LSEG EU Taxonomy Data Solution

(Methodology)

Sept 2024

LSEG DATA & ANALYTICS

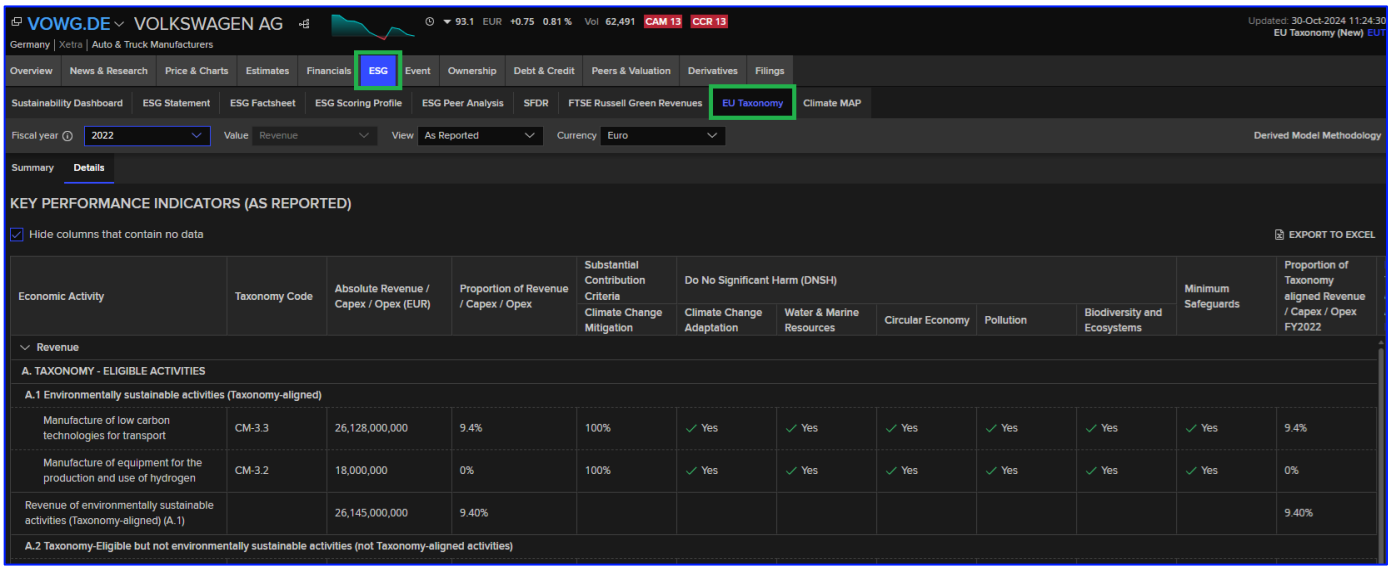
Contents

1 Overview of EU Taxonomy Solution

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 EU 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. Then ongoing on an Annual basis. Our solution gives clients the ability to review a given Organisation’s detailed disclosure, (according to the Directive’s Annex II template).



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, over 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.

Distribution:

Available in LSEG Workspace, Bulk feed, Snowflake with input data refreshed weekly, reported by companies on an annual Fiscal Year basis.

2 Overview of the EU Taxonomy Regulation

To achieve the Paris Agreement on Climate Change and the UN's Sustainable Development Goals, the European Commission established the EU Taxonomy as part of its Action Plan on Financing Sustainable Growth. The EU Taxonomy, which entered into force in July 2020, identifies sustainable economic activities considering the EU's six environmental objectives to encourage sustainable investment and direct capital towards a green economy:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

To qualify as "environmentally sustainable" under the EU Taxonomy Regulation, an eligible activity must meet all the requirements in Table 1.

Table 1: Overarching requirements under the EU Taxonomy

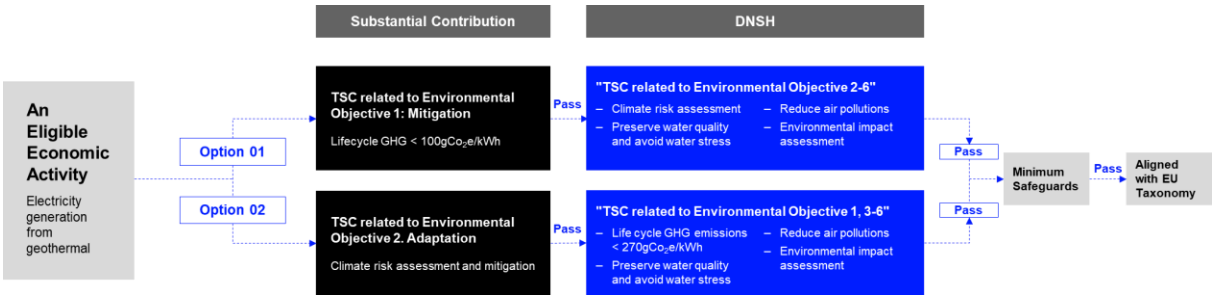
Taxonomy requirement	Description
Make a Substantial Contribution to one of the six environmental objectives and meet relevant technical screening criteria (TSC);	An economic activity needs to meet relevant TSC to demonstrate that it makes a substantial contribution to an environmental objective. For example, geothermal electricity production must meet the threshold of 100gCO2e/kWh to indicate that they contribute substantially to Climate Change Mitigation (Objective 1).
Do No Significant Harm (DNSH) to the other five environmental objectives and meet relevant TSC	Suppose an eligible economic activity meets relevant TSC and makes a substantial contribution to Objective 1. It also needs to meet additional DNSH TSC associated with Objectives 2 – 6 but not Objective 1. DNSH TSC may vary with the types of activities and to which environmental objectives the activity is contributing.
Comply with Minimum Safeguards (MS)	The minimum safeguards requirements apply to all the eligible economic activities and do not vary with economic activities or environmental objectives. According to Article 18 of the Regulation, economic activities should be aligned with "the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights."

The European Commission has published TSC for activities making contribution to the Mitigation and Adaptation objectives in December of 2021. TSC for the other four objectives (Objectives 3 – 6) were published in June of 2023.

Figure 1 illustrates how the EU Taxonomy Regulation requirements apply to electricity generation from geothermal energy, for example. The requirements related to the substantial contribution TSC, DNSH, and MS must all be met for an eligible economic activity to be considered EU Taxonomy aligned.[1]

[1] For a deeper dive on applying the Taxonomy in practice, see FTSE Russell's December 2021 paper, Do No Significant Harm and Minimum Safeguards in Practice: Navigating the EU Taxonomy Regulation.

