Designing Australia's sustainable finance taxonomy

Australian Sustainable Finance Institute Taxonomy Project | December 2022

Australian Sustainable Finance Institute

Acknowledgement of Country

EY and ASFI acknowledge the Traditional Custodians of Country throughout Australia and recognise their continuing connection to land, waters, species and culture.

We acknowledge their ongoing status as the First Peoples of Australia and pay our respects to their Ancestors and Elders past, present and emerging.

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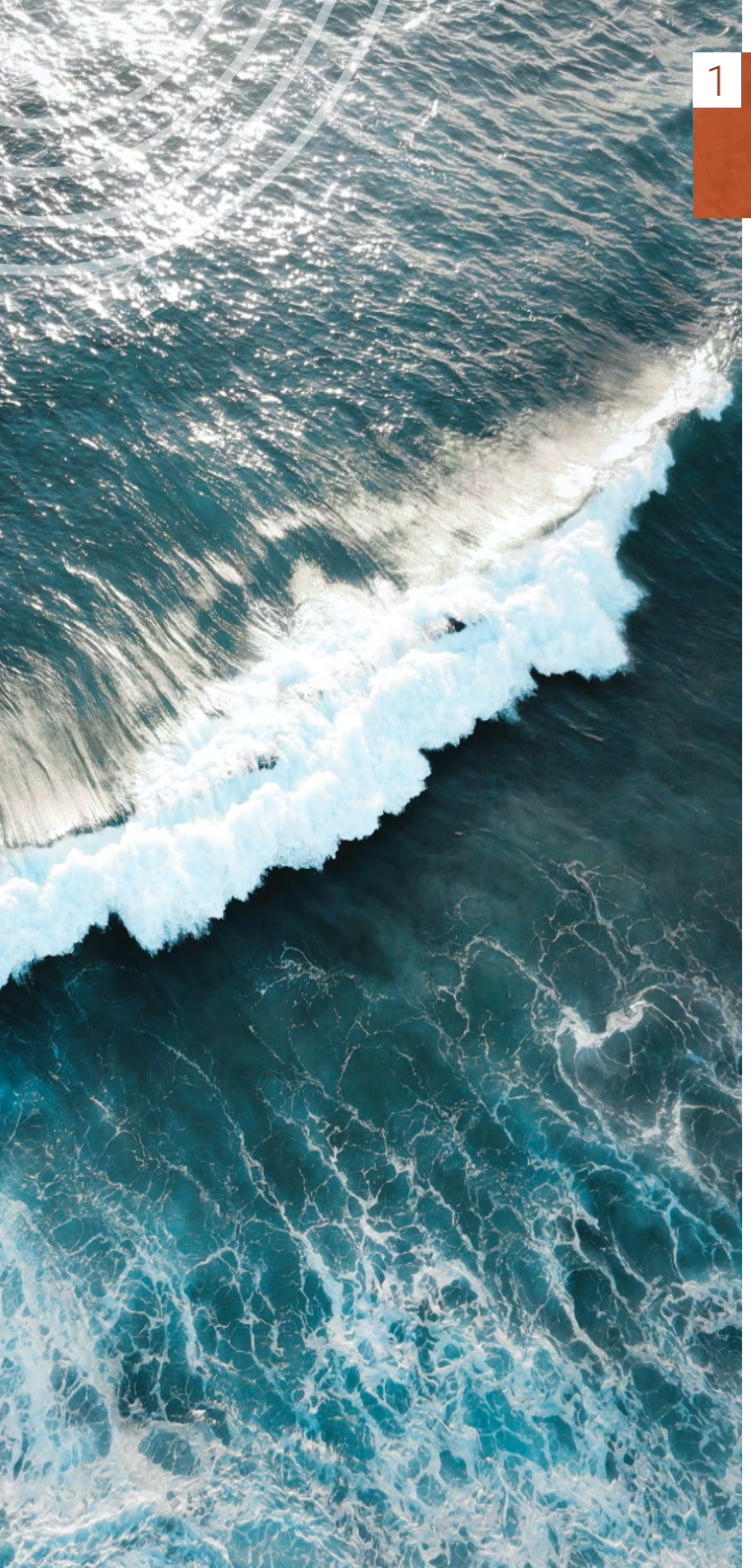
Prepared for Australian Sustainable Finance Institute



1 Executive Summary

The Australian Sustainable Finance Institute (ASFI) taxonomy project (Taxonomy Project) is an industry-led initiative, working closely with the Australian government, to develop an Australian sustainable finance taxonomy. ASFI is leading this project with support from EY to engage with technical experts and other stakeholders. ASFI and EY would like to thank relevant stakeholders for their input to date. We are also grateful for the generous insights and learnings provided by other jurisdictions that have developed or are in the process of developing sustainable finance taxonomies.

This paper provides recommendations on the design of an Australian sustainable finance taxonomy, and the roadmap and timeline for its development. The paper is informed by stakeholder consultation, the Australian economic and environmental context and insights gained through the development of the Taxonomy Project's first paper titled 'Analysis of international taxonomies and considerations for Australia' (International Framing Paper), which was published on 17 October 2022. A summary of survey results is at **Appendix A** and a list of stakeholders engaged is at **Appendix B**. The paper is accurate as at the date of publication.

Context and approach

In November 2020, ASFI released the Australian Sustainable Finance Roadmap (Roadmap), which sets out 37 key recommendations that will be required to realign Australia's financial system to support the transition to a net zero, resource efficient and inclusive economy. A key priority identified under the Roadmap was the development of an Australian sustainable finance taxonomy.

The Roadmap provided early thinking on the design of an Australian taxonomy, including the objective of developing, or adopting, a sustainable finance taxonomy should be to align and harmonise with emerging international taxonomies and to build on existing frameworks, while reflecting the unique characteristics of the Australian market.[1] The Roadmap noted that to apply a sustainable finance taxonomy across Australia's financial system, it would be necessary to:

- Determine the intended uses and users of a taxonomy in the Australian context;
- Establish the objectives of a taxonomy and its goals, reviewing how the Paris Agreement and SDGs would be incorporated;
- Establish the classification system to be used; and
- Consider the consistency of a taxonomy with scenarios and pathways.[2]

In comparison, DNSH criteria ensure that activities do not The rapid development of international taxonomies in multiple jurisdictions is a significant driving factor in the need for Australia to develop its own taxonomy.[3] Australia is a net recipient of direct foreign investment, making our financial services value chain highly exposed to international taxonomy developments and changes in international policy behaviour. Notably, in 2021 more than 85% of Australian exports went to countries that have net zero greenhouse gas (GHG) emissions pledges in place.[4] Alignment with international trade partners on key climate and other sustainability commitments will support long-term financial relationships that focus on allocating capital towards transitioning to a sustainable economy.

The Australian taxonomy will enable financial institutions to identify economic activities that address key environmental and social objectives such as:

- The Paris Agreement temperature goals of limiting global warming to well below 2°C, but preferably 1.5°C and the company and country targets to achieve those goals including Australia's commitment to reduce its GHG emissions to net zero by 2050, with an interim 43% emission reduction target by 2030;[5]
- Commitment to progressing action towards the United Nations Sustainable Development Goals (UN SDGs);[6]
- Reporting and disclosure under the Modern Slavery Act 2018;[7]
- The protection of Cultural Heritage and commitment to Free, Prior and Informed Consent;
- Risks and opportunities associated with disclosures under the Taskforce on Nature-related Financial Disclosures (TNFD);[8]
- Compliance with environmental laws and supporting the reversal of biodiversity loss by 2030 in accordance with the Leaders' Pledge for Nature and other national and international targets;[9] and
- Commitments to reduce waste and transition to a circular economy.[10]

An Australian taxonomy could also have implications for Australia's financial regulators, namely, the Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC) and Reserve Bank of Australia (RBA). APRA could integrate a sustainable finance taxonomy into Prudential Standards or Practice Guidance.[11] The Roadmap noted ASIC could establish principles-based guidance on labelling that would support intermediaries to label and rate investment products. APRA could incorporate the taxonomy into risk weightings for Authorised Deposit-Taking Institutions (ADIs).

An Australian taxonomy can provide policy makers a reference tool to develop targets and strategies for achieving Australia's sustainable development commitments.[12] Therefore the objectives of the Taxonomy should be compatible with the Australian government's long-term sustainability objectives. The Taxonomy should also be designed in such a way that it can operate within Australia's legal and regulatory frameworks and be adaptable to future policy developments or technology innovations.[13]

Decarbonisation of high-emitting sectors such as electricity supply, mining, agriculture and manufacturing will be critical for Australia to achieve its net zero GHG commitment and interim targets. A taxonomy will be a useful tool to achieve this aim through the application of screening criteria to relevant activities. Further qualifying criteria will also be imperative to support social equity, First Nations rights and a just transition, ensuring new opportunities for regional communities and industry workers most impacted by Australia's transition to net zero.

Australia has the potential to be a significant producer of the inputs, materials, products, and services needed in a net zero and sustainable global economy. It is therefore imperative capital is directed toward the green and transition activities that will drive Australia's transition and ensure future export industries maintain their global competitiveness in a decarbonising economy.

Australia's transition will require disruptive change across all sectors but provides significant growth opportunities. As global economies seek to become more sustainable, demand for sustainable products such as green hydrogen and renewable electricity via high voltage direct current (HVDC) cable will grow. For example, Australia is well-placed to take advantage of rising demand for renewable energy exports, including access to abundant natural resources, a track record in building large-scale energy industries and a reputation as a proven partner to Asia's biggest energy importers.[14]

Given the above context, this paper provides recommendations and options for the design of an Australian taxonomy, including proposed purpose and principles, objectives, sectoral coverage, how to evaluate eligibility and alignment, methods to include transition and governance. It also provides a proposed roadmap and timeline for the development of the taxonomy.

Developing a comprehensive Australian taxonomy is a significant and complex undertaking. Similar to taxonomy developments globally, the Australian taxonomy will require an iterative and phased approach to the development of criteria across sectors and the sustainability objectives.

While climate change adaptation and broader environmental and social sustainability objectives are highly important in an Australian context, climate change mitigation has been identified as the most immediate priority. This is due to the market's urgent need for credible and usable guidance on the types of activities aligned with an Australian net zero transition pathway, and to support interoperability with international taxonomies also prioritising climate change mitigation.

Accordingly, the focus of the analysis in this paper is on key sectors and criteria related to climate change mitigation priorities. However, stakeholders noted the broader suite of sustainability objectives are in many ways interconnected and there may be value and efficiencies in developing criteria for these objectives simultaneously where an objective is material to the sector in question, for example climate change adaptation in the construction and building sector.

As part of the implementation roadmap, ASFI will consider the practical implications and resourcing requirements of immediate development of criteria across some of the additional sustainability objectives; namely climate change adaptation, environmental management (i.e. protection and restoration of healthy ecosystems and biodiversity, sustainable use and protection of water and pollution prevention and control), resource resilience and transition to circular economy, and social sustainability outcomes.

Finally, this paper also provides recommendations for a governance model for the development phase of an Australian taxonomy. The proposed model has been designed based on identified priorities and focus, as well as the need to incorporate other objectives, sectors and criteria over time.

Summary of recommendations

Recommendations and options for designing the Australian taxonomy are provided throughout the paper. The recommendations have been guided by ongoing input from the ASFI Technical Advisory Group (TAG), responses to the international framing paper public survey, insights from representatives involved in other international taxonomy development initiatives, and engagement with government and regulators.

Several key issues require further consultation and will be finalised in the Taxonomy Project's next phase, including:

- Finalising the methodology for integrating transition activities into the Australian taxonomy
- Identifying priority sectors to include in the Australian taxonomy
- Developing entity- and activity-level technical screening criteria

The draft recommendations are outlined below. The analysis and supporting evidence guiding the development of these recommendations is provided throughout the body of the report.

Principles and purpose

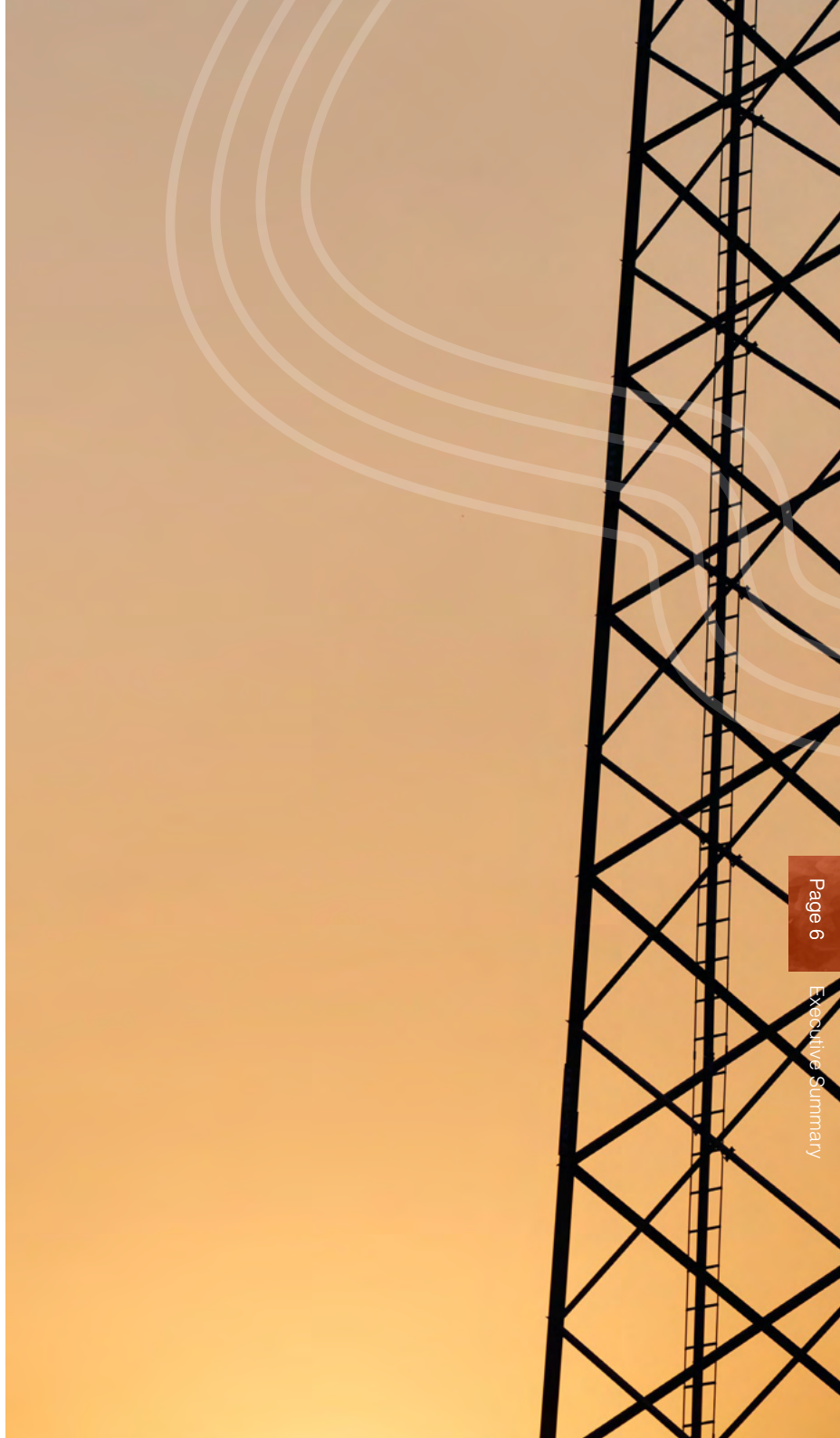
Recommendation 1

The guiding principles in the development and implementation of an Australian taxonomy should be: credibility, usability, interoperability, prioritisation and impact.

Recommendation 2

The primary purposes of the Australian taxonomy should be to:

1. Direct capital flows into economic activities that substantially contribute to climate mitigation and other sustainability objectives;
2. Help guide an orderly and just transition to a sustainable economy; and
3. Address greenwashing.



Objectives

Recommendation 3

The Australian taxonomy should cover the key sustainability objectives of climate mitigation; climate change adaptation; environmental management (i.e. protection and restoration of health ecosystems and biodiversity, sustainable use and protection of water and pollution prevention and control); resource resilience and the transition to a circular economy, and social objectives.

Recommendation 4:

The Australian taxonomy should initially prioritise the development of criteria for climate change mitigation, with a view to incorporating other environmental and social criteria over time in accordance with the design principles.

Sector prioritisation

Recommendation 5:

The following should be considered when deciding which sectors should be prioritised for development under the Australian taxonomy:

1. Contribution to the sustainability objectives;
2. Contribution to the national economy by share of gross domestic product; and
3. Potential economic growth and global competitiveness opportunities.

Recommendation 6:

The taxonomy design should adopt existing criteria from other international taxonomies or reporting standards that are credible and can be readily adapted to meet the needs of the Australian taxonomy.

Recommendation 7:

The Australian taxonomy's sector framework should align with the Australian and New Zealand Standard Industrial Classification (ANZSIC), where possible, but be flexible to include key sustainable activities that are not clearly captured in the existing codes.

Recommendation 8:

The Australian taxonomy should undertake a process of mapping the ANZSIC framework with the classification systems used in international taxonomies that Australia may seek to align with (e.g. International Standard Industrial Classification of All Economic Activities (ISIC) and Nomenclature Statistique des Activités Économiques dans la Communauté Européenne (NACE)).

Taxonomy eligibility and alignment

Recommendation 9

The Australian taxonomy should use internationally recognised, credible, science-based technical screening criteria, complemented by principles-based criteria where necessary.

Recommendation 10:

The Australian taxonomy should include criteria to demonstrate taxonomy alignment by:

- Evaluating funding recipients against entity-level criteria, where finance is issued to an entity for general use of proceeds.
- Evaluating an activity or asset against activity-level criteria, where finance is issued to a funding recipient for specific use of proceeds.

Recommendation 11

Australia should adopt a traffic-light colour coding framework to communicate and distinguish between:

1. Green activities: aligned to the taxonomy objectives;
2. Transition activities: on a pathway to alignment with the taxonomy objectives; and
3. Excluded activities: unsustainable or do significant harm and/or have no credible pathway to alignment with the taxonomy objectives.

Recommendation 12

The Australian taxonomy should adopt a clear, transparent methodology for categorising transition activities, endorsed by the Taxonomy Board.

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What methodology for categorising transition activities would be most suitable for use in the Australian taxonomy?

1) Pathway differentiation approach,

2) Transition risk and opportunity approach,

3) Activity categorisation approach,

4) Other

Recommendation 13

The Australian taxonomy should include further qualifying criteria assessment of "do no significant harm" that meets the unique needs of Australia, including but not limited to standards for respecting Indigenous rights and heritage and supporting workers and communities in relation to an equitable and just transition.

Governance

Recommendation 14.

For the development phase of the Australian taxonomy, we recommend the implementation of a three-tier governance model administered by ASFI and comprised as follows:

Tier 1) Taxonomy Board:
Includes government, peak representation across the financial sector (banking, insurance, investors and superannuation), climate and specialist expertise, and social and Indigenous representation. Sets the objectives, design principles, methodology to establish the taxonomy criteria, and priorities for development, and approves the taxonomy proposals. Consideration to be given to the appropriate role of Australia's key economic and regulatory agencies: APRA, the RBA and ASIC.

Tier 2) Financial Industry Technical Group:
Fixed term transparent membership from experts covering climate, environment, social, regulatory, data and taxonomy relevant expertise. Responsible for the development of taxonomy proposals and convening of sector- and subject-specific working groups.

Tier 3) Sector- and subject-specific working groups and forums:
Established as needed to provide sector- and subject-specific advice to inform the Finance Industry Technical Group's work and provide a forum for stakeholders to provide views on specific areas of the taxonomy affecting them.

Independent expertise on science-aligned sectoral pathways should be provided to tier 1 as key input to the Taxonomy Board's priorities and utilised by tier 2 in the development of technical criteria for taxonomy aligned activities.

Recommendation 15:

To assist with addressing greenwashing, reporting on taxonomy alignment should be mandatory where users are seeking to make claims around the sustainability objectives covered by the Taxonomy in relation to their activities, financial instruments, products and/or the development of sustainability labels and standards.

Endnotes

1. Australian Sustainable Finance Roadmap, Australian Sustainable Finance Institute, 2020.
2. Ibid.
3. Analysis of international taxonomies and considerations for Australia, Australian Sustainable Finance Institute, 2022.
4. “Australia—Net zero emissions by 2050 would alter export profile”, Expert Finance Australia, www.exportfinance.gov.au/resources/world-risk-developments/2021/november/australia-net-zero-emissions-by-2050-would-alter-export-profile/.
5. Climate Change Act 2022 (Cth), https://www.legislation.gov.au/Details/C2022A00037.
6. “2030 Agenda for Sustainable Development”, Department of Foreign Affairs and Trade, https://www.dfat.gov.au/aid/topics/development-issues/2030-agenda-sustainable-development.
7. Modern Slavery Act 2018 (Cth), https://www.legislation.gov.au/Details/C2018A00153.
8. “TNFD Pilots”, United Nations Environment Programme – Finance Initiative, https://www.unepfi.org/nature/tnfd/.
9. “Leaders Pledge for Nature”, Leaders Pledge for Nature, https://www.leaderspledgefornature.org/
10. 2019 National Waste Action Plan aims to reduce waste by 10% per person by 2030. Source: National Waste Policy Action Plan 2019, Department of Climate Change, Energy, the Environment and Water, 2019.
11. Australian Sustainable Finance Roadmap, Australian Sustainable Finance Institute, 2020.
12. Ibid.
13. Ibid.
14. Australia’s National Hydrogen Strategy, Department of Climate Change, Energy, the Environment and Water, 2019.

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Australian policy and economic context

Australia's reliance on foreign investment and trade means our financial services value chain is at the centre of transition to a sustainable economy and highly exposed to changes in international policy and investor behaviour.

