

S&P Global SFDR Sustainable Investment Framework

Summary Methodology

Sustainable 1 – November 2023

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Terms and definitions

Term	Definition
Sustainable Finance Disclosure Regulation (SFDR)	The regulatory framework established by the European Union (EU) to promote transparency and sustainability in financial markets. SFDR requires Financial Market Participants (FMPs) to disclose information on how they integrate environmental, social, and governance (ESG) factors into their investment processes and products. Art. 2 (17) of SFDR provides the definition of sustainable investment.
Art. 2 (17)	Art. 2 (17) of SFDR states that “Sustainable investment means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.”
Markets in Financial Instruments Directive II (MiFID II)	The MiFID II regulatory framework governs – inter alia – the provision of investment services, investor protection, and the rules of securities markets in the EU. Under MiFID II investment firms serving clients in the EU are required to inquire about the sustainability preferences of those clients, with reference to the EU Taxonomy Regulation and/or the SFDR.
Financial Market Participants (FMPs)	Entities engaged in financial activities, including investment firms, asset managers, insurance companies, and pension providers, subject to SFDR reporting obligations. FMPs are required to assess and classify their investment products based on their sustainability characteristics using methodologies such as the S&P Global SFDR Sustainable Investment Framework.
Principal Adverse Impacts	As defined by the Sustainable Finance Disclosure Regulation (SFDR), Principal Adverse Impacts (PAIs) refer to the negative environmental or social effects that investment decisions can have. Financial market participants are encouraged under the SFDR to consider and disclose the PAIs of their investment decisions. These impacts are often evaluated based on certain sustainability indicators – the PAI indicators. PAI indicators are a set of mandatory and opt-in indicators and metrics which aim to show financial market participants how certain investments pose sustainability risks.

Introduction and Context

S&P Global SFDR Sustainable Investment Framework (S&P Global SI Framework or Framework) provides an assessment of whether companies may be considered as sustainable investments under S&P Global's interpretation of the sustainable investment definition provided by the EU in Art. 2 (17) SFDR. The methodology addresses the growing need for transparent and standardized assessments of sustainability in financial markets. It provides guidance to FMPs in fulfilling their disclosure reporting obligations under SFDR and helps them meet the sustainability-related aspects of suitability and product governance obligations under the MiFID II.

Data sources and collection

The S&P Global SFDR Sustainable Investment Framework relies on a wide range of reliable and relevant data sources. These include:

S&P Global EU Sustainable Finance Disclosure Regulations: (SFDR): The EU Sustainable Finance Disclosure Regulations (SFDR) provides comprehensive company-level indicators using data from both S&P Global Sustainable1 datasets and external sources to support financial market participants (FMPs) with EU Sustainable Financial Disclosure Regulation (SFDR) reporting. The dataset includes a range of mandatory and opt-in Principal Adverse Impacts (PAIs) across the SFDR categories.

S&P Trucost Paris Alignment: The S&P Global Trucost Paris Alignment dataset assesses company-level alignment with the Paris Agreement goal to limit global warming to well below 2°C from pre-industrial levels. The approach taken by S&P Global Sustainable1 is a transition pathway assessment, which examines the adequacy of emissions reductions over time required in order to meet either a 1.5°C or 2°C carbon budget.

S&P Global ESG Raw Data: The S&P Global ESG Raw Data package provides access to granular sustainability-related data points collected as part of the S&P Global Corporate Sustainability Assessment (CSA) process from public and additional disclosures. The dataset combines company disclosures checked against reliable public sources, media and stakeholder analysis, and in-depth company engagement.

