AFME response to the European Commission consultation on amendments to the Taxonomy Delegated Acts

Commission Delegated Regulation amending Commission Delegated Regulation (EU) 2021/2178, Commission Delegated Regulation (EU) 2021/2139 and (EU) 2023/2486

26 March 2025

AFME[1] and ISDA[2] (the "Associations") are pleased to contribute to the European Commission's efforts to reduce the burdens of assessing and reporting EU Taxonomy alignment. The Associations strongly support the Commission's commitment in the context of the Omnibus package to reduce Taxonomy reporting burdens and provide rapid relief to reporters.

As we have previously highlighted[3], Taxonomy reporting for banks is not achieving the Commission's policy objectives and creates significant burdens for banks and their clients. **We are concerned that the Commission's proposals under the Sustainability Omnibus package, including the proposed Commission Delegated Regulation ("Draft Delegated Regulation"), are insufficient to address these challenges.** In particular, they would not provide a sufficient reduction in reporting burdens for banks (and accordingly to their clients) and would not achieve meaningful disclosures.

We continue to strongly believe that the Green Asset Ratio ("GAR") does not provide meaningful information. This is now widely acknowledged yet not reflected in the Commission's proposals. GAR reporting entails a very significant operational exercise for banks, requiring detailed information from clients, counterparties and investee companies. In addition to requiring very substantial resources for banks, it also creates burdens for their clients in providing the required information.

We therefore set out the following priority measures:

1. **Consider extending the proposed voluntary Taxonomy reporting to remove all mandatory Taxonomy reporting for credit institutions.**
2. **If the GAR is not removed through the Omnibus proposals, at a minimum it is essential to suspend the GAR under both the Taxonomy and Pillar 3 reporting pending the outcome of the review of the Disclosures Delegated Act ("DDA") and the Taxonomy Technical Screening Criteria ("TSC").**
3. **Remove Taxonomy disclosures, including the GAR and associated KPIs, from Pillar 3 ESG disclosures.**
4. **Remove the Fees & Commissions KPI ("F&C KPI") and KPI for the trading portfolio ("Trading Book KPI").**

[1] The Association for Financial Markets in Europe (AFME) represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.
AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.
AFME is registered on the EU Transparency Register, registration number 65110063986-76.
[2] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.

[3] See AFME, "Recommendations for the review of the Green Asset Ratio" (AFME GAR paper), July 2024.

We expand below on these priority measures for Taxonomy reporting simplification, followed by our detailed feedback on the specific proposals in the Draft Delegated Regulation.

Priority measures for Taxonomy reporting simplification

Remove or suspend the Green Asset Ratio ("GAR")

Evidence from investors has shown that the GAR is not a useful metric for making investment decisions and measuring banks' provision of sustainable finance. The inadequacy of the current GAR as a decision-useful metric has been widely acknowledged, including by the Platform on Sustainable Finance (the "Platform")[4].

The Commission and Platform have recognised that banks face significant burdens in reporting the GAR yet have failed to demonstrate value in the metric. While we welcome the commitment from the Commission to conduct a full review of the DDA, we do not agree with the proposed approach of changing the GAR on a temporary basis until such review can be completed, as explained below.

The Commission states that robustness and accuracy of financial institutions' KPIs will improve gradually, but changing the methodology of the GAR twice over a three-year period (excluding any amendments to methodology made in response to Commission FAQs) risks creating a series of different GARs which are incomprehensible and cannot be compared. There is no value in requiring banks to disclose a GAR under a temporary new calculation methodology which will change in the future. This would create burdens for banks and their clients without benefit, as well as confusion for investors who will see year-on-year non-comparable GAR numbers. For these reasons and the reasons outlined below, we consider that **if the GAR is not removed as a mandatory KPI, it is essential to suspend the GAR pending a substantive review of the DDA and TSC.** This approach would immediately deliver in a tangible way on the reporting burden reduction objective.

