European Securities and Markets Authority

Response form for the Consultation Paper on the Draft advice to European Commission under Article 8 of the Taxonomy Regulation

5 November 2020

Date: 5 November 2020

Responding to this paper

ESMA invites responses to the questions set out throughout this Consultation Paper and summarised in Annex II. Responses are most helpful if they:

- respond to the question stated and indicate the specific question to which they relate;
- contain a clear rationale; and
- describe any alternatives ESMA should consider.

ESMA will consider all comments received by **4 December 2020**.

All contributions should be submitted online at www.esma.europa.eu under the heading 'Your input - Consultations'.

Instructions

In order to facilitate analysis of responses to the Consultation Paper, respondents are requested to follow the steps below when preparing and submitting their response:

- Insert your responses to the consultation questions in the form "Response form_Consultation Paper on TR Article 8 advice", available on ESMA's website alongside the present Consultation Paper (www.esma.europa.eu → 'Your input – Open consultations' → 'Consultation on advice under Taxonomy Regulation Article 8').
- Please do not remove tags of the type <ESMA_QUESTION_TRART8_1>. Your response to each question has to be framed by the two tags corresponding to the question.
- If you do not wish to respond to a given question, please do not delete it but simply leave the text "TYPE YOUR TEXT HERE" between the tags.
- When you have drafted your response, name your response form according to the following convention: ESMA_TRART8_nameofrespondent_RESPONSEFORM. For example, for a respondent named ABCD, the response form would be entitled ESMA_TRART8_ABCD_RESPONSEFORM.
- Upload the form containing your responses, in Word format, to ESMA's website (www.esma.europa.eu under the heading 'Your input – Open consultations' → 'Consultation on advice under Taxonomy Regulation Article 8').

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. If you do not wish for your response to be publicly disclosed, please clearly indicate this by ticking the appropriate box on the website submission page. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Data protection

Information on data protection can be found at www.esma.europa.eu under the heading 'Data protection'.

Who should read this paper?

This Consultation Paper may be of particular interest to non-financial undertakings and asset managers covered by Article 8 of Regulation (EU) 2020/852 (the 'Taxonomy Regulation') as well as to investors and other users of non-financial information

General information about respondent

Name of the company / organisation	IOGP
Activity	Issuer/ Non-Financial Undertaking
Are you representing an association?	☒
Country/Region	Belgium

Introduction

Please make your introductory comments below, if any:

<ESMA_COMMENT_TRART8_1>
The International Association of Oil & Gas Producers' (IOGP) member companies account for approximately 90% of oil and gas produced in Europe. IOGP supports the goals of the Paris Agreement and the EU's objective of climate neutrality by 2050 supported by adequate policies. One of them is a well-designed and inclusive sustainable finance framework.

We welcome the EU's efforts to establish a set of coherent and consistent policy tools that will unlock private investments required for projects and technologies aimed at reducing greenhouse gas (GHG) emissions, and support the transition to a sustainable future. Access to finance is critical for those investments and thus to maintain European competitiveness.

IOGP congratulates the EU institutions for the progress made in establishing a taxonomy for sustainable investments and stresses the importance of coherence and alignment between different policy tools focusing on disclosure.

IOGP recognises and is supportive of the need for transparency on issues related to climate change and sustainability. Our members currently disclose information on these issues, according to different regulatory requirements (e.g. NFRD – Non-Financial Reporting Directive) and voluntary standards (such as the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and IPIECA-IOGP-API Guidance on sustainability reporting[1]), by publishing financial and operating reports, summary annual reports, sustainability reports and individual company position papers. According to the recently published study on directors' duties and sustainable corporate governance, the oil and gas sector is relatively advanced in terms of the identification and the management of their sustainability risks and impacts compared to other industries[2].

Given the oil and gas industry's experience in gathering and disclosing non-financial information (e.g. sustainability risks and performance), we note that reporting on taxonomy-compliant activities will require companies to review their processes and establish new systems and reporting functionalities. Furthermore, new internal practices enabling data collection and processing, verification, and potentially assurance will need to be introduced. All these activities will likely create additional external and internal costs. Together with the timing of the upcoming delegated acts on the technical screening criteria for mitigation and adaptation by end 2020, and on the disclosure obligation by mid-2021, it will be extremely challenging to meet disclosure obligations for the financial year 2021 in the course of 2022. To manage the currently envisaged timeline, which is too short for guaranteeing quality and cost-effective implementation for all, we suggest a phased-in approach with the explicitly recognised voluntary opt-in period in the first couple of years. The adaptation for timely compliance will additionally be affected by the implications of the COVID-19 pandemic with its impact on economics and human resources.

