


# Analysis of international taxonomies and considerations for Australia

Australian Sustainable Finance Institute Taxonomy Project | October 2022





# *Acknowledgement of Country*

The Australian Sustainable Finance Institute acknowledges 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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## Release Notice

Ernst & Young ("EY") was engaged on the instructions of the Australian Sustainable Finance Institute Limited ("ASFI") to prepare this report capturing analysis of international taxonomies and options for the most appropriate taxonomy approach in Australia ("Report"), in accordance with the engagement agreement dated 12 July 2022, including the General Terms and Conditions. This Report must not be relied upon by any party other than ASFI. EY disclaims all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the Report, the provision of the Report to the other party or the reliance upon the Report by the other party. This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

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# 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 to determine what a sustainable finance taxonomy should look like in Australia, with a focus on credibility, interoperability, usability and prioritisation in the Australian context. ASFI and EY would like to thank relevant stakeholders for their input to date.

This report is an initial framing paper to understand the international context for sustainable finance taxonomy development and inform Australia's approach to designing a sustainable finance taxonomy. The report includes an analysis of Australia's economic and environmental context, key international taxonomies and implications for taxonomy development in Australia. The report is accurate as at the date of publication, noting that details of taxonomy development across different jurisdictions may change over time.

## Context and approach

ASFI's Australian Sustainable Finance Roadmap (ASFI Roadmap) published in November 2020 states that a sustainable finance taxonomy in Australia is needed to urgently shift new and existing capital into investments that create and better support sustainable and equitable outcomes for Australian people, our economy, the environment and investment and trade in the region.<sup>1</sup> While no single definition exists, a sustainable finance taxonomy can be broadly described as a set of principles or criteria that help classify the extent to which a financial asset supports given sustainability objectives.<sup>2</sup>

Many of the jurisdictions that invest in or trade with

Australia have implemented or are looking to implement their own sustainable finance taxonomy. Australia is a net recipient of foreign direct investment, particularly in the mining, real estate, finance and insurance services sectors.<sup>3</sup> Access to trade and export markets is also central to Australia's economy, with a reliance on carbon-intensive industries (e.g. airline services, petroleum and motor vehicles) and emission-heavy resources (e.g. mining). As a result, the Australian financial services value chain is at the centre of transition to a sustainable economy and highly exposed to international taxonomy developments and changes in international policy and investor behaviour.

The economy and market context in which a taxonomy is being developed are key factors in framing decision-making for the Australian taxonomy. International taxonomy development to date has focused on climate change mitigation as a key environmental priority. Climate mitigation is also 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.<sup>4</sup> High greenhouse gas (GHG) emitting sectors such as electricity supply and mining are also decarbonisation priorities to achieve Australia's net zero GHG emissions target by 2050.

In preparing this report, we have undertaken a detailed desktop review of international taxonomies, engaged with key international and national stakeholders and consolidated our analysis in a framing paper to support the development of a taxonomy in Australia.

ASFI is seeking feedback on the key considerations identified in this paper arising from international taxonomy development. A number of consultation questions have been included in this paper that will inform the next phase of the project, namely developing an Australian sustainable finance taxonomy.

The details of these consultation questions are listed in the “Next steps” section of this report and have been validated by a sub-set of the ASFI Technical Advisory Group (TAG) at the international working group workshop that was held on 1 September.

## Key findings

Key findings are summarised below according to structural elements of a taxonomy, namely purpose and principles, objectives, sectoral coverage, eligibility and transition and governance and engagement.

## Purpose and principles

A sustainable finance taxonomy is effectively 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. It can be used for bond issuance, portfolio and product development, providing a framework for labelling financial products as sustainable and promoting transparency and disclosure.

The purpose, or the reason why a taxonomy exists, is guided by drivers such as the need to address greenwashing concerns, promote consistency and comparability, scale capital flows into economic activities that substantially contribute to sustainability objectives, promote interoperability across global financial markets, facilitate an orderly and just transition to a sustainable economy and track progress through reporting and disclosure.

Common guiding principles for taxonomy development include interoperability (e.g. common international principles, tailored to national context), prioritisation (e.g. key sectors and objectives), credibility (e.g. science-based, for example best practice in line with climate science)<sup>5</sup> and usability (e.g. ease of implementation).

The purpose of a taxonomy and guiding principles were consistently identified across international taxonomies as critical foundation steps for ensuring focus and alignment throughout the process of development and implementation. They form the foundation for the structural elements below, namely objectives, sectoral coverage, eligibility and transition (including screening and technical criteria) and governance and engagement.

## Objectives

Objectives of a taxonomy relate to the environmental, social and governance outcomes that a taxonomy 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 control and sustainable use and protection of water and marine resources.<sup>6</sup>

Jurisdictions such as the European Union (EU) and China are developing social taxonomies focusing on social objectives, such as health, human rights, equality or enhancing socio-economic conditions. Of the taxonomies analysed, none included governance objectives, such as anti-bribery, anti-corruption, responsible lobbying and political engagement outcomes.

It was found that there were many challenges associated with attempting to apply social and governance criteria. Fundamental difficulties of usability, compliance costs, lack of available data and incomparability across jurisdictions were identified as key barriers of effective implementation.

## Sectoral coverage

Sectoral coverage indicates the economic sectors to which a taxonomy applies. It is important to define the scope of applicable sectors to understand the boundaries and priorities of a taxonomy.

While a taxonomy can be applicable to all sectors, recent taxonomy developments have focused on one or two priority sectors with a progressive approach to expanded coverage.<sup>7</sup> Economic sectors and activities included in a taxonomy are generally prioritised based on their contribution to taxonomy objectives (e.g. environmental, social) and the national or regional economy (e.g. GVA, gross domestic product (GDP) and exposure to foreign markets).

Most taxonomies use classification codes such as the International Standard Industrial Classification of All Economic Activities (ISIC) and Nomenclature Statistique des Activités Économiques dans la Communauté Européenne (NACE). Australia uses the Australian and New Zealand Standard Industrial Classification (ANZSIC). The three classification systems are reasonably well-aligned and comparable, which alleviates some of the barriers to interoperability.<sup>8</sup> However, the use of different industry classification systems can create an additional burden for financial institutions operating across multiple jurisdictions as there can be challenges mapping data models across multiple classification systems.

## Eligibility and transition

Eligibility refers to an initial screen that determines whether a taxonomy applies to an activity (e.g. GHG emissions intensity). A taxonomy may adopt one or more of the following approaches to activity eligibility:

- **Binary:** Activities meeting a particular sustainability objective without any threshold or screening criteria (e.g. renewable energy)
- **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 the principles of impact and avoidance of greenwashing)
- **Technical screening criteria:** Quantitative and often science-based thresholds (e.g. GHG emissions intensity thresholds for energy generation)

Pre-screening criteria may also apply at a company-level prior to assessing the activity. For example, a company-level net zero GHG emissions target, transition plan and climate risks disclosure plan are required as a precondition to taxonomy alignment.

A combination of principles-based, technical screening and pre-screening criteria can be useful to guide the market with overarching principles, and then cross-check with technical criteria.

Whether a taxonomy applies may depend on criteria thresholds that progressively transition to facilitate heightened sustainability attributes (e.g. progressively reduced GHG emissions intensity thresholds for energy generation). Many taxonomies (e.g. ASEAN and Singapore) have adopted a 'traffic light' approach to facilitate such criteria thresholds. This approach is particularly useful for jurisdictions in the early stages of transition, to set criteria that are appropriate for the relevant national economic context.

Many taxonomies apply further qualifying screening criteria to ensure that achievement of one taxonomy objective does not come at the cost of harm to others, e.g. minimum social safeguards (OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, Fundamental Principles and Rights at Work of the International Labour Organisation and the International Bill of Human Rights) and Do No Significant Harm (DNSH). This is particularly important for issues such as a just transition to ensure that the benefits of transition are shared widely and do not disadvantage vulnerable socio-economic groups.<sup>9</sup>

## Governance and engagement

Governance of a taxonomy and engagement with relevant stakeholders are key foundational features of how the taxonomy will operate and achieve its objectives. There are important considerations that flow from the purpose of a taxonomy that determine whether taxonomy adoption will be supported, how usable a taxonomy will be and who will develop, implement and update it as required. The establishment of ASFI and the Taxonomy Project as an industry-led initiative working closely with government provides the opportunity to explore effective governance models for taxonomy development.

The penultimate goal is to ensure that the taxonomy is adopted and implemented by financial system players. The role of investors and capital markets in driving market consensus on performance thresholds was also identified as a critical factor in determining the appropriate balance of governance and oversight. It is also useful to have a governance structure that addresses matters of interpretation and maintenance of the "living" criteria. There are also lessons to be learned from other jurisdictions such as the EU and UK around promoting a science-based approach, at arm's length from government to support effective outcomes.





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# Context and Approach

## International context

Many countries, regions and financial services groups have established or are in the process of establishing sustainable finance taxonomies.

Early approaches included the development of Climate Bonds Standards, Social Bond Principles and Green Bond Principles that promoted transparency and disclosure around environmental or social objectives of bond issuance.<sup>10</sup> Over time, many jurisdictions have developed different voluntary and mandatory approaches to sustainable finance taxonomies, with the most prominent of these being the regulatory approach in the EU.<sup>11</sup> While 'green' taxonomies concerning only environmental objectives have been most common, social and governance taxonomies are now also being explored.

At the time of writing this report, 12 taxonomies were in place, and 15 were under development. A map of these jurisdictions prepared by the Climate Bond Initiative as at 15 September 2022 is shown here in *Figure 1*,<sup>12</sup> and summaries of selected taxonomies are at *Appendix A*.

The proliferation of many taxonomies has highlighted the importance of considering national context alongside interoperability and globally consistent science-based criteria.<sup>13</sup> This balance is required to support transparency and clarity for financial markets and cross-border capital flows.