Australia has committed to a wide range of environmental and social objectives that would be supported through the development of a sustainable finance taxonomy. For example, Australia has committed to progressing action towards the UN SDGs;[15] acknowledged that protecting First Nations rights, heritage and connections to Country will be vital for sustainability and healing Australia's environment;[16] and required companies to disclose information relating to the actions they're undertaking to manage risks of modern slavery within their domestic and global supply chains.[17]

The state of Australia's natural environment is poor and deteriorating due to rapid climate change, habitat loss, invasive species, pollution and unsustainable resource extraction.[18] To restore and protect its environment, Australia has committed to reforming environmental legislation and exploring the development of a biodiversity market.[19] This action was further supported through the government's recent pledge to reverse biodiversity loss by 2030.[20] Australia has also committed to reducing the total waste generated by 10% per person by 2030.[21]

The Australian government is also actively supporting investors and real economy actors to understand and eventually adopt the Taskforce on Nature-related Financial Disclosures (TNFD). TNFD is a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.[22]

To support these commitments and legislative requirements, the government has committed to developing an enhanced disclosure regime to better support informed climate and sustainability lending and investment decision making across the private sector.

Despite growing momentum and expectations for financial institutions and companies to disclose a range of non-financial outcomes relating to their broad environmental and social sustainability performance, climate change remains the dominant driver behind sustainable finance taxonomy developments and shifts in investment landscapes, both domestically and internationally.

Australia has committed to achieving the goals of the Paris Agreement and limit global temperature increase to well below 2°C and pursuing efforts to limit it to 1.5°C, above pre-industrial levels. To support this, the Australian government has recently enacted legislation to achieve net zero by 2050, with an initial interim target to reduce emissions to 43% below 2005 levels, by 2030.[23]

Electricity supply, mining (including coal, oil and gas extraction and other mining), agriculture and manufacturing are Australia's four largest emitters, accounting for 86% of the national economy's direct emissions.[24] Options for decarbonisation across these sectors include:[25]

- Replacing all existing electricity generation with renewable energy;
- Generating more renewable energy to use for stationary energy, transport, or producing goods that embody large amounts of energy, such as steel and aluminium;
- Increasing automation and electrification of mining and manufacturing equipment;
- Low-carbon agriculture and livestock emission reduction technologies, including nature-based solutions and feed supplements.

Many of Australia's top exports are from high-emitting industries, such as coal, natural gas, iron ore, gold and beef (Figure 1).[26] In addition to driving domestic emissions, our fossil fuel exports have high emissions associated with their use in the countries that import them.[27] A 2019 study suggested emissions from the use of Australian fossil fuel exports alone could account for over 10% of global emissions by 2030.[28]

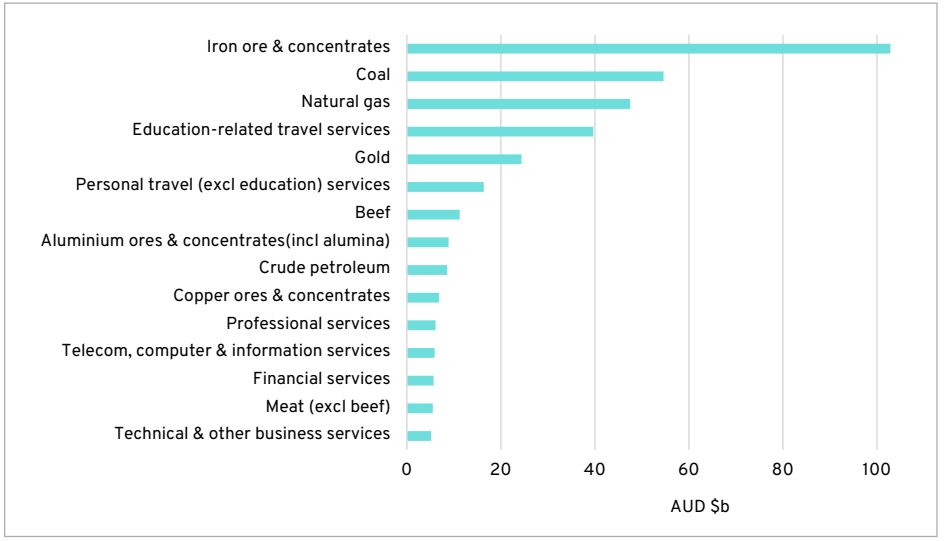

Figure 1: Australia's top exports in 2019-20

Australia's fossil fuel and other emissions-intensive exports are highly vulnerable to the global transition to a low-carbon economy. Notably, eight of Australia's top 10 major trading partners have now committed to reaching net zero by mid-century, including Japan, South Korea, Singapore, the European Union (EU), the United States (US) and China (by 2060).[29] Many of these jurisdictions have also implemented or are developing their own sustainable finance taxonomy.[30] As such, Australia's carbon-intensive economy will need to evolve to meet the rising global demands for net zero aligned products.

The net zero transition presents many economic opportunities for Australia. The nation is well-placed to transition to renewable energy exports, such as green hydrogen and renewable electricity via HVDC cable, with access to abundant natural resources, a track record in building large-scale energy industries and a reputation as a proven partner to Asia's biggest energy importers.[31] Australia also has access to abundant reserves of raw materials required for low emission technologies, including critical minerals like lithium and cobalt.[32] As the world's fourth-largest minerals producer and a leading exporter of iron ore, aluminium, lead, zinc and nickel, Australia has a strong economic interest in the future developments of these sectors.[33]

Decarbonising our economy will be critical for Australia to take advantage of future growth opportunities emerging from low-carbon industries and to maintain its long-term global competitiveness, which will increasingly rely on producing low carbon products and services. Defining a credible pathway for Australia to reach net zero will be critical to ensure a just transition; ensuring the benefits are shared widely and social equity for affected workers and regional communities. Otherwise, we could be subject to a pathway primarily shaped by international drivers, which may not be fit-for-purpose in the Australian context.

It will require significant investment to transform Australia's highest emitting sectors. For example, the Australian Entergy Market Operator (AEMO) estimates approximately $317 billion is needed to develop, operate and maintain the generation, storage and future network investments of the National Electricity Market (NEM) to 2050.[34]

The finance sector will play a pivotal role in mobilising finance to decarbonise Australia's economy, by substantially scaling up capital for low and zero-carbon activities and phasing out investments into fossil fuels. In recognition of the financial sector's critical role in tackling climate change, and its high exposure to transition risk, Australian regulators are already working to raise awareness and encourage the sector to strengthen its capability to identify, disclose and manage climate-related risks and opportunities.

Endnotes

15. "2030 Agenda for Sustainable Development", Department of Foreign Affairs and Trade, https://www.dfat.gov.au/aid/topics/development-issues/2030-agenda-sustainable-development.
16. Final Report of the Referendum Council, Commonwealth of Australia, 2017.
17. Modern Slavery Act 2018 (Cth), https://www.legislation.gov.au/Details/C2018A00153.
18. Australia State of the Environment, Department of Climate Change, Energy, the Environment and Water, 2021.
19. Professor Graeme Samuel, "Independent Review of the EPBC Act – Final Report", Department of Agriculture, Water and the Environment, 2020; "A National Biodiversity Market", Department of Agriculture, Fisheries and Forestry, https://haveyoursay.agriculture.gov.au/national-biodiversity-market.
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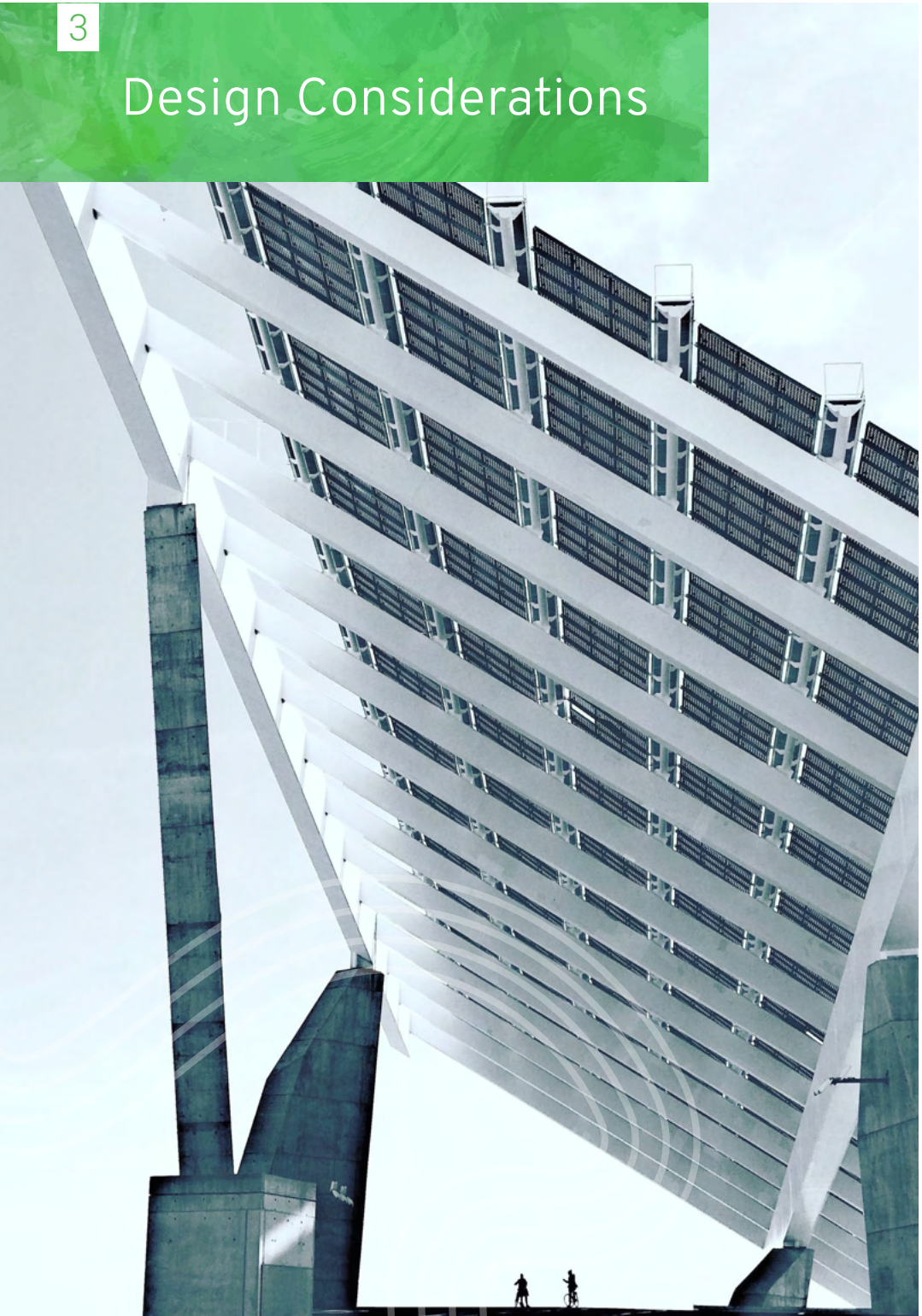
23. Climate Change Act 2022 (Cth), https://www.legislation.gov.au/Details/C2022A00037.
24. National Inventory by Economic Sector 2020, Department of Climate Change, Energy, the Environment and Water. 2022.
25. Alan Finkel, "Getting to Zero, Australia's Energy Transition," Quarterly Essay (81), 22 March 2021.
26. "Trade and Investment at a glance 2021", Department of Foreign Affairs and Trade, www.dfat.gov.au/publications/trade-and-investment/trade-and-investment-glance-2021. Note: most recent available data from 2021 reports only reflects financial year 2019-20.
27. Ibid.
28. Evaluating the significance of Australia's global fossil fuel carbon footprint, Climate Analytics, 2019.
29. Trade and investment trends in a decarbonising world – October 2021, Climate Change Authority, 2021; "Singapore commits to achieve net zero emissions by 2050 and to a revised 2030 nationally determined contribution; public sector and jurong lake district to lead the way with net zero targets", National Climate Change Secretariat Singapore, www.nccs.gov.sg/media/press-releases/singapore-commits-to-achieve-net-zero/.
30. Note: Taxonomies are already fully or partially introduced in Australia' following key economic partners: EU, China, Japan, South Korea, Indonesia and Singapore. The UK, Hong Kong and Canada are in the process of developing their own sustainable finance taxonomies.
31. Australia's National Hydrogen Strategy, Department of Climate Change, Energy, the Environment and Water, 2019.
32. Trade and Investment trends in a decarbonising world – October 2021, Climate Change Authority, 2021.
33. Technology Investment Roadmap Discussion Paper, Department of Industry, Science, Energy and Resources, 2020.
34. 2022 Integrated System Plan: For the National Electricity Market, Australian Energy Market Operator, 2022.

3

Design Considerations



This section looks at design considerations to set the fundamental foundations for an effective Australian sustainable finance taxonomy, namely the purpose and principles, objectives, sectoral coverage, how to evaluate taxonomy eligibility and alignment, methods to include transition activities and governance.

The design recommendations and options are guided by insights from international research and stakeholder engagement to date.

Principles

Guiding principles were consistently identified across international taxonomies as critical foundation steps for ensuring focus and alignment throughout the process of development, implementation and review.

Based on analysis from the International Framing Paper, common guiding principles for taxonomy development include:

↘ Credibility:

science- and evidence-based approach to criteria development. Credibility ensures that capital flows will support activities with better sustainability outcomes. Applying internationally recognised best practice science with independent oversight and safeguards against political or industry influence will support an objective and robust framework.

↘ Usability:

ease of implementation of the taxonomy, so that it is understandable by both the finance and real economy sectors, as well as organisations of different sizes and maturities. The taxonomy should leverage available and fit-for-purpose data to promote transparent and comparable reporting that reduces the burden on users.

↘ Interoperability:

alignment with international standards and taxonomies. Capital flows are global and the taxonomy should be aligned to international approaches, while acknowledging Australia's economic starting point to inform the baseline for the transition. In particular, the taxonomy should align to the US, United Kingdom (UK), EU and Japan being Australia's top sources of foreign direct investment (FDI).[35]

↘ Prioritisation:

a key consideration to promote a just and orderly transition. Prioritisation is particularly important when determining the sectors and sustainability objectives the taxonomy should initially focus on, and the order in which to include other sectors and objectives. Prioritisation is also informed by the importance of other criteria. For example, climate change mitigation is a priority objective based on its contribution towards credibility, usability and interoperability of taxonomy design.

The International Framing Paper sought stakeholder feedback on which principles are most important for Australia's taxonomy design (Figure 2). In addition to the four principles above, ASFI received feedback that impact should also be considered a guiding principle for taxonomy development.

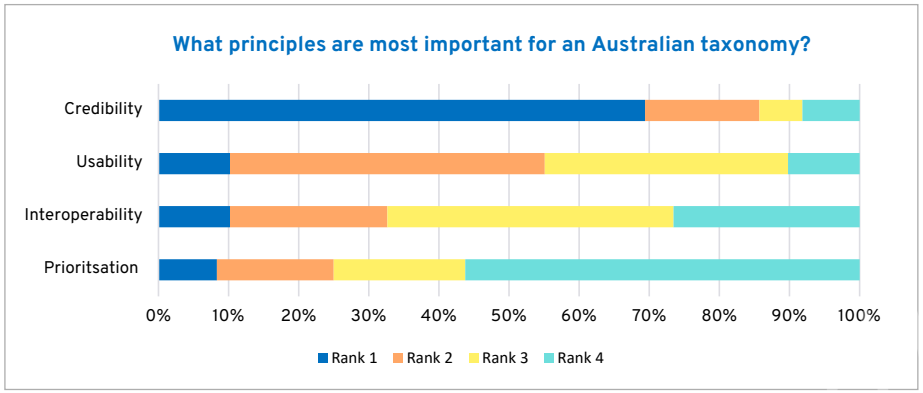


Figure 2: Ranking of importance to survey respondents.

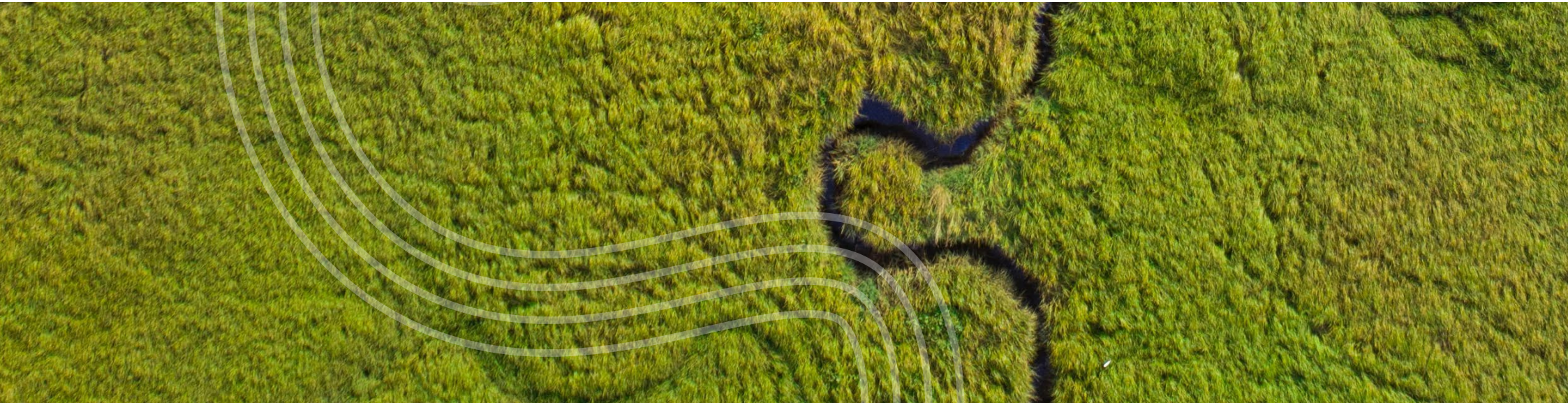
Ranking the importance of each principle revealed credibility as most important, usability as second-most important, interoperability as third-most important and prioritisation as least important.

Stakeholder feedback concluded:

- Credibility was the most important principle for taxonomy design because it promotes trust (and therefore usability) and a science-based approach, as well as seeking to address the risk of greenwashing.
- Usability was critical to taxonomy development to promote market adoption and avoid confusion around financing activities that do not contribute to the sustainability objectives.
- Given Australia's carbon-intensive economy, it is crucial to assess the value interoperability adds to the transition of the economy and whether it is fit-for-purpose.
- Prioritisation is integral to enabling a just and orderly transition to a sustainable economy and ensuring appropriate technical input.
- The Australian taxonomy's design and ongoing development should consider impact in terms of the scale of positive contributions toward the sustainability objectives and net zero transition that the taxonomy can facilitate.

Recommendation 1

The guiding principles in the development and implementation of an Australian taxonomy should be: credibility, usability, interoperability, prioritisation and impact.



Purpose

The purpose of a taxonomy, or why it exists, is informed by drivers. Our international analysis indicated the main drivers for the development of a sustainable finance taxonomy included to:

- Direct capital flows into economic activities that substantially contribute to sustainability objectives;
- Help guide an orderly and just transition to a sustainable economy; and
- Address greenwashing.[36]

Directing capital flows into economic activities that contribute towards sustainability objectives is a key requirement to drive the investment required to transform Australia's economy. An Australian taxonomy can help guide the flow of capital toward sustainability initiatives by providing clarity for financial institutions as to what actually constitutes as 'sustainable', or taxonomy aligned.[37] Investing purposefully into the net zero transition will be essential for the Australian economy and financial system's long-term resilience and global competitiveness.

Facilitating an orderly and just transition to a sustainable economy will also be integral to taxonomy design given Australia's economic dependence on fossil fuel industries. It is necessary the benefits of transitioning to net zero are equitably shared with the regional communities and workers that are dependent on high-emitting industries and highly exposed to transition risks. Federal and state governments are increasingly introducing and regulating policy frameworks that promote the transition to a net zero economy along with broader sustainability attributes and outcomes for social equity and nature-based outcomes. Such policies aim to balance the need for an orderly transition to secure investment and minimise macro-and micro-economic shocks associated with the transition to a net zero economy.

Addressing greenwashing is also a priority for taxonomy development as sustainability-related risks to the financial system have led to greater financial regulatory oversight. For example, a priority for the Council of Financial Regulators[38] (CFR) is facilitating high-quality and comparable climate-related disclosures, in line with the federal government's commitment to introduce disclosure requirements aligned with international standards. Recent actions to support this include ASIC issuing infringement notices to a listed energy company and releasing an information sheet to help issuers avoid 'greenwashing' when offering or promoting sustainability-related products. The regulator's priority directly signals the need for a credible and consistent framework for evaluating and reporting sustainability performance. An Australian taxonomy will provide regulators and financial institutions a tool comprising a set of science-, principles- or normative-based criteria for classifying finance, lending, investment and underwriting activities as having certain sustainability attributes.[39]

Accordingly, an Australian taxonomy designed to direct capital flows into economic activities that promote sustainability objectives, help guide an orderly and just transition, and address greenwashing is likely to provide the best outcomes for Australia.

Developing the Australian taxonomy with the above primary purposes would also align with stakeholder preferences (Figure 3).

What should be the primary purpose of the taxonomy?

