



The first EU taxonomy alignment reporting is on the horizon – are you ready?

PwC
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Speakers



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Agenda



1. Welcome



2. ESG reporting - setting the scene



3. Taxonomy Article 8 different reporting KPIs



4. Data from a Taxonomy alignment perspective



5. Case study: Asset management



6. Case study: Nykredit



7. Forthcoming events & Q&A

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Welcome



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Setting the scene on ESG reporting



Working packages of the EU Action plan

Who is affected?



All players in the financial markets are affected!

Action items set out by the EU Action Plan

- 1 **Taxonomy:** Establishing an EU classification System for sustainability activities
- 2 **Standards:** Creating standards and labels for green financial products
- 3 **Sustainable Projects:** Fostering investments in sustainable projects
- 4 **Financial Advice:** Incorporating sustainability when providing financial advice
- 5 **Benchmarks:** Developing sustainability benchmarks
- 6 **Sustainable Ratings:** Better integrating sustainability in ratings and market research
- 7 **Sustainability Duties:** Clarifying institutional investors' and asset managers' duties
- 8 **Prudential regulations:** Incorporating sustainability in prudential requirements
- 9 **Sustainability disclosure:** Strengthening sustainability disclosure and accounting rule making
- 10 **Corporate governance:** Fostering sustainable corporate governance and attenuating short-termism in capital markets

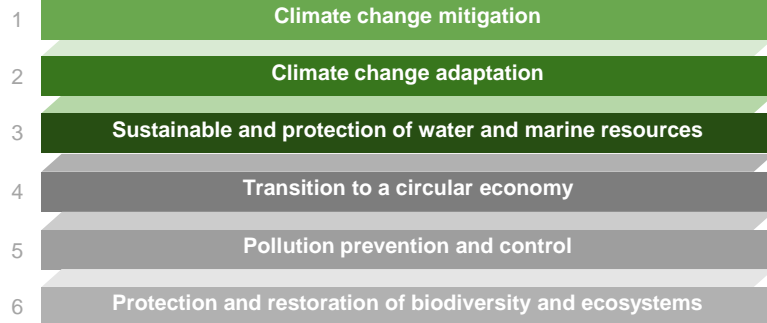
Focus today

The EU Taxonomy

What is the EU Taxonomy?

- Classification system for economic activities that are considered **environmentally sustainable** when measured against six defined environmental objectives
- Sets **performance thresholds** ('technical screening criteria') for Taxonomy aligned economic activities

Environmental objectives



How is corporate reporting impacted? (article 8)

Companies subject to NFRD (& upcoming CSRD) have to publish **Taxonomy KPIs** in their non-financial statements



Financial undertakings

Specific KPIs defined for each type of financial undertaking.

From 2024 (reference period FY 2023)



Non-financial undertakings

% of **turnover**, % of **CAPEX**, % of **OPEX**

From 2023 (reference period FY 2022)

