

Sustainability Blog

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PwC study: EU Taxonomy Reporting 2024

There is progress in the implementation of in the EU Taxonomy Regulation but the taxonomy data is not yet used for strategic purposes

**An analysis of EU Taxonomy reporting by European financial and non-financial companies shows:
There is an increase in data quality and standardisation, but the data is not yet used for strategic planning.**

The EU Taxonomy classification system requires companies in the European Union to report on how sustainably they operate and invest. Since January 2022 the EU Taxonomy has been applicable to industrial and financial companies. 2024 marks the third year in which taxonomy data on eligibility and alignment must be reported.

For the third year in a row, PwC has analysed the status quo of taxonomy reporting by industrial companies, since 2023 also for financial companies in Europe. This year, 12 countries and overall 530 non-financial and 97 financial companies from across the EU were included in the assessment.

Relatively improved data quality

In the fiscal year 2023, financial institutions were required for the first time to report on Taxonomy-alignment with regard to environmental objectives 1 (Climate change mitigation) and 2 (Climate change adaptation). The range between the reported taxonomy eligibility quota has decreased, indicating an improvement in data quality compared to the previous year. The ranges lie between 20 and 44 percent based on turnover (previous year: 0 to 76 percent) and between 20 and 45 percent based on capital expenditures (CapEx). This can be attributed, among other things, to the fact that financial companies were able to use their counterparties' data from FY2022. Additionally, the mandatory use of the EU templates contributed to more standardized reporting.

Low Green Asset Ratio (GAR) in the banking sector

The average Green Asset Ratio (GAR) based on turnover as well as the one based on CapEx is only at two percent. This is attributable to several factors: First of all, despite improvements, there are still challenges with regard to data availability and uniform data collection methods. Additionally, there is Taxonomy eligibility criteria only cover a very small portion of a bank's financing activities. Therefore, the GAR cannot yet be used as a standalone indication of a banks' sustainability performance. Nevertheless, the discrepancy between Taxonomy eligibility and alignment quota highlights that there is still a long road ahead to meet the ambitious taxonomy alignment criteria and achieve a transition to a sustainable economy.

The differences between the individual European countries are remarkable: the average country-specific Taxonomy alignment quota based on both turnover and CapEx vary between 0 and 23 percent across. The Dutch companies lead with an average alignment quota of 13 percent. This comparatively high figure is possibly due to better data availability based on Energy Performance Certificates (EPC).

Special features in the insurance sector

In the European insurance sector, Taxonomy eligibility quota in the underwriting business vary considerably due to differing methodologies, ranging from 1 to 47 percent. In insurers' investment business, the range lies between 3 and 27 percent based on turnover and between 4 to 32 percent based on CapEx. The Taxonomy alignment quota in underwriting averages only at two percent, which is attributable to similar factors as those affecting the banking sector.

Clear improvement in implementation for non-financial companies

93 % of industrial companies reported on the EU Taxonomy, the majority (76 %) in their annual reports, as required by the CSRD, which will enter into force from 2025 onwards.

The mandatory EU templates were used by almost 87 % of the companies, marking an increase compared to the previous year. About 40 % of non-financial companies reported on the newly introduced Technical Screening Criteria (TSC) for environmental objectives 3 to 6.

Overall, Taxonomy eligible and Taxonomy aligned quota based on turnover and based on operating expenses (OpEx) increased compared to the previous year. However, a significant gap between Taxonomy eligibility and Taxonomy alignment persisted: the average Taxonomy – eligibility quota based on turnover is 30 percent, whereas the average Taxonomy – alignment quota based on turnover is nine percent.

Taxonomy data is not yet used for steering purposes by financial institutions

The study found that progress is being made in implementing the EU Taxonomy Regulation, although the quality of reporting still varies significantly. In FY 2023, the uniformity of reported data improved in both the financial and non-financial sectors compared to the previous year. However, the challenge of diverse methodologies being applied leading to different results continues. The Commission Notice of December 2023 aimed to clarify certain interpretative questions, yet it left others unresolved. Additionally, this Notice was issued shortly before this years' reporting season and has not been fully implemented by most companies. As a result, its impact is expected to be seen only in the next reporting cycle.

The Taxonomy Regulation could provide key metrics for net-zero transition plans in both financial and non-financial companies. However, for this to succeed, the applied methodologies must be standardized, and the availability and quality of data must be significantly improved so that the current low Taxonomy alignment quota can be elevated to a level relevant for decision-making for investors.

Due to the still low quota, financial institutions in particular have so far scarcely utilized taxonomy data for strategic purposes such as investment decisions or portfolio management. In general, Taxonomy metrics have primarily been used to fulfil regulatory transparency obligations. However, with better ESG data availability through the CSRD starting next year, increased market practice, and the consequent improvement and standardization of data collection methods, Taxonomy data could in the future be used to set additional incentives for the transition to a sustainable economy in line with the goals of the European Green Deal by regulators, as well as for steering purposes by companies.

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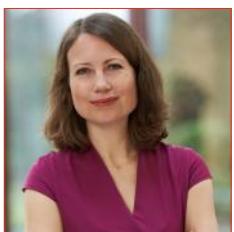
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