The financial industry is in a powerful position to ensure the sustainability and decarbonisation of economies, but the data and tools market participants use must be fit for purpose. Investments must have the appropriate labelling systems to ensure investors know what they are investing in and if the security or activity is ‘green’.
We take sustainable finance regulation seriously

Refinitiv is closely involved in shaping and monitoring the EU Sustainable Finance Action Plan and the regulatory implications for the market.

Refinitiv is a member of the Commission Technical Expert Group on Sustainable Finance, advising the European Commission on the agenda and sustainable finance regulation.

The EU sustainable finance landscape

To meet clients’ sustainability preferences, financial participants are only able to recommend financial instruments meeting one of the following three criteria:

– Financial instruments that pursue, fully or in part, sustainable investments in economic activities that qualify as environmentally sustainable under the EU Taxonomy Regulation
– Sustainable investments as defined in the Sustainable Finance Disclosure Regulation (SFDR) (Article 2, point (17))
– Financial instruments that consider principal adverse impacts on sustainability factors, where qualitative or quantitative elements demonstrating that consideration are determined by the client or potential client

In this brochure we take a look at some of the major sustainable finance regulation affecting the European Union.
Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation (SFDR) introduces environmental, social and governance (ESG) disclosure standards for financial market participants, advisors and products.

SFDR was developed under the EU regulation on sustainability-related disclosures in the financial services sector and aims to:

– Strengthen protection for end investors
– Improve disclosures to investors from a broad range of financial market participants and financial advisors
– Improve disclosures to investors regarding financial products
– Ensure transparency and easy comparability of products

The SFDR empowers the European supervisory authorities to develop regulatory technical standards (RTS) governing the content, methodology and presentation of ESG disclosures at both an entity (firm) level and a product level.

Who is affected?

SFDR applies to financial market participants and financial advisors, with disclosure requirements at both entity and product levels. It is intended to apply to most financial products marketed to the EU, including those managed by non-EU firms.

What are the implications?

Institutional investors and asset managers in the EU now have disclosure obligations around ESG factors. Market participants must disclose:

– Sustainability risk policies on investment strategies
– Adverse sustainability impacts
– Remuneration policies consistent with sustainability risk integration

How can Refinitiv help?

The data

Based on the draft RTS published in February 2021, Refinitiv has solid coverage across the Principle Adverse Impact (PAI) indicators in the three tables. We have consulted the guidelines provided in Annex 1 to ensure we align with how we capture our own data points; anything that doesn’t match the required definition is either classed as a partial match or no match.

<table>
<thead>
<tr>
<th>Table</th>
<th>Total indicators</th>
<th>Direct match</th>
<th>Partial match</th>
<th>No match</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1 (Mandatory): Principal adverse sustainability impacts statement</td>
<td>18</td>
<td>14</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Table 2 (Opt-in): Additional climate and other environment-related indicators</td>
<td>22</td>
<td>10</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Table 3 (Opt-in): Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters</td>
<td>24</td>
<td>17</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Grand total</td>
<td>64</td>
<td>41</td>
<td>15</td>
<td>8</td>
</tr>
</tbody>
</table>

*Subject to change based on Refinitiv data coverage.

Based on the final regulatory text and requirements, Refinitiv will cover any data gaps for the mandatory indicators first and evaluate coverage requirements for the remaining opt-in tables.

Find full details in the [SFDR – principal adverse impact indicator coverage](#).
Funds

We provide SFDR metrics within the Lipper funds database to determine which funds are classed as meeting SFDR criteria. This functionality is available using Refinitiv Lipper for Investment Management in both Eikon® and Workspace® and allows you to run reports, compare specific data points across funds, and benchmark performance and attributes against competitors, based on SFDR flags across Articles 6, 8 and 9.

Within the Refinitiv suite of products you can retrieve fund data, filter down to the universe you are interested in (including SFDR article criteria) and view which article the fund relates to.

Solutions

Desktop – Company profiles

In the Company Profile app, you can find details about your chosen company on SFDR tables 1, 2 and 3, allowing you to perform audits at the company SFDR indicator level. The SFDR view provides details on the four closest peers by market capitalisation across country or industry, giving you a better view on a company’s performance and allowing you to click through to the original source for each data point.
Portfolio analytics

The SFDR template in the Portfolio Analytics app in Refinitiv Eikon and Refinitiv Workspace provides portfolio-level aggregation of the RTS Level 2 metrics based on the Annex 1 guidelines for both the current and previous year.

Since company reporting on the given indicators varies in availability, we offer two options for missing data to help with best effort. The first uses calculated estimates by providing The Refinitiv Business Classifications (TRBC) industry group level medians for securities in the portfolio that do not have disclosed data. Statistics will be provided to help explain what percentage of each metric was based on reported versus estimated.

The second option allows customers to request information from a company that has not disclosed certain metrics and allows the company to provide this data via the Refinitiv contributions tool.

Feed

Additionally, Refinitiv offers a feed solution consisting of company-level data such as ESG, financial fundamentals and business sector information (TRBC). Sovereign-level information covers greenhouse gas (GHG) emissions and many other metrics, as well as fixed income data. The feed is available via Datastream Data Loader and includes all raw data needed to perform the calculations for each metric.

The feed comes with redistribution rights to disclose the outcomes of the metrics calculations on websites and in compliance with the periodic and pre-contractual disclosure requirements.

The SFDR article flags are also available via the Lipper Global Data Feed and via API, allowing you to ingest SFDR fund data into your investment decisions, analysis and models.

Regulation and reporting

We have partnered with Clarity AI to create an SFDR reporting tool for investors, which enables you to create ready-to-use SFDR reports for compliance purposes at scale via API.