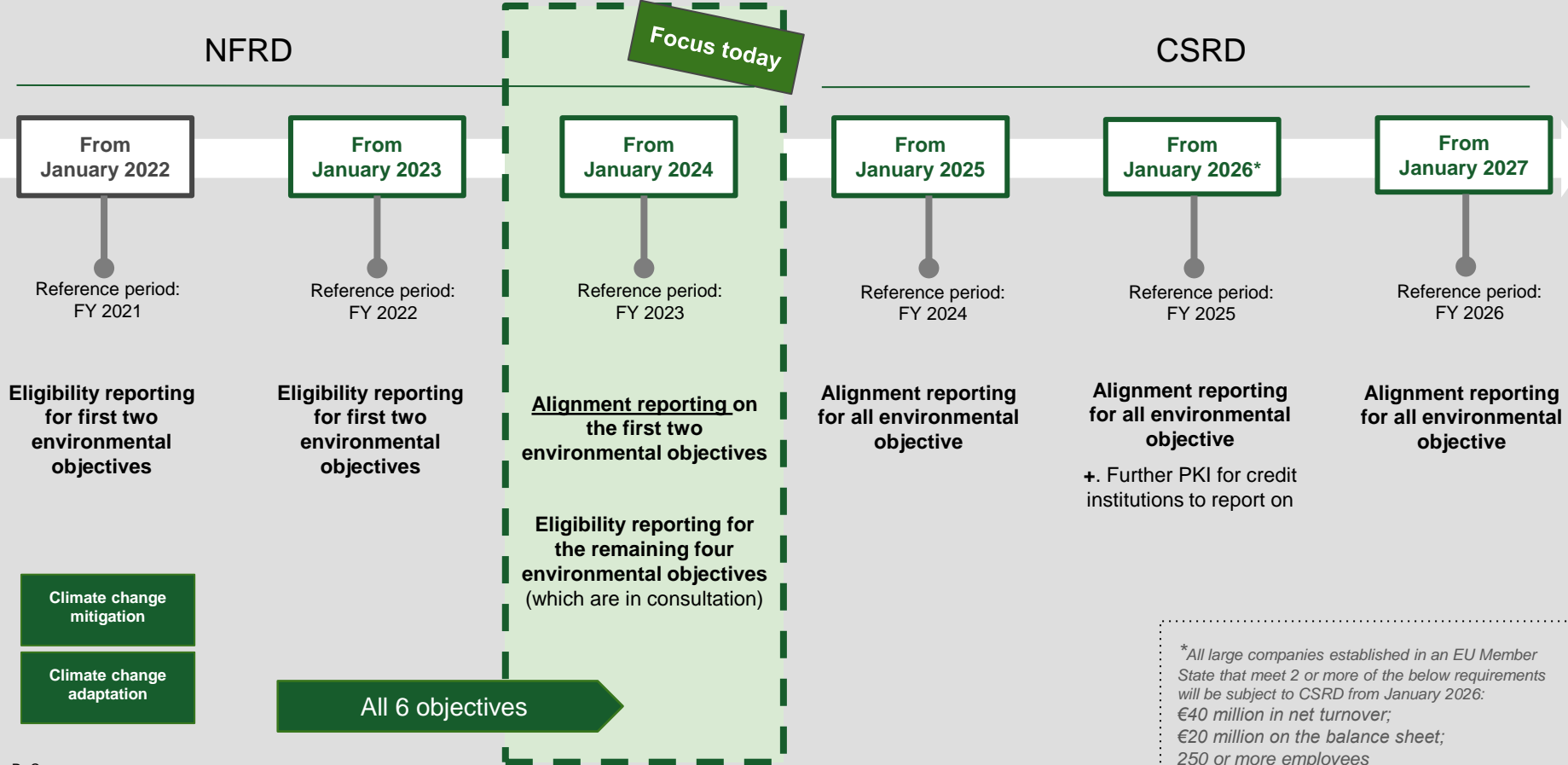


CSRD, Taxonomy and SFDR

How does it all fit together and how do they complement each other?



Timetable for financial entities



Practical example



A **'Taxonomy-aligned economic activity'** needs to pass the Taxonomy-compliance test to form part of the article 8 reporting obligation

1) Eligibility

2) Substantial contribution

3) Do No Significant Harm

4) Minimum safeguards

5) Alignment

Taxonomy-eligible Activity

Manufacture of biogas and biofuels for use in transport (NACE code D35.21)

Environmental objective

Substantial contribution to climate change mitigation



Substantial contribution

Assessment of technical screening criteria such as GHG savings of min. 65% related to defined methodology and relative fossil fuel comparator



DNSH

Environmental objective

Climate change adaptation

Sustainable use & protection of water

Transition to a circular economy

Pollution prevention and control

Protection of biodiversity and ecosystems

Examples for DNSH requirements

Robust climate risk and vulnerability assessment was performed

Management of environmental degradation risks related to preserving water quality

no DNSH criteria

For biogas production, a gas-tight cover on the digestate storage is applied.

