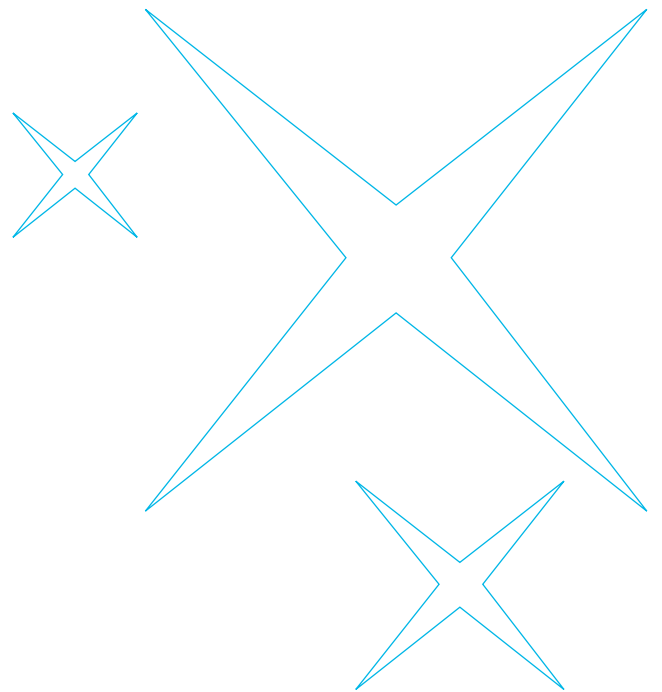# Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) Approach

Executive summary

This report outlines the approach for developing the Do No Significant Harm (DNSH) and Minimum Social Safeguards (MSS) components of Aotearoa New Zealand's Sustainable Finance Taxonomy (hereafter the 'NZ Taxonomy'). The NZ Taxonomy is a collaborative effort between the NZ Government and the Centre for Sustainable Finance: Toitū Tahua (CSF), designed to align investment decisions with environmental objectives and promote sustainable economic activities.

The DNSH component ensures that economic activities contributing to one environmental objective do not harm others. Similarly the MSS component ensures that economic activities contributing to one environmental objective do not harm social outcomes.

This approach is aligned with international best practices, drawing from the European Union (EU) and Australian taxonomies, while incorporating local perspectives, particularly those of iwi/Māori.

Key aspects of the approach include:

- International alignment: Promoting interoperability and usability, while tailoring the approach to NZ's specific needs. The approach builds on the Australian DNSH criteria and MSS, which themselves were developed from an extensive global review and closely align with the EU and other global benchmark taxonomies.

- Holistic environmental assessment: The DNSH criteria ensure that activities making substantial contributions (SC) to one particular environmental objective of the taxonomy do not inadvertently cause significant harm to other environmental objectives outlined in the taxonomy.

- Clear and consistent criteria: The methodology emphasises the use of clear, measurable criteria, especially in the sector specific criteria, to enhance verification and reduce ambiguity where possible.

- Integration of local perspectives: The approach integrates iwi/Māori knowledge and aligns with NZ's environmental policies, and international commitments.

Background

The development of the NZ Taxonomy is managed in partnership between the NZ Government and CSF with input from experts through the formal NZ Taxonomy governance structure and public consultation.

A sustainable finance taxonomy is a standardised framework for classifying economic activities according to their environmental performance. This classification system, in particular and foremost, allows investors to identify and invest in green and transition activities. It helps to align investment decisions with environmental objectives and can direct capital flows towards new green technologies and increase the overall transparency of the financial sector through more transparent reporting. The NZ Taxonomy aims to enable market participants to mobilise and direct capital flows towards:

- Building a low-emissions, Paris-aligned future

- Restoring nature

- Upholding the rights and interests of Indigenous Peoples of the land

NZ will join other jurisdictions including Australia, Europe, Singapore and Canada in developing taxonomies. Within the region, Prime Ministers of Australia and NZ have committed to a trans-Tasman Roadmap to 2035, which features climate as a priority for alignment between the two countries. A key focus of this roadmap are sustainable finance frameworks to position the region as an attractive green finance hub. It is the intention of the NZ and Australian Governments to align the respective taxonomies closely, to the extent possible.

