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Interim report

Suggestions for an EFRAG Implementation Guidance on synergies between the ESRS and EU Taxonomy

Based on an Analysis of the Usability of the Taxonomy Criteria

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Kurzbeschreibung Vorschläge für eine EFRAG-Implementierungshilfe zu Synergien zwischen den ESRS und der EU-Taxonomie

Die Europäische Union hat mit der EU-Taxonomie und den Europäischen Nachhaltigkeitsberichtsstandards (ESRS) zwei zentrale regulatorische Instrumente geschaffen, um die Transparenz nachhaltiger Wirtschaftstätigkeiten zu erhöhen und Kapitalströme in umweltfreundliche Investitionen zu lenken. Während die EU-Taxonomie wirtschaftliche Aktivitäten anhand spezifischer Nachhaltigkeitskriterien klassifiziert, legen die ESRS umfassende Anforderungen an die Nachhaltigkeitsberichterstattung von Unternehmen fest. Dieser Bericht untersucht die Schnittstellen zwischen beiden Regelwerken, identifiziert Herausforderungen bei der praktischen Umsetzung und analysiert Synergien, die Unternehmen für eine effizientere Berichterstattung nutzen können. Ein zentraler Fokus liegt auf der Wesentlichkeitsanalyse, der Integration von Taxonomie-Daten in die ESRS-Berichtspflichten und dem Potenzial einer Implementierungshilfe durch die European Financial Reporting Advisory Group (EFRAG). Die Analyse zeigt, dass Unternehmen, die bereits Taxonomie-Daten erfassen, diese für die Erfüllung der ESRS-Standards nutzen können – insbesondere durch die Anwendung der technischen Screening-Kriterien und der „Do No Significant Harm“ (DNSH)-Prüfung. Die Erarbeitung einer Implementierungshilfe könnte Unternehmen dabei unterstützen, regulatorische Anforderungen effizient zu erfüllen, doppelte Datenerfassung zu vermeiden und die Nachhaltigkeitsberichterstattung kohärenter zu gestalten.

Abstract: Suggestions for an EFRAG Implementation Guidance on synergies between the ESRS and EU Taxonomy

The European Union has introduced the EU Taxonomy and the European Sustainability Reporting Standards (ESRS) as key regulatory frameworks to enhance transparency on sustainable business activities and direct capital flows towards environmentally responsible investments. While the EU Taxonomy classifies economic activities based on specific sustainability criteria, the ESRS sets out comprehensive corporate sustainability reporting requirements. This report explores the interconnections between these two frameworks, identifies implementation challenges, and analyzes synergies that companies can leverage to streamline their reporting obligations. A key focus is placed on materiality assessments, the integration of Taxonomy-related data into ESRS disclosures, and the potential for an EFRAG Implementation Guidance to facilitate alignment. Findings indicate that companies already collecting Taxonomy-related data can utilize it to meet ESRS requirements, particularly through the application of technical screening criteria and "Do No Significant Harm" (DNSH) assessments. An implementation guidance could help businesses align regulatory compliance more effectively, reduce redundant data collection, and enhance the coherence of sustainability reporting.

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List of abbreviations

Abbreviation	Explanation
CSRD	Corporate Sustainability Reporting Directive
DNSH	Do No Significant Harm
EFRAG	European Financial Reporting Advisory Group
EIA	Environmental Impact Assessment
ESRS	European Sustainability Reporting Standards
EU	European Union
GHG	Greenhouse Gas
IRO	Impacts, Risks, and Opportunities
PoSF	Platform on Sustainable Finance
SC	Substantial Contribution
TSC	Technical Screening Criteria
UBA	Umweltbundesamt (German Environment Agency)

Zusammenfassung

Dieser Bericht untersucht die Schnittstellen zwischen der EU-Taxonomie für nachhaltige Wirtschaftstätigkeiten und den Europäischen Nachhaltigkeitsberichtsstandards (ESRS). Beide Regelwerke sind zentrale Bausteine der Europäischen Sustainable Finance-Strategie und verfolgen das gemeinsame Ziel, nachhaltige Investitionen zu fördern. Während die EU-Taxonomie wirtschaftliche Aktivitäten auf ihre Umweltverträglichkeit hin bewertet und Investitionen in nachhaltige Sektoren lenken soll, stellen die ESRS umfassende Berichtsstandards für Unternehmen dar, um deren Nachhaltigkeitsleistung transparent zu machen. Die Analyse beleuchtet sowohl die Gemeinsamkeiten als auch die Unterschiede zwischen den beiden Regulierungen, um herauszuarbeiten, wie Unternehmen die Synergien zwischen diesen nutzen und ihre Berichterstattung effizienter gestalten können. Ein wesentlicher Vorschlag des Berichts ist die Entwicklung einer EFRAG-Implementierungshilfe, die eine praxistaugliche Anleitung bietet, um die EU-Taxonomie und die ESRS gemeinsam anzuwenden. Eine solche Hilfestellung kann Unternehmen dabei unterstützen, regulatorische Anforderungen besser zu erfüllen, redundante Datenverarbeitung zu vermeiden und ihre Nachhaltigkeitskommunikation kohärenter zu gestalten.