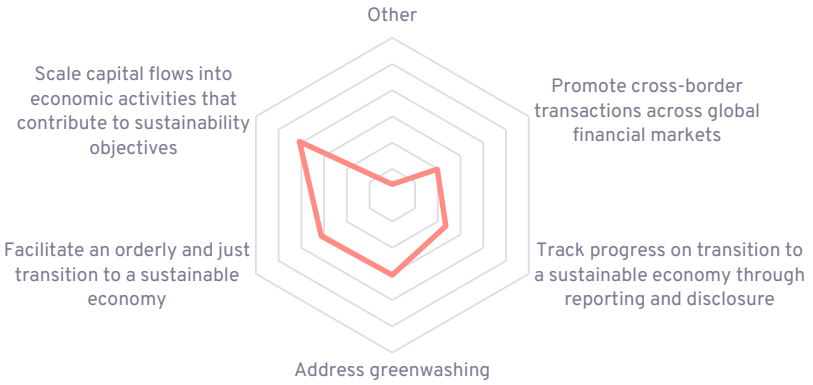


Figure 3: The order of ranking for the drivers behind the primary purpose of an Australian sustainable finance taxonomy was: 1) scale capital flows into economic activities that contribute to sustainability objectives, 2) facilitate an orderly and just transition to a sustainable economy, 3) address greenwashing, 4) track progress on transition to a sustainable economy through reporting and disclosure and 5) promote cross-border transactions across global financial markets.

Recommendation 2

The primary purposes of the Australian taxonomy should be to:

1. Direct capital flows into economic activities that substantially contribute to climate mitigation and other sustainability objectives;
2. Help guide an orderly and just transition to a sustainable economy; and
3. Address greenwashing.

Objectives

The objectives of a taxonomy relate to the sustainability outcomes it aims to achieve. Common environmental objectives across taxonomies include:

- Climate change mitigation;
- Climate change adaptation;
- Protection and restoration of healthy ecosystems and biodiversity;
- Promotion of resource resilience and/or transition to circular economy;
- Pollution prevention; and
- Sustainable use and protection of water and marine resources.[40]

Some taxonomies group these environmental objectives together. For example, the Association of Southeast Asian Nations (ASEAN) taxonomy's environmental objective 'protection of healthy ecosystems and biodiversity' includes objectives to minimise or eliminate negative effects of business operations on nature, including avoiding pollution.[41] In comparison, the Bank Negara Malaysia's Climate Change and Principle-based Taxonomy addresses broader environmental objectives through the use of further qualifying criteria (i.e. do-no-significant harm criteria), rather than including them as separate objectives.[42]

The EU and China are developing social taxonomies focusing on social objectives, such as health, human rights, equality or enhancing socio-economic conditions.[43] However, due to challenges associated with quantifying social indicators the frameworks for developing and implementing social criteria is still nascent in international taxonomies more broadly.[44]

Internationally, taxonomy developments have generally focused on climate change mitigation as an initial priority. Climate change mitigation is a key risk and opportunity for Australia's economy, with the majority of gross value added (GVA) derived from high climate risk sectors such as mining, construction and manufacturing. High-emitting sectors such as electricity supply and mining are also decarbonisation priorities to achieve Australia's net zero target by 2050.

When asked the order that sustainability objectives should be prioritised, stakeholder feedback indicated climate change mitigation as the top priority followed by broader environmental management objectives and climate change adaptation (Figure 4).

Which objectives should be prioritised in developing an Australian taxonomy?

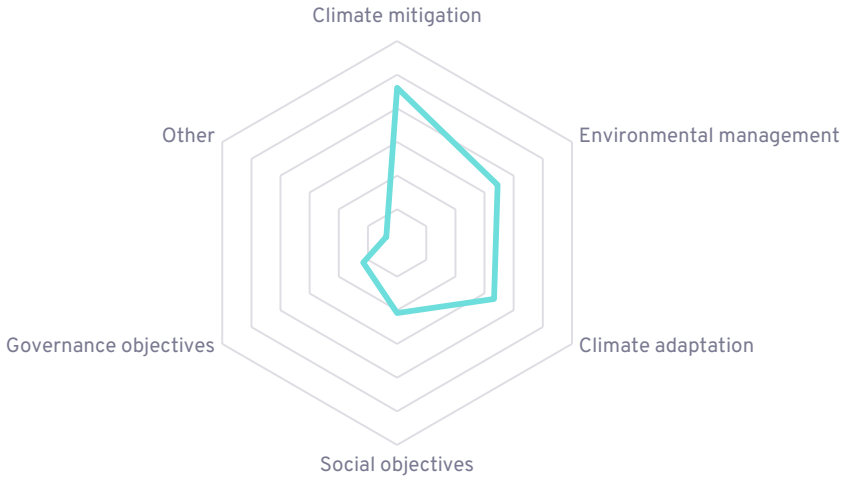


Figure 4: The order of ranking for which objectives should be prioritised: climate mitigation, environmental management (e.g. circular economy, pollution prevention, biodiversity, water), climate adaptation, social objectives (e.g. decent work, adequate living standards, wellbeing, inclusive communities, Indigenous rights) and governance objectives (e.g. aligned to the Australian Securities Exchange Corporate Governance Principles and Recommendations).

During further engagement with the ASFI Technical Advisory Group (TAG) and other stakeholders, it became clear that while climate change mitigation is an immediate and urgent priority, the other environmental and social objectives are essential for the Australian economy's long-term sustainability. There was strong support for climate change adaptation, environmental management and social objectives to be included in the Australian taxonomy over time. Stakeholders also noted that the sustainability objectives are interconnected and there may be value and efficiencies in developing criteria for at least some of these objectives simultaneously.

Prioritising climate change mitigation for taxonomy development would support the principles of taxonomy design, namely credibility (i.e. leveraging existing frameworks such as the Partnership for Carbon Accounting Financials for criteria design), usability (i.e. using familiar performance metrics such as tCO2-e), interoperability (i.e. aligned to international prioritisation of climate change mitigation by other jurisdictions) and prioritisation (i.e. acknowledging the urgency the world needs to decarbonise).

The remaining environmental objectives: climate change adaptation, environmental management, resource resilience and transition to a circular economy, and social objectives are proposed to be incorporated into the taxonomy over time in accordance with the guiding principle priorities, for example credibility (i.e. where adequate frameworks exist), usability (i.e. where metrics are available and usable), interoperability (i.e. in line with international developments) and prioritisation (i.e. noting Australia's environmental and social priorities).

As part of the implementation roadmap, ASFI will consider the practical implications, efficiencies and resourcing requirements of developing criteria across some of the other sustainability objectives in the initial development of the taxonomy.

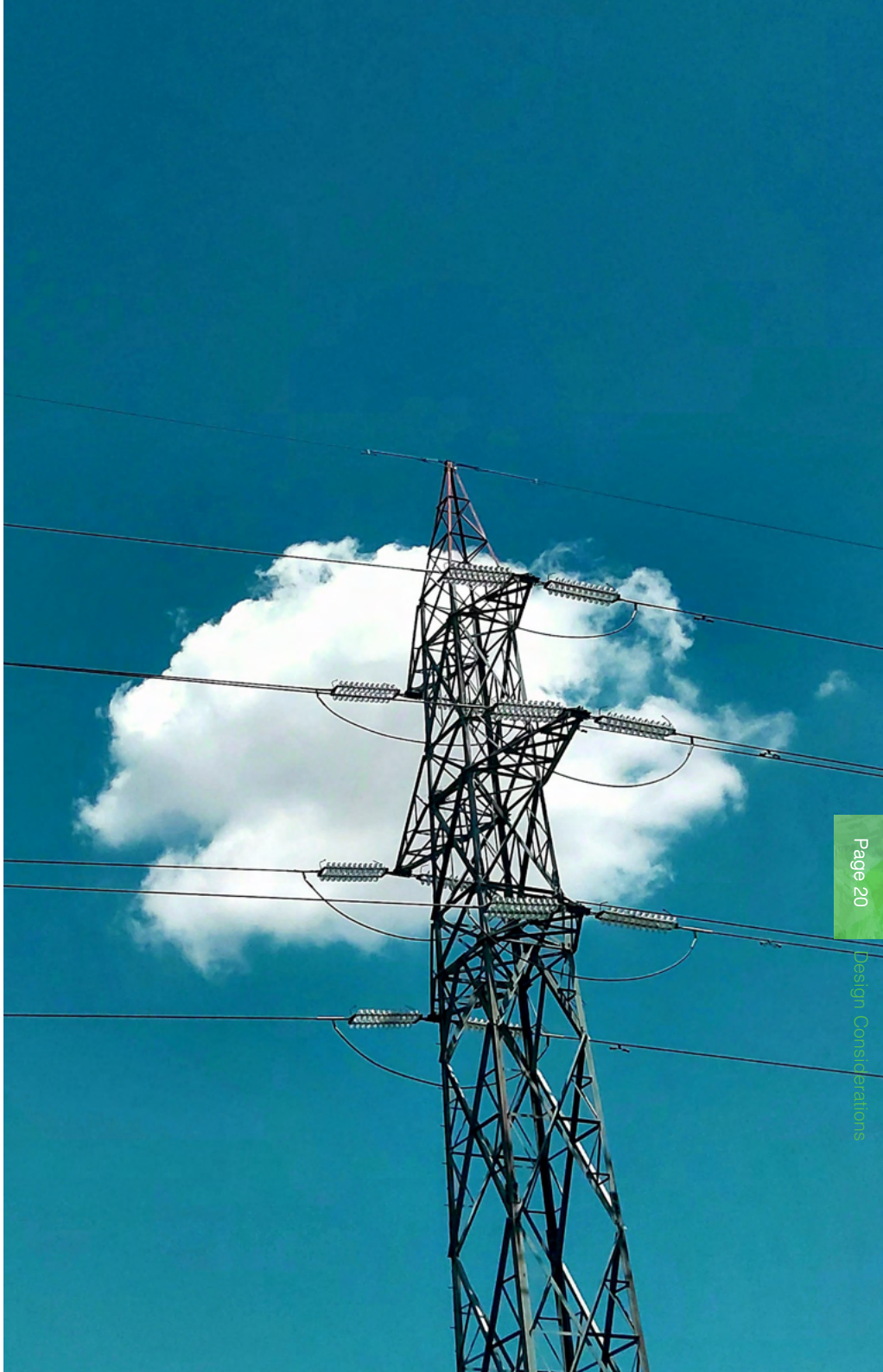
The Australian taxonomy will also seek to include the broader environmental and social objectives as further qualifying criteria to ensure adequate safeguards are in place to avoid harm (i.e. environmental and social safeguards will be in place to support screening of activities to achieve climate change mitigation objectives). Design decisions throughout development of the Australian taxonomy will need to consider future applications and usability with regard to the broader environmental and social objectives.

Recommendation 3

The Australian taxonomy should cover the key sustainability objectives of climate mitigation; climate change adaptation; environmental management (i.e. protection and restoration of healthy ecosystems and biodiversity, sustainable use and protection of water and pollution prevention and control); resource resilience and the transition to a circular economy, and social objectives.

Recommendation 4

The Australian taxonomy should initially prioritise the development of criteria for climate change mitigation, with a view to incorporating other environmental and social criteria over time in accordance with the design principles.



Sector prioritisation

Sectoral coverage indicates the economic sectors to which a taxonomy applies. While a taxonomy can be applicable to all sectors, recent taxonomy developments have focused on a few priority sectors aligned to priority objectives, with a progressive approach to expanded coverage.[45]

Key sectors

Internationally, the economic sectors and activities included in a taxonomy are generally prioritised based on their contribution to taxonomy objectives and the national or regional economy.[46] The majority of stakeholders suggested these factors should be considered when prioritising sectors for inclusion in the Australian taxonomy. This approach would align with the approach adopted by the Singapore and ASEAN taxonomies.

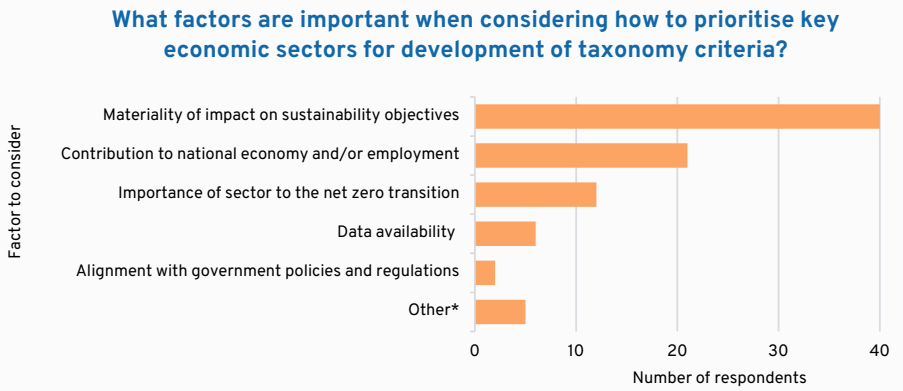


Figure 5: Responses that were similar in nature were grouped into a theme with 'materiality of impact on sustainability objectives' being the most popular among respondents.

*Other included: current ambiguity defining 'sustainable' activities within the sector; likelihood of sector lobbying or acceptance of the taxonomy; regional distribution of the sector; and consideration for ability to support indigenous community and migrant welfare objectives.

If the highest priority objective for taxonomy development is climate change mitigation, high-emitting sectors and those that facilitate the transition to net zero could make the biggest contributions toward this objective.

Regarding contribution to the national economy, access to trade and export markets is central to Australia's economy and eight of Australia's top 10 major trading partners have now committed to reaching net zero by mid-century.[47] Therefore, prioritising key export industry sectors and those that contribute significantly to the national gross-domestic product (GDP) will help ensure Australia's global competitiveness in a low-carbon future.

Electricity supply, mining (including coal mining, oil and gas extraction and other mining), agriculture and manufacturing are Australia's four largest emitters (Scope 1 and 2).[48] Collectively, these sectors account for 86% of the national economy's direct (Scope 1) emissions (Figure 6).[49] In addition to driving domestic emissions, the mining sector contributes significant downstream (Scope 3) emissions through the burning of fossil fuels in the countries that import them. Emissions from the mining sector would be much greater if Scope 3 was included.[50]

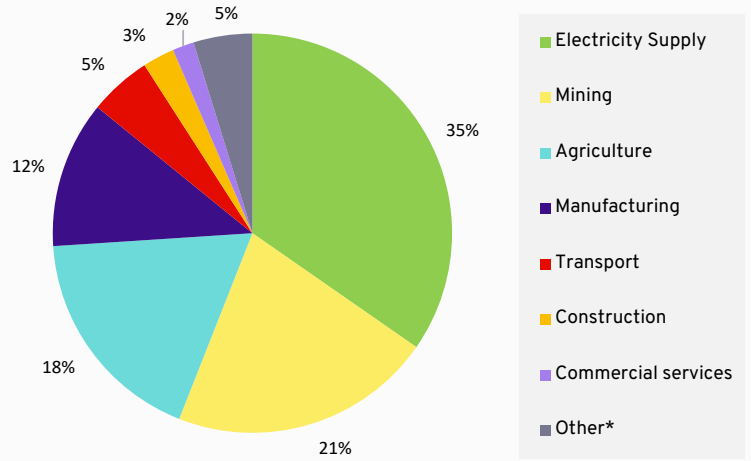


Figure 6: Proportion of Australia's total direct emissions by sector in 2020, excluding residential emissions and changes in forest and wood product stocks.[51]

*Other includes Postal and Warehousing (1.5%), Waste Collection, Treatment and Disposal Services (2%), Water Supply, Sewerage and Drainage Services (0.5%), Gas Supply (0.5%), and Forestry, Fishing and Aquaculture (0.5%).

The electricity supply sector (including generation, transmission and distribution) is currently the largest source of emissions in Australia and will continue to be a primary emissions source until 2030 despite the projected uptake of renewable energy.[52]

Electricity supply emissions primarily arise from burning fossil fuels that can largely be replaced by renewables.[53] Australia has some of the world's best renewable energy resources, and decarbonising our energy supply emissions is critical for the economy to maintain its global competitiveness and take advantage of rising demand for low-carbon industries such as green hydrogen, steel and aluminium.[54] Early movers will better position themselves to capture greater market share and the supply chains that will shape development of these future industries.

Significant investments into new transmission and distribution infrastructure will be critical to transform Australia's electricity system into one that can supply reliable and affordable renewable energy for households and businesses (e.g. grid enhancing technologies that maximise efficiencies and utilisation of the electricity system's capacity).

Australia is currently a net exporter of energy, primarily natural gas and coal.[55] However, as global economies seek to reduce their emissions, demand for renewable energy sources such as green hydrogen and renewable electricity via HVDC cable will grow. Australia is well-placed to transition to renewable energy exports, including access to abundant natural resources, a track record in building large-scale energy industries and a reputation as a proven partner to Asia's biggest energy importers.[56]

Emissions from the mining sector are projected to marginally increase by 2030, mainly driven by the growth in gold and battery material (copper, nickel, lithium) production.[57] As the world's fourth-largest minerals producer and a leading exporter of iron ore, aluminium, lead, zinc and nickel, Australia has a strong economic interest in the future developments of these sectors.[58] Mining activities can have substantial impacts on environmental objectives other than climate change, as a result of extraction and chemical processing. This is an example of how the different sustainability objectives are interrelated, and an Australian taxonomy could benefit from parallel development of criteria across the different sustainability objectives, where the objective is material to the sector activities.

To date, no sustainable finance taxonomy has published criteria to evaluate the sustainability performance of mining activities. Taxonomy development initiatives in Canada and Chile, which similarly to Australia have natural resource-based economies, have indicated they will include the mining sector as a priority.[59] Prioritising the establishment of criteria for activities that mitigate the mining sector's sustainability impacts, including investments into technological improvements such as advanced engine technologies, increasing automation, and electrification of mining equipment, would present an opportunity for Australia to support the development of credible, internationally aligned technical screening criteria for this sector.[60]

Clean energy technologies and specialist infrastructure will need to be manufactured and deployed at scale to facilitate the electricity supply and mining sector's transition. Therefore, the Australian taxonomy should include specific manufacturing activities critical to achieving sustainability outcomes such as solar panel, battery and other relevant electrical equipment manufacturing.

Stakeholder feedback indicated the strongest preference for prioritisation of the electricity supply sector in Australia's taxonomy. This was followed by the three mining sectors, agriculture and forestry.[61]

What sectors should be priortised for Australia's sustainable finance taxonomy?

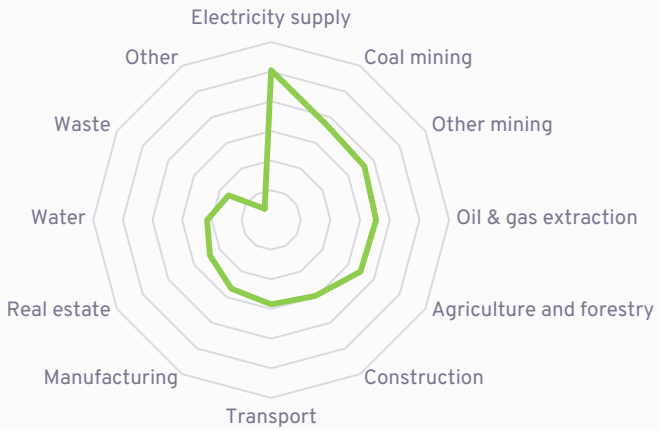


Figure 7: Respondents ranked the 12 options in order of priority.

Almost 80% of respondents ranked the Electricity supply sector in their top three highest priority sectors. There were mixed views on the priority of mining, agriculture and forestry, transport, construction and manufacturing. Low priority sectors such as real estate, water and waste were most frequently ranked in the bottom half (i.e. ranked 6th – 12th).

As experienced in other jurisdictions, energy and mining sectors may face lobbying, political advocacy pressures and market acceptance challenges when developing activity criteria for sustainability classification under the taxonomy. The recent history of climate change politics in Australia also suggests the likelihood of political sensitivities and controversies needing to be managed is high. Introducing sustainability performance criteria may influence the direction, availability or cost of capital for some of Australia's existing, emission intensive entities. The current cost of living pressures that many Australian households and businesses are facing resulting from high energy prices is also a factor that may influence the development of taxonomy criteria and industry uptake.

However, to maintain credibility, the Australian taxonomy will need to develop the criteria for the high-emitting sectors, despite the above present-day challenges. Australia's carbon-intensive economy is evolving to meet the rising global demands for net zero aligned products and services. Financial institutions are pricing in climate risks and pursuing sustainable finance objectives. Delaying action will only exacerbate the environmental, social, economic, and financial system implications in Australia.[62] These considerations have been key to shaping the taxonomy governance design principles and recommendations set out in the governance section of this report.

Australia could leverage existing sector criteria from other international taxonomies and reporting standards to accelerate coverage and market uptake. This could happen in parallel to developing criteria for high priority, potentially more contentious sectors. For example, the Australian taxonomy could adapt criteria from the Singapore taxonomy, which has developed guidance on sustainable construction and real estate in Singapore for use by the finance sector.[63]

Consideration should also be given to including enabling sectors, based on their ability to help other sectors transition to net zero or achieve other taxonomy objectives at scale.[64] For instance, information and communication technology (ICT), professional, scientific, and technical activities, and carbon capture, utilisation and storage (CCUS) are critical to achieving a net-zero economy. This approach would align with other international taxonomies, including the EU and ASEAN.

Recommendation 5

The following should be considered when deciding which sectors should be prioritised for development under the Australian taxonomy:

- Contribution to sustainability objectives
- Contribution to the national economy by share of gross domestic product; and
- Potential economic growth and global competitiveness opportunities

Recommendation 6

The taxonomy design should adopt existing criteria from other international taxonomies or reporting standards that are credible and can be readily adapted to meet the needs of the Australian taxonomy.

Recommendation 7

The Australian taxonomy's sector framework should align with ANZSIC where possible but be flexible to include key sustainable activities that are not clearly captured in the existing codes.

Recommendation 8

The Australian taxonomy should undertake a process of mapping the ANZSIC framework with the classification systems used in international taxonomies that Australia may seek to align with (e.g. ISIC and NACE).

Classification frameworks

To identify the priority sectors, it is first necessary to establish the Australian taxonomy's sector framework.

