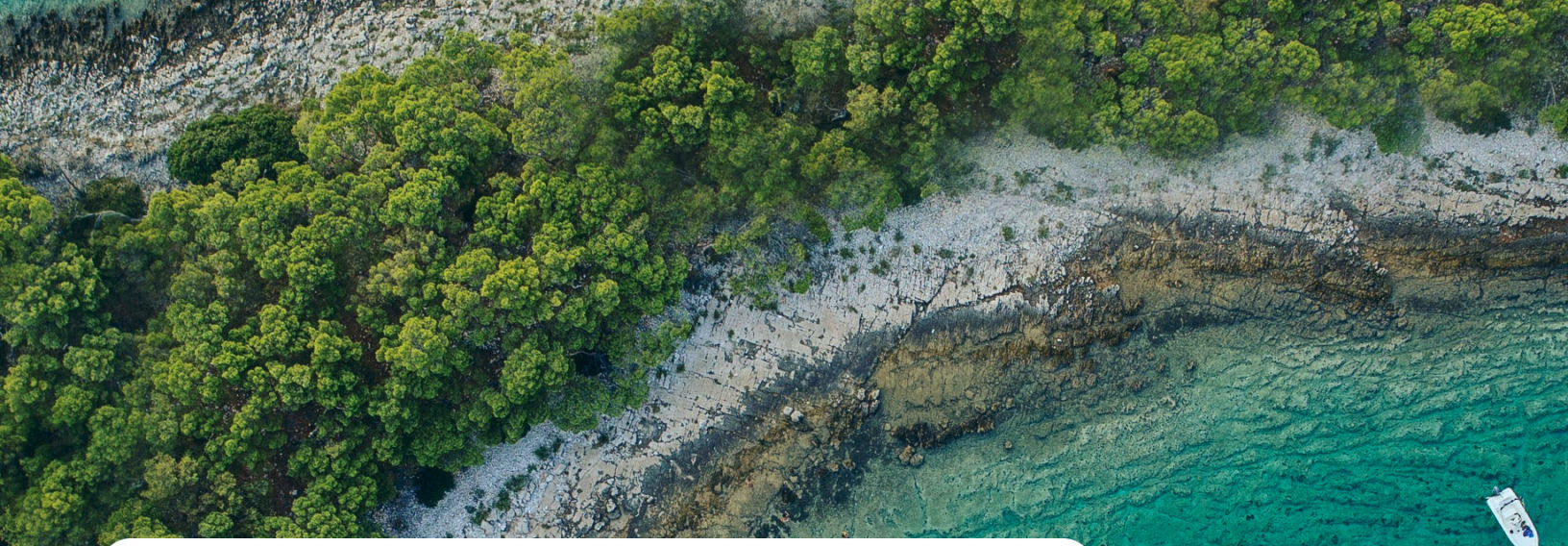


ISS STOXX

Australian Sustainable Finance Institute

Towards Cross-Taxonomy Alignment

Insights from Examining Interoperability between the Australian and EU Sustainable Finance Frameworks

October 19, 2026

Prepared by ISS STOXX in partnership with the Australian Sustainable Finance Institute (ASFI).

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Executive Summary

Sustainable finance taxonomies are used in global capital markets to identify and allocate capital towards economic activities deemed sustainable or activities that support the transition to a more sustainable economy. However, the emergence of growing numbers of taxonomies can pose risks of fragmentation and increased incomparability, which, without efforts to strengthen interoperability or equivalence, can lead to an increased burden on corporates and investors reporting and assessing alignment across taxonomies and jurisdictions.

This report finds that the Australian Sustainable Finance Taxonomy and EU Taxonomy align more closely than might be expected, creating an opportunity to leverage existing EU Taxonomy data to support assessments under the Australian Sustainable Finance Taxonomy for financial market participants.

The Australian Sustainable Finance Institute (ASFI) and ISS STOXX tested this opportunity by comparing the two taxonomies at the activity, company, and portfolio levels. The analysis used the EU Taxonomy as the reference framework because it is widely used by global investors and has more established data coverage. The project developed and tested a method for using existing EU Taxonomy data to estimate alignment with the Australian Taxonomy.

Key Findings

- **Most Australian Taxonomy activities have a comparable activity in the EU Taxonomy**

  The analysis mapped 52 of the 61 Australian Taxonomy green and transition activities covered by the study to at least one comparable EU Taxonomy activity. This means 85% of the Australian Taxonomy activities assessed have a corresponding EU Taxonomy activity that can support alignment analysis.

- **Existing EU Taxonomy data provides a strong foundation for Australian Taxonomy assessments**

  More than half of the Australian Taxonomy activities assessed had a strong or exact EU Taxonomy proxy. Existing EU Taxonomy data can therefore reduce the need for investors to collect or estimate new activity-level information for every company.

- **Portfolio-level results were highly consistent across both frameworks**

  The portfolio analysis produced very similar results under the Australian and EU taxonomies. For the STOXX 1800 portfolio, baseline alignment differed by only 0.04 percentage points. This suggests existing EU Taxonomy data can provide a useful starting point for assessing portfolio alignment under the Australian Taxonomy.

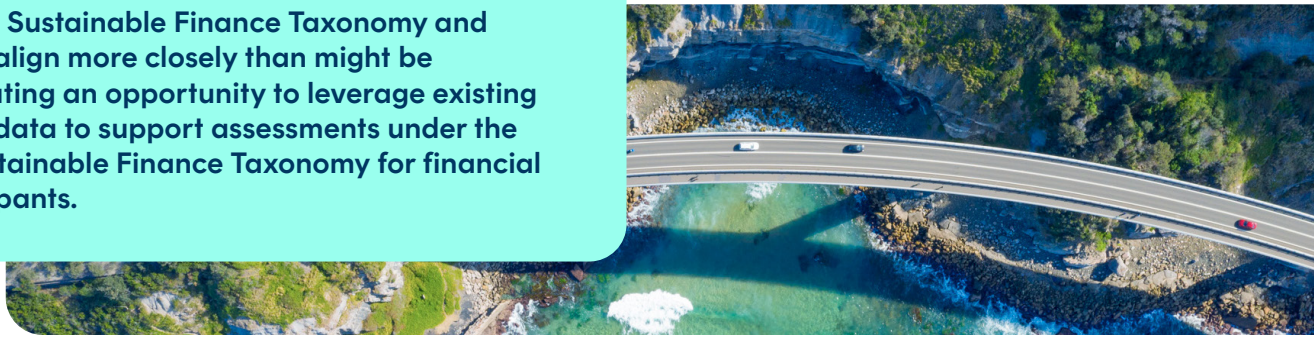
- **The current approach does not capture all Australian Taxonomy activities**

  Some activities covered by the Australian Taxonomy, including minerals, mining, and metals activities, do not have equivalent activities in the EU Taxonomy. As a result, the current approach may understate Australian Taxonomy eligibility and alignment, particularly for Australian portfolios.

- **Environmental and social safeguard assessments can materially affect alignment assessments**

  Different approaches to assessing environmental and social safeguards produced different alignment outcomes. These differences reflect both the type of information used in the assessment and the different ways the Australian and EU taxonomies apply these requirements.

The Australian Sustainable Finance Taxonomy and EU Taxonomy align more closely than might be expected, creating an opportunity to leverage existing EU Taxonomy data to support assessments under the Australian Sustainable Finance Taxonomy for financial market participants.



The report finds that existing EU Taxonomy data can help companies and investors assess alignment with the Australian Taxonomy and reduce duplication of efforts in aligning with multiple taxonomies. Nonetheless, while there is a high degree of interoperability, the two taxonomies are not interchangeable.

Taxonomy users should be aware that the frameworks differ in their activity coverage, technical criteria, and treatment of environmental and social safeguards. As such, the differences in scope and criteria across taxonomies should be compared and understood at the activity level, rather than it being assumed that aggregated results under one taxonomy automatically translate to the other. Furthermore, where the EU Taxonomy framework does not cover Australian-specific activities or requirements, additional information may be needed for a more comprehensive assessment.

These findings provide a foundation for a broader assessment approach that combines existing EU Taxonomy data with other sustainability data sources to estimate alignment with the Australian Taxonomy. This could support more complete Australian Taxonomy alignment assessments while retaining the benefits of leveraging established international data.

Existing EU Taxonomy data can help companies and investors assess alignment with the Australian Taxonomy and reduce duplication of efforts in aligning with multiple taxonomies.

Terminology

Term	Description
Australian Taxonomy	The Australian Sustainable Finance Taxonomy provides a common language for green and transition finance in Australia, to support the allocation of capital towards activities that enable Australia's net zero ambitions. It encompasses Technical Screening Criteria (TSC), Do No Significant Harm (DNSH) criteria, and Minimum Social Safeguards (MSS) and is also the first taxonomy in the world to set expectations for engagement with First Nations peoples and the management of cultural heritage. It covers key sectors of importance to Australia such as mining, metals and minerals, and agriculture and has an explicit focus on credible transition activities.
EU Taxonomy	The EU Taxonomy is a classification system that helps companies and investors identify "environmentally sustainable" economic activities to make sustainable investment decisions. Environmentally sustainable economic activities are described as those which "make a substantial contribution to at least one of the EU's climate and environmental objectives, while at the same time not significantly harming any of these objectives and meeting minimum safeguards."
Taxonomy-Eligible Activities	Taxonomy-eligible activities are activities that are within scope of the respective taxonomy. Users of taxonomies can determine the proportion of company revenue, capital expenditure or operating expenditure associated with taxonomy-eligible activities.
Taxonomy-Aligned Activities	Taxonomy-aligned activities are activities that are aligned with the respective Technical Screening Criteria/Substantial Contribution Criteria, Do No Significant Harm and/or Minimum Social Safeguards criteria of each taxonomy. Users of taxonomies can determine the proportion of company revenue, capital expenditure, or operating expenditure associated with taxonomy-aligned activities. Taxonomy-aligned activities will always be a subset of taxonomy-eligible activities and criteria required for claiming alignment under the Australian and EU taxonomies differ. Alignment with Technical Screening Criteria is the minimum requirement to claim alignment with the Australian Taxonomy.

Term	Description
Technical Screening Criteria (TSC)	Technical Screening Criteria (TSC) are criteria applied to each activity covered in the Australian Taxonomy and refer to the requirements that must be met for an activity to be assessed as making a substantial contribution to climate change mitigation. The equivalent of the TSC in the EU Taxonomy is the Substantial Contribution Criteria (SCC).
Substantial Contribution Criteria (SCC)	Substantial Contribution Criteria (SCC) are criteria applied to each activity covered in the EU Taxonomy and refer to the requirements that must be met for an activity to be assessed as making a substantial contribution to an environmental objective recognized by the framework.
Do No Significant Harm (DNSH)	The Do No Significant Harm (DNSH) criteria aim to ensure activities that meet the performance thresholds set out in the Technical Screening Criteria (for the Australian Taxonomy) or the Substantial Screening Criteria (for the EU Taxonomy) do not cause significant harm to the taxonomy's other environmental objectives. The Australian Taxonomy defines two types of DNSH criteria: generic and specific criteria. Specific DNSH criteria are not assessed under the scope of this project.
Minimum Social Safeguards (MSS)	The Minimum Social Safeguards (MSS) criteria aim to ensure that an entity engaging in taxonomy-aligned activities adheres to key social protections and standards.
Activity Mapping	Activity mapping is the mapping of in-scope Australian Taxonomy activities to corresponding activities in the EU Taxonomy that could serve as proxies for eligibility under the Australian Taxonomy. In this project, in-scope activities refer to 'Green' and 'Transition' activities, as defined by the Australian Taxonomy.
Proxy Signal	Proxy signal refers to the strength of the activity mapping between the Australian Taxonomy and its corresponding EU Taxonomy proxy, assessed based on the degree of alignment of both scope and Technical Screening Criteria/Substantial Screening Criteria. Four levels of proxy signal strength are provided: Exact, Strong, Sufficient, and Weak.

Term	Description
Performance-Based Screen	A Performance-Based screen assesses companies against a defined set of factors and compares company sustainability performance against minimum thresholds established within the methodology. Performance-Based screens are developed by ISS STOXX for assessing DNSH and MSS alignment under the Australian Taxonomy.
Commitment-Based Screen	The Commitment-Based screen assesses companies based on their commitment to the relevant international standards referred to in the Australian Taxonomy for the particular social objectives. The Commitment-Based screen is developed by ISS STOXX for assessing MSS alignment under the Australian Taxonomy.
Controversy-Based Screen	A Controversy-Based screen assesses whether a company's controversy involvement is inconsistent with taxonomy objectives. The Controversy-Based screens are developed by ISS STOXX for assessing DNSH and MSS alignment under the Australian Taxonomy.

Source: *ISS STOXX and ASFI*

Introduction

About This Project

This project, carried out as a collaborative endeavour between ISS STOXX and the Australian Sustainable Finance Institute (ASFI), was designed to assess taxonomy interoperability, examine approaches to entity-level alignment, and explore related practical applications. Key objectives were to advance market understanding on cross-taxonomy alignment and explore how existing EU Taxonomy data can be used to support entity-level analysis under the Australian Taxonomy.

As a leading sustainability data provider, ISS STOXX is well positioned to conduct this assessment, drawing from its EU Taxonomy Alignment solution's methodology and data. As the custodian of the Australian Sustainable Finance Taxonomy, ASFI is well positioned to support technical translation and application of the criteria and take the findings of this paper forward through market engagement and established interoperability initiatives.

Based on ASFI's market experience, the EU is the most highly valued jurisdiction for Australian financial and corporate taxonomy users to assess or demonstrate interoperability with. In the implementation pilot to support the practical application and early adoption of the Australian Taxonomy, almost all participants requested a mapping comparison between the Australian and EU taxonomies to inform internal capital allocation approaches. This reflects a range of factors, including the broad influence and visibility of the EU Taxonomy among financial institutions, the credibility premium placed on EU Taxonomy alignment, and the presence of EU-based investors in Australian capital markets.

The assessment presented in this report marks an important step in establishing a bridge between the Australian and EU taxonomies by evaluating the points of convergence and differences between the two frameworks.



Key objectives of this report were to advance market understanding on cross-taxonomy alignment and explore how existing EU Taxonomy data can be used to support entity-level analysis under the Australian Taxonomy.

Importance of Interoperability

Globally, more than 65 national and regional taxonomies are currently operational or under development. Among these are the European Union's Sustainable Finance Taxonomy (EU Taxonomy) and the Australian Sustainable Finance Taxonomy (Australian Taxonomy).

While the EU's and Australia's taxonomies, among other jurisdictions, are underpinned by similar environmental objectives and structure, they can differ in terms of sector coverage, activity prioritisation, performance requirements, and in some cases the design of criteria, including Technical Screening Criteria (TSC), Do No Significant Harm (DNSH), and Minimum Social Safeguards (MSS). This is due to the following differences:

- **Economic bases**

  e.g., the mining sector has been prioritised for inclusion in the Australian Taxonomy due to its relatively higher emissions share, economic importance, and the enabling role of Australia's critical and strategic minerals in the global low-carbon transition.

- **Policy contexts**

  e.g., emissions performance thresholds and emissions boundaries for some activities in the EU Taxonomy are derived from benchmarks in the EU's Emissions Trading Scheme, which may be less appropriate and relevant for the corresponding activities in other jurisdictions.

- **Rating, measurement, and certification schemes**

  e.g., Australia has a range of credible domestic-facing green building ratings schemes with high market uptake. These are used as inputs and compliance proxies for relevant activities in the Australian Taxonomy.

- **Localised decarbonisation pathways**

  e.g., downscaling global Paris-aligned scenarios used by capital markets, such as IEA's Net Zero Emissions 2050 scenario, to domestic contexts can create different starting points and performance pathways between different jurisdictions.

Jurisdictional customisation, while necessary to support use and uptake across different economies, can introduce administrative complexities for companies and financial institutions operating in countries with taxonomies that may have distinct regulatory applications and/or compliance requirements. Variations in both emissions thresholds and the eligibility of certain activities can also create information asymmetries and, in some cases, confusion within global capital markets.

Establishing a basis for interoperability, especially between strongly interlinked capital markets in Europe and the Asia-Pacific region, is therefore important to mitigate barriers to low-carbon financing and provide a common credibility signal.