We fully recognise the necessity to advance measures to drive the sustainable transition and acknowledge that we need to continue to enhance environmental transparency and disclosure. However, to ensure that

[1] https://www.ipieca.org/news/launch-of-updated-global-sustainability-reporting-guidance/
[2] Study on directors' duties and sustainable corporate governance (study here, Annex I here, Annex II here)

the Taxonomy Regulation works in practice and will achieve its objectives, we call on the European and national authorities to support the industry in the implementation and enforcement of these very new rules and requirements.

One of the options to ensure flexibility is to extend the timeline for the disclosure obligation or retain the principal of one or two pilot years (for the disclosure of information on the taxonomy-compliant activities focusing on climate change mitigation & adaptation). For example, companies were given three years to implement IFRS 16. This phased-in approach could be deployed until all delegated acts on six environmental objectives are adopted by the EU institutions. We believe this would ensure a smooth implementation of all delegated acts stemming from the Taxonomy Regulation and create robust and meaningful corporates' reports that would be useful to financial market players and other stakeholders for their decision making processes.

IOGP provided similar messages as input to the Commission's consultation on the Impact Inception Assessment on the Commission's Delegated Regulation on taxonomy-related disclosures by undertakings reporting non-financial information (available here). Furthermore, we have analysed all submissions to this consultation (around 80 responses) and concluded that the implementation concerns due to the tight timeline were common comments made by 1/3 of respondents.
<ESMA_COMMENT_TRART8_1>

Q1 For this KPI, do you agree with the proposed approach to defining turnover (bullet a in the draft advice)?

<ESMA_QUESTION_TRART8_1>
We welcome the ESMA's flexible approach to the definition of "turnover". Using existing definitions, such as the ones outlined in the Accounting Directive, will guarantee coherence between EU policies and ensure simplicity for non-financial undertakings to comply with the Taxonomy Regulation and its delegated acts. Other approaches to defining "turnover" – like the ones from IFRS and GAAP are also acceptable. Overall, the upcoming delegated act should focus on minimum requirements, rather than being too prescriptive and potentially duplicating indicators.
<ESMA_QUESTION_TRART8_1>

Q2 For this KPI, do you agree with the proposed approach to when turnover can be counted (bullet b in the draft advice)?

<ESMA_QUESTION_TRART8_2>
We want to highlight the importance of ensuring coherence with the NFRD on the scope of the reporting. In particular, we understand the parent company is supposed to report for the subsidiaries with controlled interest, and we agree with this approach.

We appreciate that ESMA provides for much-needed flexibility on the allocation of turnover at the activity level. However, we would appreciate some guidelines or explanatory examples on how non-financial undertakings should allocate turnover to activities performed to create resources for own use e.g. self-generated electricity and to activities which do not create revenue themselves but contribute to creating revenue. These explanatory/illustrative examples would ensure a reasonable level of comparability between reporting methods while guaranteeing flexibility for non-financial undertakings.

We recognise that additional disclosure on intercompany transactions could be beneficial: for example, the turnover related to a solar power plant, which sells part or all of its production to a group entity, could be reflected as part of the Taxonomy reporting exercise as a separate reporting item.
<ESMA_QUESTION_TRART8_2>

Q3 For this KPI, do you agree with the proposed approach to defining CapEx (bullet a in the draft advice)?

<ESMA_QUESTION_TRART8_3>
Yes, we agree with the ESMA's approach as it ensures flexibility.
<ESMA_QUESTION_TRART8_3>

Q4 For this KPI, do you agree with the proposed approach to when CapEx can be counted, including the definition of 'plan' (bullet b in the draft advice)?

<ESMA_QUESTION_TRART8_4>
We would like to highlight the importance of ensuring coherence with the NFRD on the scope of the reporting. In particular, we understand the parent company is supposed to report for the subsidiaries with controlled interest and we agree with this approach.

Moreover, we appreciate ESMA is offering the much needed flexibility on the allocation of CapEx at the activity level. However, we would appreciate some guidelines or explanatory examples on how non-financial undertakings should allocate CapEx to activities performed to create resources for own use e.g. self-generated electricity and to activities which are not assets in their own right but are sub-activities within assets e.g. wastewater treatment. These explanatory examples would ensure a reasonable level of comparability between reporting methods while guaranteeing flexibility for non-financial undertakings.

Moreover, we believe the timeframe mentioned in the definition of “plan” should be extended beyond 5 years (e.g. 10-15 years)[3] as this would better reflect the companies’ investment plans. This would also take into account the TEG report’ recommendations outlined in its Technical Annex (*e.g. For example, there could be a requirement for renovations to occur within 15 years from the acquisition date; Mitigation measures are eligible provided they are incorporated into a single investment plan within a determined time frame (5 or 10 years) that outlines how each of the measures in combination with others will in combination enable the activity to meet the threshold defined below actions.*
<ESMA_QUESTION_TRART8_4>

Q5 For this KPI, do you agree with the proposed approach to defining OpEx (bullet a in the draft advice)?

