

Breaking Down the Basics EU Taxonomy Green Revenues Eligibility



Lea Mayer February 14, 2024

What is the EU Taxonomy?

In July 2020, the European Union (EU) began development on the EU Taxonomy¹, a first-of-its-kind sustainable business classification system that aims to standardize for the investment community what qualifies as an investment in a sustainable business. The EU Taxonomy is a key component of the Sustainable Financial Disclosure Regulation (SFDR), which aims to govern sustainability labeling for financial products and services marketed in the EU. The EU Taxonomy will serve as a common language and reliable benchmark for measuring the sustainability of investments.

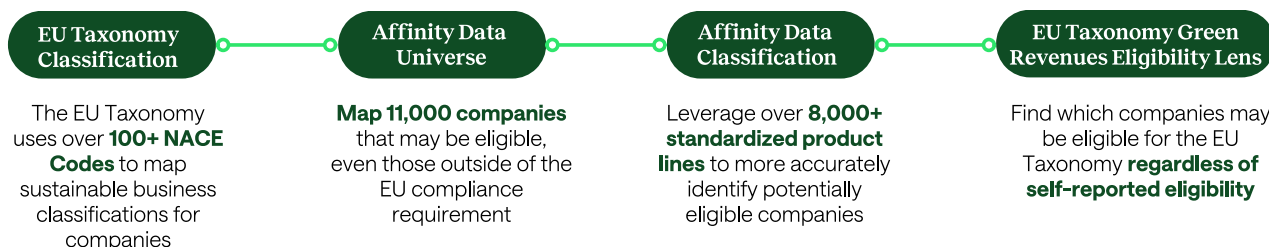
Syntax's Data Edge

Syntax's Functional Information system (FIS) captures the attributes of a company's business model and its underlying product lines for over 11,000 public companies. Companies can employ different business models for their various product lines. With FIS, one company can be associated with multiple product lines, and particular industry groups based on the attributes of their product lines (e.g., Amazon with its Marketplace, Prime Video, Amazon Web Services, Amazon Ads, and Whole Foods product lines). Similarly, using product lines, we can determine whether a company qualifies for our EU Taxonomy Green Revenues Eligibility lens, allowing us to query the companies that are eligible for inclusion within the Climate Change Mitigation and Climate Change Adaptation objectives. Critically, this approach is not dependent on self-reported company eligibility, which allows us to both mitigate bias in self-reported data and see the EU Taxonomy revenue eligibility for companies that do not have EU

reporting requirements.

Syntax's EU Taxonomy Green Revenues Eligibility Lens

Syntax's Green Revenues Eligibility lens provides clients with precision eligibility based on a company's revenue-generating activities as they relate to the descriptions created by the EU Commission. Syntax's FIS technology enables us to take full-stock of potentially-aligned activities at scale. It's critical to note that eligibility is just a first step to determine which activities will be able to report alignment to the EU Taxonomy. To be considered aligned with the EU Taxonomy, a company must also adhere to several environmental and social criteria. Our process for identifying and mapping company eligibility is depicted in the visual below.



From 0% Innovation to 100% Action

The EU Taxonomy's eligible activities include early stage advancements in the clean energy space, ranging from landfill gas capture to the storage of thermal energy. Because few public companies are engaged in such activities, the universe is small, but not empty. The precision of Syntax's Green Revenue Eligibility lens enables us to capture companies that have little to no revenue exposure to these primitive activities. The lens enables Syntax clients to gain insight into companies that indicate future revenue-generating products that are tilted towards sustainability and a carbon-neutral future.

Let's take the hydrogen sector as an example. Unsurprisingly, the hydrogen sector has become a focal point of the transition from fossil fuels to renewable energy. The benefits are promising, including decreasing 'curtailing,' which describes the loss of excess energy due to the inability to store it, and decreasing 'intermittency,' which describes the inconsistent availability of renewable energy sources like wind and solar. The EU Commission has explicitly adopted investments in hydrogen, not only in the EU Taxonomy, but also in its Strategy on Hydrogen² to achieve a carbon-neutral Europe.

Below are a couple of examples of eligible activities based on the EU Taxonomy's

descriptions for both the ‘Storage of hydrogen’ and the ‘Manufacture of equipment for the production and use of hydrogen.’

Example Sustainable Activity: Storage of hydrogen

Description: Construction and operation of facilities that store hydrogen and return it at a later time. The economic activities in this category have no dedicated NACE code in accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006.³

Syntax’s Green Revenue Eligibility Lens: The storage of hydrogen is a relatively premature concept, with only a few players in the field. This is clearly reflected by having no NACE code tethered to this activity. Because of a lack of having a NACE code, companies might unconsciously state that they are not eligible for this activity, given that their mapping relies heavily on NACE. Yet, Syntax’s approach captures the product line Hydrogen Terminals, an essential feature for storing hydrogen that clearly meets the EU-defined eligibility rules.

Example Sustainable Activity: Manufacture of equipment for the production and use of hydrogen

Description: Manufacture of equipment for the production and use of hydrogen. The economic activities in this category could be associated with several NACE codes, in particular C25, C27, C28, in accordance with the statistical classification of economic activities established by Regulation (EC) No 1893/2006.⁴

Syntax’s Green Revenue Eligibility Lens: Similar to the storage of hydrogen, there is a technology barrier for utilizing hydrogen as an energy source. Valves, cylinders, tanks, and compressors, are among the requisite items needed for the hydrogen scale-up. Syntax’s lens is able to capture products that are enabling the use and deployment of hydrogen, sourcing data from companies embarking on the earliest stages of hydrogen use within their supply chains.

The Broader Issues At Large and How Syntax Can Help

The developing nature of the EU Taxonomy is contributing to extensive growing pains across industries. Companies are struggling with the nuances of reporting and are struggling to identify opportunities to become eligible and aligned. Syntax is uniquely positioned to help ensure that eligibility is clearly captured by swiftly identifying participants across the entire supply chain, from the most upstream miners, to the most downstream warehouses storing products.

Following the establishment of the EU Taxonomy, dozens of countries have begun to develop their own sustainable reporting goals and initiatives. Australia, Colombia, Mexico, and Thailand are among the countries that have launched or are close to launching green taxonomies. There is no doubt that reporting is ramping up. The question is: how effectively can companies conduct their eligibility and alignment requirements?

Investors need greater transparency on how effectively the companies they currently invest in or are looking to invest in are executing their green goals. Companies can utilize the EU Taxonomy to showcase how they are contributing to both the low-carbon economy and the overall green transition. This insight will empower investors to better understand how companies are contributing, set expectations, and drive investment decisions accordingly.

¹ https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0301>

³ <https://ec.europa.eu/sustainable-finance-taxonomy/activities/activity/298/view>

⁴ <https://ec.europa.eu/sustainable-finance-taxonomy/activities/activity/267/view>

About Syntax

Syntax LLC is a financial data and technology company that codifies business models. Syntax operates through three segments: Company Data, Wealth Technology, and Financial Indices. Using its patented FIS® technology inspired by systems sciences, the Company Data segment offers the most comprehensive, granular, and accurate product line revenue data available on the market. The Wealth Technology segment then uses this abundance of data to facilitate the instantaneous creation and ongoing management of direct indexing solutions and rules-based equity portfolios through a fully automated platform. The Financial Indices segment enables Syntax to deliver customized and proprietary indices, including core global benchmarks and micro- and macro-thematic, smart beta, defined outcome, and target volatility indices. These indices are foundational for a range of financial products, such as ETFs, UITs, and structured products. Learn more at www.syntaxdata.com.

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