D-10: Analysis of Reporting and Disclosure Standards for the Application of Taxonomies

July 2023

PREPARATION OF GUIDELINES FOR REPORTING AND IDENTIFICATION OF USERS AND BENEFICIARIES OF GREEN TAXONOMY IN TÜRKIYE

REPUBLIC OF TÜRKİYE MINISTRY OF ENVIRONMENT, URBANIZATION AND CLIMATE CHANGE
DIRECTORATE of CLIMATE CHANGE

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Acronym	Definition
ABM	Association of Banks of Mexico
AMAFORE	Mexican Association of Retirement Savings Fund Administrators
AMAI	Mexican Association of Investment Advisors
AMIB	Mexican Association of Stock Market Institutions
AMIS	Mexican Association of Insurance Institutions
ASEAN	Association of Southeast Asian Nations
ASISA	The Association for Saving and Investment South Africa
AuM	Asset under Management
BASA	The Banking Association of South Africa
BEIS	Department for Business, Energy and Industrial Strategy
BPS	Badan Pusat Statistik-Statistics Indonesia
BTAR	Banking Book Taxonomy Alignment Ratio
BUSA	Business Unity South Africa
CapEx	Capital expenditures
CBD	Convention on Biodiversity
CBI	Climate Bonds Initiative
CBRC	China Banking Regulatory Commission
CCA	Climate Change Adaptation.
CCM	Climate Change Mitigation
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
CEAT	Corporate Environmental Action Tracker
CESF	Council for the Stability of the Financial System
CET	Technical Evaluation Criteria
CFO	Chief Financial Officer
CMFS	Mexican Council of Sustainable Finance
CNBV	Mexico- National Banking and Securities Commission
CNSF	Mexico - National Insurance and Bonding Commission
CONSAR	National Commission of the Retirement Savings System
COP26	UN Climate Change Conference in Glasgow
CRR	Capital Requirements Regulation
CSRC	Chinese Securities Regulatory Commission
CSRD	Corporate Sustainability Reporting Directive
DEA	Department of Environment Affairs
DFFE	South Africa's Department of Forestry, Fisheries and the Environment
DNSH	Do no significant harm

DoCC	Directorate of Climate Change
DPME	Department of Monitoring and Evaluation
EBA	The European Banking Authority
EFRAG	European Financial Reporting Advisory Group
EIOPA	Occupational Pensions Authority
ESDM	Indonesia - Ministry of Energy and Mineral Resources
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
EU	European Union
FA	Financial Advisors
FCDO	Foreign, Commonwealth and Development Office
FDI	Foreign Direct Investment
FMP	Financial Market Participant
FSB	Financial Stability Board
FSCA	Financial Sector Conduct Authority
FSI	Financial Services Industry
FSS	Financial Sector Surveillance
G20	Group of 20
GAAP	General Accepted Accounting Principles
GAR	Green Asset Ratio
GBP	Green Bond Principles
GDP	Gross Domestic Product
GHG	Greenhouse gas
GKKT	Integrate Financial Services Sector Policy Group
GRI	Global Reporting Initiative
GTT	Mexico - The Sustainable Taxonomy Working Group
HfT	High-frequency trading
HLEG	High-Level Expert Group
IEA	International Energy Agency
IFC	International Finance Corporation
IFRS S1	International Financial Reporting Standards- Standard 1
IFRS S2	International Financial Reporting Standards- Standard 2
IIRC	International Integrated Reporting Council
IOSCO	Financial Stability Board and the International Organization of Securities Commissions
IPAB	Mexico - Institute for the Protection of Bank Savings
IPCC	Intergovernmental Panel on Climate Change
IPSF	International Platform on Sustainable Finance
IR	International Integrated Reporting Framework
ISIC	International Standard Industrial Classification
ISSB	International Sustainability Standards Board ·
JSE	The Johannesburg Stock Exchange

KKP	Indonesia - Ministry of Marine Affairs and Fisheries
KLHK	Indonesia - Ministry of Environment and Forestry
KPI	Key Performance Indicator
NACE	Nomenclature des Activités Économiques dans la Communauté Européenne
NAFMII	National Association of Financial Market Institutional Investors
NBFI	Non-Bank Financial Industry
NBI	National Business Initiative
NDC	Nationally Determined Contributions
NDRC	National Development and Reform Commission
NDRC	National Development and Reform Commission
NFRD	The Non-Financial Reporting Directive
non-NFRD	Non-Financial Reporting Directive
OECD	Organisation for Economic Co-operation and Development
OJK	Indonesian Financial Services Authority
OPEX	Operating Expenditure
PA	Prudential Authority
PBOC	People's Bank of China
PRB	Principles for Responsible Banking
PRB	Principles for Responsible Banking
PUPR	Indonesia - Ministry of Public Works and Housing
SA GFT	South Africa's Green Finance Taxonomy
SAIA	The South African Insurance Association
SASB	Sustainability Accounting Standards Board
SEC	The Securities and Exchange Commission
SCIAN	North American Industrial Classification System
SDG	Sustainable Development Goals
SECO	Swiss State Secretariat for Economic Affairs
SFC	Sustainable Finance Committee
SFDR	The Sustainable Finance Disclosure Regulation
SHCP	Mexico - The Ministry of Finance and Public Credit
SIDA	Swedish International Development Cooperation Agency
TCFD	Task Force on Climate-Related Financial Disclosures
TCFD	Task Force on Climate-Related Financial Disclosures
TCFD	Task Force on Climate-Related Financial Disclosure
TEG	Technical Expert Group
TFND	Task Force on Nature-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosures
UN	United Nations
UN PRI	UN Principles for Responsible Investment
UNCCD	United Nations Convention to Combat Desertification
UNDP	United Nations Development Program
UNEPFI	United Nations Environment Programme Finance Initiative

UNFCCC	United Nations Framework Convention on Climate Change
UNGC	United Nations Global Compact
VRF	Value Reporting Foundation
WEF	World Economic Forum

EXECUTIVE SUMMARY

Taxonomy-related reporting is an important pillar of sustainable finance regulations. It is a formal channel through which all stakeholders (consumers, investors, supply-chain partners, shareholders, employees, regulators etc.) have access to a corporate's activities in relation to what the taxonomy defines as "green" in a given jurisdiction. Accordingly, this helps market participants make informed decisions about sustainable investment and finance.

In this context, this report examines the six taxonomy cases, which have been analysed in Task 1 "Review of Green Taxonomies with a Focus on Relevant Issues to Türkiye" report, – namely the EU, China, Indonesia, Mexico, South Korea, and South Africa. It analyses their reporting requirements. Among the green taxonomies across the jurisdictions studied, the EU has the most extensive and comprehensive reporting requirements that apply to entities that operate in both finance and non-finance sectors. Hence, this report pays particular attention to the details of the EU reporting requirements.

The report also examines some global examples of financial and non-financial reporting standards. These standards– that set an example to national reporting standards - include **the Sustainability Accounting Standards Board, International Financial Reporting Standards (IFRS), Sustainability Disclosure Standards, Global Reporting Initiative (GRI), Sustainability Reporting, Task Force on Climate-Related Financial Disclosures (TCFD)**. Through the analysis of various global reporting and disclosure standards, this report offers insights from the perspectives of regulators and users, aiming to inform Turkish regulators in their efforts to develop a national green taxonomy.

The report also discusses potential difficulties that entities, which are required to report, face in complying with reporting and disclosure requirements. In light of the observed experiences of businesses, macro and micro-level capacity needs are identified, with takeaway messages for policymakers in Türkiye so that their efforts in developing reporting standards are informed so as to ensure to minimize risks and maximize opportunities for financial and non-financial corporates.

Key Insights from Section-1:

The first section of the report describes the six jurisdictions in relation to their reporting requirements. Each jurisdiction is adopting different approaches to the reporting aspect of taxonomies. The EU has the most advanced reporting requirements, which are already implemented. China's reporting requirements operate in relation to financial services and products, such as green bonds and credits. South Korea's taxonomy **primarily applies to bonds on a voluntary basis. It does not require corporates to report against the green taxonomy.** Indonesia, Mexico, and South Africa have established voluntary reporting in relation to their taxonomies without strict reporting requirements.

EU Green Taxonomy

Since the EU has the most comprehensive reporting requirements, which also apply to some of Türkiye's largest corporates, this report describes the details of the EU regulation processes that define its reporting requirements.

The EU's regulation on green taxonomy operates in accordance with its general principles of its legislative processes: "**Regulations**", "**Directives**" and '**Delegated Acts'**. It provides the timeline and scope of all significant regulations that are related to green taxonomy.

At an early stage, the EU Green Taxonomy prioritized disclosure requirements on **climate change mitigation and adaptation** (among the six environmental goals) at the initial phase of the taxonomy development process. Hence it has developed its technical screening criteria for these two objectives first, which were defined by the Taxonomy Regulation and the EU Taxonomy Climate Delegated act **(EU) 2021/2139**[1] which defines the scope of the disclosure requirements.

In June 2023, the Commission launched a new package of measures to build on and strengthen the foundations of the EU sustainable finance framework.[2] It approved a new set of EU Taxonomy criteria for economic activities making a substantial contribution to one or more of the non-climate environmental objectives, namely:

- sustainable use and protection of water and marine resources,
- transition to a circular economy,
- pollution prevention and control,
- protection and restoration of biodiversity and ecosystems.

With the inclusion of more economic activities covering all six environmental objectives, and consequently more economic sectors and companies, the Commission aims to increase the usability and the potential of the EU Taxonomy in scaling up sustainable investments in the EU. As part of the gradual approach, large entities were asked to provide **"eligibility reporting"** in the first year of reporting which would then serve to help undertakings prepare for their "alignment disclosures.". Hence, in their annual reports, entities need to provide information as to what extent their activities are covered by the EU Taxonomy (**taxonomy-eligibility**) and comply with the technical screening criteria set in the Taxonomy delegated acts (**taxonomy-alignment**).

The EU taxonomy disclosures must be based on the reporting entity's share of businesses, investments or lending activities that are aligned with the Taxonomy Regulation (EU) **2020/852** with three specific key performance indicators (KPIs). (i) **turnover (ii) capital expenditure (CapEx) and (iii) operational expenditure (OpEx)**.

Reporting requirements first targeted large undertakings that are public-interest entities with an average number of employees in **excess of 500,** and to public-interest entities that are parent undertakings of a large group with an average number of employees in excess of 500 on a consolidated basis.[3]

Other taxonomies: Several countries are aligning their taxonomies with global standards. While jurisdictions in Asia (South Korea and Indonesia in our case study group) follow developments in China and regional taxonomies (e.g., Asean taxonomy) Countries in Latin America and Africa follow developments in the EU. South Africa, for instance, designed its Green Finance Taxonomy to align with

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139

[2] https://finance.ec.europa.eu/publications/sustainable-finance-package-2023_en

[3] https://finance.ec.europa.eu/news/sustainable-finance-guidance-reporting-under-taxonomy-2022-12-20_en

the EU's structure and principles, taking into account its close trade and investment ties with the EU. Given the importance of the trade and investment channels with the EU markets for Türkiye, we recommend that Türkiye may closely follow reporting requirements of the EU green taxonomy.

Key Insights from Section-2:

Section 2 elaborates on International Reporting and Disclosure Standards, offering a distinct definition of sustainability and reporting. The section also provides an overview of reporting standards with a focus of commonly used ones and conduct a basic analysis with examples of sustainability reporting in relation to green taxonomies, along with recent trends and events concerning the consolidation of reporting and disclosure standards.

- There are several internationally recognised sustainability reporting and disclosure standards and frameworks. Most of them do not require or reference the application of green taxonomies.
- In the case of national or regional reporting standards, reporting green taxonomy alignment might be required, as highlighted in the previous section on the EU's ESRS, CSRD, and SFRD. Currently, reporting of taxonomy alignment and sustainability reporting is treated independently.
- Sustainability reporting requirements are still evolving and optimizing. The lack of standardization and interoperability between reporting standards poses a significant challenge for global financial institutions, affecting businesses seeking investment. Though consolidation is underway and inevitable, it might take several years to materialize.
- Despite the differences, there is a global push towards harmonizing green taxonomies to promote global collaboration and coherence in green and sustainable finance.
- Green Taxonomy alignment reporting is treated separately but may be integrated into sustainability disclosure, even though there is no obligation to do so, nor any mandatory or preferred templates prescribed by International Sustainability Disclosure and Reporting standards.
- There is not a universally recognised single framework of sustainability reporting. Multiple frameworks exist to cater to different organizational needs. Around 80% of listed companies work with at least one sustainability reporting standard, with the Global Reporting Initiative (GRI) being the most dominant worldwide. However, some regions show a clear preference for the Sustainability Accounting Standards Board (SASB) or local stock exchange guidelines. As SASB states, companies can use different frameworks and standards as building blocks to tailor disclosure systems according to their stakeholders' unique requirements.
- Banks and financial institutions often adopt a combination of sustainability reporting standards, such as the Global Reporting Initiative (GRI) and the Task Force on Climate-Related Financial Disclosures (TCFD), to address their specific needs and comply with industry-specific requirements. Although TCFD is not a traditional sustainability reporting standard, it offers specific guidance for financial institutions in assessing and disclosing climate-related risks and exposures, low-carbon transition efforts, and opportunities in their operations, portfolios, and investment activities.

Key Insights from Section-3:

Section 3 focuses on the potential issues faced by banks and corporates in climate-related reporting. The various challenges that entities from both financial services and non-financial sectors encounter in relation to reporting requirements were identified during the stakeholder workshop held in Ankara, on 25 May 2023. The identified challenges are also harmonized with key findings of the technical visit that took place between 1-5 May 2023 in Paris.

- **Data Availability and Quality**: Reporting aligned with the taxonomy objectives requires comprehensive, accurate data across a wide range of variables. Entities encounter data gaps and issues with obtaining data from suppliers or subsidiaries, which complicates their reporting.
- **Data-Related Challenges for Financial Service Providers**: They must gather information about the taxonomy alignment of their investees, sometimes encompassing thousands of entities. Quality and consistency of data from third-party providers are concerns.
- **Alignment Issue for Non-EU Assets**: Lack of regulatory alignment with other taxonomies presents challenges when dealing with information and data about non-EU based assets.
- **A Dedicated GHG Emissions Data Platform**: Such a platform could consolidate and standardize GHG data, enhancing the ability to monitor and report emissions accurately.
- **Complexity of Global Supply Chains**: Large-scale corporates often lack full traceability of their value chains, which poses a challenge for supply-chain level reporting requirements.
- **Regulatory Fragmentation**: Entities operating in multiple jurisdictions face varied reporting requirements, leading to high compliance costs and mixed market signals.
- **Multiple Reporting Standards**: Choosing a reporting framework could be difficult due to the absence of globally recognized reporting standards.
- **Operational Challenges**: Integrating green taxonomies into existing operations can be demanding, requiring investment in human capital and significant adjustments to processes and organizational structures.
- **Guidance Needs**: Entities require substantial practical and interpretive guidance from regulators, especially regarding taxonomy reporting.
- **Dynamic Challenges**: Rapidly evolving markets and regulatory environments demand agility from banks and corporates to stay in line with changing requirements and expectations.
- **Capacity development needs for banks and corporates:** Financial and non-financial entities need to invest in capacity development for their data management to be able to comply with reporting requirements. Some of these entities operate in multiple jurisdictions, hence they need to monitor and comply with reporting requirements in other jurisdictions too.

Key Insights from Section-4:

Finally, Section 4 lays out key recommendations for improving the state of taxonomy-aligned reporting in Türkiye. It outlines several areas where macro and micro-level capacity development can be enhanced, thus improving the overall effectiveness and efficiency of Türkiye's green taxonomy implementation.

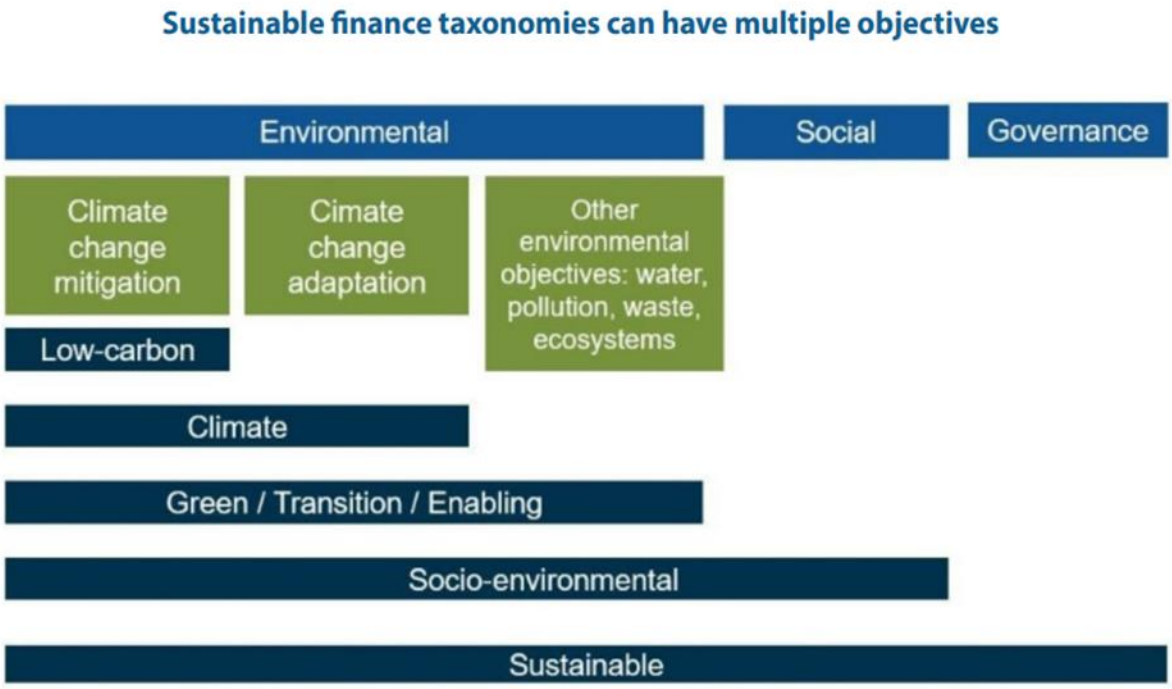
- **Green Finance Strategy at the Macro-Economic Level**: Türkiye could develop a sustainable finance strategy in line with its net-zero targets and SDGs. The strategy should identify financial needs, investment gaps, and include specific roles and responsibilities for public agencies.

- **Science-Based Transition Pathway for High Emitting Sectors**: Türkiye could establish science-based transition pathways for its high-emission sectors. These should align with Türkiye's net-zero targets.
- **Türkiye's Green Taxonomy as the Fundamental Pillar**: Positioning the green taxonomy as the fundamental pillar of Türkiye's sustainable finance regulation is essential. The green taxonomy could guide other regulations, making it the central focus of Türkiye's green transition.
- **Single Sustainability Reporting:** Türkiye might find it beneficial to develop a single, comprehensive reporting framework, making the compliance process more straightforward for reporting entities
- **Clearly staged simple reporting timeline:** Türkiye may consider applying a simple reporting timeframe for corporates. A simple-layered timeline to cover the pre-defined universe of entities would be sufficient. Türkiye may also adopt the same timeline for both domestic and foreign entities operating in its jurisdiction.
- **Public Institutional Capacity Development on Data Management**: Türkiye could develop its public-sector data capabilities. This includes regulation and oversight of ESG data providers and possibly establishing a Taxonomy Data Steering Committee.
- **Institutional Capacity Building in Regulatory Oversight**: Türkiye could work towards improving its capacity for regulatory oversight, to avoid "greenwashing" and ensure compliance with taxonomy reporting.
- **Accreditation for Auditors:** Türkiye could establish accreditation standards for auditors to enforce the mandatory audit requirements of its green taxonomy.
- **Capacity Development to Support Green Projects**: Türkiye could launch a database of priority taxonomy-aligned projects and host meetings for potential investors to channel investment into these projects.
- **SME Capacity Development for Reporting**: Supporting SMEs is of paramount importance. Türkiye could invest in capacity development and awareness among SMEs to help them unlock their potential to access green finance.
- **Capacity in Developing Human Resources in Government Agencies**: Türkiye could invest in human resources development in relation to its green taxonomy, providing training to teams in government agencies.