Environmental Impact Assessment (EIA) or screening has been completed



Minimum safeguards

OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, ILO



KPIs

Calculate alignment of economic activity with the taxonomy and prepare data to be reported according to the mandatory KPIs

Focus today

3

Taxonomy Article 8
different reporting
KPIs



The Taxonomy KPIs

KPIs for non-financial institutions



Non-financial Companies

- KPIs for net turnover
- KPIs for capital expenditure
- KPIs for operating expenditure

KPIs for financial institutions



Credit Institutions

- Green Asset Ratio (GAR)
- KPIs for off-balance-sheet exposures
- KPIs for services other than lending
- GAR for trading portfolios

Investment Firms

- Green Asset Ratio (GAR)
- KPIs on revenues (Fees, commission and other monetary benefits)

Asset Managers

- Ratio of investments aligned with the taxonomy (Green investment ratio (GIR))

Insurance

- Ratio of investment aligned with the taxonomy
- Sustainable Underwriting Activities

4

Data from a Taxonomy alignment perspective

The EU Taxonomy Data Challenges

High-quality data is vital for the Taxonomy disclosures

- Data dependent on the **underlying exposure** (e.g. investment in companies, real estate, mortgages)
- **Look-through is required** (e.g. in case of investments in funds)
- Mandatory use of the **most recently available** information provided by the underlying investee entity or counterparty
- **Estimations and proxies are not allowed** for the mandatory KPIs, but could be used as part of complementary voluntary disclosures

Economic activities (1)	Code(s) (2)	Absolute turnover (3)	Proportion of turnover (4)	Substantial contribution criteria							DNSH criteria (Do No Significant Harm*)					Minimum safeguards (L7)	Taxonomy-aligned proportion of turnover, year N (18)	Taxonomy-aligned proportion of turnover, year N-1 (19)	Category (enabling activity / transitional activity) (20)
				Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity (16)				
A. ELIGIBLE ACTIVITIES																			
A.1. Eligible Taxonomy-aligned activities																			
Activity A			20%	50%*	0%	0%	0%	0%	0%		Y	Y	Y	Y	Y	Y	10%		E
Activity B			11%	0%	0%	100%	0%	0%	0%		Y	Y	Y	Y	Y	Y	11%		
Turnover of eligible Taxonomy-aligned activities (A.1)			31%	10%	0%	11%	0%	0%	0%								21%		10%**
A.2 Eligible not Taxonomy-aligned activities																			
Activity D			18%	0%	0%	0%	0%	0%	0%		Y	Y	Y	Y	Y	Y	0%		T
Activity E			20%	50%	0%	0%	0%	0%	0%		Y	Y	N	Y	Y	Y	0%		
Turnover of eligible not Taxonomy-aligned activities (A.2)			38%																
Total (A.1 + A.2)			69%	10%	0%	11%	0%	0%	0%								21%		10%*
B. NON-ELIGIBLE ACTIVITIES																			
Turnover of non-eligible activities (B)			31%																
Total (A + B)			100%																

* The information in this cell denotes that only 50% of activity A qualifies as environmentally sustainable and therefore only 50% of the turnover related with activity A is Taxonomy-aligned.

** Total of turnover KPI associated with enabling and transitional activities.

High-quality data is vital for the Taxonomy disclosures

Data availability

- Lack of available data from investee companies due to uneven reporting or no reporting at all
- Extraction of reliable and comprehensive data on investments and portfolios challenging

Data verification

- Data input provided by third-party data providers might not always be up to the necessary standards.

Data granularity

- Detailed data on the underlying assets not (readily) available, especially for investments in complex financial instruments or private companies.

Data comparability & consistency

- Lack of comparable data reported by investee due to different reporting requirements
- Multiple data sources can lead to data with different formats, definitions, and reporting standards.

