European Sustainable Finance Survey 2020

Annex: Methodology

Supported by:

Federal Ministry for the Environment, Nature Conservation and Nuclear Safety

based on a decision of the German Bundestag

adelphi

ISS ESG

Contents

Methodology part I:
Sustainable equity and the EU Taxonomy

For the **sustainable equity** part of the survey, three different methods of data collection were applied to achieve the survey's obectives: i) an assessment of company activities through ISS ESG, ii) an online questionnaire sent to listed companies in Europe (prepared and analysed by adelphi), and iii) in-depth interviews with a selection of those companies (prepared and conducted by adelphi).

ISS ESG evaluation

Selection of companies

ISS ESG analysed the taxonomy-alignment of 75 companies from three major European indices: EURO STOXX 50 (40 companies), CAC 40 (35 companies) and DAX (28 companies). Out of all the companies which were included in the three indices at any point during the period of analysis (April to July 2020), a selection was made based on the likelihood that a company is active in taxonomy-relevant activities (see step 1 below for a definition of 'taxonomy-relevant'). To identify companies with potentially taxonomy-relevant activities, the ISS ESG team screened ISS ESG's SDG Solutions Assessment, ISS ESG's proprietary and GICS industry classifications, and profile notes including descriptions of companies' business activities. The team then compared those sources to the list of taxonomy-relevant activities included in the final report of the Technical Expert Group on Sustainable Finance (TEG).

A five-step analysis

To determine the degree to which a company is taxonomy-aligned, ISS ESG's taxonomy assessment concept aligns with the five-step analysis outlined by the TEG in its final report (TEG report):

Step 1: Identify relevant activities
Relevant activities are activities which – if they meet the criteria set out in the EU Taxonomy – make a substantial contribution to one of the six EU Taxonomy objectives. In other words, relevant activities are those activities for which the EU Taxonomy defines screening criteria for substantial contribution and "do no significant harm" (DNSH) criteria. The share of the company's revenues generated through taxonomy-relevant activities, broken down by activity, was calculated.

Step 2: Check if substantial contribution criteria are met
For each relevant activity, the EU Taxonomy defines specific substantial contribution criteria which, in addition to DNSH criteria and minimum social safeguards, the activity needs to meet in order to be considered taxonomy-aligned and therefore environmentally sustainable. For each relevant activity a company carred out, compliance with the respective substantial contribution criteria was verified.

Step 3: Check if DNSH criteria are met
For each relevant activity which bears the risk of negatively impacting any of the remaining objectives, the EU Taxonomy defines further DNSH criteria. Compliance with the respective DNSH criteria was verified for each relevant activity a company carried out, including whether the company has been subject to (allegations of) involvement in environmental controversies related to the relevant activities.

Step 4: Check if minimum social safeguards are met
For an activity to be considered taxonomy-aligned, the activity also has to be carried out in compliance with minimum social safeguards. It was verified that the company has not been subject to (allegations of) failing to meet minimum social safeguards in their operation of relevant activities. In addition, companies' due diligence procedures were analysed to determine if they are adequate to prevent breaches of the principles set out in international conventions. Companies with poor due diligence procedures were flagged as being at risk of failing to meet minimum social safeguards.

Step 5: Calculating taxonomy-aligned revenue shares
Based on the previous steps, the respective revenue shares of a company were calculated:
- (i) taxonomy-relevant activities;
- (ii) taxonomy-relevant activities which also meet the substantial contribution criteria;
- (iii) taxonomy-relevant activities which also meet the substantial contribution and DNSH criteria; and
- (iv) taxonomy-aligned activities (i.e., those which meet the above criteria and the minimum social safeguards).

Sources

To carry out taxonomy-alignment checks, ISS ESG draws on a breadth of in-house data sources as listed below. For the survey, where a particular data point was not already available, ISS ESG analysts conducted additional research to complete the analysis.