By providing clarity and improving comparability across jurisdictions, understanding taxonomy interoperability between the EU's and Australia's taxonomies presents opportunities to lower transaction costs; strengthen the mitigation of greenwashing risks; and streamline processes related to low-carbon investment identification, alignment, and reporting for portfolios with exposure to activities and entities in multiple jurisdictions.

Global Interoperability Initiatives

Multiple global efforts are underway to address the risks of fragmentation and strengthen taxonomy interoperability.

At COP29 in 2024, the Central Bank of Azerbaijan, the International Finance Corporation, the Sustainable Banking and Finance Network, and the United Nations Development Programme launched the Roadmap for Advancing Interoperability and Comparability of Sustainable Finance Taxonomies ("Taxonomy Roadmap Initiative"). The Taxonomy Roadmap Initiative aims to identify a common core set of taxonomy economic activities, create standardised technical approaches for alignment, and formulate common approaches to transition finance. As part of the Taxonomy Roadmap Initiative, the Sustainable Finance Taxonomy Mapper was produced.

The Sustainable Finance Taxonomy Mapper was produced by means of a simple comparison method, using the International Standard Industrial Classification of All Economic Activities (ISIC) as the organising framework to produce a side-by-side description of 11 jurisdictional taxonomies.

At the time of the development of the Sustainable Finance Taxonomy Mapper, the Australian Taxonomy had not yet been published, precluding its inclusion in the Mapper.

Australian financial institutions have consistently identified as a priority a more granular and practicable understanding of the overlap between the Australian Taxonomy and EU Taxonomy.

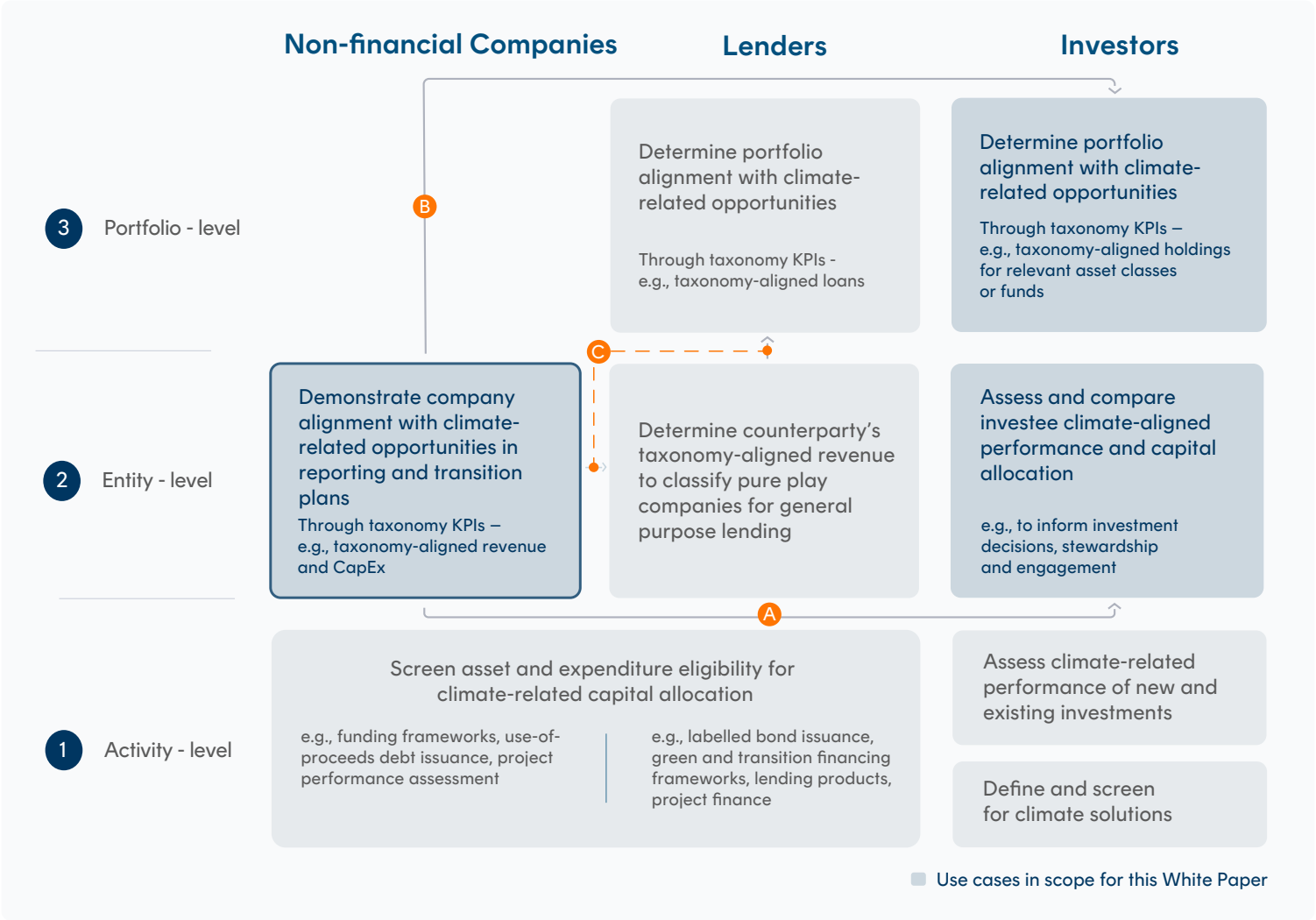
The Taxonomy Roadmap Initiative and its related project, the Sustainable Finance Taxonomy Mapper, are part of multiple global efforts to address the risks of fragmentation and strengthen taxonomy interoperability.



Importance of Entity-Level Taxonomy Use Cases

ASFI follows the Climate Bonds Initiative in identifying three levels that the Australian Taxonomy can be applied at: activity-level, entity-level, and portfolio-level. Figure 1 highlights use cases where, according to ASFI, applying the Australian Taxonomy would be particularly valuable to financial institutions.

Figure 1: Illustrative Use Cases of the Australian Taxonomy



Source: *ASFI*

Figure 1 demonstrates that the availability of information about a company's aggregate (i.e., entity-level) taxonomy alignment is foundational to unlocking a range of the Australian Taxonomy's highest value uses for financial institutions.

Taxonomies are increasingly recognised as a tool that can be used by entities to demonstrate the alignment of their business activities and investments with key environmental objectives (e.g., climate change mitigation).

Two of the key performance indicators (KPI) used by entities are:

1. **Percentage of taxonomy-aligned revenues**

   The percentage of an entity's total net revenue derived from products or services that are taxonomy-aligned. This KPI provides a lagging indicator of a company's alignment with climate-related opportunities.

2. **Percentage of taxonomy-aligned capital expenditures (CapEx)**

   The percentage of an entity's total CapEx allocated toward taxonomy-aligned activities. This KPI provides a leading indicator of a company's alignment with climate-related opportunities.

The availability of reported and/or modelled Taxonomy-aligned KPIs enhance the consistency and comparability of decision-useful information that investors can draw on. Taxonomy-aligned revenue in particular supports investors to evaluate a company's alignment with climate-related opportunities, supporting sustainable portfolio construction, monitoring, and stewardship (Linkage A in Figure 1). This KPI equally supports investors to evaluate portfolio and/or fund alignment with climate-related opportunities (Linkage B in Figure 1).

Taxonomy-aligned revenue data also supports a range of other uses cases for other market participants. One example is a bank's use of a counterparty's taxonomy-aligned revenue to determine the attributable climate alignment of general purpose lending, which can feed into portfolio-level tagging and reporting (Linkage C in Figure 1).

For investors with holdings in multiple jurisdictions, understanding the points of interoperability between credible taxonomies is important to understanding how and when taxonomies can be applied cross-jurisdictionally; and how a range of taxonomies can be adopted in a manner that provides consistency and comparability.

To that end, this report evaluates the following questions: to what extent does alignment with one sustainable taxonomy serve as an indicator of alignment with another? How can existing taxonomy data be leveraged to evaluate a company's or a portfolio's alignment with another local taxonomy?

Keeping in mind these considerations, ISS STOXX has examined the potential interoperability between the Australian Taxonomy and the EU Taxonomy, two credible taxonomies with similar approaches aimed at economies that are both highly relevant to global investors. Understanding and assessing the degree of their interoperability will set the foundation to further evaluate entity-level and portfolio-level alignment.

While the EU Taxonomy generally adopts a more rigid approach to alignment, the Australian Taxonomy incorporates greater flexibility, recognizing its own emerging nature and its objective to support the transition of the Australian economy. These differences were a key consideration throughout the project.

Background on Australian Sustainable Finance Taxonomy

Building on the approach taken in the EU, the Australian Taxonomy covers key sectors of importance to Australia, such as mining, metals and minerals, and agriculture, and has an explicit focus on credible transition activities. It encompasses Technical Screening Criteria (TSC), Do No Significant Harm (DNSH) criteria, and Minimum Social Safeguards (MSS) and is also the first taxonomy in the world to set expectations for engagement with First Nations peoples and the management of cultural heritage.

Development of the Australian Sustainable Finance Taxonomy

Version 1 of the Australian Taxonomy, released in June 2025, focuses on climate change mitigation. Its development was undertaken as a joint industry-government initiative, led by the Australian Sustainable Finance Institute (ASFI) in partnership with the Australian Commonwealth Department of the Treasury, over the period from July 2023 to February 2025.

The Australian Taxonomy's design was informed by ASFI's prior taxonomy scoping phase (October 2022 to May 2023), which drew on input from ASFI members and a broad range of experts and stakeholders, as well as international sustainable finance taxonomies.



Implementation of the Australian Sustainable Finance Taxonomy

Following the publication of the Australian Taxonomy, ASFI launched a world-first taxonomy implementation program partnering with major banks, investors, ratings agencies, and state and Commonwealth central financing agencies. The implementation program comprises two streams: implementation pilots and debt guidance.

The implementation pilots were designed to support the practical application and early adoption of the Australian Taxonomy. Delivered in partnership with 11 financial institutions, the pilot explored the use of the taxonomy across a range of asset classes and activities. It aimed to assess market readiness against the Australian Taxonomy's use cases, identify integration opportunities and challenges, inform areas for future revision of the Australian Taxonomy, and steer ASFI's prioritisation of additional market-facing guidance. In parallel, ASFI published the Taxonomy-aligned Debt Guidance that was developed to support the interpretation and use of the Australian Taxonomy in issuance of use-of-proceeds debt instruments.

The Australian Taxonomy covers sectors such as mining, metals and minerals, and agriculture; focuses on credible transition activities; and is the first taxonomy in the world to set expectations for engagement with First Nations peoples and cultural heritage management. ASFI has supported the taxonomy's implementation through implementation pilots and debt guidance.



Scope and Methodological Approach

The project behind this report consisted of four main components:

1. Activity Mapping

Mapping Climate Change Mitigation activities eligible under the Australian Taxonomy (either "Green" or "Transition") to corresponding EU Taxonomy activities.

2. Proxy Strength Evaluation

Assessing the strength of the EU activities identified as proxy indicators by comparing the details and scope of the Technical Screening Criteria under the Australian Taxonomy with the Substantial Screening Criteria under the EU Taxonomy.

3. DNSH & MSS Comparison

Comparing the generic Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) criteria required by the two taxonomies and identifying proprietary ISS STOXX's datapoints, which can be used to assess DNSH and MSS compliance under the Australian Taxonomy. Specific DNSH criteria were not evaluated under the scope of the project.

4. Entity and Portfolio Analysis

Applying the mapping and comparison results at the entity and portfolio levels to assess alignment with the Australian Taxonomy and compare the different outcomes across the two frameworks.

Aggregate (i.e., entity-level) taxonomy alignment is evaluated by reference to three main key performance indicators: revenue, capital expenditure (CapEx), and operating expenditure (OpEx). This means that a company's performance against a taxonomy can be calculated as a share of the revenues, CapEx, or OpEx derived from taxonomy-eligible and taxonomy-aligned activities. In this case, revenue was leveraged as the key performance indicator for assessing interoperability. This approach was taken because of the wider availability of revenue data, compared to other entity-level KPIs.

Taking the coverage of ISS STOXX's EU Taxonomy Alignment solution as reference, there are over 60,000 companies covered under the revenue model, compared to over 25,000 companies under the CapEx model.[1]

As a result, the project was focused on activities defined by the Australian Taxonomy as "Green" and "Transition" for which revenues are eligible. Activities defined by the Australian Taxonomy as "Decarbonization Measures" were excluded, as only CapEx and OpEx are eligible under these activities.[2,3]

[1] There is no OpEx model due to the lack of acceptable proxies to model OpEx alignment.

[2] Per the Australian Taxonomy, Decarbonisation Measures involve investments in technologies, processes and practices that improve the emissions performance of an activity. These types of activities cannot be measured as taxonomy-aligned revenue and were therefore excluded from the assessment scope of this project.

[3] Appendix A provides additional details on the Activity Mapping and DNSH & MSS Comparison Assessments.

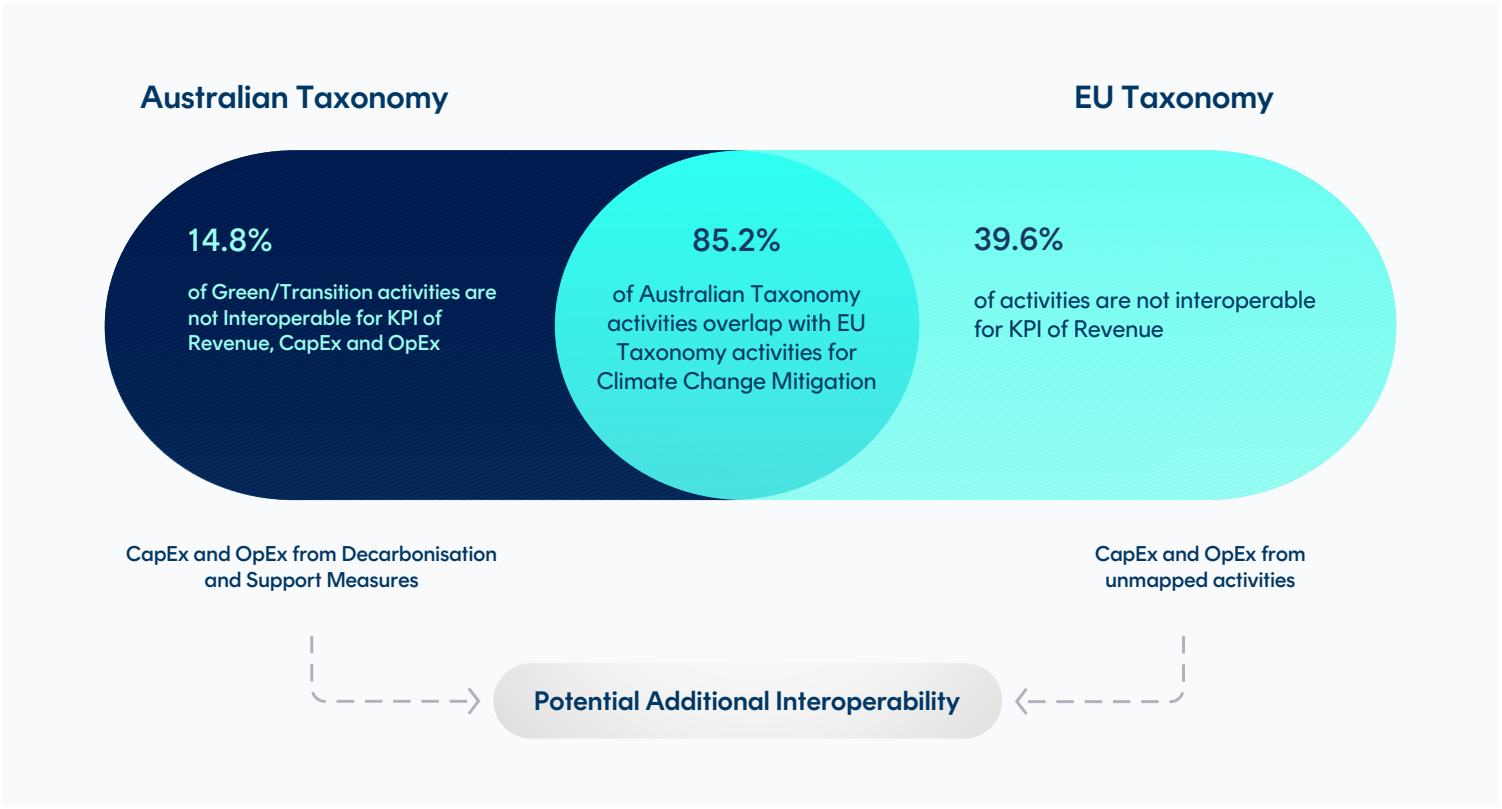
Implementation of the Activity Mapping and DNSH and MSS Comparison

Substantial Activity Overlap, with Interoperability Shaped by Differences in Structure and Screening Criteria

In the first step of the process, in-scope Australian Taxonomy climate change mitigation activities were mapped to corresponding activities in the EU Taxonomy to assess which of the EU Taxonomy criteria could serve as proxies for eligibility under the Australian Taxonomy. Based on the assessed degree of alignment between the two taxonomies of both scope and Technical Screening Criteria, equivalent EU Taxonomy activities were subsequently assigned a proxy signal ranging from weak to exact (Figure 4).