Figure 1. Example: electricity generation from geothermal energy



According to the Delegated Act on disclosure (Article 8) adopted in July 2021, companies and investors should disclose the extent to which their business activities are EU Taxonomy-aligned, i.e., the proportions of sustainable economic activities, as defined by the EU Taxonomy, undertaken by companies or financed by investors.

– Companies in the scope of the Corporate Sustainability Reporting Directive (CSRD) – which replaced the Non-Financial Reporting Directive (NFRD) in January 2024[2] – are required to report their eligible turnover, capital and operational expenditures (CAPEX and OPEX) starting from the 2024 financial year, with reports published in 2025;
– Financial market participants subject to the Sustainable Finance Disclosure Regulations (SFDR) started disclosing the Taxonomy-eligibility of their holdings from 2022, reporting full Taxonomy-alignment from 2024.[3] Investors can voluntarily report the Taxonomy eligibility or alignment of their holdings where companies are not subject to reporting requirements, using estimates.

LSEG's **EU Taxonomy Data Solutions** provides both 'as reported' and 'derived' data.

The 'as reported data' solution provides direct insights from company disclosures on their EU Taxonomy eligibility and alignment. This data is sourced directly from the companies' public reports, ensuring accuracy and transparency. It follows the reporting template required by the regulation.

The 'derived data' solution aims to fill the reporting gap by granularly estimating activity and company-level eligibility and alignment with the EU Taxonomy across a wide universe, enabling investors to report complete Taxonomy alignment alongside company reported data. The results from 'derived' approach are considered as 'estimates' as they are not from direct company reporting on EU Taxonomy eligibility or alignment (which is covered separately as 'reported data'). However we use "Alternative Information" as per the regulation. The underlying data used for deriving EU Taxonomy such as the FTSE Russell Green Revenues and LSEG ESG data relies on corporate disclosure.

This document outlines the product's methodology:
– Section 3 lays out the details of the as-reported data collection and processing.
– Section 4 lays out the end-to-end methodology of derivation for the derived data.
– Section 5 discusses details on the derived solution methodology and the underlying datasets.

[2] The Corporate Sustainability Reporting Directive (CSRD) is replacing the NFRD (Directive 2014/95/EU amending Directive 2013/34/EU) over time; For a useful timeline, see European Securities and Markets Authority (2022), Sustainable finance implementation timeline.

[3] Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector; The sequencing of Taxonomy reporting is designed so that Financial Market Participants (who are reporting in 2024) will have company reported data (who are reporting earlier, in 2023).

3 As-reported data methodology

The 'as reported data' solution provides direct insights from company disclosures on their EU Taxonomy eligibility and alignment. This data is sourced directly from the companies' public reports, ensuring accuracy and transparency. Figure 2 shows the data collection process that is used to collect this company data, while Figure 3 shows the stages of verification applied throughout the data collection process.

Figure 2. Data collection process

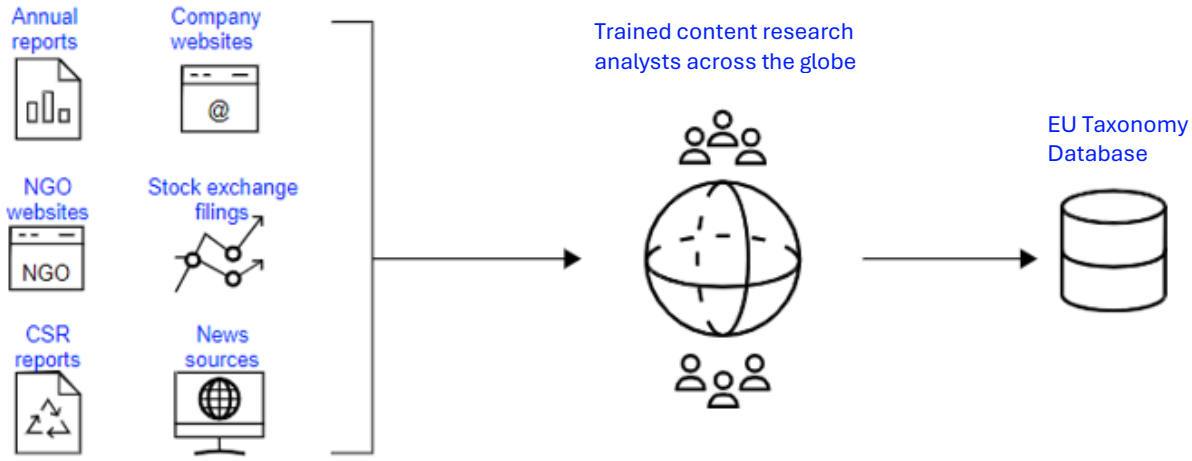
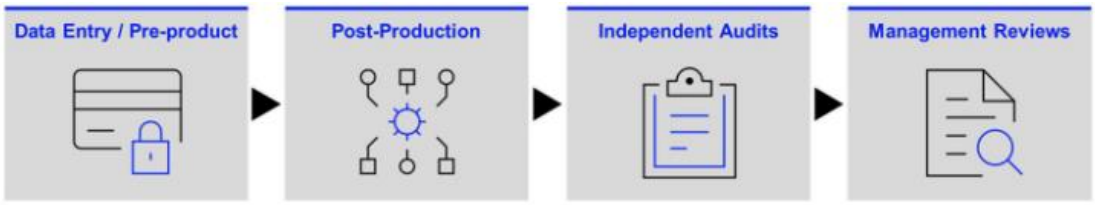
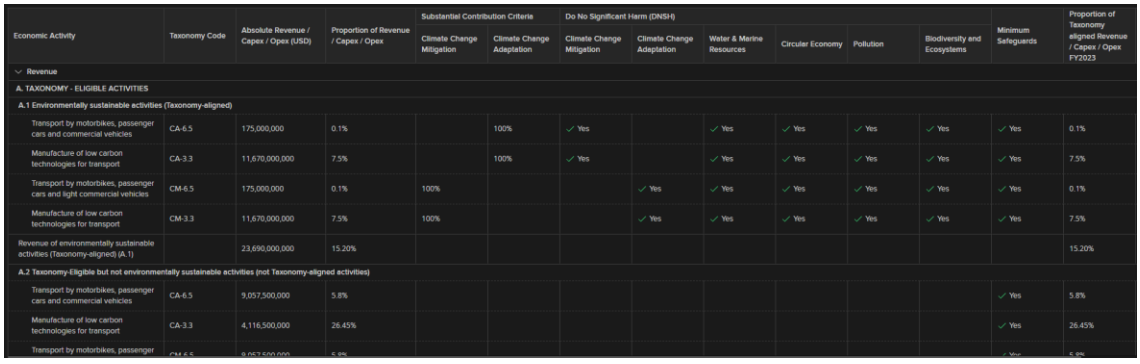


Figure 3. Data quality verification stages



After passing through the stages of validation and verification, the data can be displayed. The presentation of the as-reported data follows the reporting template required by the regulation; Figure 4 shows an example of as-reported in the Annex II reporting template, viewed from LSEG's Workspace.