ISS ESG in-house data sources	
SDG Solutions Assessment	The Sustainable Development Goals Solutions Assessment (SDGA) assesses the positive or negative impact a company's product and service portfolio has towards 15 sustainability objectives (derived from the UN Sustainable Development Goals), which cover the six objectives defined under the EU Taxonomy. In many instances, activities that are relevant under the EU Taxonomy are also captured through SDGA.
ESG Corporate Rating	The Corporate Rating provides highly relevant, material and forward-looking environmental, social and governance data and performance assessments. In many cases, the substantial contribution, DNSH and social safeguard criteria defined under the EU Taxonomy are captured through the Corporate Rating's 800+ mostly industry-specific indicators.
Norm-Based Research	Norm-Based Research provides in-depth assessments of companies' adherence to international norms, allowing ISS ESG to flag companies which do not operate in line with the minimum social safeguards as defined under the EU Taxonomy or which fail to ensure environmental protection thereby causing harm to any of the six EU Taxonomy objectives.
Energy & Extractives Data	ISS ESG's Energy & Extractives Data provides detailed analyses on companies' involvement in the extraction of fossil fuels, and the generation of power from fossil fuel, nuclear and renewable sources, allowing ISS ESG to quantify the revenue companies derive from renewable electricity generation.

Limitations

The analysis is based on a broad range of ISS ESG data as well as desk research of publicly available information, disclosed by the company or retrieved from third parties, and was conducted by experienced ESG analysts. Since company disclosure is not yet aligned with the granular requirements of the EU Taxonomy, it was not always possible to identify conclusive evidence for each of the assessment steps outlined above. In such cases, the degree of alignment was – to the extent possible – approximated. In cases where available information was too sparse to arrive at a reasonable approximation, it was assumed that the company does not comply with the criterion in question.

Several companies analysed in the study were found to derive very marginal shares of revenue from a relevant activity. Activities which were estimated to generate less than one percent of a company's revenue were not analysed. These revenues were included in the calculation of taxonomy-relevant revenue shares but precluded from the calculation of taxonomy-aligned revenue shares.

Online questionnaire

The online questionnaire asked companies listed in the major stock indices in Europe to estimate their activities' alignment with the criteria on climate change mitigation and adaptation developed by the TEG. The questionnaire also aimed to collect the companies' perspectives on the anticipated impacts and challenges of the EU Taxonomy. The online questionnaire was prepared and evaluated by adelphi.

Participants

The questionnaire was e-mailed to a total of 421 companies in Europe. **Table 1** provides an overview of the considered stock indices. Some companies are listed on several indices, which is why the number of invited companies differs from the sum of companies in the included stock indices. The questionnaire was in English.

Stock Index	Country	Number of companies
AEX	Netherlands	25
ATX	Austria	20
BEL 20	Belgium	20
CAC 40	France	40
DAX	Germany	30
FTSE 100	United Kingdom	100
FTSE MIB	Italy	40

Stock Index	Country	Number of companies
IBEX 35	Spain	35
ISEQ Overall	Ireland	46
OMX Copenhagen 20	Denmark	20
OMX Helsinki 25	Finland	25
OMX S30	Sweden	30
WIG 20	Poland	20
EURO STOXX 50	Eurozone	50

Table 1: Overview of the included stock indices [1]

Content of the questionnaire

While 346 of the invited companies received identical questionnaires, 75 financial companies received a slightly different version that included an assessment of financial products. To differentiate between financial and non-financial companies, the questionnaire followed the approach of the TEG report. There financial companies are defined as financial market participants that offer financial products in the EU.[2] For the analysis of results, the results of the financial and non-financial questionnaires were combined when analysing the answers to the questions that were identical in both versions. Questions that were unique to either the financial or non-financial questionnaire were analysed separately.

The questionnaire included the following sections:
1. Introductory questions to the EU Taxonomy
2. Self-assessment of taxonomy-alignment

[1] Because some companies are listed simultaneously on several stock indices, the total number of invited companies is less than the sum of companies in the included stock indices.

