SFDR: Three changes to make sustainable finance disclosures useful

The Sustainable Finance Disclosure Regulation (SFDR) adopted in 2019 triggered a vast movement of self-labelling by asset managers. Intended as a classification that would put some order in the European Union sustainable funds market SFDR's articles 8 and 9 quickly became a source of confusion. Indeed, the lack of clear criteria and definition for the categories defined in the regulation gave too much leeway to asset managers to decide how to classify each of their funds[1]. Category assignments were then regularly modified by asset managers depending on internal assessments of compliance risk, without clear justifications. These opaque changes created a major lack of clarity for those that wanted to use the SFDR categorization to make investment decisions[2].

The sheer complexity of the SFDR framework especially means that there is little added value for retail investors. On the contrary, article 8 and 9 classifications can even lead them to presume funds meet basic green credentials when this is not the case. Banking advisors are also struggling with the vagueness of the regulation and have limited knowledge on the exact meaning of article 8 and 9 and on the content of related products[3], thus potentially amplifying retail investors' confusion.

In this context, the inadequacy of SFDR and necessity to review it has become consensual[4]. However, how to do so has not. While some learned from the failure of the 1st version of SFDR

[1] For more information on how the SFDR is to be applied, see the consolidated Q&A from the European Commission and European Supervisory Authorities (ESAs).

[2] According to Morningstar, article 8 and 9 funds represented 42.4% of the funds marketed in the EU, with total assets of EUR 4.05 trillion, by the end of 2021. However, the landscape of article 8 and 9 funds continued to evolve rapidly, with many funds being reclassified. In the last quarter of 2022 close to 420 funds were reclassified, with 307 downgraded to Article 8 from Article 9.

[3] The limited ability for counselor to advise clients on sustainability preferences, despite Mifid II obligations, and for clients themselves to understand the information provided is evidenced by the results of the mystery visits conducted by the French Market Authority.

[4] The European Commission launched a consultation on the review of SFDR in September 2023 (see summary by Norton Rose Fuldbridge). Various organizations – financial institutions, representative bodies, CSOs, supervisors – have published their own position on the issue. See for example Eurosif, WWF, ICMA, FSUG and the AMF.

that robust and explicit criteria for funds making non-financial claims were needed, others are still pushing for an approach that leaves asset managers free to decide what they put behind environmental and social claims, as they see fit.

In this paper, Reclaim Finance does not propose a full architecture for a second version of SFDR. Rather, Reclaim Finance sets three essential criteria that are crucial to address greenwashing in funds and can be applied to any new proposed architecture:

1. **Excluding fossil fuel developers from funds making environmental or social claims.**
2. **Setting minimal requirements reflecting different ESG messaging and claims.**
3. **Aligning transparency and advisory obligations.**

I/ Excluding fossil fuel developers from funds making environmental or social claims

The disconnect between the environmental and social claims made by investors to sell their products and their real impact has long been discussed. If evaluating the global impact of these products raises relevant methodological questions, the fact that they support companies whose activities are massively degrading nature, contributing to global warming and the depletion of biodiversity have triggered legitimate outcry from citizens and savers.

Indeed, campaigners and researchers have especially highlighted the exposure to fossil fuel companies of funds marketed as sustainable, green, or responsible. In fact, **research conducted by Reclaim Finance in 2024 alone showed that 70% of passive funds, 70% of French employee savings funds and 55% of life insurance products making sustainable claims were exposed to companies developing new coal, oil and gas projects**[5]. These results are in line with those of many other studies which made the headlines and demonstrated the systemic nature of the problem[6].

This focus is well-justified by the disproportionate negative impact fossil fuel companies have on the environment and on sustainable development in general. Numerous research shows that these companies are not on a realistic path to transition, with limited investment in sustainable energy and significant fossil fuel development plans[7]. Scientific evidence especially highlights that

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[5] This data comes from three reports published by Reclaim Finance on passive funds, employee savings and life insurance.

[6] Several investigations were also conducted by journalists. See for example the investigation from ten European medias, published in Le Monde.