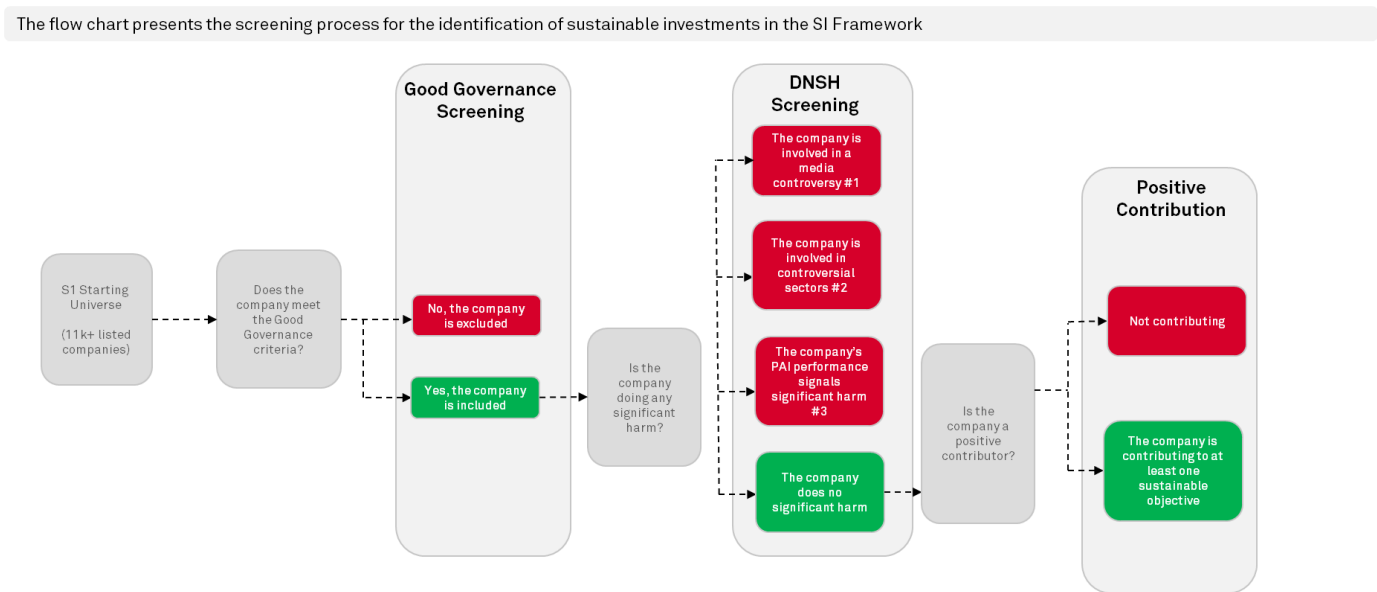
S&P Global Business Involvement Screens: S&P Global Business Involvement Screens are a comprehensive assessment of companies' direct and indirect revenue exposures to specific products and services. The dataset can be used to identify companies that operate in controversial sectors.

S&P Capital IQ Professionals: The S&P Capital IQ Professionals dataset provides data on Gender Diversity on Company Boards and financials (EVIC).

Analytical methods

The S&P Global SFDR Sustainable Investment Framework is built upon the SFDR definition of sustainable investment which includes three key components: (I) Good Governance, (II) Do No significant Harm (DNSH), and (III) Positive Contribution. Please see the Methodology Overview section for more details on three components.

Fig. 1: S&P Global SFDR Sustainable Investment Framework Definitional Building Blocks



The Framework aims to align with the requirements and expressed intent of the SFDR by incorporating data to assess the mandatory PAIs set out in Annex I of the SFDR Regulation Technical Standards (SFDR RTS)¹. The Positive Contribution, DNSH, and Good Governance components are combined into an overarching assessment. Companies must pass the Good Governance and DNSH screens and then make a Positive Contribution to be considered a sustainable investment.