Figure 4. As-reported data in Annex II template, as shown on Workspace



Economic Activity	Taxonomy Code	Absolute Revenue / Capex / Opex (USD)	Proportion of Revenue / Capex / Opex	Substantial Contribution Criteria		Do No Significant Harm (DNSH)						Minimum Safeguards	Proportion of Taxonomy aligned Revenue / Capex / Opex FY2023
				Climate Change Mitigation	Climate Change Adaptation	Climate Change Mitigation	Climate Change Adaptation	Water & Marine Resources	Circular Economy	Pollution	Biodiversity and Ecosystems		
Revenue													
A. TAXONOMY - ELIGIBLE ACTIVITIES													
A.1 Environmentally sustainable activities (Taxonomy-aligned)													
Transport by motorbikes, passenger cars and commercial vehicles	CA-6.5	175,000,000	0.1%		100%	✓ Yes		✓ Yes	✓ Yes	✓ Yes	✓ Yes	✓ Yes	0.1%
Manufacture of low carbon technologies for transport	CA-3.3	11,670,000,000	7.5%		100%	✓ Yes		✓ Yes	✓ Yes	✓ Yes	✓ Yes	✓ Yes	7.5%
Transport by motorbikes, passenger cars and light commercial vehicles	CM-6.5	175,000,000	0.1%	100%			✓ Yes	✓ Yes	✓ Yes	✓ Yes	✓ Yes	✓ Yes	0.1%
Manufacture of low carbon technologies for transport	CM-3.3	11,670,000,000	7.5%	100%			✓ Yes	✓ Yes	✓ Yes	✓ Yes	✓ Yes	✓ Yes	7.5%
Revenue of environmentally sustainable activities (Taxonomy-aligned) (A.1)		23,690,000,000	15.20%										15.20%
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)													
Transport by motorbikes, passenger cars and commercial vehicles	CA-6.5	9,057,500,000	5.8%									✓ Yes	5.8%
Manufacture of low carbon technologies for transport	CA-3.3	4,116,500,000	26.45%									✓ Yes	26.45%
Transport by motorbikes, passenger	CM-6.5	9,057,500,000	5.8%									✓ Yes	5.8%

4 End-to-end methodology of derivation: overview

Figure 5 outlines how the product derives Taxonomy-aligned revenues through five steps:

1. Choose data sources
2. Classify segments into eligible and not eligible
3. Test for each Substantial Contribution and Do No Significant Harm criteria
4. Test company-level minimum safeguards
5. Calculate aligned revenue, Capex, and Opex.

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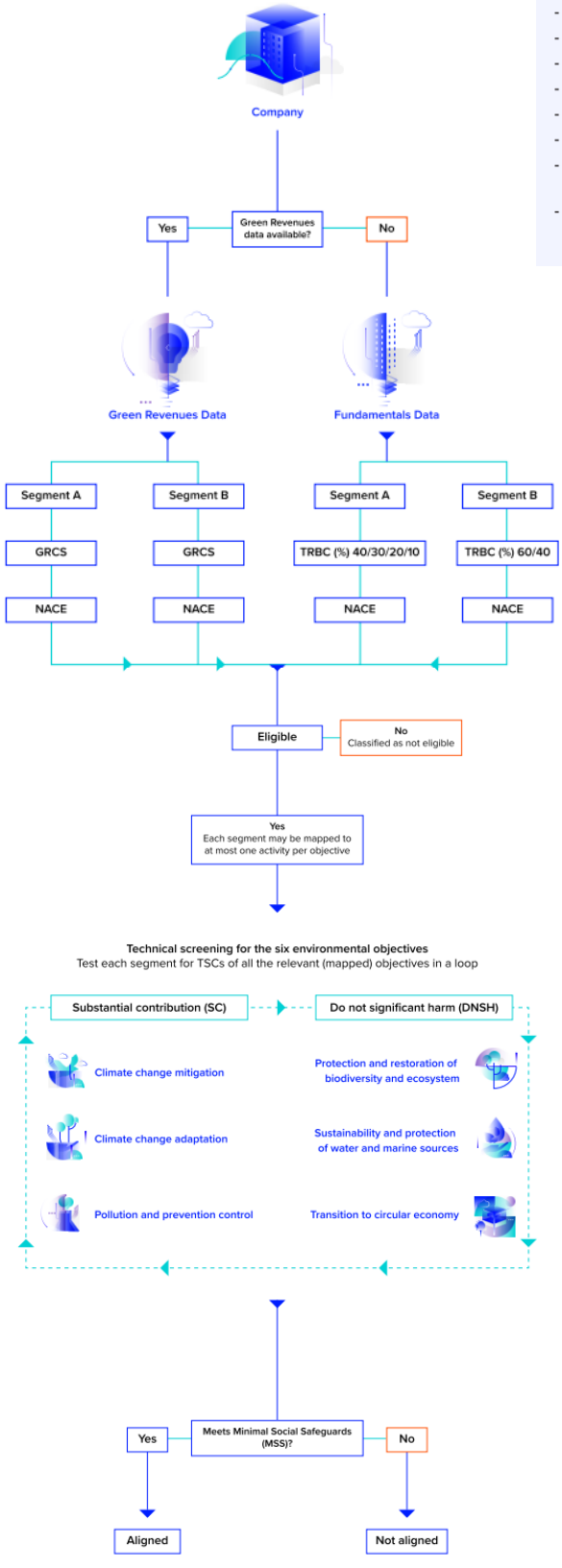
Figure 5. Deriving EU Taxonomy aligned revenues: end-to-end methodology

This infographic below shows the end to end process for deriving EU Taxonomy aligned revenue, Capex and Opex. The methodology below is LSEG's proprietary "equivalent information" derived approach.

