

## Concept of estimates across the EU Sustainable Finance framework

### 1 Introduction

1. The purpose of this document is to explain how key Sustainable Finance ('SF') legislation deal with the use of 'estimates' and 'equivalent information' and the conditions under which these are allowed as sources of data to prepare mandatory ESG metrics for the compliance of regulated entities with their obligations. Different pieces of the EU SF framework impose requirements for the calculation and /or disclosure of various ESG metrics or sustainability indicators by Financial Market Participants ('FMPs'). Such disclosures and/or calculations<sup>1</sup> play a key role in the Taxonomy Regulation ('TR'), the Sustainable Finance Disclosure Regulation ('SFDR')<sup>2</sup> and the Benchmark Regulation ('BMR').
2. This document is intended as an aide to stakeholders to navigate the key elements concerning estimates and equivalent information under SFDR, BMR and the TR. It is a purely factual presentation of the relevant legal provisions in EU Directives, Regulations and Commission Delegated Regulations and the relevant guidance provided by the European Commission ('Commission') and the European Supervisory Authorities ('ESAs')<sup>3</sup>.
3. This document does not add to, interpret or replace the relevant legal texts and has no legal effect. ESMA does not assume any liability for its contents. Readers are advised to always refer directly to the relevant legislation. **This document does not provide guidance on the application of relevant rules and should not be construed as such.**
4. The section that follows describes the situations where the concepts of estimates and equivalent information may be applied under TR, SFDR and BMR.

## 2 The concept of estimates under the EU Taxonomy, SFDR and BMR

### 2.1 Taxonomy Regulation

5. The TR recognises in a Recital<sup>4</sup> that there could be exceptional situations where stakeholders cannot reasonably obtain the relevant information to reliably determine the alignment with the technical screening criteria ('TSC'). For instance, this could be the case

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<sup>1</sup> These disclosures will be referred to as ESG metrics or ESG indicators for the purpose of this document.

<sup>2</sup> Please note that the ESAs have consulted in their Consultation Paper on the review of the SFDR Delegated Regulation (Ref.: [JC 2023 09](#) | 12 April 2023) on changing the term "equivalent information" from Article 17(2)(b) of the SFDR Delegated Regulation to "estimates" to bring this in line with other legislation. Depending on the outcome of that consultation, the term "equivalent information" may no longer be distinguished from the term "estimates" in the future.

<sup>3</sup> The European Supervisory Authorities are EBA, EIOPA and ESMA.

<sup>4</sup> Recital 21 of [Regulation \(EU\) 2020/852](#) (TR).

of economic activities carried out by entities that are not subject to the NFRD/CSRD<sup>5</sup> reporting. In those cases, stakeholders should be allowed to use information from other sources to make complementary assessments. The use of estimates that would relate to limited and specific parts of the data elements and produce a prudent outcome should also be allowed. The basis for their conclusions and the reasons for such complementary assessments and estimates should be clearly explained to ensure that the disclosure to investors is clear and not misleading.

6. The application of this principle is further elaborated in the Disclosures Delegated Act<sup>6</sup> which specifies that financial undertakings may use estimates to assess Taxonomy-alignment of their exposures in third-country investee companies, except with regards to the Do No Significant Harm ('DNSH') criteria. In this case, however, financial undertakings should make public the methodology on which those estimates were based and also disclose the proportion of their Taxonomy-aligned exposures that are based on estimates, the measures taken and the period of time necessary to demonstrate compliance with the DNSH criteria.
7. A Commission FAQ<sup>7</sup> explains that if information is not readily or publicly available (for instance because different undertakings report their annual accounts at different points throughout the fiscal year), financial undertakings are encouraged to contact their underlying entities that fall under the scope of the NFRD. Financial undertakings could use either voluntary disclosures or bilateral exchanges with their underlying investees or counterparties to provide Taxonomy-related information. In addition, financial undertakings could choose to estimate their eligibility disclosures and report the information voluntarily. However, this voluntary reporting should be disclosed separately from their mandatory disclosures under the Disclosures Delegated Act ('DA'). Another Commission FAQ<sup>8</sup> clarifies that such voluntary reporting should not contradict or misrepresent mandatory information under the Disclosures DA, neither should it be more prominent than mandatory disclosures. If an undertaking includes voluntary reporting, it should add supporting detail to it setting out the basis for this disclosure, the methods used for its preparation, and a clear explanation of how it differs from mandatory reporting.