Die Untersuchung zeigt, dass Unternehmen, die bereits taxonomie-relevante Daten erfassen, diese effizient für die Erfüllung der ESRS-Anforderungen nutzen können. Insbesondere die technischen Bewertungskriterien der Taxonomie können als Grundlage für die Wesentlichkeitsanalyse innerhalb der ESRS dienen. Darüber hinaus können die „Do No Significant Harm“ (DNSH)-Kriterien der EU-Taxonomie die Bewertung von Risiken und Auswirkungen der Unternehmen unterstützen. Darüber hinaus können bestimmte Taxonomie-Kriterien Anhaltspunkte für Berichterstattung über Konzepte und Maßnahmen sowie Kennzahlen und Ziele nach den ESRS liefern.

Summary

This report examines the link between the EU Taxonomy for Sustainable Activities and the European Sustainability Reporting Standards (ESRS). Both frameworks are key components of the European sustainable finance strategy, aiming to promote sustainable investments. While the EU Taxonomy classifies economic activities based on environmental sustainability to steer capital towards green investments, the ESRS provides comprehensive corporate reporting standards to enhance transparency on sustainability performance.

The report analyzes the synergies and distinctions between the two pieces of legislation to determine how companies can leverage them for more efficient reporting. A key recommendation is the development of an EFRAG Implementation Guidance to provide practical instructions for harmonizing the application of the EU Taxonomy and the ESRS. Such a guidance document would help companies streamline regulatory compliance, reduce data redundancy, and improve the coherence of sustainability reporting.

The study finds that companies already collecting taxonomy-relevant data can effectively use this information to meet ESRS disclosure requirements. The Taxonomy's technical screening criteria can serve as an important input for the materiality assessments under the ESRS. Specifically, the 'Do No Significant Harm' (DNSH) criteria can enhance risk assessment and impact evaluation, improving the overall quality of sustainability disclosures. Moreover, selected Taxonomy criteria can inform the ESRS disclosures requirements on policies and actions as well as on metrics and targets for environmental topics.

1 Introduction

This report examines the link between the EU Taxonomy and the European Sustainability Reporting Standards (ESRS). Both frameworks aim to foster sustainable finance, yet they differ in scope: the EU Taxonomy classifies economic activities based on environmental sustainability, while the ESRS ensures comprehensive corporate sustainability reporting.

The report analyzes existing overlaps and differences between the two frameworks to explore how companies can leverage synergies and streamline their reporting processes. A key proposal is the development of an EFRAG Implementation Guidance, which would provide companies with practical instructions on integrating both frameworks. This would help align data requirements and reduce administrative complexity.

Specifically, the report highlights that companies already collecting Taxonomy-related data can effectively use this information for ESRS reporting. For instance, the Taxonomy's technical screening criteria could support ESRS materiality assessments, and the "Do No Significant Harm" (DNSH) criteria could help enhance transparency regarding sustainability risks and impacts. Introducing a standardized implementation guide could enhance the consistency and comparability of sustainability reporting, making it easier for companies to meet regulatory requirements. Clear guidance on utilizing Taxonomy data within ESRS reporting would also improve data quality and provide greater transparency for investors and other stakeholders.

In conclusion, the report recommends developing an EFRAG Implementation Guidance to provide companies with a practical approach to linking the EU Taxonomy with the ESRS. This would not only reduce reporting burdens but also enhance the reliability and comparability of sustainability disclosures.

2 The challenges and potential of tapping synergies between the ESRS and EU Taxonomy

In this chapter we introduce the structure and underlying logic of the EU Taxonomy and CSRD (including the ESRS). We then explain the challenges of applying them together in practice and assess the potential for an Implementation Guidance on synergies between the two. Such an implementation guidance may eventually be developed and issued by the European Financial Reporting Advisory Group (EFRAG) as official support material for ESRS implementation. Simply put, we want this implementation guidance to ensure that synergies between the ESRS and EU Taxonomy are maximised, particularly in case of datapoint or information collection under one framework that benefits the other.

In practical implementation, the key challenge for tapping synergies between the EU Taxonomy and the ESRS lies in their respective scope and objective. Each regulation follows a different logic. The EU Taxonomy operates at the activity level, focusing on classifying specific economic activities as sustainable to guide investments toward green activities. The ESRS function at the entity level, aiming to improve the transparency and reliability of sustainability information for entire organizations. Additionally, the audience for the EU Taxonomy are mainly financial institutions who need a basis for assessing their investments in terms of sustainability and businesses, seeking access to finance for sustainable activities. The CSRD (with the ESRS) has a broader target group, including a range of stakeholders interested in the sustainability of a company. Table 1 summarizes the relevant distinctions.

Table 1: Comparison of selected elements of the EU Taxonomy and the CSRD

Aspect	EU Taxonomy	CSRD(ESRS)
Level of application	Activity level	Entity level
Objective	Steering investments towards a climate-resilient, net-zero and sustainable economy	Improve transparency, comparability and credibility of corporate sustainability information
Requirements	Technical screening criteria	Disclosure requirements
Audience	Financial institutions and companies	Broad range of stakeholders interested in an undertaking's sustainability information, including financial institutions

