Global Industry Taxonomy (GTAX) Methodology

Document History

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Global Industry Taxonomy (GTAX) Methodology

Executive Summary

Securities Quote Xchange (SQX) created the **Global Industry Taxonomy (GTAX)** to provide a comprehensive and forward-looking classification system for listed companies and securities. The taxonomy builds on the structure of the well-known **Global Industry Classification Standard (GICS)** but adapts it for a world where digital business models, supply-chain positioning and sustainability considerations are increasingly important. GTAX assigns every company to one **sub-industry**, rolling up through **industry** and **sector** levels to produce a three-tier hierarchy that is intuitive for analysts and investors. Classification is based on a company's primary revenue-generating activities as well as its role in the value chain. SQX maintains and updates the taxonomy through an annual review process and event-driven updates to ensure that it remains relevant as industries evolve.

1. Classification Principles and Criteria

1.1 Primary revenue rule

- **Primary revenue share:** Companies are assigned to the sub-industry corresponding to the business segment that generates at least **50% of total revenues** where reliable segment reporting is available, which reflects the more diversified and digital nature of modern businesses.
- **Majority of revenue and earnings:** If no segment meets the 50% threshold or if revenue reporting is incomplete, the majority of both revenue and operating earnings are considered.
- **Principal business activity (conglomerates):** For highly diversified companies such as Amazon or Berkshire Hathaway, no single segment may dominate. In these cases the **principal business activity** is determined by weighing the importance of each segment to the company's strategy and identifying the activity that management emphasizes most. When segments have similar revenue contributions, analysts use a combination of revenue, earnings and qualitative factors (product mix, customers, growth prospects) to determine the best fit. For example, a conglomerate that generates 40% of revenue from e-commerce, 35% from cloud services and 25% from logistics might be classified

in the **E-Commerce Platforms** sub-industry (DHP) given the platform's central role.

1.2 Pre-classification eligibility

- **Listing requirement:** Only publicly traded companies and securities with sufficient disclosure are classified in GTAX. Private firms and non-operating entities are excluded. REITs, ETFs and other vehicles are eligible provided they represent real operating businesses.
- **Revenue transparency:** Companies must provide either segmented financial statements or management discussion enabling analysts to estimate revenue contributions. Where disclosure is poor, external sources such as regulatory filings and industry reports may be used.

1.3 Thresholds for reclassification

- **Quantitative threshold:** A company may be reclassified if its primary revenue contribution from a new segment exceeds **50%** for two consecutive fiscal years. Temporary fluctuations due to commodity cycles or one-off events are disregarded in order to maintain classification stability.
- **Qualitative triggers:** Mergers, acquisitions, divestitures or strategic pivots can lead to reclassification regardless of the numerical threshold. Classification analysts evaluate whether the company's core business model has fundamentally changed.

1.4 Review frequency

- **Annual review:** SQX conducts a comprehensive review of all company classifications each year. Analysts examine new annual reports, management guidance and market developments. Proposals for reclassification are subject to internal quality control and external consultation.
- **Quarterly update:** Between annual reviews, significant corporate actions (e.g., spin-offs, major acquisitions, bankruptcies) trigger event-driven updates. This ensures that the taxonomy reflects material changes soon after they occur.
- **Structure review:** The hierarchy of sectors, industry groups and industries is reviewed annually. SQX invites public feedback before implementing structural changes.

2. Governance and Maintenance

2.1 Oversight framework

GTAX is governed by the **SQX Classification Committee**, comprising industry analysts, index specialists and external advisors. The committee meets up to quarterly to review classification proposals and annually to review structural changes. All material changes are published on SQX's website.