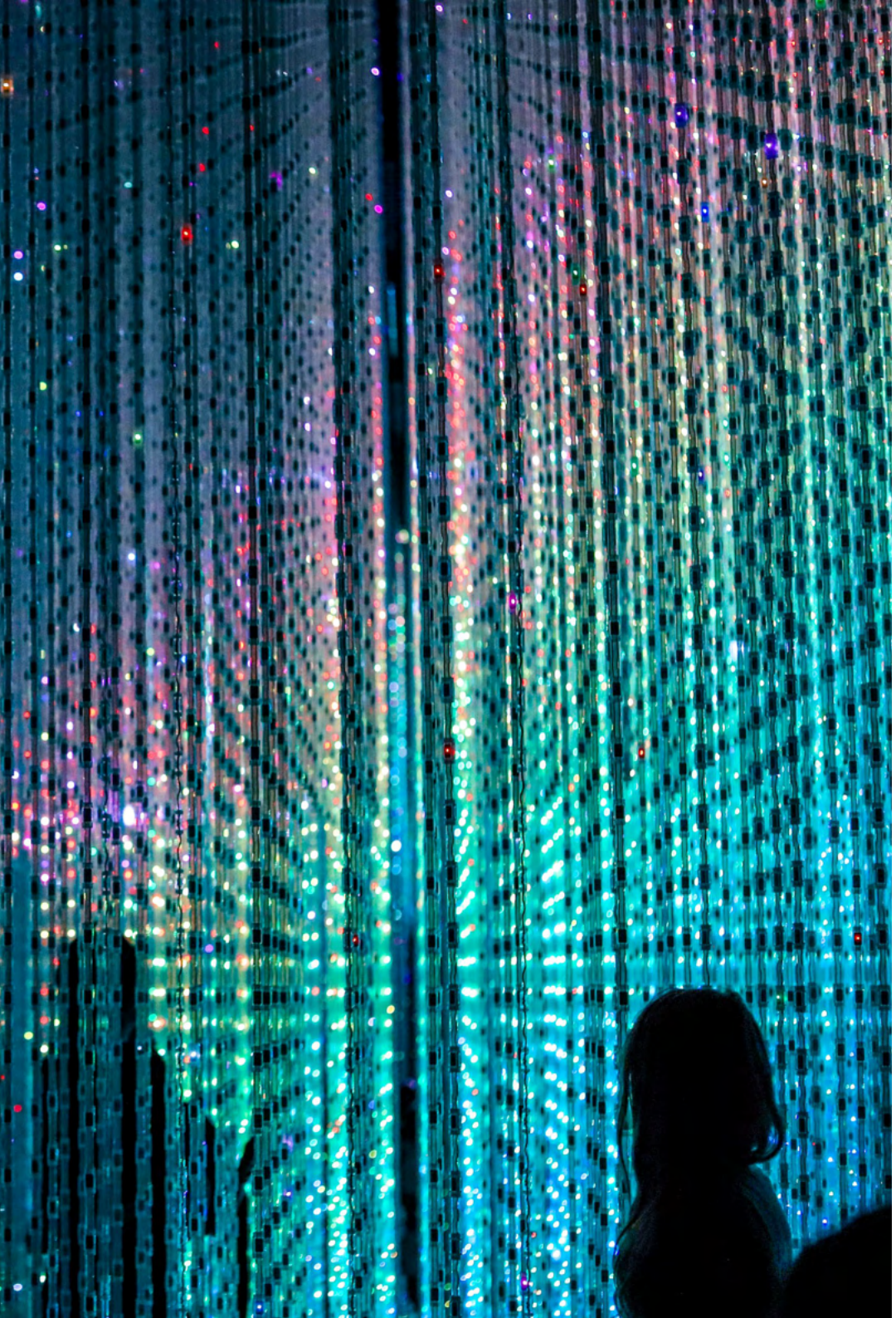
The ANZSIC framework is the primary classification system used by the Australian government, financial institutions, and corporations for collecting, analysing and reporting economic activity data. The numbering system adopted in the ANZSIC framework is alphanumeric and has a hierarchical structure.[65] The leading alpha character denotes the industry division, and the subdivision, group and class levels are denoted by numeric codes.

Stakeholder feedback indicated a preference for the Australian taxonomy adopting the ANZSIC framework, rather than the ISIC and NACE. These frameworks are relatively comparable and adopting ANZSIC for Australia's taxonomy is unlikely to cause significant interoperability challenges. The International Platform on Sustainable Finance (IPSF) is in the process of mapping classification categories from different frameworks, so they are comparable, further reducing interoperability challenges.[66] The Australian taxonomy should leverage this work and undertake a process of mapping the ANZSIC framework with the international classification systems used in other taxonomies it seeks to align with.

ANZSIC has limitations because not all sustainable activities can be easily mapped to the existing framework. For example, ANZSIC group '261 Electricity Generation' does not have a unique class for each type of renewable electricity generation.[67] Taxonomy specific activity codes may need to be established to define specific, eligible sustainability activities and bridge the gap until the ANZSIC framework is updated. An example of how this may work is provided in Table 1 below.

Level	Example
Division	D Electricity, Gas, Water and Waste Services
Subdivision	26 Electricity Supply
Group	261 Electricity Generation
Class	2619 Other Electricity Generation
Example activity codes	26191 Biomass electricity generation 26912 Geothermal electricity generation 26913 Solar electricity generation 26914 Thermal power generation 26915 Tidal power generation 26196 Wind electricity generation

Table 1: Example of ANZSIC structure for use in the Australian taxonomy



Taxonomy eligibility and alignment

Taxonomy eligibility is determined by whether an economic activity falls within the scope of the taxonomy and substantially contributes to its objectives.

Taxonomy alignment (or compliance) is then assessed by applying defined screening criteria to determine whether the activity or company fulfills the requirements to legitimately be labelled as 'sustainable'.

The application of criteria differs internationally, but combinations of entity-level, activity-level and further qualifying criteria can be used to evaluate taxonomy alignment (Figure 8). A visual representation of the practical decision-making process to evaluate taxonomy eligibility and alignment using these criteria is provided in **Appendix C**.

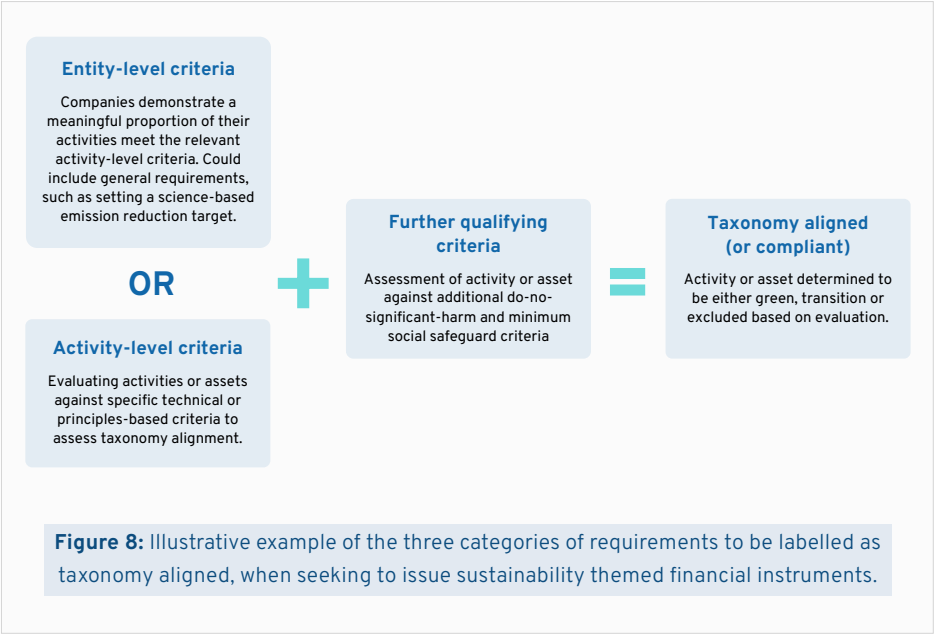


Figure 8: Illustrative example of the three categories of requirements to be labelled as taxonomy aligned, when seeking to issue sustainability themed financial instruments.

Criteria may adopt one or more of the following approaches:

↘ Technical screening criteria:

Quantitative and often science-based performance thresholds (e.g. GHG emissions intensity thresholds for energy generation)

↘ Principles-based criteria:

Qualitative guiding principles, often where quantitative information is limited (e.g. an economic activity makes a 'substantial contribution' to an objective, based on principles of impact and avoidance of greenwashing)

↘ Binary:

Activities meeting a particular sustainability objective without any threshold or screening criteria (e.g. rooftop solar energy generation)

Stakeholder feedback indicated a strong preference for technical screening criteria, supported by qualitative principles-based criteria where necessary (Figure 9).

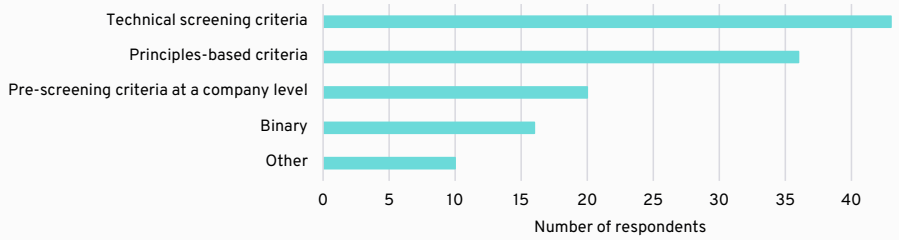


Figure 9: There was strong preference for both technical screening criteria and principles-based criteria to be incorporated into the Australian sustainable finance taxonomy.

Credible, science-based technical screening criteria to determine taxonomy alignment will be critically important for international interoperability, to ensure public confidence, and to give investors, banks and insurers confidence in their sustainability claims as they design products, make sustainability commitments and prepare their disclosures. Principles-based guidance may also be necessary in circumstances where data limitations or performance measurement challenges still exist.

The Australian taxonomy can promote credibility and interoperability by leveraging internationally applied science-based technical screening criteria from other taxonomies, noting that particular criteria and baseline thresholds may need to be adjusted to accommodate Australia's starting point and unique circumstances. Aligning criteria with other international taxonomies, where appropriate, will promote market confidence and reduce market fragmentation.

Climate change mitigation criteria specifically should align with Australia's goal of achieving net-zero emissions by 2050 and support achievement of the Paris Agreement goals (i.e. limiting global warming to well below 2°C, whilst pursuing efforts to limit temperature increase to 1.5°C, above pre-industrial levels). Discussion on whether the Australian taxonomy's criteria should be aligned with a 1.5°C or well below 2°C scenario is provided below under the 'Transition approach' section.

Recommendation 9

The Australian taxonomy should use internationally recognised, credible, science-based technical screening criteria, complemented by principles-based criteria where necessary.

Entity- and activity-level criteria

Financial organisations may provide an entity with capital for general use of proceeds or specific activities. The type of criteria suitable for evaluating the sustainability performance of financing activities is dependent on the intended use of proceeds.

For specific use of proceeds, activity-level criteria would be most appropriate. Activity-level criteria are used to evaluate the sustainability performance of specific economic activities or assets. For example, the Australian taxonomy could establish clearly defined, science-based activity-level criteria for electricity generation based on life cycle emissions (e.g. gCO2/kWh). This would be consistent with the approach taken by other global taxonomies, including the EU and Singapore taxonomies.

The table below demonstrates what this could look like in practice. Please note, this is only an example to visualise how the activity-level criteria could be structured. Further work will be undertaken in the next phase of the Taxonomy Project to calculate and build consensus on credible, science-based criteria for specific activities, suitable to the Australian context and aligned with achieving the Paris Agreement's objectives.

Timeframe	2022 - 2025	2025 - 2030	2030 - 2035	2035 - 2040	2040 - 2050
Green*	100g	100g	100g	50g	50g
Transition**	510g	300g	200g	100g	N/A
Excluded	> 510g	> 300g	> 200g	> 100g	> 50g

Table 2: Example thresholds for the Australian energy supply sector.[68]

**Example green performance thresholds have been set to align with the EU and proposed Singapore Taxonomy thresholds.*

***Example transition performance thresholds were estimated based on the current emission intensity of Australia's electricity supply, excluding black coal electricity generation.*

For general use of proceeds, entity-level criteria would be most appropriate. Entity-level criteria allows for assessment whether the company seeking finance is fundamentally aligned with the taxonomy's objectives at an entity-level. To be labelled as sustainable using entity-level criteria, companies above a certain threshold would need to demonstrate a meaningful proportion of their revenue, turnover, capital expenditure or operational expenditure meets the relevant 'green' activity-level technical screening criteria. This could include additional general requirements for the entity to:

- set a long-term credible, science-based emission reduction target;
- have a credible transition plan aligned to international best practice;[69] and/or
- make public climate-related disclosures demonstrating performance in accordance with global reporting standards (e.g. TCFD or ISSB).

Requiring all financing activities to be evaluated against both entity and activity level criteria would have practical implications, such as drastically limiting the application of the taxonomy and the proportion of capital that could be labelled as sustainable, and creating challenges around defining green versus transition eligibility criteria. However, the Australian taxonomy can address this by developing and applying entity- and activity-level criteria separately for general and specific use of proceeds, respectively. Doing so will reduce potential usability challenges while ensuring the taxonomy can provide financial organisations with guidance to credibly evaluate the sustainability performance of finance issued to either companies or specific activities.

All entity- and activity-level criteria should be transparent, clearly defined, require the reporting of standardised metrics and qualitative information, and be science-based, where possible. This will provide the market with certainty over data requirements and facilitate comparability of taxonomy alignment within and between industry sectors. Further, the criteria must be dynamic and reviewed regularly to ensure they reflect the most recent climate science, government policy and technological and market innovations.

The entity- and activity-level criteria will be designed in the next phase of the Taxonomy project by finance and sector-specific technical working groups to ensure they are credible, usable and fit-for-purpose.

Recommendation 10

- The Australian taxonomy should include criteria to demonstrate taxonomy alignment by:
- Evaluating funding recipients against entity-level criteria, where finance is issued to an entity for general use of proceeds.
- Evaluating an activity or asset against activity-level criteria, where finance is issued to a funding recipient for specific use of proceeds.

Transition category

In relation to climate change mitigation, transition broadly refers to two types of processes:

- **'Transition within':** Decarbonising high-emitting industries and activities over time; and
- **'Transition away':** Replacing certain activities, where decarbonisation may be unviable, with low-carbon alternatives.[70]

While all sectors will need to decarbonise, there is recognition that certain sectors face more significant economic or technological barriers to transition. Transition finance aims to mobilise capital toward initiatives that facilitate decarbonisation of high-emitting or hard-to-abate sectors.

Australia's reliance on foreign investment and trade means the Australian financial services value chain is at the centre of transition to a sustainable economy and is highly exposed to changes in international policy and investor behaviour.

Decarbonisation of high-emitting and hard-to-abate sectors will play a vital role in reducing Australia's national emissions, greening financial portfolios and reducing systemic risk exposure across the economy. It is critically important financial institutions have access to credible transition criteria that progressively steer economic activities toward taxonomy alignment.

Internationally, there are different approaches for integrating transition activities within a taxonomy. For example, the Singapore and ASEAN taxonomy use a 'traffic light' colour coding system to classify activities as:

- **Green:** sustainable, aligned with taxonomy objectives
- **Transition:** transition activities on a pathway to aligning with taxonomy objectives
- **Excluded:** unsustainable or excluded activities that may cause significant harm and do not align with the taxonomy objectives

It is important to note that 'excluded' does not mean financial institutions cannot finance a particular entity or activity, but that those financial instruments cannot be labelled sustainable.

In comparison, the EU taxonomy includes 'transitional activities' within its 'green category', but only where low-carbon alternatives are not yet available and the GHG emission levels for that activity correspond to the best performance in the sector or industry (for example, best-in-class cement manufacturing).[71] However, this approach doesn't clearly distinguish between the performance of activities that are aligned with the taxonomy's objectives and those that are still on a pathway to alignment.

Feedback from stakeholders indicated a strong preference for the inclusion of transition criteria in the Australian taxonomy to guide capital toward initiatives aligned with credible sectoral decarbonisation pathways (Figure 10). This will align with the proposed taxonomies in jurisdictions with similar economic characteristics to Australia, such as Canada and Chile, and to taxonomies in the Asia-Pacific region, such as the ASEAN and Singapore taxonomies.

Should Australia's taxonomy include a "transition category", namely a mechanism to allow for the progression of performance criteria or thresholds over time?

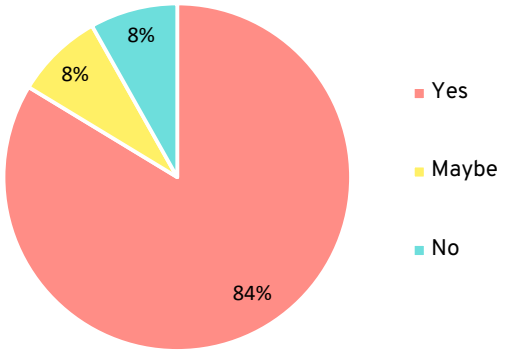


Figure 10: More than 80% of respondents to the International Framing Paper survey explicitly supported inclusion of a transition category, with the remaining respondents either not in favour of a transition category or recognising it depends on how the transition is applied.

During consultation, the TAG and other stakeholders favoured the traffic-light colour coding approach due to its simplicity to communicate. Adapting the Singapore and ASEAN traffic-light approach to meet the Australian taxonomy's needs could create a clear framework to distinguish and communicate activities that meet the taxonomy objectives. That is, communicating which activities are operating within "best-in-class" parameters but which are not yet compatible with the taxonomy objectives, and which activities are not included within the taxonomy labelling as sustainable.

Recommendation 11

Australia should adopt a simple traffic-light colour coding framework to communicate and distinguish between:

1. green activities: aligned to the taxonomy objectives;
2. transition activities: on a pathway to alignment with the taxonomy objectives; and
3. excluded activities: unsustainable or do significant harm and/or have not credible pathway to alignment with the taxonomy objectives.

Methodology for defining the transition category

A clear and transparent methodology for determining how entities and activities are categorised into green, transition or excluded will need to be endorsed in the next phase of the Taxonomy Project.

The taxonomy design should consider which option is best suited to the Australian context considering the guiding principles of credibility, usability, interoperability, prioritisation and impact. The transition mechanism will also need to be dynamic in response to technological or policy developments, and the inclusion of the other environmental and social objectives as the taxonomy is progressively developed.

For climate change mitigation, any entity- and activity-level transition criteria should be aligned with science-based and ambitious timeframes that consider sectoral and global carbon budgets aligned with achieving the Paris Agreement's objectives. Over time, transition thresholds move toward alignment with green thresholds, thus driving the transition to achieve the taxonomy's objectives, as demonstrated in Figure 11.

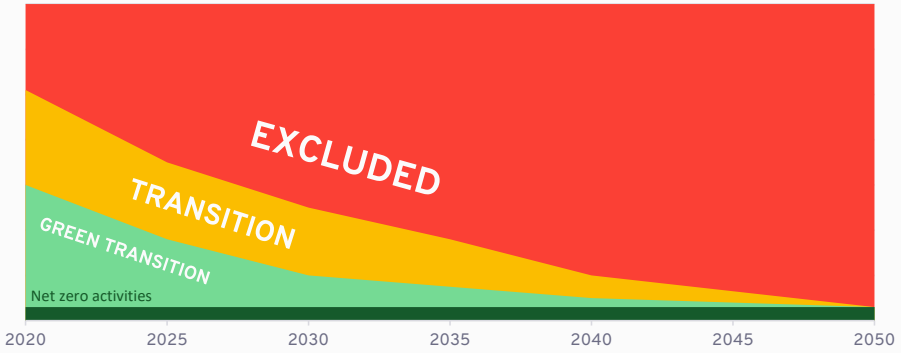


Figure 11: Illustrative example demonstrating how transition thresholds gradually align closer with 'green' thresholds over time to drive continuous improvements.[72]

This section outlines options for the green, transition and excluded category definitional framework identified through our analysis of international taxonomies and engagement with other jurisdictions currently tackling this issue.

Option 1: Pathway differentiation approach

An entity or activity could be categorised based on its alignment to science-based climate scenarios.

The latest climate science clearly demonstrates the escalating adverse impacts of climate change with every increment of warming above 1.5°C.[73] Limiting warming to 1.5°C will only be achievable with immediate mitigation action and shifting finance toward sustainable investments.[74] Arguably the most credible science-based transition pathways would be aligned with limiting global temperature increase to 1.5°C. However, there may be practical challenges with a 1.5°C alignment, at least in the short term, including technology readiness, cost effectiveness, limited data availability and ease of implementation.

Many companies in Australia's emission-intensive economy are unlikely to already be undertaking activities completely aligned with a 1.5°C pathway. The Australian taxonomy could therefore consider providing a window for 'transition activities' to include those that support high-emitting companies to become aligned with a 1.5°C pathway. However, this window should be limited so as to not delay action. Alternatively, 'green' criteria could be aligned with a 1.5°C pathway, while 'transition' is aligned with a well below 2°C pathway, and 'excluded' is aligned to a 2°C or above pathway.

The appropriate option must consider the taxonomy design principles, reflect available technology and Australian industries' starting points, and be suitable for the methodology adopted to integrate a 'transition category' into the Australian taxonomy.

Option 2: Transition risk and opportunity approach

An approach considered in other jurisdictions is categorising activities into green, transition or excluded categories according to their relative transition opportunity and risk.

Categorisation of activities and the technical screening criteria used for assessing alignment are anchored in climate science and credible transition pathways. Categorisation considers potential environmental harm (e.g. avoiding carbon lock-in) as well as investment risk (e.g. long-term sustainability and market competitiveness of the activity in a future, net zero economy). The criteria would be reviewed regularly to incorporate changes in technology, science, and policy and become more stringent over time.