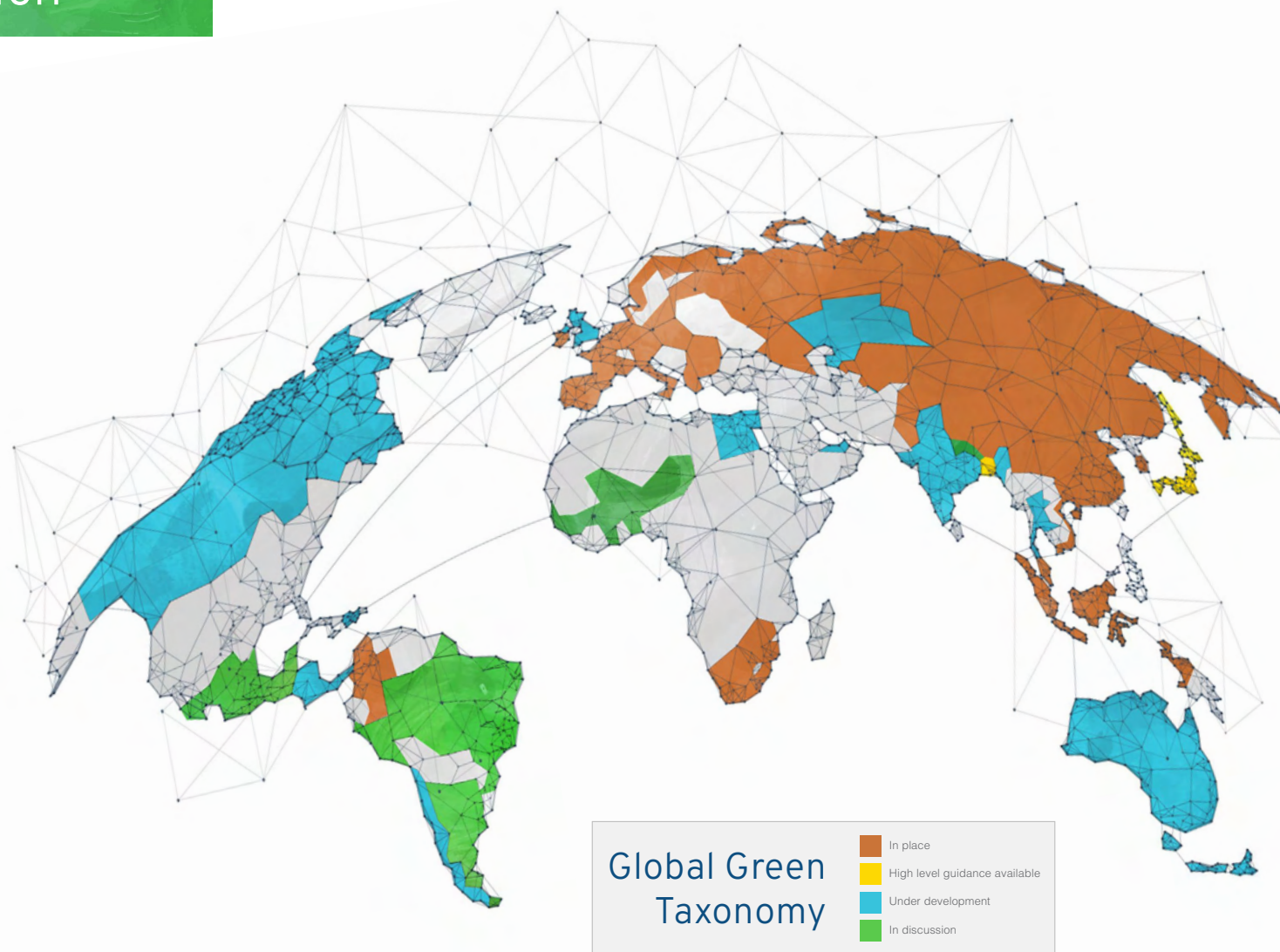
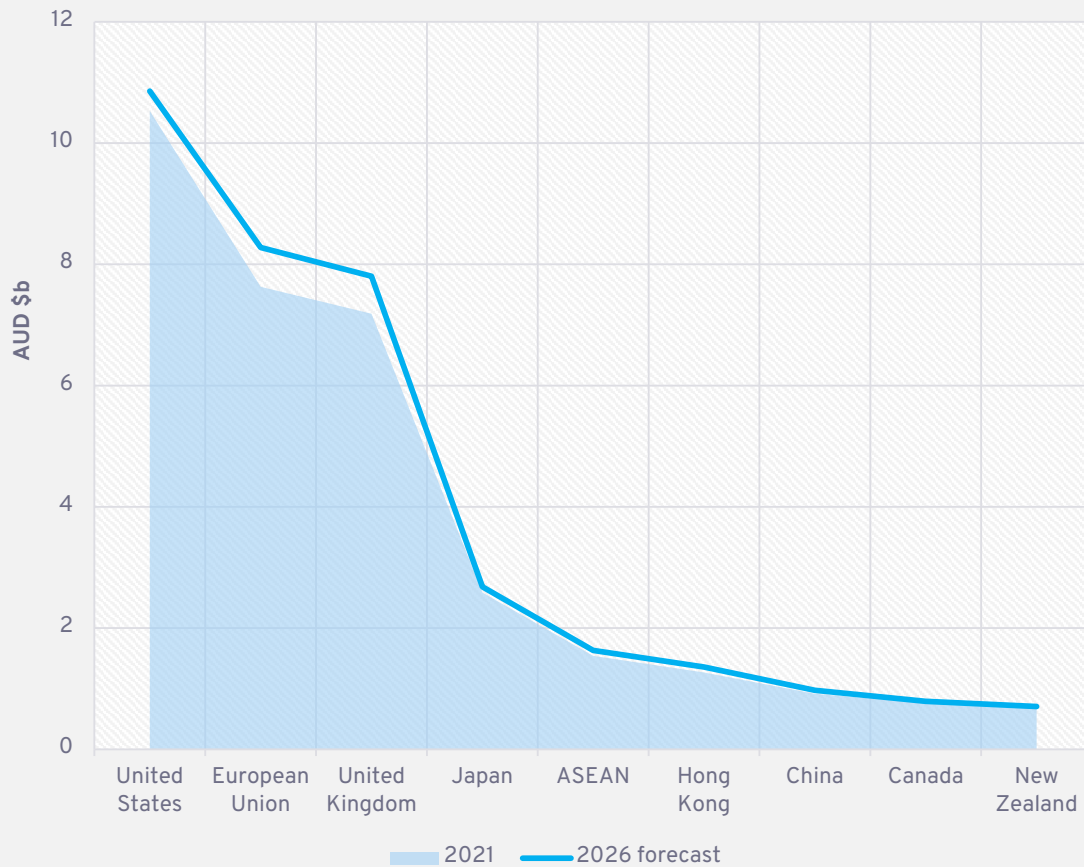


Figure 1: Taxonomy development processes around the world as at 15 September 2022



Figure 2: Australia's top sources of foreign direct investment in 2021

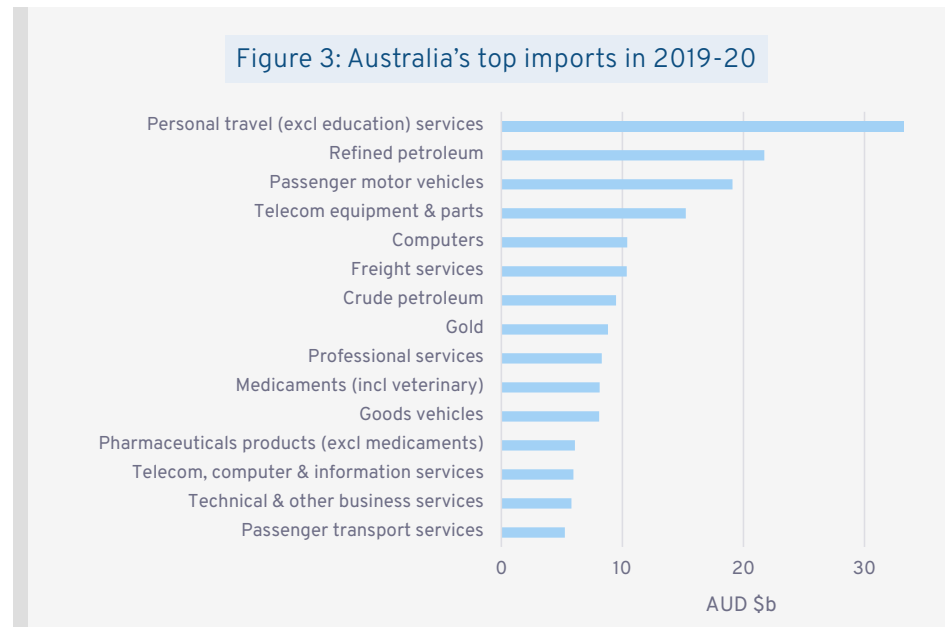


## Australian context

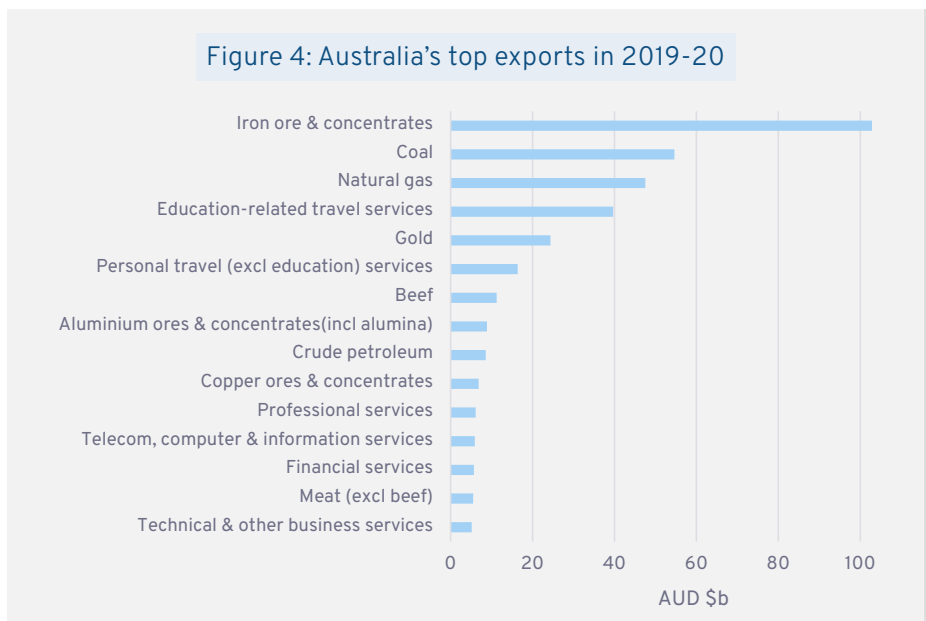
Australia's economic context and policy setting is highly relevant to the development of a national sustainable finance taxonomy.

