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European Securities and Markets Authority
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Dear Sir or Madam

Deloitte welcomes the opportunity to provide comments on the European Supervisory Authorities' consultation papers on technical advice on selected KPIs under the Taxonomy Disclosures Delegated Act. We support the ESAs' objective to improve the effectiveness, consistency and proportionality of taxonomy-related disclosures and we appreciate the efforts made to gather stakeholder feedback on areas where application challenges continue to arise. We have submitted separate responses to all three consultations conducted by the ESAs, covering both matters that are common to all our letters as well as matters specific to each ESA.

We acknowledge that the call for technical advice to the ESAs is limited to providing comments on a defined set of issues identified by the European Commission (the EC). We agree that the topics included in the consultation represent important areas where improvements are warranted. However, we are concerned that some of the most significant remaining opportunities for simplification and most persistent implementation challenges experienced by preparers, users and assurance providers on Taxonomy disclosures are not included in the scope of this exercise. We therefore encourage the ESAs to take the opportunity in their advice to the EC to highlight these broader matters, therefore making an important contribution to a wider simplification agenda for enhancing the relevance, usability, proportionality and legal certainty of the Taxonomy framework through the revision of the Disclosure Delegated Act.

Our overall comments and observations on the proposals are set out below.

Executive Summary

We strongly support efforts to simplify Taxonomy reporting requirements and enhance the decision-usefulness of reported information. However, based on Deloitte's experience supporting undertakings across a wide range of industries and jurisdictions, we believe that meaningful simplification requires addressing several structural issues that continue to create disproportionate reporting burdens.

Our overall recommendations are as follows. They are consistent with the recommendations we have made in response to prior consultations on the EU Taxonomy.

- The OpEx KPI should be removed from the Taxonomy disclosure framework.
- Group reporting requirements should be aligned with the consolidation principles used in financial reporting and in the Corporate Sustainability Reporting Directive (CSRD).
- An overarching materiality principle should be introduced and applied consistently across eligibility assessments, alignment assessments and reporting requirements.
- Significant interpretative positions should be incorporated into legislative instruments following appropriate due process rather than being introduced through non-binding FAQs.
- The forthcoming review of the Disclosures Delegated Act should be used as an opportunity to provide legal certainty and allow sufficient time for initial implementation of the revised reporting requirements.

ESMA – Consultation Paper on Technical Advice on selected KPIs under the Taxonomy Disclosures Delegated Act

Revising the OpEx KPI

We continue to believe that the OpEx KPI should be removed from the Taxonomy disclosure framework altogether, even if this would require amendments at Level 1 legislation. This position reflects our observations that there is limited evidence that this KPI is actively used by investors or financial institutions when assessing sustainable activities or making financing decisions. By contrast, turnover and CapEx KPIs provide more direct and decision-useful information regarding the current and future sustainability performance of undertakings.

The EC itself has recognised that operational expenditure information is generally of lower significance than turnover and capital expenditure information. We therefore believe that retaining the KPI would not be consistent with the objective of reducing reporting burdens while enhancing decision-useful disclosures.

Furthermore, significant effort is required to prepare the KPI relative to its usefulness. The OpEx KPI is difficult to determine consistently and comparably in practice. The definition of the denominator is not closely aligned with established financial reporting concepts, resulting in significant diversity in interpretation and application. In addition, the KPI often requires the collection of information that is not readily available in existing accounting systems, increasing both the complexity of implementation and of assurance.

Notwithstanding our preference to remove the OpEx KPI entirely, we recognise that such an outcome may not be achievable within the scope of amendments to the Disclosure Delegated Act alone, as the requirement for the disclosure of the OpEx KPI originates from the Level 1 legislation. If the OpEx KPI is retained for this reason, we strongly believe the EC should establish and maintain clear and unambiguous requirements for its determination. Without such requirements, there is a strong likelihood that undertakings will apply the KPI selectively or inconsistently over time, reducing comparability and further limiting the usefulness of the information provided to users. In the event the OpEx KPI is not removed, we highlight the following opportunities for simplification, including the approaches proposed by ESMA.

