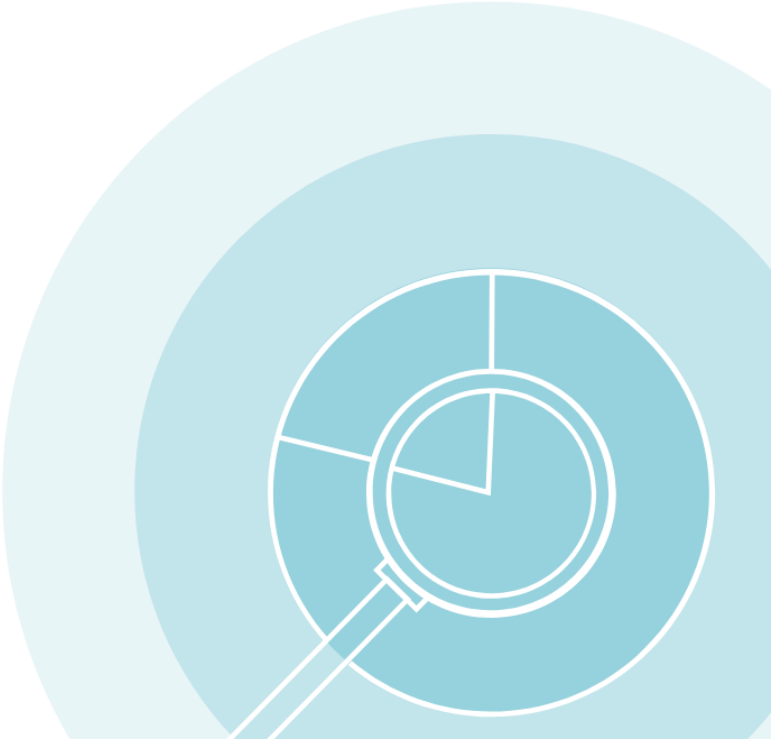
Sustainable finance OBSERVATORY

THE EUROPEAN TAXONOMY

Optimizing regulation to make it a real economic steering tool for the transition

Note

March 27, 2025



About the Sustainable Finance Observatory

Sustainable Finance Observatory is an internationally recognised think tank focusing on mobilizing private financing for the transition. The association is the result of a merger between the "Observatoire de la finance durable", an initiative of the French Finance Minister, and the think tank 2° Investing Initiative.

The mission is to support changes in financial practices among economic actors, driving their impact toward a sustainable societal model. The think tank adopts a pragmatic approach based on studies, tools and methodologies to directly benefit these economic actors and make a real impact on the economy. The SF-Observatory focuses its activities including programmes, studies, research, capacity building, expertise, coordination of coalitions, data analysis on three core pillars: Transparency and Data, a Research Centre, and Advocacy and Awareness.

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Executive Summary

Adopted in 2020, the European Taxonomy aims to define sustainable economic activities to guide financial flows. By defining precise criteria in the light of six environmental objectives to assess the sustainability of activities, it helps to strengthen market transparency and guide the decisions of investors and companies towards projects compatible with the ecological transition. Considered one of the pillars of the European Green Deal, it is a major step forward in sustainable finance[1] and has inspired many similar regulatory and voluntary initiatives. The rise of green taxonomies around the world[2] reflects the growing need for common benchmarks to facilitate capital flows to investments that contribute to compliance with the Paris Agreement.

Despite its potential, the Taxonomy is struggling to establish itself as a strategic tool for companies and financial institutions. Five years after its entry into force, alignment ratios remain low, and many economic and financial actors experience difficulties to fully implement it. Its effectiveness as a transition facilitator faces several obstacles detailed in this note, including the complexity of reporting, the technicality of the criteria and the gaps in coverage.

The Omnibus Regulation presented by the European Commission on 26 February 2025[3] with the aim of reducing administrative costs for companies includes a revision of the Taxonomy's "Climate", "Environment" and "Disclosures" delegated acts. This proposed revision would result in an 80% reduction in the number of companies subject to taxonomic reporting by limiting the threshold of liability to 1000 employees and €450 million[4] and a reduction in the volume of reporting by 70%[5] - de *facto* compromising its normative potential for the entire European economy.

> *"Companies need a clear and objective accountability framework to state whether or not their activities are aligned with the Paris Agreement."*
>
> **Antoine Puglièse**, WWF France

However, many economic actors have demonstrated the crucial importance that the Taxonomy plays in the transition of the European economy, despite the imperfections that have prevented it from really taking on this role until now. One example is *Business for Better Tomorrow*, which brings together 19 networks representing 100,000 European companies: *"the European*

[1] « *widely regarded as the world's leading standard*», Helena Viñes Fiestas, chair of the EU Platform on Sustainable Finance, LinkedIn
[2] 'The New Geography of Taxonomies', Natixis (2023)
[3] Draft Delegated act amending the Taxonomy Disclosures Delegated Act, as well as the Taxonomy Climate and Environmental Delegated Acts
[4] Questions and answers on simplification omnibus I and II
[5] Commission simplifies rules on sustainability and EU investments, delivering over €6 billion in administrative relief

green taxonomy can still be improved and will have to be revised to direct investments towards green activities".[6]

Financial players recall the complementarity of the Green Deal texts and are concerned about the disappearance of companies' disclosure obligations, without which it will be more difficult and costly for them to make sustainable financing and investment decisions based on reliable and comparable information[7]. A collective of 163 investors representing €6,600 billion testifies that: *"By requiring information on impacts and activities aligned with the EU taxonomy, the CSRD will enable investors to better identify and assess projects and solutions that may have a positive impact on the environment. […] Transparent disclosures from the Taxonomy and CSRD are also needed to meet the requirements of the financial sector, in particular the SFDR and MiFID II obligations on client sustainability preferences."*[8]

> *"In our continent, which is particularly resource-scarce and highly exposed to the consequences of climate change, we must succeed in reconciling economic performance with a clear-eyed understanding of social and environmental issues."*
>
> **Antoine Frérot**, Chairman of the Board of Veolia, **Stéphane Cadieu**, CEO of Arkéa AM, **Vincent Legendre**, CEO of Legendre, **Thierry Déau**, CEO of Meridiam, **Pauline Duval**, CEO of the Duval Group, **Gauthier Louette**, CEO of SPIE, **Pascal Demurger**, CEO of the MAIF Group and **Alain Grandjean**, Partner at Carbone 4, et al. (source)

Between maintaining the Taxonomy as it was designed and radically limiting its scope, there is a middle way that (i) capitalises on the regulatory work carried out over the past 5 years and the efforts made by companies to assimilate it, (ii) does not renounce the overall ambition of the European Green Deal carried out by the previous mandate of the Commission and the Member States, and (iii) allows, through a pragmatic approach, to make the Taxonomy an employable tool used by companies and financial actors, capable of accelerating the transition of the European economy.

The competitiveness objective is at the heart of the motivations that led to the Omnibus Regulation and now at the heart of the debates on its ability to address this objective. Opponents of simplification point out that the regulation was not preceded by an impact study aimed at demonstrating whether the simplification of sustainability regulatory texts is likely to produce an upsurge of competitiveness, to what extent and whether this effect exceeds the competitiveness gains that were expected from the Green Deal measures. On the other hand, it has been shown that regulatory instability penalizes the economy by slowing down the ability to project

> *"Regulatory bolting is not specific to the sustainable economy, but a European structural problem."*
>
> **Bertrand de Mazières**

[6] Business for Better Tomorrow
[7] Omnibus package: investors are worried about a total unravelling of the CSRD, AEF Info, February 4, 2025
[8] Investor joint statement on Omnibus Legislation, PRI – IIGCC – Eurosif, February 4, 2025

itself in the long term[9]. It therefore seems relevant to us to explore the limits of the taxonomic system, in particular the inconsistencies in the reporting required of companies, and to propose guidelines for pragmatic and sustainable changes, with a view to reconciling the challenges of economic competitiveness and climate strategy.

This note develops, first, why and how it is necessary to **simplify taxonomic reporting** for companies, in particular by making the OPEX indicator as well as a large part of the DNSH optional and by adopting a sectoral co-construction approach for the softening of DNSH and the clarification of the technical criteria. Then, in line with the progress that has already been made following the implementation of the Taxonomy, we document the need to continue to **complete the scope of activities covered**. Finally, we take a more forward-looking look at the drivers on which to rely to **make the Taxonomy a real tool for economic management of the transition** at the European level.

> *"For companies that have put significant effort into the sustainability analysis of their activities, questioning the founding principles of the regulations would be a considerable waste of time and resources."*
>
> **Mathieu Salel**,
> EcoAct (Schneider Electric)

This note is therefore addressed to the European Commission and to all the stakeholders in the ongoing regulatory review in order to shed light on the current limits of the taxonomic system and to provide proposals capable of correcting them and satisfying both the requests for simplification that have been made with the aim of restoring the competitiveness of European [10] companies and the need to preserve the EU's climate ambition and its transition to a low-carbon, respecting of the environment and energy-sovereign economy[11].

[9] Cumulative effects of EU sustainability legislation on Finnish companies, Finnish Ministry of Foreign Affairs
[10] Commission proposes to cut red tape and simplify the business environment, European Commission, 26 February 2025
[11] CSRD, Taxonomy, CS3D... economic and financial players call for maintaining European ambitions, Novethic, 17 December 2024

Summary of proposals

Proposal 1: Make the OPEX KPI optional and eventually turn it into an R&D expenditure indicator.

Proposal 2: Undertake a review of the DNSH criteria to adopt a "pass or fail" approach, formulating them in a clear and precise manner, incorporating quantifiable and objectively verifiable parameters. Conformity assessment must be based on tangible evidence (documents, tests, certifications or third-party audits), to eliminate ambiguity and subjectivity in the analysis.

Proposal 3: Integrate a new "contribution to taxonomy" category into the EU Taxonomy, separate from the "eligible" and "aligned" categories, for activities that meet the criteria for substantial contribution but not all DNSH verifications. This categorization would provide a more exhaustive view of economic activities contributing to the transition, at all scales, and highlight the reporting difficulties associated with DNSH.

Proposal 4: Undertake a review of substantial contribution criteria, whose phrasing is open to interpretation, giving preference to quantitative thresholds, or failing that, detailed definitions and references to existing methodological frameworks, as is the case for GHG emissions with the GHG Protocol.

Proposal 5: When a DNSH is based on European regulation or an international standard, make available in the *EU Taxonomy Compass* a reading grid enabling the principles to be transposed to the scale of a company

.

Proposal 6: Explain the obligation to report on the substantial contribution to the objective of adapting to climate change (CCA) and produce sector-specific guidelines on how companies should assess their contribution (*see proposal 10 on the sector-specific approach*).

Proposal 7: Ensure consistency between the CS3D and the EU Taxonomy's requirement for compliance with minimum guarantees by explicitly integrating the CS3D's due diligence obligations as a benchmark for assessing minimum guarantees.

Proposal 8: Determine, for each sector and/or activity, a short list of compulsory DNSH based on their relevance to the nature of the activity; and make the other DNSH optional (*see proposal 10 on the sector-specific approach*).

Proposal 9 : Continue work on the implementation of a European Single Access Point (ESAP) centralising and making available in a harmonised and usable format data from regulatory reporting, including taxonomy data.

Proposal 10: To set up **sectoral working groups** led by representatives of the Commission and composed, in a balanced manner, of voluntary companies, professional federations, specialised civil society organisations and recognised scientific research organisations whose missions will be *(see our other proposals)*:

- Draw up a list of mandatory DNSHs for each sector,
- Establish a common evaluation grid for each mandatory DNSH,
- Establish unique benchmarks for DNSHs whose evaluation requires a "best practices" approach,
- Establish a taxonomy reporting template adapted to each sector, with more precise guidelines on sector-specific elements to help companies in their TSC analyses,
- Define in greater depth the criteria for substantial contribution that are open to interpretation and submit to the Commission the results of a consensus between the realities of economic players and scientific facts.

Proposal 11: Pursue EFRAG's work to develop voluntary disclosure standards to support SMEs in using the Taxonomy as a tool for transition planning and accessing preferred financing for sustainable activities.

Proposal 12: As part of the softening of DNSH, provide broader exemption regimes for listed SMEs.

Proposal 13: Carry out a detailed study of the level of effective coverage of EU GHG emissions by the EU Taxonomy, considering not only the sectors covered but the companies covered according to their size.

Proposal 14: Resume work to include the agricultural sector in the EU Taxonomy.

Proposal 15: Extend the scope of the EU Taxonomy, starting with sectors and activities proposed by various stakeholders.

Proposal 16: Introduce a clear distinction between CAPEX (a), (b) and (c) in KPI tables to enable a more accurate reading of investment efforts.

Encourage issuers to draw up CAPEX plans clearly indicating the investments required for the transition and, where appropriate, require companies to justify the absence of CAPEX type (b) in their declarations (analysis in progress, absence of plan, etc.).

Proposal 17: Preserve and strengthen the responsibility assigned to national supervisors to assess the transition plans of companies subject to European regulations in this area.

Proposal 18: Establish common guidelines for the assessment of transition plans, based on the work of ATP-Col coordinated by the WBA, with a view to adopting a common methodology for all member countries taking advantage of taxonomy information.

Proposal 19: As part of the simplification of the EU Taxonomy, preserve the fundamental principles established by Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (eligibility, alignment, technical selection criteria, etc.), while prioritizing an improvement in its applicability.

Focus the simplification work on the revision of the Climate and Environment Delegated Acts, with a particular focus on clarifying and softening the DNSH criteria, to facilitate their use and increase their effectiveness.

Proposal 20: Make the granting of public funding and budgetary aid conditional on a progressive taxonomy analysis, starting with a minimum eligibility requirement and an alignment objective - to broaden the scope of eco-conditionality.

Proposal 21: When redesigning and simplifying the EU Taxonomy, draw on the experience of public-sector players who have carried out taxonomy analyses of their own activities, and ensure that the revision process will enable public-sector players to apply the EU Taxonomy effectively.

Proposal 22: Draw on EFRAG's governance of the ESRS to structure the governance of the Taxonomy, starting with its simplification process.