Source: Climate & Company

The EU Taxonomy and the European Sustainability Reporting Standards (ESRS) are key regulations of the EU's sustainable finance framework. They complement each other but follow different objectives. These differences can lead to regulatory blind spots and inefficiencies. The Taxonomy determines the sustainability of economic activities based on environmental thresholds, while the ESRS focuses on the mere transparency of entity-level impacts, risks, and opportunities (IRO). Their differences in scope and granularity create challenges for companies trying to comply with both frameworks. As shown above, one major issue is the disconnect between activity-level data required by the Taxonomy and the multi-dimensional disclosures mandated by the ESRS. Companies might achieve Taxonomy alignment by meeting specific thresholds but fail to account for broader environmental or social impacts and risks, resulting in incomplete sustainability information for reporting under the ESRS. For example, while the taxonomy thresholds for greenhouse gas (GHG) emissions allow for a comparison of

performance on an activity level and are intensity-based (e.g. tCO_2e/t product), ESRS E1 requires reporting of gross scope 1, 2 and 3 GHG emissions of the whole entity and in addition the GHG intensity based on net revenue (tCO_2e/€). While the metrics are connected, the ESRS metric is not tied to a physical output unit (although this option is available and likely to be used) and the EU Taxonomy requirement only provides a fraction of total entity emissions. In order to connect both frameworks, it needs to be shown how the information gathered by the company builds upon on each other. In the example, the GHG emission data for the Taxonomy metric is a part of the Scope 1 GHG emissions in ESRS E1 and can be used in this sense.

Clear guidance on how to use the information from assessing Taxonomy-alignment for ESRS reporting is currently not available. Without clear guidance, however, interpretation could be too subjective, not streamlined and potentially lead to inefficiencies. Data from assessing taxonomy-alignment could provide useful insights for the materiality assessment. Without proper guidance how the two frameworks interrelate, however, these insights might remain underutilized.

Despite these challenges, providing clear guidance on how both frameworks can be applied together, presents significant potentials for companies and can avoid a duplication of efforts. An official guidance document developed by EFRAG could bridge the gap between activity-level Taxonomy data and entity-level ESRS disclosures. It could also clarify how substantial contribution and DNSH eligibility, central concepts of the EU Taxonomy, can assist in the materiality assessment according to the ESRS. Supporting companies with clear guidance on how data collected for Taxonomy activities can supplement and improve reporting according to ESRS standards and vice versa can also improve reporting quality under both frameworks and reduce administrative burden. Therefore, the TAIG should be regarded as an essential starting point, which can unfold large potential.

3 Status Quo: Insights from the Materiality Implementation Guidance

An EFRAG Implementation Guidance on synergies between the ESRS and EU Taxonomy (TAIG) would not be the first EFRAG Implementation Guidance. The EFRAG Materiality Implementation Guidance[1], as a case-in-point, is a document aiming to support firms' in implementing the ESRS. It already acknowledges the relation between the ESRS materiality assessment and the EU Taxonomy, that the TAIG would, among others, seek to provide additional insights for:

FAQ on Art. 8 EU Taxonomy (by EFRAG, 2024)[2]

FAQ 25: What is the relationship between taxonomy eligible activities and materiality?

236. The EU Taxonomy Regulation and its Delegated Acts define criteria for a number of economic activities (eligible activities) that need to be fulfilled in order to substantially contribute to one of six environmental objectives. In addition, these activities must do no significant harm (DNSH) to the other environmental objectives and fulfil minimum social safeguards to be considered taxonomy aligned. The environmental objectives of the Taxonomy Regulation are fully reflected in the environmental topics covered by the ESRS. If an undertaking engages in activities that are eligible for the EU Taxonomy, this indicates that it impacts the environmental objective for which the Taxonomy defines substantial contribution (SC). To this extent, the following information can be an input to the materiality assessment when identifying IROs (i.e., refer to Chapter 3.2 Step B of this Guidance):

(a) whether the undertaking has in place activities that do or do not comply with the criteria for substantial contribution, including Capex plans; and

(b) whether these activities comply or not with one or more of the DNSH criteria.

237. Despite the relationship between the Art. 8 Taxonomy and ESRS, taxonomy eligibility is no precedent for the ESRS materiality assessment. Reporting taxonomy-eligible activities by an undertaking neither oblige companies to assess those as material nor to explain that they are not. The Art. 8 Taxonomy is a process that can inform the materiality assessment; other processes that can also inform it are due diligence and the enterprise risk management.

The statement from the EFRAG Materiality Implementation Guidance is a valuable first step in linking EU Taxonomy eligibility and alignment with materiality under the ESRS. It provides companies with an important starting point for considering how their taxonomy-aligned and taxonomy-eligible activities relate to their overall sustainability impacts, risks and opportunities.

[1] EFRAG developed materiality implementation guidance to help companies navigate the complex process of determining which sustainability issues are most relevant and significant for reporting, as required by the ESRS under the CSRD. This guidance is necessary to ensure consistency, comparability, and clarity in sustainability reporting across companies. Similarly, EFRAG might develop taxonomy implementation guidance to aid companies in understanding and applying the EU Taxonomy Regulation, which classifies environmentally sustainable economic activities. This would ensure proper alignment with sustainability disclosures and help companies meet regulatory requirements efficiently.

2 European Financial Reporting Advisory Group. (2024) Materiality Implementation Guidance [PDF]. https://www.efrag.org/sites/default/files/sites/webpublishing/SiteAssets/IG%201%20Materiality%20Assessment_final.pdf

However, it also highlights the need for a more detailed guidance to fully leverage the synergies between the Taxonomy and ESRS for practical implementation. The detailed potential and benefits are explained below.

1. Taxonomy Alignment

The EFRAG materiality implementation guidance points out that taxonomy eligibility can inform materiality assessments. The statement that "taxonomy-eligibility is no precedent for the ESRS materiality assessment" is an important clarification. Yet it leaves companies without clear instructions on how to consider taxonomy alignment within their assessments.

Potential for an EFRAG Implementation Guidance on synergies between the ESRS and EU Taxonomy: A dedicated implementation guide needs to bridge this gap by providing specific criteria to help companies understand how to consider their taxonomy-aligned activities in their materiality assessments.