Methodology Overview

The S&P Global SFDR Sustainable Investment Framework is built on three building blocks:

- **Good Governance:** The SFDR definition of Good Governance does not provide an exhaustive nor granular list of criteria for the consideration of good corporate governance. As such, and in the absence of more granular requirements, the Framework focuses on the dimensions explicitly cited in the Article 2 (17) definition and

¹ Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022.

assesses Good Governance according to three criteria, all of which must be met for a company to pass the screening. A company exhibiting good governance must:

- Have a comprehensive code of conduct that includes policies related to the UNGC principles (e.g., anti-bribery, discrimination, health and safety, anti-corruption, environment) or be a signatory to the UNGC principles.
 - Show no evidence of involvement in major MSA cases related to employee relations and remuneration.
 - Show no evidence of major MSA cases related to tax compliance.
- **Do No Significant Harm (DNSH):** The S&P Global SFDR Sustainable Investment Framework's assessment of 'significant harm' considers the list of mandatory corporate PAI indicators and the identification of activities that harm the sustainable objectives, as outlined in the EU Taxonomy Regulation² and through the Final Report on Social Taxonomy³. To assess DNSH, the Framework applies four screens:
 - **Media Controversies Screening:** Companies are assessed by the S1 Sustainability Research Team for ongoing controversies that are related to issues affecting environmental and social sustainable objectives (including governance such as tax avoidance and employee relations) and contradict a company's own stated policies and procedures on sustainability.
 - **Controversial Business Involvement Screening:** Evaluates if a company is involved above a reasonable revenue threshold in contentious industries or activities that may pose significant sustainability risks.
 - **Mandatory Intensity PAI Screening:** Based on the SFDR corporate mandatory PAIs (PAI 1, 8 and 9), companies are assessed on their emissions intensities (Greenhouse Gases, Hazardous Waste and Water Pollutants per USD 1 million of revenues or EVIC value depending on the type of emission) to screen out the largest emitting companies.
 - **Board Gender Diversity PAI Screening:** Companies with a total of six or fewer board members automatically pass the Board Diversity Screening, regardless of the number of female board members. Companies with more than six board members need at least one female member to pass the test.

Companies must pass all four DNSH screens to be eligible for consideration as a sustainable investment.

- **Positive Contribution:** The positive contribution assessment focuses on identifying companies that contribute to the EU sustainable objectives either through substantial involvement in business activities that support a sustainability objective, or through strong performance in sustainability practice.
 - **S&P Global's SFDR Sector Mapping:** S&P Global Sustainable1 tracks the share of revenues generated by 21,000+ publicly listed companies across 464 discrete business activities or economic sectors. From this list of business activities, 49 were identified as having a direct or indirect material and predominant positive impact on one or more of the social and environmental objectives. This includes business activities related to low carbon energy, education, and healthcare.

² Regulation (Eu) 2020/852 of The European Parliament And Of The Council, June 2020, https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

³ Platform on Sustainable Finance, Final Report on Social Taxonomy, February 2022, https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/28_0222-sustainable-finance-platform-finance-report-social-taxonomy.pdf

- **Sustainability Data Assessment:** For this assessment, seven sustainability-related questions were selected from S&P Global's Corporate Sustainability Assessment (CSA) where responses identify whether a company has adopted sustainability policies, programs or reporting, and whether these practices are contributing to the achievement of a sustainable objective. These questions reflect issues that are material to the specific industry a company operates in. In addition, S&P Global Sustainable1 has used S&P Global's Trucost Paris Alignment dataset for emissions and identified those companies in high-impact climate sectors that are aligned with the Paris Agreement goal of keeping the average increase in temperature below 2 degrees by 2100.

Companies passing all the three assessments are considered as sustainable investment.

Monitoring and review

The S&P Global SFDR Sustainable Investment Framework undergoes continuous monitoring and review to ensure its relevance for the markets. Feedback from investors, financial institutions, and other market stakeholders is actively sought to help us evolve the methodology's relevance and alignment with rapidly changing sustainability standards. Regular assessments are conducted to evaluate the methodology's performance, address potential biases or limitations, and identify opportunities for improvement.

In addition, the S1 conducts validation and statistical testing to demonstrate that on a larger scale, companies that are considered sustainable investments ('SI companies') have better sustainability-related performance than companies that are not considered sustainable investments (non-SI companies) across a broad range of sustainability issues. This outcome confirms that the S&P Global SFDR Sustainable Investment Framework is a holistic assessment that can be applied across broad sustainability criteria. In other words, these tests guarantee an external validity of the results when they are applied to other sustainability areas / issues not considered directly in the components of the Framework itself.