The environmental objectives of the NZ Taxonomy are:

- Climate change mitigation

- Climate change adaptation and resilience (A&R)

- Sustainable use and protection of water resources and marine resources

- Protection and restoration of biodiversity and ecosystem

- Pollution prevention and control

- Transition to a circular economy

The guiding principles for the NZ Taxonomy are outlined in Appendix 1.

To guide the NZ Taxonomy development process, an independent Technical Expert Group (TEG) has been appointed with a focus on usability and interoperability. In addition, sector-specific Technical Advisory Groups (TAGs) have also been appointed to provide technical input into the development of practices and technical screening criteria for each sector. The governance structure for the Taxonomy is outlined in Appendix 2.

The TEG and TAG appointments follow an Independent Technical Advisory Group (ITAG) that developed a clear set of recommendations for the design of the NZ Taxonomy in July 2024, that was subsequently endorsed by the Minister of Climate Change.

Relevant to the development of DNSH and MSS, the ITAG report included the following key recommendations:

- The NZ Taxonomy should also include broader environmental objectives as risk mitigants through the development of the DNSH component. More specifically, DNSH makes sure the design of the SC criteria to one environmental objective does not cause harm to other environmental objectives.

- In addition, based on the experience of the EU with the development of DNSH criteria, this component of the NZ Taxonomy should be designed in a way that is easy to implement, in order to avoid ambiguity and lack of applicability. As much as possible, the NZ Taxonomy should draw from and align with relevant international criteria, relevant domestic legislation and criteria and incorporate Iwi/Māori understanding and knowledge to ensure local relevance.

- It should promote interoperability with Australia (Trans-Tasman) as well as with NZ's main trading partners (EU, UK, China) and other benchmark taxonomies in the Asia Pacific Region (APAC) such as Singapore.

The ITAG report also provided several other recommendations that are particularly relevant to the development of DNSH and MSS methodologies as outlined in Appendix 3.

DNSH introduction

The DNSH component of a taxonomy is a set of qualitative or quantitative criteria and process-based requirements ensuring that activities making substantial contributions to one particular environmental objective of the taxonomy do not inadvertently cause significant harm to other environmental objectives outlined in the taxonomy. Within the structure of a taxonomy, substantive criteria are developed for one environmental objective at a time. Due to the complexity and lack of an agreed approach, it is not currently possible to develop an integrated taxonomy that simultaneously pursues multiple environmental goals. The DNSH criteria are not intended to pursue the ambition of other environmental objectives, but rather provide a filter to avoid inadvertent harm.

Applying a DNSH assessment is a crucial step in evaluating economic activities within the framework of the taxonomy. When assessing an economic activity, the process operates as follows:

1. Determine that the Activity category is eligible for green or transition alignment. This is based on the activity categories' overall compatibility with a low-emissions future. The definitions, and classification methodology for these are defined here.
2. Substantial Contribution (SC) criteria: The activity being considered must demonstrate substantial contribution to an environmental objective (e.g. climate change mitigation or adaptation), going beyond business-as-usual practices. These criteria are outlined in the Technical Screening Criteria here.
3. Do No Significant Harm (DNSH) criteria: The activity making this substantial contribution must not cause significant negative impacts on other environmental objectives. These criteria are outlined in the Technical Screening Criteria here. This approach elaborates on the development of these criteria.
4. Minimum Social Safeguards (MSS): Entities seeking NZ Taxonomy alignment must also meet minimum standards for social responsibility, including labour rights, governance and indigenous rights. These criteria are outlined in the Technical Screening Criteria here. This approach elaborates on the development of these criteria.

Only if an activity satisfies all four steps can it be considered NZ Taxonomy aligned.

This approach ensures that, while pursuing one of the taxonomy's environmental objectives, for example climate mitigation, that other environmental goals are not compromised. This creates a framework for environmentally sustainable economic activities, balancing the primary objective of climate action with ensuring there are no perverse outcomes for a spectrum of environmental issues. By implementing the DNSH assessment, the NZ taxonomy promotes a balanced approach to achieving the environmental objectives, preventing unintended negative consequences.