Substantial overlap was observed at the activity level. Of the 61 Green and Transition Australian Taxonomy activities relevant for Climate Change Mitigation (CCM), 52 activities (85.2%) were mapped to at least one equivalent or comparable EU Taxonomy activity (Figure 2).

Figure 2: Australian and EU Taxonomy Activity Overlap

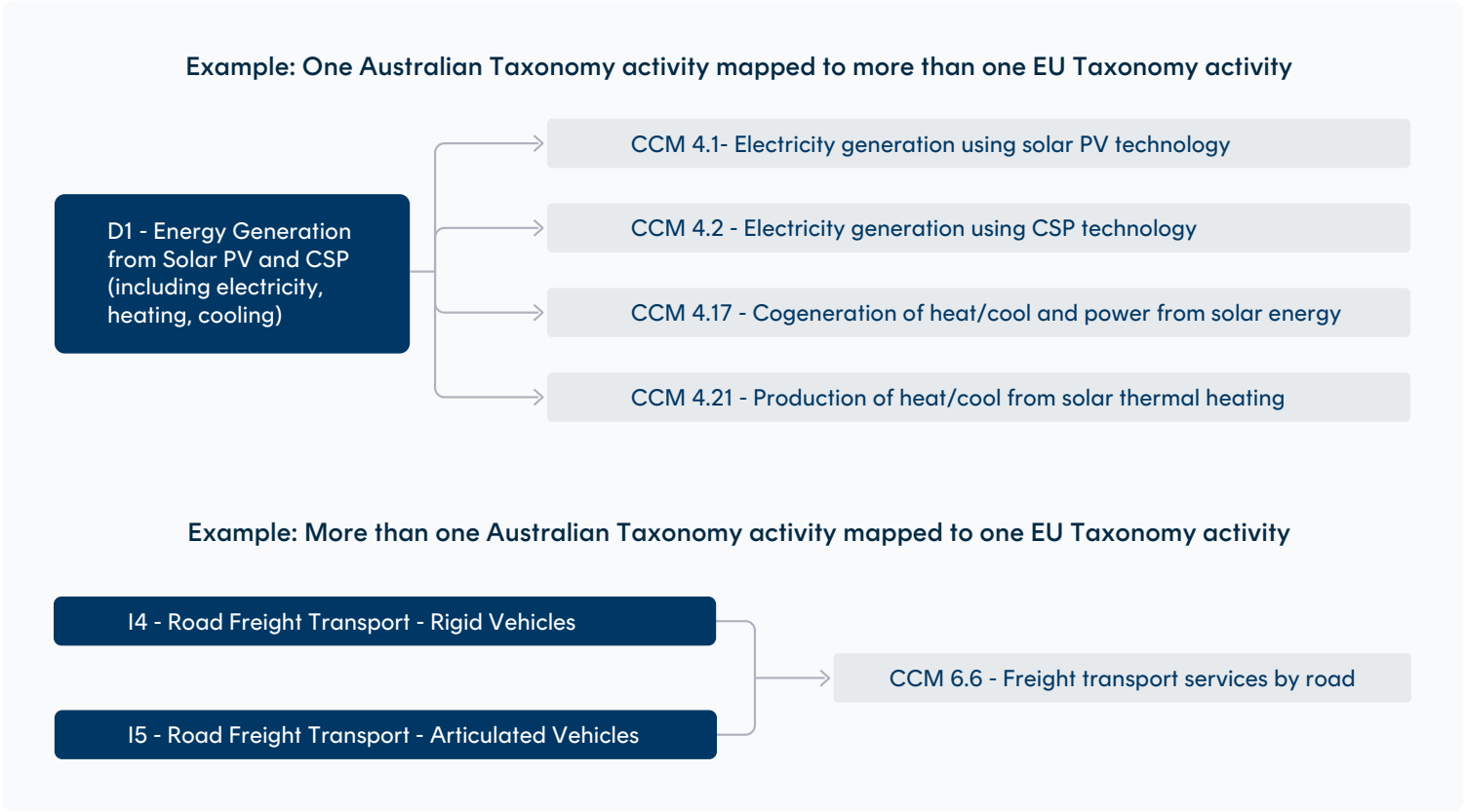


Source: *ISS STOXX and ASFI*

The mapping indicates that the EU Taxonomy is a strong baseline to assess alignment with the Australian Taxonomy at the entity level. This mapping covered approximately 60.4% of the total EU Taxonomy activities eligible for the CCM objective.

In some cases, the mapping was straightforward, with direct one-to-one correspondence between an Australian Taxonomy activity and an EU Taxonomy activity. In other cases, the mapping was more complex due to differences in activity granularity and classification structure. Some Australian Taxonomy activities were mapped to multiple EU Taxonomy activities; conversely, some EU Taxonomy activities were mapped to multiple Australian Taxonomy activities (Figure 3).

Figure 3: Examples of Multiple-Activity Mapping

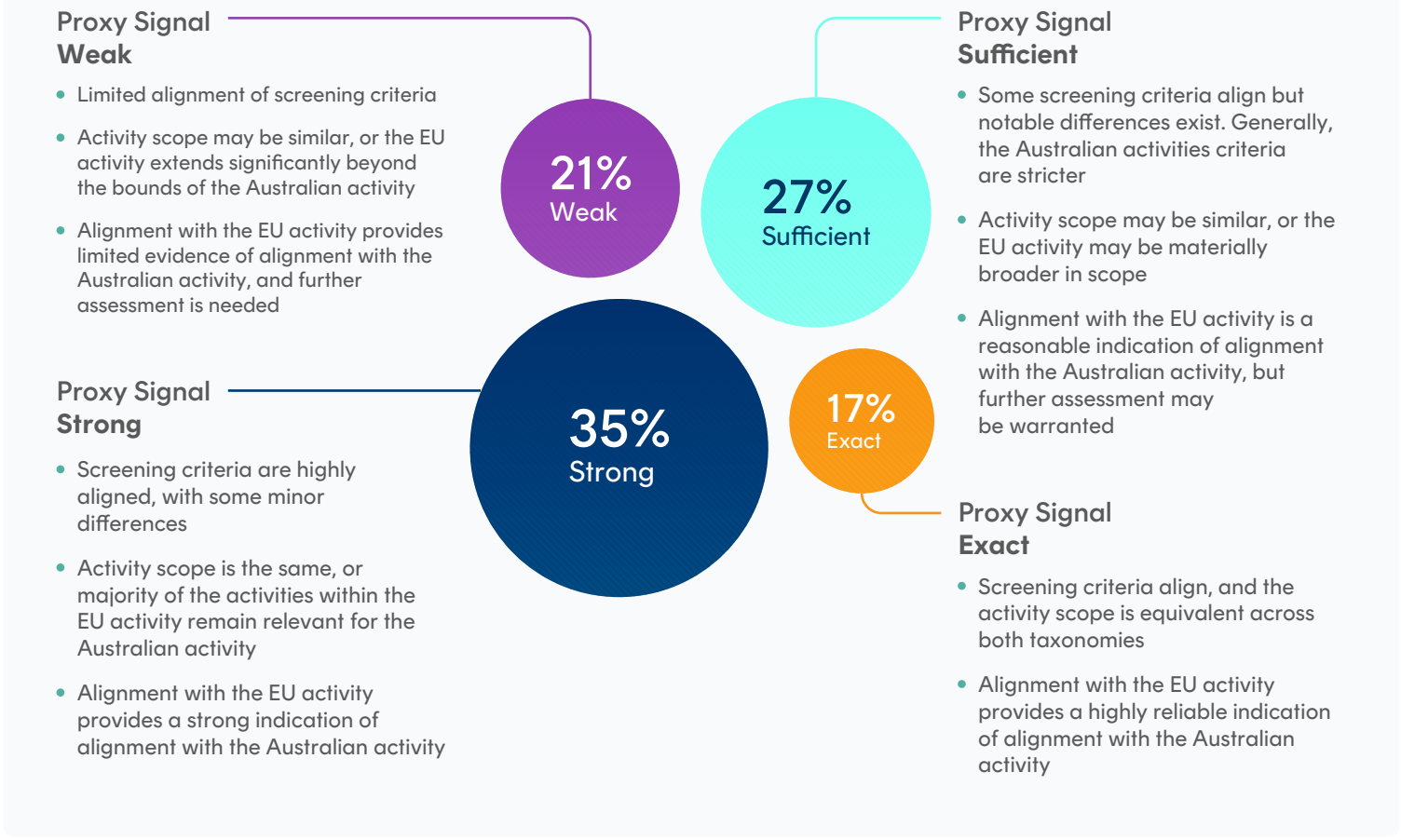


Source: *ISS STOXX and ASFI*

This mapping shows how activities that are consolidated under one framework may be distinguished as more granular under the other.

While these results demonstrate a strong degree of alignment between the two frameworks, mapping of the Technical Screening Criteria (TSC) revealed a broad spectrum of proxy signal strength, ranging from exact matches with highly comparable requirements to weaker relationships where differences in scope and thresholds limited interoperability (Figure 4).

Figure 4: Percentage of Australian Taxonomy Activities per Proxy Signal Strength



Source: *ISS STOXX and ASFI*

The share of activities mapped to weak and sufficient proxy signals (48%) may indicate that entity-level alignment with the Australian Taxonomy could be stronger than implied through the proxy EU Taxonomy mapping. However, with the proxy mapping showing a majority (52%) of Australian Taxonomy activities to have strong-to-exact EU Taxonomy activity proxies, interoperability between the Australian and the EU taxonomies appears to be strong.

Given the current project focus on assessing interoperability with the EU Taxonomy, it is expected that companies operating in certain sectors unique to the Australian Taxonomy will not be sufficiently covered within the mapping. This applies, for instance, to companies operating in the Minerals, Mining and Metals sector, for which no proxy EU Taxonomy activities are available. A future expansion of the project may focus on other data from company disclosures or proprietary company assessments to assess the taxonomy eligibility and alignment of unique Australian Taxonomy activities (see section "Outlook" below).

Likeliness of Alignment Varies across Different Dimensions of DNSH and MSS

An initial finding from a comparative analysis of generic DNSH and MSS criteria under the Australian and EU Taxonomies[3] was the close connection between the underlying principles and objectives of the frameworks. However, notable differences exist between the taxonomies, due to underlying local laws and regulations, in both the detailed requirements and the application of these requirements.

At a high level, the Australian and EU Taxonomies diverge in how they apply DNSH and MSS standards in the overall alignment assessment. In the EU Taxonomy assessment, both DNSH and MSS are prerequisites for alignment, meaning that an activity that fails to align with either cannot be considered taxonomy-aligned. The Australian Taxonomy, however, takes a more flexible approach, with DNSH and MSS reporting being voluntary, meaning that an activity can be assessed as taxonomy-aligned if it, at a minimum, meets the TSC corresponding to that activity. As a further, voluntary, step, companies can report full, partial, or no alignment with applicable DNSH and MSS criteria.

> **Notable differences exist between the Australian and EU Taxonomies, due to underlying local laws and regulations, in both the detailed requirements and the application of these requirements.**

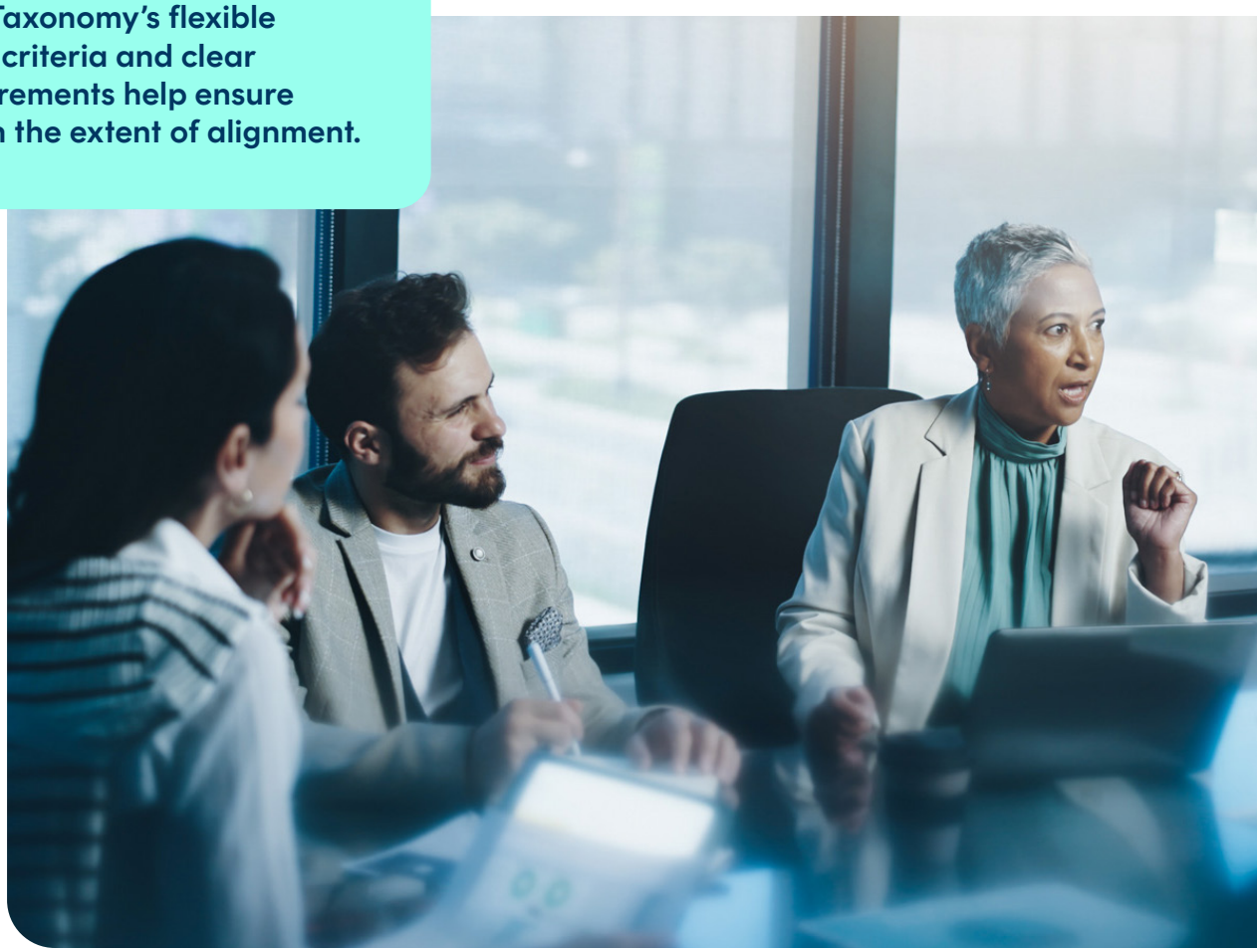
[3] The Australian Taxonomy defines generic DNSH criteria as principles-based criteria defined for each environmental objective. Specific DNSH criteria detail particular requirements for different sectors and activities based on the material impacts of the sector and/or activity that are not covered by the generic criteria.

