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Sustainability preferences | Clarksons Securities AS

This document sets out the Information about sustainability preferences incurred by the services offered by Clarksons Securities AS.



This document is last updated November 2023.

1 Sustainability preferences

In light of EU's ambition to steer flow of funds towards entities and activities considered "green" (according to EU definitions), and following the EU Action Plan on Financing Sustainable Growth, Clarksons Securities AS ("**CS**" or the «**Company**») is required to integrate clients' sustainability preferences in investment advice to clients.

Sustainability preferences are based on a set of ESG (Environmental, Social and Governance) criteria, and are legally defined as whether and/or to what extent a client want its investments or investment advice directed towards financial instruments/products that

- i. Are environmentally sustainable as defined by the EU Taxonomy,
- ii. Are sustainable with a particular emphasis on environmental, social, and corporate governance conditions (ESG) as defined by the SFDR, and/or
- iii. Consider Principal Adverse Impacts on sustainability factor (PAIs).

For clients of CS, it is voluntary to state its sustainability preferences. If a client does not have sustainability preferences, CS will consider its sustainability preference to be neutral. This means that investment advice may include both financial instruments and products that are considered sustainable according to EU definitions, and financial instruments and products that does not meet these requirements.

2 The EU Taxonomy

The EU Taxonomy is a legal classification system for sustainable activities that translates the EU's climate and environmental objectives into economic activities for investment purposes. According to the Taxonomy, environmentally sustainable investments are investments in financial instruments issued by a company with an economic activity that meet the following four conditions:

1. The economic activity must contribute substantially to at least one of the following environmental objectives:
 - a. Climate change mitigation
 - b. Climate change adaptation
 - c. Sustainable use and protection of water and marine resources
 - d. Transition to a circular economy
 - e. Pollution prevention and control
 - f. Protection and restoration of biodiversity and ecosystems

2. The economic activity must cause no significant harm to any of the other environmental objectives.
3. The economic activity must be carried out in accordance with minimum social and corporate governance requirements (ESG safeguards).
4. The economic activity must meet technical screening requirements set out by the EU Taxonomy.

As illustrated above, an economic activity classified as environmentally sustainable by the Taxonomy must substantially contribute to one of the environmental objectives, while at the same time, not negatively impact any of the other specified objectives. E.g., an activity that contributes to the mitigation of climate change but negatively impacts marine resources will not be considered environmentally sustainable.

The EU Taxonomy is an ever-evolving document and is continuously updated. This means that not all activities that can make a substantial contribution to the environmental objectives are yet part of the EU Taxonomy. Furthermore, economic activities that are not recognized by the EU Taxonomy as substantially contributing to one of the EU's climate and environmental objectives, are not necessarily environmentally harmful or unsustainable.

3 Sustainable Finance Disclosure Regulation (SFDR)

The SFDR is a European regulation introduced to improve transparency in the market and is one of the key initiatives designed to help achieve the climate neutrality goal of the European "Green Deal" by 2050. The SFDR's primary goals are to "integrate sustainability considerations into the financial system" and "steer the flow of capital toward sustainable investments". It was also introduced to prevent greenwashing and increase transparency around sustainability claims made by financial market participants.

The SFDR defines minimum content that financial market participants (banks, insurers and asset managers) need to disclose in relation to the integration of sustainability risks and the promotion of ESG characteristic in any investment decision taken or investment advice provided.

The EU SFDR definition of sustainable investments are broader and accommodates investments outside the EU Taxonomy definition. Sustainable investments according to the SFDR are investments in financial products with a particular emphasis on environmental, social, and corporate governance conditions (ESG) and must meet the following three criteria:

- I. The economic activity must contribute to an environmental objective (e.g., mitigate climate change) and/or a social objective (e.g., promote human rights). The company must substantiate the contribution using Key Performance Indicators (KPIs).
- II. The economic activity must do no significant harm to any other environmental and/or social objective. The company must substantiate this by using sustainability indicators used for PAI reporting.
- III. The investee company must follow good governance practices (particularly with respect to sound management structures, employee relations, remuneration of staff, and tax compliance).

4 Principal Adverse Impacts (PAIs)

Principal Adverse Impacts ("PAIs") consider the potential negative material effect investments may have on a wider range of environmental and social conditions, regardless of financial impact. The PAI indicators are a set of mandatory indicators and metrics which aim to show financial market participants how certain investments pose sustainability risks. The majority of these apply to companies, although some of them as specific indicators for sovereigns/supranationals or for real estate issuers.

Companies and issuers will need to report PAI data in their annual reports. Here, companies must assess what negative impacts the company's operations may have on sustainability factors, and verify this by utilizing, analyzing, and ranking a number of sustainability indicators. Examples of sustainability indicators are CO₂ emissions, and activities that affect biological diversity (E), gender equality and due diligence assessments related to human rights violations (S) and exposure to controversial weapons and gross corruption (G). In order to qualify, a product does not need to commit to all the PAI elements.

PAI elements can demonstrate whether an investment 1) carries out an economic activity that contributes to an environmental or social objective, and 2) meets the "Do no significant harm" requirement. Both are requirements for "Sustainable Investments" as defined by the SFDR.

The disclosures are based on a "comply or explain" principle, which requires financial market participants to indicate whether they consider the principal adverse impacts on sustainability factors of their investments and include a statement on their due diligence policies concerning PAIs. Financial market participants who do not consider principal adverse impacts must explain why and, where relevant, whether they will consider them in the future.
