

THE FINAL EU SUSTAINABILITY KPIS

Philipp Binz and Marcus Fleig

Data availability and quality pose major challenges for meaningful sustainability reporting. One important step to achieve the necessary transparency and resolve data quality issues is having a clear and unambiguous definition of environmentally sustainable activities, as done by the EU Taxonomy. Thus, the introduction of key performance indicators (KPIs) is another major step to foster sustainability reporting and facilitate the usage of disclosed information. The EU Taxonomy Regulation already called for the inclusion of KPIs in the non-financial statement:

“Any undertaking which is subject to an obligation to publish non-financial information [...] shall include in its non-financial statement [...] information on how and to what extent the undertaking’s activities are associated with economic activities that qualify as environmentally sustainable”

Alongside the renewed sustainable finance strategy² and a proposal for EU Green Bond Standards³, the European Commission adopted on 6 July 2021 a delegated act supplementing the Taxonomy Regulation, with respect to the information to be disclosed by sustainability KPIs as well as their underlying methodology. The implementation of this delegated act will enhance the comparability of KPIs across different economic activities while increasing the robustness of ESG data. Even though KPIs are not able to provide a holistic overview on the sustainability matters of a firm, they play a central role in understanding the trajectory of companies toward more sustainability.

In this article, we summarize the delegated act⁴ detailing the methodology for calculating the KPIs that must be disclosed by both non-financial and financial companies. For the latter, the regulation foresees different approaches for credit institutions, asset managers, investment firms and insurance companies.

-
1. [Regulation \(EU\) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, amending Regulation \(EU\) 2019/2088, Article 8\(1\)](#)
 2. [European Commission: Strategy for Financing the Transition to a Sustainable Economy](#)
 3. [European Commission: Proposal for a regulation of the European Parliament and of the Council on European green bonds](#)
 4. [Commission Delegated Regulation supplementing Regulation \(EU\) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation](#)

HOW RELEVANT ARE THE TECHNICAL SCREENING CRITERIA FOR THE ADOPTED DELEGATED ACT?

In the delegated act, references are made to Taxonomy-aligned and Taxonomy-eligible activities. For an economic activity to be Taxonomy-eligible, it must fall within the scope of the technical screening criteria associated with the Taxonomy regulation. Taxonomy-aligned activities, on the other hand, are those that meet the criteria for environmentally sustainable activities, as laid down in the Taxonomy. Currently, technical screening criteria have only been developed for the objectives of climate change mitigation and climate change adaptation; further technical screening criteria concerning the other environmental objectives will be defined in the future.

In developing the technical screening criteria, the Technical Expert Group (TEG) on sustainable finance prioritized those sectors and economic activities with significant greenhouse gas emissions that offer opportunities for climate change mitigation and adaptation. Therefore, currently, activities in sectors such as energy, forestry, manufacturing, transport and buildings fall within the scope of the technical screening criteria. As part of the renewed sustainable finance strategy, the European Commission announced that a complementary Delegated Act will amend these technical screening criteria, covering economic activities in agriculture, natural gas and nuclear energy.

WHICH KPIS WILL NON-FINANCIAL UNDERTAKINGS DISCLOSE?

The Taxonomy Regulation requires non-financial undertakings subject to an obligation to publish non-financial information to disclose the proportion of turnover, capital expenditure (CapEx)

and operating expenditure (OpEx) related to economic activities that qualify as environmentally sustainable. The KPIS shall be calculated as follows:

$$KPI_{\text{Turnover}} = \frac{\text{Net turnover associated with Taxonomy-aligned activities}}{\text{Net turnover as defined in Article 2 Point (5) of Directive 2013/34/EU}}$$

$$KPI_{\text{CapEx}} = \frac{\text{CapEx associated with Taxonomy-aligned economic activities or part of the "Capex Plan"}}{\text{CapEx during the financial year}}$$

$$KPI_{\text{OpEx}} = \frac{\text{OpEx associated with Taxonomy-aligned economic activities or part of the "Capex Plan"}}{\text{OpEx during the financial year}}$$

The so-called “Capex Plan” encompasses all expenditures with the objective to expand Taxonomy-aligned economic activities or to allow Taxonomy-eligible activities to become Taxonomy-aligned ones within a five-year time horizon.