The underlying methodology for determining whether an activity is green, transition or excluded follows a decision tree with three key decision points:

1. **Material demand-side risk:** Does the activity have material Scope 3 emissions (i.e. does it face demand side risk in a Paris-aligned net zero economy)?
2. **Material supply-side risk:** Does the activity have material Scope 1 and 2 emissions (i.e. does it face high carbon cost and supply-side risk)?
3. **Increasing demand-side opportunity:** Does the activity have increasing demand side opportunity (i.e. does the world need more of it in a Paris-aligned net zero economy)?

Appendix D provides example of how this could work in practice.

Option 3: Activity categorisation approach

The Australian taxonomy could adopt a similar approach to the Korean Green Taxonomy (K-Taxonomy) and divide economic activities into a 'green' or 'transition' categories based on their contribution to the taxonomy objectives and necessity for Australia's transition to net zero.[75] The K-Taxonomy has no explicit 'excluded' category.

In the K-Taxonomy, the 'Green Category' is sub-categorised by sector and includes 64 activities that are essential for carbon neutrality or environmental improvement such as renewable energy generation, carbon capture, waste resource recycling and low carbon agriculture. There are specific quantitative GHG emissions thresholds for some Green Category activities. However, some are exempt from meeting threshold criteria because of their innate environment positive attributes.

In comparison, 'Transition Category' includes 5 specific activities considered necessary to facilitate the transition toward carbon neutrality in South Korea, including; 1) GHG reduction for small and medium-sized enterprises, 2) production of energy based on liquified natural gas (LNG) and mixed gas, 3) production blue hydrogen from LNG, 4) building eco-friendly ships and 5) transport via eco-friendly ships.

Some activities that fall under the transition category have specific quantitative thresholds. For example, to be considered taxonomy aligned, energy production activities using LNG or mixed gases must meet a specified GHG emission intensity threshold and present a mid- to long-term emissions reduction plan to reach a future taxonomy defined threshold during its operational lifetime.

Recommendation 12

The Australian taxonomy should adopt a clear, transparent methodology for categorising transition activity, endorsed by the Taxonomy Board.

Q.

What methodology for categorising transition activities would be most suitable for use in the Australian taxonomy?

1) Pathway differentiation approach,

2) Transition risk and opportunity approach,

3) Activity categorisation approach,

4) Other

Further qualifying criteria

Many taxonomies apply further qualifying criteria to ensure the achievement of one taxonomy objective does not come at the cost or harm of other environmental, social or governance considerations. These criteria may include:

- Do no significant harm (DNSH): Minimum standards to ensure activities do not cause adverse risks of impacts on other environmental objectives through compliance with national or local laws, or additional requirements (e.g. voluntary energy efficiency targets).
- Minimum social safeguards: Minimum standards to ensure issuers are compliant with national regulatory requirements and/or international social frameworks, such as; Organisation for Economic Co-Operation and Development (OECD) Guidelines for Multinational Enterprises, United Nations Guiding Principles on Business and Human Rights, International Labour Organisations on Fundamental Principles and Rights at Work, and the International Bill of Human Rights.

Further qualifying criteria are particularly important to facilitate a just transition; ensuring the benefits of transition are shared widely and do not disadvantage vulnerable socio-economic groups.[76]

Stakeholder feedback on the type of further qualifying criteria to include in an Australian taxonomy generally favoured compliance with existing national and local laws reinforced by additional DNSH criteria (Figure 12).

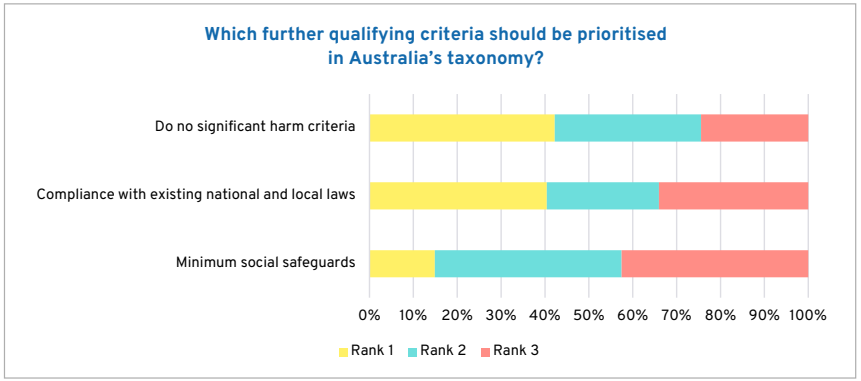


Figure 12: Ranking the various options for further qualifying criteria revealed 'do not significant harm criteria' as most important, 'compliance with existing national and local laws' as second-most important and 'minimum social safeguards' as least important.

As a minimum, corporations must comply with existing national, state, and local level laws. However, these laws are subject to political polarisation and may be insufficient to prevent significant environmental or social harm. Therefore, the Australian taxonomy should include additional DNSH and minimum social safeguard requirements to maintain credibility and close the gap where existing compliance requirements do not ensure prevention of harm to sustainability objectives.

DNSH and minimum social safeguard requirements can allow for sustainability objectives beyond climate change mitigation to be considered when evaluating taxonomy alignment whilst the Australian taxonomy is progressively developed. The additional criteria should be tailored to the Australian context, taking into consideration the nation's key sustainability objectives and priorities in relation to:

- Environmental sustainability
- Social inclusion and ensuring a just transition to net zero
- Ensuring first nations heritage and rights are protected.

Administration of DNSH criteria could result in usability issues for the Australian taxonomy. In the EU taxonomy there are more than 700 individual DNSH criteria, many referencing specific EU laws.[77] The vast quantity of DNSH requirements and the variations in applying them to different economic activities creates complexity and potentially disproportionate data gathering costs for corporations and financial institutions using the EU taxonomy.[78]

There may be opportunities to simplify DNSH requirements without significantly compromising the Australian taxonomy's credibility and rigour. In the UK, the Green Taxonomy Advisory Group (GTAG) is exploring options to streamline DNSH requirements to make the UK Green Taxonomy more usable.[79]

GTAG has been exploring whether a review and revise approach to DNSH requirements within the EU technical screening criteria is merited. Under this option, each DNSH criteria will be examined and then streamlined, as needed. To ensure taxonomy alignment, activities will still need to meet the streamlined DNSH requirements, but the key difference that they should be easier to assess, understand and comply with.[80]

The approach presents an opportunity to delete extraneous text and shorten the DNSH criteria, and simplify and attach compliable metrics to criteria that are currently vague. Australia could leverage or support the valuable work being undertaken overseas to make DNSH criteria a usable, yet still credible, proposition for the Australian context.

There may be merit in adopting a phased approach to introducing further qualifying criteria that meets the unique needs of Australia. For example, developing criteria considered to be a priority for the taxonomy's objectives, such as ensure the protection of First Nations heritage or an equitable and just transition for regional workers and communities associated with climate change mitigation activities. However, the timeline of any phased approach will need to be clearly communicated to the market to allow taxonomy users sufficient time to prepare for the introduction of any additional compliance requirements.

Any further qualifying criteria built into the Australian taxonomy will need to balance the need for credible, science-based rigour with usability. Criteria must also be practical and consider current data availability limitations, which may alleviate as voluntary and mandatory corporate disclosures enhance over time.

Recommendation 13

The Australian taxonomy should include further qualifying criteria assessment of "do no significant harm criteria" that meets the unique needs of Australia, including but not limited to standards for respecting Indigenous rights and heritage and supporting workers and communities in relation to equitable and just transition.

Governance

Effective governance of a taxonomy is key to achieving credibility, interoperability, usability and impact. Credible governance models should ensure the development and application of screening criteria to activities is robust, science-based and not subject to ongoing changes in policy or sectoral interests. Interoperability should account for alignment to international approaches, acknowledging the Australian context. Usability should ensure governance is not overly complex. Prioritisation should ensure priority objectives are addressed first.

Research on international approaches to taxonomy governance revealed taxonomies are often developed by industry-led or government mandated technical working groups and involve extensive stakeholder consultation during the development and implementation phases.[81] Technical working groups consist of relevant financial, economic and environmental technical experts alongside the intended taxonomy users and public sector representatives. The establishment of ASFI and the Taxonomy Project as an industry-led initiative working closely with government is consistent with international examples and provides the opportunity to explore effective governance models for taxonomy development.

No clear preference emerged from the stakeholder feedback (Figure 13). However, further TAG consultation highlighted some clear considerations including the need for separation of responsibility between oversight of the taxonomy and development of technical screening; and the need for a Board or independent entity with joint government, financial industry and societal representation, which performs an oversight function, working with a finance-led technical body and topic-specific working groups.

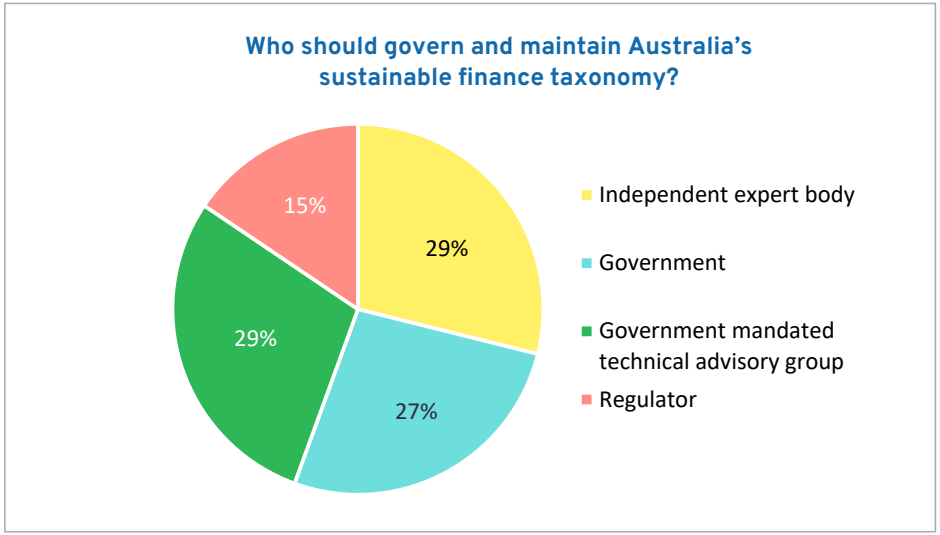


Figure 13: Stakeholder preferences on the entity to govern and maintain Australia's sustainable finance taxonomy indicated mixed views on the best approach.

Key feedback from the TAG workshops indicated the Australian taxonomy must be independent from ongoing changes in policy or sectoral and industry interests, as well as science-based and credible. Further, stakeholders also highlighted the need for the convening power and authority that would come with the taxonomy being government-endorsed, as a means of encouraging adoption and ensuring its ongoing management and administration is sufficiently resourced.

ASFI consulted widely on this issue with representatives leading the development of taxonomies internationally including the UK (Treasury and the Green Finance Institute), Canada (Canada Sustainable Finance Action Council and the Canadian Department of Finance), ASEAN (The Sustainable Finance Institute of Asia) and various representatives from the EU.

All jurisdictions emphasised an appropriate governance structure for the development and ongoing maintenance of the taxonomy will be critical to ensure credibility and market legitimacy. There are clear distinguishing features for the initial development of the taxonomy and its ongoing maintenance as an enduring financial-policy tool.

Based on the advice, experience, and examples from other jurisdictions, the following core considerations have been identified in the design of the governance structures for the development of an Australian taxonomy to safeguard and prioritise scientific integrity, and ensure market credibility and usability as a private finance tool:

- Joint leadership and commitment from Government and the financial sector to a common purpose
- Level of independence from policy or political considerations to ensure policy objectives do not drive or compromise design
- Strong financial sector input into the taxonomy design to ensure usability and relevance
- Independent secretariat function to support and drive taxonomy development process
- Clear, transparent and understandable methodology for developing taxonomy criteria
- Transparent decision-making processes
- Safeguard scientific integrity
- Drawing on input from subject matter experts and interested stakeholders where appropriate
- Effective and well-designed consultation with interested stakeholders

In addition, the ongoing maintenance of the taxonomy needed to be well-resourced, stable and enduring and have predictable funding.

Drawing on various global models including best practice governance models frequently observed among financial sector standard-setting bodies and some taxonomy initiatives globally including the Sustainability Accounting Standards Board[82], the Climate Bonds Initiative and international jurisdictions like Chile and Canada, we recommend a three-tier governance model be adopted. Tier 1 relates to the ownership and strategic governance of a taxonomy. Tier 2 relates to the operation of a taxonomy. Tier 3 relates to expert technical input. An illustrative example of this model is provided in Figure 14.

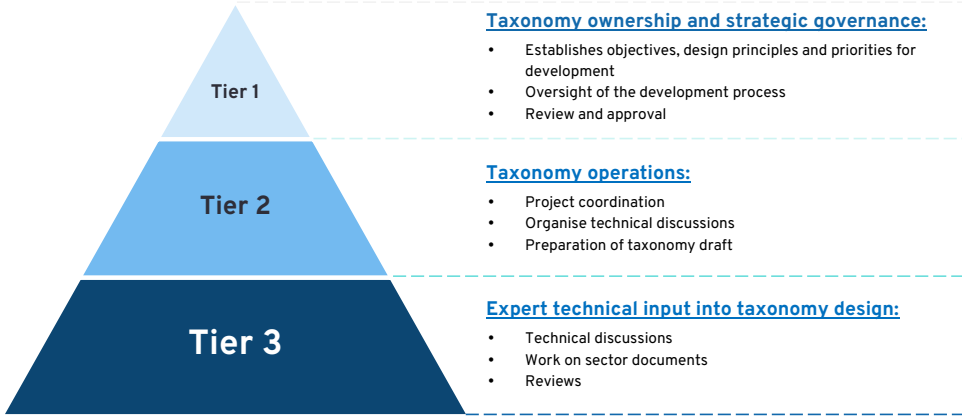


Figure 14: Governance structure for taxonomy development. Adapted from: Taxonomy Roadmap for Chile, 2021.[83]

The operationalisation of these three tiers in the initial development and ongoing maintenance and review stages of an Australian taxonomy are set out in more detail below.

Governance models for taxonomy development

The development processes of taxonomies in the EU, UK, South Africa, Canada and Singapore share some similar design features. All of them have a strong technical financial industry body responsible for developing the standards and technical criteria (tier 2), and all have some level of regulatory and/or government involvement (tier 1).

The EU established a Technical Expert Group on Sustainable Finance (TEG), which was responsible for the development of the EU-wide classification system. The TEG developed the taxonomy, while the European Commission advanced regulation with an eye towards the continued development, and long-term maintenance of the Taxonomy.

In Singapore the Green-Finance Industry Taskforce has been established to develop the Singaporean Taxonomy, which will be governed by the Monetary Authority of Singapore.

For the development phase of the Taxonomy Project, we propose the establishment of a three-tier governance model with ASFI providing the ongoing secretariat support for the Taxonomy Project. This drawing on the examples of the UK and the ASEAN taxonomy process where an entity—the Green Finance Institute in the UK and the Sustainable Finance Institute of Asia for ASEAN— similar in status and purpose to ASFI are the custodians for the development of those taxonomies and provide the secretariat support for the Taxonomy Project.

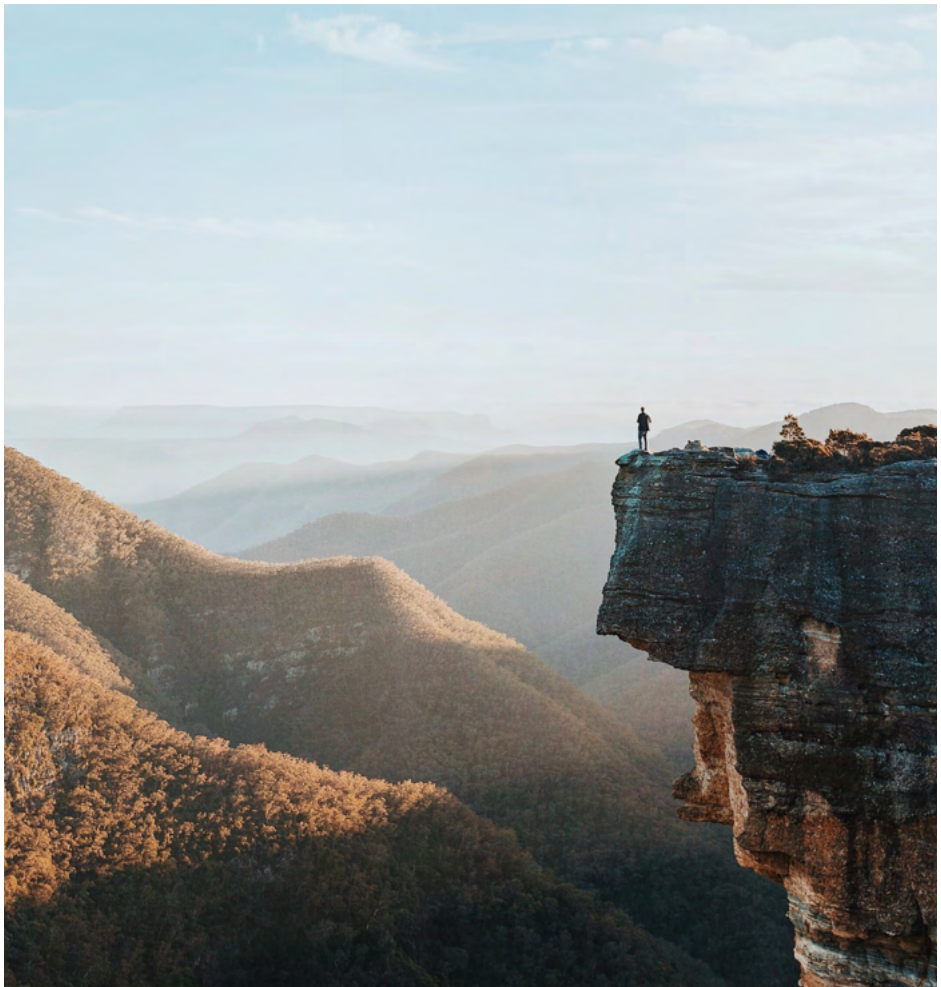
ASFI is well placed to continue to fulfil this role under the mandate and direction of a newly established Taxonomy Board. Its membership represents all key areas of the finance sector (banking, insurance, investors and superannuation), ESG services providers and assurers. ASFI's operational mandate is to drive implementation and monitor progress of the ASFI roadmap. It has a broad-based governance structure including an Advisory Committee comprising federal and state government, financial regulators, finance and climate technical experts, and representation across several financial sector peak organisations.

Tier 1: High-level Board accountable for the initiative and provides strategic oversight and direction

We propose the ASFI Taxonomy Project SteerCo be replaced with a Board comprising of Government, peak representation across the financial sector (banking, insurance, investors and superannuation), climate and specialist expertise, and social and Indigenous representation.

Given the potential uses of the Taxonomy in addressing greenwashing, the labelling of financial instruments, risk management, climate disclosures and scenario analysis, representatives from Australia's key economic and regulatory agencies (APRA, the RBA and ASIC) could participate as observers.

The Board would agree and be bound by the high-level objectives, design principles, methodology for the establishment of criteria for green, transition and excluded activities, and set the priorities for the development of the taxonomy for the technical body to develop. It would consider and approve the technical body's work (veto power) but cannot intervene or participate in the technical body's work or suggest specific activity inclusions or exclusions.



Role of Government

In addition to being instrumental in the setup and composition of the governance structure including the establishment of high-level objectives, design principles and methodology for criteria, the extent of Government's involvement and leadership in the development of the taxonomy, will depend on its policy mandate and the prioritisation of a taxonomy as part of the Government's broader sustainable finance policy objectives.

There are several ways Government involvement could be structured that are compatible with the key governance considerations identified through this process:

↘ Joint Industry-Government model:

Government is represented on the Taxonomy Board as one of many and its membership is not differentiated from other Board members. This model may be most appropriate if the intent is for the taxonomy to be used as a voluntary tool for the finance sector to guide product labelling, capital allocation in line with corporate sustainability objectives, and avoid greenwashing.

↘ Government decision-maker model:

Board members representing Government will hold a simple majority of votes or hold a special voting right to veto decisions of the Board. This model reflects the public interest dimension of a national taxonomy but introduces complexity into Board processes and decision making.

Government endorsement model:

The Taxonomy Board acts as an independent advisory Board to the Treasurer. Taxonomy proposals are approved by the Board for endorsement by the Treasurer. The Treasurer could approve or reject the proposal based on its suitability against the taxonomy objectives, design principles, methodology for criteria and provide reasons for their decision. This model is likely to be most appropriate where Government ultimately intends to use the Taxonomy to underpin not only greenwashing guidance and enforcement activities, but mandatory corporate and finance sector disclosures and broader sustainable finance policy and regulation such as green capital weightings and public sector spending decisions.

ASFI will continue to work closely with Government to identify the most suitable model to drive development of a credible Australian taxonomy.

Tier 2: Finance Industry Technical Group to carry out the technical work to develop the taxonomy proposals for the Boards approval

The Finance Industry Technical Group will replace the current ASFI TAG and will be responsible to drive the development of the taxonomy proposal. Members will be appointed through a transparent process for a fixed term mandated by the Board. Expertise's will cover climate, environment, social, regulatory policy, financial, data and taxonomy-relevant expertise. Supported by ASFI as the secretariat, the technical group will be responsible for executing on the clear mandate set by the Board including:

- Developing technical screening criteria within the specified objectives, design principles and priorities for the Board's approval.
- Planning and convening the right expertise, including sector- and subject-specific working groups.
- Undertaking broader stakeholder consultation.

Tier 3: Sector- and subject-specific working groups and forums

Established as needed to advance detailed, sector-based technical taxonomy research and consultation to inform the Finance Industry Technical Group's work. The sectoral working groups will be established by the Finance Industry Technical Group and comprise sector specific and other subject matter experts and affected stakeholder relating to the sector or issue under consideration. Their input is advisory in nature.

The working groups and forums would comprise subject matter experts from each of the sectors under development, as well as scientists, Indigenous groups, data experts, social representatives, and affected stakeholders to provide advice, input and stakeholder feedback on proposals.

