Streamlining Sustainable Finance: Simplification of the EU Taxonomy

Article By:

John Verwey

Rachel E. Lowe

Sulaiman I. Malik

Michael Singh

On 5 February 2025, the EU Platform on Sustainable Finance (the ''**Platform**'') published a report with recommendations on how to simplify the EU Taxonomy (the ''**Report**''). The EU Taxonomy is the EU's classification system for sustainable activities. The Report sets out key areas of improvement and simplification of taxonomy reporting by making the EU Taxonomy more efficient with the overall aim of enhancing sustainable finance.

The Report sets out five key recommendations to the European Commission for simplification of the EU Taxonomy. The Platform anticipates that its proposals could reduce the burden of reporting on non-financial companies by over a third. The Platform further believes that a materiality approach to EU Taxonomy reporting would increase the efficiency in reporting for both financial and non-financial companies. The Report also emphasises the importance of greater interoperability between the EU Taxonomy and taxonomies being introduced in other jurisdictions.

The Platform's Proposals:

We set out some of the key proposals below.

1: Refine the''*Do No Significant Harm*''*(''DNSH'') assessment and reporting obligations through:*

- a review of all DNSH criteria in the delegated acts with a focus on increasing their usability for financial and non-financial companies. Until a comprehensive review of the DNSH criteria is complete, a temporary ''comply or explain'' approach should be introduced for DNSH assessment of the Turnover key performance indicator (''**KPI**'');
- adoption of a lighter compliance assessment process; and
- support international applicability by converting references to European legislation into

alternative requirements, such as on quantitative or process-focused requirements based on international standards. This would be a welcome development and has been a real hurdle for EU Taxonomy alignment with non-EU assets.

2: Reducing the corporate reporting burden by more than a third by:

- introducing a materiality threshold for calculating KPIs in non-financial company reporting and the combined KPIs of financial undertakings;
- making the operational expenditure KPI a mandatory disclosure only for research and development costs;
- enhancing alignment of materiality thresholds with existing financial reporting regulations; and
- simplifying templates and reducing data points to limit reporting to only the information relevant to making business decisions.

3: Simplifying the Green Asset Ratio ("GAR") that encourages green and transition lending by:

- excluding assets in the numerator and denominator that cannot be measured against the EU Taxonomy;
- simplifying retail exposure reporting and focusing on substantial contribution; and
- allowing estimates and proxies to be used in reporting along with measures to protect against greenwashing allegations.

4: Defining clear guidelines for the use of estimates in reporting:

- where estimates are used, methods of estimation must be consistently applied to the substantial contribution and DNSH criteria; and
- companies must adopt estimation methods with sufficient governance, traceability, transparency, input coverage and input quality in place.

5: Supporting small and medium-sized enterprises ("SMEs") in accessing sustainable finance by:

- introducing a simplified approach to the EU Taxonomy for listed SMEs; and
- adopting a voluntary approach for banks and investors' exposures to unlisted SMEs.

While the European Commission is not formally bound by the Platform's recommendations, the proposals set out in the Report have the potential to significantly streamline reporting burdens under the EU Taxonomy and therefore enhance access to sustainable finance.

Source URL:https://natlawreview.com/article/streamlining-sustainable-finance-simplification-eu-taxonomy