Remove the GAR from Pillar 3 ESG disclosures

The Associations and the Platform have highlighted the existing differences in reporting templates and scope between the GAR under the DDA and the GAR under Pillar 3 ESG disclosures[5]. If the Draft Delegated Regulation is enacted without corresponding changes to the Taxonomy reporting requirements in Pillar 3 ESG disclosures, these measures will not practically reduce burdens for financial institutions and their clients.

Without this alignment, banks would potentially have to publish four different GARs with different methodologies: (i) under the existing DDA; (ii) under the existing Pillar 3 ITS; (iii) a revised GAR under the Commission's proposed initial amendments to the DDA; and (iv) a different GAR following the full review of the DDA. This would be extremely confusing, meaningless for investors and create significant burdens for banks in having to implement multiple changing methodologies.

We therefore call for the GAR, BTAR and other Taxonomy KPIs to be removed from Pillar 3 ESG reporting as they are not risk metrics. As a first step, the European Commission should suspend the application of the GAR templates under Pillar 3 ESG ITS until the completion of a review of the Pillar 3 ESG ITS, the full review of the DDA and the review of the TSC to avoid banks having to report different GARs under different regulation.

Remove the Fees & Commissions KPI ("F&C KPI") and KPI for the trading portfolio ("Trading Book KPI")

We welcome the Commission's recognition that the Fees & Commissions KPI and Trading Book KPI "are not relevant and decision-useful for financial undertakings"[6]. In light of this, it is appropriate to remove these KPIs

[4] See the Platform, "Simplifying the EU Taxonomy to Foster Sustainable Finance: Report on Usability and Data" (2025 Platform report), February 2025 (pp. 57-68).
[5] See AFME GAR paper and the 2025 Platform report (pg. 67).
[6] See Recital 7 of the Draft Delegated Regulation.

rather than delay their application. As we have previously emphasised[7], these KPIs will not provide useful information but will create additional significant reporting burdens for banks. While we welcome the Commission's proposal to suspend financial institutions' reporting of the F&C KPI and Trading Book KPI until 1 January 2027, we continue to believe that **these KPIs should be removed permanently as they are expected to lead to significant additional administrative reporting burdens for credit institutions without benefit.**

Members also strongly recommend the removal of the other Annex V KPIs including the Financial Guarantees KPI ("FinGuar KPI") and the KPI for assets under management ("AuM KPI"). If the GAR were to be retained, a simplified and revised banking book GAR would be a better indicator of banks' sustainable finance contributions than these secondary KPIs.

Feedback on Draft Delegated Regulation

As discussed above, if the GAR is not removed through the Omnibus proposals, at a minimum it is essential to suspend the application of the GAR (under both the Taxonomy and Pillar 3 ESG reporting) pending the outcome of the substantive review of the DDA and TSC.

The proposed Draft Delegated Regulation does not go far enough to address short-term reporting challenges. When determining priority measures for burden reduction, we encourage the Commission to consider the end-users of Taxonomy reporting and remove superfluous information which is not useful for annual report readers, investors or credit institutions themselves. Our summary recommendations are below, in order of priority, followed by more detailed comments on each recommendation. We call upon the European Commission to take action to:

1. **Sequence Taxonomy reporting changes in light of the Omnibus proposal**
2. **Remove unnecessary KPIs**
3. **Simplify GAR reporting templates**
4. **Address the asymmetry of the GAR**
5. **Consider how materiality thresholds would work in practice**
6. **Reduce burdens with assessing Taxonomy alignment**

1. Sequence Taxonomy reporting changes in light of the Omnibus proposal

As stated above, members support a suspension of the GAR pending a full review of the DDA and TSC. The Omnibus proposal's amendments to the CSRD and the DDA reporting scope will have knock-on effects to financial institutions' reporting. These complex sequencing issues underscore the urgent need for suspension of the GAR pending a comprehensive review and alignment of the numerator and denominator with the revised CSRD scope thresholds. If the GAR is maintained, however, the Commission must carefully sequence the timings of the Draft Delegated Regulation.