As a net recipient of foreign direct investment, Australia is highly exposed to international markets. Australia's top sources of foreign direct investment include the United States of America (US), EU, United Kingdom (UK) and Japan as per *Figure 2*.<sup>14</sup> Key industries targeted by foreign direct investment include mining, real estate, finance and insurance services and manufacturing.<sup>15</sup>

Access to trade and export markets is also central to Australia's economy. Key Australian imports are reliant on carbon-intensive industries such as airline travel, refined petroleum, motor vehicles, freight services and crude petroleum as per *Figure 3*.<sup>16</sup>



**Figure 4: Australia's top exports in 2019-20**



Australia's key exports are predominantly emission-heavy resources, including iron ore and concentrates, coal, natural gas and gold as per *Figure 4*.<sup>17</sup> Over 80% of Australia's two-way trade is with countries with net zero GHG emissions commitments in place, including China, the US, Japan, EU and Korea.



As a result of Australia's reliance on foreign investment and trade, the Australian 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. Notably, many of the jurisdictions that invest in or trade with Australia have implemented or are looking to implement their own sustainable finance taxonomy with climate change mitigation objectives.<sup>18</sup> Furthermore, 9 of Australia's top 10 major foreign investment partners have committed to reaching net zero GHG emissions by 2050.<sup>19</sup>

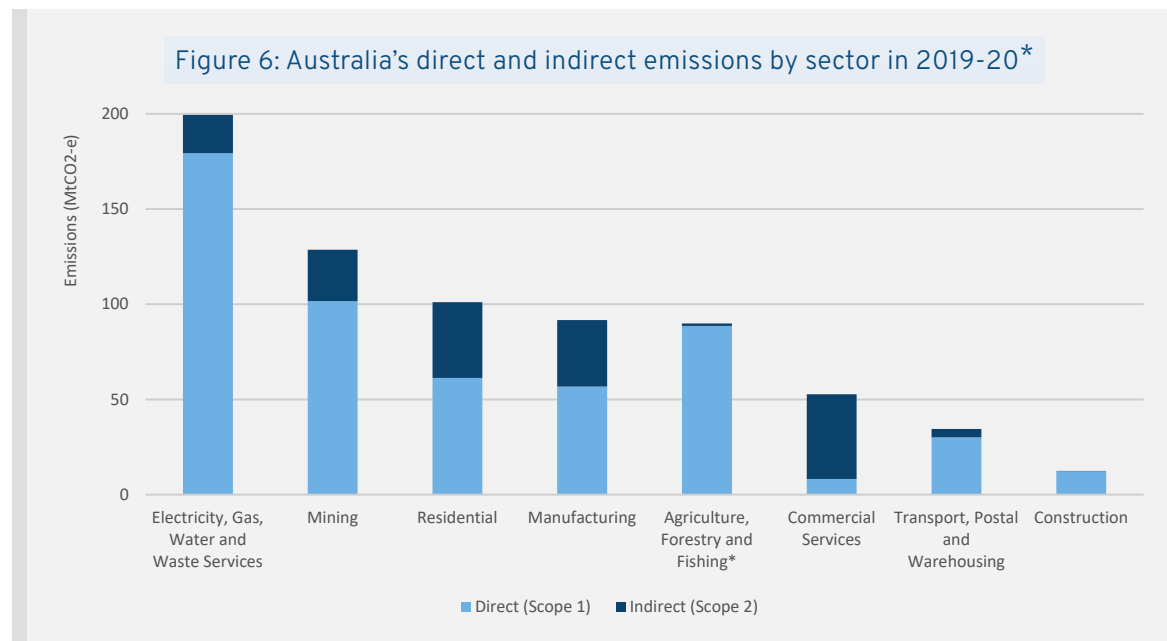
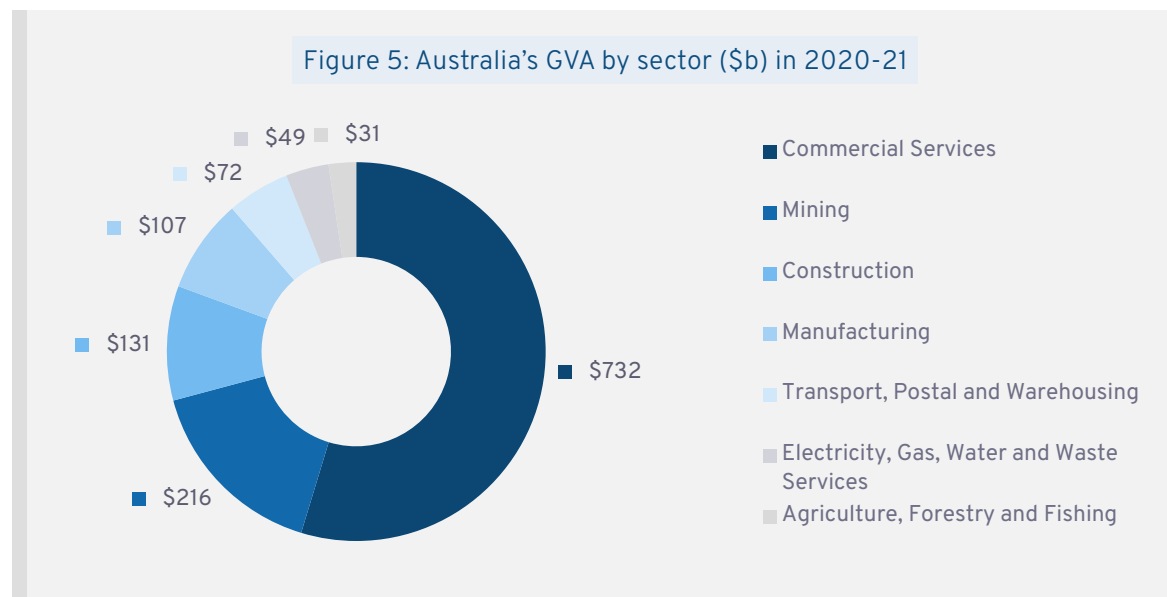
Australia's carbon-intensive economy will need to evolve to meet the rising global demands for net zero aligned products and services. Delaying action will only exacerbate the environmental, social, economic, and financial system implications in Australia.<sup>20</sup> There are also benefits associated with Australia setting its own transition criteria that appropriately reflect its own economic context, rather than adopting criteria from other jurisdictions that have been designed for a separate economic context.<sup>21</sup>

The majority of GVA in the Australian economy is derived from high climate risk sectors, such as mining, construction and manufacturing as per *Figure 5*.<sup>22</sup> Commercial services<sup>23</sup> contribute significantly to Australia's GVA, however they account for less than 2% of the nation's direct emissions by sector.<sup>24</sup>

The largest contributors to Australia's national direct emissions are the electricity supply, mining (including coal mining, oil and gas extraction, and mineral mining) and agriculture sectors as per *Figure 6*.<sup>25</sup> Combined, these sectors account for 71% of the nation's direct emissions.<sup>26</sup>

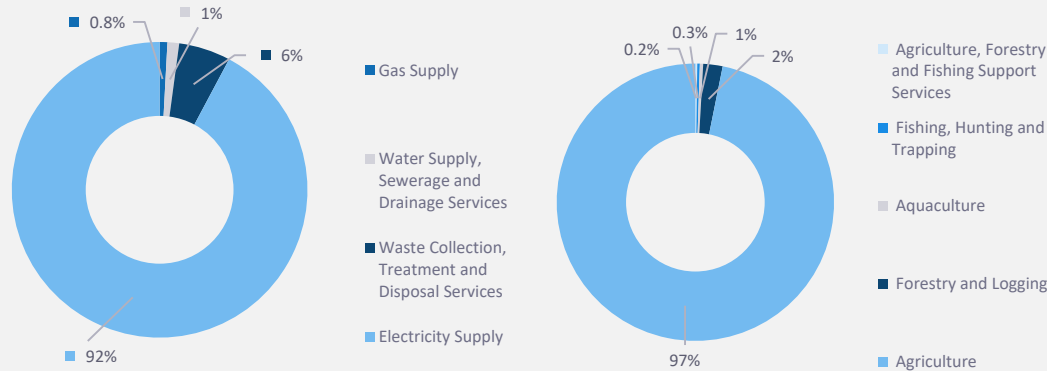
\*Excludes changes in forest and wood product stocks, which delivered -41MtCO<sub>2</sub>-e in 2020.

*Figure 6* only represents direct and indirect emissions associated with each industry sector (Scope 1 and 2). For example, mining emissions in the above graph only account for emissions associated with mining operations, rather than the downstream emissions associated with burning fossil fuels extracted as a product of mining (e.g. Scope 3). Emissions would be much greater if Scope 3 was included.<sup>27</sup>



\*Excludes changes in forest and wood product stocks, which delivered -41MtCO<sub>2</sub>-e in 2020

Figure 7: Breakdown of direct emissions from electricity, gas, water and waste services, and agriculture forestry and fishing in Australia in 2019-20.

