

Meeting Minutes

Taxonomy Technical Expert Group Meeting Minutes

Date: Thursday 12 October 2023, 4:00-6:00 pm (AEDT)

Attendees:

<i>TTEG Members</i>		<i>ASFI Taxonomy Team</i>
Anna Skarbek	Benson Saulo	Nicole Yazbek-Martin
Bronwyn Kitchen	Emma Garlett	Grace Soutter
Charles Davis	Kate Griffiths	Jessica Blake
Daniela Jaramillo	Kim Farrant	
Emma Herd (TTEG co-chair)	Nadia Humphreys	<i>Climate Bonds Initiative and</i>
Emma Penzo	Richard Lovell	<i>Technical Partners</i>
Guy Debelle (TTEG co-chair)	Robert White	Matteo Bigoni
James Tilbury	Sarah Barker	Bridget Boule
Karin Kobelentz	Tennant Reed	Prateek Kumar
Libby Pinkard	Zachary May	
Rick Walters		
Saphira Rekker		

Apologies: Alix Pearce, Lauren Zanetti, Steven Wright

Record of Meeting:**Open Meeting**

- 1.1.** The Taxonomy Technical Expert Group (TTEG) co-chairs opened the meeting at 4:05pm with an Acknowledgement of Country.
- 1.2.** The minutes of the 31 August 2023 meeting were approved.
- 1.3.** No additions or changes were made to the TTEG Register of Interests or Stakeholder Engagement Register. The TTEG co-chairs noted that this agenda item is also an opportunity for TTEG members to raise any stakeholder-engagement related questions, observations or concerns with the broader TTEG and the Australian Sustainable Finance Institute's Taxonomy Team (ASFI) so that stakeholders can be directed to the right channels and any concerns could be addressed.

Taxonomy Methodological Design Features

- 2.1.** ASFI provided an overview of the key taxonomy methodological design features being put forward for the TTEG's consideration and endorsement at this meeting. These features are:
- a. the methodology for classifying green and transition activities under the taxonomy, including the identification of which economic sectors or types of activities will be eligible for transition categorisation;
 - b. the classification of key sustainability objectives covered under the taxonomy and the approach to developing Do No Significant Harm (DNSH) criteria; and
 - c. the approach to identifying the core social pillars and developing Minimum Social Safeguards (MSS).
- 2.2.** ASFI explained that, once the taxonomy's methodological design features receive TTEG endorsement, they will be published in the form of two technical reports. ASFI would seek TTEG feedback on and final endorsement of these reports out-of-session, with a view to publishing them in late November or early December 2023.

Do No Significant Harm:**Discussion**

- 2.3.** ASFI's consortium of technical experts, led by the Climate Bonds Initiative (technical team), provided an overview of the recommendations of the TTEG's DNSH Committee, which met on 28 September to review and finalise a draft approach to (a) classifying key sustainability objectives and (b) developing DNSH criteria under the Australian taxonomy for the full TTEG's consideration.
- 2.4.** With regard to defining the level of ambition for the Australian taxonomy's environmental objectives, TTEG members highlighted the importance of referring to existing national laws and standards as "baseline" indicators of ambition for the purposes of the taxonomy, and noted that the taxonomy should aim to build on this baseline. Members also proposed the inclusion of a reference to policy alongside legislation and standards for completeness.

2.5. TTEG members considered whether the planetary boundaries framework could be utilised to define science-aligned ambitions for each of the environmental objectives under the taxonomy. The technical team explained that they would be looking at this in more detail in the context of developing criteria. TTEG members asked if the six proposed environmental objectives cover all of the planetary boundaries and the technical team confirmed they do.

2.6. TTEG members discussed the importance of calling out soil protection as a distinct environmental objective. Members agreed that soil protection falls under multiple objectives and should be expressly referenced accordingly. To rationalise and add context for its inclusion, members suggested additional analysis be built in the methodology paper.

2.7. On the topic of using reference taxonomies and other relevant frameworks to support the determination of DNSH criteria, TTEG members directed the technical team to consider the New Zealand Sustainable Agriculture Finance Initiative (SAFI), the Columbian taxonomy and draft criteria from the EU Technical Expert Group on Sustainable Finance. The technical team confirmed they were already looking at the latter two and would add SAFI to their review.

Decisions

2.8. Decision 1: As recommended by the TTEG DNSH Committee, the TTEG agreed on the following environmental objectives for the Australian taxonomy:

- climate change mitigation;
- climate change adaptation;
- pollution prevention and control;
- transition to a circular economy;
- biodiversity and ecosystem protection; and
- sustainable use and protection of water resources.