INTRODUCTION

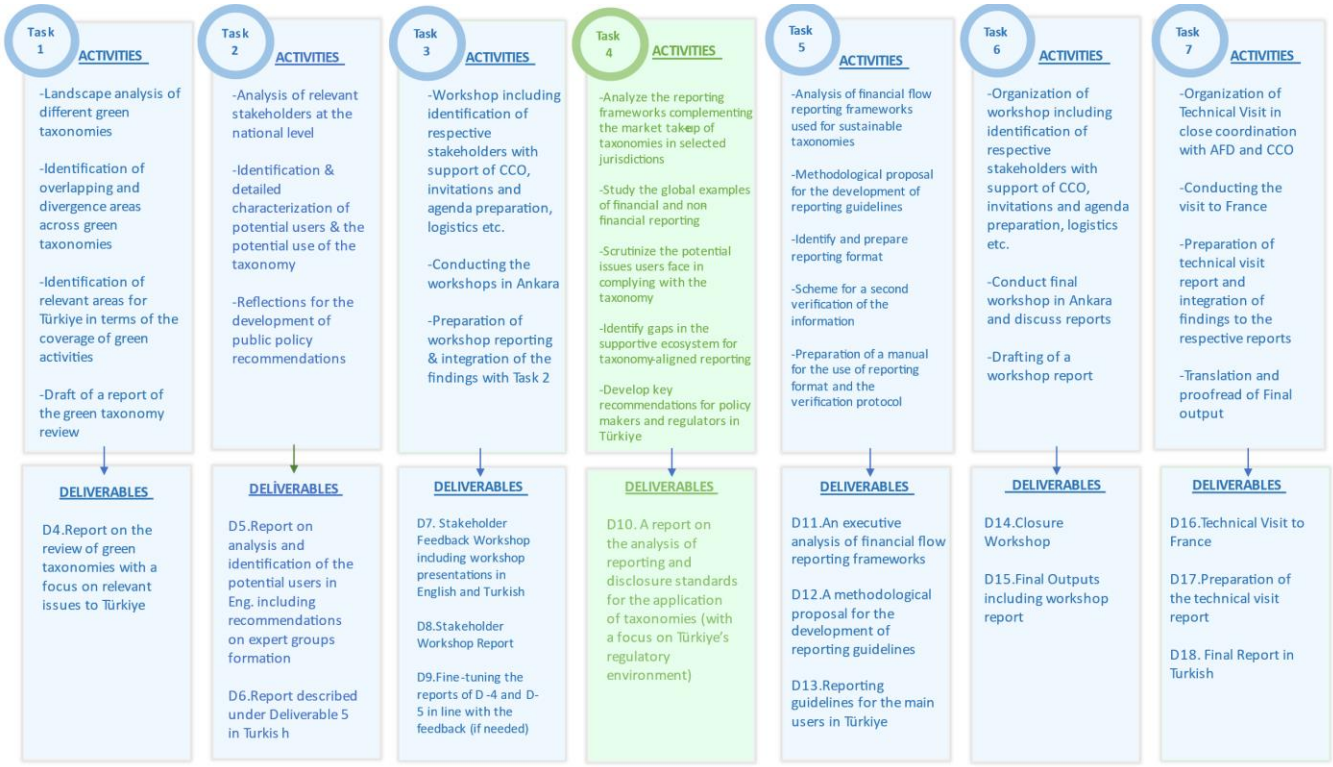
"Preparation of guidelines for reporting and identification of users and beneficiaries of green taxonomy in Türkiye" project aims to strengthen the technical capacity of the public and private institutions to establish green taxonomy schemes for Türkiye. A green taxonomy refers to a system or framework that classifies economic activities and investments based on their contribution to environmental and social objectives, while a sustainable taxonomy considers a comprehensive set of criteria to evaluate the sustainability of economic activities (Please see Figure 1). It typically has a broader scope and covers a wider range of sustainability factors beyond just environmental considerations It is designed to provide a standardized methodology for determining whether an economic activity is sustainable or "green".

Figure 1 Sustainable Finance Taxonomy Objectives - Source: Developing Sustainable Finance Definitions and Taxonomies by OECD



Within the scope this project, the specific objectives are 1) to provide an analysis of the **global examples** where successful green taxonomy has been developed; 2) to carry out **analysis and identification of the potential users of the green taxonomy** in the financial system, as well as the expected benefits of it in each relevant market; 3) to develop a proposal for **reporting guidelines for the green taxonomy**; 4) to develop a proposal for the **institutional set-up of the technical expert group.**

Figure 2 List of Project Activities and Deliverables



The overview of project tasks with respective activities and deliverables is listed in the Figure 2 above. The report is part of **TASK - 4** and comprises the tenth deliverable of the project.

This report contains the following main sections:

- Overview of **global examples of financial and non-financial reporting standards** that underpin the application of green taxonomies in the selected jurisdictions namely; the EU, China, South Africa, Indonesia, South Korea, and Mexico. (Section 1)
- **International reporting and disclosure standards** section distinctively covers international reporting standards based on the works of The Sustainability Accounting Standards Board, International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards, Global Reporting Initiative (GRI) Sustainability Reporting, Task Force on Climate-Related Financial Disclosures (TCFD)). (Section 2)
- The report also identifies **the potential issues that banks and corporates face in relation to reporting requirements**. (Section 3)
- The last section explores **gaps in the supportive ecosystem for taxonomy-aligned reporting and provides key takeaways for Turkish regulators.** (Section 4)

GLOBAL EXAMPLES OF FINANCIAL AND NON-FINANCIAL REPORTING STANDARDS THAT UNDERPIN THE APPLICATION OF NATIONAL TAXONOMIES IN NATIONAL JURISDICTIONS

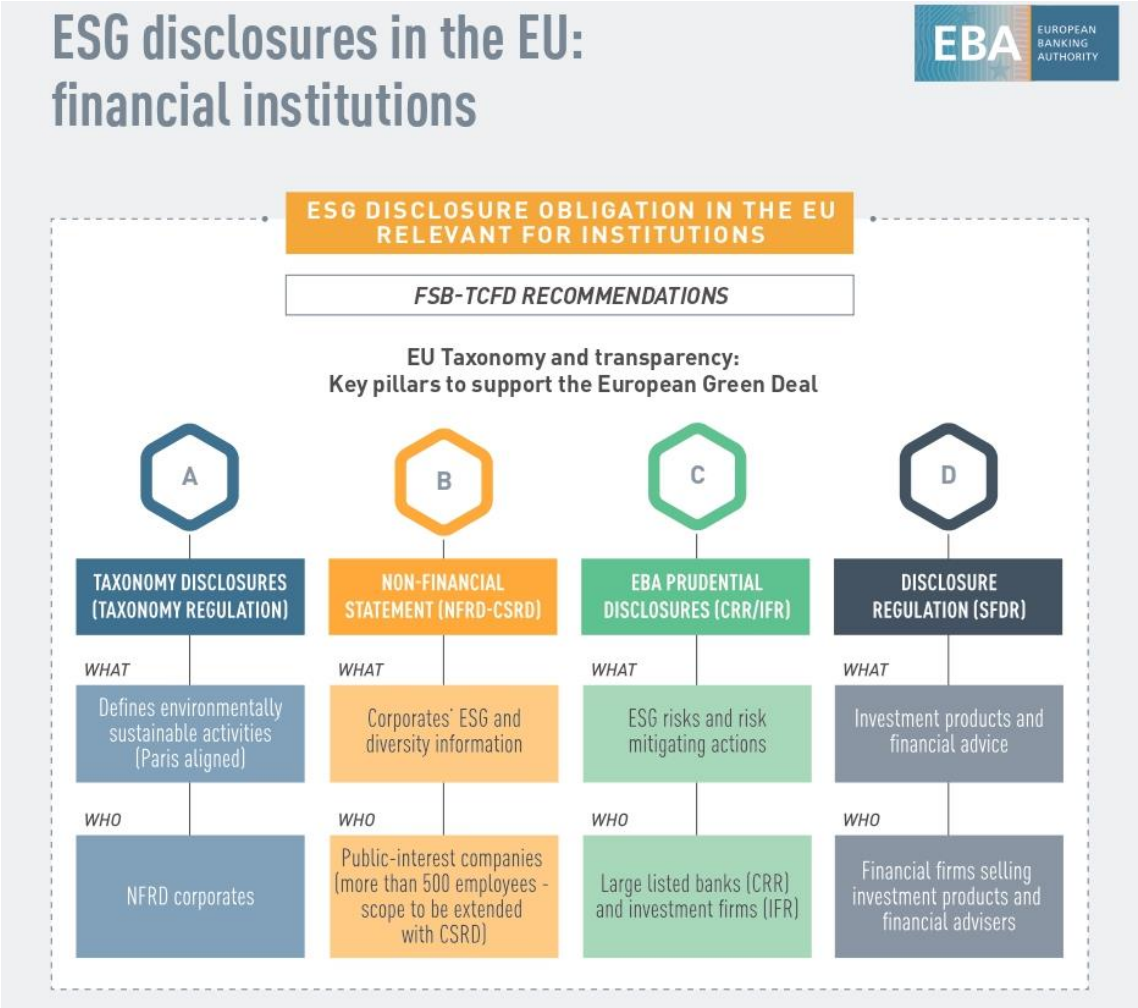
This section examines the six taxonomy cases in relation to their reporting requirements. Among the green taxonomies across jurisdictions, **the EU has the most extensive and comprehensive reporting requirements that apply to entities that operate in both finance and non-finance sectors**. Hence, particular attention is paid to the details of the EU reporting requirements (see the next section).

1.1 EU GREEN TAXONOMY

The EU's green taxonomy reporting requirements operate in a broader set of corporate sustainability reporting requirements and sustainable finance disclosure regulations (see Figure 3 below). As part of the evolving ecosystem of regulation, as of June 2023, new components have been added to the reporting requirements of the EU green taxonomy. This section elaborates on the EU's taxonomy reporting requirements, by setting out its regulatory framework, its scope - both in terms of coverage of the environmental objectives and entities that are required to report – and its timeline for implementation.

The first part of the analysis covers the reporting requirements launched before 2023. It may inform Türkiye's initial setup of reporting requirements for its own taxonomy. **The second part of the analysis covers the EU's reporting requirements that were launched in June 2023**, which add additional environmental objectives and a related timeline for reporting purposes. The second part of the analysis may inform Türkiye in relation to the later phases of its taxonomy implementation.

Figure 3 Key Pillars of the EU's Sustainability Reporting Regulation-Source: The European Banking Authority, 2021



1.1.1 EU Regulatory Framework

The EU's regulation on green taxonomy operates in accordance with its general principles of its legislative processes:

- "**Regulations**" which are binding legislative acts. They must be applied in their entirety across the EU. For example, the EU taxonomy is a regulation.
- "**Directives**" which are legislative acts that set out a goal that all EU countries must achieve. However, it is up to the individual countries to devise their own laws on how to reach these goals. For example, the EU's 2013 legislation on corporate sustainability reporting is a directive.
- In terms of the **execution and the implementation of legislations**, the European Commission adopts '**delegated acts'**, which are non-legislative acts adopted that serve to amend or supplement the non-essential elements of the legislation. Subject to strict conditions and revocation provisions (by the Parliament and the Council), **delegated acts** are used, typically, when legislative acts are adapted to take account of technical and scientific requirements and

processes. There have been several "delegated acts/regulations" adopted by the Commission to cover various aspects of the **execution of the green taxonomy legislation**.

1.1.2 EU Taxonomy Regulation in Chronological Order

The following section covers **the background regulations, directives and delegated acts that are relevant to the EU green taxonomy and its implementation.** Since there are cross-references, amendments and additions amongst different pieces of legislation, we provide color-coded cross-references and direct links to official documents. **It is important to follow the regulation based on the chronological order**, hence we provide information formatted according to **years/numbers (see the Figure 4)**.

The Taxonomy Regulation **(EU) 2020/852**[4] was published in the Official Journal of the European Union on 22 June 2020 and entered into force on 12 July 2020. It establishes the basis for the EU taxonomy by setting out 4 overarching conditions that an economic activity must meet in order to qualify as environmentally sustainable.

The Taxonomy Regulation establishes six climate and environmental objectives (also covered by the Task 1 report of this project - the Review of Green Taxonomies with a Focus on Relevant Issues to Türkiye):

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Water, soil and air pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

Different means can be required for an activity to make a substantial contribution to each objective.

Under the Taxonomy Regulation (EU) 2020/852, the Commission has developed the actual list of environmentally sustainable activities **by defining technical screening criteria for each environmental objective through delegated and implementing acts**.

The EU's reporting obligations are defined in detail by the Commission's Disclosures Delegated Act **(EU) 2021/2178**[5] under **Article 8** of the Taxonomy Regulation **(EU) 2020/852**. Under Article 8(1) of the Taxonomy Regulation large undertakings that are required to publish non-financial information pursuant to the Corporate Sustainability Reporting Directive (CSRD) must disclose information on how and to what extent their activities are associated with environmentally sustainable economic activities. Large undertakings are obligated to disclose information on how sustainability matters affect the company's value (financial materiality), their impact on the economy, the environment, and society (impact materiality), and the interconnectedness between these factors. This is known as the "double materiality perspective"[6], a concept, that was introduced by the recent CSRD updates, in sustainability and corporate

[4] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN

[5] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2178

[6] https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Appendix%202.6%20-%20WP%20on%20draft%20ESRG%201.pdf&AspxAutoDetectCookieSupport=1

reporting that recognizes the interdependence between environmental, social, and governance (ESG) factors and financial performance of large undertakings.

The EU Green Taxonomy prioritized disclosure requirements on **climate change mitigation and adaptation** (among the six environmental goals) at the initial phase of the taxonomy development process. Hence it has developed its technical screening criteria for these two objectives first, which were defined by the Taxonomy Regulation and the EU Taxonomy Climate Delegated act **(EU) 2021/2139**.[7] This, then, defines the scope of the disclosure requirements.

The Disclosures Delegated Act **(EU) 2021/2178** specifies the content, methodology and presentation of information to be disclosed by large financial and non-financial undertakings. It supplements the Taxonomy Regulation **EU 2020/852** by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of **Directive EU 2013/34**[8] concerning environmentally sustainable economic activities. [9]

The Disclosure Delegated Act **(EU) 2021/2178** specifies that the disclosure must be based on the reporting entity's share of businesses, investments or lending activities that are aligned with the Taxonomy Regulation **EU 2020/852**. It specifies key performance indicators (KPIs) related to **turnover, capital expenditure (CapEx) and operational expenditure (OpEx)** that undertakings must disclose. It further defines the scope of CapEx and OpEx, too.

- Non-financial entities are required, according to Article 8(2) Taxonomy Regulation, to disclose the share of their turnover, CapEx and OpEx associated with environmentally sustainable economic activities as defined in the Taxonomy Regulation and the EU Taxonomy Climate Delegated Act **(EU) 2021/2139**.

- Financial undertakings (investment firms, asset managers, insurers, credit institutions), report on the related KPIs on the proportion of environmentally sustainable economic activities in their financing activities, such as lending, investment and insurance. It is important to note that the Taxonomy Regulation **(EU) 2020/852** amends the previous Regulation **(EU) 2019/2088**[10] on sustainability-related disclosures **in the financial services sector.**

[7] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139

[8] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0034

[9] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A02013L0034-20141211

[10] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088

EU TAXONOMY AND SUPPORTING LEGISLATION TIMELINE

2019

EU REGULATION **(EU) 2019/2088** OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector

2020

"The Taxonomy Regulation": EU REGULATION **(EU) 2020/852** OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation **(EU) 2019/2088**

·Article 8(1) of Regulation (EU) 2019/2088
·Article 9 (1), (2) and (3) of Regulation (EU) 2019/2088

2021

"EU Climate Delegated Act": COMMISSION DELEGATED REGULATION **(EU) 2021/2139** of 4 June 2021 supplementing Regulation **(EU) 2020/852** of the European Parliament and of the Council.
Technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to **climate change mitigation and adaptation.**

"The Disclosures Delegated Act": COMMISSION DELEGATED REGULATION **(EU) 2021/2178** of 6 July 2021 ("the Disclosures Delegated Act"), supplementing Regulation **(EU) 2020/852** of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of **Directive 2013/34/EU** concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation

·Article 5 of Regulation (EU) 2020/852
·Article 6 of Regulation (EU) 2020/852

Figure 4 EU Taxonomy and Supporting Legislation Timeline-Source: FS Project Team

EU TAXONOMY AND SUPPORTING LEGISLATION TIMELINE

2022

COMMISSION DELEGATED REGULATION **(EU) 2022/1214** of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities

COMMISSION DELEGATED REGULATION (EU) C(2022) 1931 of 6.4.2022 supplementing Regulation **(EU) 2019/2088** of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to **the principle of 'do no significant harm',** specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in precontractual documents, on websites and in periodic reports

Annexes 1-5
Brussels, 6.4.2022 C(2022) 1931 final ANNEX 1 ANNEX to the Commission Delegated Regulation (EU) supplementing Regulation **(EU) 2019/2088**

Corporate sustainability reporting: EU DIRECTIVE (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive **(EU) 2013/34**, as regards corporate sustainability reporting

2023

Delegated act - Environmental and climate
Adoption of a Delegated Act for economic activities substantially contributing to the objectives of:

1.sustainable use and protection of water and marine resources
2.transition to a circular economy
3.pollution prevention and control
4.protection and restoration of biodiversity and ecosystems

Amendments to add economic activities to the list of those substantially contributing to the objectives of climate change mitigation and adaptation, and to clarify the reporting obligations for the additional activities. The delegated acts have been approved in principle on 13 June 2023 and will be formally adopted as soon as the translations in all EU official languages are made available.

Figure 4 (Continued) EU Taxonomy and Supporting Legislation Timeline- Source: FS Project Team

1.1.3 Timeline of Reporting Requirements by Entity Groups

The EU has adapted a gradual approach to its mandatory reporting requirements in relation to the green taxonomy. The timeline for the application of reporting requirements[11] is provided in **Article 10** of the Disclosures Delegated Act **(EU) 2021/2178** (please see Table 1 for more details)**.** As part of the gradual approach, large entities were asked to provide **"eligibility reporting"** in the first year of reporting which would then serve to help undertakings prepare for their "alignment disclosures.". Hence, in their annual reports, entities need to provide information as to what extent their activities are covered by the EU Taxonomy (**taxonomy-eligibility**) and comply with the technical screening criteria set in the Taxonomy delegated acts (**taxonomy-alignment**).

Table 1 Timeline of Reporting Requirements by Entity Groups

From 1 January 2022 until 31	Non-financial undertakings shall only disclose the proportion of Taxonomy-eligible and Taxonomy non-eligible economic activities in their total turnover, capital and operational expenditure and the qualitative information referred to in Section 1.2 of Annex I relevant for this disclosure. Entities were only required to report against activities contributing to climate objectives according to the EU Climate Delegated Act **(EU) 2021/2139.** Financial undertakings shall only disclose: (a) the proportion in their total assets of exposures to Taxonomy non-eligible and Taxonomy-eligible economic activities; (b) the proportion in their total assets of the exposures referred to in Article 7, paragraphs 1 and 2; (c) the proportion in their total assets of the exposures referred to in Article 7(3); C(d) the qualitative information referred to in Annex XI.
From 1 January 2023 until 31 December 2023	Large nonfinancial undertakings will need to report the activities that are considered as eligible and aligned with the EU Climate Delegated Act. Large financial institutions should disclose Taxonomy-eligible activities for activities related to climate objectives
From 1 January 2024 until 31 December 2024	Large nonfinancial undertakings will need to report taxonomy alignment and eligibility Large financial institutions will need to report taxonomy alignment and eligibility
From 1 January 2025 until 31 December 2025	Financial institutions may include estimates for taxonomy alignment for DNSH assessment of third-country exposures (subject to the 2024 review period)
From 1 January 2026 until 31 December 2026	Credit institutions will also need to report on the Taxonomy-alignment of their trading book and fees and commissions for non-banking activities.

