PwC response to the EC request for feedback: Sustainable finance – obligation for certain companies to publish non-financial information

Submitted through: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12440-Sustainable-finance-obligation-for-certain-companies-to-publish-non-financial-information_en

PwC International Ltd (PwC), on behalf of the PwC network, welcomes the opportunity to provide feedback on the draft delegated act specifying the disclosure obligations pursuant to Art. 8 of the Taxonomy Regulation for financial and non-financial undertakings.

We welcome the approach taken by the European Commission to build on the ESA's final advice; we believe it is a sensible approach to base the Taxonomy disclosures on the financial report prepared following IFRS or the respective national GAAP for non-financial undertakings, and prudential accounting for financial undertakings. Given the ambitious goals of the Taxonomy Regulation, as well as the complexity involved, we would recommend that the delegated act enables undertakings in the scope of the new disclosure requirements to apply these rules in a consistent manner. Below we set out our two main recommendations; in the Appendix we have given an overview of detailed questions and possible solutions.

Clarification of first year reporting requirements

We welcome the introduction of a simplified application of the reporting requirement during the first year, as a helpful relief for companies in scope to deal with the tight schedule of the legislative measures tied to the Taxonomy. However, it seems that several interpretations have emerged with regard to the reporting requirements in the first year. In order to ensure consistency across countries and comparability across entities, it is key that transitional measures are worded as clear as possible. Our understanding is the following:

- The first year of application all of the 3 KPIs should be disclosed for eligible and non eligible activities, but no further breakdown is needed (i.e. no KPI allocated to aligned and non aligned activities and no disclosure of such activities)
- The second year the act is applied in full but there are no comparative figures besides the ones that were presented in year 1 (i.e. for eligible and non eligible activities as a total).
- The third year the act is applied in full and a full set up of comparatives (one year comparative) are presented.

We believe it would be appreciated by preparers, investors, auditors, and users if this was explicit. Similar to what happened with the Sustainable Finance Disclosures Regulation, we trust authorities will adopt a pragmatic and supportive approach during the transition in the new regime, understanding the complexity and tight timeline faced by reporting entities, as well as the difficulty for financial market participants to publish KPIs in the first year without having the information on the underlying economic activities in which they are investing.

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Process for raising technical reporting issues

The Taxonomy Regulation, like any new reporting rules, will raise numerous questions on its interpretation in the course of its application, and we would welcome ways to formally address technical reporting issues in order to ensure consistency and comparable, relevant disclosures. Thus, a formal channel of communication comparable to the mechanism in place for the IFRS in the form of the IFRIC as a standing interpretation committee would be highly appreciated by all stakeholders. The future sustainability reporting standard to be adopted under the proposed Corporate Sustainability Reporting Directive and the related governance structure should take into account the need to support the practical implementation of the Taxonomy-specific reporting requirement. Please find attached an overview of issues in the draft delegated act that might need clarifications. We provide our view on these issues and suggest ways on how they could be clarified.

We look forward to continuing to share our perspectives with EU legislators. If you would like to discuss our response, please contact Sebastian Heintges at sebastian.heintges@pwc.com or Mikael Scheja at mikael.scheja@pwc.com.

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Appendix to PwC response to the EC request for feedback: Sustainable finance – obligation for certain companies to publish non-financial information

Priority 1

Articles	***Question***	***Is the below understanding correct?***
11.1	*What does "the share of Taxonomy-eligible and Taxonomy non-eligible economic activities in their total activities" mean?*	*Report all three KPIs concerning their share of Taxonomy-eligible activities* *→ line A of templates 1, 2 and 3 of annex II* *→ line B of template 1 of annex II + add line B for template 2 and 3*
1 and 3	*Are KPIs mandatory even if they are low or nil or could an entity apply an immateriality exemption?*	*KPIs have to be reported even in case of low and nil percentages* *(a clarification on materiality would be helpful)*
1.2	*For financial undertakings, how to apply from 1 January 2022 on reporting 2021, as they won't have the informations from non-financial undertakings*	*n/a*