SFDR Reporting Professional powered by Clarity AI combines Refinitiv ESG, fundamentals and sovereigns data with Clarity AI modelled and controversies data to provide unmatched coverage. The tool covers both mandatory and optional SFDR PAIs for over 50,000 companies, and creates an easy path to accurate reporting on funds, portfolios and constituents.

The solution, could help you meet your reporting requirements.
EU Taxonomy

The green taxonomy is considered the backbone of the European Commission’s green finance package. The taxonomy offers a robust scheme for identifying and classifying investment opportunities, ensuring investors can ‘reorient capital flows towards sustainable investment, in order to achieve sustainable and inclusive growth’.

The EU Taxonomy, the foundational piece from the action plan on financing sustainable growth, is a classification tool to help investors and companies consistently determine whether an economic activity is environmentally sustainable or not.

The Taxonomy provides specific, quantitative thresholds on environmental performance for economic activities to be considered compliant with what the EU considers as environmentally sustainable.

The EU Taxonomy for sustainable activities is based around six environmental objectives:

– Climate change mitigation
– Climate change adaption
– Sustainable use and protection of water and marine resources
– Transition to a circular economy, waste prevention and recycling
– Pollution prevention and control
– Protection of healthy ecosystems

By considering the six objectives above, the EU Taxonomy has been created to help ‘investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy’.

Under EU Taxonomy, investments marketed as financing the transition to climate mitigation objectives will require a description or explanation in terms of the Taxonomy criteria.

Regulation and reporting

From the end of 2021, EU financial institutions have been required to report alignment of their portfolios with the Taxonomy.

There is a need to report “as reported” data but corporates are not all required to report this data, therefore regulation is allowing the use of derived data. Hence, investors can use sound estimates that are based on equivalent metrics reported by the corporates. Financial institutions are also expected to actively engage with the companies in their portfolios, to obtain as much relevant and required information about their alignment with the EU Taxonomy as possible.

Companies in scope of the Non-Financial Reporting Directive (NFRD) are required to report on the activities (portion of revenues, capital expenditures and operational expenditures where relevant) that are aligned to the EU Taxonomy. The focus is on shifting financial flows towards a sustainable economy, which will have major implications for many sectors, not only the financial industry. The expectation is that this will greatly accelerate the transition to sustainable economic and social growth in the future.

How can Refinitiv help?

Refinitiv is helping users fulfil their compliance obligation and evaluate their portfolio against the Taxonomy.
The data

Underpinning our EU Taxonomy solution is a combination of Refinitiv and FTSE Russell data.

The **FTSE Russell Green Revenues data** model is applied to nearly 99% of total global market capitalisation and is a taxonomy used to define and measure the industrial transition to a green economy. The model comprehensively assesses all companies with revenue exposure to green business activities and is the starting point for our EU Taxonomy solution.

The **Refinitiv Business Classifications (TRBC) data** is the most comprehensive, detailed and up-to-date sector and industry classification available, covering 250,000 securities in 130 countries to five levels of granularity. The data is important in the EU Taxonomy solution as it is mapped to NACE codes, allowing us to translate the business classification back to the taxonomy.

**Refinitiv Fundamentals data** is our most comprehensive, accurate and timely fundamentals offering. The data covers active and inactive companies traded in over 120 countries.

**Refinitiv ESG data** is designed to help you make sound, sustainable investment decisions, covering 85% of global market capitalisation across over 630 metrics. We utilise a number of these measures around emissions and a substantial number of controversy-type indicators, for the Do No Significant Harm (DNSH) and Minimum Social Safeguard aspects of the EU Taxonomy within our solution.

**LSEG dataset taxonomy alignment assessment**

<table>
<thead>
<tr>
<th>Dataset</th>
<th>Taxonomy alignment</th>
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<tbody>
<tr>
<td>FTSE Russell Green Revenues data</td>
<td>Eligibility</td>
</tr>
<tr>
<td>TRBC</td>
<td>Eligibility</td>
</tr>
<tr>
<td>Refinitiv fundamentals</td>
<td>Eligibility</td>
</tr>
<tr>
<td>Refinitiv ESG/fundamentals data</td>
<td>TSC</td>
</tr>
<tr>
<td>Refinitiv DNSH metrics (25)</td>
<td>DNSH</td>
</tr>
<tr>
<td>Refinitiv ESG data</td>
<td>MSS</td>
</tr>
</tbody>
</table>

Our EU Taxonomy data solution utilises equivalent information including "as reported" company data, derived data, and fully transparent estimations.
The solution

With our EU Taxonomy data we allow financial market participants to identify and report on the percentage of their portfolios that is eligible or aligned to the EU Taxonomy objectives, and therefore identify exposure to climate transition risks and identify opportunities for investment in companies undertaking green activities.

Our data model structured to help customers align with the EU Taxonomy
The first step in our process to provide a data set to help you align with Taxonomy is to calculate how much revenues of a company is classified as green. We use FTSE Russell Green Revenues data, which covers 16,000 companies, to make this assessment. If Green revenues data is not available for a company, we use The Refinitiv Business classification (TRBC) and Refinitiv Fundamentals data to assess the percentage of company’s revenues classified as green.

Once all eligible revenue is identified, it is then tested, and our technical screening criteria is applied to verify substantial contribution for two of the six objectives, namely climate change mitigation and adaption.

We then calculate how much revenue is aligned with Do No Significant Harm (DNSH) guidance, by by assessing the revenue against 25 Refinitiv ESG metrics. Revenue is then assessed for its alignment to Minimum Social Safeguards using Refinitiv ESG controversies.

All logic through the process is based on company-reported data, which is auditable and has traceable equivalent information.

The output is the proportion of revenues that is aligned to the EU Taxonomy.

Example of data output