2. Taxonomy Eligibility:

The EFRAG Materiality Implementation Guidance positions taxonomy-eligible activities as an "input" when assessing impacts, risks, and opportunities (IROs). It does not clarify how this input should be balanced with other elements, such as due diligence and risk management. This could lead to subjective interpretations and implementation among companies, potentially undermining the consistency of sustainability disclosures.

Potential for an EFRAG Implementation Guidance on synergies between the ESRS and EU Taxonomy: Instruct the integration of taxonomy-eligible activities into the materiality assessment process. By offering a step-by-step framework, it would help companies balance the Taxonomy criteria with other considerations, resulting in a more coherent, less subjective, and sector-consistent approach to assessing materiality. It should also provide guidance on how to utilize data necessary for assessing the TSC for their materiality assessment.

3. Do No Significant Harm (DNSH) Criteria:

The EFRAG Materiality Implementation Guidance acknowledges DNSH criteria but does not delve into how they interact with materiality assessments. DNSH eligibility is a critical component of the EU Taxonomy's alignment. Companies could leverage this information when determining materiality of their sustainability-related impacts.

Potential for an EFRAG Implementation Guidance on synergies between the ESRS and EU Taxonomy: Provide practical instructions on how to incorporate DNSH criteria into materiality assessments. By outlining rules how DNSH criteria influence an activity's impact materiality, the guide could ensure that companies give due consideration to the full spectrum of sustainability impacts, thereby enhancing the depth and quality of their reporting. It should furthermore provide guidance on how to utilize data necessary for assessing DNSH for their materiality assessment and reporting.

In summary, the EFRAG Materiality Implementation Guidance is an important first step for connecting EU Taxonomy eligibility with the ESRS materiality assessment. However, it highlights the complexity of this integration and the need for a more comprehensive framework. A detailed EFRAG Implementation Guidance on synergies between the ESRS and EU Taxonomy would be the

logical next step, offering practical tools, methodologies, and examples to help companies consistently incorporate taxonomy eligibility into their materiality assessments. This additional guidance would enhance coherence and comparability in sustainability reporting, ensure that the Taxonomy's criteria are adequately considered, and reduce the risk of key issues being overlooked. By building on EFRAG's initial effort, a dedicated Taxonomy implementation guide could significantly advance the quality and robustness of sustainability disclosures in line with the EU's sustainable finance goals.

4. Analyzing the Connections between the Taxonomy and the ESRS

The Technical Screening Criteria (TSC) under the EU Taxonomy provide detailed, activity-specific thresholds designed to determine environmental sustainability. When integrated effectively, TSC data could potentially support companies in their ESRS-reporting by informing materiality assessments and in reporting metrics and targets. In this chapter, we explore the practical connections between the frameworks, address challenges and propose solutions for interoperability.

To do so, we developed suggestions based on the usability classification of the Platform of Sustainable Finance (PoSF) which we use as an analytical framework. The usability classification aims to support the development of the Taxonomy on issues such as misalignment, sequencing, regulatory overload, interpretative issues and data gaps *within* the EU Taxonomy (PoSF, 2022, p.28). For this analysis, the usability classification is used as a tool to support the comparison of the EU Taxonomy criteria and the ESRS Standards for the materiality assessment, policies and actions, and metrics and targets.

4.1 Usability classification of the Platform on Sustainable Finance

4.1.1 The Usability Classification

The Usability Classification of the PoSF helps to categorize the complexity and applicability of the EU Taxonomy's technical screening criteria across economic activities, making it easier for companies and investors to assess Taxonomy alignment. This classification is divided into five types (A-E), each reflecting different levels of quantitative or qualitative assessments:

- Type A criteria are quantitative. These are sometimes more straightforward for companies to disclose and for investors to verify since they rely on measurable data, such as greenhouse gas emissions.
- Type B criteria focus on process-based measures, which involve a combination of quantitative and qualitative assessments. These require companies to establish processes (e.g., managing ecosystems to prevent invasive species), and investors must verify that the processes are in place.
- Types C and D criteria reference compliance with existing EU and international legislation, such as pollution control standards or Environmental Impact Assessments (EIA). Around 48% of the "Do No Significant Harm" (DNSH) criteria in the Climate Delegated Act are based on such legislative standards. This reliance on established regulations simplifies the evaluation process for both companies and investors by creating a common regulatory benchmark.
- Type E criteria involve non-assessable ambitions, which do not follow a clear quantitative assessment. These are more qualitative and difficult to measure, often requiring judgment calls from investors.

Table 2: Usability criteria of the Platform on Sustainable Finance (2022, p.51)3

Type	Name		Example	Assessment
A	Threshold		*Climate Change Mitigation* „The direct GHG emissions of the activity are lower than 270g CO2e/kWh."	Quantitative
B	Process Measure		*Ecosystems:* „Where relevant, maintenance of vegetation along road transport infrastructure ensures that invasive species do not spread. Mitigation measures have been implemented to avoid wildfire collisions.	Quantitative & Qualitative
C	International Standards & EU Legislation		*Pollution:* „Measures in place to minimize toxicity of anti-fouling paint and biocides as regulated in the Biocidal Products Regulation: (EU) 528/2012, which implements (in the EU) the International Convention on the Control of Harmful Anti-fouling Systems on Ships, which was adopted on 5 October 2001 (International Maritim Organisation, 2021) ."	Quantitative & Qualitative
D	EU Only Legislation	D1.1 EU Regulation	*Pollution:* "The activity complies with Regulation (EU) 2019/1009 or national rules on fertilizers or soil improvers for agricultural use."	Quantitative & Qualitative
		D1.2 EU Directive	*Ecosystems:* "An Environmental Impact Assessment (EIA) or screening has been completed in accordance with Directive 2011/92/Eu."	
E	Non-assessable Ambition		*Circular Economy:* "Peat extraction is minimized"	Not possible