Australian Taxonomy's Voluntary Approach to DNSH and MSS

Experiences from other jurisdictions suggest that predicating a claim of taxonomy alignment on compliance with DNSH and MSS criteria can pose challenges for companies and financial institutions with differing environmental and social risk management and due diligence processes that collect different information. The resulting discrepancies in the types of information collected may limit taxonomy uptake.

Recognising these barriers, in the development of the Australian Taxonomy, the Taxonomy Technical Expert Group favoured the introduction of flexible DNSH and MSS criteria accompanied by clear disclosure requirements to ensure transparency regarding the extent of alignment flows through to investors and other market participants.

The Australian Taxonomy's flexible DNSH and MSS criteria and clear disclosure requirements help ensure transparency on the extent of alignment.

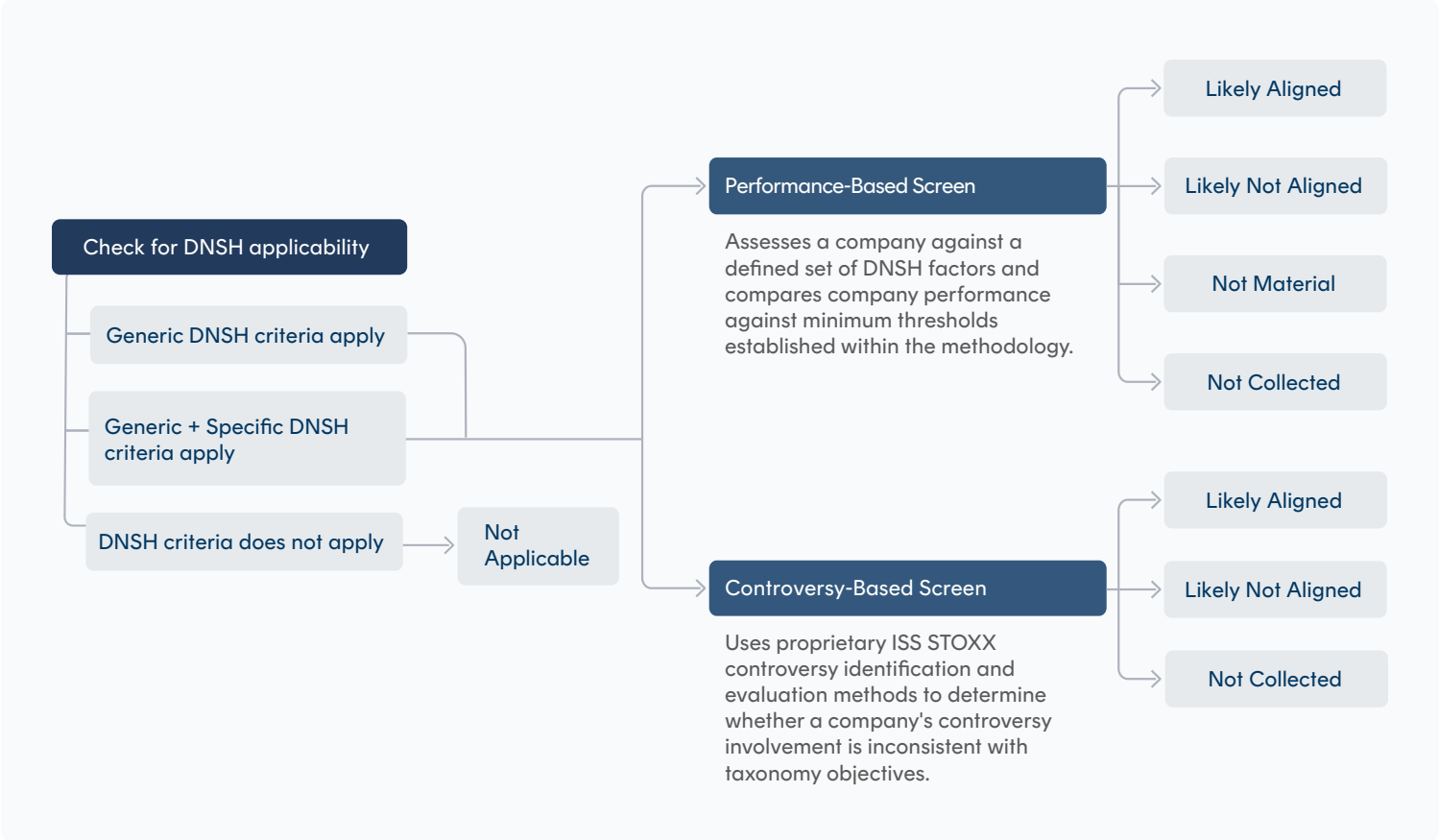


Considering these differences, ISS STOXX designed customized screens to evaluate alignment with the Australian Taxonomy's DNSH and MSS criteria. These screens build on the methodology established for estimating DNSH and MSS compliance under the EU Taxonomy, with the required modifications to address the distinct requirements, flexibility, and design of the Australian Taxonomy.

Application of the different DNSH and MSS screens resulted in varying levels of likely alignment across companies assessed. Further details are presented in the "Analysing Alignment at the Entity and Portfolio Level" section below.

For both the DNSH and MSS estimation, selected approaches included a controversy-based assessment approach that leverages relevant topics within the ISS STOXX Norm-Based Research outputs. A performance-based assessment was also developed that leverages underlying data from ISS STOXX datasets, including the Corporate Rating solution (Figure 5). Appendix B provides more information on the ISS STOXX datasets leveraged for the DNSH and MSS screens.

Figure 5: Example of Applied Screens and Outcomes, Based on Generic DNSH Criteria



Source: *ISS STOXX*

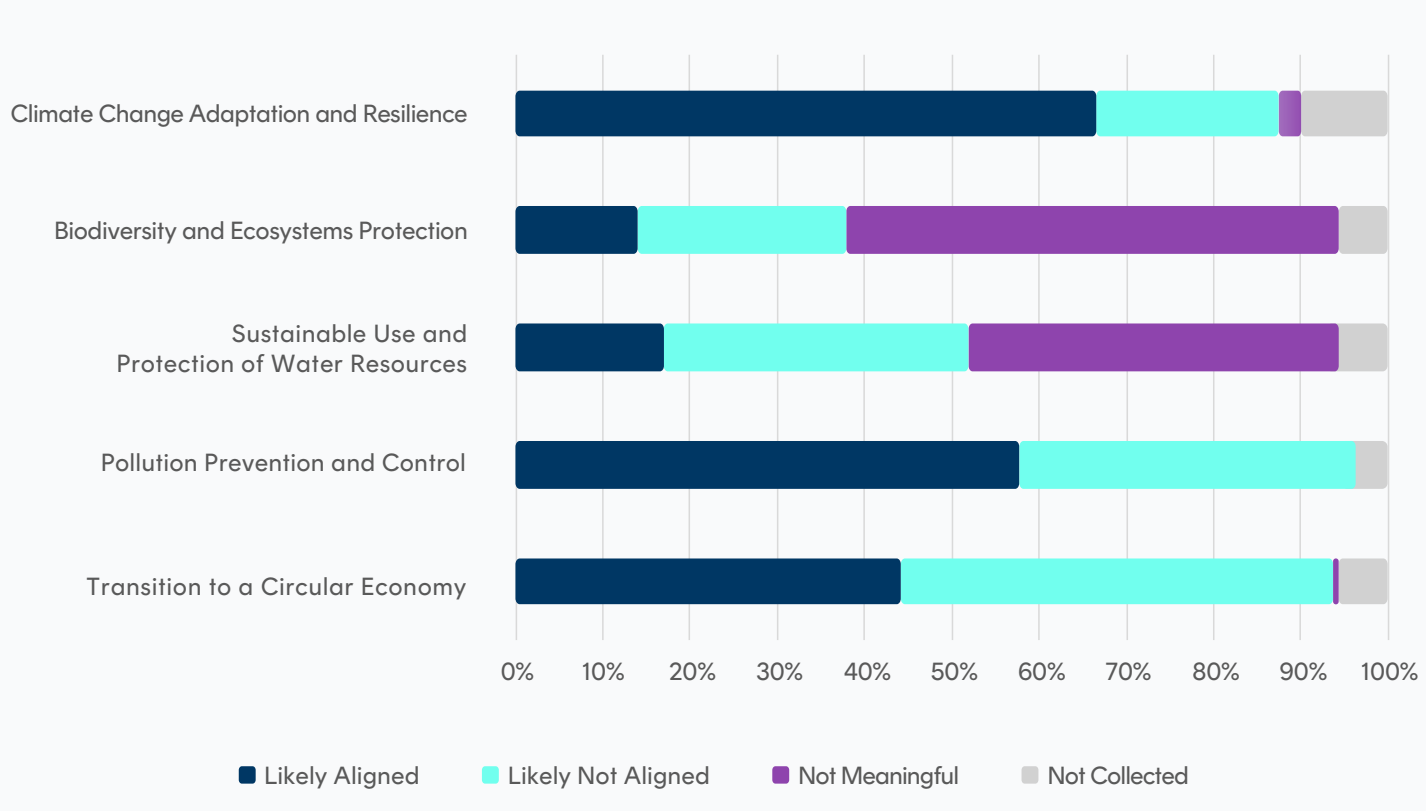
This approach contrasts with the DNSH and MSS application under the EU Taxonomy, which considers all performance-, controversy-, and commitment-based aspects.

In general, rates of alignment are lower when leveraging the performance-based screens than the controversy-based screens. This outcome is expected, as performance-based approaches evaluate the existence of policies, procedures, and management systems designed to prevent harm or misconduct, whereas controversy-based approaches focus on identified incidents.

DNSH Application

The application of performance-based DNSH screens produced significantly different outcomes across the five environmental objectives (Figure 6).

Figure 6: Outcomes of Performance-Based DNSH Screens for ASX 300, across the Five Environmental Objectives



Source: *ISS STOXX*

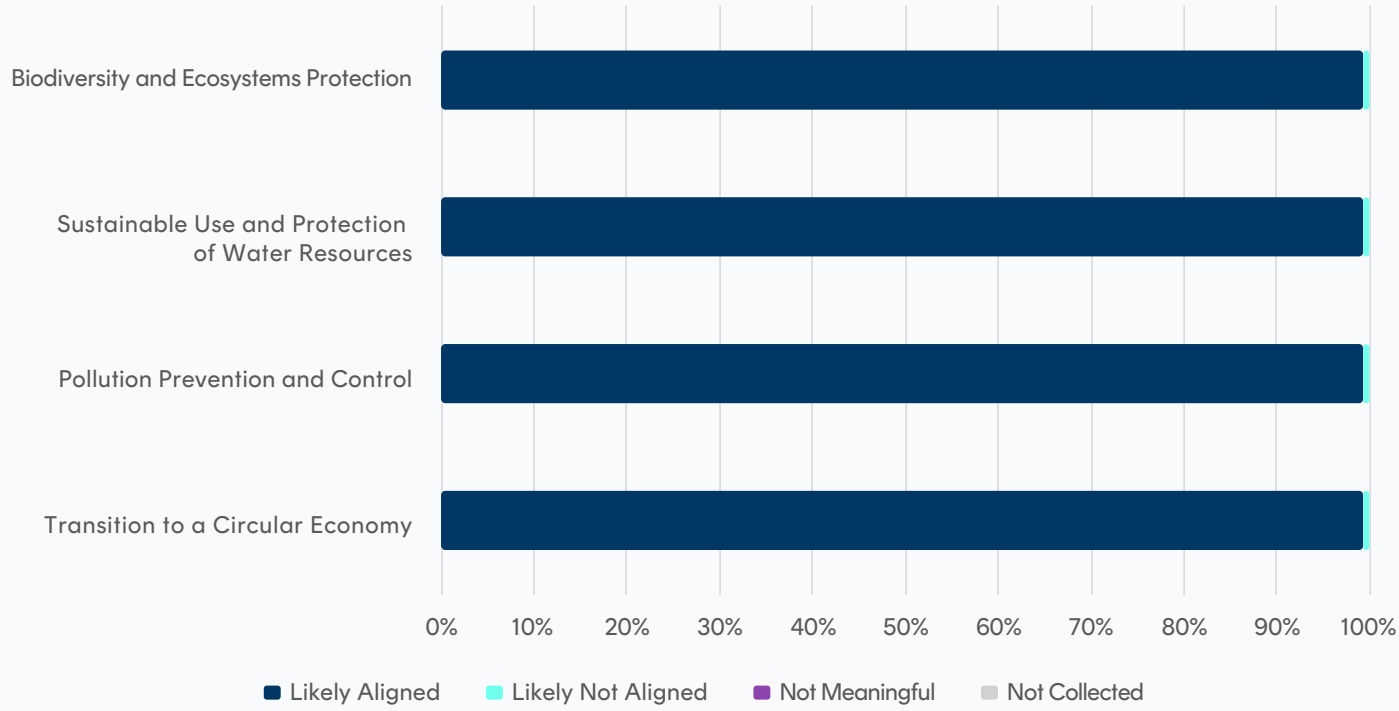
While a majority of entities in the ASX 300 are likely aligned for Climate Change Adaptation and Resilience (66%) and Pollution Prevention and Control (58%), alignment rates are substantially lower for Biodiversity and Ecosystems Protection (14%) and Sustainable Use and Protection of Water Resources (17%).

Lower alignment values are largely driven by the materiality of the underlying indicators used in the screens. These indicators are evaluated only for select industries that are

considered most material, resulting in a high proportion of entities that could not be adequately assessed. In these cases, the entity is considered "Not Meaningful."[4] Where the entity is outside of coverage, the entity is considered "Not Collected."

Conversely, when the controversy-based screen is applied, almost all companies across the ASX 300 are found to be "Likely Aligned" for all environmental objectives (Figure 7).

Figure 7: Outcomes of Controversy-Based DNSH Screens for ASX 300, across the Four Environmental Objectives



Note: *The Controversy-Based DNSH screen does not cover controversies related to Climate Change Adaptation, given the absence of relevant key controversy themes for this environmental objective within the Australian Taxonomy.*

Source: *ISS STOXX*

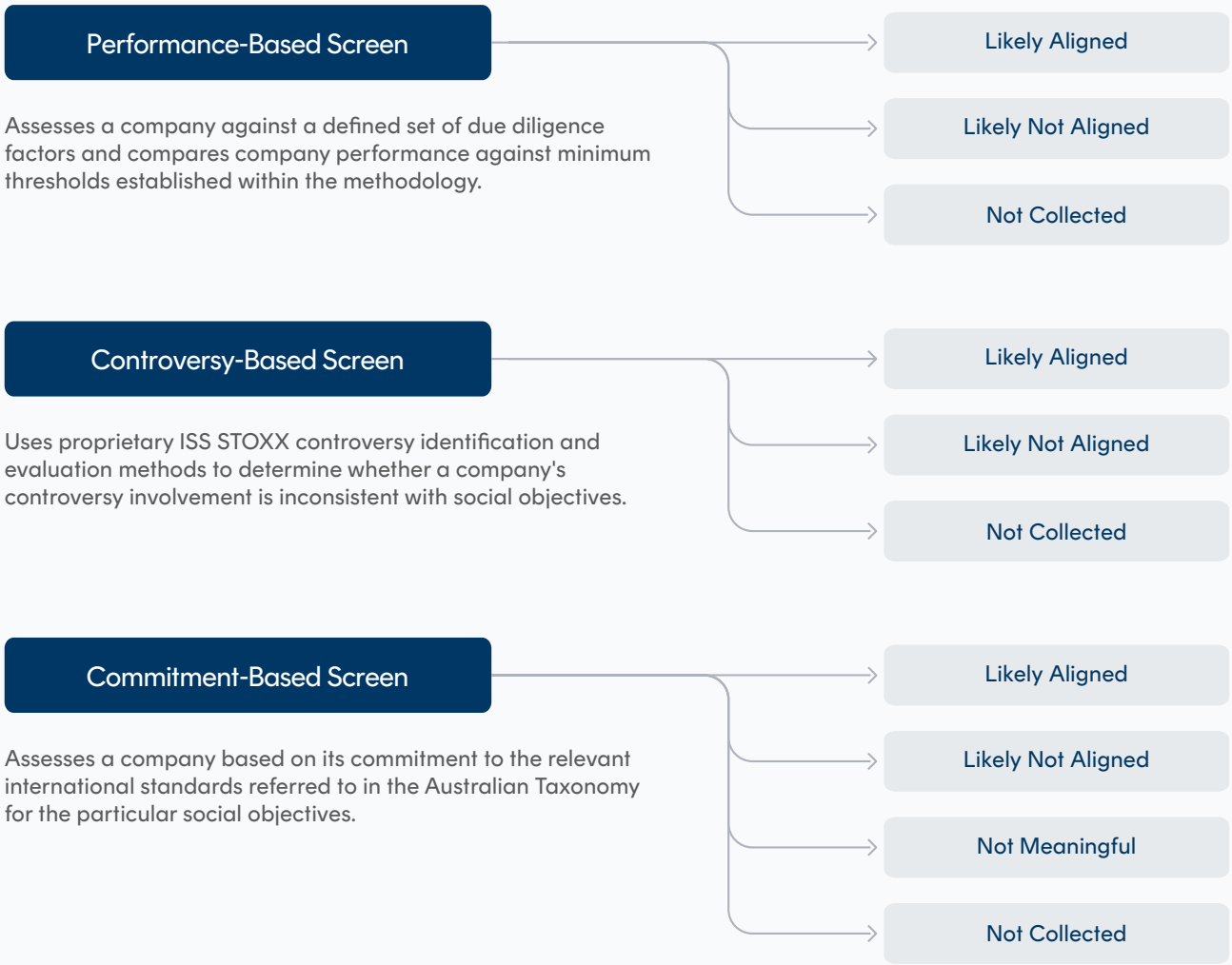
Only four companies are found to be "Likely Not Aligned," as they were involved in "related incidents," defined as credible allegations made against the company for direct involvement in a controversy classified within a thematic area relevant to the environmental objectives. This contrast highlights the differences in DNSH alignment based on varying data sources.