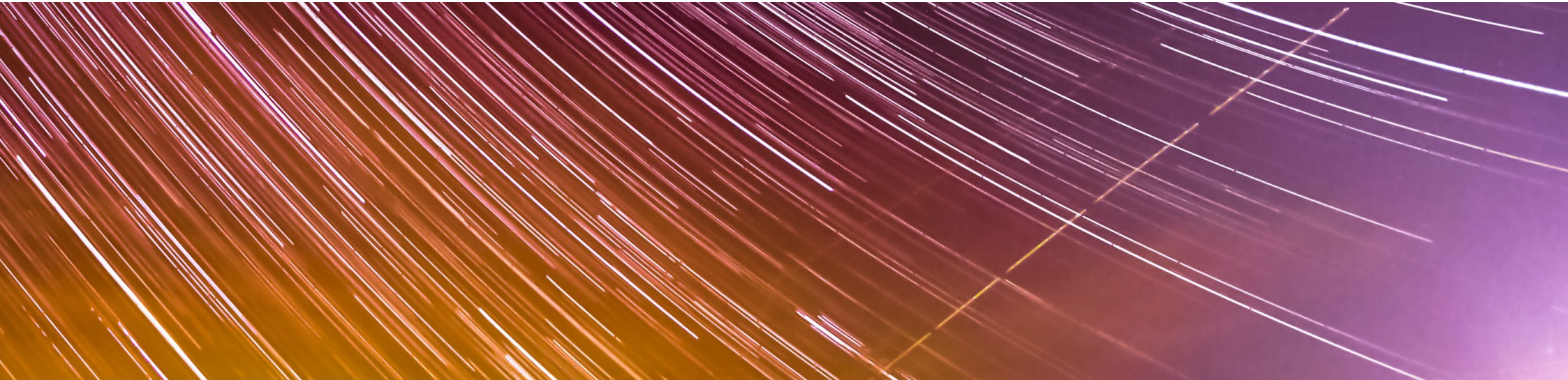
Additional Expert Input

Independent expertise on science-aligned sectoral pathways to inform technical screening criteria should be provided to tier 1 as key input to the Boards priorities and planning activities and utilised by tier 2 in the development of technical criteria for taxonomy aligned activities. This input could be provided by a credible third party, or Government entity including the CSIRO or the Climate Change Authority.

This arrangement would support the taxonomy design principles as follows:

- **Credibility:** Strengthened oversight committee with a wide range of finance and other representatives would support credible, robust and science-based decision-making.
- **Interoperability:** Interim arrangements would allow Australia to commence designing climate change mitigation criteria for priority sectors to align to global changes in foreign investment and trade as other jurisdictions transition to a sustainable economy.
- **Usability:** By leveraging existing infrastructure and expertise within the ASFI Taxonomy Project, ASFI can focus on developing usable criteria for priority objectives and sectors.
- **Prioritisation:** Supports prioritisation of sectors and activities based on science, rather than political motivation.

While the taxonomy is being developed, consideration should be given to the optimal structure for the continued development and longer-term maintenance of the taxonomy. The key considerations outlined for the development phase would still applicable.



Recommendation 14

For the development phase of the Australian taxonomy, we recommend the implementation of a three-tier governance model administered by ASFI and comprised as follows:

1. **Taxonomy Board:** Includes government, peak representation across the financial sector (banking, insurance, investors and superannuation), climate and specialist expertise, and social and Indigenous representation. Sets the objectives, design principles, methodology to establish the taxonomy criteria, and priorities for development, and approve the taxonomy proposals. Consideration to be given to the appropriate role of Australia's key economic and regulatory agencies: APRA, the RBA and ASIC.
2. **Financial Industry Technical Group:** Fixed term transparent membership from experts covering climate, environment, social, regulatory, data and taxonomy relevant expertise. Responsible for the development of taxonomy proposals and convening of sector- and subject-specific working groups.
3. **Sector- and subject-specific working groups and forums:** Established as needed to provide sector- and subject-specific advice to inform the Finance Industry Technical Group's work and provide a forum for stakeholders to provide views on specific areas of the taxonomy affecting them.

Independent expertise on science-aligned sectoral pathways should be provided to tier 1 as key input to the taxonomy Board's priorities and utilised by tier 2 in the development of technical criteria for taxonomy aligned activities.

Voluntary and mandatory considerations

Whether alignment (or compliance) with a taxonomy should be voluntary or mandatory is nuanced and can apply in relation to the financing of activities or reporting and disclosure.

Initial feedback from stakeholders suggested a mandatory approach is preferred (Figure 15).

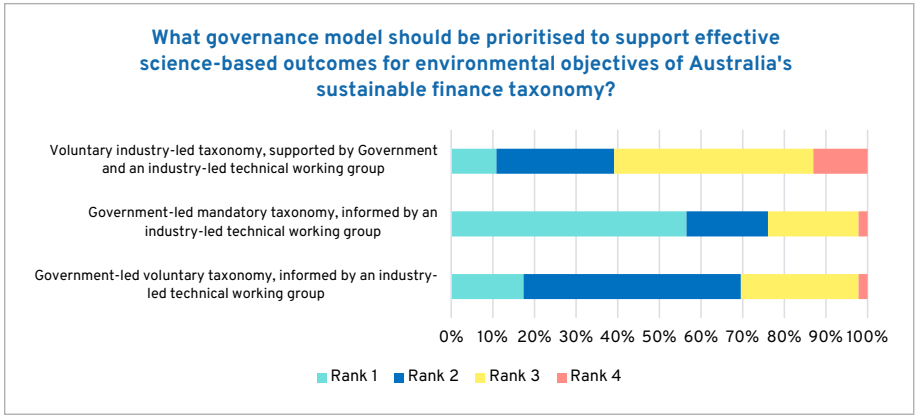


Figure 15: Ranking the priority governance model revealed a government-led mandatory taxonomy as most favourable, a government-led voluntary taxonomy as the next preference and voluntary industry-led taxonomy as the least favourable option.

However, further feedback from the TAG workshops indicated there was strong support for reporting and disclosure to be mandatory in the immediate term only where financial and corporate actors are making claims around the sustainability objectives covered by the taxonomy. Mandatory application of the taxonomy to financing should be phased in over time, and once it is clearer how the taxonomy fits into the broader regulatory architecture and sustainable finance strategy of Government.

The phasing in of a mandatory taxonomy would help address existing data challenges and the need for significant capacity building to support mandatory disclosure of taxonomy alignment. This approach is not dissimilar to the recommendations of the TCFD, for which disclosures were initially voluntary but are now becoming mandatory in some jurisdictions.[84]

Recommendation 15

To assist with addressing greenwashing, reporting on taxonomy alignment should be mandatory where users are seeking to make claims around the sustainability objectives covered by the Australian taxonomy in relation to their activities, financial instruments, products and/or the development of sustainability labels and standards.

Endnotes

35. Analysis of international taxonomies and considerations for Australia, Australian Sustainable Finance Institute, 2022.
36. Note: See the International Framing Paper for further details.
37. It is important to note an Australian taxonomy will not define the entities or activities financial institutions can finance, but will provide a definitional framework for what can be labelled 'sustainable'.
38. The CFR is the coordinating body for Australia's main financial regulatory agencies, including APRA, ASIC, the Australian Treasury, and the RBA.
39. Analysis of international taxonomies and considerations for Australia, Australian Sustainable Finance Institute, 2022.
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42. Climate Change and Principle-based Taxonomy, Bank Negara Malaysia, 2021
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44. The New Geography of Taxonomies, NATIXIS Corporate & Investment Banking, 2021.
45. Note: Japan's Basic Guidelines on Climate Transition Finance, Malaysia's Climate Change and Principles-based Taxonomy and the ASEAN Taxonomy's Foundational Framework apply to all sectors, whereas the ASEAN Taxonomy's Plus Standard and Singapore GFIT Taxonomy development initiatives propose prioritising developing criteria for priority sectors based on their contribution to their regional economy and GHG emissions.
46. Analysis of international taxonomies and considerations for Australia, Australian Sustainable Finance Institute, 2022.
47. Trade and investment trends in a decarbonising world – October 2021, Climate Change Authority, 2021; "Singapore commits to achieve net zero emissions by 2050 and to a revised 2030 nationally determined contribution; public sector and jurong lake district to lead the way with net zero targets", National Climate Change Secretariat Singapore, www.nccs.gov.sg/media/press-releases/singapore-commits-to-achieve-net-zero/.
48. Excluding residential emissions. Source: National Inventory by Economic Sector 2020, Department of Climate Change, Energy, the Environment and Water. 2022.
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51. National Inventory by Economic Sector 2020, Department of Climate Change, Energy, the Environment and Water. 2022.
52. Emissions from the electricity supply sector are projected to decline 55% below 2005 levels by 2030 due to the uptake of renewables but will still be the second greatest source of emissions in Australia. Source: Australia's emissions projections 2021, Commonwealth of Australia, 2021.
53. Electricity (34%), stationary energy (20%) and transport (18%) together account for 72% of Australia's emissions. These emissions arise from burning fossil fuels. In these sectors, to a very large extent the combustion of coal, oil and natural gas can be replaced by renewable electricity and clean hydrogen. Source: Alan Finkel, "Getting to Zero, Australia's Energy Transition," Quarterly Essay (81), 22 March 2021.
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55. Australian Energy Update 2022, Department of Climate Change, Energy, the Environment and Water, 2022.
56. Australia's National Hydrogen Strategy, Department of Climate Change, Energy, the Environment and Water, 2019.
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58. Technology Investment Roadmap Discussion Paper, Department of Industry, Science, Energy and Resources, 2020.
59. Final Report of the Expert Panel on Sustainable Finance: Mobilizing Finance for Sustainable Growth, Environment and Climate Change Canada, 2019; Taxonomy Roadmap for Chile, Climate Bonds Initiative, 2021.
60. Australia's emissions projections 2021, Commonwealth of Australia, 2021.
61. 'Other mining' includes metal ore and non-metallic mineral mining and quarrying.
62. Climate Change Risk in the Financial System, Reserve Bank of Australia, 2022.
63. Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN, Green Finance Industry Taskforce, 2022.
64. Torsten Ehlers, Diwaen Gao and Frank Packer, "A taxonomy of sustainable finance taxonomies", Bank for International Settlements, 8 October 2021.
65. "Number system and titles – Australian and New Zealand Standard Industrial Classification (ANZSIC)", Australian Bureau of Statistics, https://www.abs.gov.au/statistics/classifications/australian-and-new-zealand-standard-industrial-classification-anzsic/2006-revision-2-0/numbering-system-and-titles.
66. Common Ground Taxonomy: Climate Change Mitigation, International Platform on Sustainable Finance Taxonomy Working Group, 2022.
67. The ANZSIC is a hierarchical classification with four levels, namely Divisions (the broadest level), Subdivisions, Groups and Classes (the finest level). Division D Electricity, Gas, Water and Waste Service, Subdivision Electricity Supply, Group Electricity Generation is further subdivided into 3 Class Levels: Fossil Fuel Electricity Generation, Hydro-Electricity Generation and Other Electricity Generation. Utility scale and rooftop solar, wind, bioenergy and other renewable electricity generation (excluding hydro-power) are currently captured under 'Other Electricity Generation'.
68. Table 2 is an example for illustrative purposes only.

Endnotes cont.

69. See the recently published Guidance on use of sectoral pathways for financial institutions, by the Glasgow Financial Alliance for Net Zero, 2022, which aims to provide a framework for consistent use of sectoral transition pathways in decision making, and the United Kingdom Transition Plan Taskforce, launched by HM Treasury in April 2022 to develop the “gold standard” for private sector climate transition plans. More detailed guidance on this should be issued by the Taxonomy Board (see governance recommendations).
70. Global Financial Taxonomies – Considerations for the Canadian Context, Canadian Standards Association, 2022.
71. 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.
72. Adapted from the Second GFIT Taxonomy Consultation Paper, The Association of Banks in Singapore, 2022.
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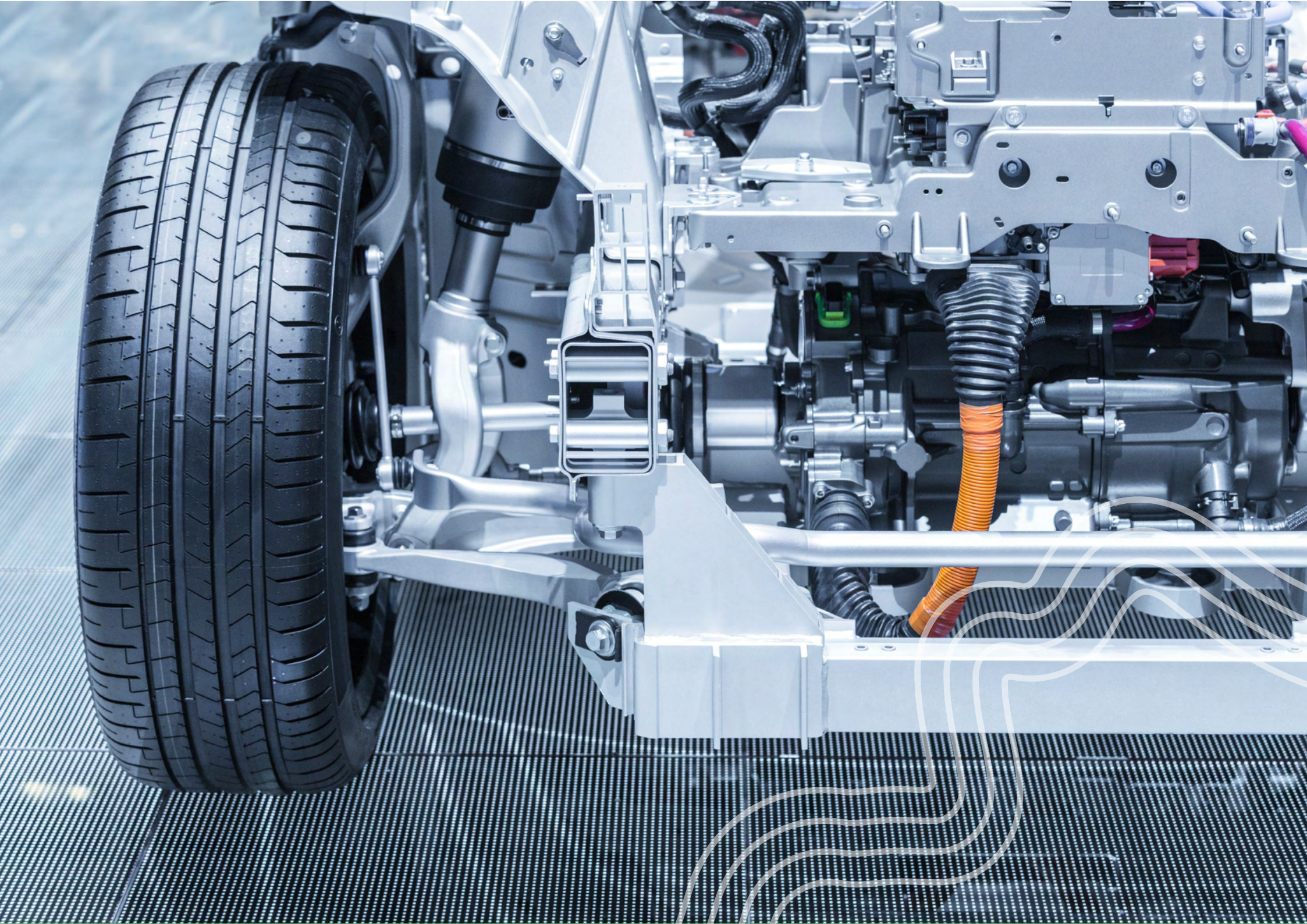
77. GTAG: Advice on the development of a UK Green Taxonomy, Green Finance Institute, 2022.
78. Ibid.
79. Ibid.
80. Ibid.
81. Analysis of international taxonomies and considerations for Australia, Australian Sustainable Finance Institute, 2022.
82. Pre-merger with the International Integrated Reporting Council in 2021.
83. Adapted from: Taxonomy Roadmap for Chile, Climate Bonds Initiative, 2021.
84. For example, from 2025, TCFD aligned disclosures will become full mandatory across the UK economy. Source: A Roadmap towards mandatory climate-related disclosures, His Majesty’s Treasury (HM Treasury), 2020.



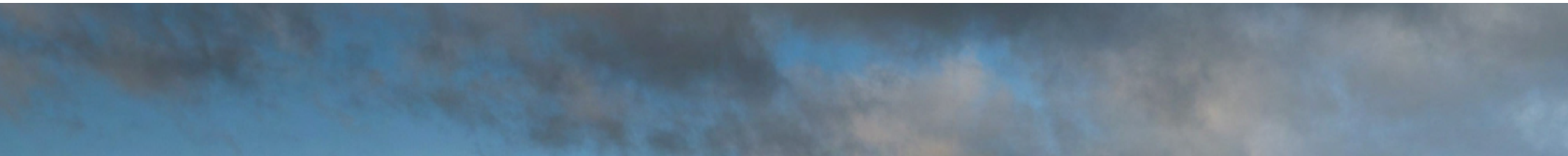
4

Implementation roadmap for taxonomy development

This paper, along with the ASFI Roadmap and International Framing paper, provides the valuable initial groundwork and design recommendations to develop an Australian sustainable finance taxonomy.

This section maps out a proposed roadmap and timeline for taxonomy development.

1. Public consultation over the recommendations and options on the core design elements will be open until the end of February with the view to incorporate insights and publish the final recommendations in March. The key areas the public consultation covers, include:
   - Validation of the draft recommendations provided in this paper.
   - Options for designing the mechanism for integrating transition activities into the Australian taxonomy
2. In parallel, ASFI will continue to engage with Government on establishment of the governance structure for the development phase of the project in accordance with their desired level of representation and input. Governance is expected to be finalised by mid-2023.
3. The development of the Australian taxonomy through to the creation of technical screening criteria for priority sectors and taxonomy objectives is expected to commence mid-2023 and continue for 18 – 24 months.
4. In parallel to the development process, Government and regulators will consider how the taxonomy aligns with the broader regulatory architecture and Australian sustainable finance strategy, and options for the longer-term maintenance and continued development of the taxonomy.



APPENDIX **A**

STAKEHOLDER ENGAGEMENT RESULTS

ASFI sought feedback on the key design elements and considerations identified in International Framing Paper. This included consultation with the TAG followed by additional public consultation during the following periods:

- TAG consultation: 7 September 2022 – 18 September 2022
- Public consultation: 17 October 2022 – 28 October 2022

This section outlines the combined results from both consultations.

Q1: What should be the primary purpose of the taxonomy?

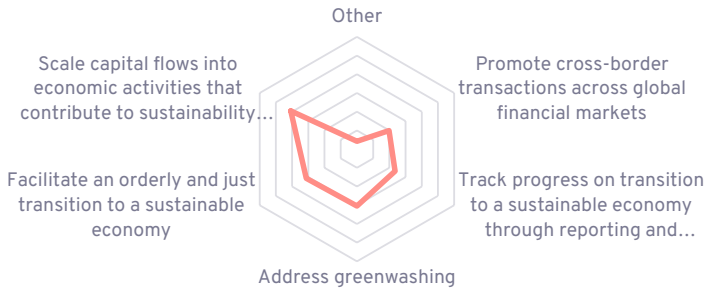


Figure 16: Radar chart showing stakeholder preferences for the purpose of an Australian taxonomy.

Most respondents believe the primary purpose of an Australian taxonomy should be to scale capital flows into activities that contribute to sustainability objectives. 'Other' responses included:

- Provide guidance to real economy players on strategic and operational decisions that support sustainability objectives.
- Drive capital to nature-based climate solutions and carbon drawdown initiatives.
- Assist investors, lenders and borrowers to clearly identify the environmental and social credentials of projects, assets and activities to enable green, transition or social labelling.

Q2: What would be the most valuable use for an Australian taxonomy?

Figure 17: Radar chart showing stakeholder preferences for the use of an Australian taxonomy.

Providing a framework for labelling financial products and activities as sustainable and guiding corporate action towards sustainable development were observed as the highest-ranking preferences. 'Other' responses included:

- Provide investors, lenders and borrowers clear definitions, thresholds and criteria for identifying and encouraging positive environmental and social outcomes.
- Clarify context, optimise influence, and demonstrate impact.

Q3: Which principles are most important for developing an Australian taxonomy?

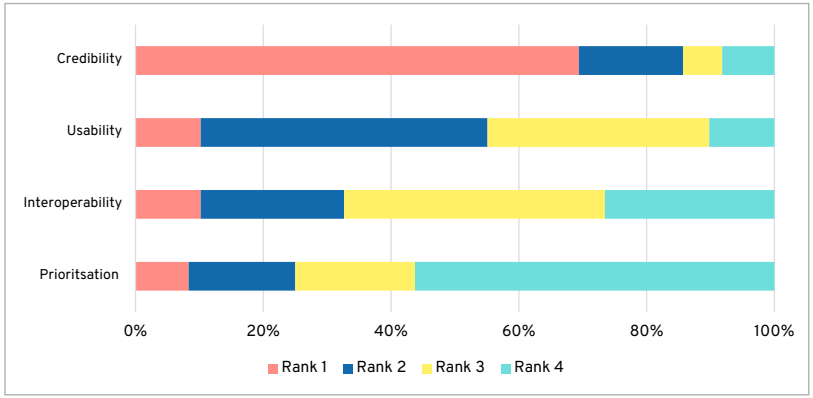


Figure 18: Bar chart showing ranking preferences for principles that should underpin an Australian taxonomy.

There was strong consensus that credibility is the most important principle, with usability and interoperability being the next.

Q4: Which objectives should be prioritised in developing an Australian taxonomy?