Hence, this analytical framework can be utilized as a baseline to support the assessment of interoperability between the EU Taxonomy and the ESRS. To do so, Table 3 provides an overview of how selected elements of the EU Taxonomy's Technical Screening Criteria (TSC) align with the requirements of the ESRS. It connects the application of TSC data to the three reporting areas inherent to the ESRS—materiality assessment, policies and actions and metrics and targets—while demonstrating how different types of TSC inputs, such as process measures or quantitative thresholds from SC or DNSH criteria, can inform and enhance ESRS reporting.

3 The Table is available on p.51 here: Platform of Sustainable Finance (2022). Platform recommendations on Data and Usability. *https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-usability_en_1.pdf*

Table 3: The connection of Taxonomy elements to the ESRS Standards

ESRS	TSC and Usability Criteria	Application
Materiality Assessment	Generic DNSH, Type A (Thresholds), other TSCs depending on the circumstances of the company, Article 8 Disclosures	Identifying significant impacts, risks and opportunities.
Policies and Actions	Type B (Process Measures)	Developing actionable sustainability plans and commitments.
Metrics and Targets	Type A (Thresholds)	Measuring and reporting sustainability performance.

Source: Climate & Company. This table shows how the EU Taxonomy's Technical Screening Criteria (TSC) align with ESRS requirements under the CSRD framework. It connects TSC data to three ESRS elements—Materiality Assessment, Policies and Actions, and Metrics and Targets—highlighting how DNSH criteria, process measures, and quantitative thresholds support ESRS reporting and help avoid double reporting.

4.2 ESRS Materiality Assessment

DNSH criteria, TSCs (depending on the circumstances of a company) and especially those with quantitative criteria (Type A) offer opportunities to inform the identification of IROs under the ESRS. However, this integration faces challenges due to the differences in scope and focus between the EU Taxonomy and the ESRS (see table 1).

4.2.1 DNSH Criteria to IROs

The DNSH criteria serve as an overarching condition that an economic activity must meet in order qualify as environmentally sustainable, ensuring that an activity does no significant harm to any other of the five environmental objectives. When collecting data for the DNSH criteria, companies can potentially derive information for their materiality assessments, as shown by the following example:

1. Example: How the data collection for a DNSH criteria can support the identification of IROs

A manufacturing company producing hydrogen that aims at taxonomy-alignment of their activity (3.10 Manufacture of hydrogen), needs to comply with the substantial contribution and the respective DNSH criteria. DNSH to climate change adaptation refers to generic criteria in Appendix A which requests the identification of physical climate risks related to the activity by performing a robust climate risk and vulnerability assessment. The generic criteria in Appendix A can be found in a large number of activities for DNSH to climate change adaptation. According to the generic criteria in Appendix A, the assessment needs to be performed with the following three steps[4]:

a) "screening of the activity to identify which physical climate risks from the list in Section II of [the] Appendix may affect the performance of the economic activity during its expected lifetime;

[4] European Commission (2021) APPENDIX A: GENERIC CRITERIA FOR DNSH TO CLIMATE CHANGE ADAPTATION. *https://ec.europa.eu/sustainable-finance-taxonomy/assets/documents/CCM%20Appendix%20A.pdf*

b) where the activity is assessed to be at risk from one or more of the physical climate risks listed in Section II of [the] Appendix, a climate risk and vulnerability assessment to assess the materiality of the physical climate risks on the economic activity;

c) an assessment of adaptation solutions that can reduce the identified physical climate risk (EC, 2021, p.1)."

Proportionality of the climate risk and vulnerability assessment to the scale of the activity and its expected lifespan is to be achieved through the following criteria[5]:

a) "for activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using climate projections at the smallest appropriate scale;

b) for all other activities, the assessment is performed using the highest available resolution, state-of-the-art climate projections across the existing range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30-year climate projections scenarios for major investments (EC, 2021, p.1)."

The assessment to be conducted is in line with the requirements of ESRS E1 to identify, assess and disclose climate-related physical risks. Datapoints necessary to comply with Appendix A can inform **the *ESRS E1 Disclosure Requirement related to ESRS 2 IRO-1* under ESRS E1 paragraph 20 (b) and AR 11 ff as well as the disclosure of climate-related risks under the ESRS E1 Disclosure Requirement related to ESRS 2 SBM-3**. In particular, the list of climate-related hazards to be considered under ESRS E1 is identical with that of Annex A of the Taxonomy Climate Delegated Act.