Any changes to the GAR methodology will require operational investment to reform reporting processes, and members believe the burdens of multiple changes in reporting methodologies over a short period of time outweigh the potential benefits of potential exclusions to the GAR. With this in mind and subject to the above recommendations to remove or suspend the GAR, the Associations propose the following actions to the Commission in order to facilitate reporting:

- **The Draft Delegated Regulation should only include burden reduction measures which delay or remove KPIs or simplify reporting templates.** We support the initiative to provide urgent relief for reporters for FY 2026 reporting and to seek to align the scope of the GAR with the scope of

[7] See AFME GAR paper (pp. 12-13).

companies reporting under CSRD. However, because some of the relief measures proposed are contingent upon the outcome of the sustainability Omnibus, exclusions from the GAR denominator which are contingent upon the outcome of the Omnibus, such as the scope of entities reporting under CSRD and Article 8, should not come into force until the Omnibus legislation is transposed. The Omnibus proposal's new scope thresholds for reporting under the CSRD and are subject to the EU legislative process and subsequent transposition by Member States, which would create misalignment between the application of new CSRD scope thresholds and the requirement to report the GAR based upon these new thresholds.

- On the basis that Draft Delegated Regulation contains only measures which delay or remove KPIs or simplify reporting templates, members support adoption of the Draft Delegated Regulation as soon as possible, no later than Q2 2025 if the changes are expected to be applied to FY 2025 reporting. A six-month implementation period would only be feasible if the measures in the Draft Delegated Regulation contain reductions in KPIs and templates, as set out in Sections 2 and 3 below. Changes to the GAR calculation methodology would require further operational changes which would likely take longer to implement such that benefits would not be seen for FY2025 reporting; to the contrary this would create additional operational burdens on banks in adjusting their reporting systems and challenges with meeting the amended reporting requirements in a compressed timeframe.
- For these reasons, while we welcome the Commission's initiative to reduce the asymmetry between the numerator and denominator, members do not support multiple incremental changes to the GAR denominator for FY 2025 reporting. The review of the DDA should fully correct the asymmetry between the GAR numerator and denominator. The Associations have set out the changes needed to align the GAR numerator and denominator – for more details, please see Section 4 below. The full review of the DDA should instead be prioritised. Temporary limited measures to change the GAR denominator calculation should not be the preferred method for burden reduction.

2. Remove unnecessary KPIs

Removing KPIs and simplifying reporting templates is the most impactful way to achieve timely simplification and reduce reporting burdens for financial institutions. As discussed above, we continue to strongly support the removal of the F&C and Trading Book KPIs. We share the Commission's concern that the KPIs are of limited relevance and usefulness. Postponing the KPIs will not improve their relevance, so they should be removed.

Members also strongly recommend the removal of the other Annex V KPIs including the FinGuar KPI and AuM KPI. If the GAR were to be retained, these secondary KPIs would be less meaningful and useful to investors than a simplified banking book GAR.

With respect to the Trading Book KPI, in particular, it is important to note that a credit institution does not have the necessary visibility to assess a client on a transaction's intention, in relation to the Taxonomy and the underlying asset, such that a full alignment analysis is not possible. The composition of a trading book is contingent by nature and its size and content are not the result of any asset allocation policy.

In addition, a trading book is flow-driven and of a short-term nature. As a result, the measurement of the Trading Book KPI can only provide a snapshot at a given point in time and may not always provide valuable information[8]. Given these considerations, it is extremely challenging to comprehend how a credit institution would take into account environmental factors when managing its trading book. The Trading Booking KPI is

[8] See the Platform, "Platform Recommendations on Data and Usability", October 2022 (pg. 103) and the European Banking Authority (EBA), "EBA Report: Advice to the Commission on KPIs and methodology for disclosure by credit institutions and investment firms under the NFRD on how and to what extent their activities qualify as environmentally sustainable according to the EU Taxonomy Regulation", March 2021 (pg. 17).

not used in financial reporting or risk management and would require very significant implementation efforts without any obvious information value.