[7] The plans and investments of 12 of the largest publicly listed oil and gas companies in the EU and US and national oil and gas companies are analyzed by Reclaim Finance. This analysis notably shows companies are still focusing on fossil fuel production and only marginally investing in alternatives. For financial institutions, this means financial services to these companies are not contributing to the transition, on the contrary they contribute to further the climate crisis. This analysis is largely coherent with the own warning from the International Energy Agency (IEA) *The Oil*

companies that develop new fossil fuel production projects are at odds with climate goals and that reducing fossil fuel production is urgent.

It should therefore not come as a surprise that retail investors do not want to see fossil fuel companies in funds making environmental or social claims, nor that "green" fund labels severely restrict the presence of the fossil fuel sector[8]. In France, the review of the socially responsible investment (SRI) label – the biggest such label in the country – revealed that retail investors did not consider such claims to be compatible with supporting fossil fuels[9].

In this context, **it is essential any fund making environmental or social claims[10] – including but not limited to sustainability claims – exclude any company developing new fossil fuel production projects**[11]. Far from being a longshot, such an exclusion would be coherent with emerging European regulation and supervision.

Beyond voluntary commitments made by financial institutions[12], fossil fuels are already a focus point for EU financial regulation. Both the EU green bond standard and EU sustainable taxonomy exclude activities tied to fossil fuel production. Similarly, the Paris Aligned Benchmark (PAB) excludes companies significantly involved in the sector and the last draft of the EU Ecolabel for financial products – for which work has been paused – included strong exclusions. On the reporting side, the Principle Adverse Impacts (PAIs) of SFDR and the Corporate Sustainability Disclosure Regulation (CSRD) include mandatory disclosures on fossil fuel exposure. Finally, these activities were not allowed in EU public funds released following the Covid pandemic[13].

and Gas Industry In The Net Zero Transition report. In this report, the IEA highlights that without a drastic change in strategy – including an end to the development of new oil and gas production capacities and a massive increase in clean energy spending – oil and gas companies are at odds with the transition.

[8] The labels Greenfin, Socially Responsible Investment (SRI), Toward Sustainability, Nordic Swan, FNG, Unmweltzeichen and Luxflag Climate Finance all include some form of fossil fuel exclusions. While the work on a EU Ecolabel for financial products has been paused, the last version being discussed also included such criteria.
[9] The SRI label was reviewed in 2023 and now ban investment in fossil fuel developers. A majority of respondent from a survey conducted by Opinionway and Reclaim Finance during the review process believed fossil fuel developers should not be allowed in a responsible investment product.

[10] Here, "claims" cover the use of related wording and allegations in the funds' name and documentation, as well as potential advertisement made on it.

[11] Fossil fuel developers can be identified using the Global Coal Exit List and Global Oil and Gas Exit List. These two databases are built by the NGO Urgewald and are available for free. They are already widely used, including by supervisors and financial institutions.

[12] Voluntary commitments made by financial institutions on fossil fuels are tracked and analyzed in the *Coal Policy Tracker* and the *Oil and Gas Policy Tracker.*

[13] On its guidance on the Recovery and Resilience Facility (RRF), the Commission clarified that "measures related to power and/or heat generation using fossil fuels, as well as related transmission and distribution infrastructure, as a

The need for fossil fuels to be kept away from sustainable/green funds is already acknowledged by European financial supervisors. While the French market authority (AMF - Autorité des Marchés Financiers) proposed the inclusion of fossil fuel related criteria in new SFDR categories and has been publishing recommendations for financial institutions to strengthen their fossil fuel policies since 2019, the European Securities and Markets Authority (ESMA) recently published guidance on fund names that included some fossil fuel criteria.

Additionally, we suggest stronger fossil fuel exclusions are used for funds with a stronger environmental messaging, for example "climate/green/sustainable" labelled funds. There, the minimum ban on expansion should be supplemented with absolute and relative thresholds to filter out companies that are significantly involved in the sector[14].

II/ Setting minimal requirements reflecting different ESG messaging and claims

The public debate and supervisory activities have so far focused on funds with the strongest sustainability messaging. Funds making milder claims are often left aside. This is notably the case for the growing number of "transition" and "impact" funds that have been launched. In the new ESMA guidelines on fund names, published in May 2024[15], "transition" labeled funds are not subject to the same fossil fuel restrictions as "green" or "sustainable" funds. This is symptomatic of this emerging two-tier system. The result is obvious: transition or impact washing will become new prominent forms of greenwashing.