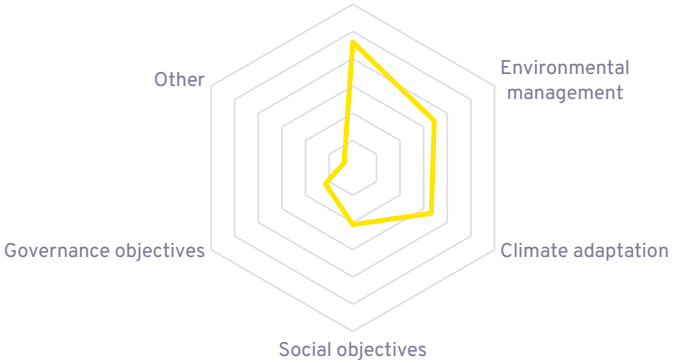


Figure 19: Radar chart showing stakeholder preferences for which objectives should be prioritised in developing an Australian taxonomy.

The majority of respondents believe climate mitigation should be prioritised in developing an Australian taxonomy, followed by broader environmental objectives and climate adaptation. 'Other' responses included:

- Acknowledgement of the interdependence between the sustainability objectives and the need for a more holistic approach, with criteria developed in parallel.

Q5: What practical considerations apply to the prioritisation of objectives for development of an Australian taxonomy?

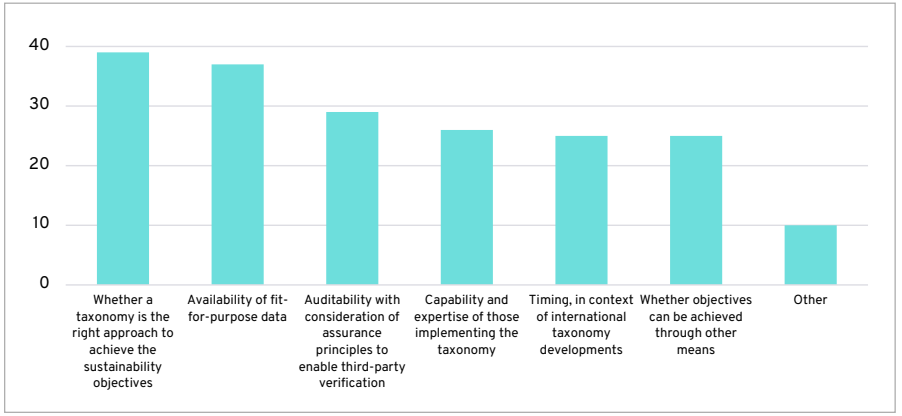


Figure 20: Bar graph showing stakeholder preferences for practical considerations to prioritise for the objectives of an Australian taxonomy.

The top practical considerations for prioritising objectives are whether a taxonomy is the right approach to achieve sustainability objectives and availability of fit-for-purpose data. 'Other' responses included:

- The influence of state and federal political cycles on the development and implementation of the taxonomy.
- Capacity of both financial institutions and corporates to implement the taxonomy.
- Consideration of existing Australian laws and regulations.

Q6: What factors are important when considering how to prioritise key economic sectors for development of taxonomy criteria?

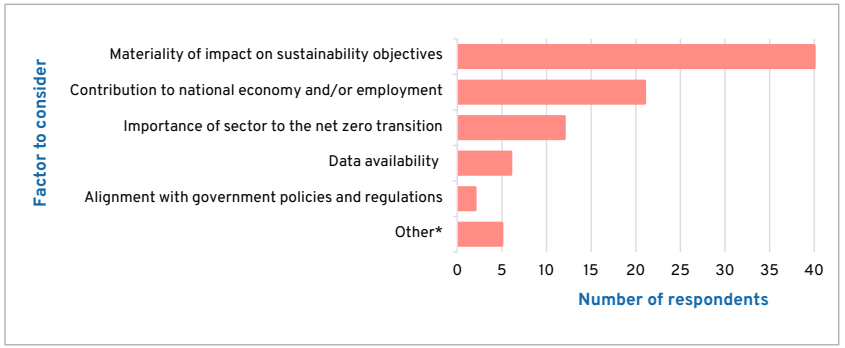


Figure 21: Bar graph showing stakeholder ranking of factors to consider when prioritising key economic sectors for an Australian taxonomy.

The majority of respondents noted the materiality of impact should be considered when prioritising key economic sectors. 'Other' responses included:

- Current ambiguity defining 'sustainable' activities within the sector.
- Likelihood of sector lobbying or acceptance of the taxonomy.
- Regional distribution of the sector.
- Consideration for ability to support indigenous community and migrant welfare objectives.

Q7: What sectors should be prioritised for Australia's sustainable finance taxonomy?

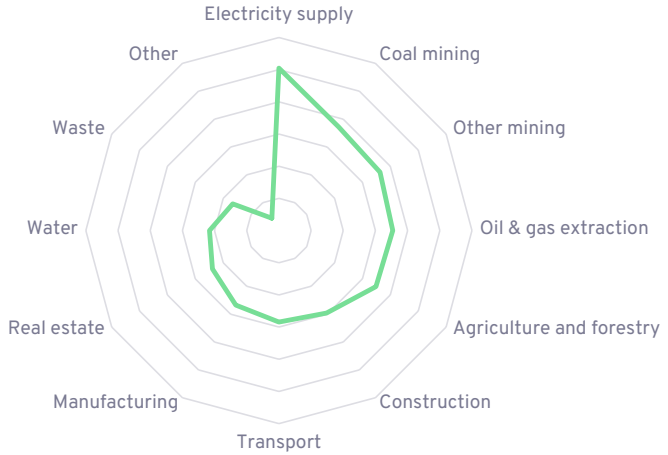


Figure 22: Radar chart showing stakeholder ranking preferences of which sectors should be prioritised for an Australian taxonomy. Electricity supply ranked as the highest priority, followed by the coal mining, other mining, oil & gas extraction and agriculture and forestry sectors.

Respondents also highlighted the prioritisation of sectors will ultimately depend on the taxonomy objectives.

Q8: Should ANZSIC (rather than ISIC or NACE) be the preferred classification code option for Australia's sustainable finance taxonomy?

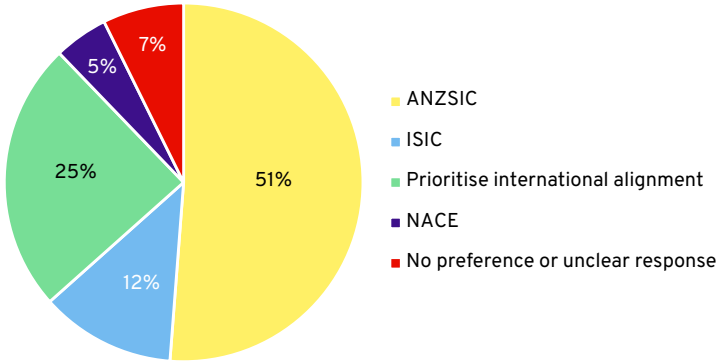


Figure 23: Pie graph showing the proportion of stakeholder responses for classification code preferences for an Australian taxonomy.

51% of respondents supported adopting ANZSIC classification codes. 25% argued the Australian Taxonomy should aim for international alignment but did not explicitly state their preferred option.

Q9: What should be the preferred screening criteria approach, or combination of approaches, for an Australian taxonomy?

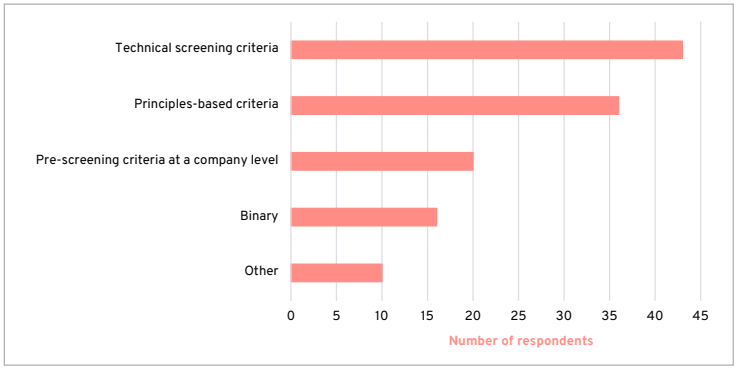


Figure 24: Bar graph showing stakeholder preferences for the screening criteria approach of an Australian taxonomy.

Most respondents supported a combination of technical screening criteria and principles-based criteria be incorporated. 'Other' responses include:

- Each approach may be useful, but there is a need to balance this with the risk of over-complication.
- There needs to be a recognition of 'shades' of sustainability, especially when considering 'enabling' activities for transition.

Q10: Should Australia's taxonomy include a 'transition category', namely a mechanism to allow for the progression of performance criteria or thresholds over time?

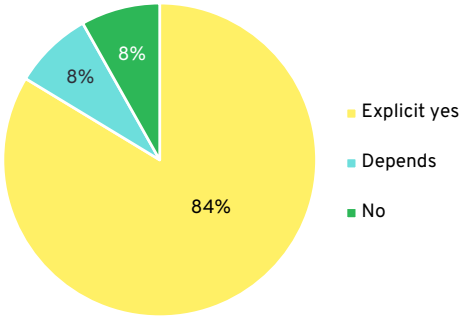


Figure 25: Pie graph showing stakeholder preferences for the inclusion of a 'transition category' for an Australian taxonomy. Most respondents explicitly agreed with including a transition category in the Australian taxonomy.

Q11: Which further qualifying criteria should be prioritised in Australia's taxonomy?

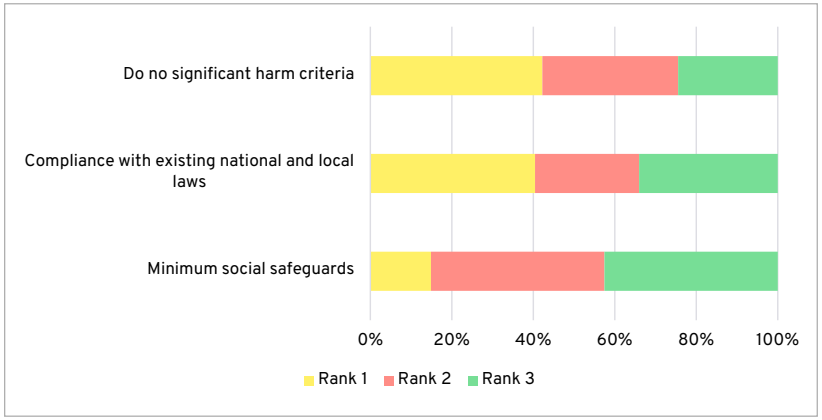


Figure 26: Bar graph showing stakeholder preferences for which further qualifying criteria should be prioritised for an Australian taxonomy.

Slightly more respondents prioritised do no significant harm criteria over the other types of further qualifying criteria. Some respondents noted compliance with existing local and national laws may not need to be specified in the taxonomy, as this should be covered by existing legislation or regulations.

Q12: Should further qualifying criteria be compliance based, or go beyond compliance to require voluntary action?

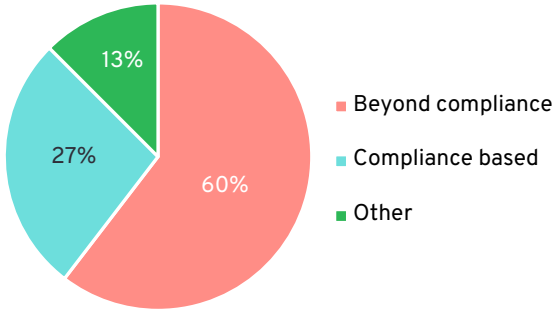


Figure 27: Pie graph showing stakeholder preferences for further qualifying criteria under an Australian taxonomy.

Most respondents believe further qualifying criteria should go beyond compliance to require voluntary action. 'Other' responses included:

- Further qualifying criteria should be consistent with the EU taxonomy.
- Appropriate qualifying criteria will depend on the relevant activity, sector or other screening criteria.

Q13: What are the main barriers to including further qualifying criteria in an Australian taxonomy?

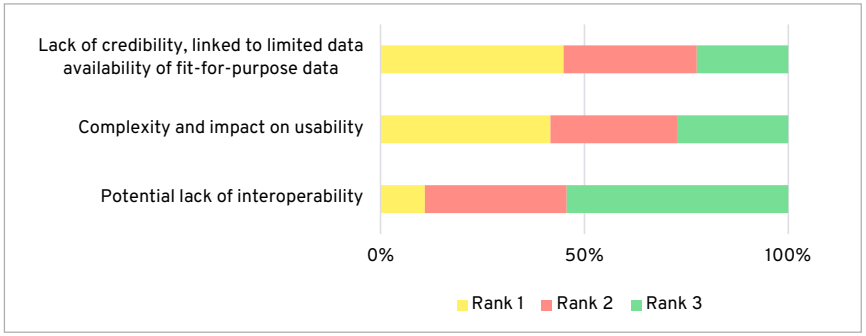


Figure 28: Bar graph showing stakeholder ranking of the main barriers of including further qualifying criteria in Australian taxonomy.

Most respondents ranked lack of credibility, linked to limited data availability and complexity and impact on usability as the highest ranked barriers. Some respondents suggested these are not insurmountable barriers but there needs to be a plan in place to address them.

Q14: What should be the role of government, the finance sector, industry, civil society and science in development and implementation of Australia's sustainable finance taxonomy?

Entity	Key themes from survey responses
Government	Government should take an ownership role and endorse the Australian taxonomy's development and implementation. Government must also consider how to integrate the taxonomy in a broader sustainable finance policy framework development ➘ "Preferrable for the taxonomy to be government-led with input from all other stakeholders" ➘ "Government needs to set clear legislation and policy to drive investment and outcomes." ➘ "Government [should] take ownership and integrate [the taxonomy] in a broader sustainable finance policy framework"
Finance sector	Finance sector will be the key user of the taxonomy. As such, it should be involved in taxonomy development to ensure usability. ➘ "Finance needs to have a leading perspective [so] it is usable for them" ➘ "[The finance sector] can also contribute to determining incentives, disincentives and barriers to adoption of the taxonomy by both investors and companies"
Industry	Industry should be engaged to ensure data requirements are practical and usable. ➘ "Industry should be involved in developing better data for use in the taxonomy." ➘ "Any industry that may be reliant on capital should be engaged to ensure that the criteria required by the taxonomy can be used by these industries to develop more sustainable strategic and investment decisions."
Civil society	Civil society will play a role in driving market acceptance and holding industry, the finance sector and government accountable to developing credible criteria (particularly social criteria) ➘ "Consulted for market acceptance" ➘ "For social issues, civil society may need to assist with developing and setting standards" ➘ "Help promotes social licence to operate" ➘ "It is also important to ensure there is a role for civil society and independent experts in the process (at least to input and review criteria) to ensure credibility."
Science	Science and academia should be actively involved in the development or science-based criteria to support credibility and market acceptance. ➘ "Sustainable finance academia is an essential stakeholder. They should be consulted to gain acceptance" ➘ "The taxonomy should be science-led and science-driven" ➘ "Should be involved in helping develop technical criteria/science backed targets and metrics"
Other	Collaboration and consultation across stakeholder groups throughout development process will be key to ensuring buy-in and credibility.

Q15: What governance model should be prioritised to support effective science-based outcomes for environmental objectives of Australia's sustainable finance taxonomy?

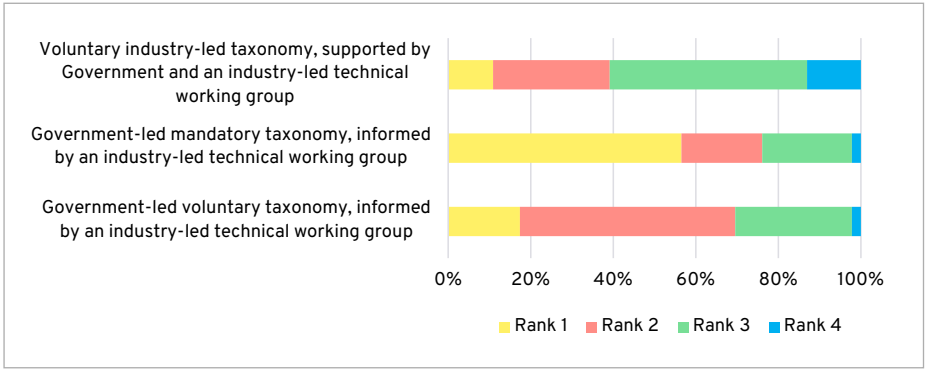


Figure 29: Bar graph showing stakeholder preferences for the governance structure of an Australian taxonomy.

The majority of survey respondents believe the most appropriate government model for an Australian taxonomy is a government-led mandatory taxonomy, informed by industry-led technical working group. Some stakeholders expressed the following supplementary information with their response:

- Need to ensure credibility and include academics and civil society in technical working groups.
- Mandatory is preferred, but only when there is an appropriate disclosure regime. Until then, the taxonomy should be voluntary.

Q16: Which stakeholders should be engaged as a priority in the development and implementation of a sustainable finance taxonomy?

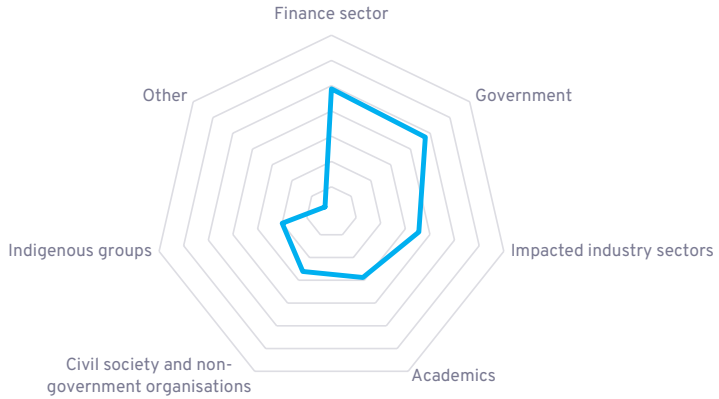


Figure 30: Radar chart showing stakeholder support for who should be prioritised to engage with in the development of an Australian taxonomy.

Respondents believe engagement with the finance sector, government and impacted industry sector should be prioritised during development and implementation phases.

Q17: Who should govern and maintain Australia's sustainable finance taxonomy?

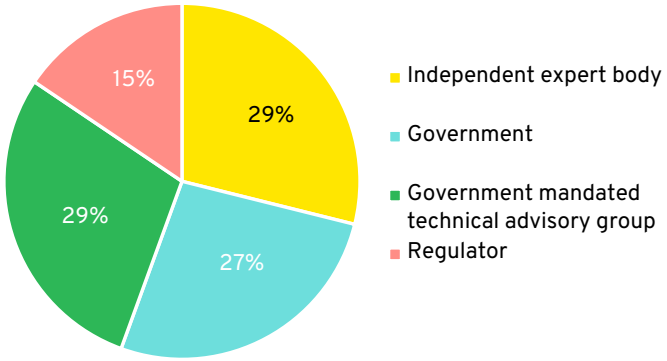


Figure 31: Pie chart showing stakeholder support for who should govern and maintain an Australian taxonomy.

The majority of respondents suggested a regulatory body or the federal government should govern and maintain an Australian taxonomy.

