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'.

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What is the EU Taxonomy?

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 what the EU considers as environmentally sustainable.

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

1. Climate change mitigation

2. Climate change adaption

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'.

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.

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Who is affected by the EU Taxonomy?

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 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.

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How can LSEG help?

LSEG is helping market participants fulfil their compliance obligation and evaluate their portfolio against the Taxonomy.

The data

Our EU Taxonomy solution carries both Company "As-Reported" and our own proprietary "Derived" EU Taxonomy data.

As-Reported data

As of January 2023, companies within scope of the Non-Financial Reporting Directive (NFRD) - 1800 organisations - are mandated to disclose the percentage of Revenue, Capital Expenditure and Operating Expenses that are Eligible and Aligned to the EU Taxonomy Regulation, for Fiscal Year 2022.

Our solution gives clients the ability to review a given Organisation's detailed disclosure according to the Annex II template.

How can LSEG help?

Derived data

Underpinning our Derived EU Taxonomy data is a combination of LSEG and FTSE Russell data.

The **FTSE Russell Green Revenues data** model is applied to nearly 98% of total global market capitalisation, capturing over 19,000+ public companies across 49 developed and emerging markets, with 10 sectors, 64 subsectors, and 133 micro sectors, with 10+ years of history. It 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 **LSEG Business Classifications 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.

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

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

Our derived EU Taxonomy data utilises equivalent information including "as reported" company data, allowing us to assess a given company's Eligibility and Alignment for a universe of 36k organisations, which is fully transparent and auditable.
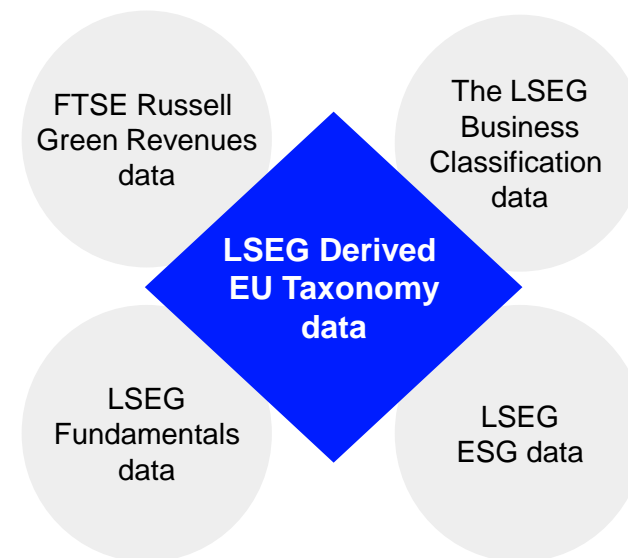
LSEG dataset taxonomy alignment assessment

Dataset	Taxonomy alignment
FTSE Russell Green Revenues data	Eligibility
LSEG Business Classifications	Eligibility
LSEG fundamentals	Eligibility
LSEG ESG/fundamentals data	TSC
LSEG DNSH metrics (25)	DNSH
LSEG ESG data	MSS

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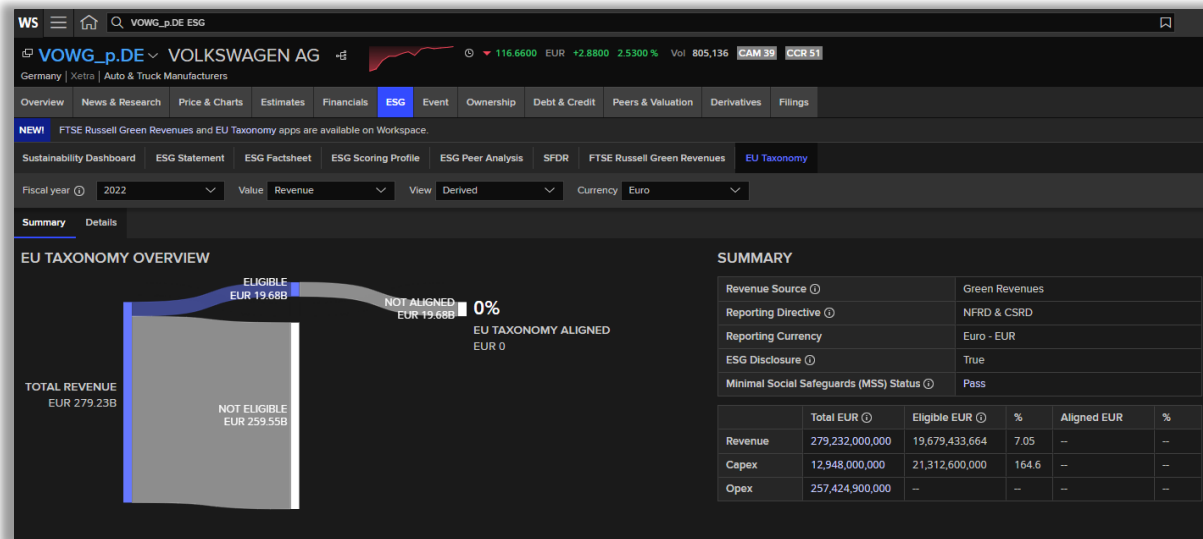# How can LSEG help?

Derived Data generation:

- **Step 1:** Calculate Total Eligible revenue based on Green Revenue. When not available we use LSEG Business Classification and Fundamentals Revenue/CAPEX/OPEX to assess % classified as sustainable.

- **Step 2:** We use Technical Screening Criteria to assess whether it qualifies for substantial contribution to one of the 6 EU Taxonomy Objectives.

- **Step 3:** We then assess both Do No Significant Harm (DNSH) and Minimal Social Safeguards (MSS) against 30 of our mapped ESG measures.

- **Step 4:** Total Aligned Revenue/CAPEX/OPEX is calculated.

The entire process is based on company-reported data, which is auditable and has traceable equivalent information.

For more information on LSEG's derived approach, see our EU Taxonomy infographic and methodology document.

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The solution

With our EU Taxonomy data, available via bulk feed and LSEG Workspace, 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 opportunities for investment in companies undertaking green activities.