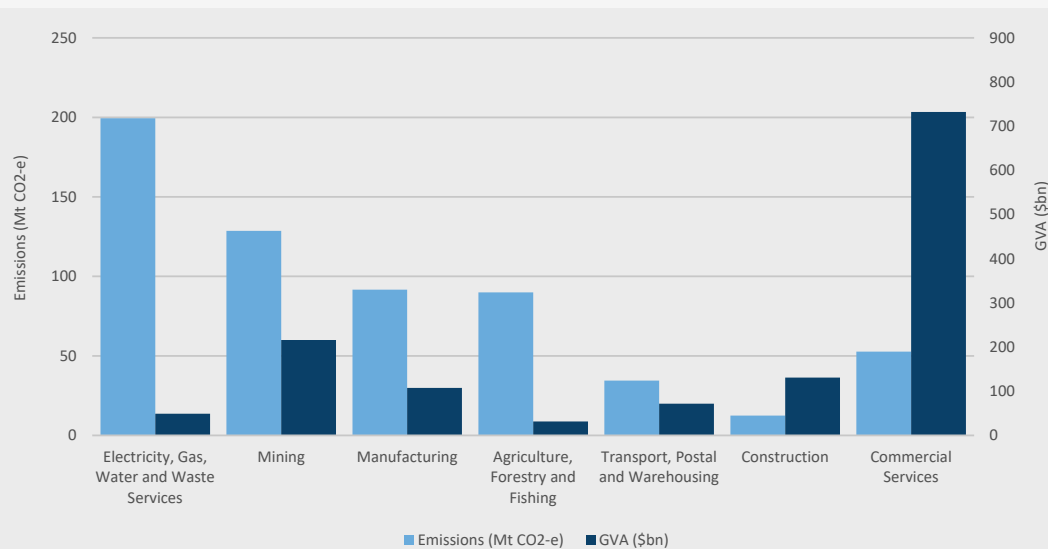


Notably, electricity supply accounts for 92% of direct emissions within the electricity, gas, water and waste services sector, and agriculture accounts for 97% of direct emissions within the Agriculture, Forestry and Fishing sector as per Figure 7.<sup>28</sup>

Despite being the biggest source of emissions in Australia, the electricity, gas, water and waste services sector only accounts for 4% of Australia's GVA as per the Figure 8.<sup>29</sup> As previously mentioned, commercial services contribute significantly to Australia's GVA, but account for less than 2% of the nation's direct emissions by sector.<sup>30</sup>

The mining sector is forecast to be the greatest source of emissions in Australia by 2030.<sup>31</sup> 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.<sup>32</sup> Emissions from the transport sector are forecast to decrease from 2025 onwards due to improvements in the emissions intensity of transport activities, and emissions from agriculture are expected to remain relatively steady.<sup>33</sup> Based on these insights, Electricity, Mining, Manufacturing and Agriculture are likely to be priority sectors for an Australian taxonomy.

Figure 8: Emissions (2019-20) and GVA by sector (2020-21) in Australia.



Decarbonisation of these key industry sectors will be critical for Australia to achieve its recently elevated emission reduction target of 43% below 2005 levels by 2030.<sup>34</sup> The Australian Government's Powering Australia plan sets out how it will achieve this target through investment into renewables, energy efficiency, electric vehicles, and low-carbon industries.<sup>35</sup>

Noting the Australia's financial system plays a key role in supporting a strong and resilient economy, ASFI has undertaken initial thinking into the development of an Australian sustainable finance taxonomy in the ASFI Roadmap. The ASFI Roadmap notes challenges and threats that Australia's financial system is facing, including a warming climate, increasing extreme weather events, biodiversity loss, and a society under economic pressure with rising inequality.<sup>36</sup>

The ASFI Roadmap provides initial views on the development, uses and benefits of an Australian sustainable finance taxonomy. These include supporting the measurement of financial flows towards sustainable outcomes, classifying sustainable activities for investment products and transition to a sustainable economy. The ASFI Roadmap also states that a taxonomy could be integrated into prudential practices and climate vulnerability assessments.

## Approach

ASFI engaged EY to support the development of a credible and effective Australian sustainable finance taxonomy, bringing valuable insights and stakeholder engagement expertise. The first phase of the Taxonomy Project is to review international taxonomy developments to understand learnings and practical implementation considerations for Australia.

To complete the first phase, EY has:

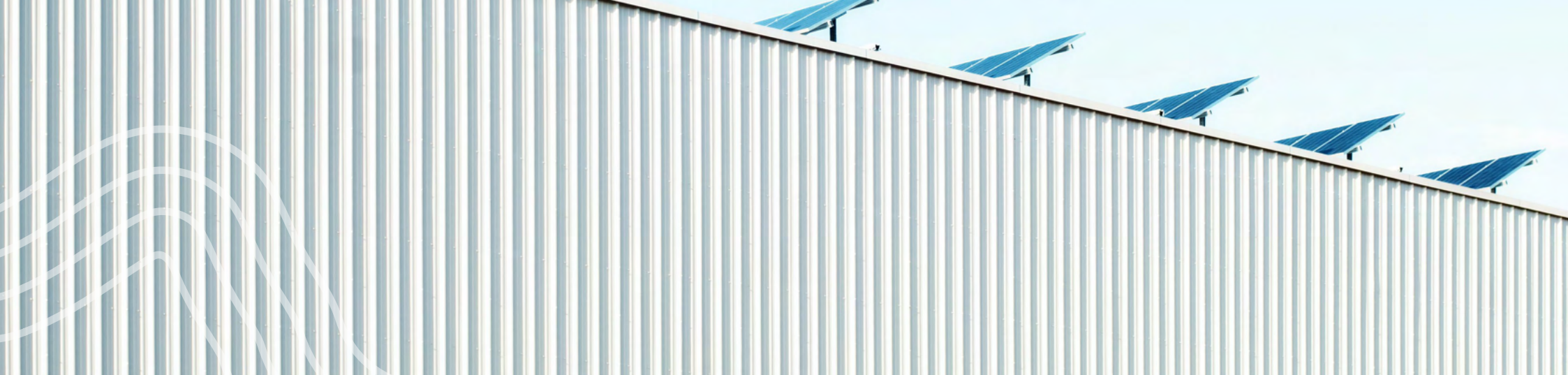
- Undertaken a detailed desktop review of international taxonomies and identified considerations for Australia
- Engaged with international experts to obtain practical, real-world insights on taxonomy development and usability
- Consolidated analysis and insights into an international framing paper, with options on the main decisions required to develop a taxonomy in Australia, the next phase of work

Following an initial desktop review of international taxonomy initiatives, key taxonomies were identified for detailed analysis based on their relevance to Australia's environmental and economic objectives (e.g. key investment and trading partners) or influence in global sustainable finance taxonomy initiatives.

These include:

- Association of Southeast Asian Nations Taxonomy ('ASEAN Taxonomy')
- Bank Negara Malaysia's Climate Change and Principle-based Taxonomy ('Malaysia Taxonomy')
- Canada Transition Taxonomy ('Canada Taxonomy')
- Chile Taxonomy
- China's Green Bond Endorses Project Catalogue ('China Taxonomy')
- Climate Bonds Initiative (CBI) Taxonomy ('CBI Taxonomy')
- EU Sustainable Finance Taxonomy ('EU Taxonomy')
- International Platform on Sustainable Finance (IPSF) Common Ground Taxonomy ('CGT')<sup>37</sup>
- Japan's Basic Guidelines on Climate Transition Finance ('Japan Taxonomy')
- Korean Green Taxonomy ('Korean Taxonomy')
- Aotearoa New Zealand Sustainable Agriculture Finance Initiative (SAFI) Guidelines ('NZ Taxonomy')
- United Nations Development Programme (UNDP) Sustainable Development Goals (SDG) Taxonomy [China] ('SDG Taxonomy')
- Singapore Green Finance Industry Taskforce (GFIT) Taxonomy ('Singapore Taxonomy')





As part of the analysis, key structural elements of a sustainable finance taxonomy were identified, namely the purpose, objectives, sectoral coverage, eligibility and transition and governance and engagement.

The key findings will form the basis of consultation questions for the TAG and broader stakeholders. The consultation questions will inform the next phase of the project, namely developing an Australian sustainable finance taxonomy.



# Endnotes

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5. Note: for example as published by the Intergovernmental Panel on Climate Change.
6. Note: Including the EU taxonomy, China's Green Bond Endorsed Project Catalogue (2021 Edition), Korean Green Taxonomy, New Zealand Sustainable Agriculture Finance Initiative (SAFI) Guidelines, UK Taxonomy (proposed) and the ASEAN and Singapore taxonomy (excluding sustainable use and protection of water and marine resources).
7. 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 greenhouse gas emissions.
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11. 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.
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13. Note: For example criteria developed in alignment with climate science as published by the Intergovernmental Panel on Climate Change.
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15. Ibid.
16. "Trade and Investment at a glance 2021", Australian Government Department of Foreign Affairs and Trade <https://www.dfat.gov.au/publications/trade-and-investment/trade-and-investment-glance-2021>; ABS trade data on DFAT STARS database and ABS catalogues 5302.0 and 5368.0. Note: most recent available data from 2021 reports only reflects financial year 2019-20.
17. Ibid.
18. 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.
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20. Climate Change Risk in the Financial System, Reserve Bank of Australia, 2022.
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22. Sectors are presented by Australian and New Zealand Standard Industrial Classification (ANZSIC) Division codes. Source: "Australian Industry", Australian Bureau of Statistics, <https://www.abs.gov.au/statistics/industry/industry-overview/australian-industry/2020-21>.
23. Note: Commercial services include ANZSIC Division codes F – H and J -S.
24. "National inventory by economic sector: annual emissions" Australian Government Department of Climate Change, Energy, the Environment and Water, <https://www.dcceew.gov.au/climate-change/publications/national-greenhouse-accounts-2020/national-inventory-by-economic-sector-annual-emissions>.
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32. Ibid.
33. Ibid.
34. Climate Change Act 2022 (Cth).
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37. Note: the CGT is not a single taxonomy or exclusive definition of environmentally sustainable economic activities per se, but an analysis on the approaches of the EU Taxonomy and China Taxonomy. However, it provides a useful analytical tool or reference for jurisdictions developing their own taxonomies.







## Key Findings

This section summarises the outputs of the desktop review and stakeholder engagement into the following international insights and highlights considerations for developing a sustainable finance taxonomy in Australia.

### Purpose and principles

A sustainable finance taxonomy is effectively 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. It can be used for bond issuance, portfolio and product development, providing a framework for labelling financial products as sustainable and promoting transparency and disclosure.

The purpose, or the reason why a taxonomy exists, is guided by drivers such as the need to address greenwashing concerns, promote consistency and comparability, scale capital flows into economic activities that substantially contribute to sustainability objectives, promote interoperability across global financial markets, facilitate an orderly and just transition to a sustainable economy and track progress through reporting and disclosure. For example, the EU Taxonomy was developed to provide a harmonised classification system for defining what economic activities are environmentally sustainable.<sup>38</sup> In comparison, the ASEAN Taxonomy is being developed to provide a common language and overarching guide on sustainable finance that ASEAN Member States (AMS) can apply when developing their own independent national taxonomies.<sup>39</sup>

A summary of key drivers that guide the purpose of international taxonomies is provided in *Table 1*.

