

Term of Reference – for ASFI for the initial phase of development of an Australian sustainable finance taxonomy

1. Background

This is a term of reference (ToR) for the Australian Sustainable Finance Institute (ASFI) and to guide ASFI's establishment of a Taxonomy Technical Expert Group (TTEG) that it will establish and convene to support the initial phase of development of an Australian Sustainable Finance Taxonomy. This taxonomy will serve to support the mobilisation of private finance toward sustainable activities and could provide a foundation for further regulatory measures to address greenwashing and promote transparency.

This ToR is provided in accordance with the Grant Agreement between the Treasury and ASFI. As such, this ToR operates to set out the Treasury's high-level expectations and guidance for ASFI regarding the establishment and operations of the TTEG, including its role within this project, the scope of the TTEG's work, its composition, timing and reporting expectations of TTEG deliberations, and communication requirements. A breach of this ToR does not necessarily amount to a breach of the Grant Agreement.

As noted in the Grant Agreement, funding raised by ASFI from other sources does not have the effect of varying or replacing anything in this ToR, and amendments or variations of that Grant Agreement will need to be agreed by ASFI and the Treasury (in its capacity representing the Commonwealth).

ASFI will establish the TTEG in accordance with its own term of reference. The terms of reference governing the establishment and operations of the TTEG will reflect the key terms between ASFI and the CWG in this ToR and the Grant Agreement between ASFI and the Treasury.

2. Role of ASFI

The Grant Agreement sets out ASFI's key obligations as a grant recipient for the purposes of progressing the initial phase of taxonomy development. Those obligations which relate to the establishment of the TTEG are included in this ToR below. Key parts of ASFI's role include:

- responsibility for the development of the initial phase of the Australian Sustainable Finance Taxonomy in accordance with Grant Agreement between the Australian Government and ASFI
- establish, convene and manage the TTEG, which will provide industry expertise, insights and endorsement of key deliverables of the initial phase of taxonomy development by ASFI and its technical team;
- provide secretariat support to the TTEG, which includes preparing technical deliverable such as reports, research and associated outputs for TTEG input and endorsement to the CWG;
- in line with the reporting requirements in the Grant Agreement, prepare and present deliverables considered and recommended for endorsement by the TTEG to the CWG for consideration;

- contracting experts to carry out the technical work, organising meetings, all project communications and stakeholder engagement, coordination and management; and
- liaise with industry and garner their engagement in this phase of work.

In carrying out its role, ASFI will have due regard to the importance of safeguarding the independence and credibility of the taxonomy development process.

3. Role of the TTEG

The TTEG is an expert group established and convened by ASFI to support the initial development phase for an Australian sustainable finance taxonomy. This taxonomy will serve to support the mobilisation of private finance toward sustainable activities and could provide a foundation for further regulatory measures to address greenwashing and promote transparency.

ASFI will provide secretariat services to the TTEG to enable the TTEG to consider, review, provide input and endorse the technical advice and recommendations. The TTEG's role is confined to this initial development phase of taxonomy development, within the scope of work set out in this Terms of Reference unless otherwise determined by ASFI in consultation with the CWG as a result of further decisions and agreements between the Treasury and ASFI. The TTEG will replace the current governance arrangements set up by ASFI for its taxonomy scoping project, including the Taxonomy Technical Advisory Group and the Taxonomy Steering Committee.

4. Taxonomy Principles

There are four key principles to guide the development of the taxonomy:

- The taxonomy should be credible and science-based
- The taxonomy should be usable for a range of different users
- The taxonomy should be interoperable and broadly compatible with international approaches to sustainable finance taxonomies
- The taxonomy should be tailored to Australian priorities
 - These include: supporting the allocation of capital towards transition activities; aligning with broader Government climate policy objectives; supporting the foundation for broader regulatory frameworks on sustainable finance; adaptable to incorporating other climate and sustainability objectives such as nature in the taxonomy.