Process

- Start
- **Choose data source** (Green Revenues is only available for revenue classification; Capex and Opex always follow Fundamentals route)
- **Classify segments into eligible and not eligible** (segment is considered eligible when it is mapped to at least one activity)
- **Test for each SC and DNSH criteria**
- **Company-level MSS testing**
- **Calculate Aligned Revenue, Capex and Opex**



Glossary:

- **TSC** – Technical Screening Criteria
- **DNSH** – Do no significant harm
- **SC** – Substantial Contribution
- **MSS** – Minimum Social Safeguard
- **TRBC** – LSEG's Business Classifications
- **GRCS** – Green Revenue Classification Schema
- **GR Data** – Green Revenue
- **Fundamentals Data** – LSEG's company Fundamentals Data
- **NACE** – Nomenclature of Economic Activities (EU Tax Activity Classification)

5 Detailed Derivation methodology

a. Eligibility: Green Revenues and LSEG Business classifications

To determine whether a company is involved in eligible activities under the EU Taxonomy, the Solution uses FTSE Russell Green Revenues data (Box 1), supplemented by LSEG Business Classification data (Box 2). Both datasets analyse companies' business segments, where the Green Revenues data breakdown segments into green and non-green activities based on 133 GRCS green micro sectors, and the LSEG Business Classification data breakdown segments into business activities according to 895 LSEG Business Classification activities.

The methodology maps GRCS and LSEG Business Classification against the EU Taxonomy and uses GRCS micro sectors and LSEG Business Classification activities to proximate EU Taxonomy activities (Figure 6.1 & 6.2). It then identifies companies' eligible EU Taxonomy activities and measures associated revenues.

Box 1. FTSE Russell Green Revenue data

FTSE Russell's Green Revenues data model measures green revenue exposure of more than 19,000 securities across 49 developed and emerging markets based on FTSE Russell's Green Revenues Classification System (GRCS) − a comprehensive taxonomy for green products and services covering 10 subsectors, 64 subsectors and 133 micro sectors. Each micro sector is identified and assessed against seven environmental objectives; six of which are aligned with the EU Taxonomy. Sustainable and efficient agriculture, which accounts for significant environmental benefits, was incorporated as an additional environmental objective.

When a company's activity is identified to have any green products or services, it is mapped to one or more micro sectors and then aggregated at the company level. The dataset is compiled through a thorough research process, including semantic screening, business segment identification and green micro sector breakdown. The resulting data allow us to calculate a precise percentage of green revenues at the micro sector (i.e., green product and service) level for each company.

For more information FTSE Russell Green Revenues 2.0 data model.

Box 2. Segment-level LSEG Business Classification data

The LSEG Business Classification is a global, comprehensive industry classification owned and operated by LSEG. LSEG Business Classification helps to identify, analyse and monitor companies and industries across global markets and serves as tool for benchmarking, peer comparison and navigation. LSEG Business Classification is designed to keep track of the primary business of an entity, and its areas of business at segment level. It is a five-level hierarchical structure consisting of 13 economic sectors, 32 business sectors, 61 industry groups, 153 industries and 895 activities.

Companies are assigned a 'primary' LSEG Business Classification, which is at the entity-level, covering the main market they serve. More granularly, analysts also assign companies up to 4 LSEG Business Classification activities per revenue business segment. These LSEG Business Classification activities – the most granular level of LSEG Business Classifications, are then ranked by data content analysts, based on their significance to each segment according to company disclosures.

For more information The LSEG Business Classification Methodology.

Figure 6: Snapshot of mapping GRCS and LSEG Business Classification against the EU Taxonomy

Figure 6.1 Mapping of the FTSE Russell GRCS micro sectors to EU Taxonomy

(Colour code below in table distinguishes the which EU Taxonomy Objectives a given Activity Code pertains to)

GRCS	EU Taxonomy			
GRCS_Code GRCS_MicroSector	**Mapped Activities** CM = Climate Mitigation, CA = Climate Adaptation, CE = Circular Economy, PP = Pollution Prevention and Control, WP = Water Protection and Marine Resources, BD = Ecosystem and Biodiversity			
	Activity Code	Activity Name	Activity Code	Activity Name
EG.04.0 Geothermal	CM-4.6	Electricity generation from geothermal energy	CA-4.6	Electricity generation from geothermal energy
EG.05.0 Hydro (General)	CM-4.5	Electricity generation from hydropower	CA-4.5	Electricity generation from hydropower
EG.06.0 Nuclear	CM-4.28	Electricity generation from nuclear energy in existing installations	CA-4.28	Electricity generation from nuclear energy in existing installations
EG.07.0 Ocean and Tidal	CM-4.4	Electricity generation from ocean energy technologies	CA-4.4	Electricity generation from ocean energy technologies
EG.08.0 Solar (general)	CM-4.1	Electricity generation using solar photovoltaic technology	CA-4.1	Electricity generation using solar photovoltaic technology
EG.09.0 Waste to Energy	CM-5.10	Landfill gas capture and utilisation	CA-5.10	Landfill gas capture and utilisation
	CE-2.5	Recovery of bio-waste by anaerobic digestion or composting		
EG.10.0 Wind (General)	CM-4.3	Electricity generation from wind power	CA-4.3	Electricity generation from wind power
EQ.03.1 Carbon Capture & Storage	CM-3.6	Manufacture of other low carbon technologies	CA-3.6	Manufacture of other low carbon technologies
EQ.04.0 Fuel Cells	CM-3.2	Manufacture of equipment for the production and use of hydrogen	CA-3.2	Manufacture of equipment for the production and use of hydrogen
EQ.05.0 Geothermal	CM-3.1	Manufacture of renewable energy technologies	CA-3.1	Manufacture of renewable energy technologies
EQ.06.0 Hydro (General)	CM-3.1	Manufacture of renewable energy technologies	CA-3.1	Manufacture of renewable energy technologies
EQ.07.0 Nuclear	CM-3.6	Manufacture of other low carbon technologies	CA-3.6	Manufacture of other low carbon technologies
EQ.08.0 Ocean and Tidal	CM-3.1	Manufacture of renewable energy technologies	CA-3.1	Manufacture of renewable energy technologies
WI.06.0 Water Infrastructure	CM-5.3	Construction, extension and operation of wastewater collection and treatment	CA-5.3	Construction, extension and operation of wastewater collection and treatment
	WP-2.1	Water Supply	CE-2.2	Production of alternative water resources for purposes other than human consumption
WI.08.0 Water Utilities	CM-5.1	Construction, extension and operation of water collection, treatment and supply systems	CA-5.1	Construction, extension and operation of water collection, treatment and supply systems