[4] "Not Meaningful" outcomes are considered as likely not aligned to the screening definition within this analysis. Nonetheless, a less conservative approach may consider "Not Meaningful" as "Likely Aligned" due to the fact that the leveraged indicators are deemed not to have a material or significant impact in the economic sector that the company belongs to.

MSS Application

Similar outcomes are observed for the MSS screens, which can be performance-, controversy-, or commitment-based (Figure 8).

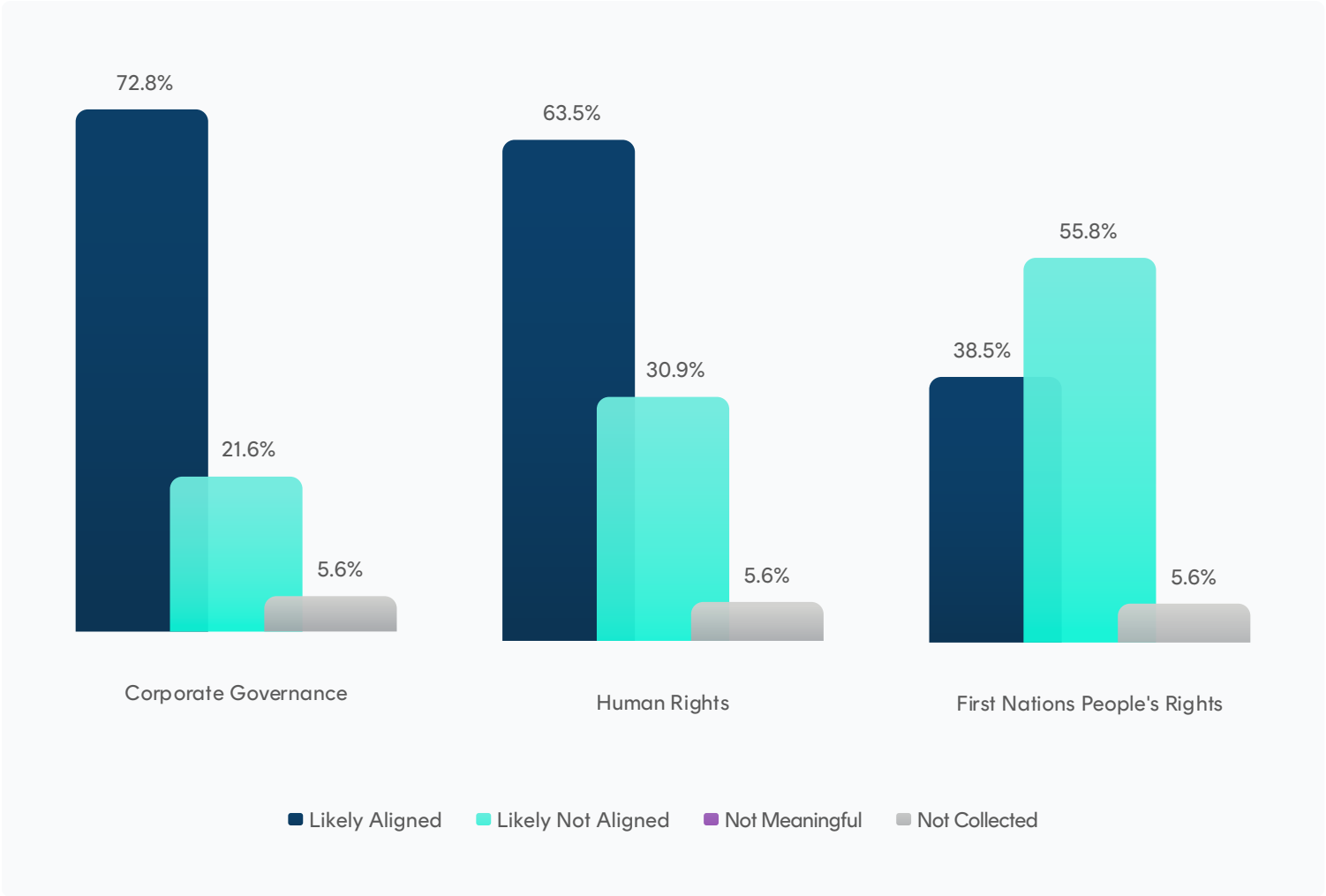
Figure 8: MSS Screens



Source: *ISS STOXX*

Across the ASX 300, a majority of companies are likely aligned with MSS criteria for Corporate Governance (73%) and Human Rights (63%) based on the performance-based screen. However, less than half of the companies are assessed to be aligned with the criteria for First Nations People's Rights and Cultural Heritage (Figure 9).

Figure 9: Outcomes of the Performance-Based MSS Screens for ASX 300, across the Three Social Objectives

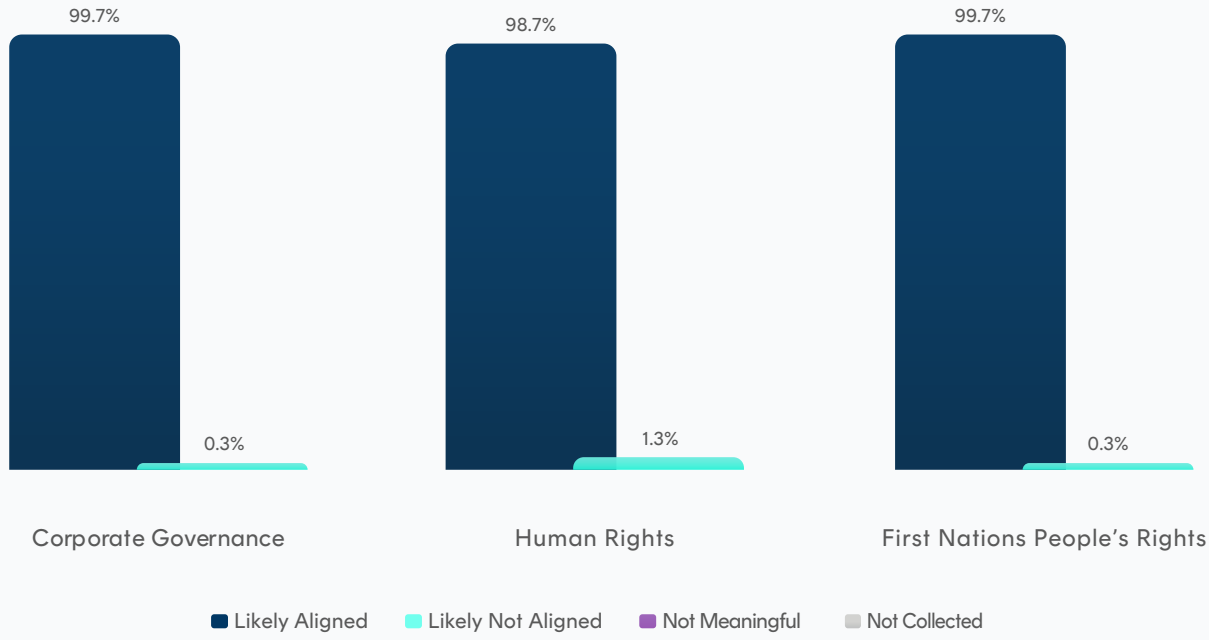


Source: *ISS STOXX*

Unlike some of the DNSH performance-based screens, which are significantly impacted by the materiality of the underlying indicators, the MSS screens are generally more applicable across a broad range of industries. As a result, the MSS performance-based screens achieved more coverage and had fewer entities falling out of coverage.

In contrast to the results of the performance-based screens, the controversy-based screens yield significantly higher rates of likely alignment, with almost all companies passing the screen (Figure 10).

Figure 10: Outcomes of the Controversy-Based MSS Screens for ASX 300, across the Three Social Objectives



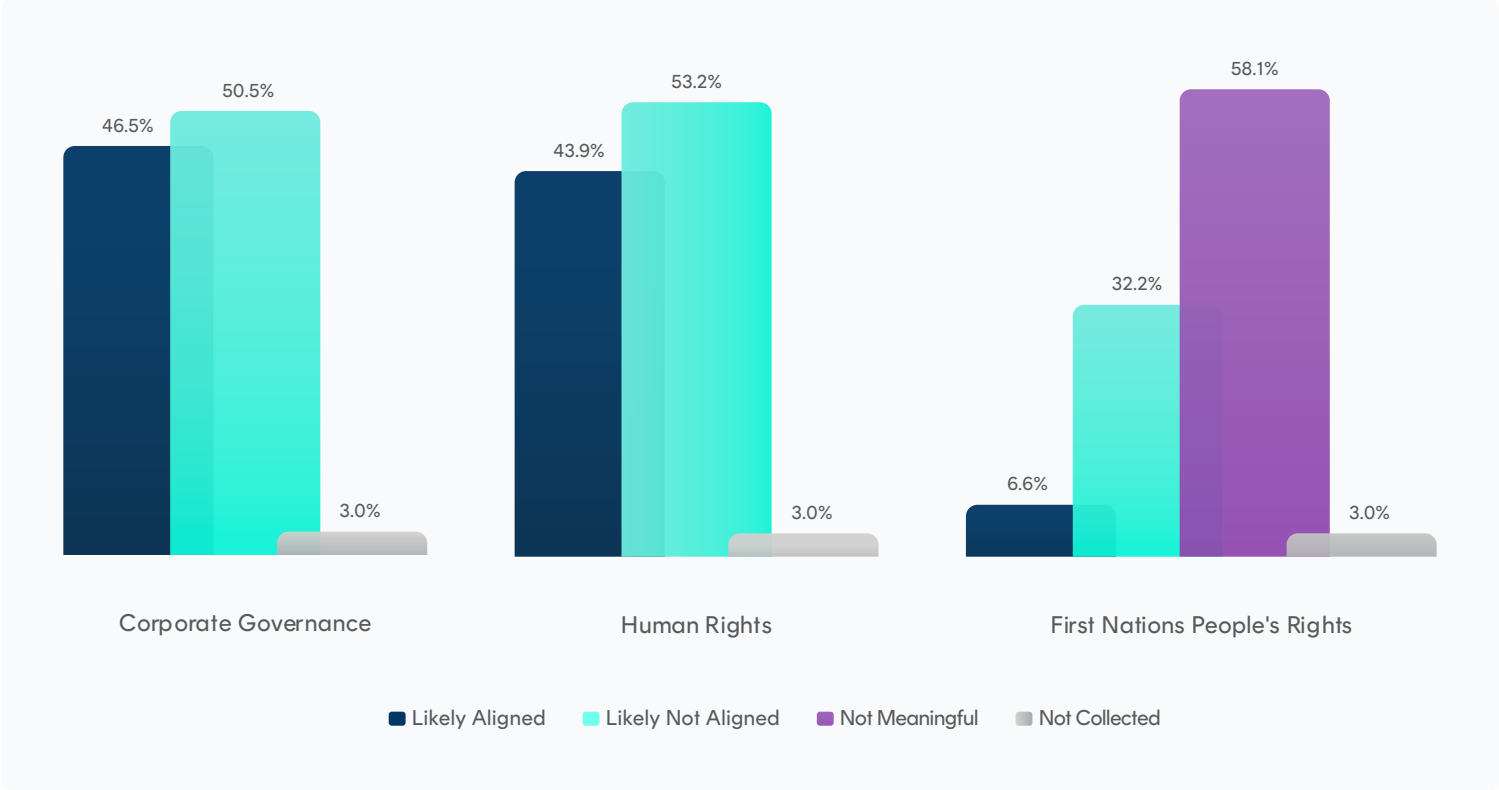
Source: *ISS STOXX*

In addition to the performance- and controversy-based screens, a third approach was applied for MSS specifically. The third approach considered whether companies have made public commitments to the international standards referenced by the Australian Taxonomy.

Under this commitment-based screen, less than half of the ASX 300 are found to be likely aligned for Corporate Governance (47%) and Human Rights (44%) (Figure 11).

> **In contrast to the results of the performance-based screens, the controversy-based screens yield significantly higher rates of likely alignment, with almost all companies passing the screen.**

Figure 11: Outcomes of the Commitment-Based MSS Screen for ASX 300, across the Three Social Objectives



Source: *ISS STOXX*

While alignment is significantly lower for the commitment to relevant standards for First Nations People's Rights and Cultural Heritage (7%), the referenced standards are primarily relevant to sectors with elevated exposure to Indigenous rights, land-use, and cultural heritage risk. Consistent with that, 58% of companies indicate that the referenced standards are not material to their business activities, which leads to a "Not Meaningful" outcome.

Interoperability Conclusions

In summary, the activity mapping and the DNSH and MSS comparison indicate the interoperability between the Australian and the EU Taxonomies. The similarities between the two frameworks, particularly their general structure and technical content, show how EU Taxonomy data can be used to estimate alignment with the Australian Taxonomy.

However, the potential for interoperability may be challenged by differences in the enforceability of the frameworks. The EU Taxonomy is mandatory for all entities under scope while the Australian Taxonomy is an industry-led initiative with voluntary disclosures on DNSH and MSS criteria and different possible outcomes, as shown in the variety of screens that were designed to assess alignment.

Finally, while local taxonomies are expected to reflect local considerations (e.g., the inclusion of mining activities, reflecting the sector's relevance vis-à-vis the Australian economy), these considerations may play a role in the search for framework interoperability. Available data on certain local considerations may be limited. For instance, coverage of MSS assessments under the commitment-based screen is not widely available, as companies are not yet consistently reporting on issues such as relevant standards for First Nations People's Rights and Cultural Heritage.

The following section will explore entity- and portfolio-level alignment under the Australian Taxonomy, leveraging existing ISS STOXX EU Taxonomy data.

Analysing Alignment at the Entity and Portfolio Level

ISS STOXX analysed and compared the overall entity-level alignment for two portfolios under both the Australian and EU Taxonomies: the ASX 300, focused on Australian companies, and the STOXX 1800, comprising global constituents.

Leveraging the activity mapping described above, the total eligible Australian Taxonomy activity revenues were evaluated by summing the corresponding total eligible revenues for the relevant EU Taxonomy activities mapped. Total eligible revenues refer to all revenues from activities that are within scope of the taxonomy.