Priority 2

Articles	***Question***	***Is the below understanding correct?***
9.3 / Templates 1-3 Annex II	*How to disclose the KPIs of the previous five reporting periods ?*	• *Reporting in 2022 on 2021 (simplification measures - only eligibility, no comparables)* • *Reporting in 2023 on 2022: one year of KPIs (2022; no 2021 comparables on alignment as the scheme is not comparable with 2021), only comparable on eligibility (ie line A and B of templates of annex II)* • *Reporting in 2024 on 2023: 2 years of KPIs (2023 and 2022), ...* • *Reporting in 2027 on 2026: 5 years of KPIs (2026, 2025, 2024, 2023, 2022)*
9.1	*How to understand "financial report"?*	*Is it correct to understand non-financial statements?*
Annex I 1.1.1	*Typo*	*The turnover shall cover the revenue recognised pursuant to IAS 1, para. 82(a) (instead of IAS 12).*

Annex I 1.1.1	*Why is it necessary to mention intangibles? ("the proportion of turnover shall be calculated as the part of the net turnover derived from products or services, including intangibles, ..")*	*n/a*
Annex I 1.2.1	*Confirm if joint ventures and financial investment should be excluded from KPIs?*	*We understand the share from equity method and financial investments is not included in the three KPIs* *(a clarification would be helpful)*
Annex I 1.1.2.2	*How to understand "related to assets or processes that are associated with Taxonomy-aligned economic activities" in practice?*	• *100% of CapEx invested in activities already generating green turnover, i.e. all investments in these activities (generating green turnover) are considered green CapEx?* • *Or criterias have to be applied at asset / group of assets level?*
Annex I 1.1.2.2	*How to understand "part of a plan to expand Taxonomy-aligned economic activities or to allow Taxonomy-eligible economic activities to become Taxonomy-aligned ('CapEx plan') within a predefined time frame" in practice?*	• *100% of CapEx invested in activities that will generate green turnover after the plan period* • *Or criterias have to be applied at asset / group of assets level?*
Annex I 1.1.2.2	*How to understand "related to the purchase of output from Taxonomy-aligned economic activities, notably activities listed in sections (...)" in practice?*	*Any CapEx invested (even not related to green turnover) if the CapEx respect the criterias of the annex of the climate delegated act and minimum safeguards*
Annex I 1.1.3.2	*What is meant by direct (non-capitalised) costs?*	*Precise a definition of direct costs or put a clear reference to relevant IFRS.*
Annex I 1.1.3.2	*What is meant by other direct expenditures relating to the day-to-day servicing of assets?*	*Could you please clarify this definition?* *Example: does it include* • *Time of employee repairing a machine* • *Time of employee cleaning factory* • *Time of employee operating the machine* • *Electricity expense necessary to operate* • *Time of manager which has allocated 10% on R&D project management*

Annex I 1.1.3.2.	*Why is the definition of the Opex numerator not in line with the definition provided for the denominator? i.e. why is the scope of OpEx enlarged by the notion of "including training and other human resources adaptation needs, and direct non-capitalised costs that present research and development"?*	*Content of Opex should be only defined in the denominator paragraph.* *Only the condition of being sustainable should be precised in numerator paragraph*
Annex I 1.1.3.2	*Why only mention "short term lease" in the definition of OpEx?*	*Are leases for low-value assets (IFRS 16.5 li. b, .6) and variable lease payments that are not based on an index or a rate (IFRS 16.27 in conjunction with IFRS 16.38 lit. b) also to be included in the OpEx KPI?* *Alternatively delete this as based on our experience short term lease expense is an immaterial expense for almost all entities.*
Annex I 1.1.2.2	*Should the definition of CapEx be differentiated more clearly between climate change mitigation and climate change adaptation?*	*Limit the general scope of the numerator to apply only for climate change mitigation but not for climate change adaptation in order to precise that for already adapted activities not 100% of Capex can be counted.* *For example: if a hospital had in the past invested in flood installation, it is an adapted activity and not all the capex of the hospital should be counted as green (ie computers, machines…)*
Annex I 1.1.3.2	*Should the third bullet point for opex be the same as for capex "related 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"* *If not, could you specify operating expenditure related to individual measures enabling target activities to become low-carbon or to lead to greenhouse gas reductions?*	*Precise if this definition is restrictive or extensive compared to Capex?* *Could you add illustrative examples and - if possible and intended - link this requirement to the respective requirement for the numerator of the CapEx KPI ("expenditure related to the purchase of output from Taxonomy-aligned economic activities").*
Annex V 1.2.1	*Which accounting categories for financial assets have to be included in the green asset*	*Is it correct that information on stock and flows has to be included for retail mortgages in 2022 (and what about car loans)?*

	ratio for the reporting in 2022, particularly with regard to retail mortgages?	