Recommendations

- ✓ Establish dedicated ESG data management systems
- ✓ Define dedicated ESG data governance frameworks
- ✓ Implement dedicated ESG data validation process
- ✓ Establish ESG data provider due diligence and monitoring processes
- ✓ Develop dedicated internal expertise in ESG data analysis and reporting.

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Case study: Asset
Management



Eligibility vs. alignment

Eligibility reporting



Proportion in total assets of:

- Exposures to taxonomy eligible economic activities
- Exposures to taxonomy non-eligible economic activities
- Exposures to
 - central governments, central banks, supranational issuers
 - derivatives
 - non-NFRD entities



Use of template is **voluntary**
but **highly recommended** by the EC

Alignment reporting



According to **specific requirements & KPIs**
for each type of financial undertaking

Example asset management:

Standard template for the disclosure required under Article 8 of Regulation (EU) 2020/852 (asset managers)

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]

Use of template is **mandatory**

The Taxonomy KPIs for Asset Managers (1/2)

Main KPI for asset managers

- ❑ The main KPI for asset managers is the **Green Investment Ratio (GIR)**
- ❑ **Weighted average** value of all the investments that are directed at funding, or are associated with taxonomy-aligned economic activities managed by the asset manager
- ❑ Relative to the value of **total assets covered** (i.e. excluding investments in sovereign entities)
- ❑ Total covered assets under management include all investment from both **collective and individual portfolio management activities**
- ❑ GIR should be based on the **share of taxonomy-aligned economic activities of investee companies**
- ❑ **High reliance on underlying data** disclosed by the investee companies

Green Investment Ratio

taxonomy-aligned investments
managed by an asset manager

all covered assets under
management

Expressed in % and monetary value

Based on turnover and CapEx

The Taxonomy KPIs for Asset Managers (2/2)

Breakdown of GIR denominator

- Information on the **types** of investments
- Examples: exposures to **derivatives**, **non-NFRD entities** and **non-taxonomy eligible investments**

Breakdown of GIR numerator

- Information on **aggregated Taxonomy-aligned exposures**
- Breakdown for each Taxonomy **environmental objective**
- Including **exposures to transitional and enabling activities**

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)

Additional KPIs

- Breakdown of denominator of the Green Investment Ratio
- Breakdown of numerator of the Green Investment Ratio, incl.:
 - Breakdown for each environmental objective
 - and for aggregated environmentally sustainable economic activities

Approach for Asset Managers

2 Methodology concept / Regulatory interpretation

- Interpretation of regulatory requirements for own business
- Development of approaches, simplifications and assumptions for operationalization
- Development of a technical concept for the undertaking / group for consistent application

4 Rollout & Change Management

- Undertaking-specific: Several subsidiaries/ whole group in scope
- A wide variety of business departments are impacted: Investments, Accounting, Reporting, Risk Management, IT, Sales etc.



1 General strategy

- Regulatory (minimum) compliance vs. own ambition in line with (ESG) strategy
- Consideration of own peer group and market practice
- Analysis of status quo: processes, tools and reports
- Development of new concept including plan for implementation in the company

3 Operationalization


- Depending on the approach: (technical) implementation of new processes, systems, tools and reports or adaptation of existing elements
- Reporting impacts the entire end-to-end reporting landscape

5 Test and Go-Live

- Depending on the size of the undertaking, the complexity of the business and the chosen ESG / sustainability reporting strategy: Several end-to-end test phases are necessary for an audit-proven go-live

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Case study: Nykredit

A man with a beard and glasses, wearing a striped shirt and a light-colored apron, is watering a variety of lush green plants in a greenhouse. He is holding a large, silver metal watering can and pouring water onto the foliage. The background is filled with various types of ferns and other greenery, creating a vibrant and natural setting.