[11] https://finance.ec.europa.eu/system/files/2022-01/sustainable-finance-taxonomy-article-8-report-eligible-activities-assets-faq_en.pdf

1.1.4 Entities Required to Provide Taxonomy Reporting

Companies that fall under the scope of the Corporate Sustainability Reporting Directive (CSRD) (EU) 2022/2464[12] have to report in their annual reports to what extent their activities are covered by the EU Taxonomy.

Accordingly, reporting requirements started with large undertakings that are public-interest entities with an average number of employees in **excess of 500,** and to public-interest entities that are parent undertakings of a large group with an average number of employees in excess of 500 on a consolidated basis (please see Figure 5 below).[13] From 2024, mid-size companies that are not presently subject to the non-financial reporting directive and that meet two of the following three criteria, will need to provide reporting:

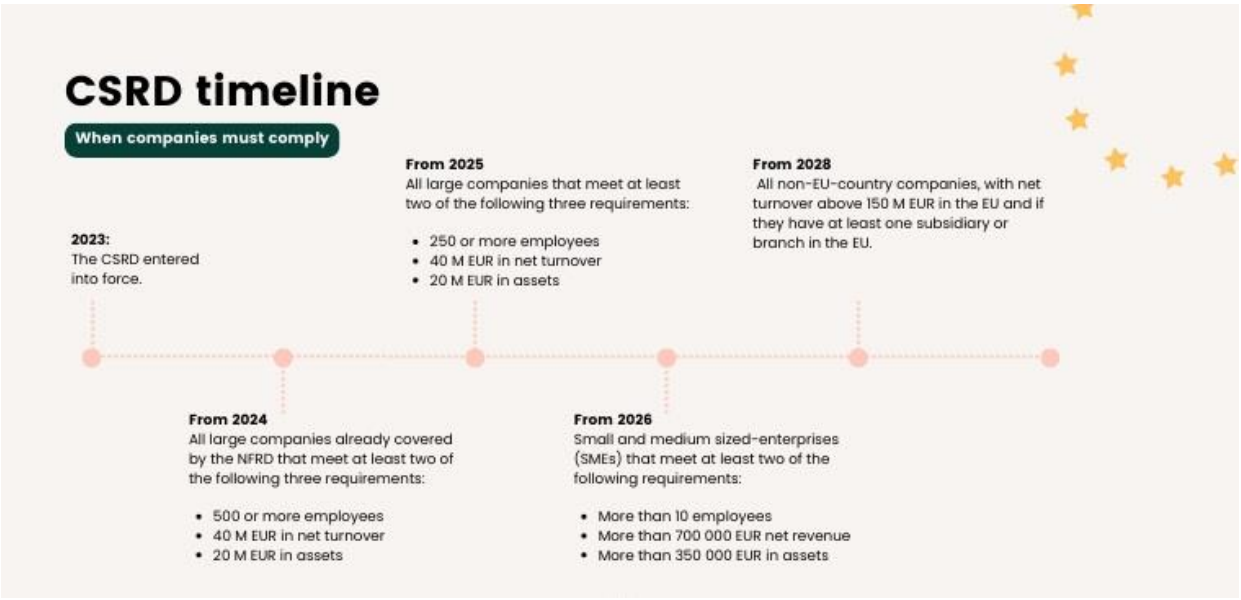
- > 250 employees
- > €40M turnover
- > €20M total assets

Small and medium-sized undertakings whose securities are admitted to trading on a regulated market in the Union that are public-interest entities should be allowed to report in accordance with the sustainability reporting standards for small and medium-sized undertakings. In addition, all undertakings that are parent undertakings of large groups should prepare sustainability reporting at group level.

Third-country entities that are originated from outside the EU, including entities that are registered in Türkiye, with net turnover above €150M in the EU if they have at least one subsidiary or branch in the EU exceeding certain thresholds will need to report starting from 2028 (Please refer to Figure 5).

[12] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464
[13] https://finance.ec.europa.eu/news/sustainable-finance-guidance-reporting-under-taxonomy-2022-12-20_en

Figure 5 Timeline of CSRD Reporting Requirements- Source: Worldfavor-CSRD timeline: what you need to report and when, 2023



1.2 KEY PERFORMANCE INDICATORS FOR REPORTING

The Disclosure Delegated Act **(EU) 2021/2178** specifies the content and presentation of information to be disclosed by undertakings concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation. It provides detailed description of key performance indicators (KPIs) to be reported by different entity categories:

1. Non-financial undertakings
2. Asset managers
3. Credit institutions
4. Investment firms
5. Insurance and reinsurance undertakings

This report covers reporting requirements for **non-financial undertakings (group 1) and for asset managers (group 2)** that exemplify reporting requirements for financial undertakings.

1.2.1 KPIs for Non-financial Undertakings

1.2.1.1 KPI Related to Turnover (turnover KPI)

The proportion of turnover shall be calculated as the part of the net turnover derived from products or services, including intangibles, associated with Taxonomy-aligned economic activities (numerator), divided by the net turnover (denominator).

1.2.1.2 KPI Related to Capital Expenditure (CapEx-KPI)

The proportion of CapEx referred to in Article 8(2), point (b), of Taxonomy Regulation (EU) 2020/852 shall be calculated as the numerator divided by the denominator as specified in points 1.1.2.1 and 1.1.2.2 of this section.

The **denominator** shall cover additions to tangible and intangible assets during the financial year considered before depreciation, amortization and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes. The denominator shall also cover additions to tangible and intangible assets resulting from business combinations.

The **numerator** equals to the part of the capital expenditure included in the denominator that is any of the following: related to assets or processes that are associated with Taxonomy-aligned economic activities; part of a plan to expand Taxonomy-aligned economic activities or to allow Taxonomy-eligible economic activities to become Taxonomy-aligned ('CapEx plan'); related to the purchase of output from Taxonomy-aligned economic activities and individual measures enabling the target activities to become low-carbon or to lead to greenhouse gas reductions

1.2.1.3 KPI Related to Operating Expenditure (OpEx-KPI)

The proportion of OpEx shall be calculated as the numerator divided by the denominator as specified[14]:

The **denominator** shall cover direct non-capitalized costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the undertaking or third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets.

The **numerator** equals any of the following:

- related to assets or processes associated with Taxonomy-aligned economic activities, including training and other human resources adaptation needs, and direct non-capitalized costs that represent research and development;
- part of the CapEx plan to expand Taxonomy-aligned economic activities or allow Taxonomy-eligible economic activities to become Taxonomy-aligned;
- related to the purchase of output from Taxonomy-aligned economic activities and to individual measures enabling the target activities to become low-carbon or to lead to greenhouse gas reductions as well as individual building renovation measures and provided that such measures are implemented and operational within 18 months.

Please see Figure 6 below for the standard template the disclosure required for non-financial undertakings and refer to Annex 1 for the extended view of the template.

[14] The Disclosures Delegated Act": COMMISSION DELEGATED REGULATION **(EU) 2021/2178**

Figure 6 Standard Template for the Disclosure Required for Non-financial Undertakings – Basic View

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')										
Economic activities (1)	**Code(s) (2)**	**Absolute turnover (3)**	**Proportion of turnover (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine resources (13)**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum safeguards (17)**	**Taxonomy-aligned proportion of turnover, year N (18)**	**Taxonomy-aligned proportion of turnover, year N-1 (19)**	**Category (enabling activity or) (20)**	**Category '(transitional activity)' (21)**
		Currency	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES			%																	
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Activity 1 [1]				%	%	%	%	%	%		Y	Y	Y	Y	Y	Y	%		E	
Activity 2			%	%	%	%	%	%	%	Y	Y		Y	Y	Y	Y	%			

1.2.1.4 Accounting Standards

Article 1(5) of the Disclosures Delegated Act defines an eligible economic activity as an activity that is described in the delegated acts adopted pursuant to the Taxonomy Regulation. The assessment of eligibility of economic activities is not dependent on the accounting standards used.

However green taxonomy performance indicators (KPIs) should be calculated based on the same accounting principles that apply to the preparation of the undertaking's financial statements, as defined in the Annex I to the Disclosures Delegated Act.

Non-financial undertakings shall explain how turnover, capital expenditure and operating expenditure were determined and allocated to the numerator; the basis on which the turnover, capital expenditure and operating expenditure were calculated, including any assessment in the allocation of revenues or expenditures to different economic activities.

For turnover and capital expenditure, non-financial undertakings shall include references to the related line items in the non-financial statements, where the application of any calculations has changed since the previous reporting period, non-financial undertakings shall explain why those changes result in more reliable and relevant information and provide for restated comparative figures.

The Disclosure act also explains how these calculations should be approached by non-financial undertakings that apply International Financial Reporting Standards (IFRS) and those that apply General Accepted Accounting Principles (GAAP).

1.2.2 KPI of Asset Manager

1.2.2.1 Content of KPI to be Disclosed by Asset Managers

The KPI shall be calculated as the numerator divided by the denominator:

The **numerator** shall consist of a weighted average of the value of investments in Taxonomy-aligned economic activities of investee companies. The weighted average of the value of investments shall be based on the proportion of taxonomy- aligned economic activities of investee companies measured by the following:

a. for investees that are non-financial undertakings, turnover and CapEx KPIs as resulting from the calculation of the KPIs of the investee;
b. for investees that are asset managers, turnover-based and CapEx-based KPIs, as resulting from the calculation of the KPIs of the;
c. for investees that are credit institutions, the turnover-based and CapEx based green asset ratio as resulting from the calculation of the green asset ratio of the investee;
d. for investees that are investments firms, investments and revenues, as resulting from the calculation of the turnover- based and CapEx based KPIs of the investee with the proportion of services and activities of dealing on own account and not dealing on own account in the income of the investment firm;
e. for investees that are insurance or reinsurance undertakings, investments, gross premiums written or, as applicable, total insurance revenue, as resulting from the calculation either of the turnover-based and CapEx based investment KPI, combined, where applicable with the underwriting KPI of the non-life investee insurance and reinsurance undertakings.

The **denominator** shall consist of the value of all Asset under Management (AuM) resulting from both collective and individual portfolio management activities of asset managers. **Asset managers shall disclose a KPI based on turnover KPIs of the investee companies and a KPI based on the CapEx KPI of investee companies** (Please see Table 2)**.**

Table 2 Denominator of Value of Asset under Management

The weighted average value of all the investments that are directed at funding, or are associated with taxonomy-aligned economic activities relative to the value of total assets covered by the KPI, with following weights for investments in undertakings per below: Turnover-based: % CapEx—based: %	The weighted average value of all the investments that are directed at funding, or are associated with taxonomy-aligned economic activities, with following weights for investments in undertakings per below: Turnover-based: [monetary amount] CapEx-based: [monetary amount]
The percentage of assets covered by the KPI relative to total investments (total AuM). Excluding investments in sovereign entities, Coverage ratio: %	The monetary value of assets covered by the KPI. Excluding investments in sovereign entities. Coverage: [monetary amount]

1.2.3 EU Taxonomy in EU's Broader Sustainable Finance Disclosure Requirements

Sustainable Finance Disclosure Regulation (SFDR) creates a reporting framework for financial products and financial entities. Compliance with sustainability-related disclosures is expected to have some behavioral effects on financial firms in the sense that they have an incentive to (re)direct capital flows to green activities. It indirectly affects the business models of companies that are being invested in – as they would want to attract green finance flows. SFDR distinguishes disclosure requirements for financial products that claim to have 'sustainable investment' as their objective (i.e., 'dark green' financial products), and financial products that claim to be promoting social or environmental characteristics (i.e., 'light green' financial products).

The SFDR requirements are linked with those under the EU Taxonomy by including 'environmentally sustainable economic activities' as defined by the Taxonomy Regulation in the definition of 'sustainable investments' in the SFDR.

Regulatory technical standards jointly developed by three financial regulation agencies of the EU, namely European Banking Authority (EBA), European Securities and Markets Authority (ESMA)[15], European Insurance and Occupational Pensions Authority (EIOPA)[16] further specify disclosure requirements for 'dark green' and 'light green' financial products in terms of substance as well as presentation of information by means of standardized templates across the financial services sectors.

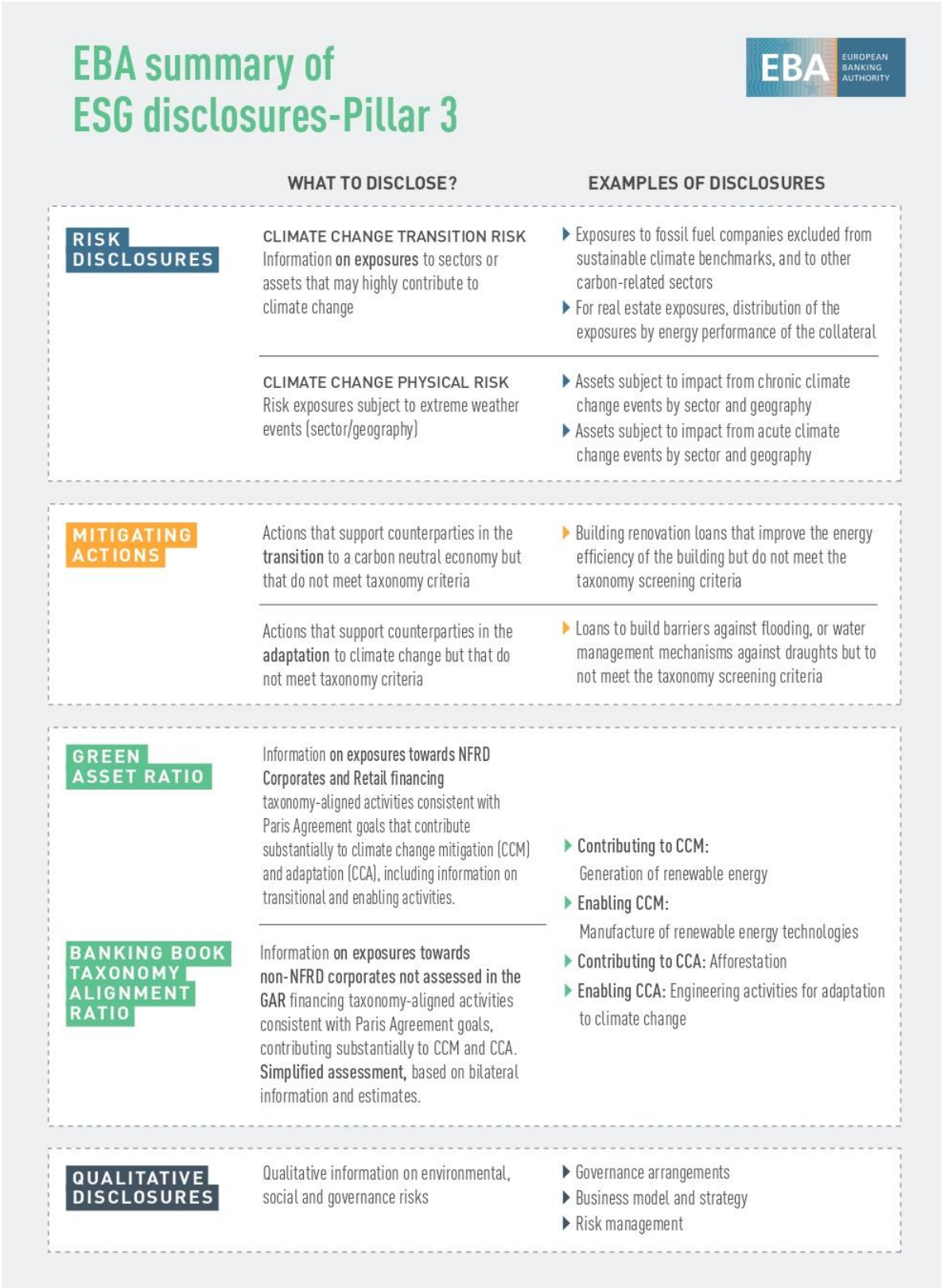
The European Banking Authority (EBA) has published technical standards on Pillar 3 disclosures for institutions in the European Union. Article 449a of the Capital Requirements Regulation (CRR) launched a new set of data disclosures on the June 28th, 2022 known as Pillar III disclosures on ESG risks. These will complement the EU Taxonomy by requiring banks to disclose ESG-related information (see Figure 7 below)[17].

[15] https://www.esma.europa.eu/press-news/consultations/joint-consultation-review-sfdr-delegated-regulation

[16] https://www.eiopa.europa.eu/browse/sustainable-finance_en

[17] https://www.eba.europa.eu/implementing-technical-standards-its-prudential-disclosures-esg-risks-accordance-article-449a-crr

Figure 7 Pillar 3 Disclosure Requirements: Source: [The European Banking Authority](), 2021



Banks are required to disclose their Green Asset Ratio (GAR) and Banking Book Taxonomy Alignment Ratio (BTAR) - breakdown of exposures by sectors and proportion of these exposures that are Taxonomy-eligible and Taxonomy-aligned. The EBA has also set out the disclosure timelines, granular templates, tables, and instructions to ensure enhanced consistency, comparability, and meaningfulness of these disclosures by institutions. Banking institutions will be required to publish these ratios starting in 2024 for exposures up to year-end 2023 for GAR and up to June 2024 for BTAR.

1.2.4 Sustainable Finance Package – June 2023

In June 2023, the Commission launched a new package of measures to build on and strengthen the foundations of the EU sustainable finance framework.[18]

The Commission approved a new set of EU Taxonomy criteria for economic activities making a substantial contribution to one or more of the non-climate environmental objectives, namely:

- sustainable use and protection of water and marine resources,
- transition to a circular economy,
- pollution prevention and control,
- protection and restoration of biodiversity and ecosystems.

To complement this, the Commission has adopted targeted amendments to the EU Taxonomy Climate Delegated Act, which expand on economic activities contributing to climate change mitigation and adaptation not included so far – in particular in the manufacturing and transport sectors.

With the inclusion of more economic activities covering all six environmental objectives, and consequently more economic sectors and companies, the Commission aims to increase the usability and the potential of the EU Taxonomy in scaling up sustainable investments in the EU.

The Commission has also adopted amendments to the EU Taxonomy Disclosures Delegated Act, to clarify the disclosure obligations for the additional activities.

The Climate Delegated Act defining criteria for economic activities substantially contributing to one or more of the non-climate environmental objectives of the Taxonomy Regulation includes 35 activities in 8 economic sectors (see Annex 2 for the full list of activities), mainly:

- Environmental protection and restoration activities
- Manufacturing
- Water supply, sewerage, waste management and remediation activities
- Construction and real estate activities
- Disaster risk management
- Information and communication
- Services
- Accommodation activities

[18] https://finance.ec.europa.eu/publications/sustainable-finance-package-2023_en

The targeted amendments to the Climate Delegated Act define criteria for additional economic activities contributing to the objectives of climate change mitigation and adaptation. They include 12 new activities covering 6 sectors (Also see Annex 2 for the full list of activities), plus several targeted updates to existing activities in the Climate Delegated Act:

- Transport
- Manufacturing
- Disaster risk management
- Water supply, sewerage, waste management and remediation
- Information and communication
- Professional, scientific and technical activities

The Commission has approved in principle the Delegated Acts. Once translated into all official EU languages, they will be formally adopted and then transmitted to the co-legislators for their scrutiny.

1.3 INDONESIA GREEN TAXONOMY

Indonesia's green taxonomy does not yet have specific reporting requirements, as it is voluntary for companies to follow. Its green taxonomy is seen essential as it provides financial services industry with a better understanding on classification of green activities. By classifying green activities of a financial product and/or service, the green taxonomy is expected to facilitate the reporting and periodic monitoring needs in implementing credit or finance allocation into green sector.