Proposal 23: Consolidate FAQs in a single, centralized source, which could be linked to the "Taxonomy Compass", guaranteeing greater accessibility and consistency of application guidelines.

Proposal 24: Clarify the role of national supervisors, particularly as regards their role in supporting companies and interpreting regulatory texts, as well as the role of European regulatory agencies in defining the margins of action left to national regulators.

Table des matières

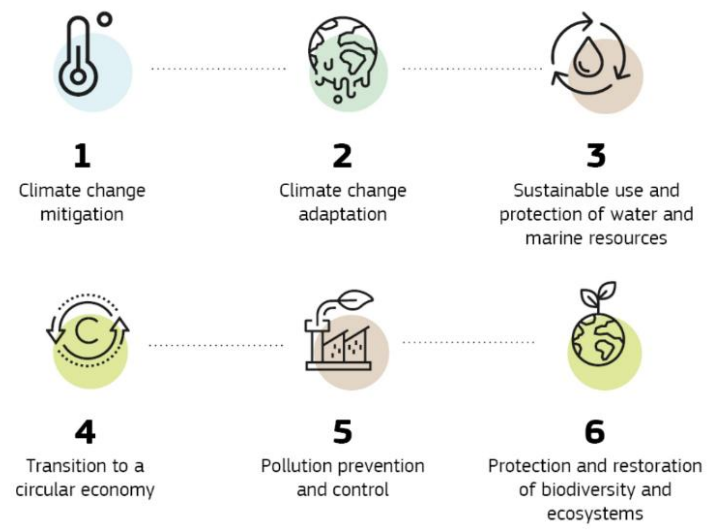
0. A reminder of European Taxonomy

0.1. General principles of Taxonomy

The European taxonomy is a European Union regulatory framework designed to identify economic activities considered environmentally sustainable. Its aim is to facilitate the orientation of capital towards more sustainable activities and technologies, and to support the European Union's ecological transition.

Regulation (EU) 2020/852, which was published on June 18, 2020, and came into force on July 12, 2020, forms the basis of the taxonomy system. It defines the general principles, setting out in particular:

0.1.1 Environmental objectives



The text identifies six objectives, two of which are predominantly climate-related: climate change mitigation (CCM) and climate change adaptation (CCA), whose technical alignment criteria are defined in the **"Climate" Delegated Regulation.**

The 4 other environmental objectives, whose technical alignment criteria are defined in the **"Environment" Delegated Regulation**, concern the sustainable use and protection of aquatic and marine resources (WTR), the transition to a circular economy (CE), pollution prevention and control (PPC), and the protection and restoration of biodiversity and ecosystems (BIO).

An economic activity is considered "**eligible**" if it is included in the evolving list of activities set out in the "Climate" and "Environment" delegated regulations (and the regulations amending them) of the Taxonomy regulation. These are the activities selected at this stage by the European Commission, which are likely to make a substantial contribution to each environmental objective.

0.1.2 The different types of activities

Environmentally sustainable activity, as defined in article 3 of the Taxonomy regulation

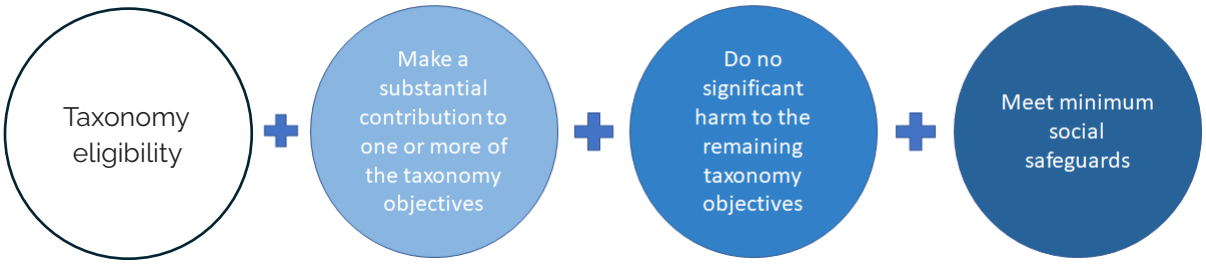
To qualify as sustainable (or "**aligned**" with the taxonomy), an activity must:

1. **Make a substantial contribution to one of the environmental objectives**, i.e. satisfy technical criteria that assess the environmental performance of the activity in relation to the objective.

2. **Do No Significant Harm (DNSH) to one of the other fixe objectives, as defined in article 17 of the Taxonomy Regulation.** These DNSH criteria may be generic, as described in the annexes to the delegated acts, or specifically adapted to the activity concerned. A large proportion of these criteria therefore refer to other European legislation, ensuring overall regulatory and environmental consistency.

3. **Compliance with minimum guarantees, as defined in article 18 of the Taxonomy Regulations.** The activity must comply with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions cited in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

The figure below summarizes the conditions required to verify the alignment of a business activity with the European taxonomy:



Enabling activity, as defined in article 16 of the Taxonomy regulation

An enabling activity makes a substantial contribution to one or more of the environmental objectives if it directly enables other activities to make a substantial contribution to one or more of these objectives, provided that this economic activity: a) does not result in a lock-in of assets that compromise long-term environmental objectives, taking into account the economic life of these assets; and b) has a significant positive environmental impact based on life-cycle considerations.

Example of an enabling activity: Manufacture of renewable energy technologies.

Transitional activities, as defined in article 10, paragraph 2 of the Taxonomy regulation

Transitional activities are those which are not yet fully sustainable, but which can considerably reduce their environmental impact compared to current standards. They must nevertheless: have emissions well below the sector average; not block the development of lower-impact alternatives; be aligned with climate neutrality targets by 2050.

Example of transitional activity: Renovation of existing buildings.

0.1.3. Transparency requirements

To ensure effective implementation of the taxonomy, transparency requirements have been introduced for companies and financial players. The disclosure requirement is based on **Delegated Regulation (EU) 2021/2178 (the so-called "Article 8" Regulation)** supplementing Article 8 of the Taxonomy Regulation.

This delegated regulation requires financial and non-financial companies to communicate, via their Extra-Financial Performance Declaration, quantitative indicators (**KPIs, or Key Performance Indicators**) that reflect the proportion of their activities and investments that comply with the taxonomy criteria. The "Article 8" delegated regulation thus translates the technical criteria derived from the "Climate" and "Environment" delegated regulations into measurable and comparable indicators, guaranteeing reliable information for investors and stakeholders.

Non-financial companies must publish three types of KPI: the share of turnover (**CA**) eligible and aligned, the share of capital expenditure (**CAPEX**) eligible and aligned, the share of operating expenditure (**OPEX**) eligible and aligned. Companies may be exempted from calculating the OPEX alignment ratio if total OPEX (denominator) is deemed insignificant for their business model.

These calculations are largely based on the provisions of the Accounting Directive 2013/34/EU and IFRS (or national GAAP), already applicable to companies.

In addition to quantitative information, companies must provide narrative information to contextualize performance indicators and specify the methodologies used to calculate these data.

Financial companies must publish eligibility KPIs (the main ratio is the % of assets eligible for Taxonomy/Covered Assets) and alignment KPIs (specific to each type of financial company).
For credit institutions, the main KPI is the Green Asset Ratio or GAR (share of assets invested in green activities).

The European taxonomy is being implemented in stages, in line with the CSRD timetable. Thus, from fiscal 2024 (publication in 2025), companies already covered by the NFRD had to publish their full taxonomy alignment. From fiscal 2025 (publication in 2026), large companies not subject to the NFRD entered the scope of application, followed, from fiscal 2026, by listed SMEs (publication in 2027, with a possible derogation until 2028).

0.2 The different regulations

Taxonomy Regulation **(Regulation (EU) 2020/852** of the European Parliament and of the Council of June 18, 2020): establishes a European classification system for identifying economic activities considered environmentally sustainable; through the definition of environmental sustainability criteria for economic activities (Article 3) and environmental objectives (Article 9), and of the transparency obligation for companies in non-financial declarations (Article 8).

Delegated Regulation "Climate" **(Delegated Regulation (EU) 2021/2139** of June 4, 2021): includes technical selection criteria for economic activities that make a substantial contribution to climate change mitigation and adaptation objectives.

Delegated Regulation amending the Climate Delegated Regulation **(Delegated Regulation (EU) 2023/2485** of June 27, 2023): adds new activities and additional technical selection criteria for determining under which conditions certain economic activities can be considered to contribute substantially to climate change mitigation or adaptation, and whether these activities do not cause significant harm to any of the other environmental objectives.

Delegated Regulation rectifying certain language versions of the Climate Delegated Regulation **(Delegated Regulation (EU) 2024/3215** of June 28, 2024): rectification of certain language versions of Delegated Regulation (EU) 2021/2139 by the technical examination criteria for determining under which conditions an economic activity can be considered to contribute substantially to climate change mitigation or adaptation and whether this economic activity does not cause significant harm to any of the other environmental objectives.

Delegated Regulation "Environment" **(Delegated Regulation (EU) 2023/2486** of June 27, 2023): Extends the taxonomy to the other four environmental objectives by establishing the technical selection criteria for determining the conditions under which an economic activity can be considered to contribute substantially to the sustainable use and protection of water and marine resources, the transition to a circular economy, the prevention and reduction of pollution or the protection and restoration of biodiversity and ecosystems, and for determining whether this economic activity does not cause significant harm to any of the other environmental objectives (Annexes I to IV). It also amends the "Article 8" delegated regulation on company reporting obligations (annexes V to VII).

Delegated Regulation "Article 8" or Delegated Regulation on Disclosures (**Delegated Regulation (EU) 2021/2178** of July 6, 2021) and its annexes: relating to companies' reporting obligations, supplementing Article 8 of the Taxonomy Regulation with details concerning the content and presentation of information that companies must publish on their environmentally sustainable economic activities, as well as the method to be followed to comply with this reporting obligation. The KPIs of financial and non-financial companies must be presented in tabular form, using the reporting templates set out in the annexes (Annexes I and II for non-financial companies; Annexes III and IV for asset managers, Annexes V and VI for credit institutions, Annexes VII and VIII for investment firms, Annexes IX and X for insurance and reinsurance companies).

Supplementary Delegated Regulation **(Delegated Regulation (EU) 2022/1214** of March 9, 2022, amends Delegated Regulations (EU) 2021/2139 and (EU) 2021/2178): includes, under strict conditions, specific activities related to nuclear energy and gas on the list of economic activities covered by the EU taxonomy.

Frequently asked questions from the European Commission:

- **FAQ 1** and **FAQ 2** : on eligibility for "Article 8" taxonomy reporting
- **FAQ 3** and **FAQ 6** : on alignment with "Article 8" taxonomy reporting
- **FAQ 4** : on sustainability criteria
- **FAQ 5** : on minimum guarantees

1. Simplify the taxonomy reporting

Diagnosis of Taxonomy Implementation: Incomplete Reporting

Among the 1,900 companies subject to mandatory disclosure in 2023, fewer than 50% fully report taxonomy data in accordance with the regulated model. Less than 10% disclose their eligibility or alignment only partially, while the remaining companies have yet to meet regulatory requirements.[12]

> *'We were prepared to help companies with alignment and dual materiality analyses, but in the end there was already a significant need to study eligibility.*
>
> **Mathieu Salel**
> EcoAct (Schneider Electric)

In 2024, financial institutions published their alignment reports for the first time for the 2023 fiscal year. According to an AMF report, some required information is missing [13]. For example, none of the banks in the analyzed sample published the key performance indicator "GAR flux" highlighting methodological uncertainties regarding its calculation. Additionally, eligibility indicators related to the four new taxonomy objectives (beyond climate change mitigation and adaptation) were not reported.

Furthermore, the conversion of eligibility rates into alignment rates remains low for non-financial companies:

	Echantillon AMF		CAC 40		DJ Stoxx 600	
	Eligibilité (N=31)	**Alignement** (N=30)*	Eligibilité (N=36)	Alignement (N=35)*	Eligibilité (N=306)*	Alignement (N=276)*
CA	**37,3 %**	**15,3 %**	26,9 %	6,3 %	22,1 %	7,9 %
CapEx	**47,5 %**	**20,0 %**	42 %	10,9 %	34,7 %	14 %
OpEx	**27,6 %**	**13,2 %**	25,7 %	8,1 %	23,7 %	10,4 %

** Plusieurs sociétés n'ont pas communiqué d'ICP d'alignement ou d'éligibilité*

Table 1: Summary of Average Eligibility and Alignment Levels Across the Three Samples (Non-financial companies subject to taxonomy obligations) (source: AMF[14])

For financial institutions, such as banks, alignment ratios remain very low, as evidenced by the published results of the GAR KPI:

[12] "Reality check: 8 years after the first EU Taxonomy conversation", LSEG, 2024
[13] Taxonomy reporting study for listed financial companies, AMF, 2024
[14] Ibid

	GAR base Chiffre d'Affaires	GAR base CapEx
BNP Paribas	0,78 %	1,66 %
Société Générale	1,42 %	1,61 %
Crédit Agricole SA	2,96 %	3,20 %
BPCE	3,98 %	4,10 %

Table 2: GAR on Revenue and GAR on CAPEX Published by Institutions (source: AMF[15])

1.1. Making the OPEX Indicator optional

To reduce the reporting burden for companies subject to taxonomy regulations, an effective and low-cost measure in terms of environmental ambition would be to remove the OPEX KPI. Indeed, it appears that:

- The OPEX indicator is particularly complex to calculate. The expense categories are poorly defined, have an incomplete scope, and, most importantly, differ from the accounting standards used by companies. Establishing data collection processes specifically for the calculation of the taxonomy OPEX ratio generates significant IT and human costs, in addition to requiring the use of two parallel nomenclatures: accounting and the Taxonomy.
- If taxonomy ratios, in general, struggle to be recognized by financial institutions as effective indicators for guiding financing and investment decisions, the OPEX indicator has been largely excluded from financial institutions' sustainability reports—both due to reporting burdens and the limited usefulness of the data.
- Intended to reflect the share of «sustainability» in ongoing operations, it inevitably overlaps with the revenue indicator, whereas the complementarity between revenue (CA) and capital expenditures (CAPEX) is more relevant for managing the transition.

