

## Frequently Asked Questions

# EU Taxonomy Revenue Share

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### What is the EU Taxonomy?

In March 2018, the European Commission adopted an action plan on sustainable finance as part of a strategy to integrate environmental, social and governance considerations into its financial policy framework and mobilize finance for sustainable growth. In May 2018, the Commission released the first legislative package under the action plan and established a Technical Expert Group on Sustainable Finance (TEG) to inform its development. One of the proposals under the legislative package is the development of a unified EU classification system or 'EU Taxonomy' ('Taxonomy') that would define which economic activities are environmentally sustainable. In March 2020, the TEG published its final report outlining its recommendations on the design and implementation of the Taxonomy.

The Taxonomy is essentially a tool that will help companies and investors navigate the transition to a low-carbon, resilient and resource-efficient economy. It sets performance thresholds for economic activities that make a substantive contribution to one of six key environmental objectives (outlined in Table 1 below), do not negatively affect the other five and meet minimum safeguards. To date, the Taxonomy considers economic activities that contribute to climate change mitigation and/or adaptation objectives with the TEG planning to address the other environmental objectives in future iterations. However, financial market participants in the region will be required to complete their first set of disclosures against the Taxonomy, covering climate change mitigation and/or adaptation, by the end of 2021. Companies will be required to disclose in the course of 2022.

**Table 1: Six environmental objectives of the Taxonomy:**

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| <ol style="list-style-type: none"><li>1. Climate change mitigation;</li><li>2. Climate change adaptation;</li><li>3. Sustainable and protection of water and marine resources;</li><li>4. Transition to a circular economy;</li><li>5. Pollution prevention and control;</li><li>6. Protection and restoration of biodiversity and ecosystems</li></ol> |
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Source: EU Taxonomy: Final Report on the Technical Expert Group on Sustainable Finance, March 2020

### What is the NACE industry classification system?

The NACE (Nomenclature des Activités Économiques dans la Communauté Européenne) is a European industry standard classification system of economic activities adopted by the TEG as it was established by EU law, and is largely compatible with international and Member State frameworks. The NACE system has been selected as a starting point for Taxonomy

development as it is comprehensive in its coverage of EU economic sectors, is used by EU institutions such as Eurostat and has already been implemented by some financial institutions.

### **Which NACE sectors are included in the Taxonomy?**

The Taxonomy outlines 67 business activities linked to seven NACE macro sectors. The business activities include those that have a direct carbon mitigation potential (for example, renewable energy) as well as those that are relatively carbon intensive *but* have significant potential to reduce their carbon emissions (for example, steel manufacturing).

The seven NACE macro sectors covered by the Taxonomy are:

- Agriculture, forestry and fishing
- Manufacturing
- Electricity, gas, steam and air conditioning supply
- Water, sewerage, waste and remediation
- Transportation and storage
- Information and Communication Technologies (ICT)
- Buildings (Construction and real estate activities, with application to other sectors where appropriate)

### **How does Trucost assess the alignment of company revenues with the Taxonomy?**

Trucost uses a blended approach to assess the alignment of company revenues with the Taxonomy. Firstly, Trucost has conducted a direct mapping between the 464 business activities in its proprietary sector classification system with the 67 business activities mentioned above. The Trucost proprietary sector classification system is based on the North American Industry Classification System (NAICS), which is similar to the European NACE system. The entire economy's activities are split into 464 business activities. Any business activities not mapped directly through this process are reviewed using a bottom-up assessment of their alignment with the objectives of the Taxonomy. During this step, Trucost reviewed company reported revenues and emissions data from its Core Plus universe. Companies in this universe are analysed using Trucost's company research process. This step in the process ensures that only business activities that have a carbon mitigation and/or adaptation potential are included in the dataset. Any business activities remaining after this step are not considered to be aligned with the Taxonomy.

### **What is the difference between enabling activities and transitional activities?**

Trucost splits aligned activities into two sub-categories: transitional and enabling. Transitional activities are defined by the EU Taxonomy as those that *could* significantly contribute to climate change mitigation based on their capacity to improve their emissions intensity, and those that directly mitigate the impacts of climate change. Enabling activities are defined by the EU taxonomy as those that are providing products and services to other activities and indirectly mitigating the effects of climate change.