Initially spearheaded by the EU Taxonomy, the DNSH criteria are now commonly included in many benchmark taxonomies including Australia and the ASEAN taxonomies so that, in practice, the incorporation of the DNSH component is considered best practice. The following are examples of the environmental (including climate) objectives addressed across different taxonomies, from a SC and DNSH approach as at the time of publication of this document and acknowledging development design of each selected 'Substantial Contributions' continues.

Objectives	Australia	EU	ASEAN	South Africa	Colombia	Mexico
Climate change mitigation	SC + DNSH	SC + DNSH	SC + DNSH	SC + DNSH	SC + DNSH	SC + DNSH
Climate adaptation and resilience	DNSH	SC + DNSH	SC + DNSH	SC + DNSH	SC + DNSH	SC + DNSH
Transition to a circular economy	DNSH	SC + DNSH	DNSH	DNSH	DNSH	DNSH
Pollution prevention and control	DNSH	SC + DNSH	DNSH	DNSH	DNSH	DNSH
Protection and restoration of water and marine resources	DNSH	SC + DNSH		DNSH	SC + DNSH	DNSH
Protection and restoration of biodiversity and ecosystem	DNSH	SC + DNSH		DNSH	SC + DNSH	DNSH
Soil management					SC	

Therefore, in order to align itself with reference taxonomies and to boost interoperability, the NZ Taxonomy will incorporate DNSH criteria to protect against broader negative environmental impacts of activities.

Generic and Specific DNSH Criteria

Most taxonomies use a dual approach to DNSH (e.g., Australia and the EU) with both generic and activity-specific criteria (see Appendix 4 for examples of generic and activity-specific criteria from the EU Taxonomy), whilst others follow a simplified approach where the taxonomy only includes generic criteria that apply to all activities (e.g., Singapore).

The NZ Taxonomy will be structured using a dual approach, providing for:

1. **Generic DNSH criteria:** Applied across all taxonomy objectives and activities.

2. **Specific DNSH criteria:** Tailored for individual activities and their material impacts.

DNSH criteria will consider the life cycle impacts of assets, activities, or projects, including associated supply chain effects. This approach ensures a more holistic evaluation of sustainability.

Where feasible, the criteria will be developed for each of NZ Taxonomy's six environmental objectives as defined by ITAG Recommendation 4. The ITAG selected the six environmental objectives of the NZ Taxonomy based on international taxonomy design best practices and on a mandate to guarantee a high degree of interoperability with NZ international trade partners in particular Australia and the EU.

Global perspective

Based on the EU experience, the implementation and verification of DNSH criteria have presented challenges and efforts are underway to streamline and simplify the DNSH criteria globally. Historically, the main hurdles of DNSH criteria are:

- Limited data availability
- Cost of collecting or accessing data to meet the criteria
- Overly prescriptive reporting requirements
- Insufficient capacity for verification
- Lack of objective language in criteria definition
- Vague standards
- Overly localised standards

Consequently, the EU Platform on Sustainable Finance (PSF) proposed the following set of recommendations to improve the language of the DNSH criteria of the EU Taxonomy whilst also seeking to boost their usability:[1]

- Ensure that all testing criteria are binary and have clear Yes/No outcomes that can be objectively determined.
- Minimise subjective language in technical screening criteria (for instance, avoid the use of terms such as 'minimise' or 'reduce' and opting instead for a quantitative measure such as 'decrease by 20%').
- Ensure guidance is given on what a suitable Yes/No outcome is for process-based tests, in the form of supplementary guidance.
- Allow for international application of EU legislation referenced in the Climate Delegated Act through e.g., establishing equivalence with international standards or quantitative and/or process-based criteria.