As part of its current focus areas, Financial Services Authority (OJK) engages in several areas of activities related to Sustainable Finance Roadmap Phase II, Its roadmap includes six areas of development, one of which involves the development of a **financial services reporting system including green financing/instruments in accordance with Green Taxonomy.**

1. finalizing the Green Taxonomy;
2. preparing carbon exchange operations in line with government policies;
3. developing the **FSS reporting system including green financing/instruments in accordance with Green Taxonomy**;
4. developing risk management framework for FSS and risk-based supervisory guidelines for supervisors in order to implement climate-related risks;
5. developing innovative and feasible financing schemes or projects;
6. increasing awareness and capacity building. Currently, OJK has also established a Sustainable Finance Task Force, which aims to serve as a forum for cooperation and coordination with industries

Before the green taxonomy, OJK introduced, in 2017, mandatory sustainability reporting requirements for financial institutions, which need to issue sustainability reports that accompany their annual report.

OJK requirements (Rule No. 51/POJK.03/2017)[19] on Implementation of Financial Sustainability apply to financial services providers, issuers - defined as institutions that conduct public offerings - and public

[19] http://forestsandfinance.org/wp-content/uploads/2017/09/POJK-51-Unoffical-English-Translation-2017.pdf

companies. The entities that are covered by the regulation are required to submit a Sustainable Finance Action Plan and/or a Sustainability Report to OJK.

A Sustainable Finance Action Plan is a document that describes a Financial Services Provider's short-term (i.e., one year) and long-term (i.e., five years) plans for implementing sustainable finance based on the principles that are defined by the regulation:

a. Principles of responsible investments;
b. Principles of sustainable business strategy and practice;
c. Principle of social and environmental risk management;
d. Principles of governance;
e. Informative communication Principle;
f. Inclusiveness Principles;
g. Principles of priority prime sector development;
h. Principles of coordination and collaboration.

Some of the examples of financial activities that financial institutions may report on are:

- providing financing to micro businesses
- providing training for prospective customers on sustainable business
- making a campaign on sustainable production and consumption
- subsidizing insurance premiums for farmers and low and/or middle-income people that are vulnerable to disasters

The Sustainable Finance Action Plan must be submitted on an annual basis to the Financial Services Authority, at the same time as the submission of a business plan for the FSIs required to submit a business plan, either as part of the business plan or in a separate document. The Sustainable Finance Action Plan must be prepared by the Board of Directors and be approved by the Board of Commissioners.

OJK issued a technical guideline for banks to assist them in preparing their Sustainable Finance Action Plans. However, to our knowledge, OJK has not yet introduced a technical guideline for other for non-banks.

Relevant National and International Standards

Indonesia's green taxonomy uses 5-digit standard business classification was issued by Statistics Indonesia (BPS) as the basis for classifying Indonesian economic activities which produce products/ outputs, both in the form of goods and services, based on business activities. It provides classifications of business activities. It is also informed by the International Standard Industrial Classification (ISIC) used as an international reference classification to promote the comparability of international data, providing guidance for the development of national classifications, and promoting the development of national statistical systems. The business classifications by the UN Department of Economic and Social Affairs also provide a set of activity categories that are used for the collection and reporting of statistics, according to these activities.

1.4 THE CHINA CATALOGUE

1.4.1 Reporting Frameworks Linked to the Catalogue

China has several green and sustainable guidelines other guidelines and classification systems:

- Guidelines for green credits,
- The Catalogue of projects guaranteed for green bonds (considered the “Chinese Taxonomy”),
- The financial taxonomy of the SDGs.

It is important to note that reporting requirements regarding China’s green catalogue focus on information on the use of proceeds of funds for green /sustainable projects. They are NOT entity-level reporting requirements. Unlike the EU’s reporting requirements which are at the entity level, Chinese entities would need to report on the eligibility of their green assets or projects for green bonds that they may issue.

1.4.2 Catalogue of Projects Guaranteed for Green Bonds

Two of the main national green bond taxonomies are the Green Bond Project Catalogue introduced by the People's Bank of China (PBoC) in 2015 and the Green Bond Issuance Guidelines published by the NDRC in 2016. Recently, China has made progress in a unified taxonomy to promote market transparency, reduce transaction costs and expand green investment. On April 21, 2021, the People's Bank of China (PBoC), National Development and Reform Commission (NDRC), and China Securities Regulatory Commission (CSRC), jointly published the "Notice on Issuance of Catalogue of Green Bond-Backed Projects (2021 Edition)", which supports six eligible categories of green bonds, which are Energy Conservation and Environmental Protection; Clean Production; Clean energy; Eco-Environment; Green Infrastructure and Reconstruction; and Green Services (please refer to section 1.1.2 China Taxonomy-Background of the report produced under Task 1).

2021 Catalogue defines a harmonized taxonomy for green bonds in China. Compared with its previous version, it has been updated by excluding the production and use of coal and natural gas and adding hydrogen, financing green consumption, etc. to the catalogue.

Reporting by the green bond issuer to investors and the broader market on the green bond over the life of the green bond is an important feature of the green bond concept. The reports provide investors with information about their investment beyond the financial performance of the bond. For green bonds in China, use of proceeds reporting is required and environmental impact reporting is encouraged, though only required for CSRC-regulated corporate issuers and green projects that exceed a certain limit amount between financial bonds.

To comply with PBoC rules, issuers must submit applications to the PBoC with information on the categories of nominated projects, project selection criteria, decision-making procedures, revenue management, and the environmental benefits of the assets/underlying projects. With PBoC approval, issuers can label their bond a "green bond" and begin issuance. Other regulators of China's green bond market are the China Securities Regulatory Commission (CSRC) and the National Development and Reform Commission (NDRC). Both the CSRC and the NRDC have rules that must be followed. Please see Table 3 that shows green bond assessment standards under different regulatory initiatives.

Table 3 Green Bond Assessment Standards Under Regulatory Initiatives

Types of Green Bonds	Green Financial Bond	Green Company Bonds	Green Corporate Bonds	Green Debt Financing Instrument
Regulatory agency	PBoC	NDRC	CSRC	NAFM I
Taxonomy/Classification used	Catalogue of projects backed by Green Bonds	NDRC Guidelines	Catalogue of projects backed by Green Bonds	Catalogue of projects backed by Green Bonds
Normative document	PBoC Announcement #39 December 22, 2015	Guidelines on the Issuance of Green Bonds, NDRC No. 3504 December 31, 2015	Guiding Opinions to Support Green Bond Issuance, CSRC #6 March 2, 2017	Guidelines on Green Debt Financing Instruments for Non-Financial Corporations, NAFMII No. 10 March 22, 2017
Revenue Management	A specialized account will be created to clearly monitor income management	Unspecified	A specialized account will be created to clearly monitor income management	A specialized account will be created to clearly monitor income management
Evaluation and evaluation of the project	Third party certification (voluntary)	Evaluation and assessment by the regulator	Third party certification (voluntary)	Third party certification (voluntary)
Disclosure	Disclosure of the use of revenue each quarter; publication of an annual report on the use of funds in the previous year and a special report of the auditors before April 30	Unspecified (issuers must disclose based on the requirements stipulated by the General Guidelines for the Disclosure of Information on the Issuance of Corporate Bonds)	Issuers will be required to report on the use of proceeds, green project progress and environmental benefits in accordance with relevant regulations or agreements; the bond	Before April 30 of each year, disclose the use of proceeds and the progress of green projects in the previous year; Before August 30 of each year, disclose the use of proceeds and the progress of

Types of Green Bonds	Green Financial Bond	Green Company Bonds	Green Corporate Bonds	Green Debt Financing Instrument
	of each year; as well as reporting to the PBoC		administrator will publish this information in the annual management report	green projects in the first half of the current year

PBoC guidelines[20] require issuers to report quarterly to the market on the types of green projects the bond is financing. A special report from an auditor is required to confirm the use of proceeds. Issuers must also submit an annual report on the use of proceeds directly to the PBoC. The PBoC guidelines encourage issuers to also report on the environmental impact of underlying projects; however, this is not a requirement. This means that an issuer would have to disclose that the proceeds go to solar projects, for example, but providing data on the emissions saved by the investment is not required to comply with PBoC guidelines, although it is recommended.

There are mechanisms to verify that green bonds finance qualified green assets. The most common mechanism is for green bond issuers to use external review to provide investors with greater confidence in the green credentials of the bond both before and after issuance:

- Pre-issuance: External reviews are used prior to issuance to provide investors with information, in particular, on what types of green projects the bond will finance and what management processes the issuer has in place to ensure funds are allocated only to these green projects.
- Post-Issuance: Post-issuance external reviews are used to assure investors that funds are allocated as promised prior to issuance and provide more insight into the environmental impacts of the bonds.

1.5 MEXICO GREEN TAXONOMY

Mexico's taxonomy provides guidelines and definitions for green investments with environmental and social goals. It covers priority sectors (agriculture, energy, water supply, construction, manufacturing, transportation, waste management). It also includes social objectives such as social inclusions, gender equality, and sustainable cities (see Task 1 report). **Mexico's green taxonomy does not yet have specific reporting requirements - as it is voluntary for companies to follow.**

[20] https://www.chinadevelopmentbrief.org/wp-content/uploads/2021/08/Guidelines-for-financial-institutionsenvironmental-informationdisclosure.pdf#:~:text=Guidelines%20on%20Environmental%20Information%20Disclosure%20for%20Financial20Institutions,requirements%20in%20the%20process%20of%20environmental%20information%20disclosure.

However, the National Banking and Securities Commission requires securities registered in the National Securities Registry to report on, among other things, environmental issues.[21] Companies that issue securities and register such securities in the National Securities Registry must disclose their environmental policies and certificates in their annual reports. They must report on their environmental policy, management systems, environmental certificates and accreditations that they may have.

They also must provide information if they have any program or project for the protection or restoration of the environment and natural resources. They need to provide information about the actual and potential impacts of climate change and their climate-related risks (physical and transition).

1.6 SOUTH KOREA K-TAXONOMY

The K-Taxonomy has six environmental objectives, in line with EU Taxonomy (see Task 1 Report):

- Greenhouse gas reduction
- Adaptation to climate change
- Sustainable water conservation
- Recycling
- Pollution prevention
- Management and biodiversity

The K-taxonomy also applies do no significant harm and minimum social safeguards criteria into the assessment of green activities. Its pilot use case and implementation, so far, primarily applies to bonds on a voluntary basis. It does not require corporates to report against the green taxonomy.

The Financial Services Commission in collaboration with Exchanges have been developing ESG corporate ESG disclosure requirements, making them mandatory, with a phase-in period until 2030.

It is currently voluntary but will become mandatory for large companies from 2025. Financial Services Commission announced that the Korea Exchange provides a guidance on ESG disclosure to promote voluntary disclosure of sustainable management reports by listed companies with a total asset of KRW100 billion (approximately USD 80 million). It plants to gradually expand the mandatory disclosure of sustainable management reports to all KOSPI-listed companies from 2030. The disclosures will have to include response plans for environmental risks, labour welfare, and governance.[22]

In addition, the progress in the implementation of the Korea stewardship code which was introduced in December 2016 will be reviewed to consider introducing revisions that will strengthen fiduciary duties related to ESG.

[21] https://www.cnbv.gob.mx/Anexos/Anexo%20N%20CUE.pdf
[22] https://www.fsc.go.kr/eng/pr010101/75177

1.7 SOUTH AFRICA TAXONOMY

South Africa's Green Finance Taxonomy (SA GFT) was launched in April 2022. It largely follows the EU taxonomy structure and principles. Currently, it is a voluntary tool, it does not come with reporting requirements concerning taxonomy-alignment.

The Johannesburg Stock Exchange published guidance documents in 2022. The "Sustainability Disclosure Guidance" and the "Climate Change Disclosure Guidance," are documents designed to provide guidance to JSE-listed companies for their voluntary disclosures. The Climate Change Disclosure Guidance aims to describes global practices in climate-related disclosure and provides a guide to encourage issuers start climate-related reporting, according to Taskforce on Climate-related Financial Disclosures (TCFD)-aligned climate reporting.[23]

It provided detailed description of climate-related information should a company disclose, in four categories:

- Governance
- Strategy
- Management
- Metrics and targets

South Africa's Green Finance Taxonomy exemplifies a good case for Türkiye. SA GFT developers had made a strategic decision from the outset that their taxonomy will be aligned with the EU taxonomy. The rationale of the decision stems from the EU's position as the largest trade and investment partner of South Africa. Hence the EU taxonomy was used as a starting point and basis for development of the SA GFT making it compatible with the EU. It is an example which may inform Türkiye's decision as to what extent it wants to harmonise its taxonomy with the EU, for similar reasons. Turkish regulators must note that harmonization does not guarantee interoperability –as both taxonomies need to be officially and mutually recognized as acceptable in both jurisdictions. Therefore, interoperability requirements and objectives should be defined clearly. South Africa also shows a very active stakeholder engagement and consultation process was used right from the start of the process. Case studies, pilots, training of users were prioritized as these steps are critical and take a lot of time and effort to be effective. In that respect, the South Africa taxonomy may inform the process through which Türkiye launches its own taxonomy too.

[23] https://www.jse.co.za/sites/default/files/media/documents/JSE%20Climate%20Disclosure%20Guidance_June%202022.pdf

INTERNATIONAL REPORTING AND DISCLOSURE STANDARDS

In this section elaborates on International Reporting and Disclosure Standards and present a short definition of Sustainability and Reporting, a quick overview of standards and the most commonly used ones, and quick analysis with examples of Sustainability Reporting relation to Green Taxonomies, and recent trends and events related to the consolidation of Reporting and Disclosure standards. In summary our inquiry findings are as follows:

- There are 5-7 dominant international sustainability reporting and disclosure standards and frameworks. These do not link to, nor require the application of green taxonomies. **International standards do not reference a Green Taxonomy since there is no universal green taxonomy**.
- In the case of national or regional reporting standards, reporting green taxonomy alignment may be required (see previous section on EU's ESRS, CSRD, and SFRD). **At present, reporting of Taxonomy alignment and Sustainability Reporting is treated independently**.
- Sustainability reporting requirements are still in the process of being developed or optimized. The **lack of standardization and interoperability between reporting standards mark a significant challenge for financial institutions globally, which creates a knock-on effect on the businesses looking for investment**. Although consolidation is beginning to happen and is almost inevitable, this could take years to happen.
- Green Taxonomy alignment reporting is treated separately but may be integrated into a sustainability disclosure although there is no requirement to do so nor are there any mandatory or preferred templates prescribed by international sustainability disclosure and reporting standards.
- There is not a single prescribed method for conducting sustainability reporting by a company. **Multiple frameworks exist to cater to different organizational needs.** 80% of listed companies work with at least one sustainability reporting standard. **The GRI remains the most dominant standard used around the world**, though some regions have a clear preference for Sustainability Accounting Standards Board (SASB) or local stock exchange guidelines. According to SASB "Companies can use different frameworks and standards as building blocks to develop a system of disclosure tailored to the unique needs of their stakeholders."
- **Banks and financial institutions often use a combination of sustainability reporting standards such as Global Reporting Initiative (GRI) and Task Force on Climate-Related Financial Disclosures (TCFD) to address their unique needs and comply with industry-specific requirements**. While TCFD is not a traditional sustainability reporting standard, it offers specific guidance for financial institutions'' on assessing and disclosing climate-related risks and exposures, low-carbon transition efforts, and opportunities in their operations, portfolios, and investment activities.
- In June 2023, The International Sustainability Standards Board (ISSB) has issued its inaugural standards—**IFRS S1 and IFRS S2 to reduce fragmentation and drive comparability in climate-related financial data**. The Standards create a common language for disclosing sustainability-related and climate-related risks and opportunities on a company's prospects. The Standards are built on the concepts that underpin the IFRS Accounting Standards and are designed to ensure that companies provide sustainability-related information alongside financial statements—in the same reporting package. The Standards have been developed to be used in conjunction with any accounting requirements. The ISSB Standards may be applied in combination with other reporting standards such as GRI.

2.1 TERMINOLOGY – SUSTAINABILITY, ESG, AND CSR

The United Nations (UN) defines sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs."[24] Sustainability reporting is the practice of **assessing, measuring, and disclosing information related to sustainability and environmental, social, and governance (ESG) factors**, either alongside or integrated with financial reporting. There is a wide range of terminology used to qualify this same concept of sustainability reporting: non-financial reporting, extra-financial reporting, social reporting, Corporate Social Responsibility (CSR) reporting or even socio-environmental reporting. Most Sustainability Reporting standards, frameworks and guideline's (see Table 4) premise is based on the understanding that for economic development to start or continue, every aspect of existence like social elements and environmental needs should be preserved. The practice of sustainability reporting has existed in a scattered way since the 1980s, but has really expanded over the last twenty years and is now in the midst of a process of consolidation.

Generally speaking, it refers to the disclosure, whether voluntary, solicited, or required, of non-financial performance information to outsiders of the organization. Governments, companies, investors, and NGOs use sustainability reporting (and reports) to share their performance and impacts on a wide range of sustainability topics, including their impact (pollution, biodiversity, etc.), greenhouse gas (GHG) emissions, materials and resource use, and supply chain sustainability. Sustainability reports are the primary way organizations publicly communicate their environmental risks, opportunities, and practices to stakeholder groups like investors, government regulators, partners, employees, and customers, so each one can make informed decisions.

Rather than being a final objective, sustainability reports should be viewed **as a tool to enhance an organization's dedication to sustainable development and showcase accountability to both internal and external stakeholders**. Sustainability reporting goes beyond being purely informative; it possesses a transformative role by influencing corporate decisions and behaviours. Companies monitor their performance based on specific ESG metrics, communicate their progress externally, and commit to sustainability targets. Consequently, high-quality sustainability reporting becomes a potent and indispensable catalyst for driving the transformation of corporate practices and ensuring their contribution to sustainable development and the achievement of the Sustainable Development Goals (SDGs).

2.2 A LARGE NUMBER OF INTERNATIONAL REPORTING AND DISCLOSURE STANDARDS

International sustainability standards provide companies with the frameworks, guidelines, and, tools they need to increase their productivity and efficiency while also promoting a positive environmental and social impact. An increasing number of organizations, industry groups, and national regulators are providing frameworks for sustainability reporting and are issuing standards or similar initiatives to guide companies in this exercise. The objectives of developing guidelines are to provide companies with a concrete methodology and to make the published data understandable, credible and comparable for their users.

[24] https://www.un.org/en/academic-impact/sustainability

Reporting guidelines are issued either by private not-for-profit or non-governmental organizations[25] (whose adoption by companies is therefore voluntary), or more recently by governments on the basis of mandatory standards. Despite bearing some similarities in regard to their major goals and certification procedures, there are notable disparities in terms of their historical development, target adopters, geographical dispersion, and focus on environmental, social, and economic issues.

Today there an estimated around **600 different sustainability reporting requirement, standards**, **industry initiatives, frameworks, and guidelines** around the world[26], which can make sustainability reporting a complex, research-heavy, and repetitive process. Please see Table 5 for the detailed description, including an industry focus, audience, users and objectives of top five and other less used reporting standards.

Moreover, it should be noted that there is no global repository there is no global repository or platform for reporting and storing company reported data. As a result, most companies select the standards they use for reporting - and, to some extent, how they report sustainability performance and which platform or software tool they use.

The frameworks surrounding disclosure and reporting is in constant evolution and companies, especially multinationals, are increasingly challenged by the form, jurisdiction, content and process of their sustainability reporting. And the more detailed standards and rules become in one jurisdiction, the more difficult it may be for others to converge with them. There is a noticeable push and progress for standardization among many governments and standards organizations like Carbon Disclosure Project (CDP), The Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), The International Reporting Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB), and the IFRS Foundation which should move the industry closer to universal standards for sustainability reporting and reduce the confusion, limited transparency, and overlap resulting from this kaleidoscopic congregation.