According to asset managers, this is justified because funds have different environmental or social messaging to meet different non-financial preferences. However, if different messaging can be used, this does not erase the need to ensure these messaging is not misleading. Therefore, **all funds should fulfill minimum quality requirements tied to their ESG messaging**. To address this issue, Reclaim Finance notably suggests:

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general rule should not be deemed compliant under DNSH for the purposes of the RRF, given the existence of low-carbon alternatives". Limited exceptions still existed.

[14] The absolute and relative thresholds used in the *Global Coal Exit List* and *Global Oil and Gas Exit List* should be used, namely:

- Companies deriving more than 10 % of their revenue or power production from coal.
- Companies producing more than 20 mmboe of oil & gas a year.
- Companies producing more than 10 Mt pa of thermal coal or with a coal-fired power generate on capacity above 5 GW.

[15] ESMA, FINAL REPORT - Guidelines on funds' names using ESG or sustainability-related terms, May 14th, 2024

1. **"Green" and "sustainable" themed funds** must meet a minimum green share and have additional exclusions to avoid supporting companies with a negative impact on nature and biodiversity, starting with those involved in deforestation.
2. **"Transition" themed funds** must hold securities of companies that have adopted a transition plan that meets a predefined quality standard[16]. This must ensure that emission reductions in accordance with the 1.5°C objective are achieved by all underlying companies[17].
3. **"Impact" themed funds** must strictly define what their goal is and define and monitor specific key performance indicators (KPIs). They must explain: (i) how they do not contribute to increasing GHG emissions and to the development of harmful activities, including activities linked to fossil fuel production and consumption and to deforestation; (ii) how their goal provides a significant contribution to climate, environmental or social EU goals. They must also exclude any company involved in carbon capture and storage linked to fossil fuel production or fossil-based electricity production[18]. Furthermore, impact funds should be intended to be mainly made of assets from non-listed companies and SMEs.

Ultimately, ensuring the application of the do no significant harm (DNSH) principle is relevant for any fund, no matter the claim type and SFDR category. Concretely, all funds should at the very least explain how they are coherent with the DNSH and minimum social safeguards (MSS) of the EU sustainable taxonomy. However, the DNSH principle is currently too

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[16] Reporting requirements under the CSRD include a transition plan section. However, as publications from Reclaim Finance as well as the Climate and Sustainable Finance Commission of the French Market Authority have highlighted, the fact that companies report in compliance with CSRD gives little guarantees on the content of the plans and their robustness. Indeed, the CSRD is not prescriptive, and companies can build widely different transition plans. In this context, companies should be considered to have a transition plan only if they both (i) publish a CSRD-compliant plan and (ii) this plan does not cross a series of red flags that ensure minimum quality and credibility. Reclaim Finance identified red flags in its report *Corporate Climate Transition Plan: What To Look For*.

[17] Aggregated metrics at the level of financial institutions have been accused of being unprecise, gameable and not reflecting impacts in the real economy. This is especially the case with PCAF methodology for financed emissions: these can vary significantly due to fluctuation of volatile company value component (such as EVIC), regardless of changes in capital allocation or in underlying companies' practices and real-world emissions. To avoid this, Reclaim Finance supports, at both the investee and portfolio level, GHG reporting and the use of absolute emissions, emissions intensity, financial (e.g., credit exposure) and portfolio coverage metrics that do not use any volatile economic component. Here, funds should monitor how emission evolve for each investee company and whether the reductions reported are in line with a 1.5°C pathway. For reference, they could use the linear rate of reduction from the EU Benchmark regulation, namely 7% a year.

[18] Impact funds are likely to be oriented toward the development of so-called "climate solutions", which can include carbon capture and storage (CCS). However, CCS can be used to prolong the life of existing fossil fuel infrastructures and to justify the construction of new ones. This is especially the case when CCS is directly used in fossil fuel production facilities to boost output and on coal or gas power plants. It is worth noting the deployment of CCS is still in its relative infancy and, that up to now, carbon has mainly been stored through a process known as enhanced oil recovery (EOR). With enhanced oil recovery at the centre of CCS projects, even more fossil fuel emissions are caused than without the technology.

vague and unprecise when applied to financial regulation[19]. **Building on the DNSH discussions that are taking place for public funds and the taxonomy, we strongly encourage law makers to explicitly define harmful activities in the finance DNSH and to use this principle to guide financial allocation throughout the EU and regulated entities**[20]. A clear finance DNSH could for example enable investors to clearly identify funds that would include harmful activities[21].