Alternative approach if the OpEx KPI is retained

Should the OpEx KPI be retained, we consider ESMA's approach D, focused on research and development (R&D), to be the most operationally feasible and decision-useful alternative. R&D expenditure is commonly understood, subject to established accounting requirements and, unlike the current definition of the OpEx KPI, it can generally be linked to existing financial reporting information and systems. A more focused KPI centred on R&D expenditure would therefore significantly improve comparability while reducing implementation challenges.

However, we have reservations about ESMA's proposal to introduce an optional additional OpEx+ KPI. While we understand the objective of capturing a broader set of transition-related expenditures, we question the incremental decision-usefulness of such a metric. In our view, introducing an additional KPI risks increasing complexity without clear evidence that it would provide information that is meaningfully different from, or complementary to, existing Taxonomy disclosures.

In particular, we note that financial undertakings as preparers focus primarily on the Taxonomy KPIs reported by counterparties within the prescribed templates. It is therefore unclear whether an additional OpEx+ KPI would be used in practice at all. Furthermore, voluntary reporting that is not subject to clear and consistent determination requirements would likely reduce comparability across reporting undertakings. Without a sufficient definition, there is a risk that entities may apply different approaches in determining such metrics, reducing their usefulness to investors and other users of the disclosures. We also note that voluntary taxonomy disclosures are possible already within the existing framework and should not be subject to further regulation.

Given our overarching recommendation to remove the OpEx KPI from the Taxonomy framework, we believe that any future revisions should focus on reducing complexity and reporting burden rather than introducing additional reporting layers. Consequently, we would not support the introduction of a separate OpEx+ KPI, even as a voluntary disclosure.

Voluntary use of OpEx by financial undertakings

We do not believe that extending, refining or otherwise promoting the use of the OpEx KPI for financial institutions would provide meaningful benefits to users of the Taxonomy reporting, even on a voluntary basis.

Turnover and CapEx KPIs are most used by financial institutions currently, as they provide information on existing sustainable activities and transition-related investments. By contrast, the OpEx KPI provides limited additional insight and does not appear to be actively used by market participants in practice. As a result, the availability and comparability of the underlying information may be more limited than for the Turnover KPI and the CapEx KPI.

Moreover, financial institutions generally have limited ability to influence counterparties' operational expenditure. As a consequence, introducing additional reporting requirements relating to OpEx would increase complexity without generating a commensurate increase in decision-useful information.

For these reasons, we believe that any future revisions of Taxonomy KPIs related to the financial sector should prioritise simplification rather than expansion and, therefore, we would not support the introduction of voluntary use of OpEx by financial undertakings.

Group Taxonomy Reporting

We support the ESAs' objective of simplifying Taxonomy reporting for groups and improving the consistency of disclosures across different group structures. However, we believe that the revised Disclosures Delegated Act should continue to be firmly rooted in established consolidation principles, and avoid introducing additional reporting layers that are significantly costly to prepare yet provide limited decision-useful information, with the same approach applicable to both EU and non-EU groups The framework should provide greater clarity regarding the appropriate level of consolidation at which Taxonomy disclosures are expected to be prepared.

Beyond these general considerations, we believe that further clarification is required for groups operating across different sectors or combining financial and non-financial activities, particularly regarding the appropriate level of consolidation for Taxonomy reporting. In addition, the revised framework should avoid creating unnecessary differences between prudential, accounting and sustainability reporting perimeters.

In this context, we agree with the ESAs' proposal to remove the weighted average KPI. Combining Taxonomy KPIs that are derived using different calculation methodologies does not result in relevant, reliable or comparable information and may instead create KPIs that are difficult for users of the disclosures to understand and interpret.