<ESMA_QUESTION_TRART8_5>
Yes, we agree with the ESMA’s approach as it ensures flexibility.
<ESMA_QUESTION_TRART8_5>

Q6 For this KPI, do you agree with the proposed approach to when OpEx can be counted, including the definition of ‘plan’ (bullet b in the draft advice)? With reference to the TEG’s inclusion of the words “if relevant” in relation to OpEx, in which situations should it be possible to count OpEx as Taxonomy-aligned?

<ESMA_QUESTION_TRART8_6>
We would like to highlight the importance of ensuring coherence with the NFRD on the scope of the reporting. In particular, we understand the parent company is supposed to report for the subsidiaries with controlled interest and we agree with this approach.

Moreover, we appreciate ESMA is offering the much needed flexibility on the allocation of OpEx at the activity level. However, we would appreciate some guidelines or examples on how non-financial undertakings should allocate OpEx to activities performed to create resources for own use e.g. self-generated electricity and to activities which are not assets in their own right but are sub-activities within assets e.g. wastewater treatment. These explanatory examples would ensure a reasonable level of comparability between reporting methods while guaranteeing flexibility for non-financial undertakings.

Moreover, we believe the timeframe mentioned in the definition of “plan” should be extended beyond 5 years (e.g. 10-15 years)[4] as this would better reflect the companies’ investment plans. This would also take into account the TEG report’ recommendations outlined in its Technical Annex (*e.g. For example, there could be a requirement for renovations to occur within 15 years from the acquisition date; Mitigation measures are eligible provided they are incorporated into a single investment plan within a determined time frame (5 or 10 years) that outlines how each of the measures in combination with others will in combination enable the activity to meet the threshold defined below actions.*
<ESMA_QUESTION_TRART8_6>

[3] Please note that the draft Delegated Act on climate change mitigation and adaptation states the following: *“The assessment is proportionate to the scale of the activity and its expected lifespan, such that: (a) for investments into activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using downscaling of climate projections; (b) for all other activities, the assessment is performed using high resolution, state-of-the art climate projections across a range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 years climate projections scenarios for major investments.”*

[4] Please note that the draft Delegated Act on climate change mitigation and adaptation states the following: *“The assessment is proportionate to the scale of the activity and its expected lifespan, such that: (a) for investments into activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using downscaling of climate projections; (b) for all other activities, the assessment is performed using high resolution, state-of-the art climate projections across a range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 years climate projections scenarios for major investments.”*

Q7 Do you believe that any of the suggested approaches covered in questions 1 to 6 above will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, including whether they are one-off or ongoing, and provide your best quantitative estimate of their size.

<ESMA_QUESTION_TRART8_7>
Given the oil and gas industry's experience in gathering and disclosing non-financial information (e.g. sustainability risks and performance), we note that reporting on taxonomy-compliant activities will require companies to review their processes and establish new systems and reporting functionalities. Assessment is required to be carried out at economic activity level, which in many instances will not be assets in their own right but sub-activities within assets, e.g. wastewater treatment. There is currently no mechanism to identify and report sub-activities.
This will require initially significant efforts and costs which are as follows but not limited to:
1. Scanning of the technical requirements. The technical screening criteria contain both quantitative and qualitative criteria that are very comprehensive and technical. As such, having an "in-scope" activity (e.g. generation of electricity) does not automatically qualify that activity as taxonomy-aligned.
2. Understanding the impact on entity activities, i.e. technical input is required to assess whether those activities exist, and if so, whether they meet the technical screening criteria.
3. Deciding on an allocation methodology.
4. Rolling out criteria and methodology to entities.
5. Implementing systems and processes for identification of the activities.
6. Implementing systems and processes for reporting.
7. Training.
8. Creating and implementing processes to ensure quality and integrity of the data.
There will be ongoing time and effort required to maintain the above systems and processes as well as preparing the additional disclosures on yearly basis. The fact that the criteria will continue to evolve, and new criteria will be added regularly will add to the complexity.

