

EU Taxonomy Alignment Solution

The EU Taxonomy defines an environmentally sustainable activity as one that substantially contributes to one of the six environmental taxonomy objectives (Climate change mitigation; Climate change adaptation; Sustainable use and protection of water and marine resources; Transition to a circular economy; Pollution prevention and control; Protection and restoration of biodiversity and ecosystems) and, at the same time, does not significantly harm any of these. In addition, the entity carrying out the activity has to comply with minimum social safeguards. The ISS STOXX's EU Taxonomy Alignment Solution provides information on corporate issuer's alignment with the EU taxonomy, leveraging information directly reported under Article 8 of the Taxonomy Regulation where available and complementing with modelled alignment outcomes for issuers which do not report or fall outside of ISS STOXX's taxonomy data collection universe. Information on the alignment with the taxonomy is presented along five steps: (1) identifying taxonomy-eligible activities, (2) quantifying revenue/capex/opex associated with these activities, (3) assessing their alignment with substantial contribution criteria defined by the EU Taxonomy, (4) checking whether the activities meet the Do No Significant Harm (DNSH) criteria, and (5) whether the entity performing these activities is compliant with minimum safeguard standards.

Outputs

ISS STOXX EU Taxonomy Alignment Solution offers reported data by companies within ISS STOXX's data collection universe, as well as modelled data for companies that do not report and/or are outside of this universe. For each activity the reported or modelled outcome for the first four out of the five steps of the process as outlined above is provided, allowing users to follow the assessment sequentially. The last step of identifying or assessing alignment with minimum safeguard criteria is provided at the entity level, in accordance with the regulatory requirements on this aspect.

The ISS STOXX EU Taxonomy Alignment Solution goes beyond a binary assessment and distinguishes between different categories of alignment. The company reported information within ISS STOXX's taxonomy data collection universe will show Aligned and Not Aligned outcomes; modelled data comprises Likely Aligned, Potentially Aligned and Likely Not Aligned results. Moreover, to facilitate an overall assessment of a company, the output also includes the percentage value of revenue, capex and opex associated with activities that are Aligned/ Likely Aligned/ Potentially Aligned/ Likely Not Aligned/ Not Aligned for each company. As such, the solution comprises both quantitative (revenue, capex and opex figures) and qualitative (alignment assessments) outputs.

Research Process

Company reported taxonomy alignment data is collected by ISS STOXX on an annual basis for each company within the scope of data collection where data is available. The research process can be broken down as follows:

- Data collection: Information is gathered from corporate disclosures such as sustainability reports and/or annual reports.
- Quality assurance: Experienced analysts review the accuracy of collected data.

For companies that do not report their taxonomy alignment and/or are outside of ISS STOXX's data collection universe, ISS STOXX models issuers' taxonomy alignment leveraging several proprietary, as well as third party, data sets. These data sets include ISS STOXX's Energy & Extractives data, SDG Solutions Assessment as well as FactSet's Hierarchy with Revenue data, which are used to identify involvement in eligible activities and quantify respective revenues and capex. A variety of factors from ISS STOXX's Corporate Rating, Environmental & Social Raw Data, Norm-Based Research, SDG Solutions Assessment and Climate Solutions are used to assess compliance with the EU Taxonomy's screening criteria for substantial contribution, DNSH requirements and minimum safeguards. For more details, please refer to the respective descriptions of those distinct ISS STOXX offerings.

Use of Estimated Data

While ISS STOXX prioritizes taxonomy alignment data reported by companies where available, the majority of outputs stems from ISS STOXX's model-based solution which leverages proprietary and third party data to approximate the degree to which companies align with the EU Taxonomy. For transparency, the ISS STOXX EU Taxonomy Alignment Solution clearly differentiates which data is reported versus modeled.

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