Furthermore, in its consultation results published in January 2024[16], the Platform on Sustainable Finance indicated that two-thirds of respondents consider the revenue and CAPEX indicators sufficient. The OPEX indicator would only be relevant for assessing R&D expenditure, which is not covered by the revenue or CAPEX KPIs. Consequently, the platform proposed making the OPEX indicator mandatory only for R&D expenses: *"Make the OpEx KPI mandatory only for research and development (R&D) costs to further reduce the reporting burden for non-financial undertakings (reporting on OpEx is already not required by Financial Institutions, while supporting access to green finance for R&D financing. Companies should be allowed to disclose beyond R&D to enhance transparency."* [17]

Additionally, an exemption exists regarding the OPEX KPI, allowing companies to classify certain operating expenses as non-material, meaning they are insignificant concerning their business model. This provision is outlined in Delegated Regulation (EU) 2021/2178, which supplements Article 8 of Regulation (EU) 2020/852. According to this delegated regulation, non-financial companies can be exempt from calculating the OPEX indicator

[15] Ibid
[16] "A Compendium of Market Practices", Platform on Sustainable Finance, January 2024
[17] "Simplifying the EU Taxonomy to Foster Sustainable Finance", Platform on Sustainable Finance, February 2025

when such expenses are deemed non-material to their activities. However, even if a company declares its OPEX as non-material, it is still required to complete the reporting tables and justify this classification, increasing the administrative burden without adding value in terms of financial information.

Point 1.1.3.2 of Annex I of Delegated Regulation (EU) 2021/2178[18]

If operating expenses are not significant for the business model of a non-financial company, the company:

a) *is exempt from the obligation to calculate the numerator of the OPEX KPI in accordance with point 1.1.3.2 and publishes a numerator equal to zero;*
b) *publishes the total value of the OPEX KPI denominator, calculated in accordance with point 1.1.3.1;*
c) *explains why operating expenses are not significant in its business model*.

Illustration

Danone considers its Taxonomy-defined OPEX amount to be insignificant relative to its total OPEX, triggering the exemption clause for reporting this KPI:

> *"In 2023, Taxonomy-related OPEX amounted to €789 million, compared to total OPEX of €25,577 million, or 3%. Given the insignificant amount of Taxonomy OPEX, the Group continues to use, as in 2022, the publication exemption allowed by the regulations"*. [19]

Proposal 1: Make the OPEX KPI Optional and Gradually Evolve It into an R&D Indicator

Regarding other KPIs, companies have already begun to integrate them, despite the current limitations of the framework. However, corporate reporting remains incomplete and still lacks transparency, particularly for the CAPEX KPI—despite its status as a key indicator for transition planning, both at the company level and for the European economy. Thus, softening regulatory expectations for CAPEX reporting would be highly detrimental, a point further developed in section 3.1 of this note.

[18] Delegated Regulation (EU) 2021/2178 of July 6, 2021
[19] Universal Registration Document 2023, Danone, 2024

1.2. Softening DNSH requirements and clarifying substantial contribution criteria

Our analysis focuses on the challenges faced by economic actors in assessing the Technical Screening Criteria (TSCs). One of the primary obstacles companies encounter in applying the EU Taxonomy is the verification of Do No Significant Harm (DNSH) criteria. As a necessary condition for classifying economic activities as "sustainable" DNSH verification is often the most difficult step in the EU Taxonomy assessment process, for various reasons that we will outline below.

1.2.1 The Formulation of Criteria, the first reporting obstacle

According to the Platform on Sustainable Finance [20], 50% of the technical criteria present usability issues, such as unclear definitions that are too vague or generic, forcing companies to rely on **subjective interpretation**.

The Do No Significant Harm (DNSH) criteria

First, DNSH criteria are heterogeneous in nature, as illustrated in the table below summarizing their classification: measurable thresholds, process requirements, references to third-party regulations, or general ambitions.

Type	Name		Example	Assessment
A	Second Threshold		*Climate Change Mitigation:* "The direct GHG emissions of the activity are lower than 270g CO2e/kWh."	Quantitative
B	Process Measure		*Ecosystems:* "Where relevant, maintenance of vegetation along road transport infrastructure ensures that invasive species do not spread. Mitigation measures have been implemented to avoid wildlife collisions."	Quantitative & Qualitative
C	International Standards & EU Legislation		*Pollution:* "Measures in place to minimise toxicity of anti-fouling paint and biocides as regulated in the Biocidal Products Regulation: (EU) 528/2012, which implements (in the EU) the International Convention on the Control of Harmful Anti-fouling Systems on Ships, which was adopted on 5 October 2001."	Quantitative & Qualitative
D	EU Only Legislation	D1.1 EU Regulation	*Pollution:* "The activity complies with Regulation (EU) 2019/1009 or national rules on fertilisers or soil improvers for agricultural use."	Quantitative & Qualitative
		D1.2 EU Directive	*Ecosystems:* "An Environmental Impact Assessment (EIA) or screening has been completed in accordance with Directive 2011/92/EU."	
E	Non-assessable Ambition		*Circular Economy:* "Peat extraction is minimised."	Not possible

Table 3: Classification of DNSH Criteria in the EU Taxonomy (source : PSF [21])

[20] "Platform Recommendations on Data and Usability", Platform on Sustainable Finance, 2022 – table 8 p. 53
[21] *Platform Recommendations on Data and Usability", Platform on Sustainable Finance, 2022 – Figure 15 p. 51*

In 2022, quantitative criteria (Type A) represented only 6% of all DNSH analysis criteria. In contrast, 38% of the DNSH criteria in the delegated "Climate" regulation are Type B, meaning they are based on "processes" that are highly subject to interpretation and not always sufficiently detailed in the regulation. Additionally, 9% of DNSH criteria never specify quantified thresholds (Type E), making them difficult for companies to measure.[22]

Screening Criteria Type	Count of Tests	% of Total
D	325	41%
B	298	38%
E	68	9%
C	54	7%
A	47	6%
Grand Total	**792**	

Table 4: Distribution of Different TSC Types within DNSH (source : PSF [23])

Illustration

Volkswagen highlights the need to interpret certain criteria due to poor wording in the regulation:

> "The *wording and terminology used in the EU Taxonomy are still subject to some uncertainty in interpretation, which could lead to changes in the reporting when it is subsequently clarified by the EU. Ultimately, there is a risk that the key performance indicators presented as taxonomy-aligned would need to be assessed differently*." [24]

According to the latest Platform on Sustainable Finance report[25], in 2025, most TSCs in the "Climate" and "Environment" delegated regulations are qualitative (88% of DNSH criteria). Among the quantitative criteria (12%), only 28% refer to established standards. Only 3% of the criteria are quantitative and tied to a standard. Therefore, a company's ability to respond objectively to DNSH is limited.

[22] "Platform Recommendations on Data and Usability", Platform on Sustainable Finance, October 2022 – table 8 p. 53
[23] *Ibid – table 8 p. 53*
[24] Annual Report 2023, Volkswagen, 2024
[25] "Simplifying the Eu Taxonomy to Foster Sustainable Finance", Platform on Sustainable Finance, February 2025

Illustrations

Some criteria have ambiguous formulations, which are not clearly defined or quantified, leading to significant interpretation by companies:

> **"Minimize *peat extraction*"**[26]

This DNSH criterion for the transition to a circular economy (CE) – notably for activity 2.1 "Environmental protection and restoration activities / Restoration of wetlands" – is formulated too vaguely, making it difficult for companies to measure the sustainability of their activity precisely.

> ***"The activity involves evaluating the availability and, where possible, using highly durable and recyclable equipment and components that are easy to dismantle and refurbish "***[27]

This DNSH criterion for the transition to a circular economy (objective 4) – notably for activity 4.3 "Electricity production from wind power" – does not clearly define what "highly durable" means, nor does it provide a quantified threshold (e.g., using a minimum proportion of recycled materials).

According to an analysis by the Platform, out of 2,843 companies, only 106 (3.6%) are able to demonstrate that they meet at least 50% of the DNSH criteria for their reported activities; only 33 (1.1%) can demonstrate compliance with at least 75% of the criteria; and only 19 companies (0.6%) can demonstrate full compliance with all applicable criteria [28].

Beyond the interpretation of the criteria, the ability to prove the verification of DNSH can prevent a company from declaring an activity as "sustainable" The existence of environmental data and its availability further complicates this issue.

Additionally, while reporting templates have been developed for key performance indicators (KPIs), there has been no standardization of the reporting format for DNSH to date.

Proposal 2: Revise the DNSH criteria to adopt a "pass or fail" approach, formulating them clearly and precisely, integrating quantifiable parameters that can be objectively verified. Compliance evaluation should rely on tangible proof (documents, tests, third-party certifications or audits) to eliminate ambiguity and subjectivity in the analysis.

[26] "Platform Recommendations on Data and Usability", Platform on Sustainable Finance, October 2022 – Figure 15 p. 51
[27] Delegated Regulation (EU) 2021/2139 of the European Commission of June 4, 2021
[28] "Platform Recommendations on Data and Usability", Platform on Sustainable Finance, October 2022

This proposal is inspired by the recommendations of the Platform on Sustainable Finance[29]. It is worth noting that adopting a "pass or fail" approach for DNSH criteria and the possibility of making some of them optional (see Proposal 8) are complementary measures aimed at improving Taxonomy's applicability.

Currently, companies report narratively if an activity seems aligned but a non-compliance with a DNSH criterion (often due to difficulties in data collection or criterion complexity) forces them to report it as non-aligned in their taxonomy reporting. However, this approach does not differentiate between cases where the activity fails on a specific DNSH criterion and cases where it fails multiple alignment criteria. This situation can discourage companies, distort the interpretation of alignment rates, and limit the use of EU Taxonomy as a strategic lever for the transition.

Proposal 3: Integrate a new "contribution to taxonomy" category into the EU Taxonomy, separate from the "eligible" and "aligned" categories, for activities that meet the criteria for substantial contribution but not all DNSH verifications. This categorization would provide a more exhaustive view of economic activities contributing to the transition, at all scales, and highlight the reporting difficulties associated with DNSH.

Substantial contribution criteria

This lack of precision in the formulation of requirements also applies to some of the over 300 technical criteria for substantial contributions.

As with some DNSH criteria, potentially quantifiable substantial contribution criteria are not, and they suffer from a lack of definition. Some activities eligible under EU Taxonomy lack substantial contribution criteria with performance thresholds or quantitative elements, leaving room for interpretation at the discretion of the company.

Illustrations

Saint-Gobain identified some activities under category **3.6 "Manufacture of other low carbon technologies"** as eligible for Taxonomy in 2023. The company highlights the lack of precision in the regulation and explains its interpretation:

> *"In the absence of technical criteria and performance thresholds defined by the regulation"* alignment calculations for these activities were made *« by comparing the benefits and performance with standard market products or solutions as requested by the regulation. Saint-Gobain relied on life cycle analysis in line with reference standards (ISO, PEF) and assessed thresholds to define substantial reductions based on sectors and product families."* [30]

[29] "Simplifying the EU Taxonomy to Foster Sustainable Finance", Platform on Sustainable Finance, February 2025

[30] Universal Registration Document 2023, Saint Gobain, 2024

Indeed, the substantial contribution criterion for climate change mitigation in category 3.6 is defined as follows in the «Climate» Delegated Regulation:

> *" The economic activity manufactures technologies that are aimed at and demonstrate substantial life-cycle GHG emission savings compared to the best performing alternative technology/product/solution available on the market [...]"* [31]

The Saint-Gobain case is not isolated. Many other criteria are particularly vague, such as the substantial contribution criterion for climate change adaptation defined in the "Climate" Delegated Regulation for activity **1.1 "Forestry / Afforestation**":

> *"The economic activity has implemented physical and non-physical solutions («adaptation solutions») that substantially reduce the most significant physical climate risks relevant to the activity."*

Another example is the substantial contribution criterion for climate change mitigation in activity **3.4 "Manufacture of batteries"** as defined in the "Climate" Delegated Regulation:

> *"The economic activity manufactures rechargeable batteries, battery packs and accumulators (and their respective components), including from secondary raw materials, that result in substantial GHG emission reductions in transport, stationary and off-grid energy storage and other industrial applications"*

The term "substantial reduction" lacks precision in the absence of quantified thresholds, making the evaluation of the activity's impact subjective and difficult to measure objectively.

Proposal 4: Revise the substantial contribution criteria whose formulations are open to interpretation, favouring the use of quantitative thresholds or, at a minimum, detailed definitions and references to existing methodological frameworks, such as the GHG Protocol for greenhouse gas emissions.

1.1.2. The technicality of EU Taxonomy: heterogeneous and sometimes inadequate

References to other regulatory texts

The verification of just one DNSH often requires referencing up to ten different European regulatory texts. This demands significant regulatory resources and expertise within the company and increases the risk of non-compliance due to the lack of conciseness in the requirements.

[31] Delegated Regulation (EU) 2021/2139, European Commission, June 4, 2021

Illustration

The verification of DNSH criteria related to pollution prevention and reduction for Activity **4.27, "Energy / Construction and Safe Operation of New Nuclear Power Plants for the Generation of Electricity or Heat, Including Hydrogen Production, Using Best Available Technologies,"** requires the company to verify compliance with six distinct regulatory texts:

- Regulation (EU) 2019/1021,
- Regulation (EU) 2017/852,
- Regulation (EC) No 1005/2009,
- Directive 2011/65/EU,
- Regulation (EC) No 1907/2006 et
- Regulation (EC) No 1272/2008.

Additionally, there are activity-specific criteria, which also often refer to one or more regulations.

DNSH criteria of type D, which represent 41% of all DNSH criteria, rely exclusively on third-party European legislation, which creates challenges when applied to activities outside the EU.

Moreover, some DNSH refer to European directives, which, unlike regulations, may be difficult to use. Their transposition into national law is the responsibility of each Member State, which undermines the uniformity of the EU Taxonomy and complicates its application at the company level.