## 2.2 Sustainable Finance Disclosure Regulation (SFDR)

8. Commission Delegated Regulation ('CDR') 2022/1288<sup>9</sup> states that for the purpose of financial products' disclosure of the extent of taxonomy-aligned investments, FMPs should

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<sup>5</sup> NFRD ([2014/95/EU](#)) is the Non-financial Reporting Directive and CSRD is the Corporate Sustainability Reporting Directive ([2022/2464/EU](#)) which amends and updates the NFRD.

<sup>6</sup> Article 7, [Commission Delegated Regulation \(EU\) 2021/2178](#) (Disclosures DA).

<sup>7</sup> FAQ 20, [Commission Notice on the interpretation of certain legal provisions of the Taxonomy Regulation Article 8 Disclosures Delegated Act on the reporting of eligible economic activities and assets](#), February 2022.

<sup>8</sup> FAQ 7, [Commission Notice on the interpretation of certain legal provisions of the Taxonomy Regulation Article 8 Disclosures Delegated Act on the reporting of eligible economic activities and assets](#), February 2022.

<sup>9</sup> Recital 35, [CDR 2022/1288](#).

primarily rely on the publicly reported information from investee companies' Article 8 TR disclosures. Where information is not readily available from public disclosures by investee companies, FMPs should explain details about whether they obtained 'equivalent information' directly from investee companies or from third party providers. The notion of 'equivalent information' in SFDR is explicitly linked to disclosures in relation to investments in economic activities that are environmentally sustainable (i.e. "taxonomy-aligned")<sup>10</sup>.

9. Moreover, the SFDR framework recognises that some of the data points for the entity-level disclosure of Principal Adverse Impacts ('PAI') of investment decisions on sustainability factors under Article 4 SFDR and Annex I of the SFDR Delegated Regulation may require the use of estimates. The ESAs<sup>11</sup> clarify that it would be good practice for FMPs to disclose for each PAI indicator<sup>12</sup> the proportion of investments for which data was obtained directly from investee companies and the proportion of investments for which data was obtained by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions<sup>13</sup>.
10. The ESAs acknowledge the challenges for FMPs to obtain data<sup>14</sup>, and point out that the ESG information chain is developing. Both FMPs and regulators may have to rely on limited available data during the period before the application of the CSRD.
11. In another Q&A, the ESAs also note<sup>15</sup> that when Taxonomy alignment of investments is based on 'equivalent information' from investee companies or third-party providers, FMPs should clearly explain the basis for their conclusions as well as the reasons for having to make such complementary assessments and estimates for the purposes of disclosure to end investors. The ESAs explain that once the EU Taxonomy reporting on the Taxonomy-aligned activities of non-financial undertakings (from January 2023) and financial undertakings (from January 2024) starts, the disclosure of Taxonomy-aligned investments is expected to become more straightforward.
12. As regards the practical application of the notion of 'equivalent information', the ESAs<sup>16</sup> provided guidance to explain that for the evaluation of 'equivalent information' the starting point should be information that provides the same content and level of granularity as the reporting under the EU Taxonomy. Therefore, equivalent information should meet these basic principles:
  - Equivalent information should only apply to economic activities covered in the EU Taxonomy;

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<sup>10</sup> Articles 15(1)(b), 15(3)(b), 17(2)(b), 19(1)(b) and 193 CDR 2022/1288.

<sup>11</sup> Q&A IV.5, [Consolidated questions and answers on the SFDR and the CDR 2022/1288](#).

<sup>12</sup> This information should be provided as part of the disclosures required by Article 7(1)(e) of the Delegated Regulation and for each PAI considered by the FMP.

<sup>13</sup> This may become more than good practice, as the ESAs have proposed mandating this disclosure in the the JC Consultation Paper on the review of the SFDR Delegated Regulation regarding PAI and financial product disclosures (Ref.: [JC 2023 09](#) | 12 April 2023), see Question 11 on page 13.

<sup>14</sup> Q&A VII.6, , [Consolidated questions and answers on the SFDR and the CDR 2022/1288](#).

<sup>15</sup> Idem Q&A VII.10.

<sup>16</sup> Idem Q&A VII.11.

