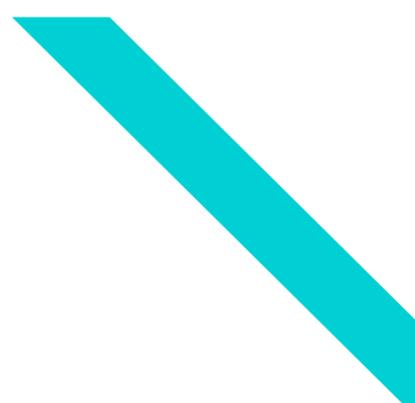


# THE REFINITIV BUSINESS CLASSIFICATIONS

METHODOLOGY

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# Introduction

## The Refinitiv Business Classifications

The Refinitiv Business Classification is an industry classification system that is owned and operated by Refinitiv. The market-oriented system tracks the primary business of an organization and reflects global industry practices by grouping together correlated companies and organisations that offer products and services into similar end markets.

TRBC is used by the investment community for navigation, aggregation and benchmarking. It provides a global standard for intelligently identifying peers, tagging research, aggregating financial content and transforming the torrent of Refinitiv news and information into insightful trends. It delivers a solid foundation for aggregating financial ratios, portfolio benchmarking and attribution analysis.

TRBC is the foundation for over 8000 different Refinitiv Sector Indices and is available for private benchmarking and sold for use in index computation and ETF construction.

TRBC balances the needs of index construction and information navigation. TRBC has set its granularity level to meet both navigation and benchmarking requirements. The scheme is detailed enough to allow the accurate pinpointing of peers while delivering a stable and useful grouping of constituents to allow benchmarking and index construction across the globe and between multiple periods.

## Market-Based

TRBC is a market-based classification system. Organizations are assigned an industry on-the-basis of the market they serve rather than the products or services they offer. Market-based classification emphasizes the usage of a product rather than the materials used for the manufacturing process. This is done because the performance of organization is tied to the market that they serve and market-based systems allow investors to group companies that share similar market characteristics. For example catering services to airlines are considered airport services rather than restaurants because their financial performance is dependent on the market for airline services.

## TRBC is a five-level hierarchical structure consisting of (from top to bottom):

13 Economic Sectors  
 33 Business Sectors  
 62 Industry Groups  
 154 Industries  
 898 Activities

## Regular Revision

Since its introduction in 2004, the TRBC steering group, consisting of internal Refinitiv and external business stakeholders, has met regularly to review the structure of the scheme. The 2008 review produced recommendations to revise the scheme, with revisions effective from August 2009. The major innovation following the 2011 review was the additional level of granularity provided by the 'Activity', making TRBC not only the most comprehensive market-based scheme available but also the most detailed. The latest change took place in September 2020 and included new Economic Sectors with all underlying hierarchy for Institutions, Associations and Organizations, Government Activities and Academic & Educational Services.

## Coverage

TRBC is a classification system that can be applied to all organization entities (including government agencies) and seeks to cover all entities companies worldwide that issue financial instruments. There will be a phased set of projects to build out coverage to better support private companies and issuers of government debt in 2021.

Assignments are made at the issuer level and all associated securities have the same assignment by inference.

## Classification Methodology

### Overview

TRBC is used to classify an organization as-a-whole. Where organizations have multiple business segments, a representative business is selected according to the largest revenue contribution. The assignment process, detailed below, also considers factors such as profitability, asset utilization, and market perception when appropriate.

Companies are assigned to an Activity, at the lowest level. The Industry, Industry Group, Business Sector and Economic Sector assignments are derived from the classification hierarchy. Each organization is represented by one primary TRBC Activity and organizations cannot have multiple primary assignments.

### Classification Rules

#### Dominant Segment

##### *Two Business Segments:*

A 60% of total revenue threshold is used to assign an industry to organizations with two business segments. If neither segment meets the 60% revenue threshold, the criteria is applied first to assets then operating profit.

##### *Three or more Business Segments:*

A 51% of total revenue threshold is used to assign an industry to organizations with three or more segments. If none of segments meets the 51% revenue threshold, the criteria is applied first to assets then operating profit.

In this context, revenue is defined as net receipts from external customers, inter -segment sales are taken into account if they are a significant distortion to the relative proportions of the of the business segments.

#### 10% Significance

Business Segments must have 10% of revenues or higher to be considered significant in the calculation process.

#### Assignment of Activities

Once a 4th level Industry assignment is made using the above rules, if an organization is completely focused on one 5<sup>th</sup> level Activity, the Activity is subsequently chosen within the 4th level dominant segment. A company's business segments are first looked at to see what the dominant Industry is. Then, the Dominant Activity within that business segment is examined.