	WP-2.1	Water Supply	CE-2.2	Production of alternative water resources for purposes other than human consumption
WP.06.0 Recycling Services	CM-5.5	Collection and transport of non-hazardous waste in source segregated fractions	CA-5.5	Collection and transport of non-hazardous waste in source segregated fractions
WP.07.1 Hazardous Waste Management	CE-2.4	Treatment of hazardous waste	PP-2.1	Collection and transport of hazardous waste
WP.07.2 Organic Waste Process	CM-5.7	Anaerobic digestion of bio-waste	CA-5.7	Anaerobic digestion of bio-waste
	CE-2.5	Recovery of bio-waste by anaerobic digestion or composting		
ER.01.0 Advanced & Light Materials	CM-3.6	Manufacture of other low carbon technologies	CA-3.6	Manufacture of other low carbon technologies
FA.06.1 Sustainable Forestry	CM-1.3	Forest management	CA-1.3	Forest management
TE.02.0 Railways (General)	CM-3.3	Manufacture of low carbon technologies for transport	CA-3.3	Manufacture of low carbon technologies for transport
TE.02.1 Railway (Infrastructure)	CM-6.14	Infrastructure for rail transport	CA-6.14	Infrastructure for rail transport
TE.02.2 Trains (Electric / Magnetic)	CM-3.19	Manufacture of rail rolling stock constituents	CA-3.3	Manufacture of low carbon technologies for transport
TE.02.3 Trains (General)	CM-3.19	Manufacture of rail rolling stock constituents	CA-3.3	Manufacture of low carbon technologies for transport
TE.03.0 Road Vehicles	CM-3.3	Manufacture of low carbon technologies for transport	CA-3.3	Manufacture of low carbon technologies for transport
TE.03.1 Advanced Vehicle Batteries	CM-3.4	Manufacture of batteries	CA-3.4	Manufacture of batteries
ES.03.0 Smart City Design & Engineering	CM-6.15	Infrastructure enabling low-carbon road transport and public transport	CE-1.2	Manufacture of electrical and electronic equipment

Figure 6.2 Mapping of LSEG Business Classification Activities to EU Taxonomy

(Colour code below in table distinguishes the which EU Taxonomy Objectives a given Activity Code pertains to)

LSEG Business Classification	**EU Taxonomy**			
LSEG Business Classification _Code LSEG Business Classification _Activity	**Mapped Activities** CM = Climate Mitigation, CA = Climate Adaptation, CE = Circular Economy, PP = Pollution Prevention and Control, WP = Water Protection and Marine Resources, BD = Nature and Biodiversity			
	Activity Code	Activity Name	Activity Code	Activity Name
5020101011 Wind Systems & Equipment	CM-3.1	Manufacture of renewable energy technologies	CA-3.1	Manufacture of renewable energy technologies
5020101012 Stationary Fuel Cells	CM-3.2	Manufacture of equipment for the production and use of hydrogen	CA-3.2	Manufacture of equipment for the production and use of hydrogen
5020101013 Photovoltaic Solar Systems & Equipment	CM-3.1	Manufacture of renewable energy technologies	CA-3.1	Manufacture of renewable energy technologies
5020101014 Thermal Solar Systems & Equipment	CM-3.1	Manufacture of renewable energy technologies	CA-3.1	Manufacture of renewable energy technologies
5020101015 Biomass Power Energy Equipment	CM-3.1	Manufacture of renewable energy technologies	CA-3.1	Manufacture of renewable energy technologies
5020101016 Waste to Energy Systems & Equipment	CM-3.6	Manufacture of other low carbon technologies	CA-3.6	Manufacture of other low carbon technologies
	CM-3.1	Manufacture of renewable energy technologies	CA-3.1	Manufacture of renewable energy technologies
5020101018 Wave Power Energy Equipment	CM-3.1	Manufacture of renewable energy technologies	CA-3.1	Manufacture of renewable energy technologies
5020101019 Renewable Energy Services	CM-7.6	Installation, maintenance and repair of renewable energy technologies	CA-7.6	Installation, maintenance and repair of renewable energy technologies
5020101020 Geothermal Equipment	CM-3.1	Manufacture of renewable energy technologies	CA-3.1	Manufacture of renewable energy technologies
5020102011 Biodiesel	CM-4.13	Manufacture of biogas and biofuels for use in transport and of bioliquids	CA-4.13	Manufacture of biogas and biofuels for use in transport and of bioliquids
5020102015 Hydrogen Fuel	CM-3.2	Manufacture of equipment for the production and use of hydrogen	CA-3.2	Manufacture of equipment for the production and use of hydrogen
5110101010 Commodity Chemicals (NEC)	CM-3.14	Manufacture of organic basic chemicals	CA-3.14	Manufacture of organic basic chemicals
5110101011 Plastics	CM-3.17	Manufacture of plastics in primary form	CA-3.17	Manufacture of plastics in primary form
5110102010 Agricultural Chemicals (NEC)	CM-3.15	Manufacture of anhydrous ammonia	CA-3.15	Manufacture of anhydrous ammonia
	CM-3.16	Manufacture of nitric acid	CA-3.16	Manufacture of nitric acid
5110103010 Specialty Chemicals (NEC)	CM-3.11	Manufacture of carbon black	CA-3.11	Manufacture of carbon black
	CM-3.17	Manufacture of plastics in primary form	CA-3.17	Manufacture of plastics in primary form
5120102015 Metallic Rolling & Drawing Products	CM-3.9	Manufacture of iron and steel	CA-3.9	Manufacture of iron and steel

5120103011 Primary Aluminium Production	CM-3.8	Manufacture of aluminium	CA-3.8	Manufacture of aluminium
5210203011 Batteries & Uninterruptable Power Supplies	CM-3.4	Manufacture of batteries	CA-3.4	Manufacture of batteries
5210203014 Lighting Equipment	CM-3.5	Manufacture of energy efficiency equipment for buildings	CA-3.5	Manufacture of energy efficiency equipment for buildings
5210204011 Electrical Transmission & Grid Equipment	CM-4.9	Transmission and distribution of electricity	CA-4.9	Transmission and distribution of electricity
5210205010 Shipbuilding (NEC)	CM-6.12	Retrofitting of sea and coastal freight and passenger water transport	CA-6.12	Retrofitting of sea and coastal freight and passenger water transport
5210205011 Ship Parts Manufacturers	CM-3.3	Manufacture of low carbon technologies for transport	CA-3.3	Manufacture of low carbon technologies for transport
5220102011 Commercial Buildings	CM-7.1	Construction of new buildings	CA-7.1	Construction of new buildings
5340309022 Used Merchandise Stores	CE-5.4	Sale of second-hand goods		
5220102018 Water & Sewage Construction	CM-5.1	Construction, extension and operation of water collection, treatment and supply systems	WP-2.3	Sustainable urban drainage systems (SUDS)

Both Green Revenues data and LSEG Business Classification data estimate revenues from eligible EU Taxonomy activities starting from business segments and their revenues disclosed by companies. Together the data solution cover over 35,000 equities.