- The assessment of the substantial contribution of an economic activity should rely on actual information, subject to the limited circumstances described by the European Commission in Question VII.1<sup>17</sup>; and
  - While it should be possible to use estimates to assess the DNSH based on equivalent information, controversy-based approaches<sup>18</sup> should be discouraged and considered insufficient<sup>19</sup>.
13. Moreover, in order to address potential data gaps for companies which either are not in scope or do not yet report under the CSRD/TR the Commission clarified that the use of complementary assessments and estimates for such companies is permitted<sup>20</sup>. The use of estimates is only permitted where FMPs cannot reasonably access information about economic activities carried out by those undertakings. The Commission explains that in exceptional cases and only for economic activities for which complete, reliable and timely information could not be obtained, FMPs are allowed to make complementary assessments and estimates on the basis of information from other sources. The reasons for these assessments and estimates and the basis for their conclusions should be clearly explained. These estimates should relate to limited and specific parts of the data and produce a prudent outcome.
14. In addition, the Commission will assess the feasibility to issue guidance to stakeholders on how to construct robust and reliable Taxonomy estimates<sup>21</sup>.

### 2.3 Benchmarks Regulation (BMR)

15. The BMR requires benchmark administrators to explain in the benchmark statement how ESG factors are reflected in each benchmark / family of benchmarks<sup>22</sup>. In the explanation provided, benchmark administrators should include a reference to the sources of data and standards used for the ESG factors disclosed<sup>23</sup>. The relevant template<sup>24</sup> that benchmark administrators should use for such explanations explicitly requires disclosures on data sources and whether and to what extent data are estimated or reported. ESMA in a relevant

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<sup>17</sup> [Consolidated questions and answers on the SFDR and the CDR 2022/1288](#).

<sup>18</sup> Q&A VII.12 clarifies the meaning of controversy-based approaches, which relate to data sets referred to as media-based “environmental controversies” and are typically entity-level assessments of a company to a common environmental baseline.

<sup>19</sup> Idem Q&A VII.11. It is also worth noting that the ESAs have asked stakeholders for views regarding some criteria for estimates in the JC Consultation Paper on the review of the SFDR Delegated Regulation regarding PAI and financial product disclosures (Ref.: [JC 2023 09](#) | 12 April 2023) see Questions 36 - 37 on page 33.

<sup>20</sup> Idem Q&A VII.1.

<sup>21</sup> Commission Staff Working Document, [Enhancing the usability of the EU Taxonomy and the overall EU SF framework](#) Measure 4, page 18 (Ref.: SWD(2023) 209 final | 13.6.2023).

<sup>22</sup> This obligation does not apply to benchmarks which do not have underlying assets that have an impact on climate change such as interest rate benchmarks and foreign exchange benchmarks.

<sup>23</sup> Article 2(5), [CDR 2020/1816](#).

<sup>24</sup> Annex I, CDR 2020/1816.

Q&A<sup>25</sup> explains that while CDR 2020/1816 leaves flexibility and does not specify the methodology for the calculation of ESG factors, it nevertheless requires disclosure on the standards and the source of data used. ESMA, furthermore, specifies that these standards could include, inter alia, the main assumptions and the precautionary principles underlying the estimations; and the percentage of reported vs. estimated data used for the calculation.

16. In addition, administrators of EU Climate Transition Benchmarks ('CTBs') and EU Paris-aligned Benchmarks ('PABs') are required to disclose the research methodology to estimate missing, unreported, or underreported greenhouse gas ('GHG') emissions<sup>26</sup>.

## 2.4 Overview of the concepts of estimates and equivalent information

17. The following table aims at providing a comparative overview of the concepts of equivalent information and estimates under the SF framework.

	<b>Taxonomy Regulation (TR)</b>	<b>Sustainable Finance Disclosures Regulation (SFDR)</b>	<b>Benchmarks Regulation (BMR)</b>
<b>Which stakeholders may apply the concept of estimates / equivalent information?</b>	The concept of 'estimates' is applied by financial undertakings which are required to publish a non-financial statement.	FMPs that fall within scope of the SFDR <sup>27</sup> may apply the concepts of 'equivalent information' and estimates in specific situations.  Equivalent information is data received directly from investee companies or third parties in relation to investments in economic activities that are environmentally sustainable <sup>28</sup> .  Estimates relate to data on PAI indicators that were obtained by carrying out additional research, cooperating	The concept of estimates is relevant for benchmark administrators, including administrators of EU Climate Transition Benchmarks ('CTBs') and EU Paris-aligned Benchmarks ('PABs').