#### Revenue, Assets and Profitability

Revenue is the preferred metric and is used in the majority of assignments. However, there are types of organizations and situations where assets and profitability are taken into consideration when making assignments.

- Start-up and development phase companies may have little revenue, e.g. early stage biotechnology firms; there-fore assets can be a used to determine the dominant sector.
- Profitability fluctuates from period to period, hence is not used as a primary method to classify companies as it would result in a high degree of volatility in assignment. However, long-term trends in profitability are a useful indicator of the importance of a sector in an entity. For example, an industrial manufacturer may have large revenues in a low profitability OEM business

and low revenue, highly profitable services business. Close analysis of business strategy together with profitability provides a classification that better reflects the company's sensitivity to its primary market.

## Market Perception

Market Perception is based on the following criteria:

- The business strategy of the organization. An organization may provide additional detail on the revenue drivers behind each business segment, have plans to divest or treat as non-strategic a particular business unit or simply group itself with peers. This information is taken into account when making an assignment that is not purely on financial information.
- Local market perception. Particularly for diversified businesses and holding companies, our local experts gauge the degree to which market participants perceive a company to be influenced by their operations within a particular end market.

## Growth Perspective

If an organization enters a new business segment and shows enough growth prospects to indicate dominance within the next few years, the new segment may be selected as the primary business. Company growth will be compared to the segment's revenue growth over the last 5 years to determine the extent of its prospects.

## TRBC Collection Process

Refinitiv has decades of experience in creating information from data and has a worldwide operation that is unparalleled in the scope of content collected and sophistication of operation. The collection, storage and delivery of business-critical information are core competencies of Refinitiv.

## Frequent Review

Every organization in the TRBC universe is reviewed when significant business events take place to determine if the assignment remains valid or whether the company's business model and/or business segments have changed in importance either organically or through acquisition/divestment. Our analysts review the detailed financials of each business segment, update company descriptions, and review any corporate activity that may have impacted company operations.

## Primary Sources

Industry assignments are made only after review of official sources, normally company annual financial reports. Refinitiv has agreements with over 130 disclosure authorities worldwide to receive financial reports as they are filed. These documents are processed and delivered to the TRBC team together with prioritization based on market capitalization.

## Local Expertise and Language Skills

Operations are based in New York, Beijing, Manila, Bangalore, Gdynia and Exeter. This provides round the clock coverage and local market and language capabilities that are essential to ensuring accurate industry assignments.

## Refinitiv Fundamentals Business Segment Data

The TRBC team is supported by the highly regarded Refinitiv Fundamentals content operation which provides detailed business segment financial breakdowns for the entire TRBC coverage universe.

## Sophisticated Alerting Mechanism for Corporate Actions

The TRBC team monitors press releases, Reuters News, and uses Refinitiv Comprehensive Deals, Significant Developments, and Corporate Actions services to ensure all corporate activity that could impact industry assignment is considered.

TRBC monitors changes of business in a company over time, where all businesses are evolving due to internal and external factors. Transformations may be caused by a new technology or method of business. Two types of changes are:

- Internal Organic Growth
- External Mergers, Acquisitions and Divestitures

Refinitiv monitors any internal business transformation on every financial reporting period using financial statements, which may be annual, semi-annual or quarterly. On the other hand, external M&A activities are monitored using press releases and other media reports. Internal growth is tagged with the fiscal period-end date and each external transformation is timed with an effective activity date.

To effectively monitor the changes in businesses, the changes in economic structure should also be taken into consideration. For example, new Information Technology developments have brought significant changes for both consumers and businesses. The schema of TRBC should reflect the economic structure at the time. In order to establish a valid economic structure at a time, TRBC is frequently reviewed every 12 to 18 months.

When there is a change in the TRBC of an organization, the old classification is automatically stamped with an ending date a day before the effective date of the new TRBC. However, this ending date is not specifically set in the TRBC database when an organization becomes defunct, such as with an acquired company. In this case, the ending date will be calculated from the general company status.

## For Further Information

### Websites

<https://www.refinitiv.com/en/financial-data/indices/trbc-business-classification>

### Email Us

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Refinitiv is one of the world's largest providers of financial markets data and infrastructure, serving over 40,000 institutions in approximately 190 countries. It provides leading data and insights, trading platforms, and open data and technology platforms that connect a thriving global financial markets community – driving performance in trading, investment, wealth management, regulatory compliance, market data management, enterprise risk and fighting financial crime.