3. Simplify GAR reporting templates

Subject to the above, we support the initiative to introduce targeted simplification measures to the reporting templates for credit institutions. The Associations have and the Platform have previously set out several recommendations for simplifying GAR templates.[9]

Alongside removing unnecessary KPIs, simplifying GAR reporting templates would be a more impactful method for immediate simplification than the proposed materiality threshold discussed below. It is also important to utilise the Draft Delegated Regulation to align the changed templates in the Draft Delegated Regulation with the text of Annex V of the DDA to avoid conflicting guidance on requirements. We include our specific recommendations for simplifying the reporting templates below (all changes are in reference to Annex III of the Draft Delegated Regulation):

- Allow GAR templates to be disclosed separately from the GAR in entities' Annual Report (e.g., in the Appendix).
- Remove all GAR templates except for Templates 0 and 1 (Tabs 0 and 1 in Annex III).
- As mentioned above, if the proposed changes to the denominator are retained, update GAR templates with the exclusion of non-CSRD entities in the denominator.
- Update Template 0 which still states that Trading Book and F&C templates apply from 1 January 2026: update to 1 January 2027 to avoid confusion, to the extent these templates are retained and not removed for the reasons previously outlined.
- Remove enabling and transitional columns from all templates, remove breakdown by type of counterparty.
- Empty fields, columns and rows should be hidden by the practitioner to facilitate readability and ensure the data that is reported is decision useful.
- In Template 1, remove the following rows: 21-30, 36-39, 43-44 as these rows provide information which is too granular to be useful for readers.
- Delete all nuclear + gas templates as selectively removing certain nuclear + gas templates renders the existing templates incomplete.
- Include a comparison of changes/updates made the GAR templates to help preparers understand the changes made to the templates.
- Publish a set of templates including formulas for all calculated cells to avoid diverging interpretations of the requirements.
- Members' reporting teams have raised concerns that the "simplification of 'per-activity' information" template changes as set out on pages 5-6 of the consultation may not significantly decrease the time spent on data collection. We would urge the Commission to work with the industry to assess how meaningful these template changes will be in practice.
- Remove new template requirements such as GAR combined KPI introduced in Commission FAQs. It is important that, as the Commission considers the reporting burden placed on firms by the EU

[9] See AFME GAR paper (pp. 7-12) and the 2025 Platform report (pg. 66).

Taxonomy Delegated Acts, the Commission equally considers the impact of its FAQs and the process by which these FAQs are issued.

4. Address the asymmetry of the GAR

Subject to the timing concerns we set out above in Section 1, we support the Commission's initiative, in line with recommendations from the Associations and the Platform[10], to remove exposures to undertakings which are not required to report under the CSRD (as revised by the Omnibus proposal) and reduce the asymmetry between the numerator and denominator of the GAR. However, this removal does not fully address the asymmetry of the ratio. As stated above, the Commission should accelerate the full review of the DDA upon the adoption of the Omnibus proposal and consider additional important changes to more fully address the asymmetry of the GAR. Members also would like to suggest some important clarifications and considerations about the mechanics of exempting non-CSRD entities from the GAR denominator, as set out below.

Further aligning the GAR numerator and denominator

The Associations have previously set out detailed recommendations for how the GAR denominator and numerator could be better aligned if the GAR is to be retained.[11] Removing non-CSRD entities from the GAR denominator does not go far enough to address the GAR asymmetry. We also recommend at minimum excluding non-EU exposures and "other assets" which will never be eligible for the Taxonomy, such as goodwill, on demand interbank loans, cash and cash-related assets and trade receivables from the denominator of the GAR.

For more details about how to improve Taxonomy alignment assessment for retail exposures, please see Section 6 below.

