felt that the EU Taxonomy would have been designed more practically if it had better mechanisms to openly engage with industry bodies and had a more open dialogue with sectors and corporates. Reporting corporates expressed strong interest in engaging with the UK Government directly on a Taxonomy.

B. Provide clear channels for support. Reporting corporates struggled to find clarifications from the EU directly on the challenges they had with interpreting and complying with the EU Taxonomy regulation. Reporting corporates provided examples of other types of regulations where they could contact a ‘support hotline’ or post queries to a ‘portal’. A large European bank gave the example of the European Banking Authority (EBA): *‘the questions are reviewed on a one-by-one basis by the expert group and then published in a live regime. It’s probably every week or every other week when an update is published to answer questions.’* This request is also validated in the findings of Econsense, a Forum for Sustainable Development of German Business.⁴⁵

C. Provide and follow clear forward guidance on the timeline and scope of a UK Taxonomy. Reporting corporates have faced challenges in creating comprehensive business plans due to changes in plans from the EU on the implementation of the EU Taxonomy. Several shared that they cannot invest appropriately without committed timelines and accompanying details. Several UK water companies shared that it would be helpful for implementation to align with their industry’s business cycle, which next starts in 2025. A Director at a Big Four consultancy shared that:

‘There needs to be certainty and the implementation of the EU and UK Taxonomies needs to maintain a long-term perspective. Organisations need to know that the goalposts aren’t going to move. Organisations cannot use this to plan where they are going to invest over the next 10-15 years if they believe the EU Taxonomy will change. Similarly, they need to know what the UK Taxonomy will look like and across what timelines in order to drive operational decisions.’

This viewpoint was validated by reporting corporates directly, with one sharing, *‘we need better clarity on the roadmap from the beginning. Businesses need to invest the appropriate resources and so the implementation has to be predictable.’* A European energy company shared that this is particularly pertinent to investment in data systems, *‘the parts that will require IT heavy changes need to be clear from the start if you want businesses to change their activities and the way you do them.’*

Reporting corporates and financial institutions alike repeatedly stated that they would need at least one year from legislation or clarifications being made before they are

⁴⁵ Econsense, Sustainable Finance and Frankfurt School of Finance and Management (2023). *Let’s talk numbers: EU Taxonomy reporting by German companies.* p. 28.

Conclusions

expected to enact them. The Platform on Sustainable Finance has also made this recommendation of a minimum of one year (directed towards the EU Taxonomy).⁴⁶ Reporting corporates and financial institutions both shared that they would ‘*want better clarity from the beginning*’ and greater ‘*visibility on a UK Taxonomy*’. The Head of ESG at a UK firm said that ‘*transparency is absolutely critical.*’

D. Clarify guidance more frequently and with more advanced notice.

Companies struggled with the infrequent clarifications and FAQs issued by the EU. They reported that this challenge is exacerbated by large updates being released shortly before the reports were due.

Further research

The EU Taxonomy and the experiences of companies will continue to develop, which will require close observation to further inform the design considerations of a UK Taxonomy. Beyond following the developments of upcoming reporting years, future research could build upon this research report in two main ways:

1. **Methodologically.** This research focused on the qualitative insights derived from interviews, but there are also insights to be gained from quantitative analysis. This would be applicable to research on costs, which could potentially be solicited through a survey format across a wider sample of companies. Future research could also use qualitative methods to research particular stages or sub-stages of the compliance journey in detail, focusing on areas that are of particular policy interest to the UK Government. Relatedly, as reporting corporates complete their disclosures for alignment, desk research could be conducted on the quality of these reports.
2. **Sampling and research targets.** Future research could aim to cover a wider coverage of sectors. In particular, we struggled to successfully reach reporting corporates in Waste, Agriculture and the Arts. Given that this research focused on reporting corporates as the primary focus, further research could also be dedicated to specific subtypes of financial institutions. Lastly, research could also focus on UK companies who do not currently report for the EU Taxonomy in order to represent their perspective.

⁴⁶ Platform on Sustainable Finance (2022). *Platform Recommendations on Data and Usability*. p. 73.