We would also like to draw your attention to the report carried out by the consultancy Adelphi and ISS ESG which was commissioned by the Federal Environment Ministry of Germany to assess major European firms against the EU Taxonomy[5]. According to the Adelphi's survey, *most companies fear high costs because of taxonomy-related disclosure requirements*. *Companies stated that the taxonomy would increase operational costs either substantially (21% of survey respondents) or slightly (60% of survey respondents). The additional costs would primarily stem from adjusting data collection and sustainability disclosure processes to meet taxonomy criteria. The main reasons include difficulties in separating revenue streams according to the taxonomy criteria and fitting complex operational and production processes into the taxonomy structure. The complexity of the taxonomy paired with the still-unclear definitions for many activities will require companies to hire external consultants and/or auditors to achieve alignment and fulfil disclosure processes. Companies in the energy and manufacturing sectors express particular concern about costs. Companies with relatively little revenue from taxonomy relevant activities may not make the effort to evaluate or achieve taxonomy alignment.*

<ESMA_QUESTION_TRART8_7>

Q8 Do you agree that sectoral specificities should not be addressed in the advice, as proposed in Section 3.2.3?

<ESMA_QUESTION_TRART8_8>
Yes, we agree with this approach. If non-financial undertakings were to report KPIs differently based on the sector they operate, it would create another layer of complexity since a large number of undertakings

[5] https://sustainablefinancesurvey.de/sites/sustainablefinancesurvey.de/files/documents/european-sustainable-finance-survey-2020_bf.pdf

operate in more than one sector. However, clear and sufficient guidance should be available taking into consideration industry's specific examples.
<ESMA_QUESTION_TRART8_8>

Q9 Do you agree with the requirements for accompanying information which ESMA has proposed for the three KPIs?

<ESMA_QUESTION_TRART8_9>
The oil and gas industry supports meaningful corporate reporting policies relating to disclosure of non-financial information. We believe that some degree of supplementary information (e.g. descriptive information/narrative) explaining the three KPIs would be beneficial to the users. However, a flexible approach is needed to allow non-financial undertakings to assess what is material and meaningful to explain their KPIs.
A list of mandatory disclosure information accompanying the KPIs would increase the already heavy reporting burden added by the Taxonomy Regulation. Any reporting requirements for accompanying information should guarantee flexibility while ensuring coherence with the NFRD, avoiding excessive or duplicative reporting obligations on non-financial undertakings.

Furthermore, through engagement with corporates, investors can gain better understanding on taxonomy-aligned activities included into the companies' reports.
<ESMA_QUESTION_TRART8_9>

Q10 Do you consider that the requirement to refer to the relevant line item(s) in the financial statements for each KPI ensures sufficient integration between the KPIs and the financial statements?

<ESMA_QUESTION_TRART8_10>
Yes, we agree with the proposed approach.
<ESMA_QUESTION_TRART8_10>

Q11 Do you agree with ESMA's suggestion to permit compliance by reference, so that non-financial undertakings may present the accompanying information elsewhere in the non-financial statement than in the immediate vicinity of the KPIs, as long as they provide a hyperlink to the location of the accompanying information?

<ESMA_QUESTION_TRART8_11>
Yes, we agree with this approach as it provides a flexible approach.
<ESMA_QUESTION_TRART8_11>

Q12 Do you consider there are additional topics that should be considered by ESMA in order to specify the content of the three KPIs? If yes, please elaborate and explain the relevance of these topics.

<ESMA_QUESTION_TRART8_12>
No, as explained in Question 9 non-financial undertakings should asses what is material and meaningful to explain their KPIs. Mandatory obligations would turn reporting in a "tick-box" exercise and impose excessive burden on companies.

Furthermore, the Taxonomy Regulation requires non-financial undertakings to disclose information on CapEx, OpEx and turnover, therefore, only these KPIs should be considered in the upcoming delegated act.
<ESMA_QUESTION_TRART8_12>

Q13 Do you believe that providing the suggested accompanying information will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, including whether they are one-off or on-going, and provide your best quantitative estimate of their size.

<ESMA_QUESTION_TRART8_13>
Assessment is required to be carried out at economic activity level, which in many instances will not be assets in their own right but sub-activities within assets, e.g. wastewater treatment. There is currently no mechanism to identify and report these.
This will require initially significant effort and costs which are as follows but not limited to:
1. Scanning of the technical requirements. The TSC contain both quantitative and qualitative criteria that are very comprehensive and technical. As such, having an "in-scope" activity (e.g. generation of electricity) does not automatically qualify that activity as taxonomy-aligned.
2. Understanding the impact on entity activities, i.e. technical input is required to assess whether those activities exist, and if so, whether they meet the technical screening criteria.
3. Deciding on an allocation methodology.
4. Rolling out criteria and methodology to entities.
5. Implementing systems and processes for identification of the activities.
6. Implementing systems and processes for reporting.
7. Training.
8. Creating and implementing processes to ensure quality and integrity of the data.
There will be ongoing time and effort required to maintain the above systems and processes as well as preparing the additional disclosures on yearly basis. The fact that the criteria will continue to evolve, and new criteria will be added regularly will add to the complexity. We understand that the costs of compliance may reach to several millions per year, and a multiple amount for the first-time set-up. Costs will, of course, vary depending on the size and countries of operations of each company.