[2] Taxonomy: Final report of the Technical Expert Group on Sustainable Finance (March 2020)

3. Total taxonomy-alignment
4. Challenges and opportunities
5. Wrap-up

Although several of the questions were either yes/no/not-applicable or multiple choice, many also contained comment boxes to allow companies to add more information or specify the reasons for lacking information. Sections 2 and 3 of the questionnaire in particular requested companies to provide the percentage of their taxonomy-aligned[3] CapEx (capital expenditures), OpEx (operational expenditures) and turnover. Again, these questions included comment boxes.

Most questions asking for the company's opinion or experience employed the 1-5 Likert scale, designed to reduce ambiguity in answers by providing respondents with a range of values to choose from (e.g. ranging from "1= strongly disagree with the option" to "5= strongly agree with the option"). In order to reduce bias, respondents remained anonymous.

Analysis of response rates to the questionnaire

Out of the 421 companies (346 non-financial, 75 financial) that were sent the questionnaire, a total of 84 companies participated. This equals an overall participation rate of around 20%. To be counted as having participated, a company had to answer at least one question beyond the introductory questions. Of these 84 companies, 74 completed the questionnaire entirely. The completion rate was thus around 18% of the total sample. Out of the 84 participating companies, 13 were financial companies, 11 of which completed the questionnaire. The participation and completion rates for non-financial companies was thus roughly the same as the participation and completion rates for financial companies.

The questionnaire was designed to provide a means to infer general trends and perceived challenges regarding the implementation of the EU Taxonomy. With that purpose in mind, the response rate is considered sufficiently high to indicate trends in the point of view of large, listed companies in Europe. Given the diversity of the participants and the relatively small target group, however, the questionnaire's findings cannot be used to infer information about all large companies in Europe or about different subgroups of the respondents. For example, the data cannot provide conclusions about companies from a particular country or sector.

The following section provides an overview of the respondents by illustrating the key characteristics of the participating companies.

Table 2 displays the distribution of participating companies across the different countries. This sample includes companies listed in all indices under consideration. Companies from France (3), Italy (4), and Spain (4) had comparatively low number of participating companies. One reason for the lower participation could be the intense strain that the Covid-19 crisis put on these countries and consequently their economies. The highest number of participating companies (16) are located in Germany. The high number of German companies may stem from the fact that the questionnaire was conducted on behalf of the German Federal Ministry for the Environment.

[3] Taxonomy-alignment is defined as compliance with the substantial contribution, do-no-significant-harm, and minimum social safeguard criteria of the respective economic acitivity.

Country (headquarters)	**Number of companies**	**Percentage of participating companies**
Austria	4	5%
Belgium	3	4%
Denmark	4	5%
Finland	10	12%
France	3	4%
Germany	16	19%
Ireland	8	10%
Italy	4	5%
Netherlands	4	5%
Poland	5	6%
Spain	4	5%
Sweden	8	10%
United Kingdom	11	13%

Table 2: Distribution of participating companies across countries (headquarters)

Table 3 displays the distribution of participating companies across the different sectors. While the highest number of participating companies (26) conduct at least one manufacturing activity, the sample includes companies for every industry sector currently identified as having taxonomy-relevant economic activities. 16 companies stated that they did not belong to any sector with taxonomy-relevant economic activities in the TEG report. As several companies carry out economic activities in more than one sector, the sum of companies across sectors is higher than the total number of respondents.

Sector	**Number of companies**
Agriculture, forestry and fishing	7
Manufacturing	26
Electricity, gas, steam and air conditioning supply	12
Water supply; sewerage, waste management and remediation activities	2
Construction	4
Transport and storage	9
Information and communication	6
Real estate activities	3
Financial services and insurance	17
Professional, scientific and technical activities	3
None	16

Table 3: Distribution of participating companies across sectors

In-depth interviews

To add additional details and insights to the results obtained from the online questionnaire, in-depth interviews with 25 companies were conducted (24 interviews were conducted with companies that participated in the online questionnaire; one interview was conducted with a company that did not participate in the online questionnaire). The adelphi team aimed to make the sample of interviewed companies as representative as possible and therefore tried to achieve an even distribution of interviewed companies across key industry sectors and countries. As interviews were voluntary, however, an important limitation was the willingness of companies to participate (**Table 4** and **Table 5** provide an overview of interviewed companies' respective locations and industry sectors). More German companies volunteered and contacted adelphi directly than companies from other countries, likely because of the survey's German origin.