Illustration

The criteria for proving that Activity CCM **8.1, "Information and communication / Data processing, hosting, and related activities,"** does not cause significant harm to the objective of sustainable use and protection of aquatic and marine resources (WTR) require that the activity does not lead to water quality degradation or water stress, in accordance with the objectives of the Water Framework Directive 2000/60/CE:

"The risks of environmental degradation related to water quality preservation and the prevention of water stress are identified and addressed to achieve good ecological status or potential of waters, as defined in Article 2, points 22) and 23) of Regulation (EU) 2020/852, in accordance with Directive 2000/60/CE."[32]

However, this directive is a legislative framework directed at Member States, who ensure its implementation and monitoring. It does not directly address companies which require interpretation and arbitration at the company level to demonstrate compliance.

[32] Appendix B of Annex II to Commission Delegated Regulation (EU) 2023/2486 of June 27, 2023

Furthermore, 7% of DNSH criteria refer to extra-European international standards, which do not provide the necessary level of detail for companies in Europe to apply them effectively.[33]

Proposal 5: When a DNSH is based on European regulation or an international standard, provide a translation tool within the *EU Taxonomy Compass* to transpose its principles to the company level.

Evaluations Based on Comparison to «Best Practices»

When criteria do not have third-party regulations or quantitative evaluation frameworks, companies are required to compare their performance against "best practices" in the sector. While these methods avoid the need for scientifically established environmental objectives, they suffer from several biases:

- "Best practices" may not evolve over time. Activities that base their sustainability on such criteria could be 100% aligned with the European Taxonomy without reducing their physical carbon intensity.
- In a competitive economy, access to detailed production information from competing companies, along with precise data, is necessarily limited. This forces companies to rely on data providers whose lack of transparency regarding sources and methods is incompatible with the public and transparent nature of regulatory reporting. Alternatively, companies might make estimates that add a level of arbitrariness to the entire taxonomy alignment process.

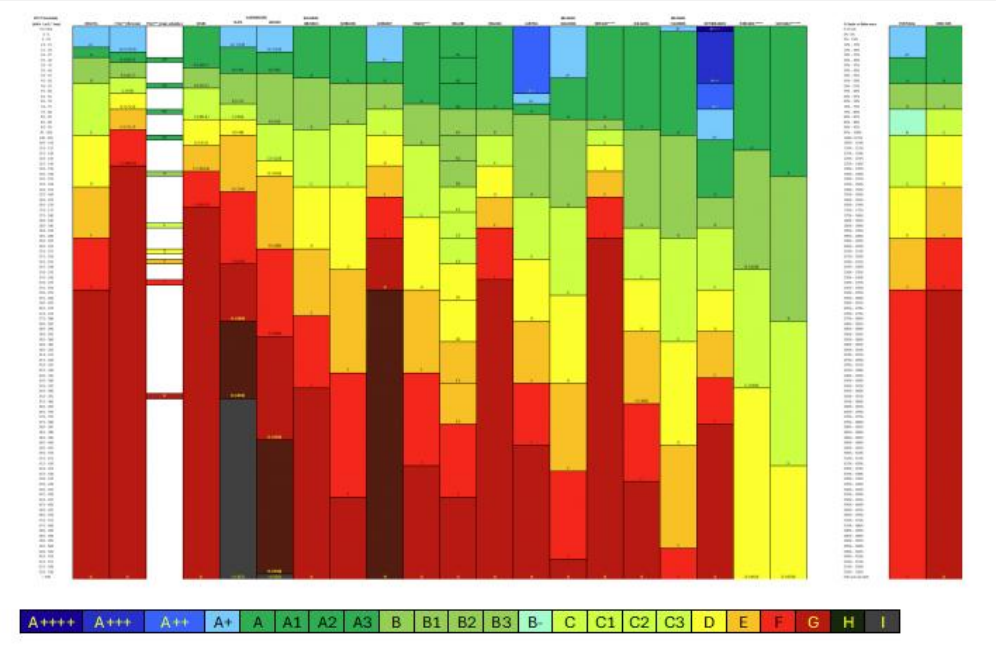
Illustration: the real estate sector

For Activity **7.7, "Construction and real estate / Acquisition and ownership of buildings"** to contribute substantially to climate change mitigation, a company must meet the following criteria outlined in the Climate Delegated Regulation:

> *"For buildings constructed before December 31, 2020, an energy performance certificate (EPC) of at least class A is required.*
>
> *If not, the building must be among the top 15% of the national or regional real estate portfolio in terms of primary operational energy consumption, which is demonstrated by appropriate evidence, comparing the building's performance to the performance of the national or regional real estate portfolio constructed before December 31, 2020, and at least distinguishing between residential and non-residential buildings."*

[33] "Platform Recommendations on Data and Usability", Platform on Sustainable Finance, 2022 – Figure 15 p. 51

In practice, however, companies rarely use the EPC in guiding their decarbonization strategies. Its 10-year validity makes it inherently a static indicator. Moreover, it is a metric whose scale varies from country to country, as illustrated by the following chart:



Graph 1 : Comparison of EPC Grids in European Countries (source : European DataWharehouse)

Basing the analysis on "best practices" using primary energy rather than final energy penalizes electricity and favours gas and oil due to high conversion factors[34] making taxonomy reporting dependent on the heterogeneity of conversion factors, whose calculation is opaque and subject to national discretion. For new buildings (those with construction permits filed since 2021), the alignment criterion is not to present an EPC of level A but to be 10% below the country's NZEB standard (Nearly Zero Energy Building) a standard that some EU countries have yet to define.

Therefore, the actual reduction of GHG emissions in the real estate sector is not promoted by the current taxonomy regulation.

These limitations of alignment evaluation using the "best practices" approach highlight the manifest heterogeneity of taxonomy reports across sectors and companies within the same sector.

Economic actors can take advantage of the evaluation framework's flexibility. For example, shopping centres may only account for energy consumption in common areas, excluding tenant stores, thus reporting alignment rates above 60% or even 70%, far exceeding the sector average, which is around 3-5%.

[34] Given that decarbonizing real estate requires the installation of electrically powered heat pumps, this primary energy measure reduces the incentive to switch from gas or fuel oil to electrically powered heat pumps.

Illustration

Unibail-Rodamco-Westfield (URW) highlights the bias that can come from analyzing certain activities, especially when the evaluation is based on "best practices" rather than "absolute performance" criteria:

> "However, *taxonomy alignment figures should be carefully analyzed in relation to the applicable alignment criteria, as they do not reflect the full environmental performance of URW's portfolio. For example, for assets in operation [activities coded 7.7], since the alignment analysis is* ***based on relative comparisons with stricter regulations and reference criteria in some countries than in others****, rather than absolute performance measures, some assets with better energy performance may be considered 'non-aligned,' while others with poorer performance may be 'aligned'.* "[35]

The alignment rates reported by URW for Activity CCM 7.7, which is evaluated through the "best practices" approach, are:

- 50.3% for turnover (representing all aligned activities for revenue)
- 57.8% for operational expenses (representing all aligned activities for operational expenses)
- 77.4% for capital expenditures (with 82.6% of capital expenditures aligned)

Thus, the lack of precision and completeness in the criteria for substantial contribution leads, as with DNSH, to a significant number of companies intentionally lowering their taxonomy alignment ratios.

Reporting of Activities According to the Climate Change Adaptation Objective (CCA)

Some companies have considered that they could choose not to report certain activities under the adaptation objective (CCA), as is the case for the mitigation objective (CCM). However, this is not the case. In the case of CCA, all activities must be analyzed in terms of climate risks, whereas in the case of CCM, only activities contributing to this objective must be analyzed.

The complexity of analyzing climate risks at the company and activity level is undeniable. It requires a deep understanding of climate issues, a comprehensive knowledge of the consequences of climate change, and sufficiently precise local-level information. Subsequently, the adaptation measures themselves can be complex and costly. However, the evolution of global warming and the associated risks, which are occurring faster than projections[36], and the fact that Europe is expected to face the most significant temperature increases[37], mean that adaptation policies are no less important than mitigation policies.

[35] Universal registration document 2023, Unibail-Rodamco-Westfield, 2024
[36] "Climate change 2023, synthesis report", IPCC, 2023
[37] "Regional fact sheet -Europe", IPCC, 2021

From an economic and international competitive standpoint, it is crucial that European companies address this issue, and regulation should support this need.

Proposal 6: Clarify the obligation to report substantial contributions to the climate change adaptation (CCA) objective and produce sector-specific guidelines on how companies should assess their contribution (*see Proposal 10 on the sectoral approach*).

Minimum Safeguards

The application of minimum safeguards is still marked by a lack of clarity and harmonization. Several areas of uncertainty remain, particularly regarding the coverage of the value chain and the criteria for evaluating the significance of issues. In the absence of sufficient regulatory details, companies and investors struggle to determine compliance thresholds and ensure consistent implementation. Companies need further guidance from the European Commission on certain technical issues related to the application of minimum safeguards to ensure a coherent application of the regulation.

It is also necessary to ensure consistency within the European regulatory framework, notably with the Corporate Sustainability Due Diligence Directive (CS3D). CS3D introduces requirements for due diligence in the value chain, which directly impacts the application of minimum safeguards. This alignment would ensure a consistent application of the regulation within the EU and prevent divergent interpretations between member states.

Proposal 7: Ensure consistency between the CS3D and the requirement to meet the minimum safeguards of the Taxonomy by explicitly integrating the due diligence obligations of the CS3D as a reference for evaluating minimum safeguards.

1.2.3 Difficulty in Accessing Data: An Inherent Limitation of the EU Taxonomy

Economic actors may face several difficulties when verifying the compliance of their activities with the technical selection criteria, some of which stem directly from the regulatory texts, as previously discussed, and others that are more diffuse and specific to the economic environment. Access to information is one of the most critical issues for applying EU Taxonomy. Various scenarios hinder companies in their reporting efforts and ultimately reduce the quality of taxonomy data.

Lack of Traceability of Data Across the Entire Value Chain

Some activities, to be "aligned" must be part of a value chain that is itself "sustainable" which disadvantages complex and decentralized value chains and favours groups that have internalized all or part of their value chain or "single-product" sectors like aviation. A company with a complex value chain must trace the origins and destinations of intermediate products with its suppliers and customers; the resources required to produce a rigorous and compliant report are then multiplied.

Illustration

Companies involved in manufacturing electronic components face difficulties in ensuring their compliance with regulations. The components they manufacture may be used in very diverse products, ranging from solar panels to diesel vehicles. The alignment of their activity depends on the final product in which the component is used, which makes the analysis complex for the manufacturer. They would need to inquire with all their clients and report on the final use of each product, an administratively burdensome process that some companies abandon, making it impossible to prove the alignment of their activities.

The **Lacroix** group highlights that access to data, especially regarding the supply chain, is a major obstacle to evaluating DNSH criteria and minimum safeguards:

> *"For our Electronics business, which manufactures electronic boards used in thousands of different products, a precise analysis of technical alignment criteria for each of these products would require resources and information detailed for each product, which we do not currently have.*
>
> *Furthermore, given the complexity of our supply chain, which includes tens of thousands of references for electronic components, it would currently be very difficult for LACROIX to guarantee its compliance with the Do No Significant Harm (DNSH) principle [...] as well as with the Minimum Social Safeguards."*

Evaluation of Taxonomy for non-European activities

Within a company, when it has reached an international scale, it can be particularly challenging to collect precise data for each production site, each activity, and each subsidiary. Indeed, the current criteria and the list of eligible activities lack adaptability for companies operating on a global scale.

Illustrations

Alstom acknowledges being cautious when validating certain DNSH criteria due to the difficulty of proving compliance for non-European projects:

> *"In general, a conservative approach has been applied where documentation was insufficient to validate a DNSH criterion. It should be noted that compliance with European standards, as mentioned in the EU taxonomy regulations applied to non-EU project sites, could only be partially documented".*[38]

Volkswagen faces similar difficulties in finding the required information to meet DNSH criteria, particularly due to differing regulations across regions:

> *"The wording and terminology used in the EU Taxonomy are subject to some uncertainty in interpretation. To some extent, the Taxonomy goes beyond the regulations to be applied in regular business operations. In addition, the*

[38] Universal Registration Document 2023/2024, Alstom, 2024

application of the EU Taxonomy to sites outside the EU leads to particular challenges due to the possibility of diverging legislation. " [39]

The **Unibail-Rodamco-Westfield** (URW) group highlights the difficulties in collecting information on specific activities, preventing it from meeting certain technical screening criteria (TSCs):

> *"Eligible activities under the Taxonomy indeed cover a very broad range of URW activities, but this does not imply the relevance or feasibility of applying the TSCs to all activities.*
>
> *For example, many of them cannot be selected from the currently published TSCs without resorting to additional information sources (local regulations, industrial references from private sector organizations...) or using approximations. This situation applies to many assets, for example: the application to the Group's American shopping center portfolio, where the TSCs are based exclusively on European regulations and standards."*

Moreover, large European companies operating a significant portion of their activities outside the EU suffer from the lack of relevance of European criteria to their export countries. The current criteria and the list of eligible activities reflect European priorities and needs, without considering the context of other regions.

Illustration

To be aligned with the EU Taxonomy, activity **3.5 «Manufacturing of energy efficiency equipment for buildings»** must notably comply with the following substantial contribution to climate change mitigation criterion:

> *"Manufacturing one or more of the following energy-efficient equipment (respective products and key components (109)) for buildings: (a) windows with a U-value of less than or equal to 1.0 W/m2K "* [40]

This criterion requires the manufacture of triple-glazed windows, considered to offer better thermal performance. However, such a requirement is not necessarily the most relevant sustainability indicator, as it strongly depends on geographic areas (climate, local contexts, etc.).

Difficulties Reflected in Alignment Evaluations

Coupled with the issues of readability of the technical criteria, the challenges in accessing the necessary information for taxonomy evaluation led many companies to voluntarily downgrade their alignment rates.