Activity alignment was subsequently assessed for each Australian Taxonomy activity, leveraging the Substantial Contribution Criteria[5] assessment step within the ISS STOXX EU Taxonomy model. ISS STOXX's EU Taxonomy model provides percentage alignment bands of 10% when estimating activity-level alignment with the defined Substantial Screening Criteria. As the model draws upon underlying inputs across ISS STOXX's datasets, the degree of fit, comparative ambition, and similarities in scope between the EU Taxonomy criteria and the performance requirements underpinning the proxy factor are considered and translated into a percentage alignment band for a more granular estimation. Hence, minimum and maximum alignment revenue percentages were provided within the alignment assessment for increased granularity.

The entity-level assessment aggregated the total Australian Taxonomy activity revenues for each company. The portfolio-level assessment aggregated the entity-level eligibility and alignment, assuming an equally weighted portfolio.

This analysis also considered the distinct approaches to applying DNSH and MSS criteria in the EU and Australian taxonomies (i.e., mandatory under the EU Taxonomy and voluntary under the Australian taxonomy). A baseline alignment excluding DNSH and MSS considerations was first assessed, before being included within the more comprehensive analysis to arrive at a final alignment assessment.

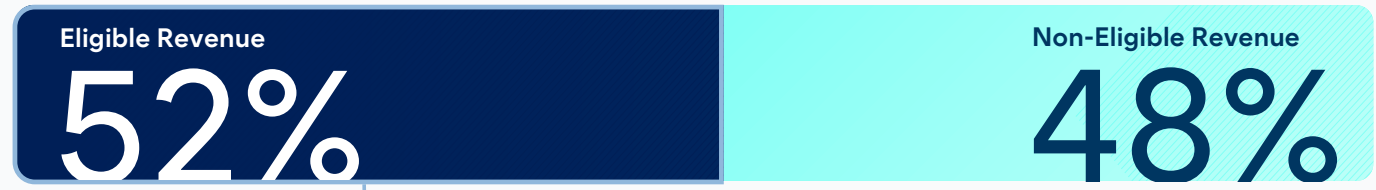
[5] Substantial Contribution Criteria define the relevant criteria that an activity must meet to pass and qualify for alignment under the EU Taxonomy. These criteria are similar in purpose to the Technical Screening Criteria defined under the Australian Taxonomy, though the specific criteria outlined within the two taxonomies might differ.

Entity-Level Revenue Alignment Findings

Case Study: Company A

Company A is an Australian energy company that generates and retails electricity and gas for residential and commercial use. Just over half of the company's revenues are eligible under the EU Taxonomy, where the remaining 48% of revenues are not eligible due to excluded activities, such as telecommunication services, gas supply, and electricity generation from coal.

Figure 12: Company A Revenue Eligibility and Alignment under Australian Taxonomy Based on Existing EU Taxonomy Data



EU Taxonomy Eligible Activities		Activity Mapping	Australian Taxonomy Eligible Activities		Alignment Assessment	Min. Aligned %	Max Aligned %
Electricity generation from wind power	4.1%	→	Energy Generation from Onshore and Offshore Wind	4.3%	→	4.3%	4.3%
Installation, maintenance and repair of renewable energy technologies	0.3%	→					
Electricity generation from hydropower	2.6%	→	Energy Generation from Hydropower	2.8%	→	0.7%	0.9%
Transmission and distribution of electricity	41.1%	→	Transmission and Distribution of Electricity	41.1%	→	0%	0%
Electricity generation from fossil gaseous fuels	3.3%						
Production of heat/cool from fossil gaseous fuels in an efficient district heating and cooling system	1.0%						
			Entity Level Overview	**48.0%**		**4.9%**	**5.2%**

Source: *ISS STOXX and ASFI*

Based on the activity mapping, 48% of total entity-level revenues are also eligible under the Australian Taxonomy. However, when assessing the eligible revenues for Australian Taxonomy alignment, this percentage falls to an approximate alignment of 5%.

These results do not necessarily mean these activities are only marginally aligned according to the Australian Taxonomy. Rather, they are a modelled alignment assessment using existing EU Taxonomy data and proxy mapping. As such, the data necessary for proxy mapping is not always available, for two reasons: first, an exact mapping of the activity scope between the two selected taxonomies is not always possible, which makes it necessary to rely on other proxies, such as those classified as "strong," "sufficient," and "weak"; and, second, there is no preexisting EU Taxonomy data that can be used to assess eligibility and alignment to unique Australian Taxonomy activities.

For instance, the low alignment percentage could also be attributed to differences in Technical Screening Criteria for the *Transmission and Distribution of Electricity* activity, which represents over 40% of the issuer's eligible revenue. Under the EU Taxonomy framework, this activity requires, for instance, that "more than 67% of newly enabled generation capacity in the system is below the generation threshold value of 100 gCO2e/kWh, measured on a life cycle basis in accordance with electricity generation criteria, over a rolling five-year period." Using EU Taxonomy data as a proxy may show lower levels of alignment compared to the Technical Screening Criteria under the Australian Taxonomy, which does not include a criterion based on emissions threshold.

In terms of the voluntary DNSH and MSS criteria, the company fares well across all dimensions of analysis and is assessed as "Likely Aligned" with all screening criteria across the performance-based, controversy-based, and commitment-based screens.

Case Study: Company B

Company B is a Nordic energy company that develops, constructs, and operates offshore wind farms. The company has a high proportion of eligible activities with the Australian Taxonomy, given its main operations in renewable energy generation. When assessed for alignment, all eligible activities show as aligned, with a baseline entity-level alignment percentage of 91%.

Figure 13: Company B Revenue Eligibility and Alignment under the Australian Taxonomy Based on Existing EU Taxonomy Data



EU Taxonomy Eligible Activities		Activity Mapping	Australian Taxonomy Eligible Activities		Alignment Assessment	Min. Aligned %	Max Aligned %
Electricity generation from wind power	78%	→	Energy Generation from Onshore and Offshore Wind	78%	→	78%	78%
Electricity generation using solar photovoltaic technology	1%	→	Energy Generation from Solar PV and CSP (including electricity, heating, cooling)	1%	→	1%	1%
Cogeneration of heat/cool from bioenergy	12%	→	Energy Generation from Bioenergy (including electricity, heating, cooling)	12%	→	12%	12%
Storage of electricity	0%	→	Storage of Electricity	0%	→	0%	0%
High-efficiency co-generation of heat/cool and power from fossil gaseous fuels	0%		**Entity Level Overview**	**91%**		**91%**	**91%**

Source: *ISS STOXX and ASFI*

The remaining, non-eligible EU Taxonomy revenue comes from the company's operations in gas sales, coal-based power generation, and oil-based power generation and distribution. Under the Australian Taxonomy, these are also non-eligible activities.

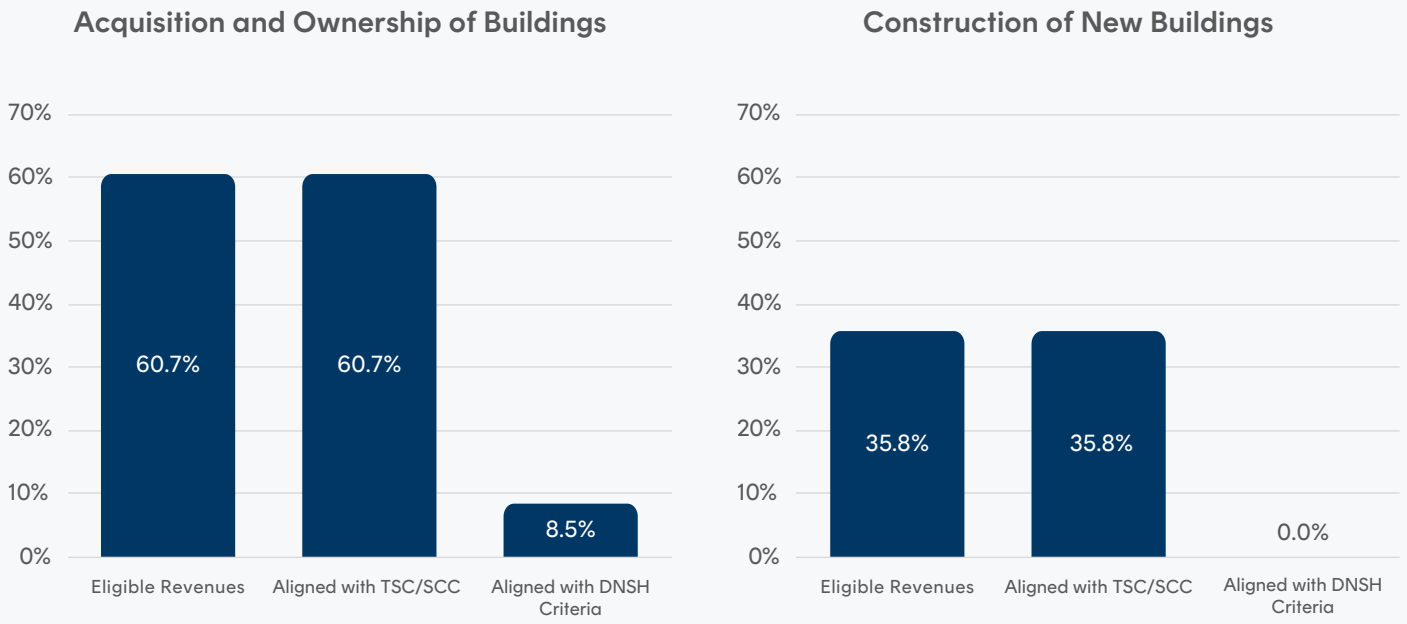
In terms of the voluntary DNSH and MSS criteria, the company also fares well across all performance-based, controversy-based, and commitment-based dimensions.

Case Study: Company C

Generally, consolidated EU Taxonomy-aligned revenues are higher than Australian Taxonomy-aligned revenues. However, the opposite scenario is also possible, where revenues are not aligned with the DNSH and MSS criteria under the EU Taxonomy but could be aligned under the Australian Taxonomy, depending on the type of screening used.

One such example is Company C, which is a real estate company based in Germany: 96.5% of Company C's revenues come from two activities that are both eligible under the EU and Australian taxonomies. These two activities are *Acquisition and Ownership of Buildings* and *Construction of New Buildings*.

Figure 14: Company C Revenue Eligibility and TSC/SCC and DNSH Criteria Alignment under EU and Australian Taxonomies



Note: *TSC/SCC = Technical Screening Criteria/Substantial Contribution Criteria; DNSH = Do No Significant Harm*

Source: *ISS STOXX*

While all the eligible revenues are also aligned with the respective Technical Screening Criteria/Substantial Contribution Criteria for the Climate Change Mitigation objective, the percentage of revenue assessed to be aligned with the EU Taxonomy's DNSH criteria drops to 8.5% (attributable to the *Acquisition and Ownership of Buildings* activity).

As the application of DNSH and MSS screening are voluntary under the Australian Taxonomy, baseline alignment remains at 96.5% even if the DNSH criteria were not applied.

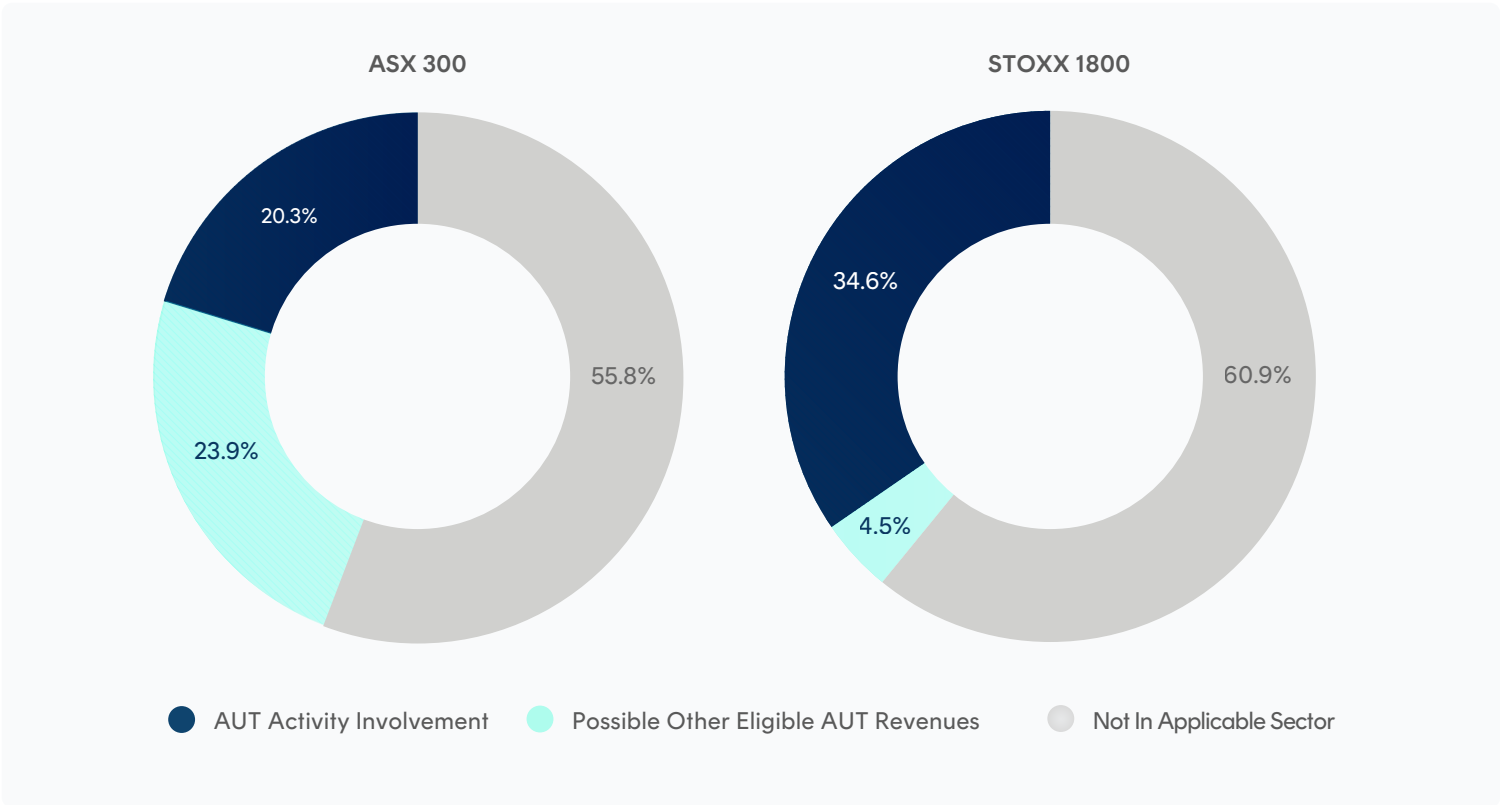
Portfolio Alignment Findings

Financial market participants often require portfolio-level data to inform use cases that range from portfolio construction and benchmarking to disclosure of portfolio-based transition plans. As part of this project, ISS STOXX compared the eligibility and alignment assessments at the portfolio level under the Australian and EU Taxonomies. The ASX 300 and STOXX Global 1800 indices were used as example portfolios to provide both a local and global perspective.

Understanding the Portfolio Composition

Before comparing portfolio alignment assessment, it is important to understand the portfolio composition of the two indices. More than half of both portfolios consist of companies which are in sectors not covered by the Australian Taxonomy, such as financial and insurance, telecommunications, publishing, and real estate, as well as part of the manufacturing sector (Figure 15).

Figure 15: Percentage of Portfolio with Involvement in Eligible Australian Taxonomy Activities



Source: *ISS STOXX*

The ASX 300 also has a higher percentage of companies which are in the mining NACE sector, at 23.9% compared to 4.5% within the STOXX 1800. These companies are highlighted as having possible eligible revenues under the Australian Taxonomy, considering the minerals, metals, and mining activities defined within this framework. However, these are currently not considered within our mapping as there is no equivalent activity under the EU Taxonomy.

Combined, these reasons lead to a relatively low percentage of overall alignment ("Baseline AUT/EUT-Aligned Revenues" in Figures 16 and 17) observed in both portfolios.



The ASX 300 and STOXX 1800 portfolios have relatively low overall alignment with the Australian and EU taxonomies because of the relatively small portion of companies in both portfolios covered by both taxonomies.