III/ Aligning transparency and advisory obligations

An important feature of SFDR is the Principle Adverse Impacts (PAIs). The PAIs are intended to be the most significant negative effects that investment decisions can have on environmental, social, and governance (ESG) factors. They are assessed using mandatory indicators and metrics that investors must disclose at both entity and product levels.

On paper, the disclosure of PAIs is essential to increase market transparency. They could enable investors to make informed decisions based on the sustainability of financial products and entities. However, current PAIs do not properly fulfill that role. They are far too complicated for retail investors and fail to reflect essential dimensions of the environmental impact of products.

Taking advantage of the SFDR review, **PAIs should be adapted to enable investors to quickly identify fund exposure to the most harmful companies.** They should build on the previously mentioned minimum environmental and social criteria so that funds that do not make sustainability-related claims can easily be compared to those that do. Giving such clear information to savers would meet their expectations and contribute to addressing greenwashing concerns. **Annex II summarizes existing PAIs related to fossil fuels, biodiversity, GHG emissions, transition planning and green activities and proposes updated versions providing meaningful information to investors**. The proposed PAIs build on preexisting EU legislation, notably the EU CSRD and Sustainable Taxonomy.

As PAIs feed into the MiFID II (Markets in Financial Instruments Directive) and IDD (Insurance Distribution Directive) process of matching client preferences to suitable financial products, the update of PAIs could help savers find clearer and more targeted advice when it comes to their

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[19] There is no uniform definition and interpretation of the DNSH for all European regulations. The Joint Research Committee (JRC) report *The implementation of the 'Do No Significant Harm' principle in selected EU instruments: a comparative analysis* provides a synthesis of various uses.

[20] Reclaim Finance recommends the DNSH to be made a central criterion when granting financial services and implementing financial transition plans by: (i) determining a list of activities that are still considered to be "significantly harmful" and which should be excluded from financial services, and by; (ii) requesting that financial players systematically implement a filtering procedure for financial services according to the DNSH principle.

[21] Funds including harmful activities could be gathered in a specific SFDR "harmful" category or could be required to feature prominent warnings in all documents.

sustainability preferences. For this to be the case, **MiFID II and IDD should be adjusted to ensure simple and easy-to-understand questions are asked to clients when defining these preferences**. **The review of SFDR and adaptation of MiFID II and IDD could be conducted jointly through an omnibus proposal. This notably entails requiring banking advisors to specifically ask clients:**

1) **If they want (i) companies developing new coal, oil and gas projects and/or (ii) companies active in the fossil fuel sector in general to be excluded from their investments.**
2) **If they want companies involved in sectors with a high risk of deforestation to be excluded from their investments.**
3) **If they want (i) a share of the investment to qualify as green and (ii) how significant that share would ideally be.**
4) **If they want (i) a share of the investment to be covered by verified transition plans and/or 1.5°C decarbonization targets[22] and (ii) how significant that share would ideally be.**

Conclusion: Three principles for all SFDR architectures

The three principles identified in this note can guide the European Commission and Members of the European Parliament in making SFDR a tool to limit greenwashing risks and foster confidence in investment products.

These principles are broad and flexible enough to be compatible with any upcoming SFDR architecture (review of article 8/9 categories, introduction of new categories replacing them, switch to an aggregated sustainability indicator, etc). The success of the review of the French SRI label, that ended up by providing a labelling with clear rules and minimum safeguards, shows the way.

[22] While CSRD and CSDDD obligations will mean large capitalizations have to adopt transition plans, the quality of the plans is not yet ensured. Therefore, a meaningful question will need to go beyond mere compliance with CSRD/CSDDD to look at the quality of the plans and targets. We note that:

- So far, no consensual standard has emerged to evaluate transition plans (”red lines” and recommendations were published by Reclaim Finance).
- The Science Based Target initiative (SBTi) is the current reference body verifying targets. If the methodology can always be criticized and does not ensure that companies meet validated targets, it could still serve as a useful reference to evaluate the quality of targets.