ESRS 2 IRO-1 AR ff requests that when "disclosing the information on the process to identify physical risks as required under paragraph 20 (b), the undertaking shall explain whether and how"[6]:

a) short-, medium-, and long-term climate-related hazards were identified and how the undertaking's assets' and business activities' exposure to these hazards were screened;

b) short-, medium- and long-term time horizons were defined in light of expected lifetimes of its assets, strategic planning horizons and capital allocation plans;

c) the extend of exposure of its assets and business activities to the identified climate-related hazards were assessed, taking into consideration the likelihood, magnitude and duration of the hazards as well as the geospatial coordinates specific to the undertaking's locations and supply chains; and

d) how high emission climate scenarios informed the identification of climate-related hazards and the assessment of exposure and sensitivity

[5] European Commission (2021) APPENDIX A: GENERIC CRITERIA FOR DNSH TO CLIMATE CHANGE ADAPTATION. *https://ec.europa.eu/sustainable-finance-taxonomy/assets/documents/CCM%20Appendix%20A.pdf*

[6] European Commission (2023a). Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive (EU) 2022/2464 as regards sustainability reporting standards (European Sustainability Reporting Standards – ESRS).. https://eur-lex.europa.eu/eli/reg_del/2023/2772/oj/eng

4.2.2 Type A Criteria to IROs

The collection of data for Type A criteria (Quantitative thresholds) allows companies to derive a first assessment of whether their activities are sustainable or not. This can hint at potential material issues, depending on the circumstances of the company. Activity-specific information on certain Type A Thresholds derived from EU Taxonomy-related data can therefore be used for determining materiality under ESRS. Reporting such information ensures transparency about an organization's unique economic activity, strategy, and sustainability impacts. However, it is essential to note that compliance with Substantial Contribution (SC) criteria does not automatically indicate a material (& positive) impact. Therefore, careful consideration is needed when determining materiality and framing disclosures based on Type A criteria. In the following, this text provides an example.

2. Example: How the data collection for a Type A criterion can support the identification of IROs

A potential example is the Type A TSC threshold is the target for electricity production from geothermal energy (SC CCM) which is 100g CO2e/kWh (life-cycle emissions)[7]. This is the limit for on the intensity of greenhouse gas (GHG) emissions for several sources produced from the generation of electricity, heat and power from hydropower, geothermal energy or gaseous and liquid fuels. This target is related to EU's climate goals. Therefore, if data is collected for this Type A thresholds, companies can gain a better understanding for their impacts and risks. This could for example include assessing the significance of their energy-related emissions and how they align with regulatory requirements and decarbonization pathways. Understanding whether electricity generation meets or exceeds the 100gCO2e/kWh threshold helps companies evaluate their exposure to transition risks, such as future carbon pricing, stricter environmental regulations, and potential shifts in investor or consumer preferences. The *impact* would be providing to a positive or negative to contribution to the EU climate goals in their operation. This *impact* could potentially negatively affect the undertakings' financial position through increased costs resulting from negative regulatory implications regarding the Paris Agreement, the EU's climate goals, or indirectly through increased stakeholder pressure and therefore be considered as a financially material *risk*. However, a company could potentially identify potential *opportunities* such as reduced operating costs through efficiency gains. The collection of the datapoint for Type A criterion has therefore provided a first starting point to assess potential impacts, risks and opportunities.

4.2.3 Article 8 Taxonomy Metrics to IROs

The metrics required under Article 8 of the EU Taxonomy Regulation—such as taxonomy-aligned turnover, CapEx, and OpEx—serve as critical inputs for disclosures under the European Sustainability Reporting Standards (ESRS), particularly in ESRS E1: Climate Change. These metrics provide a structured, quantitative basis to assess how an entity's economic activities align with the goals of climate change mitigation and adaptation. By explicitly linking these metrics to ESRS disclosures, organizations can demonstrate their alignment with sustainable finance objectives and provide stakeholders with clear, comparable information.

Article 8 metrics also provide a valuable lens for evaluating the financial implications of sustainability performance:

[7] Note: A CO2e/kWh metric (which is not targeting life-cycle emissions) can be also found under the DNSH for CCM (iii) the indirect GHG emissions do not exceed 270 g CO2e/kWh;

- *Financial Risks*: If metrics, like for example revenue, are not aligned with the taxonomy this could disclose potential exposures to regulatory, market, and reputational risks. For example, significant revenue from non-aligned activities may indicate vulnerabilities to changing regulations or market preferences favouring sustainable practices.
- *Financial Opportunities:* Metrics on taxonomy-aligned CapEx and OpEx highlight growth opportunities, such as investments in green technologies or expanding sustainable business lines. These insights help organizations showcase their potential for value creation in a transitioning economy.

By connecting taxonomy metrics in their ESRS reporting, organizations not only fulfil regulatory obligations but also enhance transparency and stakeholder confidence in their approach to managing sustainability-related risks and opportunities.

4.3 Disclosure of Policies and Actions

The disclosure of policies and actions is a fundamental requirement of ESRS reporting and could effectively be informed by Type B TSC (Process measures) that are required under the Taxonomy. These process-based measure is often reflected in SC or DNSH criteria

1 Example: How the Type B (Process Measure) can be used to inform the disclosure of Policies and Actions

For example, if a company complies with the substantial contribution criteria of "7.3. Installation, maintenance and repair of energy efficiency equipment", *the activity includes a list of individual measures, given their compliance with "minimum requirements set for individual components and systems in the applicable national measures implementing Directive 2010/31/EU and, where applicable, are rated in the highest two populated classes of energy efficiency in accordance with Regulation (EU) 2017/1369 and delegated acts adopted under that Regulation. These individual measures include*[8]

a) "addition of insulation to existing envelope components, such as external walls (including green walls), roofs (including green roofs), lofts, basements and ground floors (including measures to ensure air-tightness, measures to reduce the effects of thermal bridges and scaffolding) and products for the application of the insulation to the building envelope (including mechanical fixings and adhesive);

b) replacement of existing windows with new energy efficient windows;

c) replacement of existing external doors with new energy efficient doors;

d) installation and replacement of energy efficient light sources;

e) installation, replacement, maintenance and repair of heating, ventilation and air-conditioning (HVAC) and water heating systems, including equipment related to district heating services, with highly efficient technologies;

f) installation of low water and energy using kitchen and sanitary water fittings which comply with technical specifications set out in Appendix E to this Annex and, in case of shower solutions, mixer showers, shower outlets and taps, have a max water flow of 6 L/min or less attested by an existing label in the Union market (EC, 2024, p.129f) "

[8] European Commission (2021). Climate Delegated Act. *C/2021/2800.* *https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2139*.