We would also like to draw your attention to the report carried out by the consultancy Adelphi and ISS ESG which was commissioned by the Federal Environment Ministry of Germany to assess major European firms against the EU Taxonomy[6]. According to the Adelphi's survey, *most companies fear high costs because of taxonomy-related disclosure requirements*. *Companies stated that the taxonomy would increase operational costs either substantially (21% of survey respondents) or slightly (60% of survey respondents). The additional costs would primarily stem from adjusting data collection and sustainability disclosure processes to meet taxonomy criteria. The main reasons include difficulties in separating revenue streams according to the taxonomy criteria and fitting complex operational and production processes into the taxonomy structure. The complexity of the taxonomy paired with the still-unclear definitions for many activities will require companies to hire external consultants and/or auditors to achieve alignment and fulfil disclosure processes. Companies in the energy and manufacturing sectors express particular concern about costs. Companies with relatively little revenue from taxonomy relevant activities may not make the effort to evaluate or achieve taxonomy alignment.*
<ESMA_QUESTION_TRART8_13>

Q14 Do you agree that non-financial undertakings should provide the three KPIs per economic activity and also provide a total of the three KPIs at the level of the undertaking / group? If not, please provide your reasons and address the impact of your proposal to financial market participants along the investment chain.

<ESMA_QUESTION_TRART8_14>
No, IOGP believes that non-financial undertakings should disclose the KPIs only as a total across all the undertaking's economic activities. This approach would simplify the reporting procedure for companies

[6] https://sustainablefinancesurvey.de/sites/sustainablefinancesurvey.de/files/documents/european-sustainable-finance-survey-2020_bf.pdf

while providing investors with comparable and easy-to-understand KPIs. Reporting KPIs for each economic activity would create an excessive burden to non-financial undertakings, which already face challenges in implementing Art. 8 obligations in a very short timeline. Furthermore, disclosure of detailed information can also decrease the readability of the companies' report and lead to the confusion among the users. Therefore, a flexible approach needs to be ensured, and if companies would like to disclose more details on the taxonomy-aligned activities (such as enabling or transitional activities), they could do so on a voluntary basis. Additionally, flexibility needs to be ensured on the granularity of the activities required to be disclosed.

We fully recognise the necessity to advance measures to drive the sustainable transition and acknowledge that we need to continue to enhance environmental transparency and disclosure. However, to ensure that the Taxonomy Regulation works in practice and will achieve its objectives, we call on the European and national authorities to support the industry in the implementation and enforcement of these very new rules and requirements.

One of the options to ensure flexibility is to extend the timeline for the disclosure obligation or retain the principal of one or two pilot years[7] (for example, for the disclosure of information on the taxonomy-compliant activities focusing on climate change mitigation & adaptation). This phased-in approach could be deployed until all delegated acts on six environmental objectives are adopted by the EU institutions. We believe this would ensure a smooth implementation of all delegated acts stemming from the Taxonomy Regulation and create robust and meaningful corporates' reports that would be useful to financial market players and other stakeholders for their decision making processes.

<ESMA_QUESTION_TRART8_14>

Q15 Do you agree that where an economic activity contributes to more than one environmental objective, non-financial undertakings should explain how they allocated the turnover / CapEx / OpEx of that activity across environmental objectives and where relevant the reasons for choosing one objective over another?

<ESMA_QUESTION_TRART8_15>
No, that split will be already automatically visible through the disclosure per environmental objective (on total not per economic activity level). We don't recommend to introduce additional reporting obligations.
<ESMA_QUESTION_TRART8_15>

Q16 Do you agree that non-financial undertakings should provide information on enabling and transitional activities?

<ESMA_QUESTION_TRART8_16>
Yes, the Taxonomy Regulation also covers enabling and transitional activities. Transitional and enabling activities play a crucial role in helping the EU to deliver its climate and energy objectives[8]. Therefore, clear guidelines for the reporting on transitional and enabling activities should be provided. We would like to take this occasion to reiterate that the TEG largely overlooks the role and the potential of transitional and enabling activities. For example, financing transitional activities that are intended to enable significant improvements towards decarbonisation, reduction in environmental footprint, or improved resource efficiency in key sectors of the economy will be crucial in achieving the EU's objective of climate neutrality. However, the TEG has focused on the greenest activities, which could have a limited impact on the EU climate reduction ambitions. More incentives need to be provided for high-emitting industries and companies to lower their emissions.
<ESMA_QUESTION_TRART8_16>

[7]. For example, companies were given three years to implement IFRS 16.
[8] https://gasnaturally.eu/wp-content/uploads/2020/10/58-INDUSTRY-LEADERS.pdf

Q17 Do you agree that the three KPIs should be provided per environmental objective as well as a total at undertaking or group level across all objectives? If not, please provide your reasons and address the impact of your proposal to financial market participants along the investment chain.