The EU PSF recommended the use of quantitative and/or process-based criteria whilst also increasing the use of internationally recognised standards and certification schemes in order to boost interoperability. Table 2 below provides examples of DNSH quantitative and process-based criteria as well as the use of international standards in the EU Taxonomy:

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[1] Platform on Sustainable Finance's recommendations on data and usability of the EU Taxonomy

Types	Examples	Assessment
DNSH threshold	The direct GHG emissions of the activity are lower than 270g CO_2e/kWh.	Quantitative
Process measure	Where relevant, maintenance of vegetation along road transport infrastructure ensures that invasive species do not spread. Mitigation measures have been implemented to avoid wildlife collisions.	Quantitative and qualitative
International standards & relevant legislation	Building designs and construction techniques support circularity and in particular demonstrate, with reference to ISO 20887(368) or other standards for assessing the disassembly or adaptability of buildings, how they are designed to be more resource efficient, adaptable, flexible and dismantlable to enable reuse and recycling.	Quantitative and qualitative

Building on the work of the EU PSF report, the Green Technical Advisory Group (GTAG) for the UK Taxonomy was established in 2021 to provide non-binding technical advice on the development and implementation of a green taxonomy for the UK. The GTAG has undertaken significant work to improve the usability of DNSH as it relates to the UK Green Taxonomy, supporting the objective of developing a usable UK Green Taxonomy without compromising the science-based robustness of the criteria, learning from some of the challenges experienced in the EU Taxonomy reporting process.

The UK GTAG's DNSH recommendations were integrated in the Australian Taxonomy and provided the foundations for the design of its DNSH criteria. The key lessons and recommendations of the GTAG for DNSH were:

- The key challenges of DNSH implementation are represented by the design and definitions of the EU's DNSH criteria.

- There should be alignment with the EU's classification of environmental objectives.

- Whilst the market is supportive of the idea of DNSH, the criteria should be simplified to improve usability and the clarity of the language used.

Therefore, the Australian Sustainable Finance Institute (ASFI) published a methodological approach for the DNSH of the Australian Taxonomy that sought to adopt the recommendations of the UK GTAG and to streamline the EU's approach. In addition, the methodology also intended to contextualise the DNSH criteria for Australia whilst also seeking to reference international best practices and standards as much as possible. The methodology was based on five points:

1. Determine the classification and ambition for environmental objectives to be addressed through DNSH

2. Assess different DNSH approaches globally from a selection of reference taxonomies

3. Contextualise design principles and define scope

4. Finalise a list of generic and specific DNSH criteria based on global and local assessment

5. Discuss with TTEG to contextualise and finalise the list of DNSH criteria for consultation

In practice, the approach sought to acknowledge the scale of the usability challenge associated with the DNSH criteria whilst seeking solutions to further support the implementation and usability of the DNSH component. This is ensured by:

- Similarly to the SC criteria, adopting common best practices identified across taxonomies. This includes aligning definitions of environmental objectives, using common metrics and establishing the same level of ambition.

- Adopting international proxies to allow for a higher level of interoperability across taxonomies.

- Removing any ambiguous language from the criteria, for instance by replacing terms such as 'minimise' or 'reduce' with binary values and numeric thresholds.

In light of the Trans-Tasman roadmap and in accordance with the NZ Taxonomy Recommendations report, the NZ Taxonomy will build on the approach of the Australian Taxonomy and will seek to align with its methodology to the extent possible, whilst also tailoring the DNSH criteria for the needs of NZ.

This approach aims to enhance usability, credibility and interoperability of the NZ Taxonomy, particularly with key trading partners, including Australia and the EU. Therefore, building on the principles incorporated by the Australian Taxonomy, the NZ Taxonomy will:

- Define DNSH criteria with clear and consistent structure

- Balance local applicability with international interoperability

- Integrate existing standards and benchmarks as references

- Ensure consistency between generic and specific DNSH criteria

Approach to DNSH criteria development

In 2023 in preparation for the Australian Taxonomy development a comprehensive global review of DNSH was undertaken, including reviewing the UK GTAG evaluation[2]. Given this extensive work already conducted by the ASFI for the Australian Taxonomy and based on the need ensuring a high degree of interoperability, the NZ Taxonomy uses the Australian Taxonomy's DNSH criteria as an initial proposal to be tailored for the specific needs of NZ. The methodology for adapting the Australian DNSH Criteria for NZ will be based on the five following steps:

1. Establish DNSH principles based on global best practices
2. Define DNSH level of ambition
3. Assess the Australian DNSH criteria and adapt for NZ
4. Finalise a list of generic and specific DNSH for NZ
5. Integrate input from public consultations

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[2] Australian sustainable finance taxonomy methodology report Determining the sustainability objectives and social considerations in the taxonomy

Step 1: Establish DNSH design principles based on global best practices

Consistent with the recommendations of the EU PSF and the approach used by Australia to enhance clarity and usability of the content of the DNSH criteria, the following consistent style and structure should be implemented for NZ:

- Principle-based approach for generic criteria:
  - Utilise non-specific, general principles for avoiding harm across activities
  - Focus on overarching guidelines applicable to multiple sectors

- Clear and measurable criteria for specific DNSH:
  - Provide clear references for binary thresholds or process-based requirements for activity-specific criteria
  - Ensure quantitative criteria can be objectively measured by using numeric thresholds as much as possible
  - Include detailed pass requirements for each criterion to enhance verification against the criterion

- Minimise subjective language:
  - When using qualitative criteria is unavoidable, provide:
    - Detailed justifications
    - Specific alignment conditions

- Adapt/adopt approach for increased interoperability:
  - Streamline criteria from reference taxonomies
  - Adapt existing criteria to fit the NZ context drawing on the expert knowledge of TEG and TAG members as well as iwi/Māori groups
  - Adopt existing relevant criteria directly when appropriate – especially the use of established international standards, best practices and certification or labelling schemes

Effectively, the intention is to allow the DNSH content to maintain consistency, improve clarity, and enhance usability across different sectors and activities. At the same time, it is envisioned that both the TEG and TAGs will provide guidance on the generic DNSH and level of ambition (please see the following steps below).

Step 2: Define DNSH level of ambition for each of the environmental objectives of the NZ Taxonomy

Following the example of Australia and the EU, it is important to establish the ambition statements for the achievement of the six environmental objectives of the NZ Taxonomy in order guide the development of its DNSH component. The ambition statements will be tailored specifically for NZ by integrating both NZ-specific policies and targets as well as iwi/Māori knowledge.

Drawing on the methodological approach adopted by Australia, the following principles will guide the development of the ambition statements of the six environmental objectives of the NZ Taxonomy:

- Be based on international environmental and climate agreements supported by NZ such as the Paris Agreement or the Kunming-Montreal Global Biodiversity Framework.

- Be evidence-based.

- Be informed by local commitments and strategies on environmental objectives, including NZ's response to international agreements.

- Define clear goals and targets, both short- and long-term where applicable.

- Where feasible, determine timelines to achieve the defined targets.

Step 3: Assess the Australian DNSH criteria and adapt to NZ

As mentioned above, NZ's process will leverage the analysis performed by the Australian Sustainable Finance Institute (ASFI) whilst also integrating NZ-specific requirements, standards and definitions to tailor the Taxonomy's criteria for the use and applicability to the NZ context. The aim is to balance NZ-specific contextualisation with the need of interoperability especially with Australia.

In particular, NZ will integrate iwi/Māori understanding and knowledge in the design of that Taxonomy's DNSH component to ensure local relevance.

Step 4: Finalise a list of generic and specific DNSH criteria for NZ

The draft DNSH criteria will be reviewed by the TEG, drawing on consultation and advice from TAG to ensure the criteria are streamlined and reflect the NZ context. Input from both the TEG and the TAG will be used to further contextualise the criteria and to receive feedback on the usability and relevance of international standards, best practices and labelling schemes to be used in the DNSH to improve interoperability. This review may include standards such as the Equator Principles, IFC environmental health and safety guidelines, ISO Standards, existing certification or consumer labelling schemes, and Environmental and Social Risk Systems, among others.

Furthermore, when providing input for the DNSH criteria design, the TEG and TAG will be asked to consider existing business disclosure frameworks and data availability in NZ. This consideration will ensure usability of the criteria within the existing context of sustainable finance reporting and assessment in NZ.

