



EU SUSTAINABLE FINANCE REGULATION

Navigating the sustainable landscape with Refinitiv

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'.

Refinitiv and EU sustainable finance regulations

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

Refinitiv is a [member of the TEG on sustainable finance](#), advising the European Commission on the agenda and sustainable finance regulation.

Amongst a range of regulatory efforts across the broader sustainable finance agenda, we believe that the three most important and significant regulatory initiatives that will impact the market we serve are:

- The Sustainable Finance Disclosure Regulation (SFDR)
- The EU taxonomy
- EU Benchmarks Regulation (BMR)

Both SFDR and the EU taxonomy will have implications on corporate reporting requirements under the Non-Financial Reporting Directive (NFRD).

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.

These standards have been developed under the EU regulation on sustainability-related disclosures in the financial services sector, and aim to:

- Strengthen protection for end investors
- Improve the disclosures to investors from a broad range of financial market participants and financial advisors
- Improve the 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) on the content, methodology and presentation of ESG disclosures at an entity level and a product level.

At entity level, principal adverse impacts that investment decisions have on sustainability factors should be disclosed on the website of the entity. At product level, sustainability characteristics or objectives of financial products, as well as disclosing how a product based on sustainable investments complies with the do no significant harm (DNSH) principle, should be disclosed.

SFDR effectively implements a three-tier categorisation of financial products:

- Article 9 – financial products with the objective of ‘sustainable investments’ (including the specific subset of a reduction in carbon emissions as an objective)
- Article 8 – financial products promoting environmental or social characteristics
- Others – other financial products, not falling into either Article 8 or 9

Who is affected?

SFDR applies to financial market participants and financial advisors with disclosure requirements at both entity (firm) 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 indicators in the three tables. We have compared guidelines provided in Annex 1 to make sure we have alignment with how we capture our own data points. Anything that doesn't match the required definition is either classed as partial or no match.

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

*Subject to change based on coverage results from March 2022.

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 – principles adverse impact indicator coverage sheet](#)

Solutions

Desktop

Refinitiv is developing an SFDR template in the Portfolio Analytics app via Refinitiv® Eikon and Refinitiv® Workspace. The template provides portfolio-level aggregation of the RTS Level 2 metrics based on the Annex 1 guidelines for both the current year and previous year. Since company reporting on the given indicators will vary in availability, we offer a couple of options for missing data to help with best effort. The first uses calculated estimates by providing TRBC industry group level medians for securities in the portfolio that don't have disclosed data. Stats will be provided to help explain what percentage of each metric was based on reported versus estimated.

The second option gives customers the ability to request information from a company that hasn't disclosed certain metrics and provide this data via the [Refinitiv contributions tool](#).

We also plan on exposing within our desktop, via the Lipper funds database, which funds are classed as article 6, 8 or 9 SFDR products.

Feed

Refinitiv also offers a feed solution consisting of company-level data such as ESG, financial fundamentals, business sector information (TRBC), sovereign-level information covering greenhouse gas (GHG) emissions and many other metrics, as well as fixed income data. The feed will be made available via Datastream Downloader and includes all the 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 reports, to comply with the periodic and pre-contractual disclosure requirements.

Prototype of SFDR template in Refinitiv Workspace

The screenshot shows the Refinitiv Workspace interface for a portfolio named 'Global Balanced'. The top navigation bar includes 'MARKETS', 'NEWS', 'COMPANY', 'CHARTING', 'IDEA GENERATION', 'RESEARCH & FILINGS', 'PORTFOLIOS & MONITORS', 'MANAGEMENT & GOVERNANCE', and 'MY LAYOUTS'. The main content area is titled 'Global Balanced' and shows a table with the following data:

PORTFOLIO: Global Balanced				
Portfolio Value :	1,008,388,662.09	Statement covers the period ending :		12/31/2020
Report Currency :	EUR			
Greenhouse Gas Emissions				
	Metric 12/31/2020	% Coverage by Weight	Metric 12/31/2019	% Coverage by Weight
Scope 1 GHG emissions	35,406.78	68.0	34,412.52	57.4
Scope 2 GHG emissions	12,183.38	67.4	11,409.73	57.4
Scope 3 GHG emissions	188,306.61	57.7	180,140.72	47.7
Total GHG emissions (Scope 1 + 2)	51,373.80	70.1	51,776.82	60.0
Carbon Footprint	318.58	74.6	310.77	74.6
GHG Intensity	709.12	66.5	635.53	64.9
Solid Fossil Fuel Exposure (%)	3.22		4.58	
Energy Performance				

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. It provides specific, quantitative thresholds on environmental performance for economic activities to be considered compliant with the EU taxonomy.

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

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy, waste prevention and recycling
5. Pollution prevention and control
6. 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".

When the EU taxonomy comes into effect, investments marketed as financing the transition to climate mitigation objectives will require a description or explanation in terms of the taxonomy criteria.

Who is affected by the EU taxonomy?

As of the end of 2021, EU financial institutions will have to report alignment of their portfolios with the Taxonomy.

Initially, this reporting will be based on reported data and assumptions that data providers and financial institutions have made for the assets in portfolios. 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) will be required to report on the activities (portion of revenues, capex and opex where relevant) that are aligned to the EU taxonomy, as of March 2022. The focus then will be on shifting financial flows towards a sustainable economy and this will have major implications for many sectors, not only the financial. 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 creating EU taxonomy-aligned products, to help users fulfil their compliance obligation and start evaluating their portfolio against the taxonomy.

Underpinning our EU Taxonomy solution is a combination of Refinitiv Fundamentals data for the business segment revenue data. We will also be looking to incorporate operating metrics that capture criteria such as production of aluminium which, when combined with our ESG carbon data, will enable us to expand on the current availability for performing technical screening criteria tests.

The other major data set used for taxonomy is our ESG database; we utilise a number of measures around emissions and substantial number of controversy-type indicators for the 'do no significant harm' (DNSH) and minimum social safeguard aspects of the EU taxonomy.

Finally, our reference data is of significant importance; the mapping of NAICS codes at a segment level makes it possible for us to perform the mapping and translate the business classification back to the taxonomy.

Desktop

An Excel prototype is available via the template library to enable you to test a portfolio of less than a thousand constituents, to see how they are eligible with the first two objectives of the EU taxonomy. We also have an Eikon-powered API version of the template, which enables users to test their portfolio for up to 5,000 constituents at a time, thereby saving time stitching the information manually for slightly larger portfolios.

We also plan to expose EU taxonomy-level data in Refinitiv Eikon via company overview pages and through the use of templates via the Portfolio Analytics app.

The company overview pages will show organisation-level and segment-level results, whereas the Portfolio Analytics app will provide organisation-level and portfolio summary reporting capabilities.

Bulk feed

The bulk feed contains all of the raw data measures against the entire universe of listed companies as well as the percentage eligible/aligned calculations. In addition to this, the feed exposes all of the necessary measures needed to perform DNSH and minimum social safeguards.

As other objectives of the taxonomy become public, we will be expanding the bulk feed to include the relevant metrics and derived field calculations so that our customers can easily aggregate the data internally.

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Refinitiv, an LSEG (London Stock Exchange Group) business, is one of the world's largest providers of financial markets data and infrastructure. With \$6.25 billion in revenue, over 40,000 customers and 400,000 end users across 190 countries, Refinitiv is powering participants across the global financial marketplace. We provide information, insights and technology that enable customers to execute critical investing, trading and risk decisions with confidence. By combining a unique open platform with best-in-class data and expertise, we connect people to choice and opportunity – driving performance, innovation and growth for our customers and partners.

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