Annex I – Proposed minimum criteria for funds by type of environmental or social claim

Topic	Green/Sustainable	Transition	Impact
Exclusions	Companies developing new coal, oil and gas projects[23]. Companies deriving more than 10 % of their revenue or power production from coal[24]. Companies producing more than 20 mmboe of oil & gas a year or more than 10 Mt pa of thermal coal or with a coal-fired power generate on capacity above 5 GW[25]. Companies engaged in deforestation (based on high-risk sectors and activities[26]).	Companies developing new coal, oil and gas projects.	Companies developing new coal, oil and gas projects. Carbon capture and storage for fossil fuel production or fossil-based electricity production.
Minimum share of assets tied	Minimum share of green assets[27].	Minimum share of assets from companies with a transition plan, to reach 100% by 2026[28]	

[23] Companies developing new fossil fuel projects should be identified using the *Global Coal Exit List* and *Global Oil and Gas Exit List*.

[24] This relative threshold is the one used in the *Global Coal Exit List*.

[25] The absolute thresholds are the ones used in the *Global Coal Exit List* and *Global Oil and Gas Exit List*.

[26] High risk activities can notably be identified using the list of the Forest 500 methodology. Companies identified as having the highest risk of deforestation by the Forest&Finance Coalition should be excluded.

[27] The EU sustainable taxonomy can be used to define the green asset share. Additionally, the EU Green Bond Framework can be used when it comes to bond holdings. Reclaim Finance underlines that both these regulations are yet to be improved to avoid greenwashing and foster climate ambition. The NGO encourages policymakers to use the *Independent Science Based Taxonomy* (ISBT) and to ensure green bonds are not emitted by companies developing new fossil fuel projects.

[28] It is worth noting that by 2026 all EU large companies must comply with CSRD. This new obligation means companies – at the exception of SMEs, which must publish report by 2027 – will provide information on their

to the objective and claim of the fund			
Specific disclosures	Explanation of how they are coherent with the DNSH and minimum social safeguards (MSS).	GHG emission reductions at the level of investee companies and year-on-year reduction[29]. Definition of the transition plan quality standard, including “red flags” aligned with Reclaim Finance’s expectations[30]. Explanation of how they are coherent with the DNSH and minimum social safeguards (MSS).	Definition of impact goals and KPIs. Explanation of how they do not contribute to increase GHG emissions and/or to the development of harmful activities including: - Activities related to fossil fuel production. - Fossil-fuel intensive activities. - Activities with a high deforestation risk. Explanation of how they significantly contribute to EU environmental, climate or social goals. Disclosure of share of assets from listed companies and of share of assets from SMEs. Explanation of how they are coherent with the DNSH and minimum social safeguards (MSS).

transition plans by then. Non-EU large companies will not have the same obligations but can legitimately be expected to publish similar plans, notably due to investor demand.

[29] It is essential to ensure that companies are meeting their GHG reduction targets and delivering on their promises. Managers are expected to monitor GHG emissions at the level of investee companies and to check whether they are in line with climate goals. Using the EU benchmark regulation as a reference, the year-on-year reduction should at least reach 7%.

[30] Reclaim Finance identified red flags in its report *Corporate Climate Transition Plan: What To Look For*.

Annex II – Current and proposed PAIs on key environmental matters identified by Reclaim Finance

Topic	Current PAIs (applicable to investee companies[31])	Proposed PAIs (applicable to investee companies)
Fossil fuels	Share of investments in companies active in the fossil fuel sector[32]. Share of non-renewable energy consumption and non-renewable energy production[33] of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources. Additional - Share of energy from non-renewable sources used by investee companies broken down by each non-renewable energy source	**Share of investments in companies developing new coal, oil and gas projects based on the list of developers identified in the Global Coal Exit List (GCEL) and Global Oil and Gas Exit List (GOGEL).** Share of investments in companies active in the fossil fuel sector, **broken down between coal and oil and gas**. Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources.
Deforestation and biodiversity	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas. Additional - Share of investments in investee companies the activities of which cause land degradation, desertification or soil sealing.	**Reclaim Finance does not provide detailed recommendations on PAIs for deforestation and biodiversity but encourages law makers to investigate this building on expertise from scientists and civil society.** Nonetheless, looking at current practices from financial institutions and available information, the NGO notes that two

[31]Specific PAIs are applicable depending on asset types (corporate, real estate, sovereign and supranational). Here we focus only on corporate.