<sup>25</sup> Q&A 10.10, [ESMA Q&A document on the Benchmarks Regulation \(BMR\)](#) (Ref.: ESMA70-145-114 | 31 March 2023).

<sup>26</sup> Article 13, [CDR 2020/1818](#).

<sup>27</sup> Article 2(1) SFDR sets out a list of FMPs.

<sup>28</sup> Articles 15(1)(b), 15(3)(b), 17(2)(b), 19(1)(b) and 19(3)(b) CDR 2022/1288.

		with third party data providers or external experts or making reasonable assumptions.	
<b>In which situations may these concepts be applied?</b>	<p>The use of estimates is possible in the following situations:</p> <p>a) For the purpose of assessing Taxonomy-alignment of exposures in third-country investee companies except for the DNSH criteria.</p> <p>b) To assess taxonomy eligibility of financial undertakings and report the information voluntarily<sup>29</sup>.</p>	<p>The use of ‘equivalent information’ is permitted where publicly reported data concerning exposures to non-NFRD/CSRD investee companies is unavailable. In these cases, FMPs are allowed to use ‘equivalent information’, i.e. data that have been obtained either directly from investee companies, or from third parties.</p> <p>The use of estimates is permitted where some data points for the PAI indicators require the use of estimates.</p> <p>Also, for investee companies that either are not in scope or do not yet report under the CSRD/TR framework the use of complementary assessments and estimates is permitted<sup>30</sup>.</p>	Benchmark administrators are required to disclose the data sources used and whether data is estimated or reported.
<b>Does the framework contain specific requirements</b>	The use of estimates is related to voluntary reporting, which should be disclosed separately from mandatory	In Q&A VII.11 the ESAs explain the basic principles that should be met when the concept of	With regards to the methodology for the calculation of ESG factors, administrators should disclose the

<sup>29</sup> Commission FAQ 7, [Commission Notice on the interpretation of certain legal provisions of the Taxonomy Regulation Article 8 Disclosures Delegated Act on the reporting of eligible economic activities and assets](#), February 2022.

<sup>30</sup> Q&A VII.1 [Consolidated questions and answers on the SFDR and the CDR 2022/1288](#).

<p><b>for the situations when these concepts can be applied?</b></p>	<p>disclosures. Such voluntary reporting should not contradict or misrepresent mandatory information and it should not be more prominent than mandatory disclosures. Supporting detail should be added to set out the basis for this disclosure, the methods used for its preparation, and a clear explanation of how it differs from mandatory reporting.</p>	<p>‘equivalent information’ is applied.</p> <p>Moreover, as a good practice<sup>31</sup> it is recommended for FMPs to disclose for each PAI indicator<sup>32</sup> the proportion of investments for which data was obtained by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions.</p> <p>Lastly, the Commission FAQ<sup>33</sup> explains when using complementary assessments and estimates FMPs should clearly explain the reasons for such assessments and estimates and the basis for their conclusions. These estimates should relate to limited and specific parts of the data and produce a prudent outcome.</p>	<p>standards and the source of data used. These standards could include, inter alia, the main assumptions and the precautionary principles underlying the estimations; and the percentage of reported vs estimated data used for the calculation<sup>34</sup>.</p> <p>For administrators of EU CTBs and EU PABs there is a requirement to disclose the research methodology to estimate missing, unreported, or underreported GHG emissions<sup>35</sup>.</p>
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<sup>31</sup> Idem, Q&A IV.5.

<sup>32</sup> This information should be provided as part of as part of the disclosures required by Article 7(1)(e) of the Delegated Regulation and for each PAI considered by the FMP.

<sup>33</sup> Q&A VII.1 [Consolidated questions and answers on the SFDR and the CDR 2022/1288](#).

<sup>34</sup> Q&A 10.10, [ESMA Q&A document on the Benchmarks Regulation \(BMR\)](#) (Ref.: ESMA70-145-114 | 31 March 2023).

<sup>35</sup> Article 13, [CDR 2020/1818](#).