For stakeholders and investors to properly assess the sustainability of non-financial undertakings, those undertakings are required to disclose the KPIs for each economic activity

they pursue. In addition, non-financial undertakings are also required to provide a breakdown of the KPIs based on each environmental objective to which the Taxonomy-aligned economic activities contribute. Furthermore, non-financial undertakings are also required to provide qualitative contextual information and to disclose the key drivers of change for the KPIs during the reporting period.

WHY DO FINANCIAL UNDERTAKINGS DISCLOSE DIFFERENT KPIs?

For financial undertakings, such as credit institutions, asset managers, investment firms, insurance and reinsurance firms, the previously mentioned turnover, CapEx and OpEx KPIs do not provide valuable insights for assessing the environmental sustainability of their financial activities and are therefore not

appropriate to demonstrate the extent to which their economic activities are Taxonomy-aligned. As the economic activities differ quite significantly among the different categories of financial undertakings, the delegated act foresees different KPIs for each category.

WHICH KPIs WILL BE REQUIRED FROM CREDIT INSTITUTIONS?

The main activity undertaken by credit institutions is the provision of financing to and investments in the real economy,

therefore they shall be required to disclose their green asset ratio (GAR), which is calculated as follows:

$$\text{Green asset ratio (GAR)} = \frac{\text{Assets financing and invested in Taxonomy-aligned economic activities}}{\text{Total assets}}$$

Importantly, the delegated act foresees that credit institutions provide the GAR not only on an aggregated level across all exposures, but also disclose a breakdown by environmental objective and type of counterparty. Therefore, for instance a GAR for retail exposures will be part of the disclosure requirements. Moreover, an additional GAR shall be provided covering the flows of on-balance sheet assets (e.g.: new loans and advances), thereby allowing an insight into how the GAR changes.

It is worth mentioning, that the trading portfolio is to be

excluded from the calculation of the total GAR. Only credit institutions, for which the trading portfolio plays an important role in the business model are required to disclose quantitative information and KPIs on the extent to which the institution is trading with environmentally sustainable assets.

In addition to their lending and financing activities, credit institutions often also perform other commercial services, generating fees and commissions (F&C) income. To properly assess the sustainability of these activities, the delegated act requires the calculation of a F&C KPI, as follows:

$$KPI_{F\&C} = \frac{\text{Fees and commission income from services other than lending associated with Taxonomy-aligned activities}}{\text{Total fees and commission income from products and services other than lending}}$$

To adequately reflect off-balance-sheet exposures and their sustainability matters, credit institutions are further required to disclose KPIs for financial guarantees (FinGuar) backing loans

and advances and other debt instruments towards corporates, as well as assets under management (AuM). The calculation of these KPIs shall be carried out as follows:

$$KPI_{FinGuar} = \frac{\text{Financial guarantees supporting debt instruments financing Taxonomy-aligned activities}}{\text{Financial guarantees supporting debt securities to undertakings}}$$

$$KPI_{AuM} = \frac{\text{AuM (equity \& debt instruments) from undertakings financing Taxonomy-aligned activities}}{\text{Total assets under management (equity \& debt instruments)}}$$

WHAT METHODOLOGY WILL UNDERLY THE KPI CALCULATION FOR ASSET MANAGERS?

To allow investors to assess the level of Taxonomy-aligned economic activities pursued by investee companies, asset managers should disclose the proportion of Taxonomy-aligned

economic activities of their investee companies. That proportion shall be calculated as follows:

$$\text{Green Investment Ratio} = \frac{\text{Value of investments in Taxonomy-aligned economic activities of investee companies}}{\text{Value of all AuM}}$$

Importantly, asset managers will also have to provide a breakdown of the Green Investment Ratio per type of investment.

HOW WILL INVESTMENT FIRMS BE TREATED?