Country (headquarters)	**Number of companies**	**Percentage**	**Country** (headquarters)	**Number of companies**	**Percentage**
Austria	1	4%	**Italy**	2	8%
Denmark	1	4%	**Netherlands**	2	8%
Finland	2	8%	**Poland**	1	4%
France	2	8%	**Spain**	2	8%
Germany	8	32%	**Sweden**	1	4%
Ireland	2	8%	**United Kingdom**	1	4%

Table 4: Distribution of interviewees across countries (headquarters)

Sector	**Number of companies**	**Percentage**
Agriculture, forestry and fishing	1	4%
Manufacturing	10	40%
Electricity, gas, steam and air conditioning supply	7	28%
Transport and storage	1	4%
Information and communication	2	8%
Real estate activities	1	4%
Financial services and insurance	3	12%

Table 5: Distribution of interviewees across sectors

The interviews were conducted according to a common interview guideline with the following structure:

1. Introduction and survey background
2. Sustainable finance: the impacts of the EU Taxonomy
3. Using the EU Taxonomy
4. Taxonomy-alignment of the company
5. Support, recommendations and next steps
6. Wrap-up and next steps

While the interview was based on the structure outlined above, it also included follow-up questions and discussions on additional points depending on the answers provided by the interviewee.

Since the results of the interviews are based on conversations with only 25 companies, they should not be considered representative for all listed companies in Europe.

Methodology part II:
Sustainable lending and the EU Taxonomy

In-depth interviews

For the sustainable lending part of the survey, adelphi conducted in-depth interviews with six European banks, namely Banco Santander S.A., BNP Paribas S.A., Commerzbank AG, Deutsche Bank AG, HSBC Holdings plc, and Raiffeisen Bank International AG. The interview partners covered different banking departments (e.g. departments such as Sustainable Finance, Corporate Finance, Commercial Finance, Regulatory Affairs, Strategy & Public Affairs, etc.) in order to allow for a holistic picture of how the EU Taxonomy can be integrated into a bank's day-to-day business and the challenges and limits that may exist. Almost all interview partners were of higher seniority levels (e.g. Director, Head of).

The aim of the interviews was to examine the extent to which the EU Taxonomy had already been applied to interviewed banks' lending activities, and which challenges the banks might have encountered or will potentially encounter when applying the EU Taxonomy to their loan books. The interviews were preceded by a basic analysis conducted by adelphi. The analysis included the examination of major European banks' publicly available documentation and reports (annual reports, lending policies, etc.) with respect to taxonomy-relevant and potentially -aligned lending activities. Rather than aiming to provide conclusive results, this analysis aimed to build a well-informed discussion basis for the interviews. Results of the analysis, which included a section on potential gaps and challenges regarding the application of the EU Taxonomy to lending activities, were shared with banks in advance and/or during the interviews. The results of the preliminary analysis also informed the development of the interview question catalogue. All conducted interviews followed a common interview guideline with the following structure:

1. Introduction and survey background
2. Presentation of results from preliminary analysis, including potential gaps and challenges
3. Question block 1: Current and future application of the EU Taxonomy to lending activities
4. Question block 2: Challenges to and preparedness for the application of the EU Taxonomy
5. Question block 3: Recommendations and the relevance of (inter-)national initiatives
6. Wrap-up and next steps

While the interviews were based on the structure outlined above, they also included follow-up questions and discussions on additional points depending on the answers provided by the interviewee.

Since the results of the interviews are based on conversations with only six banks, they should not be considered representative for the whole banking industry.