KPMG

Avoiding the blind spot: EU Taxonomy reporting for US companies

Highlighting the direct link between CSRD and the EU Taxonomy Regulation

Many US companies are overlooking a challenging piece of their first report under the Corporate Sustainability Reporting Directive (CSRD) - the EU Taxonomy Regulation.

What you need to know

What is the EU Taxonomy Regulation?

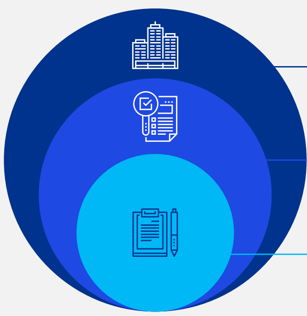
The EU Taxonomy Regulation establishes a classification system that helps companies and investors identify ‘environmentally sustainable’ economic activities, classified under six environmental objectives defined by the EU to reorient capital flows towards sustainable investment.

What has to be disclosed?

For each of the six environmental objectives, preparers must disclose key performance indicators (**KPIs**). These KPIs reflect the percentage of their total revenues (turnover), capital expenditures (CapEx) and operating expenditures (OpEx) that are covered by the Regulation (**Taxonomy Eligibility**) and, separately, those that fulfil specific requirements (**Taxonomy Alignment**). For example, an investment in a new car fleet would be eligible, but only aligned if the car fleet is fully electrified and meets certain other criteria.

Who is in scope?

Non-EU companies in scope of the CSRD are also required to report under the EU Taxonomy Regulation.



What challenges does the EU Taxonomy present to US companies?

Based on the experiences of European companies already reporting under the EU Taxonomy, there are various challenges US companies may encounter:

- **Linking financial KPIs** with the highly technical sustainability-related requirements
- **High complexity** due to the multilayered architecture and somewhat vague terminology
- **Interdependencies with other EU regulations** that need to be interpreted for non-EU markets
- **Mandatory assurance** starting in the first year of Taxonomy reporting

> “The EU Taxonomy provides a rigorous and standardized framework for classifying environmentally sustainable activities, introducing a new level of transparency and comparability not previously available.

— Maura Hodge
Sustainability Reporting Leader

How to kick-start EU Taxonomy reporting

Set up a clear governance structure: Because EU Taxonomy reporting requires the contribution of internal stakeholders from various departments, companies will need a cross-functional governance structure.

Define an appropriate ambition level: Companies should assess their overall ambition for Taxonomy alignment reporting. High alignment demonstrates a company's commitment to sustainability; however, substantial effort investment may be needed to achieve the ambition.

Establish methodology to bridge financial information: A methodology to bridge existing financial information between local general accepted accounting principles (GAAP) and financial metrics defined in the EU Taxonomy is required. Additionally, KPIs will be required to reflect the financial data of the reporting entity.

Consider assurance requirements from the beginning: EU Taxonomy disclosures will be in scope of the mandatory assurance requirements, so audit trails are key.

Start now: Due to the level of effort needed for first-year EU Taxonomy disclosures, companies are advised to begin preparation now and consider how to integrate the EU Taxonomy into their ongoing CSRD preparation early on.

KPMG's practical five-step approach to EU Taxonomy reporting

Eligibility assessment	Alignment assessment	Design	Implementation	Reporting
Analyze your economic activities and determine your **eligibility score**	Assess the **Technical Screening Criteria,** including the Substantial Contribution, the Do No Significant Harm (DNSH) criteria, and the Minimum Safeguards	Create a **detailed roadmap,** including prioritization of existing process and data gaps, and an indicative cost-benefit analysis	**Design and implement systems, processes, and controls** for Taxonomy-related data collection	**Calculate-taxonomy KPIs** and draft qualitative information

Contact us

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