



Meeting EU Taxonomy reporting requirements

FTSE
Russell

Green Revenues 2.0 data model

CAPABILITY STORY

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Challenge

EU Taxonomy reporting requirements come into force January 2022. Providers of financial products, offered in the EU, that pursue sustainable investment or promote environmental characteristics must demonstrate how they have used the Taxonomy and the proportion of underlying investments that are Taxonomy-aligned.

Criteria

While the EU Taxonomy will set out a catalogue of green criteria, it leaves it to markets to assess individual companies against these criteria. Yet in their current form, corporate disclosures are typically insufficient

Solution

The EU Taxonomy and the GRCS are highly aligned on core activities, providing investors with an effective and transparent tool to assess the exposure of equity portfolios to revenues from EU Taxonomy aligned activities, in a granular and accurate manner.

Identifying opportunities and increasing the flow of investments towards the green economy

The greening of the global economy in response to the threat of climate change and other environmental challenges presents myriad opportunities to investors. This is one of the main drivers for creating a data product that focuses on these opportunities rather than climate risks. FTSE Russell has extensive experience and expertise in tracking leading companies in the green economy since the launch of Environmental Markets Index Series in 2008, resulting in the creation of the Green Revenues Classification System (GRCS) in 2013. The objective of FTSE Russell's GRCS, like the EU Taxonomy, is to align investments towards sustainable pathways by identifying and measuring the green economy. The associated Green Revenues data model has multiple use cases including, but not limited to, understanding portfolio exposure, identification of companies with green activities and reporting in line with international recommendations such as the TCFD (Task Force on Climate-Related Financial Disclosures) and the upcoming regulations on the EU Taxonomy for Sustainable Activities.

Launched in 2016, and with historical data from 2008, the Green Revenues data model was enhanced in 2020 to provide enhanced coverage, a more comprehensive Green Classification, improved granularity of revenue exposure, and the inclusion of a green "tiering system" to identify the environmental impact of company activities.

Challenge

Reporting in line with the EU Taxonomy

Just before the end of 2019, the European Parliament and the Council agreed that financial products on sale in the EU will have to reference the EU Taxonomy. Requirements relating to climate-related objectives are due to go into effect in January 2022, while criteria for other aspects of the green economy, such as water, waste, biodiversity protection and the circular economy, will apply at the end of the following year.

When marketing environmental or sustainable funds, European investment managers will have to disclose:

- How, and to what extent, they have used the Taxonomy to assess the sustainability of underlying investments;
- What environmental objectives the investments are contributing to; and
- The proportion of underlying investments that are included in the Taxonomy.




For funds that are not marketed as environmental or sustainable, European investment managers can state that they do not take the Taxonomy into account.

However, to meet these requirements, investors face a potentially onerous task of gathering necessary data due to lack company disclosures and transparency. The EU's new corporate disclosure requirements will eventually help to address part of this challenge but will only apply to EU companies.

Solution

A comprehensive starting point to assess compliance with the EU Taxonomy

The Green Revenues 2.0 data model provides an industry-leading tool to begin to assess portfolio exposure to the EU taxonomy. The Green Revenues data model addresses existing data gap challenges by providing company level green revenues and a complete breakdown of green activities, indicating where disclosed vs. estimated data has been used. The Green Revenues 2.0 data model can be used to:

 IDENTIFY	 CALCULATE	 REPORT
Identify companies that generate revenues from green economic activities using the most granular classification system available covering green products and services in 10 sectors, 64 subsectors and 133 micro sectors. An additional innovative feature includes “green tiers” that identify the level of environmental impact of company activities.	Calculate overall portfolio exposure to the Green Economy based on the Green Revenues Classification System or focus on activities that are aligned to climate-related objectives as defined in the EU Taxonomy by using the EU Taxonomy alignment flag.	Report on these metrics to assess compliance with EU Taxonomy aligned activities at the issuer and portfolio levels.

Regulation continues to drive global green change

The greening of the global economy in response to the threat of climate change and other environmental challenges presents myriad opportunities to investors. However, investors and policymakers face a common challenge to mobilize investment at scale: How can green business activities be systematically identified, categorized, and measured across diverse sectors and supply chains?

Both the EU Taxonomy and FTSE Russell's GRCS have the objective to address this challenge, and FTSE Russell's Green Revenues data delivers a comprehensive tool for the investment community to begin to understand and comply with these new standards.

- **Define** – Know what is green and stay up to date
- **Analyze** – Develop a regular tracking and reporting process
- **Prepare** – EU regulations come into force **January 2022**

Additional information

Learn more about EU Taxonomy and how FTSE Russell's Green Revenues data model has been developed to help clients through this expansive regulatory requirement.

[Learn more about Green Revenues 2.0](#)

The Green Revenues data model is part of a suite of [Sustainable Investment capabilities](#).

To learn more please [visit us](#).

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