There is also a wide range of terminology used to qualify this same concept of sustainability reporting: SDG, ESG, non-financial reporting, extra-financial reporting, social reporting, CSR reporting or even socio-environmental reporting. ESG and sustainability are often used interchangeably, but they have distinct differences. **Generally, sustainability focuses on a company's relationship with the environment, whereas ESG encompasses environmental responsibility, social accountability, and anti-corruption efforts.** ESG serves as an external investment framework or a set of metrics enabling companies to communicate their initiatives and investors to assess performance and risk. On the contrary, sustainability is considered an internal framework guiding the organization's capital investments. Put simply, sustainability drives the company's motives, while ESG represents the reported outcomes. ESG primarily serves as a reporting framework, making it more relevant for publicly traded companies seeking to attract and inform investors or any other business aiming to secure financing. On contrary to ESG, Corporate Social Responsibility (CSR) represents a business approach where a company's actions contribute positively to the world around them. For instance, Patagonia, a US retailer, exemplifies a robust CSR strategy. The company's entire operation is guided by its CSR principles. It emphasizes conscious

[25] Two examples are GRI Standards issued by the NGO Globalreporting.org GRI - Mission & history (globalreporting.org) or Carbon Disclosure Project (CDP) https://www.cdp.net/en/info/about-us

[26] https://www.globalreporting.org/news/news-center/2020-07-22-upward-trajectory-for-esg-disclosure-requirements/

consumption, even if it means sacrificing some revenue in favour of its values. Instead of merely focusing on sales, the company provides repair services for its products, encouraging durability over consumption. Patagonia also resells its used items and actively opposes fast fashion retail models, ensuring the use of sustainable materials and fair wages for its employees. [27]

The UN Sustainable Development Goals (SDGs), the recommendations of TCFD, the EU Taxonomy Regulation and the US SASB framework all focus on different aspects. They are also a mix of definitions, metrics and reporting standards, as are the various industry initiatives, including the World Economic Forum (WEF) metrics and the UK Climate Financial Risk Forum's guides. And some jurisdictions, such as the UK, are indicating that they intend to write their own taxonomies. Given the debate in the EU and across the world about how to define environmentally sustainable activities, it is difficult to deliver common global standards.

Various reporting standards are accepted internationally for reporting both financial and non-financial parameters. Unlike financial measures that are mandatory by nature, in terms of information that encompasses sustainability or ESG parameters, they can be applied, as mentioned, on a voluntary or mandatory basis.

Disclosures such as those of the TCFD, GRI and CDP initiatives are relevant to support entities to identify the risks, opportunities and possible trajectories of sustainable and inclusive growth, since they can guide entities and increase comparability, especially if the specific KPIs and calculation methods are explicitly defined.

For example, the European Union, the United Kingdom, France, Switzerland, New Zealand and the Hong Kong Stock Exchange have passed laws and regulations that **require large companies to disclose climate-related information (non-financial disclosure regulations), some of them using the recommendations of the TCFD as framework**.

> *In South Africa, the JSE Sustainability Disclosure Guidance is aligned with, and draws on, the most influential global initiatives on sustainability and climate change disclosure – including the GRI Sustainability Reporting Standards, the Taskf Force on Climate-related Financial Disclosures (TCFD) recommendations, and the IIRC's International <IR> Framework – as well as an extensive range of other frameworks and standards, and the Sustainability/ESG guidance of various peer exchanges. This Disclosure Guidance is not intended to replace any of these global initiatives but rather seeks to help companies navigate the landscape of reporting standards, and to provide explicitly for the South African context.*
> *https://www.jse.co.za/our-business/sustainability/jses-sustainability-and-climate-disclosure-guidance*

[27] https://www.wolterskluwer.com/en/expert-insights/the-abcs-of-esg-reporting

It is likely that other countries, such as Australia and the United States, will follow them. **In general, in all the jurisdictions analyzed there is no predominant frame of reference, but rather they refer to those already mentioned.**

Because there are several information disclosure frameworks, institutions can get confused when preparing reports, even the EU NFRD (which is now the CSRD) did not require the use of a specific standard, but suggested a series of possible international standards (GRI, IFRS, SEC, CDP, SASB, and TCFD) and required that it be indicated what kind of framework was being used for reporting.

With the aim of providing coherence and comparability to corporate ESG reporting, the EU has mandated the European Financial Reporting Advisory Group (EFRAG)[28] with providing Technical Advice to the European Commission in the form of fully prepared draft EU Sustainability Reporting Standards and/or draft amendments to these Standards. Companies subject to the CSRD will have to report according to European Sustainability Reporting Standards (ESRS).

In July 2023, the Commission launched 12 ESRS, covering the full range of sustainability issues, in line with EFRAG's proposal[29]:

Table 4 12 ESRS Covering Sustainability Issues

Group	Number	Subject
Cross-cutting	ESRS 1	General Requirements
Cross-cutting	ESRS 2	General Disclosures
Environment	ESRS E1	Climate
Environment	ESRS E2	Pollution
Environment	ESRS E3	Water and marine resources
Environment	ESRS E4	Biodiversity and ecosystems
Environment	ESRS E5	Resource use and circular economy
Social	ESRS S1	Own workforce
Social	ESRS S2	Workers in the value chain
Social	ESRS S3	Affected communities

[28] EFRAG is a private association established in 2001 with the encouragement of the European Commission to serve the public interest. EFRAG extended its mission in 2022 following the new role assigned to EFRAG in the CSRD, providing Technical Advice to the European Commission in the form of fully prepared draft EU Sustainability Reporting Standards and/or draft amendments to these Standards. Its Member Organisations are European stakeholders and National Organisations and Civil Society Organisations. EFRAG's activities are organised in two pillars: A Financial Reporting Pillar: influencing the development of IFRS Standards from a European perspective and how they contribute to the efficiency of capital markets and providing endorsement advice on (amendments to) IFRS Standards to the European Commission. Secondly, a Sustainability Reporting Pillar: developing draft EU Sustainability Reporting Standards, and related amendments for the European Commission.

[29] https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043

Group	Number	Subject
Social	ESRS S4	Consumers and end users
Governance	ESRS G1	Business conduct

While considering EFRAG's proposal, the Commission sought high level of alignment between ESRS and the standards of the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI). The GRI served as an important reference point, and many of the reporting requirements in ESRS were inspired by the GRI standards.

The ESRS and the first two standards of the ISSB—IFRS S1 and IFRS S2, have been developed in parallel. The collaboration between the Commission, EFRAG and the ISSB has led to high degree of alignment where the two sets of standards overlap.

The harmonization efforts between ESRS and the two ISSB standards ensures that companies that are required to report on climate change under CSRD and that also prefer to comply with ISSB standards, can now report using the same set of standards. Yet under ESRS companies will provide additional information on impacts relevant for multiple users including investors, business partners, trade unions etc.

With the ESRS, the EU claims that it has gone further than any other major jurisdiction in relation to integrating the ISSB standards into its own legal framework. It sees it as a major contribution towards the development of a coherent global framework and towards the global comparability of reported sustainability information.

The landscape of sustainability reporting and its essential components is complex. In the remaining part of this section, we explain how various sustainability reporting mechanisms and structures work together to enable effective voluntary disclosure. Organizations use these sustainability reporting frameworks, standards, and corresponding protocols to voluntarily disclose climate impacts, risks, and other environmental factors.

FRAMEWORKS

Sustainability reporting frameworks, also referred to as ESG frameworks or ESG reporting frameworks, are high-level guidelines or approaches that provide organizations with a structure to identify, assess, and report on sustainability issues relevant to their operations. These frameworks allow companies to benchmark their performance against industry peers and global best practices, and to communicate their progress to stakeholders, including investors, regulators, customers, and employees.

There are several well-known sustainability reporting frameworks, such as **the CDP (formerly the Carbon Disclosure Project), the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD).** Each framework has its unique focus, but they all share the common goal of promoting transparency, comparability, and accountability in sustainability reporting (Please see Table 5).

STANDARDS

Standards are the more detailed and specific guidelines that build upon the principles set forth by frameworks. They outline the precise requirements, metrics, and indicators organizations should use to report on specific sustainability topics. Standards enable comparability across organizations and sectors by providing a common language and set of metrics to measure and disclose sustainability performance.

Standards vary depending on the framework and the industry sector. For example, **the GRI offers a set of universal standards applicable to all organizations**, as well as topic-specific standards that address industry-specific issues. **The SASB, on the other hand, focuses on industry-specific standards designed to capture the financially material ESG issues** for companies within a particular sector (Please see Table 5).

PROTOCOLS

Protocols are the specific tools, methodologies, or instructions that help organizations to measure, monitor, and report their sustainability performance in line with the chosen framework and standards. Protocols can be separate from or built-in as part of the frameworks.

Protocols offer detailed guidance on how to collect, calculate, and disclose data consistently and accurately. In addition, they can address various aspects of sustainability reporting, such as greenhouse gas (GHG) emissions accounting, water usage, waste management, energy usage, and plastic waste generated.

Some protocols, **like the GHG Protocol, can be used across different frameworks, as they provide universally accepted measurement and reporting methodologies for GHG emissions**. Other protocols may be more specific to a particular framework or industry. For example, the GRI has its own set of protocols embedded within its standards.

ADDITIONAL COMPONENTS IN THE SUSTAINABILITY REPORTING ECOSYSTEM

In addition to frameworks, standards, and protocols, the sustainability reporting ecosystem comprises several other components. **Ratings evaluate and score organizations' sustainability performance based on specific criteria, while rankings compare and list organizations' performance relative to peers or industry benchmarks.** Regulations, established by governmental or regulatory bodies, set mandatory sustainability reporting requirements. Global goals, such as the United Nations (UN) Sustainable Development Goals (SDGs), provide a set of universal targets and objectives to guide sustainability efforts. Finally, principles, like the UN Global Compact, define foundational commitments and values that shape organizations' sustainability strategies. These components work in concert, complementing and supporting each other throughout the reporting process to create a cohesive sustainability reporting system.

According a recent quote by the CEO of GRI: "The sustainability reporting landscape is evolving fast, therefore it's understandable that businesses have questions on what the changes may mean for them. Confirmation that the draft ESRS aligns as closely as possible with the GRI Standards offers GRI reporters' reassurance that they can use their current reporting practices to prepare for the new requirements. Taken together with our ongoing collaboration with the IFRS Foundation and the ISSB on their sustainability-related disclosures, this further reinforces the relevance of GRI, demonstrating our leadership position as provider of the global benchmark for reporting on impacts."

With the exception of the EU in our reviewed examples, other international sustainability standards may not directly reference green taxonomies, rather many of them incorporate environmental considerations,

such as climate change mitigation, resource efficiency, and biodiversity conservation, into their frameworks and reporting guidelines.

International disclosure and reporting standards cannot by definition reference green taxonomies since an international green taxonomy does not exist and many countries do not or may never adopt a green taxonomy, while the sustainably reporting and disclosure standard is expected to be universally applicable. **An entity may, on the other hand, apply a green taxonomy when classifying and reporting its green activities within an international sustainability or ESG reporting and disclosure framework**. Also, different industries (banks, asset managers, governments, and non-financial corporates) will report their taxonomy activities differently (i.e., a bank or asset manager will report their green asset ratio). A bank regulator may require very specific reporting which would not be applicable to an asset manager/investment funding.

Nevertheless, there are several frameworks and standards that are more commonly used in ESG reporting. These include the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TCFD) and the Task Force on Nature-related Financial Disclosures (TFND). **The GRI is a widely recognized framework for sustainability reporting**, and provides guidance on how to report on a wide range of environmental, social, and governance issues. **The SASB provides industry-specific guidelines** for reporting on sustainability issues, and **the TCFD provides guidance on how to report on climate-related risks and opportunities**. In addition, there are several other ESG reporting frameworks and standards that are used by companies and investors around the world. These include the principles for responsible investment (PRI), the carbon disclosure project (CDP), and the United Nations Sustainable Development Goals (SDGs) (Please see Table 5).

Table 5 International Reporting Standards-Top Five Being the Most Commonly Used

REPORTING STANDARDS/ FRAMEWORKS	DETAILED DESCRIPTION	OBJECTIVE	INDUSTRY FOCUS	AUDIENCE	USER
Global Reporting Initiative (GRI)	The Global Reporting Initiative, created in 1997, has developed the first and most widespread global standards for sustainability reporting[30]. THE GRI standards are broader in scope than other frameworks. **The GRI designed its standards to be universally suitable for organizations large and small in all types of sectors and industries around the world**. GRI standards are the world's most widely used, adopted by 73% of the largest 250 global companies and by 68% of a wider sample of 5,800 businesses around the world.[31]	GRI assists companies in disclosing information **concerning the economic, environmental, and social** effects resulting from their business activities.	Widely adopted across various industries and sectors, including but not limited to: • Energy and Utilities • Manufacturing • Financial Services • Food And Beverage • Retail And Consumer Goods	All stakeholders including investors, policymakers, capital markets, and civil society	Multinational organizations, governments, SMEs, and NGOs; approximately **10.000 participants** around the world use GRI.

[30] GRI - Standards (globalreporting.org)

[31] https://home.kpmg/xx/en/home/insights/2022/09/survey-of-sustainability-reporting-2022.html

REPORTING STANDARDS/ FRAMEWORKS	DETAILED DESCRIPTION	OBJECTIVE	INDUSTRY FOCUS	AUDIENCE	USER
Sustainability Accounting Standards Board (SASB)	The Sustainability Accounting Standards Board published in 2018 a set of standards for 77 different industries (Sustainable Industry Classification System[32] is used), which identify the minimum set of financially material sustainability topics and their associated metrics for a typical company in a given industry.	**THE SASB is more granular in scope than some of the other frameworks**. SASB focuses on financially material issues for specific industries that are built around 5 dimensions; environment, social, capital, human capital, business model & innovation, leadership and governance.	SASB Standards are industry-specific and cover a wide range of sectors, including: • Financials • Health Care • Technology & Communications • Transportation • Utilities	Investors	Best for large companies; approximately **800 participants** use SASB around the world
Task Force on Climate-Related Financial Disclosure (TCFD)	THE TCFD was created in 2015 by the Financial Stability Board (FSB) to create consistent disclosures of climate-related financial risks for use by companies with a predominantly financial interest, including banks, shareholders and investors.	Its goal is to help financial markets better assess and value those risks and opportunities, namely: Improve market pricing and reduce the potential or large, abrupt corrections in asset values	TCFD recommendations are applicable to all industries and sectors. However, certain industries face specific climate-related risks, such as: • Energy & Extractive Industries (Oil and Gas, Mining)	Investors	Best for large companies **More than 3,800 organizations** have become supporters of the TCFD recommendations, including over 1,500 financial institutions, responsible for assets of $217 trillion.[33] 257 banks that have endorsed The TCFD since Q2 2020, there's

[32] SICS® uses sustainability profiles to group similar companies within industries and sectors. In SICS®, a company's sustainability risks and opportunities are more important for its classification than other traditional factors, such as economic cycles and revenue streams. A company's SICS® classification is determined by overlaying its sustainability framework to other industry taxonomies.

[33] 2022 TCFD Status Report: Task Force on Climate-related Financial Disclosures - Financial Stability Board (fsb.org)

REPORTING STANDARDS/ FRAMEWORKS	DETAILED DESCRIPTION	OBJECTIVE	INDUSTRY FOCUS	AUDIENCE	USER
	A key feature of the TCFD recommendations is **the requirement to test strategic resilience into the future using scenario analysis.** Although voluntary so far, reporting based on the TCFD would become mandatory in 2020 for **all asset owners and managers who have signed the UN Principles for responsible investment.**	that can destabilize financial markets; Reveal underlying system-wide exposures; and help market participants and other stakeholders assess to what extent companies are considering and managing climate-related risks and opportunities.	• Heavy Industry and Manufacturing • Financial Services • Real Estate • Agriculture and Food Production		been a 131% increase in the number of banks endorsing TCFD, accounting for 60% of banking assets worldwide. TCFD reports tend to reflect actual maturity in ESG strategy and execution, so are a good proxy for progress on the sustainability agenda. [34]
Carbon Disclosure Project **(CDP)**	CDP is an international NGO that operates a global disclosure system for investors, companies, cities, states and regions to manage their environmental impact through CDP's Corporate Environmental Action Tracker (CEAT). [35]	Each year, CDP takes the information obtained through its annual reporting process and scores companies and cities based on their environmental performance. The scoring methodology is fully aligned with regulatory boards and standards, and provides comparability in the market.	Applicable to participant operating in any industry that discloses environmental data related to climate change, forests water, security and supply chain.	Investors, supply chain	Best for medium to large companies. **Over 9,600 participants** including more than 8,400 businesses, 800 cities, and 120 states and regions have reported through CDP on climate change, water security, and deforestation.

[34] TCFD – 2022 Global Progress Report for Banks | Accenture

[35] https://www.cdp.net/en/data/corporate-environmental-action-tracker

REPORTING STANDARDS/ FRAMEWORKS	DETAILED DESCRIPTION	OBJECTIVE	INDUSTRY FOCUS	AUDIENCE	USER
IFRS® **International Financial Reporting Standards** **(IFRS)**	IFRS is a set of rules and guidelines that every firm has to adhere to ensure their financial statements are consistent with other firms worldwide. The ISSB standards **are designed to ensure that companies provide sustainability-related information alongside financial statements—in the same reporting package.** The standards have been developed to be used in conjunction with any accounting requirements. They are also built on the concepts that underpin the IFRS accounting standards, which are required by more than 140 jurisdictions. The ISSB standards are suitable for application around the world, creating a truly global baseline.	IFRS aim for developing **globally accepted accounting standards** aiming at transparent, comparable and high-quality financial information, as well as a **common language** for consistent financial reporting. IFRS S1 provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunities they face over the short, medium and long term. IFRS S2 sets out specific climate-related disclosures and is designed to be used with IFRS S1. **Both fully incorporate the recommendations of the TCFD.**	Across any industry including baking and financial services, energy, telecommunication, retail and automotive. The International Sustainability Standards Board (ISSB) has issued its inaugural standards—IFRS S1 and IFRS S2 —ushering in a new era of sustainability-related disclosures in capital markets worldwide. The standards will help to improve trust and confidence in company disclosures about sustainability to inform investment decisions.	Investors	Best for large listed companies including banks, insurance companies, asset management companies etc. *Note: now that IFRS S1 and IFRS S2 are issued. THE ISSB will work with jurisdictions and companies to support adoption. the first steps will be creating a transition implementation group to support companies that apply the standards and launching capacity-building initiatives to support effective implementation.* *The ISSB will also continue to work with jurisdictions wishing to require incremental disclosures beyond the global baseline and with GRI to support efficient and effective reporting when the ISSB standards are applied in combination with other reporting standards.*

REPORTING STANDARDS/ FRAMEWORKS	DETAILED DESCRIPTION	OBJECTIVE	INDUSTRY FOCUS	AUDIENCE	USER
Un Principles for Responsible Investment (UN PRI)	The United Nations launched the principles for responsible investment in 2006 to **help investors incorporate ESG factors into their investment and ownership decisions.**	The six principles are a set of voluntary investment principles, supported by 35 possible actions, that investors can use to integrate ESG factors into investment practices.	The PRI has specifically aligned its work with the UN SDGs, and in 2020, it also made reporting based on **the TCFD mandatory** for its signatories operating in financial industries.	Investors *Note: The international network of signing investors has grown from 100 to more than 2,300, representing more than $80 trillion in assets under management*	Best for investment managers, asset owners, service providers
UNEP FI Principles For Responsible Banking	The Principles for Responsible Banking have been designed by a group of 30 "founding banks" together with the United Nations environment program finance initiative.	The PRBS are a unique framework to **ensure that the strategy and practice of the signatory banks are in line with the vision that society** has established for its future in the sustainable development goals and	Banking sector	Customers and other stakeholders	All signatory banks

REPORTING STANDARDS/ FRAMEWORKS	DETAILED DESCRIPTION	OBJECTIVE	INDUSTRY FOCUS	AUDIENCE	USER
(PRB)		the Paris Climate Agreement.			
International Integrated Reporting Framework (IR)	First published in 2013 alongside the principles for integrated thinking, **the international integrated reporting framework is a principles-based guide for preparing corporate communications**. The framework proposes a scheme of stocks of different types of capitals that interact and transform each other, and it is the net increases or decreases in these capitals that determine whether an organization creates, preserves, or diminishes value.	The IR offers a series of guidelines **so that companies of any size and industry can integrate their financial and sustainability or non-financial information** to effectively communicate the way in which the organization creates value over time.	Applicable across any industry	All stakeholders including investors, policymakers, capital markets, and civil society	Companies of any size
The Green Bond Principles (GBP)	The Green Bond Principles are voluntary guidelines that **provide transparency and disclosure recommendations for issuers of green bonds worldwide.** They outline the process for selecting, verifying, and reporting on the environmental benefits of projects financed by green bonds.	The GBP aims to ensure that **green bond proceeds** are used for environmentally sustainable activities and enables investors worldwide to make informed decisions.	Applicable across any industry	Investors	Corporates, governments, banks

REPORTING STANDARDS/ FRAMEWORKS	DETAILED DESCRIPTION	OBJECTIVE	INDUSTRY FOCUS	AUDIENCE	USER
Climate Bonds Initiative (CBI)	CBI provides **a certification and reporting framework for green bonds worldwide**. It verifies and classifies bonds that are dedicated to financing climate and environmental projects. The cbi certification process involves assessing the bond's alignment with specific criteria, including project selection, management, and reporting.	CBI promotes transparency and credibility in the global green bond market.	Applicable across any industry	Investors	Corporates, governments, banks
Taskforce on Nature-Related Financial Disclosure (TNFD)	The TNFD is an emerging initiative **focused on developing a framework for reporting on nature-related risks and opportunities worldwide**. TNFD seeks to encourage organizations worldwide to assess and disclose their exposure to nature-related risks and their contributions to preserving and restoring natural capital. It is expected to be finalized in September, 2023.	It aims to enhance the understanding and disclosure of dependencies and impacts on nature and biodiversity globally. The TNFD recommends that companies disclose on the full set of nature-related dependencies, impacts, risks and opportunities, including climate, of their operations and across their value chain	Applicable across any industry	Investors, banks, insurance companies, stock exchanges, accounting firms, regulators, analysts	Companies, any type of organizations interested in understanding risks and opportunities associated with nature-related impacts.