[39] Annual Report 2023, Volkswagen, 2023
[40] Commission Delegated Regulation (EU) 2021/2139 of June 4, 2021

This mechanically creates significant differences between eligibility and alignment rates, as illustrated in the table below:

	CA		CAPEX		OPEX	
	Eligibilité	Alignement	Eligibilité	Alignement	Eligibilité	Alignement
Global (N=31)	37,3%	15,3%	47,5%	20,0%	27,6%	13,2%
Chemicals (2)	25,3%	4,6%	15,1%	8,4%	19,0%	5,8%
Construction and Materials (5)	39,7%	21,0%	35,7%	14,5%	11,2%	6,8%
Technology (4)	27,2%	0,2%	46,6%	5,8%	25,0%	0,0%
Oil, Gas and Coal (2)	21,5%	8,4%	31,6%	14,8%	9,4%	4,9%
Utilities (4)	31,6%	24,0%	48,0%	35,9%	39,9%	34,5%
Basic Material (2)	47,0%	0,0%	59,9%	1,1%	0,0%	0,0%
Industrial Goods and Services (6)	31,9%	24,0%	53,8%	29,6%	19,5%	15,2%
Real Estate (2)	93,8%	43,8%	97,7%	65,2%	98,4%	45,4%
Automobiles and Parts (4)	38,7%	0,0%	45,8%	2,8%	42,4%	5,1%

Table 5: Average of KPIs by sector, sample of 23 companies (source : AMF[41])

Companies downgrade their alignment rates as a precaution, indicating that they are not able to confidently analyse the TCSs (mainly for DNSH criteria) and do not wish to potentially expose themselves to risk if their analysis is contested. Some companies report eligibility rates in line with regulatory expectations but declare zero alignment rates while awaiting further guidance and clarifications from regulators. Conversely, others choose to report activities as «aligned» with partial validation of their criteria. In this case, partial validation is almost always linked to the difficulty of verifying DNSH criteria.

'Companies don't always see a tangible benefit in aligning their activities or a risk in not aligning them. Some companies therefore prefer to declare their activities as non-aligned or even ineligible in order to simplify their procedures.'

Mathieu Salel,
EcoAct (Schneider Electric)

[41] Study on taxonomy reporting for listed non-financial companies (AMF, 2023)

Illustrations

Lacroix acknowledges the complexity of ensuring compliance with certain DNSH criteria and prefers to report a misalignment of its activities, even though they could be considered sustainable:

> *"Thus, although a significant portion of LACROIX's eligible activities is presumably aligned with the sustainability criteria of the European Taxonomy, we currently consider them not to be. We reserve the possibility of evolving our position in the coming years, depending on the additional due diligence to be implemented and the information/resources available to us."*[42]

Getlink has also been transparent about the limitations of its DNSH analysis and considers some activities as "non-aligned":

> *"It should be noted that for the activities of rail infrastructure manager Europorte / Socorail, the Group was unable to confirm the DNSH criteria for the intervention sites, which are client sites outside the Group. In this uncertainty, the corresponding indicators for Europorte / Socorail's Rail Infrastructure activity (revenue, CAPEX, OPEX) are therefore considered non-aligned."*[43]

Similarly, **Vinci** considers itself unable to provide a DNSH analysis and therefore reports certain activities as «non-aligned»:

> "For other eligible activities of VINCI Construction or Cobra IS, alignment could not be assessed due to the complexity of transposing certain substantial contribution and 'Do No Significant Harm' (DNSH) criteria outside of Europe. Thus, VINCI Construction's hydraulic activities (5.1 and 5.3), carried out through flagship projects such as the Thames Tideway Tunnel, a wastewater and stormwater transfer and storage system in London, or the Sambangalou hydroelectric dam in Senegal (activity 4.5), producing renewable energy, appear non-aligned."[44]

lllustration

After analyzing the DNSH criteria related to pollution prevention (Objective 5), the BMW Group noted that the criteria were not met for activity **6.5 "Transport / Transport by motorbikes, passenger cars, and light commercial vehicles":**

> "*The DNSH requirements for Environmental Objective V [are not all] fulfilled for economic activity CCM 6.5, owing to the RDE and tyre label requirements described.* " [45]

[42] Ibid.
[43] Universal registration document 2023, Getlink, 2024 (example from Study on the taxonomy reporting by non-financial listed companies, AMF, 2023)
[44] Universal registration document 2023, Vinci, 2024
[45] Group Report 2023, BMW, 2024

Despite this analysis, the group chooses to report this activity as aligned for all KPIs:

- "*Taxonomy-aligned share of revenues per economic activity is […] 1.9% for CCM 6.5*"
- "*Taxonomy-aligned share of capital expenditure per economic activity is […] 5,4% for CCM 6.5*"
- "*Taxonomy-aligned share of operating expenditure per economic activity is […] 4,2% for CCM 6.5*" [46]

Proposal 8: Determine, for each sector and/or activity, a limited list of mandatory DNSH criteria according to their relevance to the nature of the activity; and make other DNSH criteria optional (*see Proposal 10 on the sectoral approach*).

Ultimately, due to the diversity of reporting practices, the heterogeneity of criteria, and access to data, the taxonomy rates lack reliability and do not accurately reflect the sustainability of a business operator's activities. In this regard, the London Stock Exchange Group highlights that "the wide range of eligible or aligned revenues and investments often reflects differences in disclosure practices rather than the ecological nature of the products and business models."[47]

Reporting Data to Financial Institutions

"This distortion will lead to gaps in the data and result in: an increased dependence on data providers; multiple bilateral requests to issuers for information (rather than a simple publication)."

French Asset Management Association (AFG) (source)

The availability, collection, and reliability of data are major issues for companies, and more specifically for the financial sector, which is highly dependent on information published by its counterparties: companies subject to NFRD, European households, local authorities, and administrations. According to Article 8.4 of the Delegated Regulation "Article 8", financial institutions are required to use the most recent data published by their counterparties or obtain it directly through bilateral exchanges. They face the unavailability of certain data, which prevents them from meeting technical criteria – notably DNSH – or organizational barriers to collecting the necessary data.[48]

[46] Ibid.
[47] "Reality check: 8 years after the first EU Taxonomy conversation", LSEG, 2024
[48] Study of the reporting Taxonomy of listed financial companies, AMF, 2024

Illustration

BNP Paribas highlights the difficulties banks face in accessing essential information, emphasizing that the quality of their own indicators largely depends on the data published by their counterparties. [49]

> "Assessment [of DNSH criteria] is complex, including issues of both interpretation of texts and access to information. Most of the information that banks need to collect from their clients is not yet standardized, which hinders the measurement of aligned activities by companies, and the collection by banks for each of the criteria is not currently feasible."

BNP Paribas specifically mentions that access to information is particularly challenging for loans to households, as well as the collection of Energy Performance Certificates (DPE):

> *"This observation is even more impactful for household loans, for which the alignment of assets would require the collection of data not related to climate performance, which private clients are unable to produce. As a result, their efforts to contribute to a low-carbon economy remain invisible in green asset ratios, even though mortgages, renovation loans, and car loans make up a significant share of eligible assets."*

> *"The availability of Energy Performance Diagnostics across Europe is not homogeneous, as it heavily depends on local specifics, such as national data protection laws in Belgium regarding real estate market practices, for example. Furthermore, open-source databases are sometimes available, but they rarely cover the entire territory of a country and provide low-quality data, typically only updated with the latest known sale, often more than two years ago."*

"Transparent *information from the Taxonomy and CSRD is also needed to fulfil financial sector requirements, in particular the SFDR and MiFID II obligations on client sustainability preferences. The Commission must consider the wider effects of the proposals on interconnected legislative frameworks.*"

163 investors representing €6,600 billion (source)

An obvious consequence of these findings is the reinforced need for a single, public, and homogeneous access to data from the greatest number of stakeholders across all value chains. In this sense, on the one hand, the work related to the European Single Access Point (ESAP) must continue, and on the other hand, the CSRD regulation, which will be the primary source for this large-scale, open-access database, must be maintained, and its implementation must be successfully completed – otherwise, the Taxonomy regulation

[49] Universal registration document 2023, BNP Paribas, 2024

will always encounter this limitation of access to the data needed for conducting taxonomy analyses.

Proposal 9: Continue work on the implementation of a European Single Access Point (ESAP) centralising and making available in a harmonised and usable format data from regulatory reporting, including taxonomy data.

"[The CSRD] is a critical building block to access the more granular data we need. We can play a role in financing the transition, provided we have the tools."

Andreas Stepnitzka
European Fund and Asset Management Association (EFAMA)

In addition, a number of methodological limitations have been raised regarding the taxonomic reporting of financial institutions with regard to asset bases, difficulties in collecting taxonomic ratios, the calculation of numerators and denominators, a dilution effect linked to the composition of portfolios, the exposure of the financial sector to itself, or more generally to the heterogeneity of reporting practices in the face of the difficulties encountered by the actors. For these elements, we refer to the report co-authored by the SF Observatory and the ADEME analysing more than 800 "Article 29 LEC" / SFDR reports from French investors[50], in part 3.2 Taxonomy (page 39) and to the breakdown of the numerators and denominators of insurers and management companies (pages 50 to 56).

1.3. The need for a sectoral approach in co-construction with economic stakeholders

Given the observations made, it appears that to fulfil its ambition of becoming a benchmark for managing the economic transition to sustainability, the EU Taxonomy must, on the one hand, be better aligned with the realities of sectors and industries, and, on the other hand, incorporate a higher level of granularity that is consistent across all the activities it covers. One way to combine these two goals is to involve economic actors in the revision initiated by the Commission and to do so in a way that results in criteria tailored to the specificities of each economic sector, as well as to the different decarbonization pathways that scientific consensus has helped to develop. In particular, the experience of economic actors who have made significant efforts to apply the regulation to their activities so far should be considered and form the basis of future revisions.

In doing so, the European Taxonomy will become a tool to support the development and monitoring of corporate transition plans, which must necessarily be sectoral. This condition

[50] Analysis of the 2024 "Article 29 LEC" rebates for the 2023 financial year, ADEME, February 2025

will maximize the interoperability potential of the EU Taxonomy with sectoral ESRS, as well as with voluntary initiatives such as SBTi or ACT.

The European Commission has already launched several initiatives to ensure the co-construction of the European Taxonomy with various stakeholders. Working groups, consisting of representatives from various sectors, financial actors, and NGOs, meet regularly to discuss changes to the criteria or clarify certain aspects of the EU Taxonomy. Bilateral communication between Commission members and stakeholders also occurs to discuss specific points of the EU Taxonomy and ensure a better understanding of it.

In October 2023, the European Commission launched the Stakeholder Request Mechanism (SRM), a tool allowing stakeholders to voluntarily submit suggestions for potential revisions or extensions of the current list of sustainable activities by modifying the existing technical selection criteria.

These initiatives must continue and be structured to increase the clarity of the regulatory iterations of the EU Taxonomy (*an aspect we address in Section 3.3. Structuring the Governance of the EU Taxonomy*).

Proposal 10: Set up **sectoral working groups** led by representatives of the Commission and composed, in a balanced manner, of voluntary companies, professional federations, specialised civil society organisations and recognised scientific research organisations, whose missions will be *(see our other proposals)*:

- Establish a list of mandatory DNSH for each sector
- Develop a common evaluation framework for each mandatory DNSH
- Establish unique benchmarks for DNSH where evaluation is based on a "best practices" approach
- Create a sector-specific the Taxonomy reporting template, with more detailed guidelines on sector-specific elements that can help companies in their analysis of TSCs.
- Deepen the definition of substantial contribution criteria that are open to interpretation and transmit the results of consensus-building between the realities of economic actors and scientific facts to the Commission.

1.4. Facilitating the Integration of SMEs into the Taxonomy Framework

SMEs represent 99% of businesses in Europe, over 50% of the EU's GDP, and 63% of greenhouse gas emissions from European businesses[51]. They are therefore integral to any transition ambition for the European economy. However, they face significant challenges in accessing external financing needed to support their transition efforts (65% of SMEs finance their own projects)[52].

Although the EU Taxonomy is gradually becoming a standard for accessing green finance, its application remains exclusionary for SMEs, primarily due to administrative burdens. Taxonomy-related information is increasingly demanded from SMEs by their economic and financial partners – including non-listed SMEs, which are not subject to reporting obligations.

To facilitate SMEs, both listed and non-listed, in accessing sustainable finance to accelerate their transition towards practices contributing to the EU's carbon neutrality objectives, the Platform[53] specifically suggests:

- Reducing the complexity of reporting requirements by simplifying the demonstration of compliance with criteria (Simplified Approach)
- Providing a clear framework for demonstrating their climate efforts (Streamlined Approach)

Proposal 11: Continue the development of voluntary publication standards by EFRAG to assist SMEs in using the Taxonomy as a tool for transition planning and access to preferential financing for sustainable activities.

Proposal 12: As part of the softening of DNSH criteria, provide broader exemption regimes for listed SMEs.

[51] "SMEs, resource efficiency and green markets", Eurobarometer, 2022
[52] "Survey. Access to sustainable for SMEs: a European survey", Eurochambres, 2023
[53] "Simplifying the EU Taxonomy to Foster Sustainable Finance", Platform on Sustainable Finance 2025

2. Completing the Scope of Covered Activities

2.1. Overview of the Taxonomy's Scope

The scope of economic activities covered by the EU Taxonomy is notoriously incomplete. It was initially designed to cover only the most GHG-emitting activities, de *facto* excluding a large part of the European economy. According to a 2021 research article, the activities covered by the EU Taxonomy concentrate 80-90% of EU emissions and represent 20% of employment and 28% of value added[54]. This does not mean that the taxonomic system would cover 80 to 90% of the EU's emissions, but that its analysis grid would cover 80 to 90% of emissions if all actors in the sectors covered were subject to taxonomic reporting, in other words in the absence of application thresholds. It should be remembered that SMEs, which account for 63% of European companies' emissions[55], are not subject to the EU Taxonomy – except for listed SMEs. They also account for 65% of employment and 53% of EU value added[56].

More recently, in its February 2025 report, the European Platform on Sustainable Finance stated that " *"The activities currently integrated in the EU Taxonomy Climate Delegated Act represent around 67% of GHG emissions in the European Union. Given certain sectors contribute more materially to GHG emissions, significant variability is observed across sectors, reflecting the greater relevance of the EU Taxonomy in its current form for some sectors."* [57]. In October 2022, the AMF stated that " *Today, 90 economic activities that represent around 80% of direct CO2 emissions in the European Union are covered by the EU Taxonomy* ".[58]

It seems crucial to us at this stage to clarify the effective coverage of EU GHG emissions by the EU Taxonomy, and not only the theoretical coverage, the major bias of which is to consider only the sectors covered by omitting the coverage limits by company size. The prospects for development induced by the Omnibus Regulation are therefore likely to reinforce this analytical bias.