5. Sector principles and prioritisation

In prioritising which economic sectors to focus on in this initial phase of development, regard should be had to the following principles:

- The sector should be economically important to Australia
- The sector is important to supporting Australia's path to reduce emissions by 43% by 2035, and to net zero by 2050
- The sector is important to supporting a just transition in Australia

- Prioritising the sector at this point in time of taxonomy development would support realisation of the Taxonomy Principles (above)
- Prioritising the sector at this point in time of taxonomy development would deliver a competitive advantage to Australia’s sustainable finance taxonomy in the future
- Prioritising the sector at this point in time of taxonomy development would support the advancement of developing an Australian sustainable finance taxonomy and not impede such progress

Based on these principles, the following 6 sectors have been prioritised to be covered during the initial phase of taxonomy development. The list of sectors may only be varied by agreement between the Treasury and ASFI.

- Construction and built environment
- Electricity generation and supply
- Manufacturing
- Agriculture
- Transport
- Minerals, mining and metals

6. Scope

The initial scope of the ASFI’s work includes:

- developing technical screening criteria for at least 3 sectors against at least the objective of climate mitigation (sectors to be agreed to by the CWG);
- identifying requirements to ensure usability and practicality for participants within the financial sector as well as those outside of it;
- developing a methodology for assessing and incorporating transitional activities into the taxonomy;
- providing advice on how the taxonomy can effectively be utilised as a market tool to mobilise financial flows and facilitate Australia’s transition to net zero in line with Government policy objectives
- providing an assessment on data needs and gaps;
- developing an initial Australian approach to Do No Significant Harm criteria and Minimum Social Safeguards;
- identifying pathways and options to expand the scope of the taxonomy to other sustainability goals; and
- providing recommendations on global alignment and interoperability.

This scope of work, including the Taxonomy Development Workplan is also set out in the Grant Agreement between ASFI and the Treasury.

7. Composition of the TTEG

The TTEG is to be composed of 20-25 experts representing a cross section of

- Technical experts
- The financial sector
- Real economy representatives
- Scientific and policy experts (including in government, academia and civil society)

Sub-groups representing different sectors or stakeholders groups will be convened by ASFI as necessary. The TTEG should consider input from consultation with interested and affected stakeholders for each sector under consideration.

Nomination of group members is proposed by ASFI and to be endorsed by the CFR CWG.

8. Governance

ASFI will provide recommendations and initial taxonomy screening criteria endorsed by the TTEG, to the CWG. The CWG will provide feedback to ASFI regarding alignment with the Government's policy objectives and developments in regulatory practice and priorities, for ASFI and the TTEG's consideration. In reviewing the work endorsed by the TTEG, the CWG may seek input from additional experts.

Treasury will be responsible for providing relevant advice to the Treasurer. In preparing this advice, Treasury will consider both the recommendations and work endorsed by the TTEG, and the CWG's feedback on this work.

9. Timing

The TTEG is intended to operate over an initial period of 12 months, starting in July 2023. The Commonwealth may decide to extend the initial phase of taxonomy development by up to 6 months, as set out in the Grant Agreement, in which case the TTEG would operate for the extended period as well.

Over this period the key deliverables of the TTEG are:

- To consider and provide input to the technical deliverables by ASFI including reports, research and associated outputs
- To consider input from consultation with interested and affected stakeholders for each sector under consideration and provide input and recommendations on how feedback from stakeholders was incorporated/considered or not.
- Meet every 6 weeks, unless otherwise agreed, with a minimum of 8 meetings over 12 months;
- In line with the reporting requirements in the Grant Agreement, provide input, review and recommendations on the endorsement of a draft report, a final report, and should the initial phase of taxonomy development be extended, an updated final report.

10. Communication

Deliberations and day-to-day operations including meetings and draft documents of the TTEG should be treated as confidential unless otherwise advised. There should be restrictions on

Members' use of confidential information other than for the purpose of performing their functions as a member of the TTEG.

Members should be prohibited from making any public representations or opinions on behalf of the TTEG.

Approved Minutes of TTEG meetings and the register of Members' interests will be published on the ASFI website together with updates and high-level summaries of TTEG activities.

ASFI will not publicly attribute any specific advice to individual TTEG Members. ASFI will only attribute published materials to the TTEG once it has been approved and endorsed by the TTEG.

All reports and technical outputs approved and endorsed by the TTEG will be shared with the CWG and the Treasury and will be made available on the ASFI website.