The final output of this process will be a comprehensive list of DNSH generic criteria for all sectors and specific criteria for the initial sectors of agriculture and forestry for public consultation.

Step 5: Integrate input from public consultations

The draft DNSH criteria will then be published for public consultations in order to obtain feedback and input from different international and national stakeholders including the private sector, civil society, government agencies and investors. On one hand, it will be important to gather input on the usability of the DNSH component of the NZ Taxonomy in light of the existing challenges faced by international investors with the existing set of DNSH criteria in other benchmark taxonomies. On the

other hand, it will be key to receive input from domestic stakeholders on the applicability of the criteria in particular from iwi/Māori groups to enhance the local relevance of the criteria.

Appendix 4 provides some examples of generic and specific DNSH criteria from the EU Taxonomy. These are included here not because the NZ Taxonomy will necessarily copy those exactly but to illustrate how the principles and issues discussed in this document might translate into concrete criteria.

MSS introduction

Sustainable finance taxonomies globally have primarily addressed social objectives through MSS. These safeguards aim to ensure that taxonomy-aligned activities do not result in adverse social outcomes by requiring entities to comply with certain minimum social standards. MSS in taxonomies typically expect alignment with various social and responsible business conduct standards related to core themes such as:

1. Governance standards
2. International human rights (including labour rights)
3. Anti-bribery and corruption measures

The purpose of MSS provisions is to prevent activities from being labelled as 'sustainable' if the entity is not acting in accordance with these minimum safeguards. It is important to note that, like DNSH, they are not intended to achieve positive social change by themselves but only to prevent adverse (negative) social change. Given the nature of the assessments, MSS criteria are applied to the entity undertaking the activity (rather than the activity, which the SC and DNSH criteria are applied to).

The EU Taxonomy's approach to MSS has served as a reference point for other international taxonomies. In the EU Taxonomy, compliance with MSS is mandatory for activities to be considered aligned. It is assessed at the entity level, which differs from substantial contribution (SC) or DNSH criteria. This means the whole entity needs to meet MSS for any one activity to be considered aligned with the EU Taxonomy. The EU Taxonomy's MSS provision requires entities to ensure alignment of their economic activities with internationally recognised standards, including:

- The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises on Responsible Business Conduct
- UN Guiding Principles on Business and Human Rights
- Eight fundamental conventions identified by the International Labour Organisation
- International Bill of Human Rights

Companies must implement MSS procedures to ensure entity level alignment with these Key International Standards. The EU PSF has identified four key social pillars for evaluating MSS compliance:

1. Human rights (including labour and consumer rights)
2. Bribery, bribe solicitation, and extortion
3. Taxation

4. Fair competition

Based on these pillars, the EU PSF has recommended two key MSS compliance criteria:

1. The existence of adequate corporate due diligence processes and measures for each of the four MSS pillars

2. Avoidance of negative impacts and legal convictions related to any of the MSS pillars

While the EU approach has been influential, other global approaches to defining MSS compliance exist and are discussed in various reports on sustainable finance taxonomies.

In the EU, implementation of MSS still faces some uncertainty. The EU PSF has recommended preliminary indicators of non-compliance with MSS, which include:

- Inadequate or non-existent corporate due diligence processes on:
    - Human rights (including labour rights)
    - Bribery
    - Taxation
    - Fair competition
- Final liability of companies for breaches of any of the four MSS pillars.
- Lack of collaboration with an OECD National Contact Point (NCP), and an assessment of non-compliance with OECD Guidelines by an OECD NCP.
- Failure to respond to allegations by the Business and Human Rights Resource Centre (BHRRC) within a specified timeframe.

These indicators serve as guidance for assessing an entity's adherence to MSS requirements, though their practical application may still evolve as the EU refines its approach to sustainable finance taxonomy.

As with DNSH, NZ will refer to the detailed analysis undertaken by ASFI on MSS in 2023.