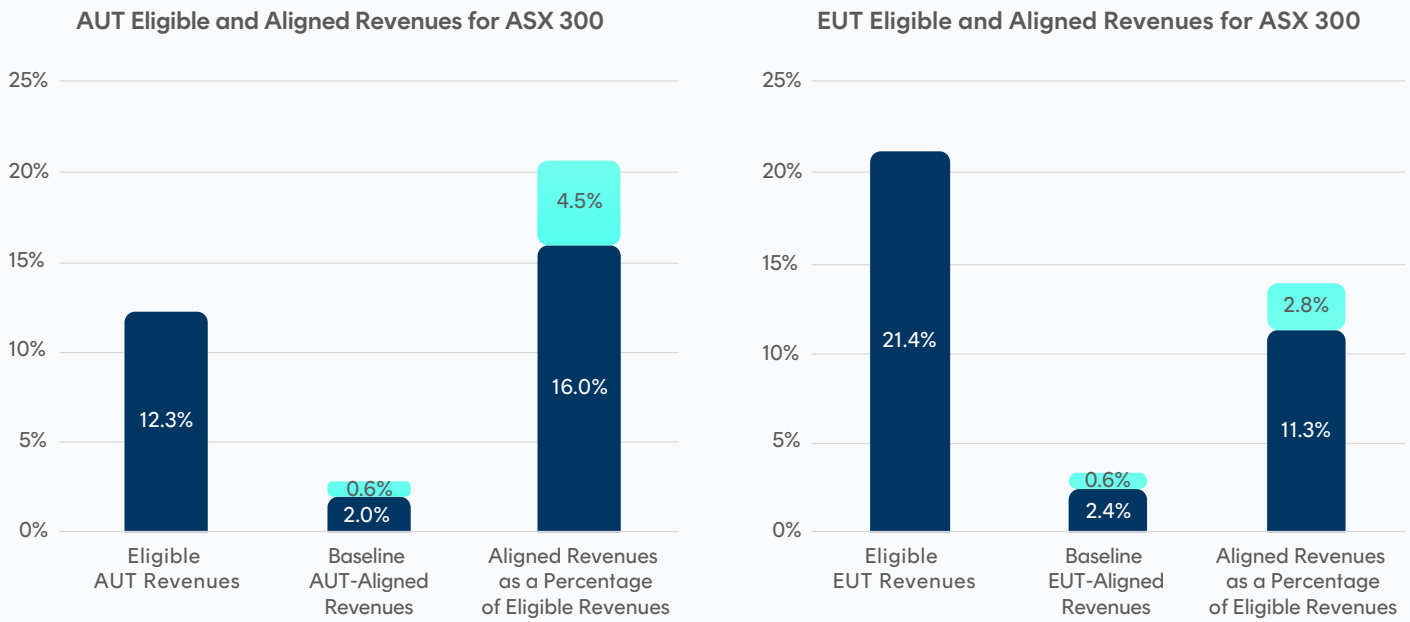
The portfolio assessment is conducted in two phases. To ensure a fair comparison between taxonomies, portfolios were compared based on the baseline revenue alignment to the respective taxonomy's Technical Screening Criteria/Substantial Contribution Criteria for the Climate Change Mitigation objective. This means that EU Taxonomy alignment for the other five environmental objectives were not evaluated. Subsequently, DNSH and MSS criteria were integrated and the integrated criteria's impact on portfolio alignment was assessed.

Comparing Portfolio Eligibility and Alignment under the Australian and EU Taxonomies

ASX 300 Baseline Eligibility and Alignment (without DNSH and MSS Integration)

Total aggregated portfolio eligibility is relatively low under both frameworks, standing at 12.3% for the Australian Taxonomy and 21.4% for the EU Taxonomy.

Figure 16: Comparison of Australian and EU Taxonomy Alignment for the ASX 300



Note: *Dark blue areas highlight the minimum alignment percentages while the light blue shaded areas highlight the additional alignment considering the maximum revenue threshold percentages.*

Source: *ISS STOXX*

This is expected, as both taxonomies focus on activities and sectors which materially contribute to climate change mitigation and other positive environmental impacts. Portfolio constituents operating outside of these sectors are considered non-eligible under both taxonomies.

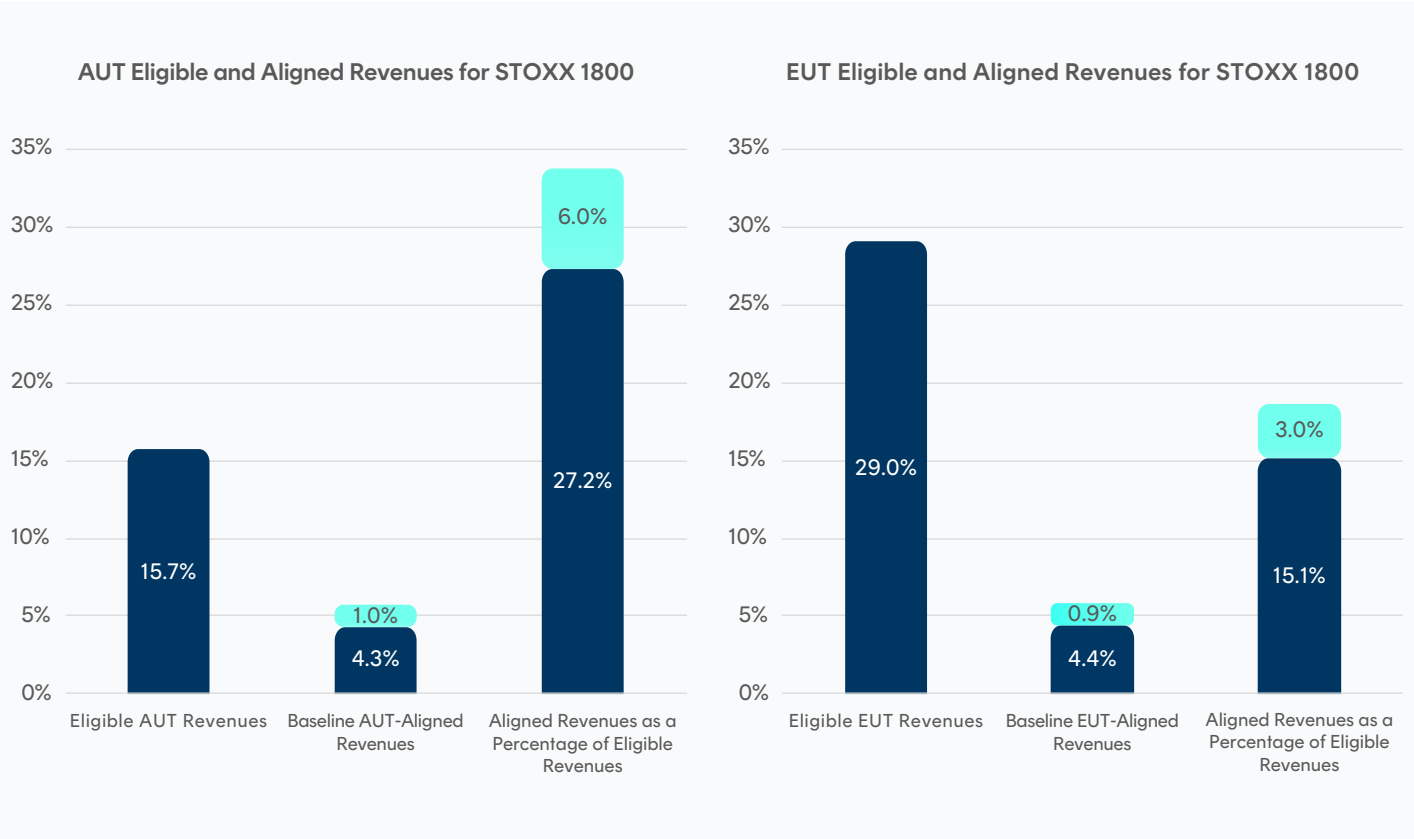
Assessed portfolio eligibility under the Australian Taxonomy is approximately half that under the EU Taxonomy. This finding is consistent with observations at the entity level, where nuances of the regional economy and sectors within the Australian Taxonomy are not yet captured within the current phase of the project. Looking at the ASX 300 composition in Figure 15, 23.9% of the portfolio is likely to have some eligible revenues under the Australian Taxonomy but there is no available equivalent EU Taxonomy data that can be used as a proxy. Total portfolio eligibility and alignment may increase when this data gap is filled.

Overarchingly, the total baseline portfolio alignment levels, without the integration of DNSH and MSS criteria, are similar under both the Australian and EU Taxonomies, as shown in Figure 16. This points back to the similarities between the Australian and EU Taxonomy activities, further strengthening the premise that the latter is a useful framework to assess alignment with the former. A potential expansion of the estimation model to include unique Australian Taxonomy activities may lead to higher levels of eligibility and alignment compared to those observed under the EU Taxonomy.

STOXX 1800 Baseline Eligibility and Alignment (without DNSH and MSS Integration)

A similar picture emerges when comparing the portfolio-level assessment for the STOXX 1800 global index. The percentage of eligibility under the Australian and EU taxonomies remains broadly consistent with the ASX 300 comparison, as is the reduction of portfolio alignment from the total portfolio eligibility.

Figure 17: Comparison of Australian and EU Taxonomy Alignment for the STOXX 1800



Note: *Dark blue areas highlight the minimum alignment percentages while the light blue shaded areas highlight the additional alignment considering the maximum revenue threshold percentages.*

Source: *ISS STOXX*

Furthermore, the difference between the baseline portfolio alignments of the two taxonomies is even smaller than that of the ASX 300, standing at only a 0.04% difference.

Portfolio Alignment Considering Application of DNSH and MSS Criteria

This picture changes quite drastically when we look at a key area of divergence between the two taxonomies: the application of DNSH and MSS criteria in the overall alignment assessment. While both DNSH and MSS are prerequisites for alignment per the EU Taxonomy, the Australian counterpart adopts a more flexible approach.

As outlined in the "Implementation of the Activity Mapping and DNSH and MSS Comparison" section, ISS STOXX has developed a series of screens to provide flexibility in assessing DNSH and MSS considerations under the Australian Taxonomy. Figure 18 outlines the minimum revenue alignment as a percentage of eligible revenues, across the application of various combinations of DNSH and MSS screens for both the ASX 300 and STOXX 1800 portfolios.

Figure 18: Minimum Baseline Revenue Alignment and Minimum Revenue Alignment with DNSH and MSS Screens Applied under the Australian Taxonomy

ASX 300

Baseline Alignment	16.0%

MSS \ DNSH	Controversy Screen	Performance Screen
Controversy Screen	16.0%	4.2%
Performance Screen	8.5%	2.9%
Commitment Screen	0.2%	0.1%

STOXX 1800

Baseline Alignment	27.2%

MSS \ DNSH	Controversy Screen	Performance Screen
Controversy Screen	25.7%	2.6%
Performance Screen	16.5%	2.1%
Commitment Screen	1.2%	0.3%

Note: *Figure shows minimum baseline revenue alignment and minimum revenue alignment, drawing on Technical Screening Criteria/Substantial Contribution Criteria, Do No Significant Harm criteria, and Minimum Social Safeguards criteria application as percentages of eligible revenues of ASX 300 and STOXX 1800 indices under the Australian Taxonomy.*

Source: *ISS STOXX*

The alignment values differ widely across the combinations, with the application of controversy-based screens for both DNSH and MSS having the highest alignment, which is at most less than two percentage points lower than the baseline portfolio alignment. In contrast, applying the forward-looking commitment-based MSS screen reduced the weighted alignment levels the most, primarily due to the low number of companies that commit to relevant standards relating to First Nations People's Rights and Cultural Heritage.

This highlights the flexibility of the Australian framework, where different combinations and/or strictness levels of the DNSH and MSS dimensions can be applied depending on portfolio management strategy, portfolio focus, or investment risk assessment.

The above analysis in Figure 18 applied the screens across all five DNSH environmental objectives and three MSS social objectives but even more granular application of the screens can also be performed. For example, a portfolio manager of a thematic fund focused on water use (SDG 6 on Clean Water and Sanitation, SDG 14 on Life Below Water) might want to apply only the DNSH screen for Water alongside all three MSS pillars.

In contrast, ISS STOXX provides a singular estimate for portfolio alignment under the EU Taxonomy, where the DNSH and MSS criteria under the EU Taxonomy consider all aspects of performance, commitment as well as controversies (Figure 19).

Figure 19: Minimum Baseline Revenue Alignment and Minimum Revenue Alignment with DNSH and MSS Screens Applied under the EU Taxonomy

ASX 300		STOXX 1800	
Baseline EUT Alignment	11.3%	Baseline EUT Alignment	15.1%
EUT Alignment with DNSH and MSS Application	9.2%	EUT Alignment with DNSH and MSS Application	11.5%

Note: *Figure shows minimum baseline revenue alignment and minimum revenue alignment, drawing on Technical Screening Criteria/Substantial Contribution Criteria, Do No Significant Harm criteria, and Minimum Social Safeguards criteria application, as percentages of eligible revenues of ASX 300 and STOXX 1800 portfolios under the EU Taxonomy.*

Source: *ISS STOXX*

Though the differences between the consolidated alignment and baseline alignment are similar in range to those under the Australian Taxonomy assessment, the overall consolidated EU Taxonomy alignment is lower than that of applying the controversy screens under the consolidated Australian Taxonomy alignment.

Outlook

Ongoing collaboration between key jurisdictional and market-based taxonomy custodians is important to build consensus around credible definitions for green and transition finance.

Initiatives to establish interoperability through direct comparisons of taxonomy criteria, such as the Common Ground Taxonomy, are valuable but not the only means by which to facilitate convergence between taxonomies.

Sustained engagement between jurisdictional and market-based taxonomy custodians is important to advance common parameters for taxonomy design that build on credible benchmarks, guardrails, safeguards, and capital market standards. Alignment at this level can strengthen consensus around the appropriate parameters for defining green and transition finance, thereby flowing through to design and establishing a basis upon which equivalence and interoperability can be advanced over time.

This is especially true of jurisdictions with voluntary taxonomies: while granular methods of comparison may be necessary between jurisdictions with mandatory taxonomy reporting, they are not the only means to establish interoperability.

“Ongoing collaboration between key jurisdictional and market-based taxonomy custodians is important to build consensus around credible definitions for green and transition finance.

Engaging with key jurisdictional and market-based counterparts around credible approaches to taxonomy design and principles-based alignment is a central focus for ASFI. Examples of current engagement include, but are not limited to, the following:

- **European Union**

  ASFI engages through the International Platform on Sustainable Finance and other fora, including to advance a common approach to integrating upstream minerals extraction in sustainable finance frameworks.

- **Canada**

  The Australian Taxonomy has been identified by Canadian investors as the highest priority for the Canadian Taxonomy (currently under development) to pursue interoperability with. ASFI and Canadian taxonomy developers share insights on common technical approaches and market uses.

- **Climate Bonds Initiative**

  ASFI enlisted CBI as technical partners to develop the Australian Taxonomy, with an explicit focus to align the Australian taxonomy's methodology and criteria design with the CBI Taxonomy, which is closely aligned with the EU Taxonomy. CBI selected the Australian Taxonomy as the first external taxonomy to be formally recognised under the CBI Standard, meaning compliance with the Australian Taxonomy will be recognised as equivalent to compliance with the CBI Taxonomy.

- **Asia-Pacific**

  ASFI and taxonomy custodians in China, Hong Kong SAR, and Singapore are engaged in dialogue to explore approaches to regional interoperability to support cross-border capital flows. The New Zealand Taxonomy is prioritising alignment with the Australian Taxonomy, and ASFI engages with New Zealand counterparts regularly to align on technical approaches to classification and criteria design.

- **ASEAN**

  ASFI and counterparts responsible for the development of the ASEAN taxonomy have engaged extensively on common technical approaches to sectors and activities and market uses.

The evolution of taxonomies from development to implementation also demands a broader view of interoperability that extends to how they are used in practice.

Harmonising taxonomy rule sets and ancillary guidance for different use cases can enhance the consistency and comparability of information and data solutions alike, thereby strengthening the case for uptake among companies and capital markets.