<ESMA_QUESTION_TRART8_17>
We agree with this approach as it will provide investors with more detailed information and hopefully it won't place unnecessary burden on non-financial undertakings.
<ESMA_QUESTION_TRART8_17>

Q18 Do you agree that non-financial undertakings should be required to provide the three KPIs for economic activities which are covered by the Taxonomy, economic activities which are covered by the Taxonomy but for which the relevant criteria are not met and therefore are not Taxonomy-aligned as well as for economic activities which are not covered by the Taxonomy?

<ESMA_QUESTION_TRART8_18>
No, IOGP does not agree with this approach. We believe that only the three KPIs for economic activities which qualify as environmentally sustainable should be mandatorily reported, in line with Article 8.1 of the Taxonomy Regulation.

Requiring non-financial undertakings to provide the KPIs for economic activities which are covered by the Taxonomy but for which the relevant criteria are not met and therefore are not Taxonomy-aligned would mean 'de facto' create a 'brown taxonomy'. We recognise the EU Taxonomy Regulation contains a review clause to assess activities with negative impact. However, this needs to follow the timeline and the process established by the Taxonomy Regulation. Creating a 'brown taxonomy' is out of the scope of this Delegated Act. In any case, our industry recommends avoiding any brown listing as it could exclude activities that may contribute to the objective of reducing CO2 emissions. The EU Taxonomy should adopt an inclusive approach that considers all different technologies/activities and sectors that are contributing to the energy transition. The explicit endorsement should be given to any technology with the potential to reduce CO2 emissions.

However, we would see the benefit of disclosing a list of the activities that have the potential to contribute to one of the Taxonomy's environmental objectives, but given e.g. too stringent technical screening criteria or inappropriate wording they cannot be classified as taxonomy-aligned activities. This approach would help companies to better communicate their transitional efforts and would highlight any potential shortcomings of the technical screening criteria, which could be beneficial in the future while assessing them ahead of the review. We therefore encourage ESMA to explore this idea while ensuring this will not be burdensome for non-financial undertakings.
<ESMA_QUESTION_TRART8_18>

Q19 Do you agree with the proposal not to require retroactive disclosure concerning the four environmental objectives relating to the financial year 2021?

<ESMA_QUESTION_TRART8_19>
Yes, IOGP agrees with the outlined approach. It would be impossible for non-financial undertakings to put in place reporting lines for the year 2021 for the remaining four environmental objectives whose delegated acts will only be adopted by the European Commission by 31 December 2021.

Another option is to extend the timeline for the disclosure obligation or retain the principal of one or two pilot years (for example, for the disclosure of information on the taxonomy-compliant activities focusing on climate change mitigation & adaptation). For example, companies were given three years to implement IFRS 16. This phased-in approach could be deployed until all delegated acts on six environmental objec-

tives are adopted by the EU institutions. We believe this would ensure a smooth implementation of all delegated acts stemming from the Taxonomy Regulation and create robust and meaningful corporates' reports that would be useful to financial market players and other stakeholders for their decision-making processes.
<ESMA_QUESTION_TRART8_19>

Q20 Do you consider that there are specific elements in ESMA's draft advice which are not in line with the information needed by financial market participants in order to comply with their own obligations under the Taxonomy Regulation and the SFDR? If yes, please specify in your answer.

<ESMA_QUESTION_TRART8_20>
NO RESPONSE
<ESMA_QUESTION_TRART8_20>

Q21 Are there points that should be addressed in ESMA's advice in order to facilitate compliance of financial market participants across the investment chain? If yes, please specify.

<ESMA_QUESTION_TRART8_21>
NO RESPONSE
<ESMA_QUESTION_TRART8_21>

Q22 Do you believe that ESMA's detailed proposals under Section 3.3 will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, to which specific proposal they relate including whether they are one-off or on-going, and provide your best quantitative estimate of their size.

<ESMA_QUESTION_TRART8_22>
Assessment is required to be carried out at economic activity level, which in many instances will not be assets in their own right but sub-activities within assets, e.g. wastewater treatment. There is currently no mechanism to identify and report these.
This will require initially significant effort and costs which are as follows but not limited to:
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3. Deciding on an allocation methodology.
4. Rolling out criteria and methodology to entities.
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6. Implementing systems and processes for reporting.
7. Training.
8. Creating and implementing processes to ensure quality and integrity of the data.
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<ESMA_QUESTION_TRART8_22>

Q23 Do you consider there are additional topics that should be considered by ESMA in order to specify the methodology that non-financial undertakings should follow? If yes, please elaborate and explain the relevance of these topics.