Approach to MSS criteria development

The steps for developing MSS criteria for NZ are outlined below:

1. Define MSS core pillars for NZ

2. Develop a list of MSS criteria for the NZ Taxonomy

3. Discuss with the TEG to contextualise and agree on final list of MSS for consultation

Step 1: Define the MSS core pillars for NZ

As with DNSH, the MSS assessment undertaken by ASFI in 2023[3] will be reviewed and considered based on global taxonomy experts' advice on updates since this assessment. The 2023 report

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[3] [Australian sustainable finance taxonomy methodology report Determining the sustainability objectives and social considerations in the taxonomy](#)

included a detailed review of the EU approach to MSS, including a review of the EU approach by the EU Platform for Sustainable Finance. The analysis also:

- Identified international treaties, standards and declarations and the various legislation, policy, commitments and strategies in Australia that aligned with the proposed pillars.

- Cross-reference the priority social objectives and topic areas with disclosure expectations for corporates and investors, including a review of finance and corporate sector environmental, social, and governance policies and risk management systems.

The social pillars and core topics that the Australian Taxonomy adopted are:

Social pillars	Core topics
Corporate governance	Good corporate governance; taxation; anti-corruption and bribery; fair competition; consumer protection; community engagement
Human rights	Employment; labour and working conditions; occupational health and safety; modern slavery; procurement practices; gender equality; non-discrimination and equal opportunity
First Nations people's rights and cultural heritage	First Nations rights; First Nations cultural heritage

These pillars and core topics will be assessed for NZ and proposed amendments put forward to the TEG. The TEG will advise on adapting to NZ's legal, policy and regulatory landscape that relate to proposed pillars.

Given the significant challenges with activity-level disclosure for these dimensions, MSS should be applied across entities or assets of the proponent rather than at an activity level.

Step 2: Develop list of MSS criteria for NZ Taxonomy

Based on the prioritised sectors and activities selected for the NZ Taxonomy, the MSS compliance requirements will be defined at the entity level for each MSS core pillar. In developing these requirements, the following factors will be considered:

- Existing business disclosure frameworks

- Corporate expectations

- Data availability

MSS criteria will be developed at the activity level and be principle-based, and:

- Use non-specific, general principles

- Focus on overarching guidelines applicable to multiple sectors

- Align to global frameworks where possible for interoperability and local guidance on how to implement where available

By taking these elements into account, the NZ Taxonomy aims to create a robust and practical framework for assessing social safeguards in sustainable finance activities.

<u>Step 3: Discussion with TEG to contextualise and agree final list of MSS for consultation</u>

The MSS criteria development will be developed under the guidance of the TEG, drawing on guidance and input from the TAG and technical experts.

The TEG will approve the draft MSS for public consultation.

Appendix 4 provides some examples of MSS criteria from the EU Taxonomy. These are included here not because the NZ Taxonomy will necessarily copy those exactly but to illustrate how the principles and issues discussed in this document might translate into concrete criteria.

Appendices

Appendix 1 – NZ Taxonomy principles

<u>Credibility – Mana</u>

Applying an evidence-based approach together with international best practices and standards to attract and direct the flow of international capital towards green solutions. The NZ Taxonomy needs to be transparent in its governance structure and content, especially in how the TSC are designed to give effect to the NZ Taxonomy's purpose and reflect the needs not only of the finance industry but also of investors (including KiwiSaver and retail investors) and civil society. Strong safeguards need to be in place to ensure political and industry influence is limited.

<u>Usability – Whakamahi</u>

The NZ Taxonomy should be easy to use and fit-for-purpose. The TSC need to be easily understood by a spectrum of different end users and promote data and metrics that are easy to report against.

<u>Interoperability – Tuhono</u>

As much as possible, the NZ Taxonomy should align with international standards and best practices for the design of its structure, the components of the TSC, DNSH and MSS. It should promote interoperability with Australia (Trans-Tasman) as well as with NZ's main trading partners (EU, UK, China) and other benchmark taxonomies in the Asia Pacific Region (APAC) such as Singapore.

<u>Culture – Ahurea</u>

Human society depends on nature. We need to establish and learn from cultures in which nature is not seen simply in monetary terms. Indigenous cultures and rights are a core principle underlying the entire NZ Taxonomy.