The product prioritises FTSE Russell Green Revenue data for companies within the 19,000+ listed equity research universe[4] due to the data model's similarity with the EU Taxonomy. Specifically, FTSE Russell Green Revenues data is highly granular – drilling down to 133 micro sectors – and it targets activities which generate substantial environmental benefits. This brings it in close alignment with the EU Taxonomy compared to general business classifications.

The derived methodology underpinning green revenues assessment includes calculations from disclosed information and company-specific estimates so that point figures of green revenues for all companies can be produced. For companies with sufficient revenue disclosure, the green revenues percentage is calculated directly from the disclosed information; companies are contacted for information or confirmation of their green revenues. For companies with limited revenue disclosure, a bottom-up approach is taken by content analysts to further appraise companies' fundamentals, where a variety of additional company indicators or data, market or peer data (such as end market uses and renewable energy generation) is used to analyse business models and estimate how much green revenues each green product or service generates.

For companies outside of the green revenue universe, the product derives Taxonomy-eligible revenues using LSEG Business Classification data. The revenue associated with each LSEG Business Classification activity is derived using weights depending on the ranking and number of activities present per business segment. For instance, as shown in Table 2, if there are two activities, the revenues are split 60:40, with 60% of the segment revenue going to the highest 'ranked' LSEG Business Classification activity. If there are three LSEG Business Classification activity, the segment revenue is split 50:30:20 in order of the ranking of LSEG Business Classification activities.

Table 2. Weights used to distribute segment revenue to LSEG Business Classification activities

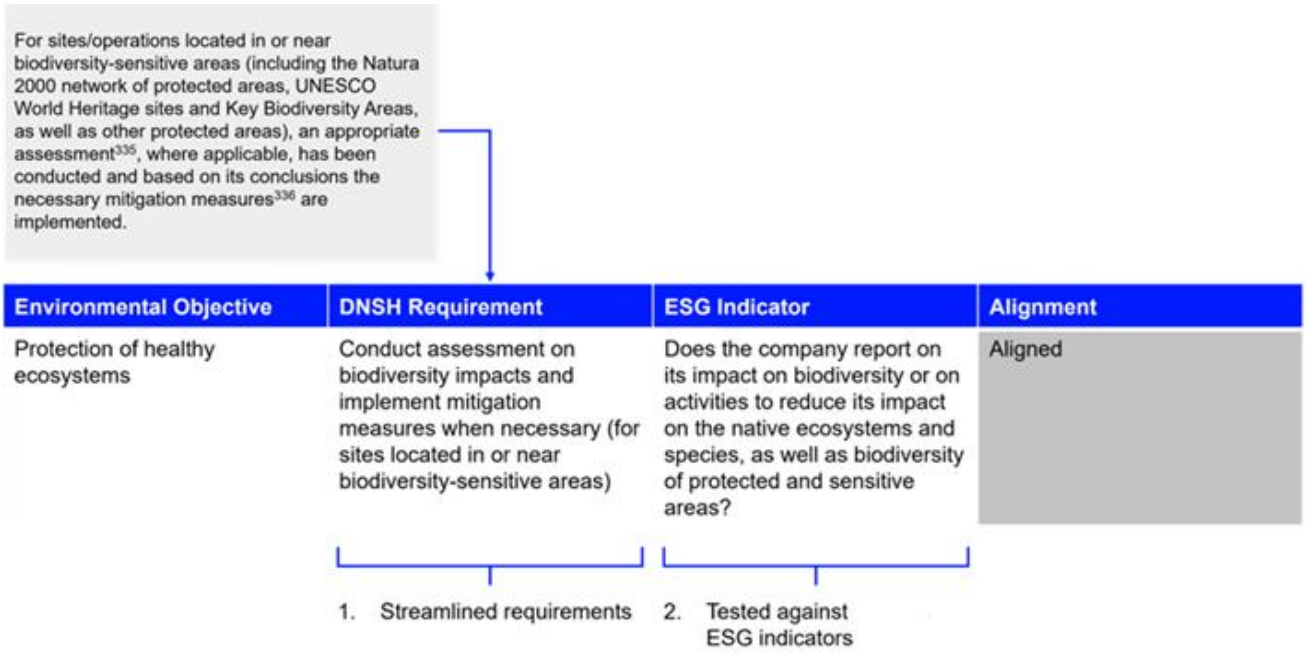
LSEG Business Classification activity per revenue segment	LSEG Business Classification activity rank	Assigned weight for distributing segment revenues
1	1	100%
2	1	60%
	2	40%
3	1	50%
	2	30%
	3	20%
4	1	40%
	2	30%
	3	20%
	4	10%

[4] Including FTSE Global All-Cap Index and Russell 3000 Index and representing over 98% of the total global (equity) market capitalization.

b. TSC and Minimum Safeguards: ESG indicators[5]

After identifying eligible activities and estimating their revenues, each eligible activity is tested against the Substantial Contribution and DNSH Technical Screening Criteria for each Environmental Objective. Given the complexity and the significant amount of information related to TSC, the product first streamlines the TSC into testable requirements by grouping similar TSC together and distinguishing those that are different. These requirements are then mapped against LSEG ESG indicators. Relevant ESG indicators are identified and selected as proxy to TSC and are applied to eligible activities. Each eligible activity needs to pass a specific set of ESG indicators to demonstrate it meets applicable TSC.

Figure 4. Example of streamlining DNSH criteria and mapping it to an LSEG ESG indicator