To provide investors with a complete overview on investments made in Taxonomy-aligned economic activities, investment firms need to disclose key performance indicators for both their

dealing on own accounts, as well as their dealing on behalf of clients. The following metrics shall be calculated for investments on own accounts:

$$\text{KPI}_{\text{Eligibility}} = \frac{\text{Assets associated with Taxonomy-eligible economic activities}}{\text{Total assets}}$$

$$\text{KPI}_{\text{Alignment}} = \frac{\text{Assets associated with Taxonomy-aligned economic activities}}{\text{Assets associated with Taxonomy-eligible economic activities}}$$

$$\text{Green asset ratio (GAR)} = \frac{\text{Assets associated with Taxonomy-aligned economic activities}}{\text{Total assets}}$$

The following metrics shall be calculated by investment firms for dealings on behalf of clients:

$$\text{KPI}_{\text{Eligibility}} = \frac{\text{Revenue from services and activities associated with Taxonomy-eligible economic activities}}{\text{Total revenue from investment services and activities}}$$

$$\text{KPI}_{\text{Alignment}} = \frac{\text{Revenue from services and activities associated with Taxonomy-aligned economic activities}}{\text{Revenue from services and activities associated with Taxonomy-eligible economic activities}}$$

$$\text{Green asset ratio (GAR)} = \frac{\text{Revenue from services and activities associated with Taxonomy-aligned economic activities}}{\text{Total revenues from investment services and activities}}$$

WHICH KPIS WILL INSURANCE FIRMS BE REQUIRED TO DISCLOSE?

The key performance indicators for insurance and reinsurance firms are intended to capture their underwriting activities and

investment policies. The KPIS shall be calculated as follows:

$$\text{KPI}_{\text{Underwriting}} = \frac{\text{Gross premiums written corresponding to Taxonomy-aligned economic activities}}{\text{Total insurance gross premiums written}}$$

$$\text{KPI}_{\text{Investment}} = \frac{\text{Investments directed at funding or associated with Taxonomy-aligned economic activities}}{\text{Total investments}}$$

WHAT COMMON PRINCIPLES APPLY TO THE KPIs OF FINANCIAL FIRMS?

In general, exposure to central governments and central banks shall be excluded from the calculation of KPIs for financial undertakings. Moreover, derivatives and exposure to undertakings not subject to an obligation to publish non-financial information pursuant to Article 19a or 29a of Directive 2013/34/EU⁵ shall be excluded from the numerator of KPIs for financial undertakings.

The disclosure of quantitative KPIs by financial undertakings shall be accompanied by contextual qualitative information such as the scope of assets and activities covered by the KPIs, information on data sources and an explanation of the nature and objectives of Taxonomy-aligned economic activities.

WHEN WILL THE KPIs DISCLOSURE BECOME MANDATORY?

From 1 January 2022, non-financial undertakings will be required to disclose the share of Taxonomy-eligible and Taxonomy non-eligible economic activities in their total activities. Financial undertakings will be required to report the share of exposures to Taxonomy-eligible and Taxonomy non-eligible economic activities in their total assets from the

same date. The key performance indicators will become a mandatory part of disclosures from 1 January 2023 for non-financial undertakings and from 1 January 2024 for financial undertakings, with the exception of the KPIs of credit institutions relating to the trading book and non-banking services, which will become applicable as of 1 January 2026.

5. [Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC](#)

CONCLUSION

The delegated regulation further enhances the EU Sustainable Finance Framework by defining a common methodology for calculating KPIs that will enable both stakeholders and investors to decipher corporate sustainability information through empirical analysis. Once mandatory and widely used, climate-relevant regulatory disclosure of sustainability KPIs will enable comparability of quantitative and qualitative data across different economic activities within the EU, while increasing the robustness of relevant ESG data.

By introducing sustainability KPIs, the EC is responding to the market's call for clarity in sustainability reporting while laying the foundation for measurability of sustainability-related information from both non-financial and financial companies. In particular, the introduction of a GAR in the context of credit institutions is likely to have a significant impact on the attractiveness of EU banks to investors, given their increased demand for sustainable investment.

However, it remains to be seen whether the use of sustainability KPIs will increase the quality of sustainability reporting and ultimately lead to improved performance toward greater sustainability.

Considering that the recently published results of the European Banking Authority's first EU-wide pilot exercise found that among the surveyed banks the Green Asset Ratio was only 7.9 percent⁶, further progress still needs to be made.

Contact us to learn more about how we can leverage the sustainability-related disclosures for your institution and how to set up the necessary data management and analysis tools environment. Take advantage of the opportunities that the ESG regulation and transformation to sustainable growth present for your institution.

6. [EBA publishes results of EU-wide pilot exercise on climate risk](#)

CONTACT

Dr. Olaf Clemens, Partner
M +49 172 746 7502
E Olaf.Clemens@capco.com

WWW.CAPCO.COM



CAPCO