Taxonomy	Primary drivers
<b>EU</b>	Re-orienting capital flows toward sustainable investment and removing barriers to cross-border financing for sustainability projects. The taxonomy also serves as a reporting framework on climate-related disclosures.
<b>UK</b>	Tackling 'greenwashing' and setting a high bar globally with a rigorous, science-based taxonomy that helps accelerate green finance and support the UK's transition to a net zero economy.
<b>China</b>	Unifying standards of China's green bonds and providing greater harmonisation with global standards.
<b>CGT</b>	Facilitating interoperability and comparability of international taxonomies by providing a common language on sustainable finance definitions.
<b>CBI</b>	Providing an important resource for common green definitions across global markets, in a way that supports the growth of a cohesive thematic bond market that delivers a low carbon economy.
<b>ASEAN</b>	Facilitating interoperability and comparability of the various sustainable finance systems and policies in development by AMS.
<b>Singapore</b>	Facilitating the flow of capital to support the nation's transition to a low carbon economy and achieve its other environmental objectives.
<b>Malaysia</b>	Facilitating standardised classification and reporting of climate-related exposures to support risk assessments at the institution and systemic levels, strengthen accountability and market transparency and encourage financial flows towards supporting climate objectives.
<b>Korea</b>	Facilitating financial flows to green projects, providing an agreed-upon standard to control greenwashing and serving as a reference point for the financial sector in shifting investments from carbon-heavy industries towards more sustainable industries.
<b>Japan</b>	Directing more capital to support achieving the Paris Agreement by facilitating financing for climate transitions, especially in hard-to-abate sectors, and ensuring the credibility of "transition finance" labelling.
<b>New Zealand</b>	Improving the flow of sustainable finance to New Zealand's agricultural sector and supporting better on-farm sustainability outcomes
<b>Canada</b>	Aligning capital to credible transition pathways and climate objectives, with a focus on transition criteria for the mining sector.
<b>Chile</b>	Steering the market toward green projects, helping the government and financial institutions fulfil their climate goals and leading the global initiative for developing criteria for the mining sector.

Table 1: Summary of key drivers that guide the purpose of international taxonomies

Common guiding principles for taxonomy development included interoperability (e.g. common international principles, tailored to national context), prioritisation (e.g. key sectors and objectives), credibility (e.g. science-based) and usability (e.g. ease of implementation).

The purpose and guiding principles of a taxonomy were consistently identified across international taxonomies as critical foundation steps for ensuring focus and alignment throughout the process of development and implementation. They form the foundation for numerous decisions on structural elements, namely objectives, sectoral coverage, eligibility and transition (including screening and technical criteria) and governance and engagement.

## Objectives

Objectives of a taxonomy relate to the environmental, social and governance outcomes that a taxonomy aims to achieve.

Taxonomies that only address climate change or other environmental objectives are often referred to as 'green' taxonomies. These taxonomies typically rely on science-based criteria. Environmental objectives commonly included within a taxonomy are:

- 👉 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 control
- 👉 Sustainable use and protection of water and marine resources<sup>40</sup>

The environmental objectives included in international taxonomies analysed as part of this paper are listed in Table 2.<sup>41</sup>

Taxonomy	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 control	Sustainable use and protection of water and marine resources
EU	✓	✓	✓	✓	✓	✓
UK	✓	✓	✓	✓	✓	✓
China	✓	✓	✓	✓	✓	✓
Common Ground Taxonomy	✓					
CBI	✓	✓				
ASEAN	✓	✓	✓	✓	Captured within 'Protection of healthy ecosystems and biodiversity'	
Singapore	✓	✓	✓	✓	✓	
Malaysia	✓	✓	Prevent, reduce, and control pollution, protect healthy ecosystems and biodiversity and sustainable use of energy, water and other natural resources are explicitly captured under Guiding Principle 3: No Significant harm to the environment.			
Korea	✓	✓	✓	✓	✓	✓
Japan	✓					
New Zealand	✓	✓	✓	✓	✓	✓
Canada (TBC)	✓					
Chile (TBC)	✓	✓				

Table 2: Environmental objectives included in international taxonomies analysed as part of this paper

Taxonomy	Social objectives
EU (Proposed)	<ul style="list-style-type: none"> <li>➤ Decent work (including for value-chain workers)</li> <li>➤ Adequate living standards and wellbeing for end-users</li> <li>➤ Inclusive and sustainable communities and societies<sup>46</sup></li> </ul>
New Zealand	<ul style="list-style-type: none"> <li>➤ Labour rights</li> <li>➤ Animal health and welfare</li> <li>➤ Health and safety<sup>47</sup></li> </ul>
SDG Taxonomy	<ul style="list-style-type: none"> <li>➤ Basic Infrastructure</li> <li>➤ Affordable housing</li> <li>➤ Health</li> <li>➤ Education, technology and culture</li> <li>➤ Food security</li> <li>➤ Financial services<sup>48</sup></li> </ul>

**Table 3: Social objectives included in international taxonomies analysed as part of this paper**

The majority of taxonomy development initiatives prioritise establishing screening and technical criteria for climate change mitigation.<sup>42</sup> This is likely a result of climate change mitigation being a priority for many jurisdictions, as well as market demand and availability of methodologies to measure impact and transition activities towards outcomes, such as decarbonisation and carbon offsetting.

As a carbon-intensive economy that is exposed to climate risk and heavily reliant on, and exposed to, foreign investment and trade with countries that prioritise climate change mitigation taxonomy objectives, climate change mitigation is a key priority for the development of Australia's sustainable finance taxonomy. Prioritising climate change mitigation as a taxonomy objective would support interoperability as well as the materiality of Australia's economic makeup, noting that many sectors of both high GVA and GHG emissions will have to transition to meet climate mitigation objectives (e.g. mining and manufacturing).

In comparison to a green taxonomy, a social taxonomy focuses on positive contribution to social objectives, such as health, human rights, equality or enhancing socio-economic conditions.<sup>43</sup> Despite growing recognition for the need for taxonomies to incorporate social objectives, few do so beyond incorporating them through further qualifying criteria (see the 'Eligibility and transition' section below).

Social sustainability is often described in qualitative terms based on social norms, so science-based criteria are difficult to apply.<sup>44</sup> Currently, taxonomies rely on a principles-based approach to assessing an economic activity's contribution toward social objectives, often guided by international standards such as the International Bill of Human Rights.

Jurisdictions such as the EU and China are developing social taxonomies focusing on social objectives, such as health, human rights, equality or enhancing socio-economic conditions. A summary of social objectives included in the taxonomies analysed as part of this paper are outlined in *Table 3*.<sup>45</sup>

Of the taxonomies analysed, none included governance objectives, such as anti-bribery, anti-corruption, responsible lobbying and political engagement outcomes. Criteria for measuring performance against sustainable governance objectives would need to rely on a principles-based approach. Our analysis identified many challenges associated with attempting to develop social and governance taxonomy criteria. Fundamental difficulties of usability, lack of available data, compliance costs and incomparability across jurisdictions were identified as key barriers of effective implementation.



## Sectoral coverage

Sectoral coverage indicates the economic sectors to which a taxonomy applies. It is important to define the scope of applicable sectors to understand the boundaries and priorities of a taxonomy.

While a taxonomy can be applicable to all sectors, recent taxonomy developments have focused on one or two priority sectors with a progressive approach to expanded coverage.<sup>49</sup> Economic sectors and activities included in a taxonomy are generally prioritised based on their contribution to taxonomy objectives (e.g. environmental, social) and the national or regional economy (e.g. GVA, GDP and exposure to foreign markets).

Several taxonomies also include enabling sectors important to climate change mitigation and adaptation however, these sectors would not be prioritised based on their quantitative screening of GHG emissions and economic data. These enabling sectors include information and communication technology (ICT), professional, scientific, and technical services, and carbon capture, utilisation and storage (CCUS).

Sectors covered by the international taxonomies analysed are provided in *Table 4*.<sup>50</sup>

Industry sector classification systems are used as the basis for taxonomies. ISIC is a common international industry classification adopted by the ASEAN and Singapore taxonomies. ISIC provides a comprehensive coverage of economic sectors and is largely compatible with international frameworks. In comparison, the EU Taxonomy uses NACE, a European industry standard classification system.<sup>51</sup> The two classification systems are reasonably well-aligned and comparable, which alleviates some of the barriers to interoperability.<sup>52</sup> However, the use of different industry classification systems can create an additional burden for financial institutions operating across multiple jurisdictions as there can be challenges mapping data models across multiple classification systems.

Australia uses the ANZSIC classification system which is comparable to ISIC and NACE. The application of classification codes should prioritise usability and interoperability with other taxonomies, noting that comparability of data will be integral to tracking investment in sustainable activities across different jurisdictions. The IPSF is also engaged with harmonisation of industry classification codes and ensuring alignment to financial activities and assets.

Sector	EU	ASEAN	Singapore	CBI	China	Chile - Proposed	Korea	CGT	NZ	SDG
Agriculture, forestry, and fishing	✓	✓	✓	✓	✓	✓	✓	✓	Agri. only	✓
Buildings, real-estate, and/or construction	✓	✓	✓	✓	✓	✓	✓	✓		✓
CCUS		✓	✓	✓	✓		✓	✓		
Commercial Services <sup>53</sup>	✓	✓			✓		✓			✓
Energy <sup>54</sup>	✓	✓	✓	✓	✓	✓	✓	✓		✓
Environmental protection and restoration or remediation	✓			✓	✓		✓			
ICT	✓	✓	✓	✓	✓	✓				✓
Manufacturing	✓	✓	✓	✓	✓		✓	✓		✓
Mining	✓					✓				✓
Transport, postal and warehousing or storage	✓	✓	✓	✓	✓	✓	✓	✓		✓
Water supply, sewerage, waste and/or circular economy	✓	✓	✓	✓	✓	✓	✓	✓		✓

Table 4: Sectors covered by the international taxonomies analysed as part of this paper



## Eligibility and transition

Eligibility refers to an initial screen that determines whether a taxonomy applies to an activity (e.g. GHG emissions intensity). A taxonomy may adopt one or more of the following approaches to activity eligibility:

- **Binary:** Activities meeting a particular sustainability objective without any threshold or screening criteria (e.g. renewable energy)
- **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 the principles of impact and avoidance of greenwashing)
- **Technical screening criteria:** Quantitative and often science-based thresholds (e.g. GHG emissions intensity thresholds for energy generation)

Pre-screening criteria may also apply at a company-level prior to assessing the activity. For example, a company-level net zero GHG emissions target, transition plan<sup>55</sup> and climate risk disclosure plan are required as a pre-condition to taxonomy alignment.