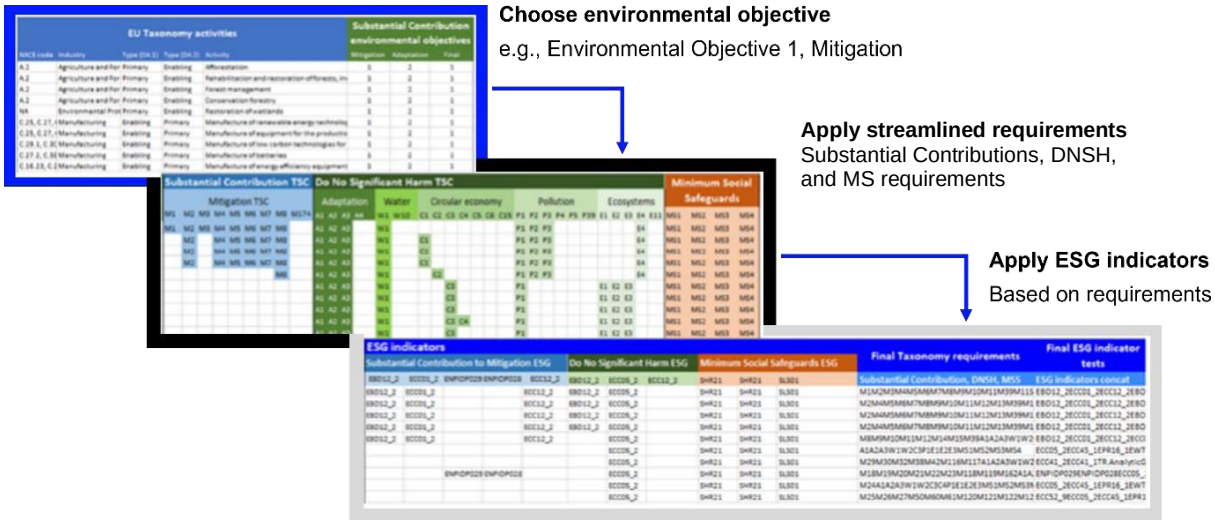
All eligible activities are then tested against the universal Minimum Safeguards requirement. As the requirement is principle based, the product focuses on specific topics including human rights, labour rights, and corruption[6] and identify relevant ESG indicators to apply to all eligible activities.

Bringing it all together, Figure 5 shows the matrix underpinning the product that maps the Substantial Contribution, DNSH and Minimum Safeguards requirements and their applicable LSEG ESG indicators to each economic activity.

[5] More details: https://www.ftserussell.com/research/do-no-significant-harm-and-minimum-safeguards-practice-navigating-eu-taxonomy-regulation

[6] Following recommendations in European Commission (2020), TEG Final Report on the EU Taxonomy. https://finance.ec.europa.eu/system/files/2020-03/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf

Figure 5. Snapshot of the matrix containing TSC requirements and applicable LSEG ESG indicators

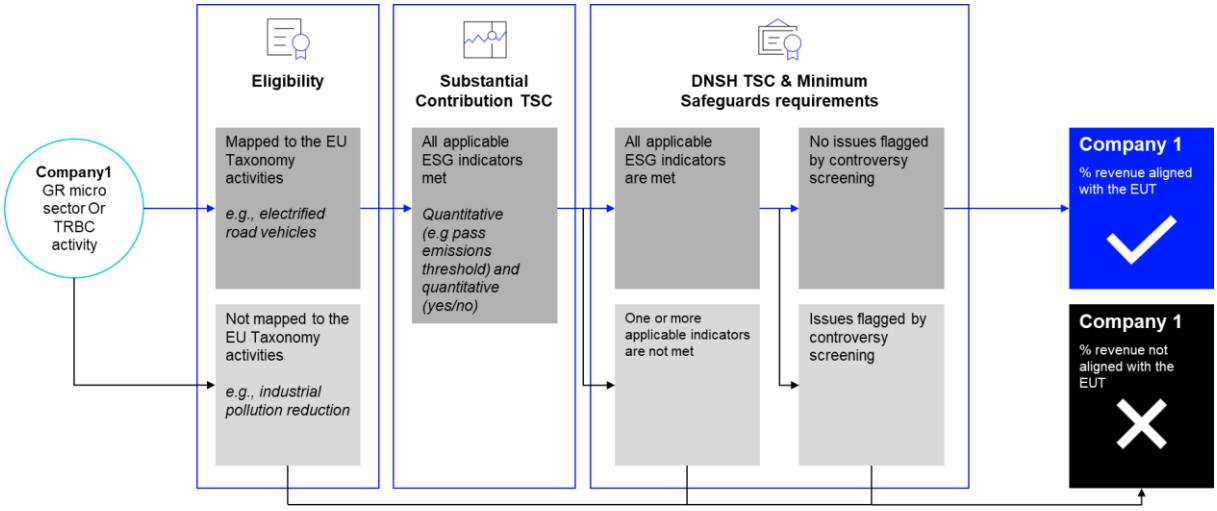


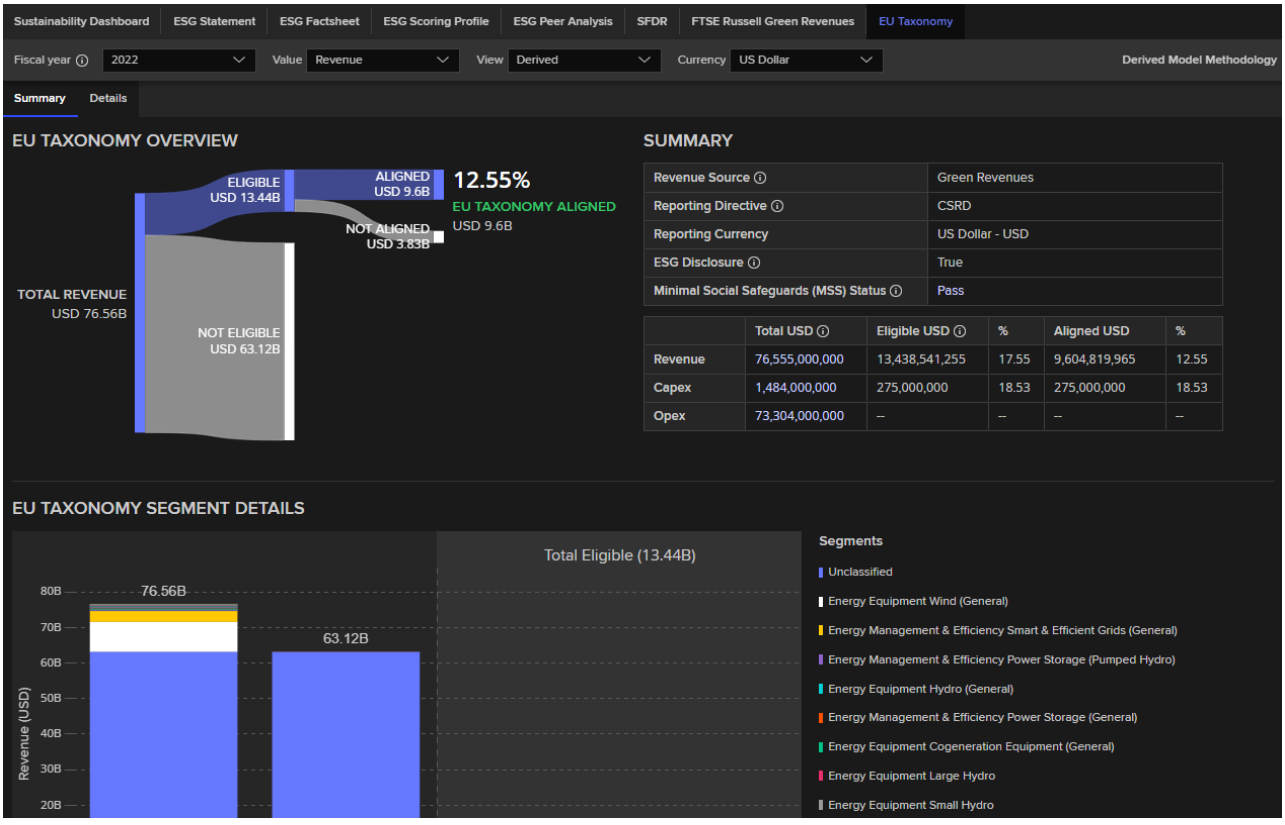
The mapped ESG indicators are either qualitative or quantitative. Qualitative indicators consider whether a company discloses certain information or not (for example, does the company report carbon emissions). Quantitative indicators ask for more underlying details (for example, the value of the carbon emissions disclosed by the company) to address thresholds set by TSC. As such, to be aligned with the EU Taxonomy, an activity should score “Yes” against qualitative indicators and disclose data against quantitative indicators. If applicable, disclosed information against quantitative indicators should demonstrate the activity meets the thresholds set by TSC.