A Robust Multi-Framework Approach Can Provide a Foundation for Practical Applications of Cross-Taxonomy Assessments

Practically, cross-taxonomy assessments should not only highlight convergence and interoperability but also recognize and reflect the points of divergence between the taxonomies. While interoperability between the Australian and EU Taxonomies is high, taxonomy users should be aware of the differences in the underlying scope of activities, technical screening criteria, and DNSH and MSS requirements. High-level alignment figures should not be automatically assumed to be equivalent or interchangeable.

Proxy-based assessments, like those utilized for Australian Taxonomy DNSH and MSS criteria in this report, provide a reasonable basis for assessing likely alignment where company disclosure on taxonomy alignment is unavailable. This is particularly important in jurisdictions with voluntary taxonomies where reporting metrics on environmental and social risk management are often disparate.

These findings lay the groundwork for the development of a multi-framework approach to support the assessment of alignment with the Australian Taxonomy. A future approach may build on the foundations established through the interoperability analysis presented in this report and may leverage the EU Taxonomy, as well as other proprietary sustainability-related data, to further close data gaps identified between the taxonomies.



Appendix A: Methodological Approach

Mapping Climate Change Mitigation Activities

Australian Taxonomy activities were mapped to corresponding EU Taxonomy activities to assess which could serve as proxies for eligibility under the Australian Taxonomy. While the initial mapping exercise revealed overlap in scope, it did not fully capture the extent to which the proxies could indicate alignment with the Technical Screening Criteria (TSC) under the Australian Taxonomy. Therefore, additional analysis was conducted to compare the TSC with the respective Substantial Contribution Criteria under the EU Taxonomy.

Based on the degree of alignment of both scope and TSC, equivalent EU Taxonomy activities were assigned a proxy signal ranging from weak to exact (Figure A.1).

Figure A.1: Proxy Signal for the Strength of the Activity Mapping between the Australian Taxonomy and Its Corresponding EU Taxonomy Proxy

Exact

- The screening criteria of the Australian activity and the corresponding EU activity are fully aligned, and the scope of the EU activity falls fully within the scope of the Australian activity, or both have equivalent scope and intended coverage.
- Alignment with the EU activity provides a highly reliable indication of alignment with the Australian activity.

Strong

- The screening criteria of the Australian activity and the corresponding EU activity are highly aligned, with some minor differences. The scope of the activities may be the same, or the EU activity may be slightly broader, but the majority of activities remain relevant.
- Alignment with the EU activity is a strong indication of alignment with the Australian activity.

Sufficient

- Some screening criteria align, but notable differences exist. Generally, the Australian activity's criteria are stricter. The scope of the activities may be similar, or the EU activity may be materially broader in scope.
- Alignment with the EU activity is a reasonable indication of alignment with the Australian activity, but further assessment may be warranted.

Weak

- The screening criteria of the activities have limited alignment. The activities may have similar scopes, or the EU activity extends significantly beyond the bounds of the Australian activity.
- Alignment with the EU activity provides limited evidence of alignment with the Australian activity, and more assessment against the Australian activity and criteria is needed.

Source: *ISS STOXX*

Adapting DNSH and MSS Screens for the Australian Taxonomy

The generic DNSH and MSS criteria under the Australian and EU Taxonomies were compared. Comparison showed significant overlap between many of the underlying principles and objectives of the frameworks. However, due to underlying local laws and regulations, notable differences exist between the taxonomies, in both the detailed requirements and the application of these criteria.

At a high level, the Australian and EU Taxonomies diverge in how they apply DNSH and MSS criteria in the overall alignment assessment. Both DNSH and MSS are considered a prerequisite for EU Taxonomy alignment, meaning that an activity failing to align with either cannot be considered Taxonomy aligned. The Australian Taxonomy, however, takes a more flexible approach, with DNSH and MSS reporting being voluntary in nature, meaning that companies can report alignment with Technical Screening Criteria with either full, partial, or no alignment with applicable DNSH and MSS criteria.

Considering these differences, it was determined that the existing EU Taxonomy DNSH and MSS assessments would not serve as adequate proxies for the Australian Taxonomy requirements. Instead, customized proxy-based screens were created to evaluate alignment with the Australian Taxonomy's DNSH and MSS criteria. These screens build on the methodology established for assessing DNSH and MSS under the EU Taxonomy but incorporate modifications to address the distinct requirements, flexibility, and design of the Australian Taxonomy.

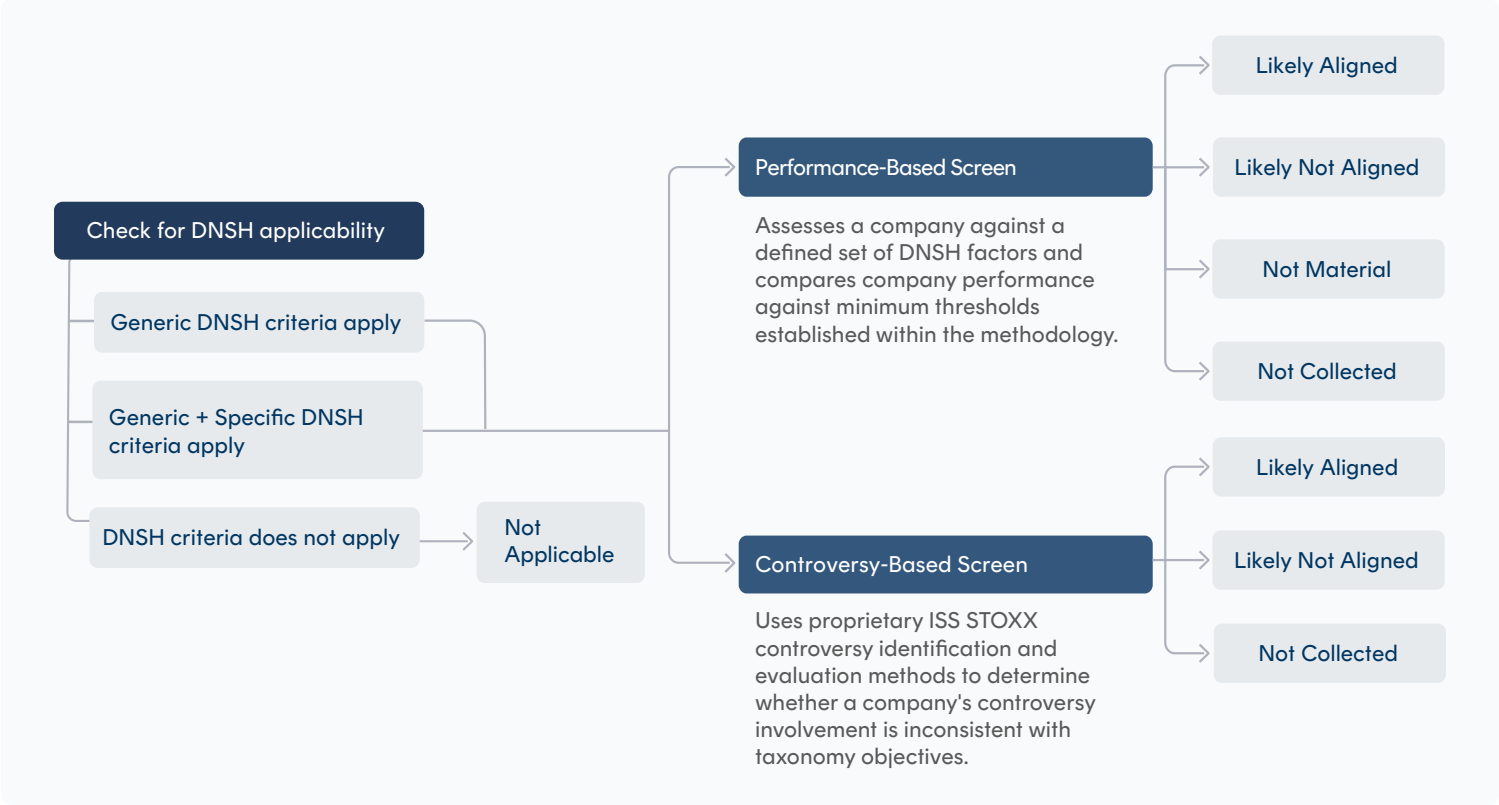
Methodology for Assessing DNSH Alignment

The Australian and EU Taxonomies each define generic criteria that apply across the environmental objectives. The strongest alignment between the two was observed for the requirements related to *Climate Change Adaptation and Resilience* and *Biodiversity and Ecosystem Protection*, while greater divergence exists for the remaining three objectives. Most notably, the Australian Taxonomy includes generic DNSH criteria for *Transitioning to a Circular Economy*, whereas the EU Taxonomy does not.

Both frameworks apply DNSH criteria at the activity level, although the extent to which generic criteria may apply or be supplemented by additional specific DNSH requirements varies. However, an entity-level approach was adopted as a practical means of evaluating alignment with generic DNSH criteria: this approach reflects the fact that relevant sustainability information is more commonly disclosed, collected, and evaluated at the company level. Accordingly, proxy-based screens were created to assess the likelihood that a company meets the generic DNSH expectations of the Australian Taxonomy.

Two types of DNSH screens were developed (Figure A.2).

Figure A.2: Applying DNSH Screens under the Australian Taxonomy



Source: *ISS STOXX*

The first was based on entity-level performance, drawing mainly on ISS STOXX'S Corporate Rating. For these performance-based screens, relevant proxy indicators were identified for the criteria related to each environmental objective. Companies' Corporate Rating scores for the relevant indicators are then translated into an alignment assessment of either 'Likely Aligned' or 'Likely Not Aligned.'

The second type of screen draws on ISS STOXX's Norm-Based Research, which assesses companies' involvement in and responses to controversies. Under this approach, companies are flagged if they are directly linked to substantiated controversies within thematic areas relevant to a given environmental objective. Companies identified as being involved in cases meeting these criteria are assessed as 'Likely Not Aligned' with the DNSH requirements for that objective. If no relevant controversies were identified, then the company is considered 'Likely Aligned.'

These two types of assessments offer different perspectives on the topic of DNSH. The performance-based screen offers a preventative or forward-looking perspective, assessing whether the company has adequate procedures in place to avoid causing significant harm. Alternatively, the controversy-based approach is backward-looking, identifying if the company caused or contributed to significant harm.

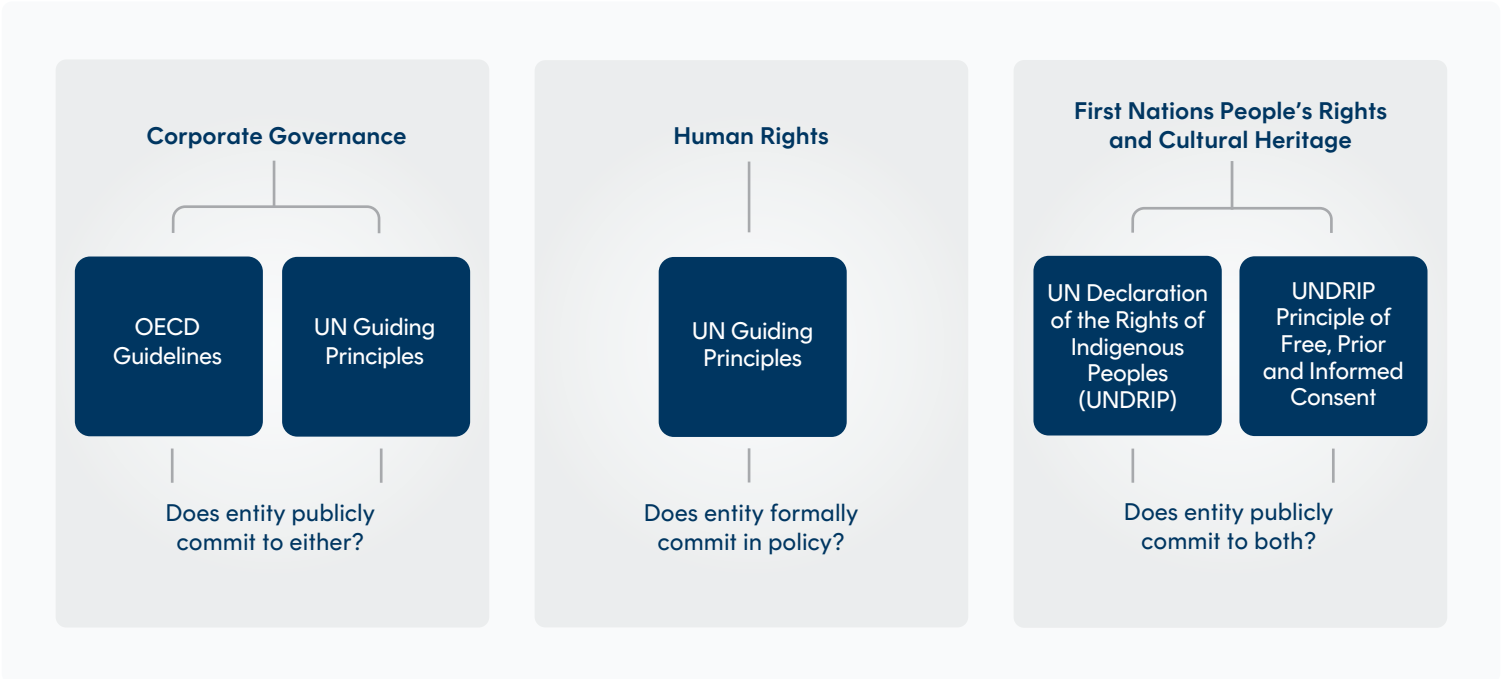
Methodology for Assessing MSS

The Australian and EU Taxonomies take slightly different approaches to MSS. The EU Taxonomy considers MSS primarily through alignment with international standards, with the existence of appropriate due diligence serving as a key indicator of compliance. In contrast, the Australian Taxonomy adopts an approach more closely aligned with its DNSH framework, defining explicit criteria and indicators across the topics of *Corporate Governance, Human Rights*, and *First Nations People's Rights and Cultural Heritage*. Despite these differences in approach, the Australian MSS criteria are grounded in global norms that are reflected in the EU approach. As a result, the two frameworks still demonstrate a meaningful degree of convergence on several core social safeguard themes.

Three types of screens were developed to assess the likelihood of an entity meeting the Australian Taxonomy's MSS requirements. The first two screens mirror the approach used for evaluating the application of DNSH criteria: a performance-based screen, which assesses the existence of relevant policies and procedures, and a controversy-based screen, which evaluates evidence of prior misconduct.

The third screen assesses whether the entity has committed to the specific international conventions referenced as indicators across the MSS pillars (Figure A.3).

Figure A.3: Applying MSS Screens under the Australian Taxonomy



Source: *ISS STOXX*

As with DNSH, this multi-dimensional approach to analysing MSS allows flexibility to evaluate MSS based on different perspectives.

Appendix B: ISS STOXX Datasets Leveraged for DNSH and MSS Screens

ISS STOXX Dataset	Description
Corporate Rating	The Corporate Rating solution evaluates companies across their corporate value chain and assigns them a Performance Scale rating from D- to A+ based on their sustainability performance on an absolute best-in-class basis. The solution's comprehensive methodology is guided by established international guidelines.
Norm-Based Research	The Norm-Based Research solution provides an opinion on corporate involvement in alleged or verified failures to respect internationally recognized Responsible Business Conduct norms across individual Environmental, Social, and Governance topics established in frameworks such as the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises.
Country Screening	The Country Screening solution provides data on countries' exposure to various controversial areas, as well as alignment with international norms and conventions.
Climate Physical Risk	The Physical Risk solution evaluates a company's climate risk exposure against recognized scenarios using footprinting, innovative geospatial data, and financials to quantify how floods, storms, heat, wildfires, and drought could impact its activities and assets.
Environmental and Social Raw Data	The Environmental and Social Raw Data solution provides a 360° view of company disclosures with raw, expert-validated datapoints, revealing corporate risk associated with environmental, social, and governance factors—all transparently sourced where applicable.

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The ISS STOXX Research Institute develops data-driven thought leadership and applied research on governance, sustainability, stewardship, and capital markets topics. Combining proprietary ISS STOXX datasets with subject-matter expertise, the Institute seeks to provide investors and market participants with practical insights into emerging trends, risks, and opportunities.

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