A combination of principles-based, technical screening and pre-screening criteria can be useful to guide the market with overarching principles, and then cross-check approach using technical criteria.

Eligibility approaches across different international taxonomies are listed here.

Table 5: Eligibility approaches across different international taxonomies

Eligibility	Taxonomy
Binary	China and SDG Taxonomy
Principles-based criteria	Malaysia, ASEAN (Foundational Framework), Japan and New Zealand
Technical screening criteria	EU, CBI, CGT, UK (proposed), Canada, (proposed), Chile (proposed), ASEAN (Plus Standard Framework), Singapore and Korea



Whether a taxonomy applies may depend on criteria thresholds that progressively transition to facilitate heightened sustainability attributes (e.g. progressively reduced GHG emissions intensity thresholds for energy generation). Transition approaches across taxonomies include:

- **Transition away:** Replacing an activity with a low carbon or net zero aligned alternative (e.g. replacing coal-fired power generation with renewable energy)
- **Transition within:** Supporting decarbonisation of an activity with low carbon alternatives (e.g. reducing clinker content in cement manufacturing, a high-emissions intermediary product)
- **No lock-in provisions:** Excluding investment into activities that undermine objectives beyond certain timeframes (e.g. no investment into transport that is not electrified beyond 2025)

To determine whether activities can be classified as eligible over time in the context of progressive transition of criteria thresholds, some taxonomies (such as ASEAN and Singapore) have adopted a 'traffic light' approach. This approach is particularly useful for jurisdictions in the early stages of transition, to set criteria that are appropriate for the relevant national economic context. These frameworks typically use a colour coding system to classify activities as:

- **Green:** sustainable, satisfies taxonomy objectives
- **Orange/Amber:** transition activities, on a pathway to achieving taxonomy objectives
- **Red/Excluded:** unsustainable activities that may cause significant harm and do not meet taxonomy objectives

An activity will be eligible if it meets the criteria and thresholds to be classified as green, orange/amber or red/excluded. Over time, amber thresholds will move toward alignment with green thresholds, thus driving the transition to achieve taxonomy objectives. It may also be more appropriate to exclude activities from a taxonomy, rather than classifying them as red.

While the EU taxonomy has historically only provided criteria for 'green' activities, it recently published options to adopt a 'traffic light' system to support a wider range of transition activities.<sup>56</sup> The proposed approach builds on the ASEAN and Singapore model by allowing for 'red' activities to be eligible where they:

- **Urgently require improvement and could qualify with an appropriate transition plan to avoid significant harm (e.g. green steel); or**
- **Cannot be improved and should be prioritised for transition funding as part of a decommissioning plan with emphasis on a just transition (e.g. supporting persons impacted to upskill and find new employment).**

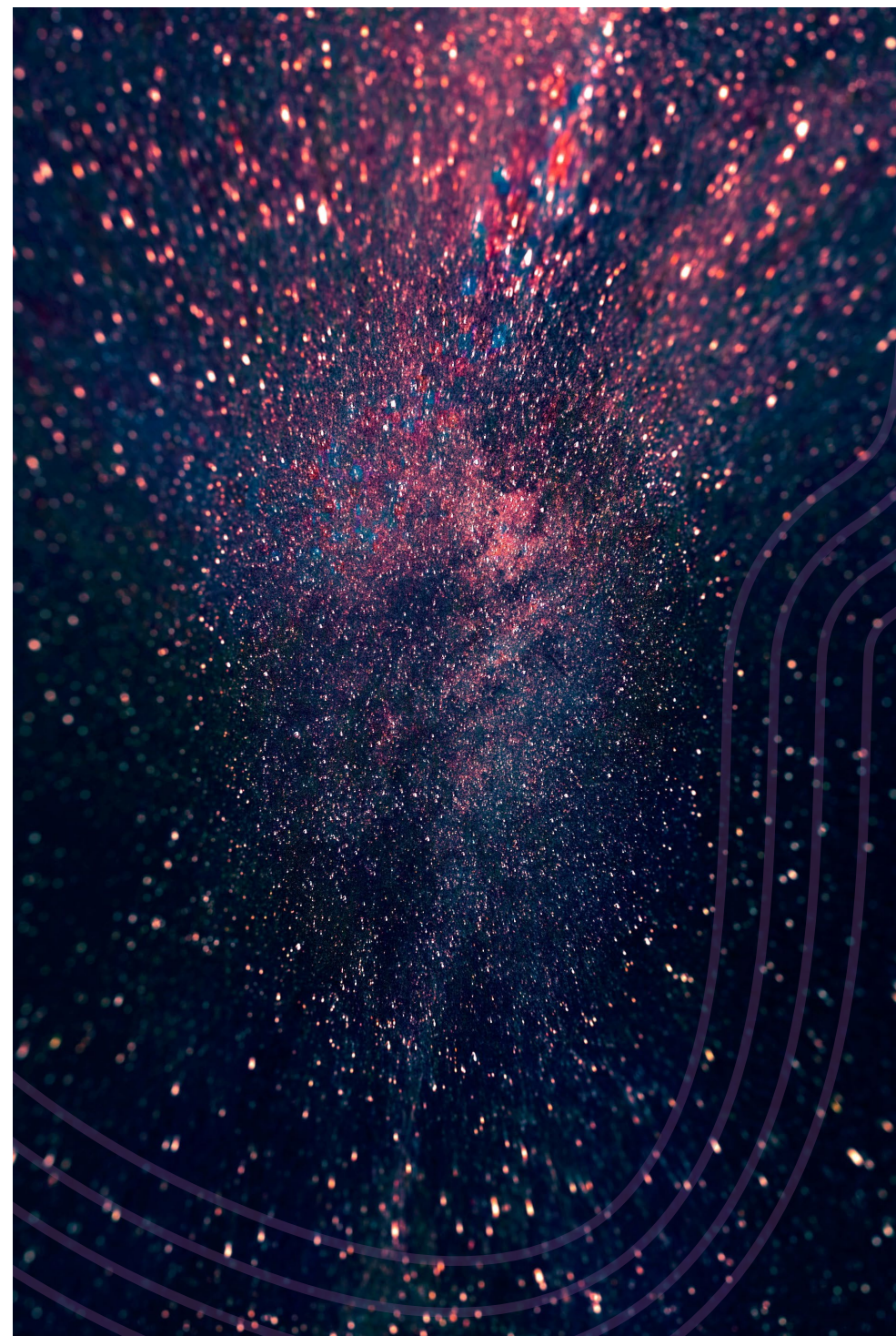
The proposed EU taxonomy 'traffic light' approach also includes a separate 'white'/'low environmental impact' classification for activities that do not have a significant environmental impact and should not be regarded as either red, amber or green (e.g. education services or professional, scientific and technical activities).

A summary of the various approaches to transition in the taxonomies analysed is provided overpage in *Table 6*.



Taxonomy	Approach to transition of criteria thresholds
EU	Technical screening criteria. Economic activities for which there are no technologically and economically feasible low-carbon alternatives may qualify where they support the transition to a carbon-neutral economy, correspond to best performance in the sector, do not hinder development or deployment of low-carbon alternatives and do not lock-in carbon-intensive assets.
ASEAN	Technical screening criteria 'traffic light' system incorporating a 'stacked approach' with activity-level criteria thresholds for different AMS, reflecting the various stages of development.
Singapore	Technical screening criteria 'traffic light' system with activity-level thresholds.
Malaysia	Principle-based approach to support an orderly transition by recognising commitments to remediate and adopt sustainable practices.
Japan	Principle-based approach that requires a credible transition plan, including science-based emission reduction targets for climate transition finance.
Korea	Divided into green and transition category activities. Transition category activities prioritise activities for net zero transition including GHG reduction in small-medium enterprise worksites, liquified natural gas hydrogen production and sustainable shipping and transport.
UK, Canada, Chile	Currently in development but will include transition and/or enabling activities.
CBI, CGT, NZ, China, SDG Taxonomy	Currently no eligible transition activities.

Table 6: Various approaches to transition in taxonomies analysed as part of this paper



## Further qualifying criteria

Many taxonomies apply further qualifying screening criteria to ensure that achievement of one taxonomy objective does not come at the cost of harm to others, e.g. minimum social safeguards and DNSH. This is particularly important for a just transition to ensure that the benefits of transition are shared widely and do not disadvantage vulnerable socio-economic groups.<sup>57</sup>

Minimum social safeguards aim to ensure activities do not impact upon social objectives. Taxonomies often draw upon national regulatory requirements and the following international frameworks:

- **OECD Guidelines for Multinational Enterprises**
- **UN Guiding Principles on Business and Human Rights**
- **International Labour Organisation on Fundamental Principles and Rights at Work**
- **International Bill of Human Rights**

In comparison, DNSH criteria ensure that activities do not cause adverse risks or impacts to the other environmental objectives through compliance with national or local laws, or additional requirements (e.g. voluntary energy efficiency targets). DNSH criteria can be challenging to implement in practice because there is often limited relevant data available to assess performance and laws vary across jurisdictions.

The further qualifying criteria used in the international taxonomies analysed as part of this paper are outlined in *Table 7*.

Essential criteria	Taxonomies
Minimum social safeguards	EU, UK (proposed), Chile (recommended), Korea, New Zealand, Singapore
Do no significant harm	EU, UK (proposed), ASEAN, Malaysia, Korea, New Zealand, Singapore

Table 7: Further qualifying criteria used in the international taxonomies analysed as part of this paper

## Governance and engagement

Governance of a taxonomy and engagement with relevant stakeholders are key foundational features of how the taxonomy will operate and achieve its objectives. There are important considerations that flow from the purpose of a taxonomy that determine whether taxonomy adoption will be supported, how usable a taxonomy will be and who will develop, implement and maintain and update it as required.

The establishment of ASFI and the Taxonomy Project as an industry-led initiative working closely with government provides the opportunity to explore effective governance models for taxonomy development.

International taxonomies are often developed by industry-led or government mandated technical working groups and involve extensive stakeholder consultation during the development and implementation processes. Technical working groups consist of relevant financial, economic and environmental technical experts alongside the intended taxonomy users and public sector representatives.