**Case:
Nykredit Asset
Management and
taxonomy**

Søren Larsen

11th of May 2023

Sustainable Investments

Our ambition is to be the sustainable asset manager in Denmark



DANSIF



IIGCC
The Institutional Investors
Group on Climate Change

MSCI
ESG Research



SUSTAINALYTICS

**More than a
decade of ESG
experience**



**Sustainable
Finance**



VERDENSMÅL
for bæredygtig udvikling

**Contribute to the
SDG's**

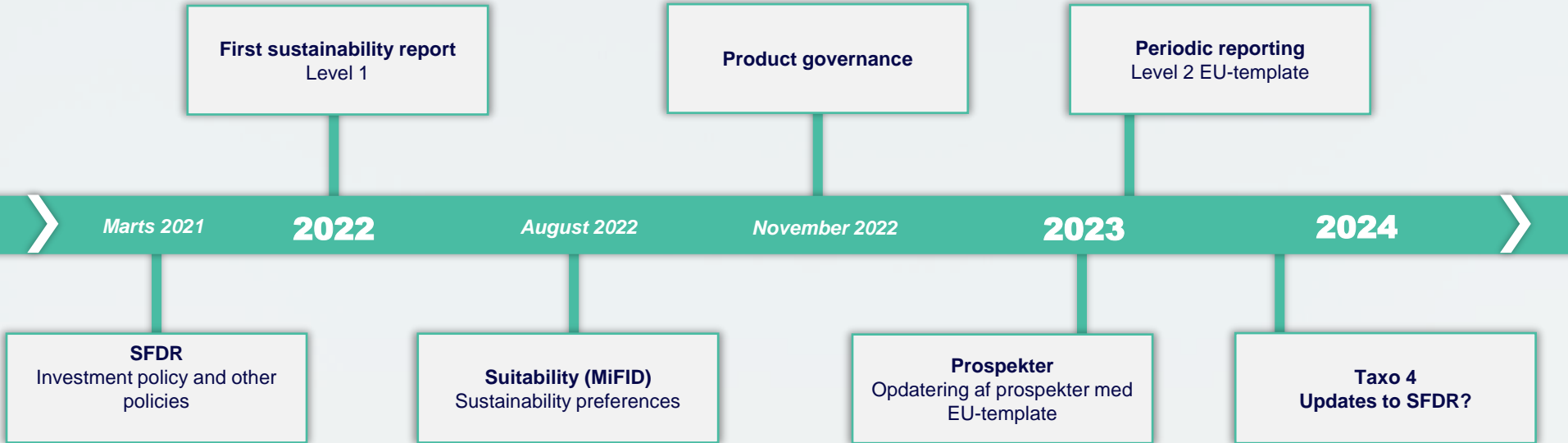


Net zero 2050

Net zero Asset Manager
SBTi target in proces

EU Sustainable Finance

Work in progress



The dialogue with the customer should conclude a process

– and be a good starting point for a new



The three key KPI's for the customer

Taxonomy alignment

**Sustainable Investments
SFDR § 2.17**

**Principle Adverse Impact
indicators**

Prospectus Sustainability templates

Product name: Sparinvest SICAV - Ethical Global Value

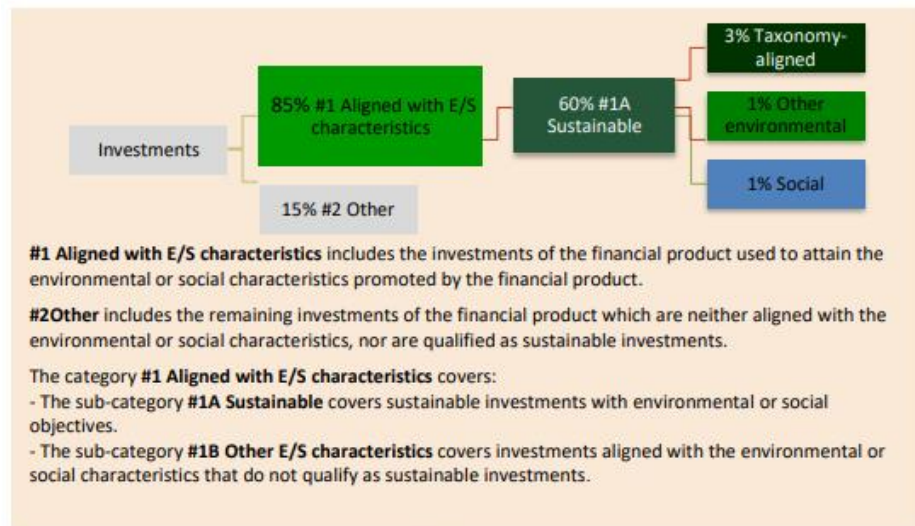
Legal entity identifier: 549300QB5GW6INF1PT29