Furthermore, we do not support the proposed 10% materiality threshold in the context of subsidiary-level disclosures. In our view, introducing such a threshold risks creating additional reporting layers and reintroducing disclosure obligations that are difficult to reconcile with established exemption principles. Rather than introducing additional materiality concepts for specific aspects of the framework, we believe instead that the EU Taxonomy should incorporate and place at its centre the application of a robust and transparent materiality assessment at group level.

Overall, we strongly believe that greater clarity regarding the appropriate level of consolidation, the treatment of mixed groups and the interaction with existing exemption regimes would significantly enhance the consistency and usability of Taxonomy disclosures while reducing implementation burden.

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Additional possible simplifications

Connectivity between Taxonomy and ESRS

We support efforts to enhance connectivity between Taxonomy reporting and ESRS disclosures where doing so reduces duplication and reporting burden. In particular, there are opportunities to align reporting processes, phased-in applications and certain relief mechanisms. However, complete alignment of all ESRS reliefs may not always be appropriate given the different objectives and legal structures of the respective frameworks.

Overarching materiality principle

We strongly support the introduction of an overarching materiality principle applicable to Taxonomy reporting.

Such a principle should apply to eligibility assessments, alignment assessments and reporting requirements as a whole. It should allow undertakings to consider both quantitative and qualitative factors and should not rely on fixed thresholds. This approach would be consistent with established financial reporting practices and would support more decision-useful disclosures while reducing unnecessary reporting effort.

IFRS 8 and Taxonomy materiality

We agree that the interaction between IFRS 8 operating segments and the application of the current Taxonomy materiality principle requires further clarification. However, we do not support the use of IFRS 8 in determining the application of the 10% materiality threshold introduced by the Omnibus Delegated Act. The current binding legal framework does not establish such a link, and, in our view, the interpretation reflected in Question 7 of the fourth Commission Notice goes beyond the requirements of the legislation. Furthermore, we believe that such a link should not be introduced into the legal framework without a clear basis in the objectives of the materiality threshold.

We agree with ESMA that the interaction between IFRS 8 and Taxonomy reporting is not straightforward, particularly as Taxonomy activities will often not align with operating segments. Introducing IFRS 8 concepts without clear legislative guidance could well increase complexity and reduce consistency in application.

Legal uncertainty arising from FAQs

We believe that interpretative positions should not be established through non-binding FAQs when they effectively change reporting obligations, introduce additional reporting layers or create new operational expectations. A further complication is that in the past, new FAQs have been issued without rescinding existing ones on a similar matter. Such approaches can create legal uncertainty and contribute to diverging practice among preparers, users and assurance providers.

Where substantive interpretative matters are identified, they should be addressed through formal legislative instruments following appropriate consultation and due process. Clear requirements remain one of the most important preconditions for reducing the reporting burden. Simplification should therefore focus not only on reducing disclosure requirements but also on improving clarity and legal certainty. As a result, we strongly recommend the need for a review of the existing FAQs to assess those that should be revised, withdrawn, or incorporated into the regulation, including in consideration of recent and forthcoming regulatory changes.

Need for sufficient implementation time

We emphasise the importance of providing undertakings with sufficient implementation time for revised Taxonomy reporting requirements as an essential aspect of a robust due process. Changes to reporting obligations have direct implications across multiple functions within an organisation. It is therefore essential that any amendments are accompanied by adequate lead time between finalisation and mandatory application. Sufficient implementation time helps to ensure that undertakings can appropriately embed new requirements, maintain the quality and consistency of reported information and avoid unnecessary operational disruption. This is particularly important when legislative proposals remain subject to a scrutiny period, when preparers should be provided with certainty on the final requirements before being expected to apply them in practice.

Closing remarks

We would welcome the opportunity to discuss our observations further and remain available to contribute to future stakeholder outreach activities undertaken by ESMA. Should you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884 or Jens Berger in Munich at +49 (0) 89 29036 1551.

Yours sincerely

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