Not all TSC are covered by the current ESG data landscape; some TSC may not have a matching ESG indicator. The product assumes the eligible activity fails the Substantial Contribution TSC when there is no matching indicator, taking a conservative approach; and it passes the DNSH TSC when there is no matching indicator, assuming there is no evidence of significant harm.

c) Figure 6 illustrates the methodology of calculating the EU Taxonomy aligned revenue for a company.

Figure 6 Aggregating EU Taxonomy-aligned revenue percentage





6 Data Sources – Data Collection and Quality Control

The EU taxonomy derived data solution does not use third-party data, it is all LSEG's own proprietary data.

There are four data sources used as inputs for the derived data solution, used at different stages of the methodology. These have been laid out in detail in section 4, but are summarised in the table below. Links to documents with additional details of collection, processing and quality assurance are also included in this section.

Data Source	Data Items	Stages of Use in Derived Data Methodology
Green Revenues Data	Green revenue values and classifications	Data source selection, segment classification into eligible and not eligible.
Fundamentals Data	Revenue, Capex, and Opex values	Data source selection, segment classification into eligible and not eligible.
Organisational Authority Data	LSEG Business Classification data	Data source selection, segment classification into eligible and not eligible.
ESG Data	Individual ESG indicators	Assessment against minimum Safeguard, DNSH, and SC criteria.

LSEG EU Taxonomy Quality Framework (Solution Overview)

Green Revenues Data

Green Revenues data is used for the green revenue values and revenue segment classifications, in the data source selection and segment classification stages of the derived data methodology.

Details of the collection and processing for Green Revenues are available here: Sustainable Investment - FTSE Russell Green Revenues Methodology (User Guide) (lseg.com).

Fundamentals Data

Fundamentals data is used for the revenue, Capex, and Opex values, in the data source selection and segment classification stages of the derived data methodology alongside the Organisational Authority data.

Details of the quality control process for Fundamentals data are available here
LSEG Company Fundamentals EU Taxonomy Quality Framework (Solution Overview)

LSEG Business Classification Data

LSEG Business Classification information from the Organizational Authority, in the data source selection and segment classification stages of the derived data methodology alongside the fundamentals data.

Details of the quality control process for Organisational Authority are available here:
LSEG EU Taxonomy Quality Framework Organisation Authority (OA) (Solution Overview)

ESG Data

ESG data is used for several individual ESG indicator values, in the assessment against minimum Safeguard, DNSH, and SC criteria stages of the derived data methodology.

Details of the data collection process for ESG data is available here: ESG Scores Methodology (Process) (lseg.com)
Details of the quality assurance process for ESG data are available here: ESG Data – Quality Assurance Framework (Process) (lseg.com)

LSEG EU Taxonomy Quality Framework for ESG (Solution Overview)

7 Methodologies: Governance & Conflicts of Interest management

Governance of methodologies

Prior to launch, SFI products are submitted to a Products and Commercials Board which considers, among other aspects, the risks associated with new products. The underlying models and methodologies are validated by LSEG Model Risk Management team before submission.

SFI products methodologies are subject to regular review to ensure they reflect the purpose for which they have been created. Criteria for datapoints inclusion or changes in methodologies are considered by LSEG D&A SFI Regulatory Governance Committee (SRGC) which oversees methodologies' compliance with regulations and codes of conduct. The data metrics and methodology used for products is periodically evaluated to ensure its relevance and accuracy. Similarly, when new logic is developed, or existing logic modified, impact analysis is performed to understand the potential effects on the product and its outputs. This analysis helps in identifying any potential limitations, biases, or unintended consequences that may arise from the changes. Changes, enhancements and impact analysis is thoroughly documented to maintain transparency and accountability.

Conflicts of Interest management

LSEG D&A SFI business has processes in place to identify, assess and manage potential conflicts of interest (COI). Any conflicts of interest are recorded in a conflicts of interest register and reviewed periodically in line with our governance framework.

Conflicts of interest may arise in areas including:

organisational ownership;

product design and management;

clients, partners or suppliers;

individual employees/directors.

These COI management processes are subject to review by the LSEG D&A SRGC on an annual basis, or more frequently if the possibility of a conflict arises.

Following a conflict being identified, management and Compliance assess the nature of the conflict and determine what controls may be put in place to manage the conflict adequately, and any disclosure that may be required. In the event that satisfactory controls cannot be established the activity will be declined or discontinued.

The range of mitigating processes, controls and governance put in place to manage the potential conflicts identified as part of the framework, aims to remove any residual material conflicts.

ABOUT LSEG

LSEG is one of the world's leading providers of financial markets infrastructure and delivers financial data, analytics, news and index products to more than 40,000 customers in over 170 countries.

We help organisations fund innovation, manage risk and create jobs by partnering with customers at every point in the trade lifecycle: from informing their pre-trade decisions and executing trades to raising capital, clearing and optimisation.

Backed by more than three centuries of experience, innovative technologies and a team of 25,000 people in over 60 countries, we are driving financial stability, empowering economies and enabling you to grow sustainably.

At LSEG we have been building market-leading sustainable finance and investment solutions for more than 20 years, empowering customers to achieve sustainable growth. Thanks to our long heritage, experience in data management and our global footprint across the financial industry, we develop data-powered solutions that clients can trust. We stay abreast of international and regional sustainable finance regulations and standards, to help our clients navigate a fast-moving regulatory landscape.

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