2.2 Consultation process

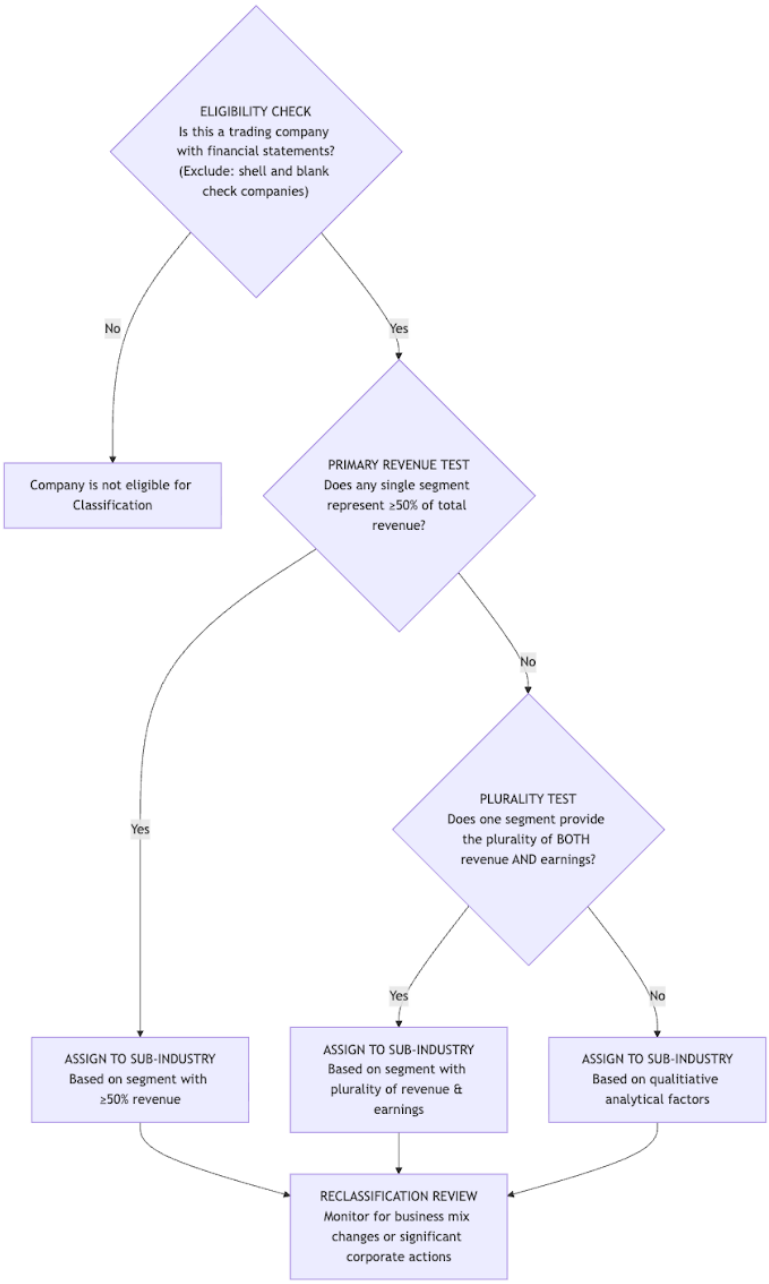
- **Public consultation:** Proposed structural changes (e.g., creation of new sectors or industry groups) are released for public comment at least 60 days before implementation. Stakeholders including companies, investors, and academics may submit feedback.
- **Transparency:** SQX publishes rationales for structural changes and reclassifications, including the evidence used to support each decision. This transparency builds trust and allows market participants to understand the classification logic.

2.3 Version control and update history

Each update of the GTAX methodology is assigned a **version number** and date. The update history records the changes made, such as new sub-industries introduced or definitions amended. Users can access prior versions to support historical research. SQX maintains a central repository for all versions.

3. Classification Rules and Decision Tree

The flow chart below summarizes the decision process used to assign a company to a GTAX sub-industry. The decision tree begins with eligibility checks, applies the primary revenue rule, tests for the majority of revenue and earnings, applies the principal business activity rule for conglomerates and identifies whether a reclassification is warranted. A **reclassification review** is performed whenever a company crosses the quantitative or qualitative threshold.



3.1 Special cases and edge-case handling

- **Insufficient disclosure:** If revenue is split among several segments without clear percentages, analysts estimate shares using disclosed revenue figures, third-party market data, or management commentary. Where estimation yields conflicting results, the company is placed in a broader industry group until further information is available.

- **Negative earnings:** When segments report negative earnings, the majority of revenue rule still applies; losses do not override revenue contribution. Analysts also consider factors such as planned investment cycles and temporary restructuring costs.
- **Emerging business lines:** Companies developing new business lines that could become material within two years are monitored closely. If forward-looking guidance suggests a shift in primary revenue, provisional classification may be assigned with a note that reclassification is likely once revenues materialize.

4. Hierarchical Structure

4.1 Sectors, industry groups, industries and sub-industries

GTAX comprises a three-level hierarchy:

1) **Sector:** the broadest category describing a major area of economic activity (e.g., *Technology*, *Healthcare*).
2) **Industry:** a more specific group of companies that share similar business models and value-chain positioning (e.g., *Enterprise Applications*). Industries enable comparisons across businesses with similar revenue drivers.
3) **Sub-industry:** the most granular level representing a distinct operating niche (e.g., *ERP, CRM, HCM* providers). Companies are ultimately assigned to a single sub-industry.

