

## Factsheet: Methodology for defining ‘transition’ in the Australian taxonomy

### *Why establish a methodology for defining ‘transition’?*

There is a lack of global consensus around the purpose, intent and meaning of transition finance, and best practice is still emerging. Methodological integrity in defining ‘transition’ is key to ensuring the Australian sustainable finance taxonomy achieves its objective of mobilising capital to support Australia’s transition to net zero emissions in a transparent and internationally credible manner.

### *How was the methodology developed?*

To bring the required credibility and rigour to the transition category, the Australian [Taxonomy Technical Expert Group](#) (TTEG) developed a methodology for defining transition and determining what types of activities should be eligible for the Australian taxonomy’s transition category. The TTEG is the independent decision-making body established by ASFI for the initial development of the Australian taxonomy.

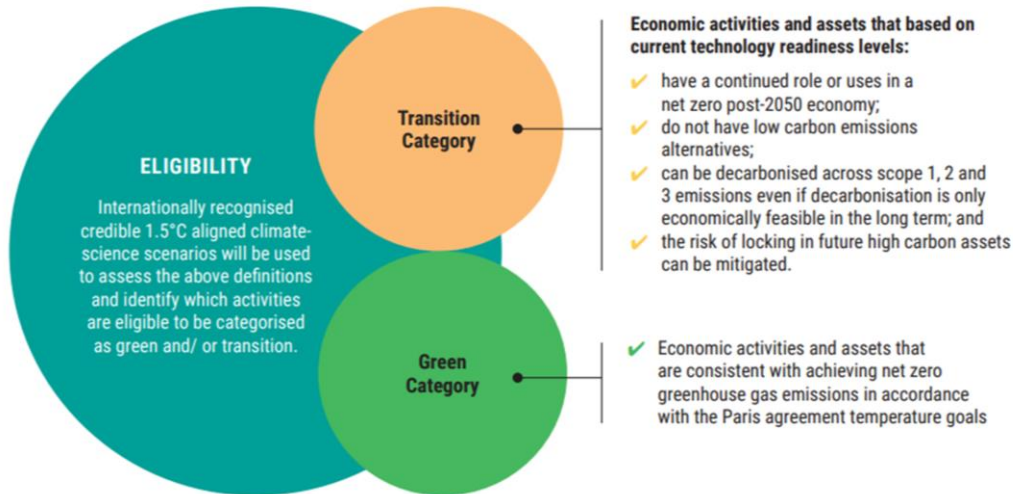
Building on the work that other jurisdictions have done to advance transition methodologies – such as Canada, Singapore and ASEAN – the TTEG determined that the Australian taxonomy’s transition category should:

- ensure it does not lead to greenwashing by covering activities that are not compatible with a future net zero emissions economy;
- facilitate an orderly transition by guiding capital to those activities that are needed in a Paris Agreement-aligned, net zero emissions economy;
- ensure no lock in of high carbon technologies/activities;
- include activities based on climate mitigation outcomes for a Paris Agreement-aligned, net zero emissions economy rather than on the economic necessity of the activity; and
- differentiate between activities that are not compatible with a net zero emissions economy and those that are compatible and therefore have a continued or increased role in a future net zero emissions economy.

Further, in developing technical criteria for activities within the transition category:

- criteria should facilitate movement or improvement over time;
- activities cannot remain in transition indefinitely; there needs to be a sunset date; and
- transition activities should facilitate significant reduction in emissions (not marginal).

**How is ‘transition’ defined?**



Transition activities will comprise activities that, based on current technology readiness:

- have a continued role or uses in a net zero greenhouse gas emissions economy;
- do not have low carbon alternatives;
- can be decarbonised across Scope 1, 2 and 3 emissions without phase down or phase out; and
- the risk of locking in future high carbon assets can be mitigated.

The transition label will not apply to 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. Activities that will not be eligible for the transition label are those:

- with low carbon alternatives currently available, or in advanced stages of development;
- that pose a risk of high carbon lock in; and
- with no pathway to decarbonise scope 1,2 and 3 emissions without phase down and/or out (e.g., internal combustion engine passenger vehicles).

The TTEG recognises 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. In assessing eligibility for the Australian taxonomy’s green and transition categories, internationally recognised, credible 1.5°C aligned climate science scenarios will also be used.

**What are the next steps?**

Having finalised the methodology for determining the eligibility for the Australian taxonomy’s green and transition categories, the TTEG is now assessing eligibility and performance, as set out below.