The Most Recent Updates about Top 5 Reporting Standards

- *On November 3rd 2021, the IFRS Foundation announced that it would form a new International Sustainability Standards Board (ISSB), as well as the consolidation of the Climate Disclosure Standards Board and the Value Reporting Foundation (VRF—which houses the Integrated Reporting Framework and the SASB Standards) by June 2022.*
- *ISSB has now taken over SASB and integrated SASB into the new ISSB (IFRS) sustainability S1 and climate S2 reporting standards. These global standards will accelerate regulatory efforts on sustainability, provide a common framework for reporting, and improve the usability and transparency of sustainability disclosures (see the next section for further information).*
- *The IFRS Foundation, CDP and the Climate Disclosure Standards Board (CDSB) confirm that, further to the announcement of 3 November 2021, CDSB has been consolidated into the IFRS Foundation.*

It is important to note that while certain standards are commonly used in specific industries, many organizations and sectors adopt multiple reporting frameworks based on their specific needs and stakeholder expectations. For example, SASB and GRI approach ESG from significantly different perspectives and, as a result, companies frequently use both to be highly inclusive. Some indicators might need to be adapted to specific characteristics of a company in order to ensure proper or more accurate sustainable reporting. **Thus, the adoption of sustainability reporting standards can vary among companies within the same industry**. But while companies can select or refer to the reporting framework that best fits their industry, organization, or stakeholder expectations, this freedom implies **a lack of standardization that hinders the effectiveness of the sustainability reporting concept.** In fact, the multiplication of reporting frameworks makes published information more difficult to interpret in the markets, taking sustainability reporting away from its main objective of transparency and comparison between firms and among peer performance.

2.3 EFFORTS TO ALIGN REPORTING AND DISCLOSURE STANDARDS

In this section we describe the effort being made to consolidate some of the disclosure and reporting standards. After a decade of proliferating sustainability reporting frameworks, over the past several years we appear to have entered a period of "harmonization" – i.e., the connecting of one framework to another for comparison and alignment purposes, a reduction in variations across frameworks, and possibly even some consolidation of frameworks – as in the case of the IFRS detailed below. But the impact and staying power of many of these "harmonization" initiatives remain uncertain.

Recently, ESG Consolidation and Collaboration has taken place. **GRI, SASB, IIRC, CDP, and CDSB** announced a commitment to aligning reporting frameworks and developing a "comprehensive corporate reporting system" in 2020. In June 2021, US-based SASB and London-based IIRC merged to form VRF with the goal of helping companies use integrated reporting to drive a more holistic approach to enterprise value creation. Only six months later, during the UN Climate Change Conference in Glasgow (COP26), the IFRS Foundation announced the formation of the ISSB and the intention to consolidate CDSB and VRF into

ISSB in 2022. That consolidation is now complete. The International <IR> reporting framework is now part of the IFRS Foundation.

The ISSB, an independent organization within the private sector, is responsible for creating and endorsing the IFRS Sustainability Disclosure Standards (IFRS SDS). the organization has global support from prominent entities like the G7, G20, IOSCO, the Financial Stability Board, as well as Finance Ministers and Central Bank Governors from over 40 jurisdictions across Africa and beyond.[36]

On June 26, 2023, the ISSB introduced its inaugural Sustainability Disclosure Standards, marking a significant milestone in international corporate reporting. These standards consist of two components: **IFRS S1, which outlines general requirements for disclosing sustainability-related financial information emphasizing financial materiality and value chain information, and IFRS S2, which focuses specifically on climate-related risks and opportunities**. Both IFRS S1 and IFRS S2 will become effective for annual reporting periods beginning on or after January 1, 2024.

For the initial year of implementing IFRS S1 and IFRS S2, entities have the option of a 'climate first' transition, enabling them to provide solely climate-related disclosures. Both standards incorporate the recommendations from TCFD.

The mandatory adoption of these Sustainability Disclosure Standards is contingent on the endorsement or regulatory procedures of each jurisdiction. It is important to note that the application of these disclosure standards is separate from the application of IFRS Accounting Standards.[37]

[36] https://www.ifrs.org/groups/international-sustainability-standards-board/

[37] https://www.ey.com/en_gl/ifrs-technical-resources/issb-issues-inaugural-ifrs-sustainability-disclosure-standards

Figure 8 Convergence of Voluntary Sustainability Disclosure Standards, 2023 - Source: KIRKLAND & ELLIS

As Figure 8 above shows, sustainability standards pioneer GRI will still exist on its own. But GRI and ISSB are collaborating to harmonize efforts, suggesting that the two standards "can be viewed as two interconnected reporting pillars that address distinct perspectives, which can together form a comprehensive corporate reporting regime for the disclosure of sustainability information." Similarly, the more climate-focused TCFD will continue to operate independently. TCFD's recommendations, which gained the G20's endorsement in 2021, are strongly influencing ISSB's approach. [38]

On a final note, The Better Alignment Project, an initiative of the Corporate Reporting Dialogue (CRD), brought together CDP, CDSB, GRI, IIRC and SASB to explore how these framework and standards setters can work together more to better support organizations in preparing environmental, social and

[38] https://www.auditboard.com/blog/beyond-esg-issb-consolidation-heralds-a-new-era-in-corporate-reporting-and-assurance/

governance (ESG) disclosures. The effort resulted in a 120+ page report[39] which sought to improve the coherence, consistency and comparability of the participants' frameworks and standards.

Five outcomes sought through the Better Alignment Project were:

- Visible and demonstrable improvement in coherence, consistency and comparability amongst the corporate reporting frameworks and standards represented in the CRD.
- Better awareness in the market of efforts to align frameworks and the extent to which different reporting frameworks differ and are complementary.
- Expedited disclosure of the four core elements of climate-related financial disclosures (i.e. Strategy; Governance; Risk Management; and Metrics and Targets) in mainstream financial reports, as recommended by the TCFD within the paradigm shift towards the integration of financial and non-financial information
- Contributing to better pricing-in of ESG-related externalities by financial markets, essential for the long-term efficient allocation of capital and alignment of capital markets with the risks and opportunities of climate change.
- Aligned information with respect to companies' impact on a sustainable economy.

The final report recommendations were as follows:

- Developing a taxonomy to guide users on the meaning of different terminologies and methods used within the Participants' frameworks and standards, including articulating commonalities and interrelationships;
- Building an online, interactive tool that brings together the frameworks and standards, allowing users to understand how they can be used individually and/or together effectively for different reporting purposes; and
- Convening a formal technical forum for the participants to benefit from further exchange of developments, ideas and plans between and across technical teams, therein promoting greater long-term alignment

It can be seen from these topics and issues that indeed reporting is complex and that framework and standards setters need to continue to work together more to better support organizations in preparing environmental, social and governance (ESG) disclosures. We can expect more alignment across the major voluntary reporting frameworks, and some limited consolidation of standards. The aim of most of the harmonization initiatives currently underway is to improve the alignment of voluntary reporting criteria and standards with one another. The approach recognizes the different but complementary value of the various standards that have been adopted in the marketplace. And with voluntary reporting standards in flux, efforts to introduce mandatory reporting standards are gaining traction in the EU. There has also been progress with the introduction of sustainability reporting standards from the IFRS.

[39] https://www.globalreporting.org/media/5wuhv3u2/crd_driving-alignment-in-climate-related-reporting_2019.pdf

2.4 LINK BETWEEN TAXONOMIES AND REPORTING AND DISCLOSURE STANDARDS

In this section, we look in more detail at GRI, IFRS and TCFD reporting standards to determine how they link to Green Taxonomies. We provide images of the actual standard and the sections under which green activities would be reported. **The content and requirements of the standards do not reference green taxonomies** (a keyword search of the documents also does not find green taxonomy term). Thus, for now, with the exception of the EU, Green Taxonomy Reporting and Sustainability Reporting are treated separately.

Even though the reporting and disclosure standards do not reference any green taxonomies, obviously the reporting entity will have the opportunity to report in their annual sustainability report on any taxonomy qualified green activity. For example, for a coal company which is reporting under the GRI, they would use the GRI 12 coal sector standard[40] and list the qualified activities in the field framed in the Figure 9 below, which can also be found on page 17 of the standard. The company would also reference the applicable green taxonomy and document that eligible activities are qualified under a specific green taxonomy and provide details how the reported activity has met the technical screening criteria.

Figure 9 Example of GRI 12 Coal Sector 2022 Disclosure Standards

Topic Standard disclosures		
GRI 201: Economic Performance 2016	Disclosure 201-2 Financial implications and other risks and opportunities due to climate change *Additional sector recommendations* • Report the emissions potential for proven and probable reserves.[5] • Report the internal carbon-pricing and coal pricing assumptions that have informed the identification of risks and opportunities due to climate change. • Describe how climate-change related risks and opportunities affect or could affect the organization's operations or revenue, including: - development of currently proven and probable reserves; - potential write-offs and early closure of existing assets; - coal production volumes for the current reporting period and projected volumes for the next five years. • Report the percentage of capital expenditure (CapEx) that is allocated to investments in: - prospection, exploration, acquisition, and development of new reserves; - expansion of current coal mines; - energy from renewable sources (by type of source); - technologies to remove CO_2 from the atmosphere and nature-based solutions to mitigate climate change; - research and development initiatives that can address the organization's risks related to climate change.	12.2.2

If not reporting under a specific industry standard, a company may report its green activities under the GRI 3 Material Topics 2021, page19) -see Figure 10). The organization is required to report this disclosure for each of its material topics. The requirements in this disclosure apply to every material topic.

[40] https://www.globalreporting.org/search/?query=GRI+12

Figure 10 GRI 3 Material Topics,2021

Disclosure 3-3 Management of material topics

REQUIREMENTS

For each material topic reported under Disclosure 3-2, the organization shall:

a. describe the actual and potential, negative and positive impacts on the economy, environment, and people, including impacts on their human rights;

b. report whether the organization is involved with the negative impacts through its activities or as a result of its business relationships, and describe the activities or business relationships;

c. describe its policies or commitments regarding the material topic;

d. describe actions taken to manage the topic and related impacts, including:

i. actions to prevent or mitigate potential negative impacts;
ii. actions to address actual negative impacts, including actions to provide for or cooperate in their remediation;
iii. actions to manage actual and potential positive impacts;

e. report the following information about tracking the effectiveness of the actions taken:

i. processes used to track the effectiveness of the actions;
ii. goals, targets, and indicators used to evaluate progress;
iii. the effectiveness of the actions, including progress toward the goals and targets;
iv. lessons learned and how these have been incorporated into the organization's operational policies and procedures;

Under the IFRS, the company may report its Green Investments under IFRS S2 Climate-related Disclosures – Metrics and Targets section, page 14 and 15[41] (Please see Figure 11-12). In preparing disclosures to meet the requirements, an entity shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort. Even when reporting under IFRS, the reporting entity is required to refer to and consider the applicability of the disclosure topics in the SASB Standards.

Figure 11 IFRS S2 - Climate Related Disclosures June 2023, Metrics and Targets

Metrics and targets

27 The objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reports to understand an entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

Figure 12 IFRS S2- Climate Related Disclosures June 2023, Climate Related Metrics

(b) climate-related transition risks—the amount and percentage of assets or business activities vulnerable to climate-related transition risks;

(c) climate-related physical risks—the amount and percentage of assets or business activities vulnerable to climate-related physical risks;

(d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities;

(e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;

[41] https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards-issb/english/2023/issued/part-a/issb-2023-a-ifrs-s2-climate-related-disclosures.pdf?bypass=on

And finally, under the TCFD - Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures[42], the entity would select the Opex or Capex category and metric and most likely report in their sustainability report using Table 5 in section 2.2 A Large Number of International Reporting and Disclosure Standards as a guide as seen in the below Figure 13.

Figure 13 Potential Climate Related Impacts by Financial Category, Implementing the Recommendations of TCFD 2017

Table A5

Examples of Potential Climate-Related Impacts by Financial Category

Category and Definition	Climate-Related Implications[37]	Examples of Potential Financial Impacts	Rationale and Illustrative Metrics
Revenue Income from normal business activities, usually from the sale of goods and services	Changing market demand for product and services due to climate-related risks/ opportunities, such as a shift in customer preferences. Sensitivity of existing revenue streams, products, and services to constraints on, or perceptions of, carbon intensity, emissions, water intensity, land use. Development of new revenue streams, products, and services in response to climate-related opportunities.	- Revenue from operational disruption +/- Revenue from changing sales of products/services	Drivers of climate change, such as water usage, emissions, and land use are expected to be the focus of regulations (e.g. standards, emission limits, carbon prices), technology development, and market changes. These policy, market, and technology changes may result in a significant shift in an organization's future earning capacity depending on the emissions, energy, and water intensity of its products and services relative to constraints and demands. Example Metrics: • Percentage of revenue by product or service line • Energy, emission, water intensity of each product or service line
Expenditures: OpEx Ongoing cost of running a company	Required or discretionary increases in operating expenditures to address climate-related risk mitigation, adaptation, regulatory requirements, or cost of supply/materials. Decreases in expenses as a result of increased energy or water efficiency in response to climate-related risks.	+ R&D in new technology, products, services +/- Purchased energy and water and other costs of supply/materials + Increased production costs due to changing output requirements (e.g., waste treatment, emissions controls) + Costs to improve energy or water conservation and efficiency capabilities + Expenses to address physical risks (e.g., insurance premiums, recovery expenses)	Drivers of climate change, such as water usage, emissions, and land use are expected to be the focus of regulations (e.g., standards, emission limits, carbon prices), technology development, and market changes. These policy, market, and technology changes may result in a significant shift in an organization's cost of supply and operating expenses depending on the emissions, energy, and water intensity and land use of an organization in its business activities. Example Metric: • Percentage of R&D expenditures for low-carbon alternatives and energy/water efficiencies
Assets: CapEx An expense where the benefit continues over a long period; non-recurring nature; results in acquisition of permanent assets	Required or discretionary increases in capital expenditures to address climate-related risk mitigation, adaptation, or regulatory requirements.	+ CapEx in equipment or new technologies to manage transition risk, adaptation, and conservation/efficiency efforts + CapEx for physical risk mitigation (e.g., facilities location/hardening, resiliency capabilities) +/- Investment hurdles affected by internal and external carbon prices.	Drivers of climate change, such as water usage, emissions, and land use are expected to be the focus of regulations (e.g., standards, emission limits, carbon prices), technology development, and market changes. These policy, market, and technology changes may result in a significant shift in an organization's planned capital expenditures, including acquisition or disposal of assets, investments in land and facilities, acquisition of new technology, and other shifts, depending on how the organization responds to identified climate-related issues. Example Metrics: • Percentage of CapEx allocated to low-carbon/renewable assets, deployment of low-carbon technology, efficiency of facilities • Internal/External carbon price and discount rate used to establish investment hurdle rates

[42] https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf

Figure 14 Materials and Building Group Metrics, Implementing the Recommendations of TCFD 2017

MATERIALS AND BUILDINGS GROUP METRICS - ILLUSTRATIVE EXAMPLES

Financial Category	Climate-Related Category	Example Metric	Unit of Measure	Alignment	Rationale for Inclusion	Metals and Mining	Chemicals	Construction Materials	Capital Goods	Real Estate
Revenues	Risk Adaptation & Mitigation	Revenues/savings from investments in low-carbon alternatives (e.g., R&D, equipment, products or services)	Local currency	CDP: CC3.2, 3.3, CC6.1 SASB: IF0403-1	New products and revenue streams from climate-related products and services and the return on investments of CapEx projects that create operational efficiencies.	■	■	■	■	■
Expenditures	Risk Adaptation & Mitigation	Expenditures (OpEx) for low-carbon alternatives (e.g., R&D, technology, products, or services)	Local currency	GRI 302-5	Expenditures for new technologies are needed to manage transition risk. The level of expenditures provides an indication of the level to which the future earning capacity of the core business might be affected.	■	■	■	■	■
Expenditures	Energy/Fuel	Total energy consumed, broken down by source (e.g., purchased electricity and renewable sources)	GJ	SASB: IF0402-02 GRI: 302-1	The metals and mining industries are energy- and emission-intensive industries. Buildings also account for a large portion of energy and fuel consumption, particularly in relation to heating. Understanding the levels of energy consumption by source provides an indication of the potential impact of regulatory measures in relation to the use of certain energy sources as well as the transition risks in a low-carbon economy scenario.	■	■	■	■	■
Expenditures	Energy/Fuel	Total fuel consumed—percentage from coal, natural gas, oil, and renewable sources	GJ	SASB: NR0302-04		■	■	■	■	■
Expenditures	Energy/Fuel	Total energy intensity—by tons of product, amount of sales, number of products depending on informational value	GJ	GRI 302-3	In the transition to a low-carbon economy, the energy-efficiency levels achieved in production provide investors with an indication of the vulnerability of the product portfolio to transition risk and thus earning capacity.	■	■	■	■	■
Expenditures	Energy/Fuel	Building energy intensity (by occupants or square area)	GJ	SASB: IF0402-02; GRI: G4-CRE1; GRESB: Q25.2	In the transition to a low-carbon economy, the energy efficiency of properties provides investors with an indication of the vulnerability of the portfolio to transition risk and thus earning capacity of real estate portfolios.					■
Expenditures	Water	Percent of fresh water withdrawn in regions with high or extremely high baseline water stress	Percentage	SASB: NR0401-05	Water stress can result in increased cost of supply, factual inability to produce, and/or legislation to regulate water withdrawal for production. The percent withdrawn in high water-stress areas informs the risk of significant costs or limitations to production capacity.	■	■	■	■	■

Different color codes in Figure 14 refer to various financial impacts that are most likely relevant to reporting organizations. Green is for revenues, turquoise is for expenditures, blue is for assets & liabilities and purple is for capital and financing. Based on the color codes, financial and non-financial organizations understand from which areas they would be affected from.

