

Orgalim position on draft reporting rules for companies under the EU Taxonomy Regulation

Orgalim appreciates the opportunity offered by the European Commission to provide its views on the draft delegated act (DA) on Article 8 of the European Union Taxonomy Regulation, which further specifies disclosure obligations for companies¹.

Orgalim supports a closer link between financial and sustainability reporting. For companies, it is important that the reporting obligations linked to the EU Taxonomy Regulation serve as a real driver for sustainable development without creating an unnecessary administrative burden and additional costs.

However, we doubt that the draft DA on Article 8 in its current version is fit for purpose. The proposal requires disclosures which will overhaul the EU's reporting procedures. The granular level of disclosure will lead to costly over-reporting on the taxonomy and is currently not striking the right balance to ensure enough added value for investors when deciding to finance economic activities enabling the transition to a climate-neutral and sustainable Europe.

Against this background, we urge the Commission to recognise the immense journey it is asking companies to embark on as they adapt to the new reporting requirements. We also urge the Commission to make requirements feasible and cost-efficient.

We outline below our main concerns and recommendations for the way forward.

1. Key performance indicators covering the five-year reporting period

In Article 8 of the regulation, three key indicators will be required to be published by companies which are covered by the Non-Financial Reporting Directive (NFRD): revenues, CapEx and OpEx, aligned with the EU taxonomy. These indicators are new to all companies, meaning that internal reporting procedures need to be restructured entirely, and data for previous reporting periods does not exist (notably for OpEx and CapEx).

In addition, delegated acts related to the taxonomy are bound to evolve as the technical screening criteria of sustainable economic activities becomes more precise or expands to new sectors. Reporting these three indicators over a five-year period would entail complex and recurring reassessment of historical data based on an updated framework every year, so that year-on-year evolution can be shared with investors with a proper strategic analysis of change.

¹ Companies falling under the scope of the Non-Financial Reporting Directive are required to disclose taxonomy-related information.

We therefore ask that:

- In general, this requirement should not apply to companies that do not have the historical information available, based on the principle of "comply or explain",
- For CapEx and OpEx, the five-year reporting requirement should be removed, and the focus should rather be on reporting annual data from the previous year,
- For revenues, reporting requirement should start applying in 2023, for the 2022 reporting exercise. In the following years up to five years of historical data can be reported, but only starting from the 2022 exercise. We should not apply this new reporting requirement to 2018-2021 revenues.

2. Counting acquisitions in CapEx

Counting acquisitions in the CapEx is a major concern and will be very difficult for companies. Analysis of the share of taxonomy-aligned CapEx in an acquisition will require an in-depth analysis of both tangible assets (buildings, etc.) and intangible assets (intellectual property) against the taxonomy. This would need to happen in the very short timeframe allocated to business acquisition and during which information-sharing is sensitive. The CapEx indicator appears to be relevant from a strategic standpoint, but its application will be challenging if acquisitions are included in the scope.

A delay of one year should be allowed in the reporting. Alternatively, the KPI could exclude acquisitions.

3. Reporting on total share of taxonomy alignment

The DA does not only require companies to disclose how and to what extent their activities are 'taxonomy-aligned', but also to report on activities that are 'taxonomy-eligible, but not aligned'. This goes well beyond Article 8 of the Taxonomy Regulation. Article 8 and Recital 22 only require corporates to disclose the proportion of their turnover derived from products or services associated with economic activities that qualify as environmentally sustainable, as well as the proportion of their capital expenditure and the proportion of their operating expenditure associated with economic activities that qualify as environmentally sustainable.

Orgalim firmly believes that Article 8 can be achieved by requiring corporates to **disclose the total percentage of turnover/CapEx/OpEx respectively** that are 'taxonomy-eligible, and aligned' in relation to each of the six environmental objectives. As these numbers will be assured by an independent auditor, there is no need to disclose more granular information, i.e. a breakdown into individual economic activities (NACE). Today, companies' internal financial reporting systems are not structured in accordance with NACE. Therefore, companies will have to completely restructure their reporting procedures to facilitate the breakdown of key performance indicators in relation to the six environmental objectives of the taxonomy.

In short, **we recommend that taxonomy-eligible and aligned turnover/CapEx/OpEx in relation to each of the six environmental objectives of the taxonomy is reported in one line², without the granularity of activities. Similarly, taxonomy-eligible, but not aligned turnover/CapEx/OpEx should also be reported in one line.**

² To disclose the proportion of turnover, CapEx and OpEx associated with taxonomy-aligned activities, the proposed reporting template (Annex II) introduces separate lines which would correspond to 1) taxonomy-eligible, 2) eligible but not aligned and 3) non-eligible individual economic activities.

This level of taxonomy disclosure by corporates would be sufficient to guide investment decisions by investors as well as to fulfill the data needs of financial market participants in order to allow them to comply with their reporting obligation under the taxonomy.

4. Reporting sensitive information

On a general note, the proposed level of granularity extends far beyond what investors will need for their decision-making, especially for companies that operate in multiple industries. Due to the proposed granularity level, the delegated act in its current proposal is potentially harmful for EU companies since the granular disclosure is likely to provide non-EU competitors with valuable information regarding investment plans, while these competitors themselves do not have corresponding disclosure requirements in their jurisdictions. Requiring corporates to disclose at the level of granularity proposed in the DA, i.e. at the level of economy activity, would in fact mean that corporates will have to disclose business-**sensitive information** on revenue streams as well as information on key investment decisions (CapEx). It should be noted that this is not required under the current financial reporting regime of the EU. **Therefore, we oppose this level of granularity.**

Lastly, the act uses multiple terms that so far have not been defined in the legal framework of the EU or in other reporting standards such as IFRS, leaving substantial room for interpretation and uncertainty.

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