### **What is the EU Taxonomy Revenue Share dataset?**

Trucost's EU Taxonomy Revenue Share dataset provides an assessment of the proportion of company revenues linked to the 67 business activities outlined in the Taxonomy. However, in this first iteration, Trucost only examines revenue exposure and the performance thresholds (for example, tCO<sub>2</sub>e/unit of production) are not included. The dataset covers 15,000+ listed companies in Trucost's Core Plus universe. Trucost also offers historical data for each company. The dataset is available at the company- and sector-level.

### **How can I use the EU Taxonomy Revenue Share dataset?**

Trucost's EU Taxonomy Revenue Share dataset measures the proportion of company revenues linked to the business activities outlined in the Taxonomy. It can be used to identify companies and sectors that have the potential to make a substantive contribution to the low carbon transition.

### **How can I access the data?**

An annual data subscription offers clients access to the EU Taxonomy Revenue Share dataset at the company- and sector-level. The file is delivered in a .csv format via a secure FTP platform. This file is updated on a quarterly basis.

### **What universe does Trucost cover?**

The EU Taxonomy Revenue Share dataset covers 15,000+ listed companies in Trucost's Core Plus Universe. Out of the 464 business activities in Trucost's proprietary sector classification system, 117 have been mapped to the activities outlined in the Taxonomy. Approximately 7,000 companies in Trucost's Core Plus Universe currently have business activities aligned with the Taxonomy.

### **What data history is available?**

The EU Taxonomy Revenue Share dataset can also be used to look at how the Taxonomy-alignment of company business activities has evolved over the years. The dataset includes company revenue data going back to 2005.

### **I subscribe to Market Intelligence data. Does this allow me access to Trucost's data?**

Access to Trucost's data requires a separate data license with Trucost. For more information, please contact [trucostinfo@spglobal.com](mailto:trucostinfo@spglobal.com).

## **EU TAXONOMY REVENUE SHARE PORTFOLIO ANALYSIS**

### **Who should I contact to get a portfolio analysis based on the EU Taxonomy Revenue Share dataset?**

Trucost's regional Account Directors can discuss the options available and can be reached by contacting [trucostinfo@spglobal.com](mailto:trucostinfo@spglobal.com).

### **What methodology is used for portfolio analysis?**

The EU Taxonomy Revenue Share dataset can also be applied at the portfolio-level to help financial institutions understand the carbon mitigation and/or adaptation potential of their portfolio holdings versus the benchmark and comply with reporting requirements.

This can be done using a weighted average approach by summing the product of each holding's weight in the portfolio with the company-level revenue alignment metrics. This provides the overall share of portfolio revenues currently aligned with the Taxonomy and is a useful starting point in identifying companies that have the potential to contribute significantly to the low carbon transition. Other metrics, such as the value of holdings with a carbon mitigation and/or adaptation potential can also be presented as part of the portfolio analysis.

### **What data points are needed from clients to perform the analysis?**

In order to perform a portfolio audit, the following data points are required:

- Company identifiers (e.g. ISIN)
- Value of holdings, or weights and the total value of holdings

**What asset classes is the analysis available for?**

The EU Taxonomy Revenue Share portfolio analysis is currently available for listed equities and listed companies in corporate fixed income portfolios. Loan portfolios, and other asset classes such as private equity or infrastructure analyses are available on a bespoke basis, subject to available data and custom arrangements with interested clients. For more information, please contact [trucoinfo@spglobal.com](mailto:trucoinfo@spglobal.com).

**Can I see a sample analysis performed by Trucost?**

The data sample files and portfolio analysis sample reports are available on request by contacting [trucoinfo@spglobal.com](mailto:trucoinfo@spglobal.com).

## REFERENCES

- 1) NACE sector classification, (2020). Available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Statistical\\_classification\\_of\\_economic\\_activities\\_in\\_the\\_European\\_Community\\_\(NACE\)](https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Statistical_classification_of_economic_activities_in_the_European_Community_(NACE)).
- 2) EU Technical Expert Group on Sustainable Finance, (2019), Taxonomy Technical Report. Available at: [https://ec.europa.eu/info/publications/sustainable-finance-teg-Taxonomy\\_en](https://ec.europa.eu/info/publications/sustainable-finance-teg-Taxonomy_en)

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