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ESG risk

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European Commission

European Commission to Cut EU Taxonomy Red Tape for Companies

- The European Commission adopted **a set of measures** on July 4, 2023, designed **to simplify** the application of the EU Taxonomy. The **EU Taxonomy Regulation**, which entered force in 2020 with reporting requirements effective since 2022, provides a common sustainability reference point to support investments in the sustainable transition of the EU economy.
- Key simplification measures include:
 - 1) **Exempting financial and non-financial companies** from assessing Taxonomy-eligibility and alignment for economic activities that are not materially relevant to their business;
 - 2) **Reducing the administrative burden for non-financial companies by 10%** of their total revenue, capital expenditure (CapEx), or operational expenditure (OpEx). These companies will now focus on reporting and financing core business activities rather than extensive transition efforts. They are also exempt from assessing Taxonomy alignment for their entire operational expenditure if it is not material to their business model;
 - 3) **Simplifying key performance indicators (KPIs)**, such as the Green Asset Ratio (GAR) for banks, and providing an option for financial companies not to report detailed Taxonomy KPIs for two years;
 - 4) **Streamlining Taxonomy reporting templates**, resulting in a 64% reduction in reported data points for non-financial companies and an 89% reduction for financial companies;
 - 5) **Simplifying the criteria for 'do no significant harm'** related to pollution prevention and control, specifically concerning the use and presence of chemicals.
- These changes are incorporated into a **Delegated Act** that was published as the 'Omnibus I' package in February 2023. This Delegated Act will now undergo a scrutiny period of four months by the European Parliament and the Council, which can be extended by another two months. **The simplification measures are slated to apply from January 1, 2026**, covering the 2025 financial year; however, undertakings are given the option to apply the measures starting with the 2026 financial year if they find this more convenient.

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