Assumptions and Limitations

Assumptions

The S&P Global SFDR Sustainable Investment Framework is based on a set of guiding principles that align with the SFDR sustainable investment definition. These principles include:

- **Regulatory Alignment:** The Framework aims to closely adhere to the definition outlined in the SFDR, including based on published Q&As, clarification, and guidance documents provided by the relevant authorities in the EU.
- **Conservative Approach:** In the absence of actual data or appropriate estimates to assess a company's alignment with the components deemed mandatory by the DNSH principle under the Framework, the company is not considered a sustainable investment.
- **Consistent Approach:** The Framework applies the same approach to assess companies against the components of the Framework regardless of their size, geography, or sector.
- **Emphasis on Outcomes:** When assessing a company's positive contribution to the sustainability objectives, the Framework relies on data that documents actual company sustainability outcomes, rather than relying solely on sustainability policy availability or derivative scores based on policy availability.
- **Validation:** The Framework is validated using statistical analysis to help ensure companies that are identified by the Framework as meeting the definition of a sustainable investment under SFDR perform better across a broad range of sustainability criteria than companies that are not identified as meeting the definition of sustainable investment.
- **Flexibility:** The Framework can be used in its entirety or specific elements can be utilized independently depending on a user's requirements. For example, one component of the Framework could be utilized in conjunction with other criteria and/or data sources if desired.

Limitations

The S&P Global SFDR Sustainable Investment Framework is intended to help communicate S&P Global's view on criteria that can be used to help assess whether a company's activities are consistent with a sustainable investment under SFDR. While the SFDR does not apply directly to S&P Global or its affiliates, the S&P Global SFDR Sustainable Investment Framework shares S&P Global's internal evaluation of relevant criteria. It should be emphasized that the tests for sustainable investments, and the broader tests for categorizing products under Article 8 or Article 9 of SFDR (including the good governance test) are unclear and require the exercise of judgement, especially in the absence of well-defined market standards and due to the existence of multitude approaches to ESG investment. Accordingly different persons may classify the same investment, product and/or strategy differently under SFDR. S&P Global has exercised discretion (where appropriate) in assessing relevant criteria against the definition of a sustainable investment under SFDR and its assessment may differ from your own assessment, methodologies, and conclusions and/or those of third parties, including regulatory bodies. Where the S&P Global SFDR Sustainable Investment Framework relies on actual company data and/or estimates, this may be incomplete or erroneous. Neither S&P Global nor its affiliates provide any assurance or guarantee that the use of the S&P Global SFDR Sustainable Investment Framework will in fact be sufficient or appropriate to create a sustainable investment, an Article 8 or Article 9 product under SFDR. The information is provided "as is" and does not constitute legal advice. The information in this document is not a substitute for your own internal analysis with respect to SFDR and S&P Global and its affiliates shall have no liability or responsibility regarding your use of the S&P Global SFDR Sustainable Investment Framework in the design, manufacture, validation, measurement, and/or promotion of your Article 8 or Article 9 products. All information provided by S&P Global and its affiliates in this document is impersonal and not tailored to the needs of any person, entity, or group of persons. It is not intended to be, and should not be relied on as, investment, tax, legal, or accounting advice and you should consult your own advisors before engaging in any transaction or making any decision relating to the use or classification of the S&P Global SFDR Sustainable Investment Framework.

Maintenance/updates

The dataset is updated on a quarterly basis to align data delivery with the regulatory disclosure requirements.

Related Documentation/ References/Annexes

S&P Global SFDR Sustainable Investment Framework **FAQ**: the document provides answers to common questions about how S&P Global approaches sustainable investment definition within the context of EU regulations, the application of the dataset, coverage, underlying dataset and how to access the data solution.

S&P Global SFDR Sustainable Investment Framework **Data Dictionary**: the document provides details about the data elements that are used within the S&P Global SFDR Sustainable Investment Framework. This could include definitions, formats, permissible values that are relevant to the Framework.

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