Clarifying the Draft Delegated Regulation's exemption of non-CSRD entities

As a threshold point, if the proposed changes to the denominator are retained, we would suggest some changes to the drafting of this change in scope for clarity, as detailed below. In order to align the numerator and denominator and exclude entities not subject to the revised scope of CSRD from the GAR, revised Article 7(3) should read as follows (added or removed text in **<u>bold underline</u>**):

> *Exposures to undertakings other than large undertakings which, on their balance sheet dates, exceed the average number of 1000 employees during the financial year, shall be excluded from the **<u>numerator and</u>** denominator of key performance indicators of financial undertakings.*

Annex V, Section 1.1.2 of the DDA should also be amended to remove the following text for clarity while changes to the CSRD are pending:

> *1.1.2. Total covered Assets*
>
> *The following assets shall be excluded from the numerator of the GAR:*
>
> ***~~<u>c) exposures to undertakings that are not obliged to publish non-financial information pursuant to Article 19a or 29a of Directive 2013/34/EU.</u>~~***

The above changes are necessary to ensure that the proposed limitation of the denominator to large companies with >1,000 employees, is also reflected in the numerator (as the current cross-reference to CSRD will not reflect the proposed reduction in scope under the Omnibus proposal until transposed).

[10] See AFME GAR paper (pp. 4-7) and the 2025 Platform report (pg. 66).
[11] See AFME GAR paper.

Even if the change in scope of the GAR denominator is properly enacted in the Draft Delegated Regulation, however, members highlight challenges with how this exclusion will work in practice and that it may create operational challenges. Members' practical concerns are set out below:

- The Commission will be aware of the need to align definitions and concepts across all pieces of legislation, but the timings of application of the Draft Delegated Regulation and the Omnibus proposal complicate this exercise significantly. The exclusion of exposures with <1000 employees will only be coherent if this scope is agreed to in the final version of the Omnibus CSRD proposal.
- The Commission should clarify that this exclusion also excludes exposures with <1,000 employees outside of the EU, not only large undertakings within the EU. As stated above, we recommend the removal of all non-EU exposures from the GAR scope.
- We also note that the revised templates in Annex VI still appear to include counterparties with <1,000 employees within the scope of the GAR denominator and don't clarify the categories to which this exclusion applies.
- Members would like to query how the proposed exclusion would work with instruments other than lending and investment – would this exclusion also apply to cash, derivatives, etc.?
- The Omnibus proposal introduces a new cross-section of entities which will be subject to CSRD but not subject to mandatory Taxonomy reporting. The provision in the Omnibus proposal to amend CSRD which allows for voluntary Taxonomy reporting for entities with >1,000 employees but <€450m turnover, but the Draft Delegated Regulation only proposes to exclude entities with <1000 employees from the GAR denominator. The Commission should ensure a consistent reporting perimeter between the Taxonomy and CSRD, noting that currently banks are unable to include voluntary Taxonomy reporting in their own KPIs.

5. Consider how materiality thresholds would work in practice

The Draft Delegated Regulation introduces the concept of a materiality threshold to allow financial institutions flexibility not to assess Taxonomy alignment for financially immaterial activities. The materiality threshold concept was first proposed by the Platform in their latest report, where the Platform recommended that a materiality threshold apply to the calculation of financial institutions' combined GAR KPI[12]. The Associations support the policy objective of reducing burdens in line with proportionality and providing investors with material information for decision-making. We therefore support the concept of materiality thresholds, but in our view, **suspending KPIs pending a substantive review and simplifying reporting templates should be a higher priority for the Commission than introducing a materiality threshold, which is unlikely to materially reduce reporting burdens in the short term.**

Members have raised queries about how the materiality assessment mechanism put forth in the Draft Delegated Regulation will work, as set out below:

- Introducing materiality thresholds would also require monitoring mechanisms for each KPI, potentially increasing operational complexity. Materiality thresholds could require reporting of certain types of assets and full reporting of such activities whenever the thresholds are exceeded, which could be at short notice. It could also lead to complications with audit firms' review of Taxonomy reporting.

[12] See 2025 Platform report (pp. 49-52, 56, 97-98).

- Currently, the references in the materiality thresholds to KPI denominators are to Annex V, which does not include the proposed exclusions to the GAR denominator, so it is unclear whether the denominator would include or exclude non-CSRD entities.
- It's unclear whether the materiality thresholds would apply only to the Annex V KPIs or also to nuclear and gas templates.