The following organisations were explicitly named by respondents:

- ASFI
- Australian Prudential Regulation Authority (APRA)
- Australian Securities and Investments Commission (ASIC)
- Climate Change Authority
- Clean Energy Regulator
- Office of the Prime Minister

APPENDIX **B**

STAKEHOLDERS ENGAGED

Engagement with International Jurisdictions:

- United Kingdom: Her Majesty's Treasury, UK Green Finance Institute (GFI) and Green Finance Technical Advisory Group (GTAG)
- Canada: The Canadian Sustainable Finance Action Council
- EU: Platform on Sustainable Finance representatives, EU commission representatives and Regulatory Authorities
- ASEAN Taxonomy Initiative: Sustainable Finance Institute of Asia
- Singapore: Monetary Authority of Singapore
- New Zealand: Toitū Tahua: Centre for Sustainable Finance. New Zealand Financial Regulators

Technical Advisory Group organisations

Name	Organisation
Linda Romanovska	PWC
Emma Herd	Ernst & Young
Tania Smith	ANZ
Mark Spicer	KPMG
Daniela Jaramillo	Fidelity International
Alison Chan	Metrics Credit Partners
Amanda Taylor	HSBC
Drew Lanyon	CBA
Adam Coxhead	NAB
Oliver Doraisamy	Deloitte
Sebastian Thomas	QIC
Rachel Halpern	Jana
Claire Heeps	HESTA
Laura Hillis	IGCC
Susan Quinn	RIAA
Rick Walters	GRESB

Alix Pearce (Observer)	Insurance Council Australia
David Love	AFMA
Emma Penzo (Observer)	Australian Banking Association
Mayleah House	PRI
Kate Griffiths	ACSI
Chaneg Torres (Observer)	Financial Services Council
Mark Robinson	DNV Business Assurance Australia
Rob Fowler	Rob Fowler (self)
Zoe Whitton	Pollination (Zoe Whitton individual capacity)
Ian Woods	Ian Woods Advisors
James Tilbury	Boston Consulting Group
James Bruce	J.P. Morgan
Julia Leske	ISS ESG
Zarmeen Pavri	SDGx
Miranda Carr	MSCI
Susheela Peres de Costa	Susheela Peres de Costa (self)
Bridget Boulle	Climate Bonds Initiative
Christina Ng	Institute for Energy Economics and Financial Analysis
Jenny Wang	University of Southern Queensland
Alison Atherton	UTS (ISF)
Carol Adams	Carol Adams (self)
Mara Bun	Mara Bun (self)
Antony Sprigg	NSW Treasury
Grace Tam	Clean Energy Finance Corporation
James Logie	WSP
Karen Stuart	Climate Friendly
Katie Dowling	NSW Circular
Roger Swinbourne	Arup

Megan Evans	UNSW (Canberra)
Anna Fitzgerald	AFIA
Jorge Chapas	GBCA
Anna Fitzgerald	AFIA
Jorge Chapas	GBCA
Prof. Andy Pitman	UNSW (Sydney)
Michael Salvatico	S&P Global
Sybil Dixon	Vanguard
Selena Alim (Observer)	RBA (observer)
Ben Phillips (Observer)	ASIC (observer)
Graham Sinden	APRA (observer)
Sam Hurley (Observer)	Department of Treasury (observer)
Haein Choi	Bloomberg

Organisations that submitted a response to the broader public consultation survey

- Bell Asset Management
- Schroders
- Centre for Policy Development
- Woodbridge Capital
- AMP
- Baringa Partners
- ING
- First Sentier Investors
- Ethical Partners Funds Management
- Suncorp Metway Pty Ltd
- Rabobank
- State Street Global Advisors
- IFM Investors
- MSCI ESG Research LLC
- Rick Walters
- Alix Pearce (Observer)

APPENDIX C

DECISION MAKING PROCESS FOR EVALUATING ELIGIBILITY AND ALIGNMENT

The diagrams below provide illustrate indicative steps for evaluating whether an entity or activity is eligible under a taxonomy and its alignment with the sustainability objectives. The examples use the traffic-light colour coding framework to describe activities as:

Green	Sustainable, aligned with taxonomy objectives
Transition	Transition activities on a pathway to aligning with taxonomy objectives
Excluded	Unsustainable or excluded activities that may cause significant harm and do not align with the taxonomy objectives

Figure 15: Determining an activity's eligibility and alignment using **activity-level criteria**[85]

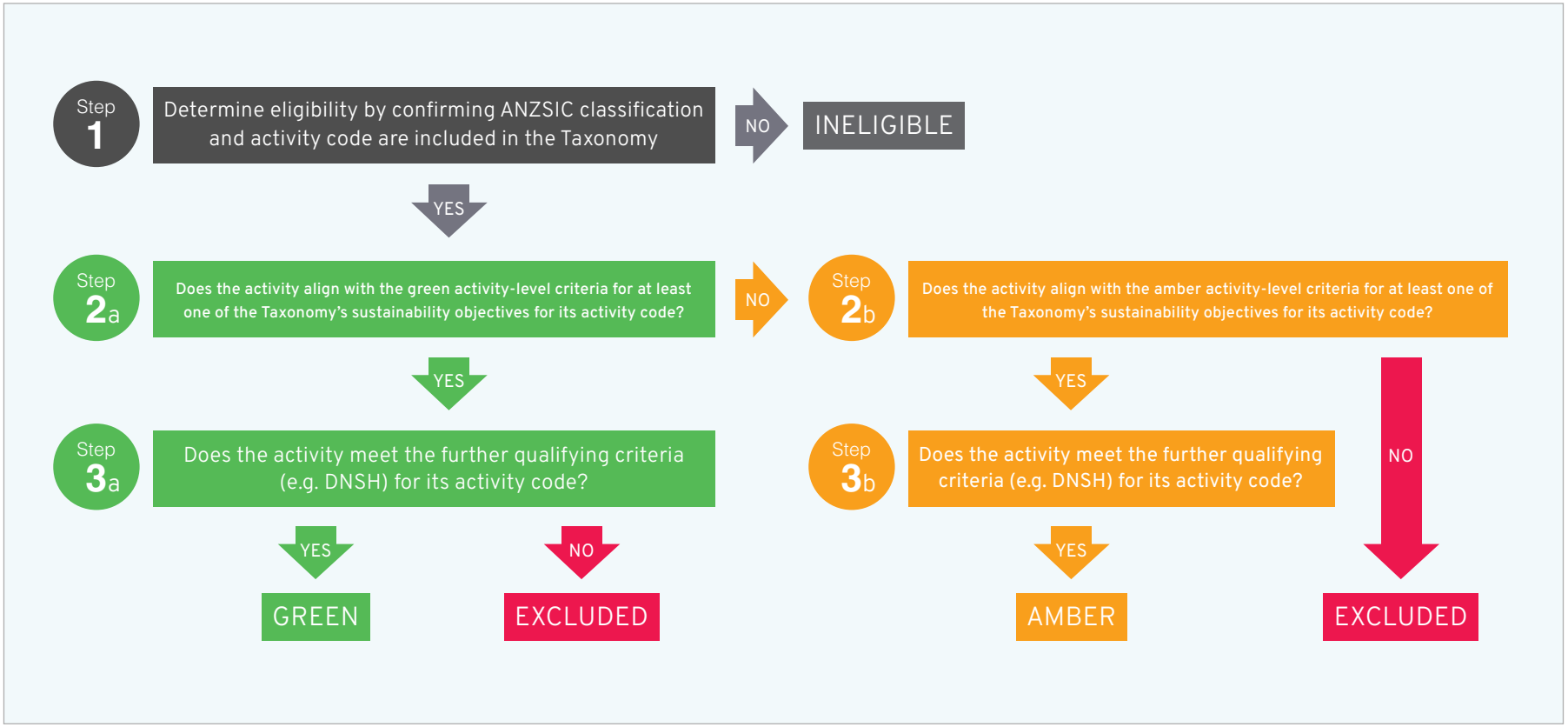
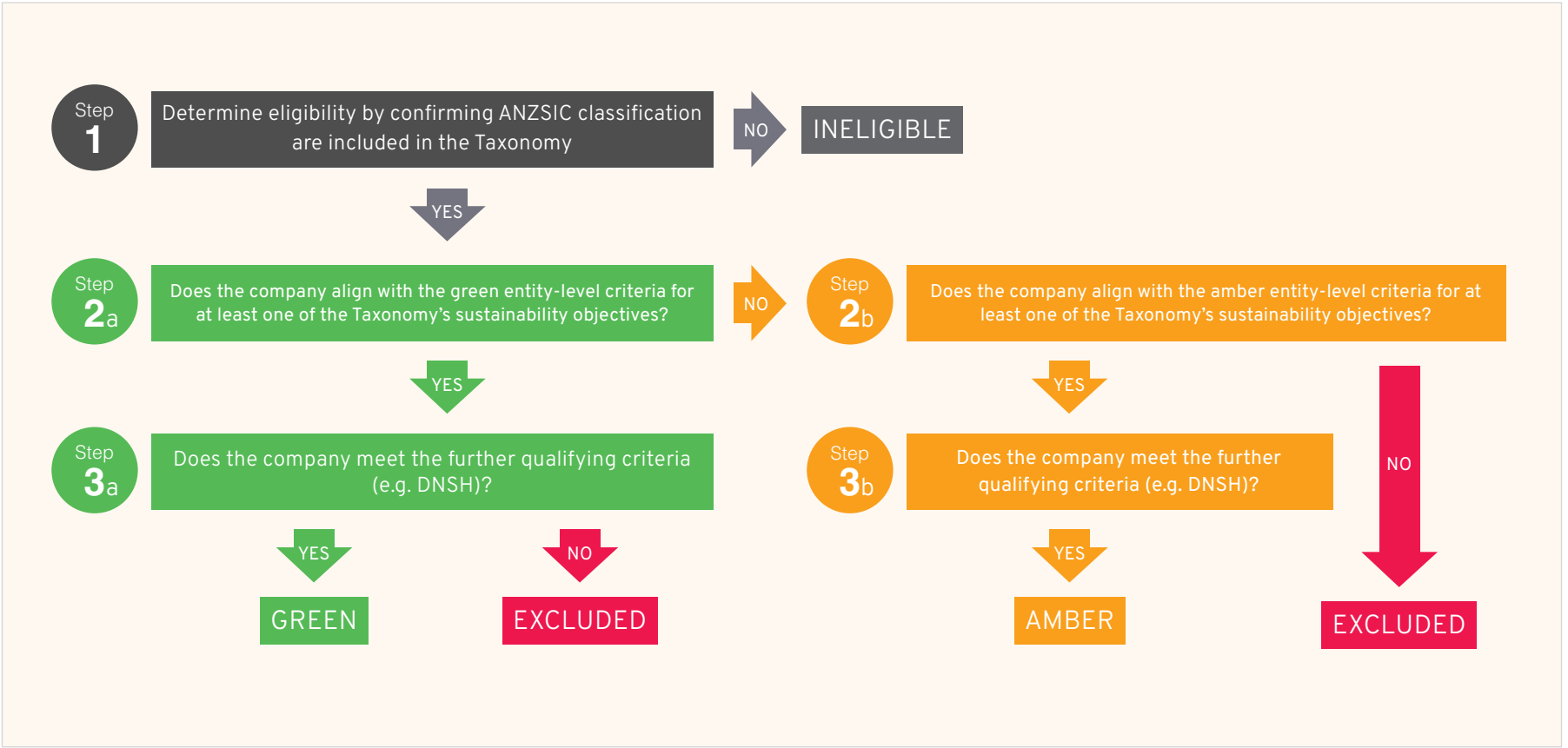


Figure 16: Determining an entity's eligibility and alignment using **entity-level criteria**[86]

Green	Sustainable, aligned with taxonomy objectives
Transition	Transition activities on a pathway to aligning with taxonomy objectives
Excluded	Unsustainable or excluded activities that may cause significant harm and do not align with the taxonomy objectives



ILLUSTRATIVE EXAMPLE OF THE TRANSITION RISK AND OPPORTUNITY ACTIVITY CATEGORISATION APPROACH

GREEN ACTIVITIES

Sustainable, aligned with taxonomy objectives. Activities that are Paris-aligned, do not have material Scope 1 and 2 emissions, have low or zero downstream Scope 3 emissions, and do no significant harm to the other environmental objectives. It would include enabling activities, for example green hydrogen pipelines.

Transition risk and opportunity ranking

Step 1

Does the activity or project depend on markets that are expected to decline in representative Paris-aligned pathway? (i.e., does it have material Scope 3 emissions?)

NO

Step 2

Does the activity or project face significant carbon costs in a Paris-aligned pathway? (i.e., does it have material Scope 1 and 2 emissions and face supply-side risk?)

NO

Step 3

Does the activity or project sell into, enable (or benefit from) markets that are expected to grow in a Paris-aligned pathway?

YES

Activity or project qualifies for green categorisation and technical criteria can be applied.

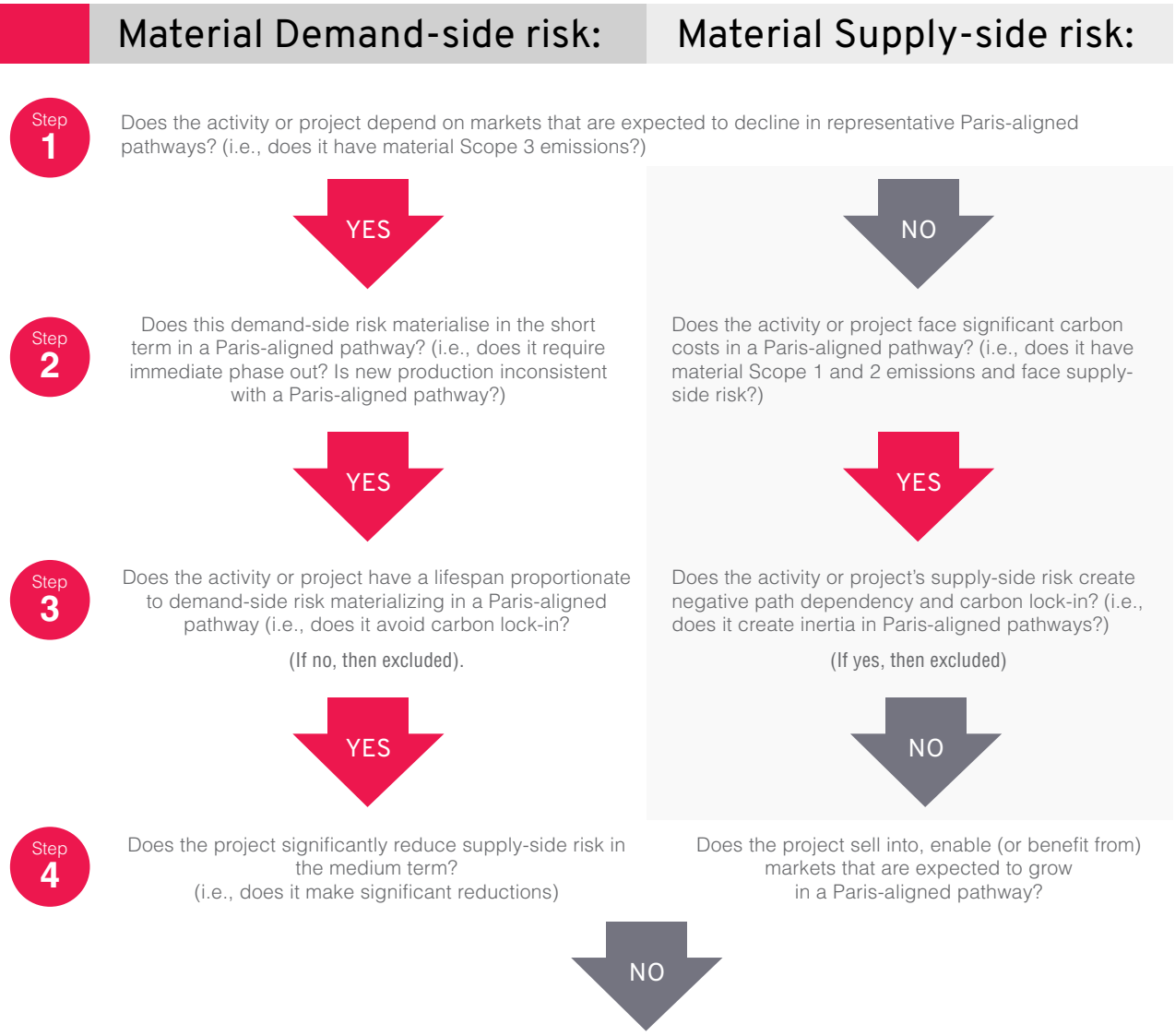
TRANSITION ACTIVITIES

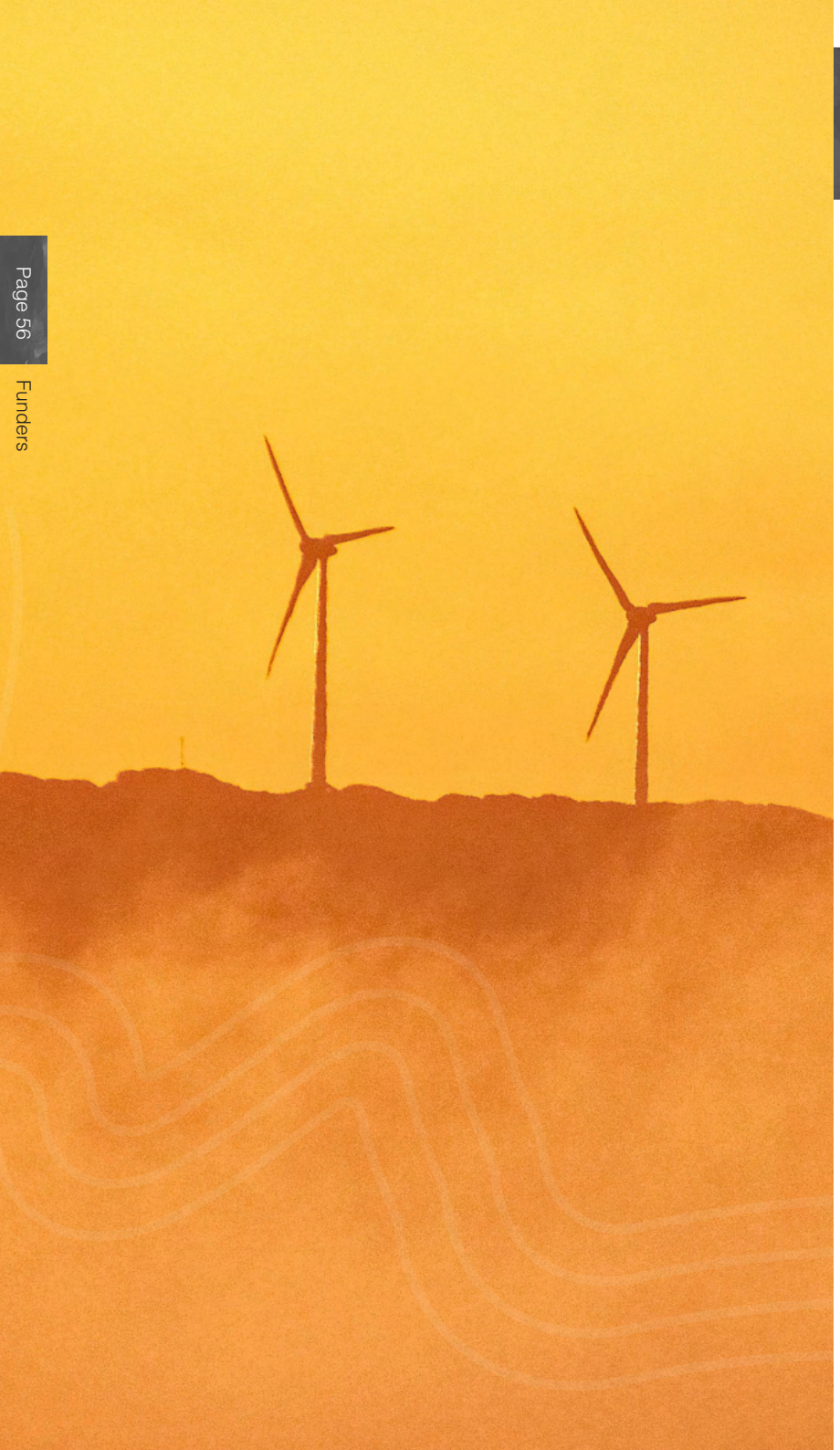
Transition activities on a pathway to aligning with taxonomy objectives. These activities support high-emitting companies to become aligned with a Paris-aligned pathway and do no significant harm to the other environmental objectives.

Technical screening criteria is dynamic and time limited.

EXCLUDED ACTIVITIES

Activities that are unaligned with transition pathways and will inevitably be phased out in a future, net zero economy. Includes activities with high stranded asset risk and those that promote carbon lock-in.





APPENDIX **E**

ASFI TAXONOMY PROJECT FUNDERS

The first phase of the ASFI Australian Sustainable Finance Taxonomy Project including the **1) Scoping Paper of International Taxonomies**; **2) this Recommendations for an Australian Taxonomy paper**; and **3) setting up the implementation phase** has been generously funded by the following ASFI members:

QBE

cbus

Commonwealth Bank

iag

HESTA

ifm investors

Deloitte.

nab

APPENDIX **F**

GLOSSARY

Term	Definition
ABA	Australian Banking Association
ACSI	Australian Council of Superannuation Investors
ANZSIC	Australian and New Zealand Standard Industrial Classification system
APRA	Australian Prudential Regulation Authority
ASEAN	Association of Southeast Asian Nation
ASFI	Australian Sustainable Finance Institute
ASIC	Australian Securities and Investments Commission
CCUS	Carbon capture, utilisation and storage
Climate Change Act	Climate Change Act 2022
CCA	Climate Change Authority
CER	Clean Energy Regulator
CFR	Council of Financial Regulators
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DCCEEW	Department of Climate Change, Energy, the Environment and Water
DNSH	Do No Significant Harm
EU	European Union
Foreign Direct Investment (FDI)	Investment in the form of controlling ownership in domestic companies and assets by an entity, government or individual based outside of the country of interest
G20	Group of Twenty, intergovernmental forum comprising 19 countries and the European Union
gCO2	Grams of carbon dioxide, usually used as the carbon coefficient to calculate carbon intensity
GDP	Gross Domestic Product
G20	Group of Twenty, intergovernmental forum comprising 19 countries and the European Union
gCO2	Grams of carbon dioxide, usually used as the carbon coefficient to calculate carbon intensity
GDP	Gross Domestic Product
GFIT	Green Finance Industry Taskforce, convened by the Monetary Authority of Singapore to support the development of the Singapore taxonomy
GHG	Greenhouse gas emissions
GVA	Gross Value Added
HVDC	High voltage direct current
ICA	Insurance Council of Australia
ICT	Information and communication technology
IGCC	Investor Group on Climate Change
International Bill of Human Rights	Common standard of social and equitable achievement for all people and societies
International Labour Organisation on Fundamental Principles and Rights at Work	Commitment by governments and businesses to unequivocally support progress towards human rights and values into their regular practices and activities
IPSF	International Platform on Sustainable Finance
ISIC	International Standard Industrial Classification of All Economic Activities
ISSB	International Sustainability Standards Board
kWh	Kilowatt hour, measure of electricity generation
NACE	Nomenclature statistique des activités économiques dans la Communauté européenne, a European industry standard classification system established by EU law
OECD	Organisation for Economic Co-Operation and Development
OECD Guidelines for Multinational Enterprises	OECD Guidelines for Multinational Enterprises, recommendations to government and corporate entities on how to responsibly conduct business across a range of social and environmental issues
Paris Agreement	United Nations Framework Convention on Climate Change, Paris Agreement
RBA	Reserve Bank of Australia
SAFI	Sustainable Agriculture Finance Initiative
TAG	ASFI Taxonomy Technical Advisory Group
tCO2-e	Tonnes of carbon dioxide equivalent
TCFD	Task Force on Climate-Related Financial Disclosures
TNFD	Task Force on Nature-Related Financial Disclosures
TSC	Technical screening criteria
UK	United Kingdom
UN Guiding Principles on Business and Human Rights	Authoritative international standard for promoting and embedding ethical conduct and human rights thinking across all corporations and businesses

APPENDIX **G**

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Endnotes

85. For example, from 2025, TCFD aligned disclosures will become full mandatory across the UK economy. Source: A Roadmap towards mandatory climate-related disclosures, His Majesty's Treasury (HM Treasury), 2020.
86. This diagram has been adapted from the Green Finance Industry Taskforce's (GFIT) second consultation paper on the proposed Singapore taxonomy. Source: Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN, Green Finance Industry Taskforce, 2022.

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