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[54] Schütze, F., & Stede, J. (2021). The EU sustainable finance taxonomy and its contribution to climate neutrality. Journal of Sustainable Finance & Investment, 14(1), 128–160.

[55] « SMEs, resource efficiency and green markets », European Commission, Flash Eurobarometer 498, mars 2022

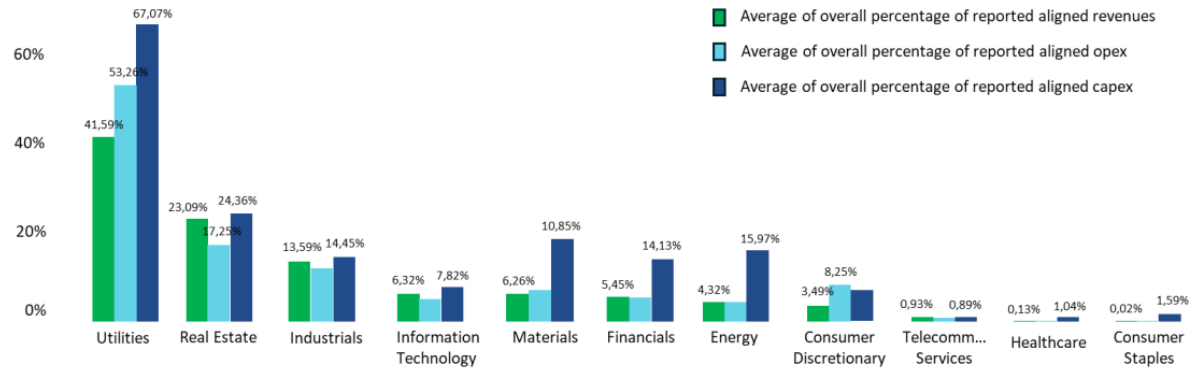
[56] « Annual report on Europeans SMEs 2023/2024 », European Commission, Grow and Joint Research Centre, 2024

[57] Simplifying the EU Taxonomy to Foster Sustainable Finance, PSF, February 2025

[58] Sustainable finance: understanding the Taxonomy and the SFDR regulation to express your preferences, AMF, October 2022

Proposal 13: Carry out a detailed study of the level of effective coverage of EU GHG emissions by the EU Taxonomy, considering not only the sectors covered but the companies covered according to their size.

In addition, sectors with high GHG emissions, such as the *manufacture of coke and refined petroleum* (C19), *wholesale and retail trade* (G) or *mining and quarrying* (B),[59] are still not covered by the EU Taxonomy.



Source: Morningstar Sustainalytics, data as of June 2024, Average Taxonomy-alignment reported, by sector and by metric

Graph 2: Average Taxonomy-alignment reported, by sector and by metric (source: Morningstar Sustainalytics)

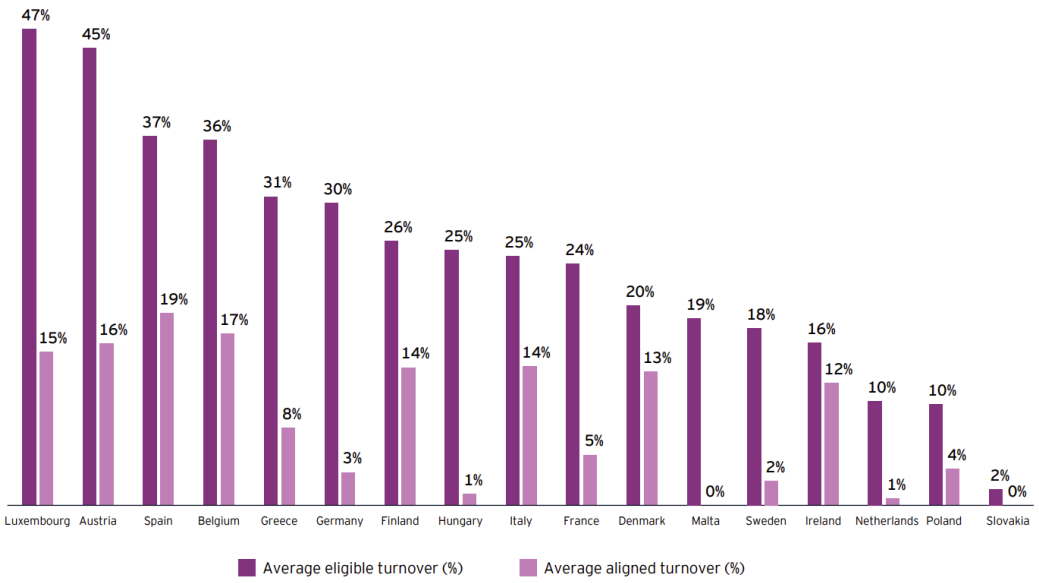
A double observation arises: (i) the EU Taxonomy has not achieved its goal of covering nearly all EU GHG emissions, and (ii) the limited coverage of European economic activities challenges its role as a "compass" for the ecological transition of the European economy. While the EU Taxonomy was never meant to be a comprehensive code for all economic activity, it was expected that, by being directly linked to management indicators such as the Green Asset Ratio (GAR), it could effectively reflect the sustainability of sectors, companies, and activities in a homogeneous way across Europe, serving as a reference for stakeholders, particularly financial institutions. This expectation has been disappointed, given the numerous criticisms of the GAR.

The incomplete scope of the EU Taxonomy's coverage has the primary consequence of making taxonomy ratios incomparable **from one country to another**, given the specificities of national economies, **from one sector to another** based on their respective integration into the EU Taxonomy framework, and even **from one company to another** due to the disparity in coverage of sub-sectors and activities within the same sector.

For example, the Netherlands has one of the lowest average eligibility rates in the EU, at 10%. It seems that this low eligibility rate is due to the structure of its economy, which is

[59] Schütze, F., & Stede, J. (2021). The EU sustainable finance taxonomy and its contribution to climate neutrality. Journal of Sustainable Finance & Investment, 14(1), 128–160.

centred around consumer goods, health, biotechnology, and chemical sectors that are among the least covered by the European Taxonomy[60].



Graph 3: Average Eligibility and Alignment Rates by Country (source : EY[61])

Furthermore, eligibility or alignment rates vary significantly from one sector to another and do not seem to reflect the level of maturity of the sector in its transition as much as the way it is treated by the regulatory framework. Indeed, the main activities of some sectors are not yet included in the delegated regulations.

Illustration: the retail sector

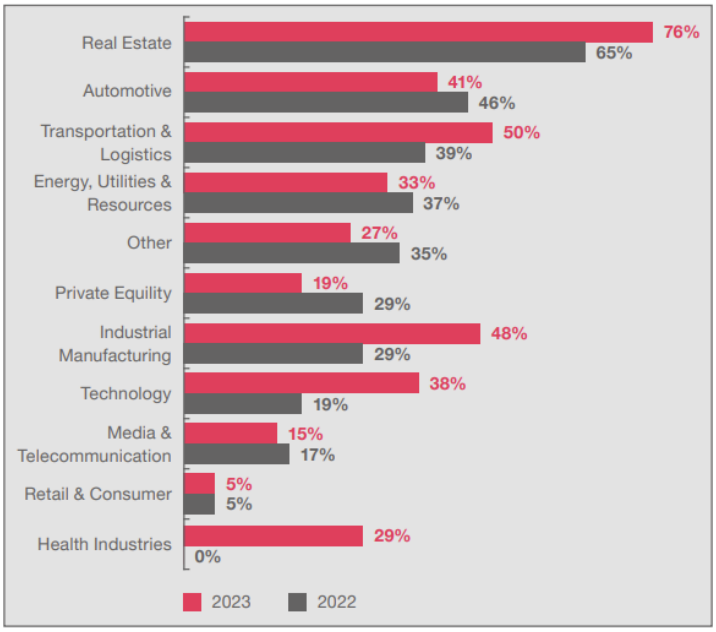
The European Taxonomy has prioritized the most CO2-emitting activities with significant potential for contributing to climate change, thus excluding the retail sector. As a result, the ratio of eligible turnover is very low for all retail sector actors.[62]

With an eligible turnover share of 0.2% and an aligned turnover of 0.03%, Carrefour confirms[63] :

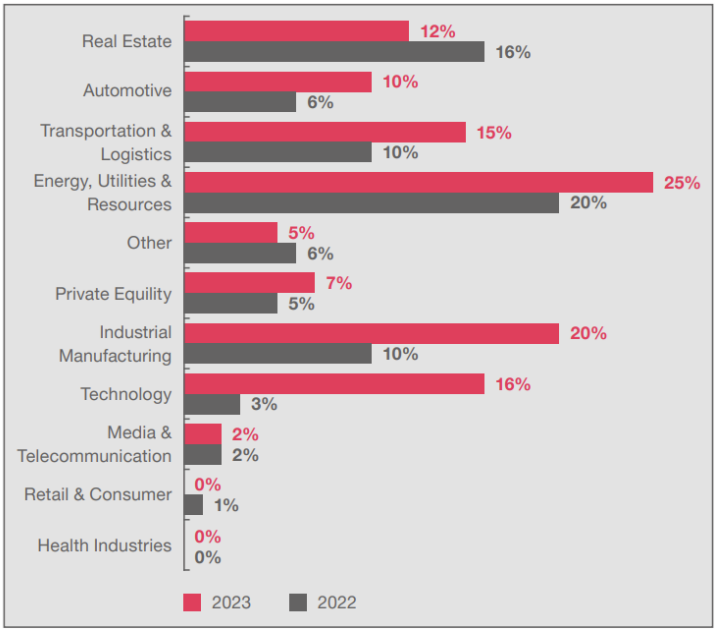
> *"The retail activity of Carrefour, which is the Group's main activity, is not included in the scope of activities defined by the European Taxonomy to date… At this stage, many sectors of the economy remain uncovered by the delegated regulations on the six environmental objectives."*
>
> *"As a result, the share of eligible turnover and operating expenses (OpEx) is very marginal for the Group… By the design of the regulation at this stage, this low level of global eligibility to the Taxonomy concerns all retail sector actors."*

[60] "EY EU Taxonomy Barometer 2023 Fiscal year 2022 reporting practices and results", EY, October 2023
[61] *EY, " EY EU Taxonomy Barometer 2023 Fiscal year 2022 reporting practices and results ", October 2023)*
[62] Forvis Mazars (2023), The Taxonomy Sectoral Papers #4: Retail Sector
[63] Carrefour (2024), Universal Registration Document 2023

Average turnover eligibility ratio



Average turnover alignment rate



Source : *PwC EU Taxonomy Reporting 2024 Analysis of the financial and non-financial sector*

The most reported eligible and aligned activities by ICP for the CCM and CCA objectives according to a PwC study[64] are:

Chiffre d'affaires	CAPEX	OPEX
Manufacturing • 3.1 Manufacture of renewable energy technologies • 3.5 Manufacture of energy efficiency equipment for buildings • 3.6 Manufacture of low carbon technologies **Transport** • 6.5 Transport by motorbikes, passenger cars and light commercial vehicles **Real Estate** • 7.1 Construction of new buildings	**Energy** • 4.1 Electricity generation using solar photovoltaic technology **Transport** • 6.5 Transport by motorbikes, passenger cars and light commercial vehicles **Real Estate** • 7.3 Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings • 7.7 Acquisition and ownership of buildings	**Manufacturing** • 3.3 Manufacture of low-carbon technologies for transport • Manufacture of other lowcarbon technologies **Transport** • 6.5 Transport by motorbikes, passenger cars and light commercial vehicles **Real Estate** • 7.2 Renovation of existing buildings • 7.7 Acquisition and ownership of buildings Disclosures on activities

[64] "EU Taxonomy Reporting 2024", PwC, 2024

		Information and communication • 8.1 Data processing, hosting and related activities

2.2. Sectors of the European Economy Not Covered

It is now widely accepted that the EU Taxonomy must, to preserve its *raison d'être*, extend to the European economy. This area of development is inseparable from the efforts to harmonize and simplify the framework; it is, in fact, a prerequisite for success: achieving a non-discriminatory regulatory framework cannot be done without a comprehensive scope of application.

The criteria initially planned for agricultural activities were removed from the delegated regulation, pending progress related to the Common Agricultural Policy (CAP) to ensure consistency between the two frameworks. Indeed, Recital 14 of the Delegated Regulation (EU) 2021/2139 (the "Climate" Delegated Regulation) states: "Given that negotiations on the Common Agricultural Policy (CAP) are ongoing, and in order to achieve greater coherence between the different instruments available to meet the environmental and climate ambitions of the European Green Deal, it is appropriate to defer the establishment of technical screening criteria for agriculture."

However, the relevance of including agriculture in the EU Taxonomy is clear, given the significant transition and sovereignty issues at stake. Agriculture represents more than 10% of the EU's emissions[65], making it the 5th most emitting sector in the European economy[66]. Furthermore, the agricultural sector is one of the few sectors at the crossroads of so many planetary boundaries and social floors. It directly contributes to the exceeding of 6 out of 9 planetary boundaries: climate change, biodiversity erosion, disruption of biogeochemical cycles, land use changes, ocean acidification, and water use[67].

To date, about fifteen countries have already integrated agriculture into their own taxonomies, including China, Mexico, Colombia, Singapore, and Sri Lanka[68].

Proposal 14: Resume work to include the agricultural sector in the EU Taxonomy.

[65] Study on options for mitigating climate change in agriculture by putting a price on emissions and rewarding carbon farming, European Commission, 2023
[66] "EU greenhouse gas emissions reduced by 7% in 2023", Eurostat, 2025
[67] Glass, A. & Malléjac, N. (2023). Planetary Boundaries and Agriculture: An Ambivalent Relationship. Regards croisés sur l'économie, No. 33(2), 191-197.
[68] Comparative Analysis of International Taxonomies: Do They Enable the Transition of the Agricultural Sector? Novethic, 2024.