We recommend clarification of the materiality thresholds to ensure that, should our recommendations to remove or suspend the GAR not be taken forward, the materiality threshold provides genuine reductions in reporting burdens for banks.

Article 1(4)(1a-1e) Materiality threshold at asset level

Members would like to request clarification about how this materiality threshold mechanism is intended to work in practice. It appears to be an adaptation of the materiality threshold proposed by the Platform for non-financial companies in its report on Taxonomy simplification[13]. Draft Delegated Regulation Article 1(4)(1a-1e) allows financial institutions to omit assessing whether certain activities are Taxonomy-eligible or Taxonomy-aligned when the value of such activities is below 10% of the value of the denominator of certain KPIs.

Some members have expressed concern that this materiality threshold would decrease comparability across firms and therefore would be counterproductive to the simplification objective. There is also a reference in the Draft Delegated Regulation to the need to report on non-material assets separately, which doesn't appear to track through to the revised templates. It is unclear how this mechanism for reporting of non-material assets would work. It would also be helpful if the Commission could provide examples of this type of materiality threshold calculation.

Article 1(4)(1f) Materiality threshold for KPIs

The Draft Delegated Regulation also proposes a materiality threshold which determines material KPIs based upon the size of the business line represented by each KPI. This materiality threshold bears resemblance to the materiality threshold for financial institutions proposed by the Platform[14]. Subject to the queries raised above about how the materiality thresholds will work, members see potential in this type of threshold to create a more proportionate reporting exercise but would like confirmation that if a KPI is deemed to be non-material, the corresponding template would be optional. Members also request the Commission to provide clarity as to how the value of each activity would be calculated as a percentage of revenue.

6. Reduce burdens with assessing Taxonomy alignment

In addition to structural changes to Taxonomy reporting, the Associations and the Platform's Data and Usability workstream have each set out recommendations for facilitating Taxonomy alignment assessment. These recommendations seek comprehensive solutions for Taxonomy reporting for all entities which complement the burden reduction measures set out above.

Ensure availability of Taxonomy data

As financial institutions' Taxonomy reporting is dependent upon counterparty data, members support efforts to include digitalised, public Taxonomy data on the European Single Access Point ("ESAP") to reduce costs of assessing Taxonomy alignment of counterparties due to lack of data. ESMA is currently consulting on proposals to digitalise disclosures in accordance with the European Single Electronic Format[15], although we

[13] See 2025 Platform report (pg. 49).
[14] See 2025 Platform report (pg. 56).
[15] https://www.esma.europa.eu/press-news/esma-news/esma-contributes-simplification-and-burden-reduction

note that the framework for digital tagging will need to align with changes to the scope and substance of CSRD and Article 8 reporting introduced by the Omnibus proposal, and the dates of application must be sequenced accordingly. We support coordination between EFRAG, ESMA and the Commission to facilitate availability of digitalised sustainability information in a proportionate manner. In addition to a repository of Taxonomy information, we recommend that the Commission makes available, through the ESAP or another forum, a register of companies in the scope of CSRD ahead of the subsequent financial year reporting to provide visibility on which counterparties will need to be included in financial institutions' reporting. If the reporting perimeters of CSRD and Article 8 differ, as envisaged in the Omnibus proposal, this register would alleviate the need for bank reporters to individually run data collection processes to identify entities in scope of CSRD.

Consider partial Taxonomy alignment

The proposal accompanying the Draft Delegated Regulation as well as the Omnibus proposal for CSRD and CSDDD Article 2(13) both contemplate the introduction of a new category of partial Taxonomy alignment. The Associations support the concept of a partial alignment category, although further consideration should be given to the requirements and methods for reporting such partial alignment.