2.9. Decision 2: The TTEG agreed that soil protection is an important environmental consideration for Australia and should be included in the above environmental objectives (with necessary adaptations as required).

2.10. Decision 3: The TTEG agreed that:

- the baseline for defining the environmental objectives should be determined by reference to Australia's national priorities using existing law, standards, regulations and policies; and
- the level of ambition for the taxonomy's environmental objectives should be determined by cross-referencing Australia's national priorities with best practice international approaches to shape the draft definitions of the environmental objectives and the DNSH principles for consultation.

2.11. Decision 4: The TTEG agreed that, to determine the DNSH criteria for the Australian taxonomy, reference taxonomies should be used as a starting point and then the criteria should be streamlined using the approach taken by the United Kingdom GTAG as a guide.

2.12. Decision 5: The TTEG agreed that the design and development of the DNSH criteria should utilise the following approach:

- consistency in style to increase clarity and usability;
- prioritisation of a principle-based approach for generic criteria;
- prioritisation of quantitative criteria for specific DNSH: with clear references for threshold and process-based criteria that can be objectively measured with detailed eligibility requirements;
- minimisation of subjective language: qualitative criteria, when used, should provide detailed justification and alignment conditions; and
- use of an adapt/adopt approach to increase interoperability and streamline criteria from reference taxonomies.

Minimum Social Safeguards:

Discussion

2.13. The technical team provided an overview of the recommendations of the TTEG's MSS Committee, which met on 25 September to review and finalise a draft approach to developing MSS under the Australian taxonomy. At this meeting, committee members considered (a) how national laws and standards should be used to inform the Australian taxonomy's key social objectives and pillars; and (b) how international guidelines should be prioritised for inclusion.

2.14. Consistent with the approach to DNSH, TTEG members agreed that national laws, standards and policies should be treated as a baseline to map key priority areas but not to determine level of ambition.

2.15. TTEG members asked whether the list of international frameworks referenced in the draft methodology report was exhaustive for the purpose of the Australian taxonomy's development. The technical team explained it was a starting point only and that they were undertaking a more comprehensive scoping exercise to review all relevant standards.

2.16. TTEG members discussed the application of MSS criteria at an entity versus activity level for the Australian taxonomy. Members discussed how other taxonomies have applied MSS criteria at the entity or asset level, reflecting on interoperability and usability considerations. Members noted that there may be need to assess this from a usability perspective once the criteria had been developed.

Decisions

2.17. Decision 1: The TTEG agreed on the following approach to defining the MSS core pillars for the Australian taxonomy:

- A. Identify the priority social objectives and topic areas to be addressed by MSS by mapping Australia's national social priorities with reference to national legislation, standards, policies and strategies and international treaties, frameworks and agreements signed or ratified by Australia.

- B. Cross-reference the identified 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.
- C. Align the priority social objectives and topic areas to be considered for inclusion as MSS to international frameworks and standards.
- D. Define the core social pillars based on overlapping social objectives and topic areas, in line with international standards and determine the level of ambition.

2.18. Decision 2: The TTEG agreed that, consistent with reference taxonomies, MSS should be applied across entities or assets rather than at an activity level.

Green and Transition Methodology:

Discussion

2.19. The technical team outlined the proposed 'green' and 'grey' (or 'phase down or out') methodological considerations for the Australian taxonomy. 'Green' activities are those that are consistent with achieving net zero greenhouse gas emissions in accordance with the Paris Agreement temperature goal. 'Phase down or out' activities are those that are inconsistent with a net zero future economy but may still be economically necessary as the economy transitions.

2.20. The technical team then outlined the recommendations of the TTEG's Green and Transition Methodology Committee, which met on 19 September to discuss and finalise a draft methodology for classifying transition activities in the Australian taxonomy. Questions considered by committee members included:

- What does transition mean, and what should it be used for?
- Can we establish a methodological approach to determining which sectors and activities are covered by the transition criteria?
- How do we treat activities that are economically necessary for an interim period but do not support a science-aligned transition to net-zero emissions?

2.21. Reflecting on the EU's approach, TTEG members discussed the potential usability challenges posed by the inclusion of a transition category in the Australian taxonomy depending on the different potential use cases. Members agreed that a transition category was necessary in an Australian context. Members agreed that a transition category should not apply to all industry sectors/ activities and should be characterised by stringent technical screening criteria.

