

JBCE Position Paper on Taxonomy disclosure obligations (Article 8)

The Japan Business Council in Europe (JBCE) welcomes this feedback opportunity regarding the disclosure obligations of the Taxonomy Regulation. JBCE particularly appreciates this chance to elaborate on the disclosure obligations, as a means for companies to disclose information on how and to what extent their operations are associated with environmentally sustainable economic activities. As you will already be aware, JBCE is eager to contribute to the EU's ambition of a green transition, with a view to reaching climate neutrality by 2050, and believes that clear and effective disclosure obligations is paramount to achieving these objectives.

Article 9.4: Requirements of reporting Key Performance Indicators (KPIs)

JBCE urges the Commission to allow companies the flexibility to choose how to explain their KPI disclosures under the Taxonomy's Article 8, by adding qualitative explanations about changes to a business' structure (e.g., via Mergers & Acquisitions – M&A) upon changes made to the technical screening criteria (TSC), rather than obliging companies to recalculate KPIs each time changes to the Taxonomy occur.

- As the Commission stated in the [Communication](#) on the EU Taxonomy published on 21st April 2021 - "The EU Taxonomy is a living document that will be added to over time and updated as necessary". Therefore, JBCE would like to point out that the KPIs of the previous period would not be the same criteria as the updated KPIs, per the evolution of the Taxonomy. Although we assume that the objective of this requirement is to see the how companies make their sustainable transitions over time, recalculating these KPIs will result in a significant burden for these companies. JBCE therefore believes that companies should not be obliged to recalculate each time, but rather be provided the alternative option to supplement their reporting based on the initial KPIs with qualitative information to inform on the company's sustainability narrative.
- We also would like to highlight that, depending on a company's activities, the KPIs of previous periods would fluctuate e.g., in the potentially drastic example of M&A. JBCE believes that it should be a company's choice how to disclose information from the previous period, and advocates for the flexibility of allowing qualitative information provision.

Article 11: Entry into force and application

JBCE would like to request an extension to the anticipated timeline to initiate the disclosure obligation of the Taxonomy Regulation, in the interest of accommodating the companies who will be falling under the scope of the Corporate Sustainability Reporting Directive (CSRD) for the first time. JBCE recommends a phased-in implementation whereby voluntary disclosures would apply for at least the first two years, followed by full-scale implementation from the fiscal year 2025 (i.e., for publication in 2026).

- In the case of non-listed large undertakings, we understand that the Article 8 requirements will apply from 2023 if the current proposal on the CSRD and its foreseen timeline is adopted. However, JBCE would like to point out the tight and therefore

challenging nature of this timeline; particularly when taking into consideration that these companies will face the double burden of meeting the requirements of the CSRD in addition to those of the Article 8 Delegated Act. With a view to ensuring the provision of reliable and quality information, companies will need sufficient time to prepare and to establish their reporting systems, thereby justifying this call for an extended timeline.

Annex I, 2: The Methodology for the reporting of KPIs to be disclosed by non-financial undertakings

JBCE would like to request that companies are afforded enough flexibility in reporting on their proportion of turnover, capital expenditure (Capex) and operating expenditure (Opex). While the personnel scope should be the same as the Non-Financial Reporting Directive (NFRD – to become the CSRD) as defined by the Taxonomy Regulation, these companies should be given the flexibility of deciding to disclose the KPIs of the whole group-wide operations, or at entity-level in Europe.

- Companies operating globally may find it more strategic and meaningful to disclose information required by the CSRD at the consolidated level, to demonstrate the group's strategy, governance structure and materiality; indeed, many JBCE members are already encapsulated in global-level corporate sustainability reporting by their Japanese headquarters. However, the draft Delegated Act also requires Taxonomy disclosures to be made at the group level, if mirrored in sustainability reporting requirements (CSRD). JBCE feels that this would be disproportionately burdensome for companies like our members, many of whom will for the first time be obliged to automatically disclose Taxonomy KPIs on their worldwide operations. JBCE urges the Commission to afford flexibility for companies for whom this twofold burden would be excessive and would also undermine the Commission's intention of simplifying such reporting processes. We reiterate that such flexibility could include an extension to the anticipated timeline for Taxonomy disclosures and urge the Commission to think creatively to benefit the companies for whom these disclosure obligations are intended to be simplified.
- JBCE supports the EU Taxonomy in recognition of its usefulness as an effective tool for companies to move towards a sustainable transition. However, we believe that the required level of economic activities for such a sustainable transition will naturally differ region by region across the globe. Although we recognise that the classification and technical screening criteria of the EU Taxonomy are created inclusive of the extra-EU perspective, this cannot guarantee a fair evaluation of a company's economic activities outside of the EU.
- In the CSRD proposal, companies are permitted to disclose corporate sustainability information according to a manner considered equivalent to the future EU sustainability reporting standards; however, there is no such standard or framework defining equivalency requirements as regards the EU Taxonomy in international level and national level outside EU. While we appreciate this as a placeholder for future standards to be deemed equivalent, we are concerned for the uncertainty this presents for companies already making use of global standards such as the Global Reporting Index (GRI).

Finally, JBCE urges the Commission to provide practical guidance for all stakeholders (not only the providers of disclosed information, but also the end-investors and consumers who will use it) in order to ensure a common understanding on "how to disclose the information" required by Article 8.



About JBCE

Founded in 1999, the Japan Business Council in Europe (JBCE) is a leading European organization representing the interests of about 90 multinational companies of Japanese parentage active in Europe. Our members operate across a wide range of sectors, including information and communication technology, electronics, chemicals, automotive, machinery, wholesale trade, precision instruments, pharmaceutical, textiles and glass products. For more information: <https://www.jbce.org/>
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