Appendix

Interview participant base

The following table provides an overview of the companies that we engaged with for this research. It is important to note that we engaged with combinations of different teams at these companies, including those based in the UK and those in the EU, who were best equipped to discuss the EU Taxonomy.

Interview Profile Type	Sector	Headquarter Location
Consultancy	Consulting	United Kingdom
Consultancy	Consulting	Norway
Consultancy	Consulting	United Kingdom
Consultancy	Consulting	Denmark
Consultancy	Engineering/Consulting	United Kingdom
Consultancy	Consulting	India
Corporate	Apparel/Footwear	Germany
Corporate	Aviation/Aircraft Leasing	United States
Corporate	Industrial Gases	United States
Corporate	Insurance	Germany

Appendix

Corporate	Engineering/Consulting	United Kingdom
Corporate	Tobacco	United Kingdom
Corporate	Real Estate	United States
Corporate	Energy	United Kingdom
Corporate	Food and Beverage/Beverages	Greece
Corporate	Logistics/Shipping	Germany
Corporate	Energy/Power Generation	United Kingdom
Corporate	Utilities/Water	United Kingdom
Corporate	Energy/Gas	Spain
Corporate	Food and Beverage/Nutrition	Ireland
Corporate	Technology/Internet	United States
Corporate	Energy/Aluminium Production	Norway
Corporate	Mining/Minerals	France
Corporate	Real Estate/Property	United Kingdom
Corporate	Real Estate/Property	United States

Appendix

Corporate	Food and Beverage	United States
Corporate	Logistics/Supply Chain	Switzerland
Corporate	Aviation/Airlines	Germany
Corporate	Energy/Renewable Energy	Denmark
Corporate	Engineering/Consulting	Denmark
Corporate	Industrial Equipment	United Kingdom
Corporate	Pharmaceuticals/Healthcare	France
Corporate	Energy/Oil and Gas	United Kingdom
Corporate	Energy/Nuclear	United Kingdom
Corporate	Energy	United Kingdom
Corporate	Telecommunications	Spain
Corporate	Retail/Grocery	United Kingdom
Corporate	Pharmaceuticals/Healthcare	Israel
Corporate	Logistics/Transportation	United States
Corporate	Energy/Utilities	Germany

Appendix

Corporate	Utilities/Water	United Kingdom
Corporate	Energy/Wind Power	Denmark
Corporate	Automotive	Sweden
Corporate	Construction	France
Corporate	Utilities/Water	United Kingdom
Data provider	Financial Services/Rating Agencies	United States
Data provider	Financial Services/Investment Research	United States
Data provider	Financial Services/Index Provider	United States
Data provider	Software/Financial Technology	Denmark
Financial institution	Asset Management/Financial Services	United Kingdom
Financial institution	Banking/Financial Services	Spain
Financial institution	Banking/Financial Services	United States
Financial institution	Banking/Financial Services	United Kingdom
Financial institution	Banking/Financial Services	Germany
Financial institution	Asset Management/Financial Services	United Kingdom

Appendix

Financial institution	Banking/Financial Services	France
Financial institution	Banking/Financial Services	Germany
Financial institution	Institutional Funding	Germany
Financial institution	Private Equity	United States
Financial institution	Asset Management/Financial Services	United Kingdom
Financial institution	Banking/Financial Services	United Kingdom
Financial institution	Banking/Financial Services	Australia
Financial institution	Banking/Financial Services	United Kingdom
Financial institution	Asset Management/Financial Services	United States
Financial institution	Banking/Financial Services	Sweden
Financial institution	Asset Management/Financial Services	United States
Financial institution	Banking/Financial Services	Spain
Financial institution	Banking/Financial Services	United Kingdom
Financial institution	Banking/Financial Services	France
Financial institution	Banking/Financial Services	United Kingdom

Appendix

Financial institution	Asset Management/Financial Services	United States
Financial institution	Banking/Financial Services	Switzerland