2.5 LIST OF REPORTING FRAMEWORKS WHICH HAVE BEEN USED BY BANKS

Sustainability reporting requirements for banks specifically are rapidly evolving and becoming more formalized. As green taxonomies are adopted, specific taxonomy reporting (i.e., GAR in the EU) and disclosure is being introduced in some jurisdictions. Otherwise, green taxonomy activities are reported in integrated sustainability reports. Banks operating in multiple jurisdictions may be subject to several disclosure frameworks and have various requirements to comply with. In the section below we provide a list of the most popular voluntary sustainability reporting frameworks which historically have been used by banks. This also depended on whether the bank was a listed company on a stock exchange. The first two IFRS Sustainability Disclosure Standards S1 and S1 have just been issued for implementation in the FY24 reporting cycle, and there are also major developments in jurisdictions like the EU and US. As regulators begin to mandate the reporting requirements, the best practice reporting frameworks will emerge. Our research findings demonstrate that banks have utilized the following historical reporting standards, which highlight the existence of fragmentation:

Equator Principles: The Equator Principles is a risk management framework adopted by financial institutions for assessing and managing environmental and social risks in project financing. It provides guidelines for banks to ensure that projects they finance meet specific environmental and social standards.

Global Reporting Initiative (GRI): The GRI framework is widely used by banks and other industries to report on their sustainability performance. It provides comprehensive guidelines for measuring and reporting on environmental, social, and governance (ESG) factors.

Task Force on Climate-related Financial Disclosures (TCFD): The TCFD framework focuses on climate-related risks and opportunities. It provides recommendations for banks and other organizations to disclose climate-related financial information, including governance, strategy, risk management, and metrics related to climate change.

Principles for Responsible Banking (PRB): PRB is an initiative of the United Nations Environment Programme Finance Initiative (UNEP FI). It provides a framework for banks to align their business strategies with the Sustainable Development Goals (SDGs) and commit to sustainable banking practices.

Carbon Disclosure Project (CDP): The CDP platform allows banks to disclose their environmental data, including carbon emissions, climate risks, and sustainability strategies. It provides transparency and encourages banks to take action on climate change.

Sustainability Accounting Standards Board (SASB): SASB provides industry-specific standards for reporting on financially material sustainability factors. It helps banks identify and disclose ESG issues that are relevant to their industry and business.

United Nations Global Compact (UNGC): The UNGC is a voluntary initiative for businesses to align their operations and strategies with ten universal principles related to human rights, labor, environment, and anti-corruption. Many banks have signed the UNGC and report on their progress in implementing these principles.

The importance of disclosing information about ESG-related risks faced by financial institutions is widely acknowledged as a crucial means to foster market discipline. Governments are increasingly introducing various compulsory ESG-related reporting obligations for financial institutions, including those aligned with the Task Force on Climate-related Financial Disclosures (TCFD). In addition to the existing array of ESG-related reporting requirements, on January 24, 2022, the European Banking Authority (EBA) released its final version of implementing technical standards concerning Pillar 3 disclosures on ESG risks (referred to as the "Final Draft ITS")[43]. These standards provide mandatory templates, tables, and instructions as an extension of the EBA's prudential reporting requirements under the 'Pillar 3 package'. European banks are thus facing the world's strictest rules on ESG reporting. By 2024, the patchy and inconsistent data reported by the sector will be replaced with a rigorous set of new metrics for assessing the sector's sustainability performance. Banks will have to report on how aligned their financing is to the EU Taxonomy, which sets out what activities are officially considered 'sustainable'. The extent of alignment will be expressed by two metrics: the Green Asset Ratio (GAR) and the Banking Book Taxonomy Alignment Ratio (BTAR) – see previous section for detailed explanation. Banks will also have to report their exposure to climate change

[43] https://www.eba.europa.eu/eba-publishes-binding-standards-pillar-3-disclosures-esg-risks

risks and how they are mitigating them, as well as their level of financed greenhouse gas emissions and their alignment with 2050 net-zero goals.

It remains to be seen how the EBA's reporting standards will be adopted by other jurisdictions but the precedent for more extensive risk reporting is being set. The work and recommendations conducted by the SBFN Data & Disclosure Working group[44] should also help consolidate and clarify sustainability reporting for the banking sector. However, The EBA's stringent reporting standards represent a significant shift in the approach to ESG reporting, setting a global precedent for comprehensive, mandatory reporting. With a detailed and standardized set of metrics, they eliminate the ambiguity and inconsistencies seen in previous reporting models. The EBA's approach has the potential to set a new international benchmark, influencing other jurisdictions to adopt similar thorough and precise standards for ESG disclosures, thereby fostering a global shift towards more robust and comparable sustainability reporting in the banking sector.

[44] https://sbfnetwork.org/wp-content/uploads/pdfs/working-groups-data-and-disclosure/TOR_DisclosureWorkingGroup_15March2022.pdf

POTENTIAL ISSUES FACED BY BANKS AND CORPORATES IN CLIMATE RELATED REPORTING

This section discusses potential difficulties that entities face in complying with green taxonomy reporting and disclosure requirements. In light of the observed experiences of businesses, macro and micro-level capacity needs are identified, with takeaway messages for policymakers in Türkiye so that their efforts in developing reporting standards are informed so as to ensure to minimize risks and maximize opportunities for financial and non-financial corporates

During the technical visit between 1-5 May, 2023 in Paris, France, and during the stakeholder workshop organized in Ankara on May 25th, 2023, entities from both financial services industry and non-financial sectors highlighted several challenges (current and potential) that they face in relation to reporting requirements.

- **Data availability and quality:** taxonomy reporting requires comprehensive and accurate data across a wide range of variable and metrics, depending on the scope of the taxonomy and its objectives. Gathering reliable data that is consistent across and within reporting entities is a major challenge. **Entities need to invest in capacity development for their data management to be able to comply with reporting requirements and to identify their alignment/eligibility with taxonomy objectives – such as climate change, circular economy, biodiversity etc. – in terms of their revenue, CapEX and OpEx**. Large entities, which are initially required to disclose, encounter data gaps, and difficulties in obtaining data from suppliers or subsidiaries, making it challenging to provide a complete and accurate picture of their taxonomy eligibility and alignment.
- Data-related challenges are larger **for financial service providers** since their **taxonomy related reporting requirements cover their entire portfolio of investees**. This requires that they need to gather information about the taxonomy alignment of sometimes thousands of entities (e.g., their investees) to be able to comply with the regulation. While third party data providers (e.g., ESG rating agencies, ESG data platforms etc) provide data streams that cover the large segment of the asset universe (listed entities, funds, bonds), major concerns exist in relation to the quality, reliability and consistency of the data that they provide. (Hence the EU's latest sustainable finance package of June 2023 includes proposal to regulate ESG data providers.[45])
- **Extra-jurisdictional information:** Managing extra-jurisdictional information and data in the context of the lack of regulatory alignment with other taxonomies, is a major challenge. Since many large corporates in Türkiye operate in multiple jurisdictions, they would need to gather data across jurisdictions which may create difficulties. Similarly, there are large foreign corporates operate in Türkiye, which may require specific timeline and content scope for reporting.
- **Complex set of principles:** In relation to certain principles of a taxonomy, such as the EU's "Do No Significant Harm and social safeguards (DNSH) and Minimum Social Safeguards (MSS)", reporters have observed difficulties to understand and implement their reporting requirements with sufficient granularity.

[45] 2023/0177 (COD) Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities. https://eur-lex.europa.eu/resource.html?uri=cellar:1243bcf3-0ac8-11ee-b12e-01aa75ed71a1.0001.02/DOC_1&format=PDF

- **Complex and multi-geography supply chains:** Large-scale corporates which are in the scope reporting requirements often operate within complex global supply chains. They may not have full traceability of their value chain, which often includes small entities which lack reporting capabilities. Hence supply-chain level reporting requirements (for example Scope 3 emissions reporting) have been a challenge for large entities that are part of global supply chains. While there are data providers and platforms that assist entities to gather data on their supply chains, the reliability and consistency of supply chain traceability continues to be problematic.
- **Regulatory fragmentation:** In some jurisdictions where sustainable finance-related activities are relatively advanced, entities from both financial services industry and non-financial industries are exposed to multiple reporting requirements mandated by different government agencies. Entities may also be operating in multiple jurisdictions with different reporting requirements. There are also industry specific non-public initiatives (e.g., net-zero alliances) that require regular reporting too. Hence entities face increasingly high cost of compliance. Regulatory fragmentation and related lack of regulatory clarity also leads to mixed market signals, reducing the effectiveness of policy actions in relation to sustainable finance.
- **Multiple reporting standards:** Similar to the implications of regulatory fragmentation, absence of globally recognized reporting standards is a major challenge for entities. While there are initiatives and reporting standards and guidelines as described by this report above (e.g., the Task Force on Climate-related Financial Disclosures (TCFD), UN Global Compact, the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) etc.), financial institutions and non-financial entities face difficulty in choosing their reporting framework. Clear harmonized guidelines and standards would help streamline reporting practices and ensure consistency across the industry.
- **Operational challenges:** Integration of green taxonomies into existing operations of large-scale financial institutions and non-financial entities can be challenging. As large entities tend to have legacy systems, organizations and structures, **integrating taxonomy related considerations into these structures may require significant adjustments. It may require investment in relation to human capital, and readjustments of process and organizations in relation to finance, investment and accounting. They may also need technological tools for monitoring and reporting.**
- **Guidance needs:** Entities that are asked to report need significant practical and interpretive guidance from regulators. The need for substantial guidance on practical, legal and operational advice has been highlighted in the case of EU taxonomy reporting.[46]
- **Dynamic challenges:** Both markets and regulatory environments within which entities operate are evolving rapidly, subject to increasing sustainability demands (from investors, consumers, shareholders), and to new regulations instituted in multiple jurisdictions and by different regulatory agencies. Banks and corporates must be agile to the constantly changing landscape and remain in line with the requirements and expectations of both public and non-public stakeholders.

[46] https://www.unpri.org/eu-taxonomy-alignment-case-studies/testing-the-taxonomy-insights-from-the-pri-taxonomy-practitioners-group/6409.article

- **Capacity development needs for banks and corporates:** Financial and non-financial entities need to invest in capacity development for their data management to be able to comply with reporting requirements. Some of these entities operate in multiple jurisdictions, hence they need to monitor and comply with reporting requirements in other jurisdictions too. Large-scale corporates which are in the scope reporting requirements often operate within complex global supply chains. Hence, they need to develop capacity to monitor and report on their supply chains. Financial and non-financial entities would need to invest in **human resources and technological tools for regulatory compliance.** Beyond regulatory compliance, they would need expertise to benefit from the opportunities that alignment with a green taxonomy may bring in the form of having access to new source of sustainable finance, investments, higher market valuation, customer and employee loyalty.

Addressing these multiple difficulties require rethinking of corporate management in relation to designing corporate sustainability strategies, with practical roadmaps, including investing in human resources, data collection, monitoring and management systems, engaging in public-private-partnerships, closely following policy and industry developments at the global, regional and country levels, and investing in sustainability regulation compliance.

RECOMMENDATIONS FOR A SUPPORTIVE ECOSYSTEM FOR TAXONOMY-ALIGNED REPORTING IN TÜRKİYE

In light of the difficulties that users of the taxonomies currently and potentially encounter, this section lists important macro and micro level capacity needs, which may inform policy makers in Türkiye so that their efforts in developing reporting requirements and related guidelines maximize the uptake, efficiency and effectiveness of Türkiye's upcoming taxonomy.

Green finance strategy at the macro-economic level: Türkiye needs to develop a macro-level sustainable finance strategy and roadmap that is in line with its net-zero targets and other SDGs objectives. The document would identify finance needs and investment-gaps to achieve those targets. It would project the need for private finance vis a vis government funding and hence setting objectives in relation to channeling/re-directing financial flows to green transition areas. The strategy would also identify areas of institutional development, while laying out the roles and responsibility of public agencies, assigning them certain time-bound KPIs to achieve financial goals. The sustainable finance strategy of Türkiye can be developed by a group of high-level experts and policy makers across critical government agencies, which then be opened for policy consultations. The final strategy document would be the reference/guidance document for all sustainable finance-related policies and regulations. It would also signal the financial markets about the objectives and milestones of green transition and its implications for markets.

Science-based transition pathway for high emitting sectors: Türkiye needs to identify science-based transition pathways for its high emitting sectors. The sectoral transition pathways, which would be in line with Türkiye's net-zero targets would need to include the analysis of investment needs and technological requirements. The sectoral transition pathways with financial need assessments would inform the overall green finance strategy (above) while also informing the objectives and the technical screening criteria for the green taxonomy (which could then be used for reporting purposes).

Türkiye's Green taxonomy as the fundamental pillar of the green ecosystem: Positioning the green taxonomy as the country's fundamental pillar of sustainable finance regulation will be key component of Türkiye's ecosystem for green transition. This offers an opportunity **to design the green taxonomy as a piece of legislation that would guide other regulations**. Hence the scope, principles, priority areas and users of the taxonomy, its reporting requirements and guidelines, and the institutional mechanisms around it need to be defined and developed strategically to allow the taxonomy to play a central role.

Single sustainability reporting: Türkiye may choose to develop a single reporting framework and format to cover the landscape of reporting requirements. Instead of instituting multiple reporting requirements (like the EU's, SFDR, CSRD, Green Taxonomy) a single taxonomy reporting that would apply across sectors would be effective and efficient. It would ease regulatory compliance for reporting entities, and it would also ease regulatory oversight by government agencies. It would constitute a single point of report to inform all relevant stakeholders.

Public institutional capacity development on data management: Data-related challenges have been identified as a major source of concern throughout various components of this project. Public sector–driven data capabilities will need to be developed as part of Türkiye's green taxonomy development, which would consolidate, standardize, monitor and report sustainability data. Regulation and oversight of ESG data providers would also be needed. **A Taxonomy Data Steering Committee** may be developed

to bring together international organizations, regulators, policy makers and data service providers to advise on the creation and design of an open-data public platform that will collect, aggregate, and standardize data based on private sector taxonomy reporting.

In the earlier stage of taxonomy implementation, establishing a dedicated GHG emissions data platform would serve as a centralized repository for collecting, analyzing, and disseminating data related to greenhouse gas emissions. By consolidating and standardizing GHG data, organizations/institutions can enhance their ability to monitor and report emissions accurately. Banks should also play a proactive role in encouraging borrowers to provide this data which needs to be made mandatory by the regulators.

Institutional capacity building in regulatory oversight: Public institutional capacity development efforts would be needed, in a coordinated manner, to validate sustainability claims (to avoid green washing at products and services levels), and to provide regulatory oversight to make sure efficient compliance with taxonomy reporting. As part of these efforts, Türkiye may establish a second opinion agency that can provide a second opinion on green projects. Türkiye may also develop institutional capacity for product labelling for financial products – providing information to final consumers.

Clearly staged simple reporting timeline: Türkiye may consider applying a simple reporting timeframe for corporates. There should not be to many layers of timeline for reporting which confuses users (which seems to be the case in the EU). Two, at most three-stage timeline to cover the pre-defined universe of entities would be sufficient. It would need to be communicated clearly to all entities in a way that each user would easily identify what stage of the timeline applies to them. Türkiye may also adopt the same timeline for both domestic and foreign entities operating in its jurisdiction.

Accreditation for auditors: Türkiye may want to define accreditation standards for auditors in relation to its green taxonomy. Mandatory audit requirements could be part of reporting mandates for corporates and financial market participants.

Capacity development to support green projects: Türkiye may launch a database of identified priority taxonomy aligned projects (with some basic feasibility information already prepared) and host periodic meetings for potential investors (funds, venture capitalist, donor community) to feature potential projects to make it easier to channel investment. A special support facility, i.e., green accelerator programme, which may be created to help green entrepreneurs during the early stage of their business development.

SME capacity development for reporting: Supporting small and medium-sized enterprises (SMEs) is of great importance for Türkiye given their prominence in the real economy. It is important to **invest in capacity development and awareness among SMEs to help them unlock their potential to access green finance**. The scope and the scale of existing collaborations with multilateral development banks, international development agencies and commercial banks could be enlarged the support the ecosystem to support SME's green transition. While the initial reporting requirements often exclude SMEs, the scope of mandatory reporting is expected to cover SMEs at later stages of taxonomy development. It would be beneficial to start to process of SME capacity development at an early stage of the green taxonomy implementation. The readiness, capacity, regulatory burden, and cost to SME's should first be considered and analyzed before any SME reporting requirements are considered. A single, simple, and free reporting platform should be made available to SME's once any reporting is mandatory. SME's will already be

required to report some ESG data to their large corporate clients who need to report metrics in their supplier value chains.

Capacity in developing human resources: The development and implementation of an effective taxonomy with its reporting requirements would require large teams in multiple government agencies with financial and sectoral expertise.

Annex-1 Reporting Templates for Non-financial Undertakings

A) Proportion of turnover from products or services associated with Taxonomy-aligned economic activities

The proportion of turnover should be calculated as the part of the net turnover derived from products or services, including intangibles, associated with Taxonomy-aligned economic activities (numerator), divided by the net turnover (denominator). The proportion should be reported on the right-hand side of the form in the designated box for the reporting year, and the previous year (if reported).

Similarly, entities should report on their revenues which are taxonomy eligible but not taxonomy aligned (hence the substantial contribution and DNSH sections of the form are blinded for those activities).

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')										
Economic activities (1)	**Code(s) (2)**	**Absolute turnover (3)**	**Proportion of turnover (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine resources (13)**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum safeguards (17)**	**Taxonomy-aligned proportion of turnover, year N (18)**	**Taxonomy-aligned proportion of turnover, year N-1 (19)**	**Category (enabling activity or) (20)**	**Category '(transitional activity)' (21)**
		Currency	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES			%																	
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Activity 1 [1]				%	%	%	%	%	%		Y	Y	Y	Y	Y	Y	%		E	
Activity 2			%	%	%	%	%	%	%	Y	Y		Y	Y	Y	Y	%			

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')										
Economic activities (1)	**Code(s) (2)**	**Absolute turnover (3)**	**Proportion of turnover (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine resources (13)**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum safeguards (17)**	**Taxonomy-aligned proportion of turnover, year N (18)**	**Taxonomy-aligned proportion of turnover, year N-1 (19)**	**Category (enabling activity or) (20)**	**Category '(transitional activity)' (21)**
		Currency	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E	T
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)			%	%	%	%	%	%	%								%			
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Activity 1			%																	

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activities (1)	**Code(s) (2)**	**Absolute turnover (3)**	**Proportion of turnover (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine resources (13)**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum safeguards (17)**	**Taxonomy-aligned proportion of turnover, year N (18)**	**Taxonomy-aligned proportion of turnover, year N-1 (19)**	**Category (enabling activity or) (20)**	**Category '(transitional activity)' (21)**
		Currency	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E	T
Activity 3			%																	
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)			%																	
Total (A.1 + A.2)			%														%		%	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities (B)			%																	
Total (A + B)			%																	

(1) Activity 1 is Taxonomy-eligible in its entirety. However, only a proportion of it is Taxonomy-aligned. Therefore, Activity 1 may be reported under both A1 and A2. However, only the proportion reported under A1 may be counted as Taxonomy-aligned in the turnover KPI of the non-financial undertaking.

B) Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering year N

For CapEx, the denominator should cover additions to tangible and intangible assets during the financial year considered before depreciation, amortization and any re-measurements, including those resulting from revaluations and impairments, for the relevant financial year and excluding fair value changes. The denominator shall also cover additions to tangible and intangible assets resulting from business combinations.

The numerator equals to the part of the capital expenditure included in the denominator that is any of the following: related to assets or processes that are associated with Taxonomy-aligned economic activities; part of a plan to expand Taxonomy-aligned economic activities or to allow Taxonomy-eligible economic activities to become Taxonomy-aligned ('CapEx plan'); related to the purchase of output from Taxonomy-aligned economic activities and individual measures enabling the target activities to become low-carbon or to lead to greenhouse gas reductions.

Below, on the reporting format, for economic activities listed by the entity, taxonomy aligned and eligible Capex need to be calculated and entered into designated boxes.

Similarly, entities should report on their Capex which are taxonomy eligible but not taxonomy aligned (hence the substantial contribution and DNSH sections of the form are blinded for those activities).

				Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm')										
Economic activities(1)	**Code(s) (2)**	**Absolute CapEx (3)** Currency	**Proportion of CapEx (4)** %	**Climate change mitigation (5)** &	**Climate change adaptation (6)** %	**Water and marine resources (7)** %	**Circular economy (8)** %	**Pollution (9)** %	**Biodiversity and ecosystems (10)** %	**Climate change mitigation (11)** Y/N	**Climate change adaptation (12)** Y/N	**Water and marine resources (13)** Y/N	**Circular economy (14)** Y/N	**Pollution (15)** Y/N	**Biodiversity and ecosystems (16)** Y/N	**Minimum safeguards (17)** Y/N	**Taxonomy-aligned proportion of CapEx, year N (18)** Percent	**Taxonomy-aligned proportion of CapEx, year N-1 (19)** Percent	**Category (enabling activity) (20)** E	**Category (transitional activity (21)** T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Activity 1 (1)			%	%	%	%	%	%	%	Y	Y	Y	Y	Y	Y	Y	%		E	
Activity 2			%	%	%	%	%	%	%	Y	Y	Y	Y	Y	Y	Y	%			

			Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm')									
Economic activities(1)	**Code(s) (2)**	**Absolute CapEx (3)** Currency	**Proportion of CapEx (4)** %	**Climate change mitigation (5)** &	**Climate change adaptation (6)** %	**Water and marine resources (7)** %	**Circular economy (8)** %	**Pollution (9)** %	**Biodiversity and ecosystems (10)** %	**Climate change mitigation (11)** Y/N	**Climate change adaptation (12)** Y/N	**Water and marine resources (13)** Y/N	**Circular economy (14)** Y/N	**Pollution (15)** Y/N	**Biodiversity and ecosystems (16)** Y/N	**Minimum safeguards (17)** Y/N	**Taxonomy-aligned proportion of CapEx, year N (18)** Percent	**Taxonomy-aligned proportion of CapEx, year N-1 (19)** Percent	**Category (enabling activity) (20)** E	**Category (transitional activity (21)** T
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)			%	%	%	%	%	%	%								%			
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Activity 1			%																	
Activity 3			%																	

				Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm')										
Economic activities(1)	Code(s) (2)	Absolute CapEx (3)	Proportion of CapEx (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy -aligned proportion of CapEx, year N (18)	Taxonomy-aligned proportion of CapEx, year N-1 (19)	Category (enabling activity) (20)	Category (transitional activity (21)
		Currency	%	&	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E	T
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)			%																	
Total (A.1 + A.2)			%														%		%	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities (B)			%																	
Total (A + B)			%																	

(1) Activity 1 is Taxonomy-eligible in its entirety. However, only a proportion of it is Taxonomy-aligned. Therefore, Activity 1 may be reported under both A1 and A2. However, only the proportion reported under A1 may be counted as Taxonomy-aligned in the CapEx KPI of the non-financial undertaking

C) Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering year N

The proportion of OpEx shall be calculated as the numerator divided by the denominator as specified:

The denominator shall cover direct non-capitalized costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment by the undertaking or third party to whom activities are outsourced that are necessary to ensure the continued and effective functioning of such assets.

The numerator equals any of the following:

- related to assets or processes associated with Taxonomy-aligned economic activities, including training and other human resources adaptation needs, and direct non-capitalized costs that represent research and development;
- part of the CapEx plan to expand Taxonomy-aligned economic activities or allow Taxonomy-eligible economic activities to become Taxonomy-aligned;
- related to the purchase of output from Taxonomy-aligned economic activities and to individual measures enabling the target activities to become low-carbon or to lead to greenhouse gas reductions as well as individual building renovation measures and provided that such measures are implemented and operational within 18 months.

Below, on the reporting format, for economic activities listed by the entity, taxonomy aligned and eligible Opex need to be calculated and entered into designated boxes.

Similarly, entities should report on their Opex which are taxonomy eligible but not taxonomy aligned (hence the substantial contribution and DNSH sections of the form are blinded for those activities).

				Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm')									
Economic activities (1)	**Code(s) (2)**	**Absolute OpEx (3)**	**Proportion of OpEx (4)**	**Climate change mitigation (5)**	**Climate change adaptation (6)**	**Water and marine resources (7)**	**Circular economy (8)**	**Pollution (9)**	**Biodiversity and ecosystems (10)**	**Climate change mitigation (11)**	**Climate change adaptation (12)**	**Water and marine resources (13)**	**Circular economy (14)**	**Pollution (15)**	**Biodiversity and ecosystems (16)**	**Minimum safeguards (17)**	**Taxonomy-aligned proportion of OpEx, year N (18)**	**Taxonomy-aligned proportion of OpEx, year N-1 (19)**	**Category (enabling activity) (20)**	**Category (transitional activity (21)**
		Currency	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
Activity 1 [1]			%	%	%	%	%	%	%	Y	Y	Y	Y	Y	Y	Y	%		E	
Activity 2			%	%	%	%	%	%	%	Y	Y	Y	Y	Y	Y	Y	%			

				Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm')										
Economic activities (1)	**Code(s) (2)**	**Absolute OpEx (3)** Currency	**Proportion of OpEx (4)** %	**Climate change mitigation (5)** %	**Climate change adaptation (6)** %	**Water and marine resources (7)** %	**Circular economy (8)** %	**Pollution (9)** %	**Biodiversity and ecosystems (10)** %	**Climate change mitigation (11)** Y/N	**Climate change adaptation (12)** Y/N	**Water and marine resources (13)** Y/N	**Circular economy (14)** Y/N	**Pollution (15)** Y/N	**Biodiversity and ecosystems (16)** Y/N	**Minimum safeguards (17)** Y/N	**Taxonomy-aligned proportion of OpEx, year N (18)** Percent	**Taxonomy-aligned proportion of OpEx, year N-1 (19)** Percent	**Category (enabling activity) (20)** E	**Category (transitional activity (21)** T
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)			%	%	%	%	%	%	%								%			
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
Activity 1			%																	
Activity 3			%																	

				Substantial contribution criteria						DNSH criteria (Does Not Significantly Harm')										
Economic activities (1)	**Code(s) (2)**	**Absolute OpEx (3)** Currency	**Proportion of OpEx (4)** %	**Climate change mitigation (5)** %	**Climate change adaptation (6)** %	**Water and marine resources (7)** %	**Circular economy (8)** %	**Pollution (9)** %	**Biodiversity and ecosystems (10)** %	**Climate change mitigation (11)** Y/N	**Climate change adaptation (12)** Y/N	**Water and marine resources (13)** Y/N	**Circular economy (14)** Y/N	**Pollution (15)** Y/N	**Biodiversity and ecosystems (16)** Y/N	**Minimum safeguards (17)** Y/N	**Taxonomy-aligned proportion of OpEx, year N (18)** Percent	**Taxonomy-aligned proportion of OpEx, year N-1 (19)** Percent	**Category (enabling activity) (20)** E	**Category (transitional activity (21)** T
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)			%																	
Total (A.1 + A.2)			%														%		%	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
Turnover of Taxonomy-non-eligible activities (B)			%																	
Total (A + B)			%																	

(1) Activity 1 is Taxonomy-eligible in its entirety. However, only a proportion of it is Taxonomy-aligned. Therefore, Activity 1 may be reported under both A1 and A2. However, only the proportion reported under A1 may be counted as Taxonomy-aligned in the CapEx KPI of the non-financial undertaking.

Source: The Disclosures Delegated Act": COMMISSION DELEGATED REGULATION **(EU) 2021/2178**

Note: Black painted areas indicate "not taxonomy aligned" activities - as they do not comply with the DNSH or substantial contribution criteria

Table: Standard template for the disclosure required for asset managers – Extended View

The KPI shall be calculated as the numerator divided by the denominator:

The **numerator** shall consist of a weighted average of the value of investments in Taxonomy-aligned economic activities of investee companies. The weighted average of the value of investments shall be based on the proportion of taxonomy- aligned economic activities of investee companies measured by the following:

a. for investees that are non-financial undertakings, turnover and CapEx KPIs as resulting from the calculation of the KPIs of the investee;
b. for investees that are asset managers, turnover-based and CapEx-based KPIs, as resulting from the calculation of the KPIs of the;
c. for investees that are credit institutions, the turnover-based and CapEx based green asset ratio as resulting from the calculation of the green asset ratio of the investee;
d. for investees that are investments firms, investments and revenues, as resulting from the calculation of the turnover- based and CapEx based KPIs of the investee with the proportion of services and activities of dealing on own account and not dealing on own account in the income of the investment firm;
e. for investees that are insurance or reinsurance undertakings, investments, gross premiums written or, as applicable, total insurance revenue, as resulting from the calculation either of the turnover-based and CapEx based investment KPI, combined, where applicable with the underwriting KPI of the non-life investee insurance and reinsurance undertakings.

The **denominator** shall consist of the value of all Asset under Management (AuM) resulting from both collective and individual portfolio management activities of asset managers. **Asset managers shall disclose a KPI based on turnover KPIs of the investee companies and a KPI based on the CapEx KPI of investee companies**

The weighted average value of all the investments that are directed at funding, or are associated with taxonomy-aligned economic activities **relative to the value of total assets covered by the KPI**, with following weights for investments in undertakings per below: Turnover-based: % CapEx—based: %	The weighted average value of all the investments that are directed at funding, or are associated with taxonomy-aligned economic activities, with following weights for investments in undertakings per below: Turnover-based: [monetary amount] CapEx-based: [monetary amount]
The percentage of assets covered by the KPI relative to total investments (total AuM). Excluding investments in sovereign entities, Coverage ratio: %	The monetary value of assets covered by the KPI. Excluding investments in sovereign entities. Coverage: [monetary amount]
Additional, complementary disclosures: breakdown of **denominator** of the KPI	
The percentage of derivatives relative to total assets covered by the KPI. X %	The value in monetary amounts of derivatives:. [monetary amount]
The proportion of **exposures to EU financial and non-financial undertakings not subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI: For non-financial undertakings: For financial undertakings:	Value of **exposures to EU financial and non-financial undertakings not subject to Articles 19a and 29a of Directive 2013/34/EU**: For non-financial undertakings: [monetary amount] For financial undertakings: [monetary amount]
The proportion of **exposures to financial and non-financial undertakings from non-EU countries not subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI: For non-financial undertakings: For financial undertakings:	Value of **exposures to financial and non-financial undertakings from non-EU countries not subject to Articles 19a and 29a of Directive 2013/34/EU**: For non-financial undertakings: [monetary amount] For financial undertakings: [monetary amount]
The proportion of **exposures to financial and non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI: For non-financial undertakings: For financial undertakings:	Value of **exposures to financial and non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU**: For non-financial undertakings: [monetary amount] For financial undertakings: [monetary amount]
The proportion of **exposures to other counterparties over** total assets covered by the KPI: X %	Value of **exposures to other counterparties**: [monetary amount]
The value of all the investments that are funding **economic activities that are not taxonomy-eligible** relative to the value of total assets covered by the KPI: X %	Value of all the investments that are funding **economic activities that are not taxonomy-eligible**: [monetary amount]

The value of all the investments that are funding taxonomy-eligible economic activities, **but not taxonomy-aligned relative to the value of** total assets covered by the KPI: X %		Value of all the investments that are funding Taxonomy-eligible economic activities, **but not taxonomy-aligned:** [monetary amount]
Additional, complementary disclosures: breakdown of **numerator** of the KPI		
The proportion of **Taxonomy-aligned exposures to financial and non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU** over total assets covered by the KPI: For non-financial undertakings: Turnover-based: % Capital expenditures-based: % For financial undertakings: Turnover-based: % Capital expenditures-based: %		Value of **Taxonomy-aligned exposures to financial and non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU:** For non-financial undertakings: Turnover-based: [monetary amount] Capital expenditures-based: [monetary amount] For financial undertakings: Turnover-based: [monetary amount] Capital expenditures-based: [monetary amount]
The proportion of **taxonomy-aligned exposures to other counterparties in** over total assets covered by the KPI: Turnover-based: % Capital expenditures-based: %		Value of **taxonomy-aligned exposures to other counterparties**: Turnover-based: [monetary amount] Capital expenditures-based: [monetary amount]
Breakdown of the numerator of the KPI per environmental objective		
Taxonomy-aligned activities –:		
(1) Climate change mitigation	Turnover: % CapEx:%	Transitional activities: A% (Turnover; CapEx) Enabling activities: B% (Turnover; CapEx)
(2) Climate change adaptation	Turnover: % CapEx:%	Transitional activities: A% (Turnover; CapEx) Enabling activities: B% (Turnover; CapEx)
(3) The sustainable use and protection of water and marine resources	Turnover: % CapEx:%	Transitional activities: A% (Turnover; CapEx) Enabling activities: B% (Turnover; CapEx)
(4) The transition to a circular economy	Turnover: % CapEx:%	Transitional activities: A% (Turnover; CapEx) Enabling activities: B% (Turnover; CapEx)
(5) Pollution prevention and control	Turnover: % CapEx:%	Transitional activities: A% (Turnover; CapEx) Enabling activities: B% (Turnover; CapEx)
(6) The protection and restoration of biodiversity and ecosystems	Turnover: % CapEx:%	Transitional activities: A% (Turnover; CapEx) Enabling activities: B% (Turnover; CapEx)

Source: The Disclosures Delegated Act": COMMISSION DELEGATED REGULATION **(EU) 2021/2178**

[1] Delegated Regulation (**EU) 2022/1214** amended Delegated Act **(EU) 2021/2139** as regards economic activities in certain energy sectors (i.e. nuclear and gas energy activities).

[2] Delegated Regulation (**EU) 2022/1214** amended Delegated Act **(EU) 2021/2178** as regards specific public disclosures for some economic activities in the energy sectors (i.e. nuclear and gas energy activities).

[3] Delegated Regulation **(EU) 2022/1931** supplemented Regulation **(EU) 2019/2088** with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in precontractual documents, on websites and in periodic reports.

[4] Delegated act **EU 2021/2178** defines "taxonomy-eligible economic activity' as an economic activity that is described in the delegated acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), Article 14(2), and Article 15(2), of Regulation **(EU) 2020/852**, irrespective of whether that economic activity meets any or all of the technical screening criteria laid down in those delegated acts;

It defines 'Taxonomy-aligned economic activity' as an economic activity that complies with the requirements laid down in Article 3 of Regulation **(EU) 2020/852**;

[5] https://finance.ec.europa.eu/news/sustainable-finance-guidance-reporting-under-taxonomy-2022-12-20_en

Annex-2 The EU Taxonomy Climate Delegated Act that Expands on Economic Activities Contributing to Climate Change Mitigation and Adaptation has not Included so far

EU Sustainable Finance Package 2023

2023 June package defines criteria for economic activities substantially contributing to one or more of the non-climate environmental objectives of the Taxonomy Regulation, and includes 35 activities in 8 economic sectors:

- 6 activities on water and marine resources for 4 sectors
- 21 activities on the transition to a circular economy for 5 sectors
- 6 activities on pollution prevention and control for 2 sectors and
- 2 activities on the protection and restoration of biodiversity and ecosystems for 2 sectors

It also includes amendments to the Climate Delegated Act that defines criteria for additional economic activities contributing to the objectives of climate change mitigation and adaptation. These amendments cover 12 new activities in 6 sectors. There are also amendments to existing activities in the Climate Delegated Act:

- 7 new activities on climate change mitigation for 2 sectors and
- 5 new activities on climate change adaptation for 4 sectors

6 activities on water and marine resources / 4 sectors

1. Manufacturing
   1.1. Manufacture, installation and associated services for leakage control technologies enabling leakage reduction and prevention in water supply systems
2. Water supply, sewerage, waste management and remediation activities
   2.1. Water supply
   2.2. Urban Waste Water Treatment
   2.3. Sustainable urban drainage systems (SUDS)
3. Disaster risk management
   3.1. Nature-based solutions for flood and drought risk prevention and protection
4. Information and communication
   4.1. Provision of IT/OT data-driven solutions for leakage reduction

21 activities on the transition to a circular economy / 5 sectors

1. Manufacturing
   1.1. Manufacture of plastic packaging goods
   1.2. Manufacture of electrical and electronic equipment
2. Water supply, sewerage, waste management and remediation activities
   2.1. Phosphorus recovery from wastewater
   2.2. Production of alternative water resources for purposes other than human consumption
   2.3. Collection and transport of hazardous waste
   2.4. Treatment of hazardous waste

2.5. Recovery of bio-waste by anaerobic digestion or composting
2.6. Depollution and dismantling of end-of-life products
2.7. Sorting and material recovery of non-hazardous wastes

3. Construction and real estate activities
   3.1. Construction of new buildings
   3.2. Renovation of existing buildings
   3.3. Demolition and wrecking of buildings and other structures
   3.4. Maintenance of roads and motorways
   3.5. Use of concrete in civil engineering
4. Information and communication
   4.1. Provision of IT/OT data-driven solutions and software
5. Services
   5.1. Repair, refurbishment and remanufacturing
   5.2. Sale of spare parts
   5.3. Preparation for re-use of end-of-life products and product components
   5.4. Preparation for re-use of end-of-life products and product components
   5.5. Product-as-a-service and other circular use- and result-oriented service models
   5.6. Marketplace for the trade of second-hand goods for reuse

6 activities on pollution prevention and control/ 2 sectors

1. Manufacturing
   1.1. Manufacture of active pharmaceutical ingredients (API) or active substances.
   1.2. Manufacture of pharmaceutical products
2. Water supply, sewerage, waste management and remediation activities
   2.1. Collection and transport of hazardous waste
   2.2. Treatment of hazardous waste
   2.3. Remediation of legally non-conforming landfills and abandoned or illegal waste dumps
   2.4. Remediation of contaminated sites and areas

2 activities on the protection and restoration of biodiversity and ecosystems / 2 sectors

1. Environmental protection and restoration activities
   1.1. Conservation, including restoration, of habitats, ecosystems and species
2. Accommodation activities
   2.1. Hotels, holiday, camping grounds and similar accommodation

New activities on climate change mitigation

22 amended *and 7 new activities* for the mitigation objective, in the sectors of manufacturing and transport:

3. Manufacturing
   3.18. Manufacture of automotive and mobility components
   3.19. Manufacture of rail constituents
   3.20. Manufacture, installation, and servicing of high, medium and low voltage electrical equipment for electrical transmission and distribution that result in or enable a substantial contribution to climate change mitigation
   3.21. Manufacturing of aircraft
6. Transport

6.18. Leasing of aircraft
6.19. Passenger and freight air transport
6.20. Air transport ground handling operations

New activities on climate change adaptation

15 amended and *5 new activities* for the adaptation objective in the sectors of civil engineering, IT, consulting, and disaster risk management.

5. Water supply, sewerage, waste management and remediation
   5.13. Desalination
8. Information and communication
   8.4. Software enabling climate risk management
9. Professional scientific and technical activities
   9.3. Consultancy for climate risk management
14. Disaster risk management;
   14.1. Emergency Services
   14.2. Flood risk prevention and protection infrastructure