For example, the European Commission established a Technical Expert Group (TEG) in July 2018 to develop the EU Taxonomy, with representatives from civil society, academia, business, the finance sector and additional members and observers.<sup>58</sup> The TEG consulted over 200 additional experts to develop its recommendations for the technical screening criteria.<sup>59</sup> Following the TEG, the Platform on Sustainable Finance (PSF) was established as a permanent advisory expert group.<sup>60</sup>

The Monetary Authority of Singapore convened the Green Finance Industry Taskforce (GFIT) as an industry-led initiative consisting of representatives from financial institutions, corporates, non-governmental organisations and financial industry associations.<sup>61</sup> The GFIT released separate consultation papers on the broad approach and 'traffic light' threshold criteria for climate change mitigation, focusing on the energy, transport and real estate sectors. It is now preparing a third consultation paper on the remaining focus sectors for the climate change mitigation objective.<sup>62</sup>

Canada's transition taxonomy pivoted from an industry-led development to one with considerable government oversight. The Government of Canada mandated the Sustainable Finance Action Council (SFAC) in May 2021 to provide recommendations to Canada's Deputy Prime Minister, the Minister for Finance and the Minister for the Environment and Climate Change on green and transition investment taxonomy ideation. SFAC established the Taxonomy Technical Expert Group to investigate the merits of a Canadian taxonomy and how it could be designed in light of domestic and international best practice.

The governance processes for developing the international taxonomies analysed as part of this paper are outlined in *Table 8*.

Governance process	Taxonomies
Technical expert group supported by government	EU, UK, China, CGT, Malaysia, Korea, ASEAN, Singapore, SDG and Chile (expected), Canada
Private sector / industry led	New Zealand
Led by an international organisation	CBI

Table 8: Governance processes used to develop the international taxonomies analysed as part of this paper

A limited number of international taxonomies have mandatory requirements (e.g. EU taxonomy), with the majority of taxonomies providing voluntary guidance to the market (e.g. ASEAN and Singapore taxonomies).<sup>63</sup> The EU Commission introduced regulatory taxonomy disclosures for financial market participants as of mid-2022, which will progressively expand to apply to large non-financial entities.<sup>64</sup> Similarly, the UK Taxonomy is intended to form part of sustainability disclosure reporting in the UK, with companies and financial institutions required to disclose what proportion of their activities and assets are taxonomy-aligned.<sup>65</sup>

The mandatory requirements for the international taxonomies analysed as part of this paper are provided below.

Taxonomy	Mandatory requirements
EU	Regulation requiring EU Member States and the EU itself to use the taxonomy when designing or introducing requirements for green financial products. Regulatory taxonomy disclosures for financial market participants and large non-financial entities. <sup>67</sup>
UK	Intended to form part of sustainability disclosure reporting in the UK. <sup>66</sup>
China	Not mandatory, but green bond issuers are required to provide verification reports confirming the underlying assets are aligned with the taxonomy. <sup>68</sup>
CBI	Mandatory for certified climate bonds.
Malaysia, Japan, Korea, Singapore, ASEAN, SDG Taxonomy, CGT, New Zealand	Currently voluntary.

Table 9: Mandatory governance requirements for the international taxonomies analysed as part of this paper

The penultimate goal is to ensure that the taxonomy is adopted and implemented by financial sector participants. The role of investors and capital markets in driving market consensus on performance thresholds was also identified as a critical factor in determining the appropriate balance of governance and oversight.

It is also useful to have a governance structure that addresses matters of interpretation and maintenance of the "living" criteria over time. There are also lessons to be learned from other jurisdictions such as the EU and UK around promoting a science-based approach, at arm's length from government to support effective outcomes.



# Endnotes

38. 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.
39. ASEAN Taxonomy for Sustainable Finance, version one, ASEAN Taxonomy Board, 2021.
40. Note: Including the EU taxonomy, China's Green Bond Endorsed Project Catalogue (2021 Edition), Korean Green Taxonomy, New Zealand Sustainable Agriculture Finance Initiative (SAFI) Guidelines, UK Taxonomy (proposed) and the ASEAN and Singapore taxonomy (excluding sustainable use and protection of water and marine resources).
41. Note: Exact language of the objectives may differ in each taxonomy. The taxonomies have been mapped to the six overarching objectives listed in the table above. For example, 'Protection and restoration of healthy ecosystems and biodiversity' is captured within the 'Ecology and Environment-related sector' in the China Taxonomy.
42. Note: The following taxonomies did or propose to prioritise developing criteria for climate change mitigation: EU Taxonomy, ASEAN Taxonomy, Singapore GFIT taxonomy, International Platform on Sustainable Finance Common Ground Taxonomy, UK Taxonomy, Chile Taxonomy and Canada Taxonomy. Additionally, Japan's Basic Guidelines on Climate Transition Finance, the Malaysian Climate Change and Principles-based Taxonomy and the Climate Bonds Initiative Taxonomy were developed with a specific focus on climate objectives.
43. "Sustainable Taxonomy development worldwide: a standard-setting race between competing jurisdictions", Natixis Corporate and Investment Banking, <https://gsh.cib.natixis.com/our-center-of-expertise/articles/sustainable-taxonomy-development-worldwide-a-standard-setting-race-between-competing-jurisdictions>.
44. Final report on Social Taxonomy, Platform on Sustainable Finance, 2022.
45. Ibid.
46. Ibid.
47. "Phase one SAFI guidance launched – July 2021", Toitu Tahua Centre for Sustainable Finance, <https://www.sustainablefinance.nz/updates/phase-one-safi-guidance-launched-kP8zW>.
48. Technical report on SDG Finance Taxonomy (China), United Nations Development Programme, 2022.
49. 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 greenhouse gas emissions.
50. Note: The Japan and Malaysian Taxonomy are sector agnostic and therefore excluded from this table. The UK and Canada Taxonomy are also excluded due to limited public information relating to their proposed sectoral coverage. However, the Canada Taxonomy will likely include mining and other natural resource-based economic activities, and the UK Taxonomy will likely have similar coverage to the EU Taxonomy.
51. Note: Includes financial services, professional, scientific, technical activities, and administrative and support service activities.
52. Note: Includes electricity, gas, steam and air-conditioning supply.
53. 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.
54. Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN, Green Finance Industry Taskforce, 2022.
55. Note: 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.
56. The Extended Environmental Taxonomy: Final Report on Taxonomy extension options supporting a sustainable transition March 2022, Platform on Sustainable Finance, 2022.
57. Paris Agreement, United Nations Framework Convention on Climate Change, 2015.
58. "Technical expert group on sustainable finance (TEG)", European Commission website, [https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group\\_en](https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en).
59. Ibid.
60. "Platform on Sustainable Finance", European Commission website, [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance/platform-sustainable-finance\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance/platform-sustainable-finance_en).
61. Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN, Green Finance Industry Taskforce, 2022.
62. Ibid.
63. Note: EU Taxonomy, 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.
64. Ibid.
65. Greening Finance: A Roadmap to Sustainable Investing, HM Treasury and Department for Work and Pensions and Department for Business, Energy and Industrial Strategy, 2021.
66. 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.
67. Greening Finance: A Roadmap to Sustainable Investing, HM Treasury and Department for Work and Pensions and Department for Business, Energy and Industrial Strategy, 2021.
68. Developing a National Green Taxonomy: A World Bank Guide, World Bank Group, 2020.



# Next Steps

## International Analysis

The key findings explored above will form the basis of consultation questions for the TAG and broader stakeholders. Responses to the consultation questions will inform the next phase of the project, namely developing an Australian sustainable finance taxonomy.

The consultation questions are listed below. They were validated by a sub-set of the TAG at the international working group workshop held on 1 September.

ASFI is in the process of consulting with the wider TAG and other selected stakeholders on the below survey questions to support the development of a paper to frame the development of an Australian sustainable finance taxonomy. ASFI will consult publicly on the Australian framing paper in due course.

If you would like to provide feedback on the below consultation questions, please contact ASFI at [info@asfi.org.au](mailto:info@asfi.org.au) to request access to the survey.

### 1. What should be the primary purpose of an Australian sustainable finance taxonomy (please rank)?

- a. Scale capital flows into economic activities that contribute to sustainability objectives
- b. Address greenwashing
- c. Promote cross-border transactions across global financial markets
- d. Facilitate an orderly and just transition to a sustainable economy
- e. Track progress on transition to a sustainable economy through reporting and disclosure
- f. Other (please specify)

### 2. What would be the most valuable use for an Australian taxonomy (please rank)?

- a. Bond issuance
- b. Portfolio and product development
- c. Guiding corporate action towards sustainable development
- d. Providing a framework for labelling financial products and activities as sustainable
- e. Promoting reporting and disclosure (e.g. including green asset ratio)
- f. Other (please specify)

### 3. Which principles are most important for developing an Australian taxonomy (please rank)?

- a. Interoperability
- b. Prioritisation
- c. Credibility
- d. Usability
- e. Other (please specify)

#### 4. Which objectives should be prioritised in developing an Australian taxonomy (please rank)?

- a. Climate mitigation
- b. Climate adaptation
- c. Environmental management (e.g. circular economy, pollution prevention, biodiversity, water)
- d. Social objectives (e.g. decent work, adequate living standards, wellbeing, inclusive communities, Indigenous rights)
- e. Governance objectives (e.g. aligned to ASX Corporate Governance Principles and Recommendations)
- f. Other (please specify)

#### 5. What practical considerations apply to the prioritisation of objectives for development of an Australian taxonomy (please select all that apply)?

- a. Timing, in the context of international taxonomy developments
- b. Sequencing, aligned to key sustainability priorities and national context
- c. Availability of fit-for-purpose data (e.g. science- or principles- based approaches)
- d. Whether objectives can be achieved through other means, e.g. social safeguards
- e. Whether a taxonomy is the right approach to achieve the sustainability objectives, compared to other policy or regulatory mechanisms (e.g. modern slavery regulation)
- f. Auditability, with consideration of assurance principles to enable this party verification
- g. Capability and expertise of those implementing the taxonomy
- h. Other (please specify)

#### 6. What factors are important when considering how to prioritise key economic sectors for the development of taxonomy criteria (e.g. contribution to taxonomy objectives, national or regional economic outcomes)?

#### 7. Which sectors should be prioritised for Australia's sustainable finance taxonomy (please rank)? Note: the below sectors have been identified based on their contribution to taxonomy objectives and the national or regional economy, aligned to ANZSIC codes where possible.