<ESMA_QUESTION_TRART8_23>
No, non-financial undertakings should have some degree of flexibility in the methodology applied when preparing their KPIs. <ESMA_QUESTION_TRART8_23>

Q24 Do you agree that in order to ensure the comparability of the information disclosed under Article 8(2) of the Taxonomy Regulation and as such facilitate its usage, ESMA should propose the use of a standardised table?

<ESMA_QUESTION_TRART8_24>
Yes, the use of a standardised template in the form of a simple table could bring clarity to non-financial undertakings on their obligations. However, flexibility needs to be ensured on how to disclose this information.
<ESMA_QUESTION_TRART8_24>

Q25 Do you consider that the standard table provided in Annex III of this Consultation Paper is fit for purpose? Do you think the standard table provides the right information, taking into account the burden on non-financial undertakings of compiling the data versus the benefit to users of receiving the data? If not, please explain and provide alternative suggestions to promote the standardisation of the disclosure obligations pursuant to Article 8 of the Taxonomy Regulation.

<ESMA_QUESTION_TRART8_25>
IOGP does not believe that the standard table provided in Annex III of the Consultation Paper is fit for purpose. As explained in our response to Question 14, non-financial undertakings should disclose the KPIs only as a total across all the undertaking's economic activities and not for each economic activity. Moreover, as explained in our response to Question 18 non-financial undertakings should be required to provide the three KPIs only for economic activities which are covered by the Taxonomy and that meet the relevant criteria. Non-financial undertakings should not provide the KPIs for economic activities which are covered

9 https://sustainablefinancesurvey.de/sites/sustainablefinancesurvey.de/files/documents/european-sustainable-finance-survey-2020_bf.pdf

by the Taxonomy but for which the relevant criteria are not met and therefore are not taxonomy-aligned.<ESMA_QUESTION_TRART8_25>

Q26 Do you agree that the disclosure in the three standard tables should comply with the formatting rules mentioned in Table 5?

<ESMA_QUESTION_TRART8_26>
Flexibility in formatting is required to ensure consistency with the rest of corporates' Annual Report disclosures. Therefore, "one size fits all" may not work in this case. <ESMA_QUESTION_TRART8_26>

Q27 Do you believe that ESMA's detailed proposals under Section 3.4 will impose additional costs on non-financial undertakings? If yes, please specify the type of those costs, to which specific proposal they relate including whether they are one-off or on-going, and provide your best quantitative estimate of their size.

<ESMA_QUESTION_TRART8_27>
Assessment is required to be carried out at economic activity level, which in many instances will not be assets in their own right but sub-activities within assets, e.g. wastewater treatment. There is currently no mechanism to identify and report these.
This will require initially significant effort and costs which are as follows but not limited to:
1. Scanning of the technical requirements. The TSC contain both quantitative and qualitative criteria that are very comprehensive and technical. As such, having an "in-scope" activity (e.g. generation of electricity) does not automatically qualify that activity as taxonomy-aligned.
2. Understanding the impact on entity activities, i.e. technical input is required to assess whether those activities exist, and if so, whether they meet the technical screening criteria.
3. Deciding on an allocation methodology.
4. Rolling out criteria and methodology to entities.
5. Implementing systems and processes for identification of the activities.
6. Implementing systems and processes for reporting.
7. Training.
8. Creating and implementing processes to ensure quality and integrity of the data.
There will be ongoing time and effort required to maintain the above systems and processes as well as preparing the additional disclosures on yearly basis. The fact that the criteria will continue to evolve, and new criteria will be added regularly will add to the complexity. We understand that the costs of compliance may reach to several millions per year, and a multiple amount for the first-time set-up. Costs will, of course, vary depending on the size and countries of operations of each company.

We would also like to draw your attention to the report carried out by the consultancy Adelphi and ISS ESG which was commissioned by the Federal Environment Ministry of Germany to assess major European firms against the EU Taxonomy[10]. According to the Adelphi's survey, *most companies fear high costs because of taxonomy-related disclosure requirements*. *Companies stated that the taxonomy would increase operational costs either substantially (21% of survey respondents) or slightly (60% of survey respondents). The additional costs would primarily stem from adjusting data collection and sustainability disclosure processes to meet taxonomy criteria. The main reasons include difficulties in separating revenue streams according to the taxonomy criteria and fitting complex operational and production processes into the taxonomy structure. The complexity of the taxonomy paired with the still-unclear definitions for many activities will require companies to hire external consultants and/or auditors to achieve alignment and fulfil disclosure processes. Companies in the energy and manufacturing sectors express particular concern about costs. Companies with relatively little revenue from taxonomy relevant activities may not make the effort to evaluate or achieve taxonomy alignment.*<ESMA_QUESTION_TRART8_27>

10 https://sustainablefinancesurvey.de/sites/sustainablefinancesurvey.de/files/documents/european-sustainable-finance-survey-2020_bf.pdf

Q28 Do you agree that a share of investments is an appropriate KPI for asset managers? If you do not, what other KPI could be appropriate, please justify.