This can be connected to the Disclosure Requirement E1-3 – Actions and resources in relation to climate change policies (DR 26): th*e undertaking shall disclose its climate change mitigation and adaptation actions, and the resources allocated for their implementation.* The Taxonomy criteria require companies to use state-of-the-art methodologies for *vulnerability, risk analysis and related methodologies*, such as those based on IPCC reports, to assess climate risks and guide adaptation actions. For example, if a company implements the ISO 14090 or 14091, as for their climate adaptation or climate risk assessments (UBA, 2019). These criteria directly inform **ESRS E1-3**, where companies must disclose their climate adaptation actions, as well as the resources allocated to implement them.

This example shows that Type B TSC (Process Measures) can effectively inform Policies and Actions under ESRS because the focus on procedural and operational requirements that the taxonomy demands can be considered under the resource allocation of the ESRS disclosure requirement.

Disclosure of Metrics and Targets

The calculations used for TSC metrics, especially Type A criterion, can provide input for specific metrics and targets. The following example shows how the Type A criterion of 100g CO2e/kWh can be used to inform ***1-5 – Energy consumption and mix, 37 (c), Disclosure Requirement E1-5 – Energy consumption and mix (39). And Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions (44).***

1 Example: How the data collection for a Type A criterion can support specific Disclosure Requirements

The calculations that are used for TSC metrics, can potentially also be used as a basis for developing ESRS-compliant targets. For example, if a company's energy generation activities meet the Taxonomy's life-cycle emissions substantial contribution threshold (CCM) of 100g CO2e/kWh for climate change mitigation. While companies must determine emissions from electricity, geothermal energy, or gaseous and liquid fuels – bioenergy presents a particular challenge. Although the EU Taxonomy references REDII and its GHG emissions savings methodology for biomass, which does not focus on gCO2e/kWh as a primary metric, companies need to collect data on their *generated energy*[9]*. This data can* can inform ***Disclosure Requirement E1-5 – Energy consumption and mix, 37 (c)*** total energy consumption from renewable sources disaggregated by: i.) fuel consumption for renewable sources including biomass (also comprising industrial and municipal waste of biologic origin), biofuels, biogas, hydrogen from renewable sources, etc.

Second, the renewable *energy production in kWh,* that needs to be collected to fulfil the Taxonomy criteria can potentially inform ***Disclosure Requirement E1-5 – Energy consumption and mix (39)***. In addition, where applicable, the undertaking shall disaggregate and disclose separately its non-renewable energy production and renewable energy production in MWh.

Third, the *Scope 1 to Scope 3* emissions from the installations can potentially be used for **Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions** (44) The undertaking shall disclose in metric tonnes of CO2eq its (38): (a) gross Scope 1 GHG emissions;

These three examples provide evidence of how the data collection under the taxonomy can be used the reporting under the ESRS requirements.

[9] European Commission (2018). Renewable Energy Directive II. PE/48/2018/REV/1. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2018.328.01.0082.01.ENG&toc=OJ:L:2018:328:TOC

4.4 Challenges, benefits and solutions

Based on the analysis conducted in this report, Table 2 summarizes the challenges, solutions, and benefits of integrating the EU Taxonomy's TSC into the ESRS. It highlights key obstacles, such as aligning activity-level data with entity-level reporting and proposes solutions like standardized methodologies and data mapping tools.

Table 4: Challenges, solutions and the benefits of Integration of using TSC for the materiality assessment.

Shown for the aspects of: ESRS Materiality Assessment (IRO), Disclosure of Policies and Action, Disclosure of Metrics and Targets

Aspect	Challenges	Potential Solutions	Benefits of Integration
ESRS Materiality Assessment (& identifying IROs)	1. Difficulty in aligning activity-level TSC data with entity-level ESRS reporting. 2. Aggregating granular data into a holistic organizational narrative. 3. Subjectivity and inconsistency in prioritizing impacts and risks based on TSCs 4. Complexity in interpreting DNSH compliance and its implications for material impacts and risks.	1. Develop standardized methodologies for aggregating TSC data, such as weighted averages for emissions metrics. 2. Connect materiality assessments with identification of opportunities and risks based on TSC compliance or non-compliance. 3. Use CapEx plans to highlight future opportunities and risks. 4. Leverage benchmarks to contextualize impacts and risks consistently.	1. Enhanced clarity in identifying impacts, risks, and opportunities. 2. Alignment of TSC data with ESRS materiality frameworks. 3. Improved transparency and comparability in sustainability disclosures.
Disclosure of Policies and Actions	1. Challenges in disclosing policy gaps and plans for future action based on TSCs.	1. Develop mapping tools to align TSC outcomes with ESRS policy requirements. 2. Clearly disclose gaps in policies alongside plans to address them. 3. Use TSC compliance to guide narrative development in policy disclosures.	1. Stronger narrative linking technical compliance to broader organizational strategies. 2. Greater transparency in addressing policy gaps. 3. Clearer demonstration of commitments and future plans.