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

Yes No

<p><input type="checkbox"/> It will make a minimum of sustainable investments with an environmental objective: ___%</p> <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <p><input type="checkbox"/> It will make a minimum of sustainable investments with a social objective: ___%</p>	<p><input checked="" type="checkbox"/> It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 60% of sustainable investments</p> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input checked="" type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input checked="" type="checkbox"/> with a social objective <p><input type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments</p>
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Reporting Sustainability templates

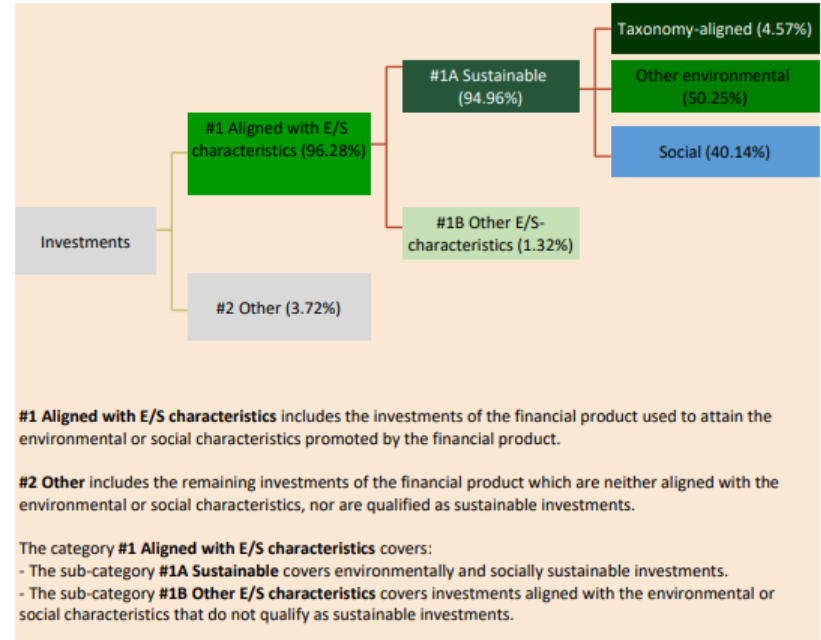
Product name: Ethical Global Value

Legal entity identifier: 549300QB5GW6INF1PT29

Environmental and/or social characteristics

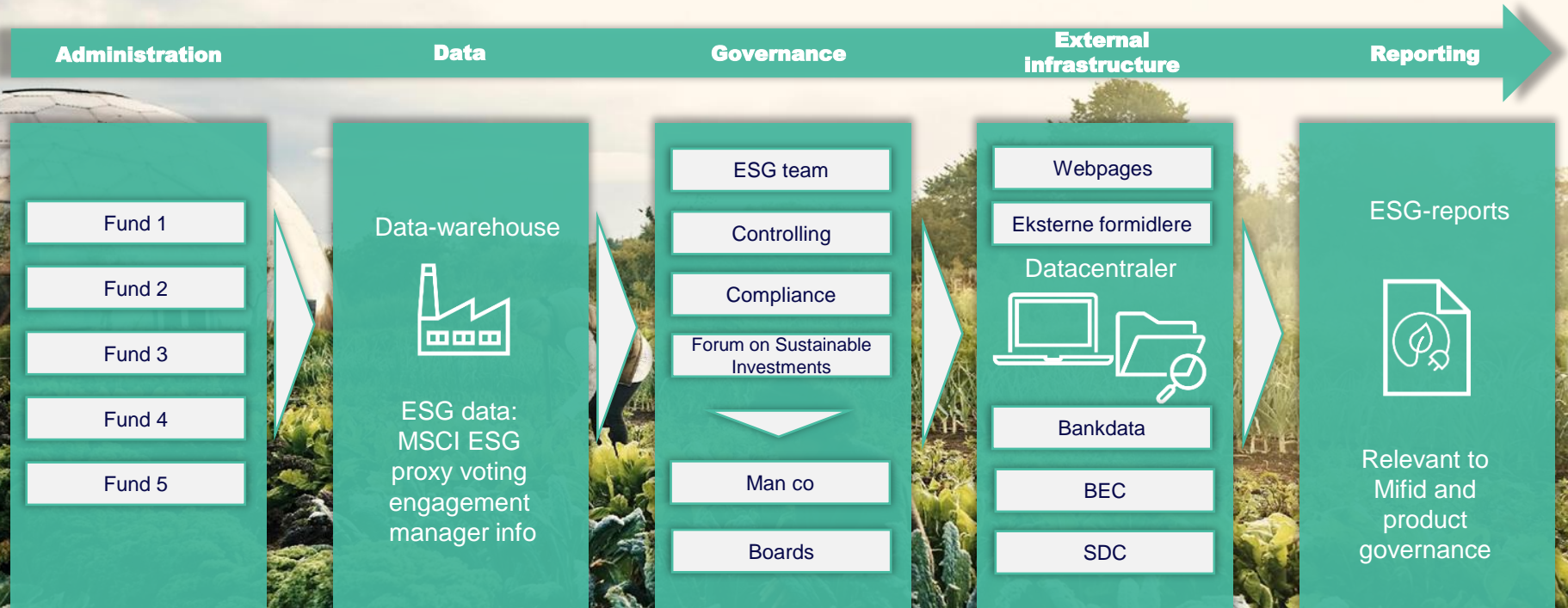
Did this financial product have a sustainable investment objective?

<input checked="" type="radio"/> <input checked="" type="radio"/> Yes	<input type="radio"/> <input checked="" type="radio"/> No
<input type="checkbox"/> It made sustainable investments with an environmental objective:	<input checked="" type="checkbox"/> It promoted Environmental/Social (E/S) characteristics and while it did not have as its objective a sustainable investment, it had a proportion of 94.96% of sustainable investments
<input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy	<input checked="" type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
<input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	<input checked="" type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
<input type="checkbox"/> It made sustainable investments with a social objective: %	<input checked="" type="checkbox"/> with a social objective
	<input type="checkbox"/> It promoted E/S characteristics, but did not make any sustainable investments



Untitled (nykreditinvest.dk)

Sustainability behind the scenes



Disclosure og disclaimer

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Forthcoming events and Q&A



Forthcoming events

Webinar: Kend jeres klimarisici



Tirsdag den 23. maj 2023



Kl. 9:00 - 10:00

Webinar: Ladestandere - de moms-, afgifts- og skattemæssige regler



Onsdag den 14. juni 2023



Kl. 9:00 - 10:00



pwc

Q&A



For more information...



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What does PwC believe?

Through the EU's action plan, the financial sector becomes an important player in the transition to a sustainable economy. The changes will have a major impact on the entire economic system. Increased transparency makes it easier for investors to make informed choices and gain an understanding of how their investments and choices affect the environment and society. It is therefore important that the financial sector ensures that their actions have a real sustainability effect and that trust in financial reporting and products is not damaged by allegations of "greenwashing".

Stay informed about upcoming PwC events at pwc.dk/da/arrangementer

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