Review Taxonomy Technical Screening Criteria ("TSC")

The Associations support the Commission's commitment to comprehensively review existing TSC to better facilitate their application and allow reporters to demonstrate compliance. In particular, we welcome the recognition by the Commission and the Platform on Sustainable Finance that it is necessary to address challenges with the Do-No-Significant-Harm ("DNSH") assessment. The review of the DDA and Climate and Environmental Delegated Acts should work together to relieve unnecessary burdens associated with assessing DNSH and allow banks to leverage their clients' DNSH assessments where possible.

The Commission's substantive review of the Climate and Environmental Delegated Acts should be informed by how financial institutions use the Taxonomy to provide finance to companies transitioning their activities. AFME's December 2024 industry study "A Review of the DNSH Assessment in the EU Taxonomy" analyses how financial institutions, corporates and sovereign/supranational entities use the DNSH criteria in their business and recommends a mixture of short-, medium- and long-term policy actions to both reduce reporting burdens in the short term and improve the usability of the DNSH criteria in the medium-to long-term. AFME's recommendations for improving the overall usability of the DNSH criteria align closely with the Platform recommendations regarding DNSH usability[16].

Members understand that the comprehensive review of the TSC is out of scope of the current consultation, save for the limited proposals in Annex C, but members stand ready to provide their technical feedback on the application of the TSC within their business and provide recommendations for their improvement.[17] In the context of immediate reporting burden reduction, however, we would highlight a few priority requests:

- We re-iterate the recommendation made by the Platform and AFME to relieve financial institutions of the need to assess DNSH and minimum social safeguards for retail exposures in order to report Taxonomy alignment of such exposures.[18]
- For use of proceeds lending to all counterparties, financial undertakings should not have to review verification documents provided by the counterparty to re-confirm Taxonomy alignment[19]. This requirement is administratively very burdensome with no value added.

[16] 2025 Platform report (pg. 39).
[17] See AFME, "A Review of the DNSH Assessment in the EU Taxonomy" (AFME DNSH report), December 2024.
[18] 2025 Platform report (pp 23, 44-45, 63-64) and AFME DNSH report (pg. 30).
[19] See AFME Feedback on EC December 2023 Draft FAQs on the Disclosures Delegated Act under Article 8 of the EU Taxonomy Regulation (pg. 2).

- Re-consider grandfathering provisions for the loan book[20]. Allow credit institutions to assess the alignment of their exposures at the time of granting the loan only. An activity or asset deemed aligned will remain so throughout the maturity of the financing (as long as the financing is not renegotiated or transferred) without the bank having to conduct a new alignment analysis in case of changes to the TSC.

It is also important to note that the treatment of derivatives in financial entities' Taxonomy reporting is not consistent with SFDR disclosures. As per the Platform's recent recommendations, we would like to reiterate the importance of applying a consistent approach to account for derivatives across the sustainable finance framework and related indicators.

Finally, the Associations strongly support changes to the Taxonomy reporting which will reduce burdens for their client counterparties. Non-financial companies' KPIs should be driven by investment needs, not financial institutions' regulatory compliance. In this respect, the Associations support the changes made to the DNSH TSC for pollution prevention and control in Articles 2 and 3 of the Draft Delegated Regulation. Members also support the change made in Article 1(1) to exempt the requirement for reporting Taxonomy alignment of operational expenditures by non-financial companies if they do not exceed 25% of turnover.

AFME Contacts

Oliver Moullin
Managing Director, Sustainable Finance, General Counsel
oliver.moullin@afme.eu
+44 (0)20 3828 2712

Rachel Sumption
Manager, Sustainable Finance
rachel.sumption@afme.eu
+44 (0)20 3828 2741

Carolina Cazzarolli
Manager, Advocacy
carolina.cazzarolli@afme.eu
+32 2 883 55 43

Jack Chapman
Graduate, Sustainable Finance
jack.chapman@afme.eu
+44 (0)20 3828 2762

ISDA Contacts

Stevi Iosif
Senior Advisor for Public Policy
+32 (0)2 808 80 14
+32 (0) 487 426 734 (m)
2nd floor Square de Meeus 5/6, Brussels 1000
siosif@isda.org

[20] See AFME GAR paper (pp. 9-10).