4.2 Summary statistics

The table below summarizes the number of industry groups and sub-industries in each sector. This distribution helps analysts understand where the taxonomy is most granular.

Sector	Industry groups	Sub-industries
Agriculture	5	13
Communication Services	2	11
Distribution	4	12
Energy	4	14
Financial	7	25
Goods	6	14

Healthcare	3	17
Industrial	6	23
Materials	4	13
Real Estate	5	17
Services	5	6
Technology	5	21
Transportation	2	10
Utilities	6	12

5. Example company classifications

The table below demonstrates how selected companies are classified under GTAX. Each example lists the relevant sector, industry, and sub-industry, along with a brief rationale.

Company	Sector → Industry → Sub-industry	Rationale
Amazon.com Inc.	Distribution → Home → E-Commerce Platforms (DHP)	Amazon generates the majority of revenues from its e-commerce platform. Although AWS is significant, e-commerce remains the principal business activity.
Tesla Inc.	Goods → Automotive → Manufacturers (GAM)	Tesla designs and manufactures electric cars; automotive manufacturing accounts for over 90 % of revenue.
NextEra Energy	Utilities → Renewable → Wind (URW)	NextEra operates one of the largest utility-scale wind and solar portfolios. Renewable energy generation is its core business.
Coca-Cola Co.	Goods → Food → Beverages → (GFB)	Coca-Cola's primary business is manufacturing and selling non-alcoholic beverages.

Microsoft Corp.	Technology → Software → Productivity & Collaboration (TSP)	Microsoft's largest revenue source comes from productivity software (Office 365, Teams) and related cloud services.

6. Definitions and Glossary

Term	Definition
Primary revenue	The largest revenue-generating segment of a company, based on reported financial statements or estimates.
Value chain	The sequence of activities (upstream, midstream, downstream) through which a product or service is created and delivered. GTAX tags each sub-industry according to its value-chain position (e.g., *Upstream*, *Downstream*, *Enabler/Support*).
Demand elasticity	A score (1–4) indicating how sensitive demand is to economic cycles; 1 = inelastic (e.g., utilities), 4 = very elastic (e.g., luxury goods).
Cyclicality	A score (1–4) representing how revenues fluctuate with economic cycles; 1 = defensive, 4 = highly cyclical.
Regulatory intensity	A score (1–4) reflecting the degree of regulatory oversight; 4 = heavily regulated industries such as utilities and healthcare.
Capital intensity	A score (1–4) describing capital expenditure requirements; 4 = very capital-intensive businesses like airlines or energy infrastructure.

7. Edge-Case-Handling Procedures

1) **Mergers and acquisitions:** When two companies combine, analysts examine the pro-forma revenue mix. If the merged entity's primary revenue shifts to a different sub-industry, reclassification occurs at the next quarterly update.
2) **Spin-offs and divestitures:** A company that divests a major segment may fall below the 50% threshold for its previous classification. Analysts reassess the remaining segments and assign a new sub-industry accordingly.
3) **Dual-listed securities:** Multiple share classes representing the same underlying company are classified identically; GTAX does not treat them as separate entities.

4) **Financial holding companies:** Where a holding company owns banking, insurance and asset-management subsidiaries, the principal business activity rule applies. For example, Berkshire Hathaway is classified under **Property and Casualty Insurance** (FIP) due to the dominance of GEICO and reinsurance operations, despite substantial industrial holdings.
5) **Companies with multiple business models:** Firms like Sony operate across electronics, entertainment content and financial services. Analysts identify the segment with the highest revenue contribution and consider the strategic focus; Sony is classified in **Home Electronics** (GHE) because consumer electronics remain its core offering.

8. Version Control and Update History Framework

- **Version number:** Each methodology release is tagged (e.g., *GTAX Methodology 1.0*) using Semantic Versioning 2.0.
- **Effective date:** The date on which a new version becomes applicable. Previous versions remain archived for historical index calculations.
- **Change log:** A summary of modifications, including new sectors or sub-industries, changes to definitions and clarifications to rules. The change log helps users understand the impact of updates.

9. Conclusion

The Global Industry Taxonomy offers investors, researchers and index providers a robust and forward-looking classification framework. By emphasizing primary revenue, value-chain roles and emerging economic themes, GTAX captures the nuances of modern business models. Its transparent governance and regular review process ensure that the taxonomy evolves in line with market developments. The decision trees, hierarchical diagrams and examples provided in this document enable practitioners to apply GTAX consistently and to understand how it differs from established standards such as GICS. As the global economy continues to digitize and decarbonize, SQX will adapt the taxonomy to reflect new industries and business models.

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