Iwi and Māori leaders will be represented in all governance tiers, and indigenous views of nature will be integrated in the design of the TSC.

<u>Prioritisation – Whakarite</u>

Prioritisation should determine both the selection of environmental objectives the NZ Taxonomy should focus on at first and the sequencing of the design of the TSC, based on which sectors of the economy are a priority for the NZ Taxonomy.

Appendix 2 – NZ Taxonomy governance structure
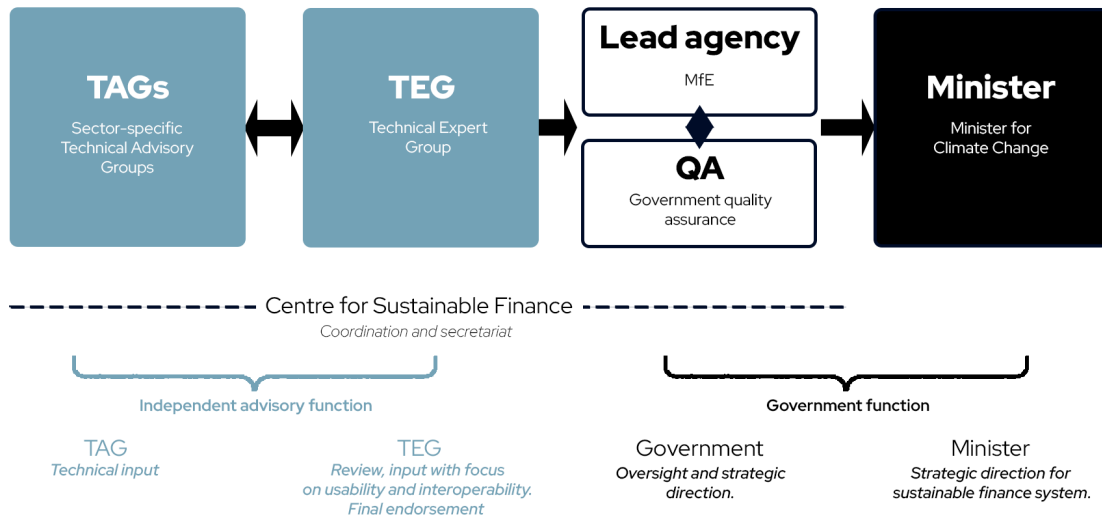
Appendix 3 – ITAG recommendations relevant to DNSH and MSS

ITAG Recommendation 4

In line with international best practices, the environmental objectives of the NZ Taxonomy will include iwi/Māori understanding and knowledge related to each objective, initially prioritise climate change mitigation, adaptation and resilience, and include (not in order of priority):

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water resources and marine resources
- Protection and restoration of biodiversity and ecosystem
- Pollution prevention and control
- Transition to a circular economy

ITAG Recommendation 5

The priority sectors for developing the NZ Taxonomy are:

- Agriculture, Forestry & Fisheries
- Construction & Real Estate
- Energy

- Industrial Manufacturing
- Transport

ITAG Recommendation 7

To enhance usability in NZ, it is important to connect to existing data, national and international labels and criteria while also growing relevant capacity and increasing the availability of new information over time.

ITAG Recommendation 8

The NZ Taxonomy should be linked to disclosure requirements – e.g., disclosure standards and guidance issued by the External Reporting Board.

Appendix 4 – examples of generic and activity-specific DNSH and MSS criteria from the EU Taxonomy

Generic DNSH criteria

- EU Taxonomy regulation[4], article 17
- EU Taxonomy technical annex to the TEG final report[5], pages 29-35

Activity-specific DNSH criteria:

- EU Taxonomy technical annex [6]
- EU Taxonomy compass[7]

MSS criteria

- EU Taxonomy regulation[8], article 18
- EU Platform on Sustainable Finance final report on MSS[9]

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[4] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

[5] Technical annex to the TEG final report on the EU Taxonomy

[6] Annex to the Commission Delegated Regulation (EU) …/… supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives

[7] EU Taxonomy compass

[8] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088

[9] Final report on minimum social safeguards