As a result, alignment ratios at the financial institution level, in addition to being significantly low, are also incomparable due to the sectoral and geographical biases specific to investors/financers. For example, an analysis of the eligibility and alignment ratios of the portfolios of French asset management companies shows significantly higher levels for real estate asset managers compared to general asset managers or private equity firms[69].

The European Taxonomy currently covers over 100 economic activities, divided into different categories and sub-categories, detailed in the Delegated Regulations (EU) 2021/2139 (the "Climate" Delegated Regulation), (EU) 2023/2484 (amending the "Climate" Delegated Regulation), and (EU) 2023/2485 (the "Environmental" Delegated Regulation).

In 2023, the European Commission launched the "EU Stakeholder Request Mechanism" (SRM), allowing stakeholders to submit proposals for new activities to be included in the EU Taxonomy and proposals to revise existing activities. Some proposed activities were discussed by the Platform during its first mandate but were not integrated into the Climate Delegated Regulation (e.g., agriculture, chemicals). Other activities were included (e.g., mining, maintenance of bridges and tunnels) starting from the second mandate of the platform.[70]

This consultation mechanism has led to the proposals outlined in a report by the Platform[71], which has been open for consultation since January 8, 2025. Additionally, a group of civil society organizations has developed an "Independent Science-Based Taxonomy" (ISBT)[72] which, among other things, lists 4 new activities whose inclusion in the EU Taxonomy framework could be considered.

We present below the summary table of these proposals.

Proposal 15: Extend the scope of the EU Taxonomy, starting with sectors and activities proposed by various stakeholders.

Proposals 14 and 15 should be understood in the light of our other proposals, particularly the simplification measures. The extension of the scope of the EU Taxonomy should not be postponed to a second phase but should be carried out in parallel and considering the methodological and organizational proposals that we are formulating.

[69] Climate Transparency Hub (ADEME) 2024 Report on the "29 LEC" / SFDR reports of French investors.
[70] Platform on Sustainable Finance (2025), "Platform on Sustainable Finance Draft Report on Activities and Technical Screening Criteria to be Updated or Included in the EU Taxonomy
[71] *Ibid.*
[72] Independent Science-Based Taxonomy (ISBT)

Sector	Activity	Current scope	Recommended scope	Source
Agriculture	Livestock production (NACE code A1.4)	Ø	CCM, WTR, CE, PPC, BIO	ISBT
Agriculture	Fishery (NACE codes 03.11, 03.12, 10.20, 84.24, 10.11)	Ø	BIO	ISBT
Energy	Environmental renovation of installations producing electricity from hydropower (NACE codes 35.11, F42.9.1)	CCA	BIO	ISBT
Professional, scientific and technical activities	Close to market research, development and innovation activities (NACE codes M71.12, M71.2, M72.1)	CCM,CCA	WTR,CE, PPC,BIO	PSF
Informaiton and communication	Digital Solutions and Services (NACE codes J61, J62, J63, M71)	Ø	WTR,CE, PPC,BIO	PSF
Manufacturing industry	Chemical Production (NACE code C20)	CCM,CCA	PPC	ISBT
Manufacturing industry	Mining of Lithium, Nickel and Copper (NACE codes B07 and B08)	Ø	CCM	PSF
Manufacturing industry	Manufacturing (smelting and Refining) of Copper (NACE codes C24.44)	Ø	CCM	PSF
Manufacturing industry	Manufacturing (smelting and Refining) of Nickel (NACE codes C24.4.5, C24.10.12.40)	Ø	CCM	PSF
Manufacturing industry	Manufacturing (smelting and Refining) of Lithium (NACE code C24.45)	Ø	CCM	PSF
Textiles	Textiles and clothing (NACE codes C13, C14)	CE	CCM, WTR, PPC	NGO
Food and beverage	Food and beverage manufacturing (NACE codes C10, C11)	CE	BIO	NGO
Services	Distribution and trading (NACE codes G46, G47)	Ø	CCM,CCA	Companies

Table 6: Proposal to add economic activities to the European Taxonomy (source: SF Observatory)

3. Make the EU Taxonomy an effective economic steering tool

3.1. Taxonomy Information: A Tool for Transition Plans

In addition to the substantive elements of the framework we have addressed, the form of taxonomy information from companies also contributes to the difficulty of using it to drive a transition strategy.

> *"The Capex indicator is [...] very useful for confirming the effective integration of the transition into a company's business plan [...], which can help guide our dialogue with issuers more quickly regarding the level of ambition [...], with a maturity level in terms of sectoral coverage that is good for the utilities sector, for example, but still less satisfactory for others."*
>
> **Clémence Humeau**
> AXA Investment Managers (source)

The use of table models is required by regulations but complicates the reading of the reporting due to the volume of data to be produced. The number of tables to be published is significant: 6 models to present alignment indicators, of which 5 must be published both based on revenue (ICP turnover) and based on CAPEX (so 11 tables), in addition to 5 other models related to exposure to nuclear and gas, which must also be published for each indicator based on turnover and CAPEX (up to 33 additional tables).

Whether for companies or financial institutions, taxonomy information is rarely a resource for designing and implementing transition plans.

Regulation (EU) 2021/2178 defines three types of CAPEX that can qualify for alignment[73] :

- CAPEX type (a): Investment expenditures linked to assets or activities aligned with the EU Taxonomy (considered sustainable according to taxonomy criteria).

- CAPEX type (b): Investment expenditures part of a CAPEX plan to extend aligned activities or make existing eligible activities aligned. This type of CAPEX reflects a company's commitment to funding projects aligned with the EU Taxonomy goals over a multi-year period (5 to 10 years).

- CAPEX type (c): Expenditures for «individual measures» that improve the environmental performance of an activity (e.g., thermal insulation of a building, purchasing equipment that reduces greenhouse gas emissions).

[73] Section 1.1.2.2 of Annex I of the Delegated Regulation Article 8

Companies must report CAPEX type (a) expenditures, while CAPEX types (b) and (c) are optional and left to the company's discretion.

According to an AMF report[74], companies mainly report on CAPEX types (a) and (c). The report highlights that few companies have included CAPEX type (b) in their reports, and those that did often failed to provide the required contextual information (e.g., environmental objectives, implementation timelines, intermediate steps).

However, CAPEX type (b) best reflects companies' transition efforts, particularly in the context of growing needs for transition to sustainable activities. Indeed, CAPEX plans indicate medium-term investments for aligning activities with the EU Taxonomy. Transparency from companies on this indicator would allow investors to better understand companies' medium- and long-term business model projections in the context of the ecological crisis and transition.

Proposal 16: Introduce a clear distinction between CAPEX types (a), (b), and (c) in the KPI tables to allow a more precise reading of investment efforts.

Encourage issuers to develop CAPEX plans that clearly indicate the necessary investments for the transition and, where applicable, require companies to justify the absence of CAPEX type (b) in their reports (e.g., analysis in progress, lack of plan, etc.).

This proposal is supported by the recommendations of the AMF[75] and ESMA[76].

For financial actors, the publication of taxonomy information is often done ad hoc, with little clear connection to the rest of the sustainability strategy.

In its December 2024 report on taxonomy reporting by financial institutions, the AMF noted that "the coherence and interconnection of reporting with other information in the annual financial report, such as the strategy or CSR policy of the bank, still needs to be built... However, Annex XI of Delegated Regulation 'Article 8' requires banks to describe the points of compliance of their financial strategy with the Taxonomy Regulation, particularly in terms of product design processes and engagement with clients and counterparties."[77]

In their alignment strategies with environmental goals, financial institutions rarely reference a goal to increase the taxonomy alignment of their financing/investments[78]. This shows that the regulatory framework is not yet seen as an opportunity for private actors to standardize and guide the implementation of their sustainability strategy. Significant gaps between taxonomy ratios and the sustainability results provided by companies or data

[74] Study on Taxonomy Reporting by Listed Non-Financial Companies, AMF, 2023
[75] Study on Taxonomy Reporting by Listed Non-Financial Companies, AMF, 2023
[76] European common enforcement priorities (ECEP), ESMA, 2023
[77] "Study on Taxonomy Reporting by Listed Financial Companies," AMF, December 2024
[78] « EU Taxonomy Reporting 2024 », PwC, 2024

providers do not encourage reliance on the EU Taxonomy framework. For instance, an industrial listed company reports that its internal sustainability analysis classifies 73% of its products as "sustainable" while its taxonomy alignment is less than 20%, and its investors place much more trust in its internal methodology than in the EU Taxonomy calculations.

> *"Establishing a shared baseline of mandatory disclosures for all companies promises to generate reliable data that can support credible decision-making and guide economic transformation in line with societal and environmental needs and goals."*
>
> **A collective of 40+ academic researchers** (source)

Regarding financial products, the use of the EU Taxonomy remains limited, mainly due to the lack of information provided by issuers. According to a Morningstar study[79], in 2023, 31% of "Article 9" (SFDR) funds declared a taxonomy alignment goal between 0% and 10%, and fewer than 10% of «Article 8» funds committed to investing a portion of their assets in assets aligned with the EU Taxonomy.

Nonetheless, there are clear links in the regulations between transition plans and taxonomy information. ESRS E1 16 (e) requires "an explanation of any objective or plan (CapEx, CapEx plans, OpEx) that the company has for aligning its economic activities."

Corporate transition plans, central to the CSRD and CS3D regulations, are the cornerstone of the European framework for energy and ecological transition. It is essential that the EU Taxonomy serves as a tool for the development and monitoring of these plans. The CS3D also states that member states are responsible for overseeing the evaluation of transition plans. Article 22 of Directive (EU) 2024/1760 of June 13, 2024 (Directive on Corporate Sustainability Due Diligence, known as "CS3D") requires that "Member States ensure that companies [subject to the regulations] adopt and implement a transition plan for climate change mitigation that aims to ensure, by deploying all possible efforts, the compatibility of their model and economic strategy with the transition to a sustainable economy and with limiting global warming to 1.5°C in line with the Paris Agreement." [80]

This provision must not only be preserved but reinforced so that it truly drives this issue for national competent authorities. The evaluation of the credibility and robustness of corporate transition plans still largely relies on scattered, unofficial initiatives with varying methodologies that do not cover all companies subject to the regulatory obligation to produce a transition plan. National supervisory authorities, due to their proximity to economic actors, their presence in the territories, and their institutional legitimacy, are well-placed to assume this responsibility, provided it is clearly assigned and supported with resources.

[79] "SFDR Article 8 and Article 9 Funds: Q3 2023 in Review", Morningstar, 2023, quoted in "A compendium of Market Practices", Sustainable Finance Platform, January 2024
[80] Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024

Proposal 17: Preserve and strengthen the responsibility attributed to national supervisors to evaluate the transition plans of companies subject to European regulations in this area, not in form but in substance.

Three factors are critical for the effective implementation of this provision: political intent, the resources allocated to competent authorities, and a common methodological framework. In this regard, the numerous initiatives from international organizations, civil society, and research have reached a level of maturity that was made visible by the ATP-Col working group[81], bringing together, among others, UNFCCC GCAP, GFANZ, UNPRI, CA100+, WRI-SBTi, Climate Bonds Initiative, E3G, UN Climate Action Team, and coordinated by the World Benchmarking Alliance (WBA).

"There is a need for the European economy to provide guidance, to support strategies, or even to monitor, rather than aligning all the players on a single strategy. The authorities must give more importance to the analysis and monitoring of transition plans, while remaining open to their necessary diversity. "

Bertrand de Mazières

The current challenges regarding transition plans mainly concern the adoption of a sectoral approach and the categorization of companies based on the maturity of their transition process. In this regard, the ACT methodology developed by ADEME, covering about fifteen sectors, is particularly relevant. It was adopted by the Banque de France as the base methodology for its "climate indicator" a service offered by the supervisor to companies below the thresholds for CSRD, CS3D, and the Taxonomy regulations, and the pilot phase conducted with 300 companies from 3 sectors (electricity production, transport, and real estate) was successful. The ACT methodology also served as the foundation for an unprecedented assessment of the transition plans of 17 listed European companies in 2024, intended to inform dialogue between shareholders and directors before annual general meetings[82].

"The European framework on sustainability will be complete when the public authority positions itself as an evaluator of transition plans, otherwise it will be the private rating agencies that will take it up and we will see a return to ESG scoring."

Antoine Puglièse, WWF France

Many independent actors have been warning for several years about the need to base "sustainable" financing/investment decisions not on "ESG scores" or data from private providers but on the assessment of the credibility and ambition of companies' public transition plans. The limitations of the EU Taxonomy framework have contributed to the persistence of the "ESG score" approach and ex post measurement of GHG emissions within financial institutions,

[81] Assessing Transition Plans Collective (ATP-Col)
[82] Analyses des Say on Climate, FIR – Forum pour l'Investissement Responsable

which, as Mark Carney argues, raises the risk of "paper decarbonization"[83], while transition plans are the preferred way to address the need he highlights, which is that "finance must go where the emissions are"[84].

Proposal 18: Establish a common orientation on the evaluation of transition plans, based on the work of the ATP-Col coordinated by the WBA[85], with the goal of adopting a common methodology across all member states, leveraging taxonomy information.

3.2. Regulatory stability and confidence of economic actors

> *"Companies have already invested significant resources in preparing for and meeting the new requirements. Predictability is critical to the ability of all actors, including businesses, to make informed decisions."*
>
> **Unilever, Nestlé, Mars, Ferrero, DP World, Primark, IKEA Group, Signify, et al.** (source)

The European Taxonomy is a key tool for ensuring transparency and harmonizing reporting on sustainable economy matters. By defining clear and quantifiable criteria, it helps eliminate declarative information without scientific foundations and ensures the comparability of data disclosed by companies. Its articulation with other regulatory frameworks, such as the CSRD, strengthens the credibility of commitments to ecological transition and mitigates the risk of greenwashing. Therefore, it is essential to preserve the fundamental principles of the EU Taxonomy, which economic operators have begun to embrace, while ensuring its applicability and operational effectiveness.

Proposal 19: As part of the simplification of the EU Taxonomy, preserve the fundamental principles established by Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (eligibility, alignment, technical selection criteria, etc.), while prioritizing an improvement in its applicability.