References

- Amesheva, Inna, (n.d.). [Challenging Road Ahead: Analysis of EU Taxonomy reporting reveals the vast majority of companies remain unaligned to sustainable outcomes](#). (Accessed 22 April 2024).
- Department for Business, Energy and Industrial Strategy (2021). *UK Enshrines New Target in Law to Slash Emissions by 78% by 2035*.
- Dumrose, Maurice, Sebastian Rink and Julia Eckert (2022). *Disaggregating confusion? The EU Taxonomy and its relation to ESG rating*. Finance Research Letters, 48.
- Econsense, Sustainable Finance and Frankfurt School of Finance and Management (2023). *Let's talk numbers: EU Taxonomy reporting by German companies*.
- Ernst & Young (2022). *EY EU Taxonomy Barometer 2022*.
- European Commission (n.d.). [Appendix C: generic criteria for DNSH to pollution prevention and control regarding use and presence of chemicals](#). (Accessed 22 April 2024).
- European Commission (n.d.). [Corporate sustainability reporting](#). (Accessed 22 April 2024).
- European Commission (n.d.). [EU Taxonomy Compass](#). (Accessed 22 April 2024).
- European Commission (2023). *A User Guide to Navigate the EU Taxonomy for Sustainable Activities*.
- European Commission (2023). [Regulatory dialogues with the United Kingdom](#). (Accessed 22 April 2024).
- FTSE Russell (2020). *Sizing the green economy: Green Revenues and the EU Taxonomy*.
- FTSE Russell (2021). *Do No Significant Harm and Minimum Safeguard in Practice*.
- Goldman Sachs Equity Research (2022). *Progress on the Journey to Alignment*.
- GTAG (2023a). *Getting KPIs Right: Implementing an effective reporting regime for the UK Green Taxonomy*.
- GTAG (2023b). *Promoting the international interoperability of a UK Green Taxonomy*.
- GTAG (2023c). *Streamlining and increasing the usability of the Do No Significant Harm (DNSH) criteria within the UK Green Taxonomy Final Report*.
- HM Government (2021). *Greening Finance: A Roadmap to Sustainable Investing*.
- HM Government (2023). *Mobilising Green Investment 2023 Green Finance Strategy*.
- International Capital Market Association (2022). *Ensuring the usability of the EU Taxonomy*.
- KPMG (n.d.). [Corporate Sustainability Reporting Directive: Is your organization ready for the Corporate Sustainability Reporting Directive?](#) (Accessed 22 April 2024).
- KPMG (2022). *Setting the baseline towards transparency*.

References

- Platform on Sustainable Finance (2022). *Platform Recommendations on Data and Usability*.
- Principles for Responsible Investment (2022). *Implementing the EU taxonomy: An update to the PRI's 'Testing the Taxonomy' report*.
- Principles for Responsible Investment (2023). *Addressing EU taxonomy usability issues*.
- PwC (2022). *EU Taxonomy 2022: The Transformation of Non-Financial Reporting*.
- PwC (2023). *EU Taxonomy Reporting 2023*.
- Robinson-Tillett, Sophie. (2023). *Corporate capex will face scrutiny in the net zero transition*. *Real Economy Progress*.
- Schütze, Franziska, Jan Stede, Marc Blauert, Katharina Erdmann (2020). *EU taxonomy increasing transparency of sustainable investments*. *DIW Weekly Report*, 10(51), pp. 485–492.
- Technical Expert Group (2020). *Taxonomy: Final report of the Technical Expert Group on Sustainable Finance*.

References

The department for business and trade is an economic growth department. We ensure fair, competitive markets at home, secure access to new markets abroad and support businesses to invest, export and grow. Our priorities are the industrial strategy, make work pay, trade and the plan for small business.

Whereas every effort has been made to ensure that the information in this document is accurate, the Department for Business and Trade does not accept liability for any errors, omissions or misleading statements, and no warranty is given or responsibility accepted as to the standing of any individual, firm, company or other organisation mentioned.

You may re-use this publication (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3

Where we have identified any third party copyright information in the material that you wish to use, you will need to obtain permission from the copyright holder(s) concerned.

**Published by
Department for Business and
Trade**

14 November 2024

This publication is available from: www.gov.uk/dbt

If you need a version of this document in a more accessible format, please email enquiries@dbt.gov.uk. Please tell us what format you need. It will help us if you say what assistive technology you use.