<ESMA_QUESTION_TRART8_28>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_28>

Q29 This advice focuses on the collective portfolio management activities of asset managers. Should this advice also cover potentially any other activities that asset managers may have a license for, such as individual portfolio management, investment advice, safekeeping and administration or reception and transmission of orders ('RTO')?

<ESMA_QUESTION_TRART8_29>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_29>

Q30 Do you agree that for the numerator of the KPI the asset manager should consider a weighted average of the investments exposed to investee companies based on the share of turnover derived from Taxonomy-aligned activities of the investee companies? If not please propose and justify an alternative.

<ESMA_QUESTION_TRART8_30>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_30>

Q31 Do you agree that in addition to a main turnover-derived Taxonomy-alignment KPI, there is merit in requiring the disclosure of CapEx and OpEx-derived figures for Taxonomy-alignment of an asset managers' investments?

<ESMA_QUESTION_TRART8_31>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_31>

Q32 Do you think sovereign exposures, such as sovereign bonds (but excluding green bonds complying with the EU Green Bond Standard) should be considered eligible investments and if so under what methodology?

<ESMA_QUESTION_TRART8_32>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_32>

Q33 Do you agree that the denominator should consist of the value of eligible investments in the funds managed by the asset manager or should it be simply the value of all assets in the funds managed by the asset manager?

<ESMA_QUESTION_TRART8_33>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_33>

Q34 Do you support restricting the denominator to funds managed by the asset manager with sustainability characteristics or objectives (i.e. governed by Article 8 or 9 of Regulation (EU) 2019/2088)? What are the benefits and drawbacks of such an approach?

<ESMA_QUESTION_TRART8_34>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_34>

Q35 Is it appropriate to combine equity and fixed income investments in the KPI, bearing in mind that these funding tools are used for different purposes by investee companies? If not, what alternative would you propose?

<ESMA_QUESTION_TRART8_35>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_35>

Q36 Do you believe the proposed advice will impose additional costs on asset managers? Please specify the type of those costs, to which specific proposal they relate including whether they are one-off or on-going, and provide your best quantitative estimate of their size.

<ESMA_QUESTION_TRART8_36>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_36>

Q37 What are the benefits and drawbacks of limiting Taxonomy-aligned activities to those reported by Non-Financial Reporting Directive companies?

<ESMA_QUESTION_TRART8_37>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_37>

Q38 Do you agree with ESMA's recommendation that the Commission develop a methodology to allow a sector-coefficient to be assigned for non-reporting investee companies?

<ESMA_QUESTION_TRART8_38>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_38>

Q39 Should netting be allowed, on the lines of Article 3 of the Short-Selling Regulation?

<ESMA_QUESTION_TRART8_39>
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<ESMA_QUESTION_TRART8_39>

Q40 How should derivatives be treated for the calculation purposes? Should futures be considered as potential Taxonomy-aligned investments?

<ESMA_QUESTION_TRART8_40>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_40>

Q41 What are the costs and benefits associated with the different options for non-reported activity coverage, netting and derivatives treatment presented above? Please provide a quantitative estimate for each option, distinguishing between one-off and on-going costs.

<ESMA_QUESTION_TRART8_41>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_41>

Q42 Do you have any views on the proposed advice recommending a standardised table for presentation of the KPI for asset managers in Annex IV?

<ESMA_QUESTION_TRART8_42>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_42>

Q43 Do you agree with presenting accompanying information in the vicinity of the standard table?

<ESMA_QUESTION_TRART8_43>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_43>

Q44 Do you agree that there would be merit in including in the accompanying information a link, if relevant, to an asset managers' entity-level disclosures on principal adverse impacts of investment decisions on sustainability factors?

<ESMA_QUESTION_TRART8_44>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_44>

Q45 Do you agree with adopting the same formatting criteria as presented in Section 3.4.2 for the asset manager KPI disclosure?

<ESMA_QUESTION_TRART8_45>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_45>

Q46 What are the one-off and on-going costs of setting up the reporting and disclosure under this obligation? Please clarify the type of costs incurred and provide a quantitative estimation where possible.

<ESMA_QUESTION_TRART8_46>
TYPE YOUR TEXT HERE
<ESMA_QUESTION_TRART8_46>