Aspect	Challenges	Potential Solutions	Benefits of Integration
		4. Provide examples of how technical compliance translates into organizational strategies.	
Disclosure of Metrics and Targets	1. Divergence between activity-specific TSC metrics and entity-level ESRS reporting. 2. ESRS's forward-looking targets may not align with TSC's 3. Difficulty contextualizing TSC metrics within long-term organizational goals.	1. Use TSC metrics as further information for ESRS targets (e.g., emissions thresholds informing net-zero goals). 2. Combine scenario planning and CapEx disclosures to align TSC data with ESRS metrics. 4. Contextualize technical compliance data within broader strategies for sustainability improvement.	1. Clear pathway from current taxonomy compliance (or investment) to future targets 2. Integration of TSC metrics into long-term sustainability strategies. 3. Comprehensive ESRS disclosures which consider the TSCs

Source: Climate & Company

In summary, the integration of TSC assessments into ESRS materiality assessments, policy and action disclosures, and metrics requires a thoughtful approach to data aggregation, alignment, and narrative development. By leveraging TSC data, companies can enhance the transparency, coherence, and impact of their ESRS disclosures, ensuring compliance while providing stakeholders with a comprehensive view of their sustainability performance.

5 Remarks for an EFRAG Implementation Guidance

5.1 General observations from our analysis

Based on our analysis of the usability criteria, an EFRAG Implementation Guidance on synergies between the ESRS and EU Taxonomy should serve as a crucial tool for companies seeking to align the data collection for assessing alignment with EU criteria with their reporting under the European Sustainability Reporting Standards (ESRS). The guidance must clarify how companies can use activity-level data to support entity-level disclosures, through showing how one datapoint can benefit both files. To harmonize the differing objectives of the EU Taxonomy and ESRS, the guidance should offer materiality assessment tools and a cross-referencing guide that links Taxonomy criteria to ESRS requirements. Sector-specific templates could additionally support companies in mapping technical screening criteria to ESRS standards. Additionally, the guidance should address the risk of double reporting by outlining data reuse strategies and recommending integrated data collection processes. To enhance DNSH reporting, templates and risk assessment guidelines will assist companies in incorporating these criteria into their disclosures. Lastly, the guidance should recommend a periodic review process of their reporting practice, enabling companies to adapt to regulatory changes and maintain compliance over time. Together, these elements will help create a coherent, comprehensive, and comparable approach to sustainability reporting across sectors.

5.2 Observations for the materiality assessment

The EU Taxonomy and our analysis can significantly inform the materiality assessment by providing a structured and detailed framework that helps companies identify which activities and impacts are most relevant for their sustainability disclosures. The Taxonomy outlines specific criteria for substantial contribution to environmental objectives, "Do No Significant Harm" (DNSH) standards, and minimum social safeguards, which can be directly integrated into the materiality assessment process under the ESRS.

First, the Taxonomy’s activity-level focus allows companies to identify which of their economic activities are eligible and aligned with sustainability objectives. By assessing whether these activities meet the Taxonomy’s technical screening criteria, companies gain insight into the environmental impacts and risks associated with their operations. This informs the materiality assessment by highlighting activities that significantly contribute to environmental objectives, such as climate change mitigation, or that pose risks of doing significant harm.

Second, the DNSH criteria within the Taxonomy provide a set of environmental and social safeguards that companies must adhere to be considered sustainable. By evaluating compliance with these DNSH criteria, companies can identify areas where their activities might negatively impact the environment or society, emphasizing issues that need to be reported as material in the ESRS framework.

Furthermore, our analysis of the Taxonomy's usability classification supports the materiality assessment by categorizing different types of assessments (e.g., quantitative thresholds, process measures, legislative compliance) and linking them to potential ESRS disclosures. This provides a clear pathway for companies to use quantitative and qualitative data from the Taxonomy to inform the identification of impacts, risks, and opportunities (IROs) under ESRS.

6 Conclusion

An EFRAG Implementation Guidance on synergies between the ESRS and EU Taxonomy could be immensely beneficial in several ways. Currently, companies are working on navigating the criteria of the EU Taxonomy Regulation alongside the ESRS requirements. By offering clear, practical instructions, such a guidance document would streamline the implementation of the Taxonomy within the context of ESRS. This is especially crucial given the novelty of the regulatory landscape in sustainable finance.

A guidance document could serve as a bridge between activity-level assessments mandated by the EU Taxonomy and the entity-level disclosures required by ESRS, providing companies with a coherent approach to sustainability reporting. Further, the link between the EU Taxonomy reporting requirements and the ESRS's materiality assessment need to be enhanced. As initial links are established in the materiality assessment implementation guidance, these links should be expanded on in the existing document. Important additions include clarification on how the Taxonomy's technical screening criteria, including substantial contribution, "Do No Significant Harm" (DNSH), and minimum safeguards, can inform ESRS materiality assessments. These alignments could significantly enhance policy coherence, increase feasibility in firms' application of key sustainable finance policies and increase comparability of sustainability data allowing stakeholders and investors to more accurately assess companies' environmental and social performance.

Furthermore, by addressing areas like the reuse of data, integration of sector-specific standards, and the need for clear explanations when excluding certain taxonomy-eligible activities from materiality assessments, the guidance would not only improve the quality of disclosures but also help reduce the reporting burden on companies. In this way, an EFRAG Taxonomy Implementation Guidance would be an invaluable resource, guiding companies toward consistent, robust, and meaningful reporting that aligns with the EU's sustainable finance framework.

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