Focus the simplification work on the revision of the Climate and Environment Delegated Acts, with a particular focus on clarifying and softening the DNSH criteria, to facilitate their use and increase their effectiveness.

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[83] Mark Carney argues that finance needs to go where the emissions are, The Economist, November 2023

[84] Mark Carney argues that finance needs to go where the emissions are, The Economist, November 2023

[85] "Assessing the credibility of a company's transition plan: framework and guidance ", Assessing Transition Plans Collective (ATP-Col), coordinated par World Benchmarking Alliance (WBA) and Columbia Center on Sustainable Investment (CCSI), November 2024

In addition to the elements inherent in the system outlined so far, the political context on the one hand and the relationship between public actors and regulators with the EU Taxonomy on the other hand represent a major obstacle to its effective adoption by economic actors and to its full potential as a structural tool for the European economy.

> *"It takes two to three years of consultations and negotiations, without guaranteeing a result that meets current needs. During this time, companies would remain in uncertainty, which is a much more serious handicap than having a clear framework. Should we remind ourselves that the CSRD timeline is progressive and realistic?"*
> **Laetitia Carle**, member of the bureau of **France digitale** and **Alexis Normand**, member of the governance committee of **Medef** alongside entrepreneurs, academic researchers, and consultants (source)

Indeed, some actors express reluctance to fully comply with sustainable reporting requirements, including the EU Taxonomy, when these may negatively impact their image or strategic position.

In an internal mail revealed by the *Financial Times*[86], Jean-Christophe Laloux, Chief Operating Officer of the European Investment Bank (EIB), expressed strong concerns about the application of the new EU sustainability reporting rules. These requirements include the publication of a key indicator: the Green Asset Ratio (GAR), which aims to measure the proportion of a bank's assets considered sustainable according to the European Green Taxonomy. However, the strict application of this new methodology to the EIB reveals a Green Asset Ratio of about 1%, which is extremely low considering the bank's institutional position as a major player in green financing in Europe. Until now, the EIB had primarily communicated about its "Climate Action Ratio" an indicator based on its own definition of climate investments, and which shows a rate of over 50%. This discrepancy between the standardized indicator imposed by the EU Taxonomy and the one developed by the EIB highlights a major strategic issue: the strict application of new standards could harm the bank's credibility by showing a much lower proportion of assets aligned with European criteria.

The ADEME, which is not subject to the Taxonomy regulation, has taken the initiative to conduct a Taxonomy assessment on 60 projects funded for a total of 334 million euros in grants, spread across 25 economic activities eligible for the EU Taxonomy[87]. The results of these voluntary assessments show that:

- *"The level of complexity of regulations and documents governing certain technical criteria sometimes leads to confusion for the evaluator and an inability to verify whether the regulation is being complied with."*

[86] "EIB fears 'reputational disaster' over revised EU green reporting", Financial Times, January 2025
[87] "Taxonomy Assessment Report" Executive Directorate for Foresight and Research (DEPR), ADEME, March 2023

- *"The lack of a complete life cycle analysis in the taxonomy means that the full list of environmental impacts is not known, thus making it difficult to conduct a robust taxonomy analysis."*
- *"For DNSH criteria related to 3-6, references to overly generic criteria linked to regulations on ecological potential... do not allow for a robust DNSH analysis."*

Nonetheless, *"ADEME remains convinced that the EU Taxonomy is a powerful lever for ecological transition"* and has made the following recommendations:

1. *"Continue the work on the development of technical criteria, prioritizing criteria based on environmental objectives and life cycle analysis;"*
2. *"Strengthen the alignment of the EU Taxonomy with transition plans at the entity level, by complementing the achievement of a performance level at the activity level (via the EU Taxonomy) with the attainment of the entity's environmental objective (via the mandatory transition plan) and a target for reducing GHG emissions in absolute terms;"*
3. *"Implement the extended EU Taxonomy, including harmful activities and intermediate 'transition' activities aimed at exiting harmful activities."*

Thus, the criticisms addressed by private actors to the EU Taxonomy system echo the views of public entities that have engaged in applying European sustainability standards to their own activities, even though they were not required to do so.
This dynamic is part of an evolving regulatory framework where some public initiatives are already subject to sustainability requirements, including certain principles of the EU Taxonomy.

"If the EU moves ahead with its deregulatory agenda, it risks losing one of its most valuable assets. For years, effective regulation has driven economic and social progress and bolstered the bloc's global influence. Massive deregulation could prove to be a self-inflicted debacle that impedes the EU's ability to protect Europeans and severely undermine what remains of its credibility as a rule-maker."

Alberto Alemanno
Professor of EU Law at HEC Paris and Democracy Fellow at Harvard University's Ash Center for Democratic Governance and Innovation (source)

Illustration

This requirement is illustrated through Regulation (EU) 2021/241, which establishes the **Recovery and Resilience Facility** (RRF), a key instrument in the Next Generation EU recovery plan launched in 2020. Designed both to support economic recovery after the COVID-19 pandemic and to prepare Europe for the challenges of ecological and digital transitions, this plan is based on a conditional financing framework. The RRF is an instrument for granting subsidies and loans to support reforms and investments in EU Member States, subject to compliance with certain environmental criteria. In particular, national recovery and resilience plans must comply with the Do No Significant Harm (DNSH) principle, which prohibits any financing of measures that harm environmental objectives set out in Regulation (EU) 2020/852 on the EU Taxonomy.

An official communication providing technical guidance on the application of Regulation (EU) 2021/241, which establishes the Recovery and Resilience Facility[88], the European Commission states:

> *"The regulation establishing the Recovery and Resilience Facility (hereinafter the 'facility regulation') provides that no measure included in a Recovery and Resilience Plan (RRP) may cause significant harm to the environmental objectives as defined in Article 17 of the Taxonomy Regulation."*

It should be noted, however, that this requirement, like what we have been able to say about the technical requirements of the EU Taxonomy, is formulated in a language that is not very precise, leaving a lot of room for interpretation by taxable people.

Proposal 20: Condition public funding and budgetary assistance on a progressive taxonomy analysis, starting with a minimum eligibility requirement and alignment objective – to broaden the scope of eco-conditionality.

Proposal 21: When redesigning and simplifying the EU Taxonomy, draw on the experience of public-sector players who have carried out taxonomy analyses of their own activities, and ensure that the revision process will enable public-sector players to apply the EU Taxonomy effectively.

3.3. Structuring the Governance of the EU Taxonomy

The governance of the European Taxonomy largely relies on an evolving framework characterized by a high degree of centralization in decision-making and a multiplicity of clarifications provided in the form of frequently asked questions (FAQs). This operational mode has several limitations. First, the decision-making process appears opaque and vertical. The Platform on Sustainable Finance, which plays a key role in the development and interpretation of the EU Taxonomy criteria, operates in a relatively closed manner, with limited involvement of stakeholders in shaping the guidelines. Decisions and clarifications often seem to stem from a non-transparent process, which undermines their acceptability by economic actors.

> *"[The taxonomy] was supposed to be a long term macro-economic growth investment, and it is now seen as a short-term cost. [...] To throw out the baby of the taxonomy out with the bath water of the broader review would be a great shame".*
>
> **Steve Waygood**
> Chief sustainable finance officer
> at Aviva Investors (source)

For the definition of the European Sustainability Reporting Standards (ESRS), EFRAG has established a more organized

[88] Technical Guidelines on the Application of the "Do No Significant Harm" Principle under the Regulation Establishing a Facility for Recovery and Resilience, European Commission, 2021

governance structure, including regular public consultations and committees involving supervisory authorities and stakeholders. A similar approach could be adopted by the EU Taxonomy to ensure greater transparency and participation of the actors concerned. This more open structure would guarantee a more effective adoption of the rules, and a better understanding of the requirements imposed on businesses.

Proposal 22: Draw inspiration from the governance of the ESRS managed by EFRAG to structure the governance of the Taxonomy, starting with its simplification process.

The European Commission's FAQs are not consolidated into a single source, creating complexity and a lack of visibility for both financial and non-financial companies seeking to comply with the EU Taxonomy's requirements. This communication method does not ensure a consistent and unified understanding of regulatory requirements.

To improve the governance of the EU Taxonomy and strengthen its readability, it is essential to clarify and structure the existing processes.

Proposal 23: Consolidate the FAQs into a single, centralized source, which could be integrated with the "*Taxonomy Compass*" ensuring better accessibility and consistency in the application guidelines.

Another point of concern is the role of national supervisors. While the implementation of the EU Taxonomy requires consistent application across Member States, their role in supporting obligated entities and interpreting the regulations remains unclear. This situation can contribute to divergent applications and uncertainties among economic actors regarding their accountability.

Enhanced coordination between European bodies and national authorities would help ensure regulatory coherence and avoid interpretation discrepancies that could undermine the EU Taxonomy's effectiveness.

Proposal 24: Clarify the role of national supervisors, in particular about their mission of supporting companies and interpreting regulatory texts, as well as the role of European regulatory agencies in defining the margins of action left to national regulators.

Conclusion

The European Taxonomy provides an essential foundation for the transition to a sustainable European economy, providing a common reference framework to channel capital towards activities compatible with climate and environmental objectives. While it represents a significant normative advance, its appropriation remains uneven and its potential still partially realized, hampered by difficulties and shortcomings of various kinds such as the complexity of reporting and access to common information hinder its effectiveness. The revision proposed by the European Commission as part of the Omnibus Directive could reduce the scope of the EU Taxonomy, thus undermining its key role in sustainable finance. However, a pragmatic compromise seems possible, making it possible to simplify the requirements while preserving climate ambition. By reconciling economic competitiveness and ecological strategy, it is essential to continue the evolution of the EU Taxonomy to make it a real lever for transition for European companies and financial players.

This note has highlighted the need and the possibility of a balanced adjustment of the scheme, reconciling simplification for companies and maintaining environmental ambition for the European economy. She proposed concrete ways in this direction, based on the experience gained from various stakeholders, public institutions, NGOs, financial institutions and companies.

In its response of 25/03/2025 to the Commission's public consultation on the Omnibus Regulation[89], the SF Observatory raised overarching questions about the legislative process itself. This note, by providing a coherent set of proposals for the simplification of the EU Taxonomy, intends to contribute to an enlightened dialogue that respects the time and rigour that such a work of simplification of European regulations requires.

When the renewed foundations of an effective taxonomic framework are established, it will be possible to explore the conditions for a broadening of the taxonomic framework, by considering mechanisms better adapted to support the transition, a possible classification of activities incompatible with climate objectives, as well as a convergence of taxonomic frameworks at the international level. These developments would be likely to strengthen the coherence, legibility and impact of the European framework in a global landscape lacking stability about the response to the climate crisis.

> *"The European Taxonomy has the potential to become a tool for companies' alignment trajectories. Without changing the regulation but by unblocking its application, the EU Taxonomy can become dynamic and forward-looking. "*
>
> **Mathieu Salel**,
> EcoAct (Schneider Electric)

[89] Taxonomy Delegated Acts – amendments to make reporting simpler and more cost-effective for companies

Annex: SF Observatory's response to the Commission's consultation on the Omnibus Regulation amending the Taxonomy's delegated acts

March 24, 2025[90]

Author: David Cooke

The Commissions initial announcements accompanying the omnibus package promised to achieve simplification without compromising the ambition in the European Green Deal. We are concerned that the Commissions failure to adhere to its own Better Regulation Guidelines has led to a draft taxonomy act which critically damages the integrity of the sustainable finance framework and its ability to help reorient finance in support of the Green Deal.

The Sustainable Finance Observatory (formerly 2° Investing Initiative) recognises the need to simplify the sustainable finance framework. We support initiatives to review legislation, remove duplication or redundant data requirements, assist with ease of reporting, and enhance usability of sustainability information. But the draft taxonomy act does not reflect any of these aspects we would expect for a simplification drive. Instead, it seems rushed and symptomatic of an ideological approach that has not followed procedural norms for policy making.

We are concerned that the Commissions activities in relation to this draft taxonomy act (as part of the broader omnibus package) do not comply with the Better Regulation Guidelines. These emphasise the need for evidence-informed policymaking, a strong approach to stakeholder consultation, burden reduction and analysis of key impacts, and integration of strategic foresight. In particular:

- The Guidelines require an impact assessment for initiatives that are likely to have significant economic, environmental or social impacts or which entail significant spending, and where the Commission has a choice of policy options. Both criteria are satisfied in the context of the omnibus package, yet evidence of any impact assessment in SWD(2025)80 accompanying the omnibus package is scant. What analysis there is appears primarily based on an assessment of cost savings with zero analysis of how the proposals may undermine achieving the Green Deal objectives.

[90] Taxonomy Delegated Acts – amendments to make reporting simpler and more cost-effective for companies - Feedback and statistics: Draft delegated regulation

- The Guidelines require stakeholder consultation where relations with stakeholders should be governed by four principles: participation, openness and accountability, effectiveness and coherence. We question whether the stakeholder consultation which the Commission conducted prior to publishing the omnibus package complies with these principles. Indeed, the non-public and non-transparent closed doors consultation hosted by the Commission in early February prior to publication seems an egregious example of non-compliance.

These examples raise significant concerns about if the proposal should be considered evidence-informed, with the requisite analysis of key impacts and the integration of strategic foresight as required by the Better Regulation Guidelines.

On the content we consider that the draft taxonomy act does not contribute to a simplification objective and is not an adequate response to the many stakeholders from inside and outside the finance sector that have requested clarification on key aspects to improve reporting quality and completeness. The introduction of the *de minimis* requirement (together with other proposals in the omnibus package) simply creates a gap in data coverage - but there is no analysis of the implications of what this gap means for achieving the Green Deal objectives. There is no analysis of the section of the economy which is excluded from the requirement to provide data or how important this section of the economy is for achieving the Green Deal objectives.

In the context of the critical need to reorient capital flows into sustainable investment and to monitor these capital flows to assess progress towards the Green Deal objectives, the Commission should provide - and the Parliament should demand - better justification for the proposed amendments in the draft taxonomy act.

The Sustainable Finance Observatory has provided proposals to simplify the taxonomy (available on our website) while unlocking its potential as a tool for transforming the European economy.

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