2.22. The application of the proposed methodology to several hypothetical use-cases was discussed.

2.23. TTEG members discussed the need for clarity around the treatment of Scope 3 emissions; the distinction between project and corporate finance in relation to the methodology's application; the relevance of transition planning and disclosure; and the work of the Glasgow Financial Alliance for Net Zero from an entity perspective. TTEG members agreed on the need

to test the proposed methodology throughout the technical screening criteria's development phase to better gauge its robustness and application across a range of use cases.

2.24. In relation to scenario modelling, the technical team explained they had chosen to lead with the most commonly used and globally recommended scenarios (the International Energy Agency's) as a central reference point, combined with the Australian version (developed jointly by Climateworks Centre and CSIRO). TTEG members pointed out that the banking sector predominantly use the scenarios developed by the Network for Greening the Financial System. Members agreed to cross-reference against multiple globally credible and net zero scenarios and consider the AEMO Integrated Systems Plan for the energy sectors. TTEG members agreed that the taxonomy is a living document and can be updated over time to reflect the most up to date scenario modelling.

Decisions

2.25. Decision 1: The TTEG agreed that the green category will apply to activities that are consistent with achieving net zero greenhouse gas emissions, in accordance with the Paris Agreement temperature goal.

The TTEG also agreed that the transition category should apply to activities that need to be decarbonised because they have a continued role or uses in a future net zero emissions economy. This means activities should not be eligible for inclusion in the transition category where:

- they have low carbon emissions substitutes; and
- emissions cannot be substantially reduced or decoupled from the activities and they will therefore decline and ultimately be phased out.

2.26. Decision 2: The TTEG agreed that the following working definitions will be used to distinguish between different types of activities for the purpose of determining whether they are eligible to be classified as transition activities.

- **Transition activities** comprise activities that, based on current technology:
 - have a role in a post-2050 economy and;
 - do not have a low carbon alternative;
 - can be decarbonised across scope 1,2,3 emissions, even if decarbonisation is only economically feasible in the long term; and
 - the risk of locking in future high carbon assets can be mitigated.
- **Phase down activities** are activities that, based on current technology readiness and credible global climate science scenarios, are inconsistent with and therefore have a diminished role or use in a net-zero future economy. These are activities:
 - with low carbon alternatives currently available, or in advance stages of development;
 - that pose a risk of high carbon lock in; and
 - with no pathway to decarbonise Scope 1,2,3 emissions without phase down/out.

The TTEG also agreed that climate science is evolving and technologies are advancing. Accordingly, the methodology assumes periodic updates to assessing the eligibility of activities for green and transition categorisation based on the latest scientific and technology readiness information.

- 2.27. Decision 3:** The TTEG agreed that internationally recognised, credible 1.5°C aligned climate science scenarios will be used to assess the above definitions and identify which activities are eligible to be categorised as green and/or transition.

Paper on Taxonomy Expansion Proposal

3.1. As part of ASFI’s mandate under the Grant Agreement with Treasury for the initial development of the Australian sustainable finance taxonomy, the TTEG should identify pathways and options to expand the taxonomy criteria to other sustainability goals (adaptation, water, circular economy, pollution, biodiversity, social considerations). ASFI provided an overview of its proposed approach to analysis on pathways to extend the Australian taxonomy to additional sectors and categories and to expand its focus beyond climate mitigation. ASFI explained that, if endorsed by the TTEG, this approach would be used to develop a paper that proposes a taxonomy extension and expansion pathway. The paper would be provided to the TTEG in December for consideration and endorsement.

- 3.2. Decision:** The TTEG agreed on the forward workplan for the taxonomy extension and expansion proposal.

Stakeholder Engagement Approach

4.1. ASFI provided an overview of the stakeholder engagement plan for the Australian taxonomy’s development and outlined the engagement processes being undertaken across the different priority groups. ASFI then discussed the results of the taxonomy advisory group (TAG) expression of interest process and presented an initial list of TAG members to the TTEG. TTEG members were encouraged to consider whether any additional organisations or field experts should be included in the TAGs and, if so, to notify ASFI via email.

4.2. TTEG members asked ASFI how it planned to consult with representatives from social NGOs and trade unions. ASFI explained that social NGOs would be engaged through the MSS TAG and in public consultation, and that it would be separately liaising with union representatives.

2023 Forward Workplan

5.1. ASFI set out the taxonomy workplan for the remainder of 2023, including consultation with TAGs and TTEG committees and a final TTEG meeting in December.

Meeting Close

6.1. The TTEG co-chairs closed the meeting at 6:01 pm.