[32] 'Companies active in the fossil fuel sector' means companies that derive any revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and of the Council.

[33] 'Renewable energy sources' means renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic) and geothermal energy, ambient energy, tide, wave and other ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas, and biogas.

	Additional - Share of investments in investee companies without sustainable land/agriculture practices or policies Additional - Share of investments in investee companies without sustainable oceans/seas practices or policies Additional - Share of investments in investee companies whose operations affect threatened species Additional - Share of investments in investee companies without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas Additional - Share of investments in companies without a policy to address deforestation	important dimensions should be reviewed: • Share of investment in investee companies in sectors and activities with high risk of deforestation[34]. • Share of investments in investee companies in sectors and activities with high risk of deforestation without a commitment to zero deforestation by 2025.
Transition planning and emission reduction	Additional - Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	**Share of investments in investee companies without a CSRD compliant climate transition plan[35].** **Share of investments in investee companies with 1.5°C science-based decarbonization targets[36].** **Share of investments in investee companies achieving at least a 7%**

[34] See for example Forest500.

[35] For information on the limitations of CSRD-transtion plans and the need for further guidance on content and assessment, see: Reclaim Finance, *Corporate Climate Transition Plan: What To Look For*, January 2024.

[36] Science-based targets (SBTs) are validated by the Science-Based Target initiative (SBTi) following a public methodology aimed at ensuring sufficient quality and relevance. While this process is not perfect and SBTs must never be understood as providing insurance on the transition of a company, SBTs are still relevant indicators that can help understand how a company plans to address climate change.

		reduction in GHG intensity each year[37]. **Share of investments in investee companies with a target to reduce absolute GHG emissions by at least 43% by 2030[38] and to achieve carbon neutrality by 2050 at the latest.**
GHG emissions	GHG emissions Scope 1[39] GHG emissions Scope 2 GHG emissions Scope 3 Total GHG emissions Carbon footprint[40] GHG intensity of investee companies[41]	**Total GHG emission of investee companies (unweighted), with a breakdown by scope 1, 2 and 3.** **Year-on-year total GHG emissions decrease or increase in absolute and relative terms, with a breakdown by scope 1, 2 and 3.** **Three-year total GHG emission decrease or increase in absolute and relative terms, with a breakdown by scope 1, 2 and 3.** **Weighted average GHG intensities of high-emitting sectors[42] in the portfolio and their evolution over the last three years.**

[37] The year-on-year 7% intensity reduction is based on the criteria from the EU Benchmark regulation.
[38] The baseline for this target must not be holder than 2019. It must be recent and representative of the emissions of the company, as defined in Reclaim Finance's report *Corporate Climate Transition Plan: What To Look For*.

[39] 'GHG emissions' are calculated in accordance with the following formula:

$$\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{investee\ company's\ enterprise\ value_i} \times investee\ company's\ Scope(x)\ GHG\ emissions_i\right)$$

[40] 'Carbon footprint' are calculated in accordance with the following formula:

$$\frac{\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{investee\ company's\ enterprise\ value_i} \times investee\ company's\ Scope\ 1,2\ and\ 3\ GHG\ emissions_i\right)}{current\ value\ of\ all\ investments\ (€M)}$$

[41] 'GHG intensity of investee companies' are calculated in accordance with the following formula:

$$\sum_{n}^{i}\left(\frac{current\ value\ of\ investment_i}{current\ value\ of\ all\ investments\ (€M)} \times \frac{investee\ company's\ Scope\ 1,2\ and\ 3\ GHG\ emissions_i}{investee\ company's\ €M\ revenue_i}\right)$$

[42] High-emitting sectors should also cover all activities in the EU Emission Trading Scheme (ETS).

Green share	Additional - Share of securities in investments not issued under Union legislation on environmentally sustainable bonds	Share of securities in investments not issued under Union legislation on environmentally sustainable bonds **Share of investments in investee companies with more than 20% revenue from taxonomy aligned activities[43].** **Average percentage of investee companies' capital expenditures (capex) from taxonomy aligned activities.** **Average percentage of investee companies' revenue from taxonomy aligned activities.**

[43] The share of taxonomy aligned revenue should be progressively increased to reflect the transition of the companies.