- a. Electricity supply
- b. Coal mining
- c. Oil & gas extraction
- d. Other mining (e.g. metal ore and non-metallic mineral mining)
- e. Construction
- f. Real estate
- g. Manufacturing
- h. Agriculture & forestry
- i. Transport
- j. Water
- k. Waste
- l. Other (please specify)

#### 8. Should ANZSIC (rather than ISIC or NACE) be the preferred classification code option for Australia's sustainable finance taxonomy? Why/why not?

#### 9. What should be the preferred screening criteria approach, or combination of approaches, for an Australian taxonomy (please select all that apply)?

- a. Binary
- b. Principles-based criteria
- c. Technical screening criteria
- d. Pre-screening criteria at a company-level
- e. Other (please specify)

**10. Should Australia's taxonomy include a 'transition category', namely a mechanism to allow for the progression of performance criteria or thresholds over time? Why/why not?**

**11. Which further qualifying criteria should be prioritised in Australia's taxonomy (please rank)?**

- a. Minimum social safeguards (e.g. OECD Guidelines for Multinational Enterprises, etc.)
- b. Compliance with existing local and national laws (e.g. environmental, Indigenous cultural heritage, native title)
- c. Do no significant harm (e.g. compliance with laws and/or voluntary action)
- d. Other (please specify)

**12. Should further qualifying criteria be compliance based, or go beyond compliance to require voluntary action (e.g. public targets and transition plan to achieve net zero GHG emissions)?**

**13. What are the main barriers to including further qualifying criteria in an Australian taxonomy (please rank)?**

- a. Lack of credibility, linked to limited availability of fit-for-purpose data
- b. Potential lack of interoperability
- c. Complexity and impact on usability
- d. Other (please specify)

**14. 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?**

**15. What governance model should be prioritised to support effective science-based outcomes for environmental objectives of Australia's sustainable finance taxonomy (please rank)?**

- a. Government-led voluntary taxonomy, informed by an industry-led technical working group
- b. Government-led mandatory taxonomy, informed by an industry-led technical working group
- c. Voluntary industry-led taxonomy, supported by Government and an industry-led technical working group
- d. Other (please specify)

**16. Which stakeholders should be engaged as a priority in the development and implementation of a sustainable finance taxonomy (please rank)?**

- a. Government
- b. Finance sector
- c. Impacted industry sectors
- d. Academics
- e. Civil society and non-government organisations
- f. Indigenous groups
- g. Other (please specify)

**17. Who should govern and maintain Australia's sustainable finance taxonomy to ensure it reflects changes in policy, regulation, technology, science and data availability over time?**





# International Analysis

## ASEAN Taxonomy



### Purpose

To provide a common language for sustainable finance across ASEAN Member States (AMS), and thus facilitate interoperability and comparability of the various sustainable finance systems and policies in development across the region.

### Objectives

The taxonomy will prioritise developing technical screening criteria for the climate change mitigation objective. Future iterations will be expanded to encompass climate change adaptation, protection of healthy ecosystem and diversity, promotion of resource resilience and transition to circular economy.

### Sectoral coverage

The Foundation Framework (FF) is applicable to all sectors. The Plus Standard (PS) will address activities in six priority sectors representing 85% of GHG emissions and 55% of GVA in ASEAN. The priority sectors are agriculture, forestry, and fishing; manufacturing; electricity, gas, steam, and air conditioning supply; transportation and storage; construction and real estate activities; and water supply, sewerage, waste management and remediation activities.

The PS will also include the following enabling sectors, which have significant ability to allow other sectors to contribute to climate change mitigation; ICT, professional, scientific, and technical activities and CCUS.

### Eligibility and transition

The ASEAN Taxonomy uses a multi-tiered “traffic light” system: FF and PS. The FF is a qualitative, principles-based framework for assessing activities. PS will provide granular activity-level criteria and thresholds for assessing economic activities in priority sectors. Under this system, an activity can be classified in six ways: Green FF, Amber FF, Red FF, Green PS, Amber PS or Red PS.

The PS will also adopt a stacked approach to developing activity-level thresholds. This means for each activity, there may be multiple decarbonisation pathways and hence there could be more than one threshold that can be referenced at a single point in time. This is to cater for different starting points of entities across ASEAN.

The further qualifying criteria include do no significant harm and remedial measures to transition.

### Governance and engagement

The association of ASEAN central banks has set up an ASEAN Taxonomy Board to develop, maintain and promote the taxonomy. It is intended to be interoperable with AMS national taxonomies and sustainable finance policies and is applicable to all AMS financial institutions and business enterprises.

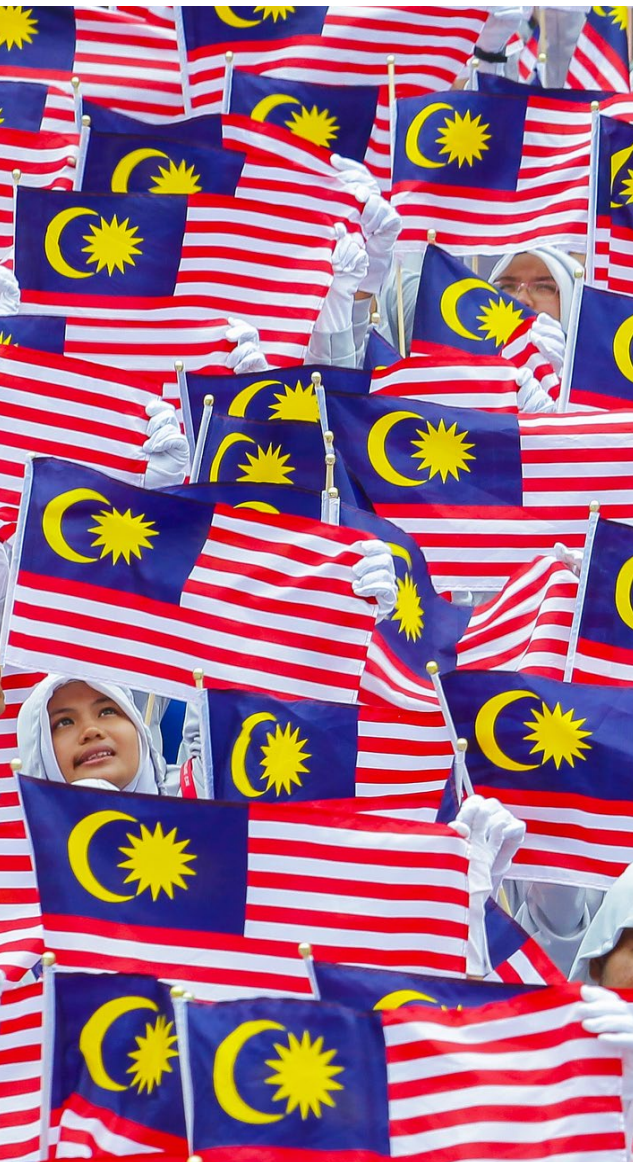
The first version of the ASEAN Taxonomy published in November 2021 is intended to be used as the basis for consultation, discussion and collaboration. The next step is to develop a more comprehensive and holistically considered Taxonomy with technical screening criteria for priority sectors under the PS.

### References

ASEAN Taxonomy for Sustainable Finance, version one, ASEAN Taxonomy Board, 2021.

# Bank Negara Malaysia

## Climate Change and Principle-based Taxonomy



### Purpose

To facilitate standardised classification and reporting of climate-related exposures, strengthen accountability and market transparency and encourage financial flows towards supporting climate objectives. A principles-based approach to evaluating activities which aims to support an orderly transition of the economy and avoid disruptive exclusions.

### Objectives

Climate change mitigation and adaptation.

### Sectoral coverage

Suggests users leverage the Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) Sectoral Guides for more detailed guidance on sectoral and activity-based metrics, and climate-related and environmental risks mitigation measures. Sectoral guides exist for: renewable energy; energy efficiency; palm oil; oil and gas; manufacturing; and construction and infrastructure. Guides for other sectors are currently under development. Other sectors not within VBIAF can still be recognised under the taxonomy but can use third parties and national and international certification standards to inform their due diligence.

### Eligibility and transition

Financial institutions are encouraged to apply the guiding principles in transaction due diligence processes to assess contribution towards defined objectives. The categories include:

- Climate supporting: contribute to climate objectives without causing significant harm
- Transitioning: traction towards low carbon but still causing some harm to the environment
- Watchlist: businesses that do not display any commitment to remediate identified harm
- Prohibited activities: illegal deforestation, illegal waste management and operations using fire land clearing

Financial institutions are encouraged to assess whether economic activities comply with Malaysian human rights and labour laws, the OECD Guidelines for Multinational Enterprise and UN Guiding Principles on Business and Human Rights.

### Governance and engagement

Taxonomy governed by Bank Negara Malaysia. Intended to be used by licensed banks, investment banks, insurers and reinsurers, as well as capital market players, intermediaries, analysts and rating agencies. The public sector may also use the document as a guide for policy formulation, prioritisation and funds allocation.

The Taxonomy was prepared by Bank Negara Malaysia in collaboration with a sub-committee of industry members, particularly financial institutions. In December 2019, Bank Negara issued a discussion paper providing an overview of climate change and its impact to the financial system, including a draft principle-based taxonomy. In April 2021, the final taxonomy was released, incorporating feedback received.

### References

Climate Change and Principle-based Taxonomy, Bank Negara Malaysia, 2021.

# Canada

## Transition Taxonomy



### Purpose

Canada is currently developing a transition focused taxonomy, aimed at facilitating financial flows to support the transition of Canada's natural resource-based economy and to develop criteria for critical sectors not captured in existing taxonomies, such as mining.

### Objectives

The taxonomy will be transition focused and therefore likely focus primarily on climate change mitigation.

### Sectoral coverage

Canada's transition will rely on decarbonising natural resource-based sectors and heavy emitting industries, so they will likely be prioritised.

### Eligibility and transition

The taxonomy will likely be influenced by the EU and CBI Taxonomy but will allow for greater coverage of transition activities.

### Governance and engagement

The Government of Canada mandated the Sustainable Finance Action Council (SFAC) in May 2021 to provide recommendations to Canada's Deputy Prime Minister, the Minister for Finance and the Minister for the Environment and Climate Change on green and transition investment taxonomy ideation. SFAC established the Taxonomy Technical Expert Group to investigate the merits of a Canadian taxonomy and how it could be designed in light of domestic and international best practice. It will also work closely with Canada's independent Net-Zero Advisory Body, ensuring climate considerations are emphasised in financial decision-making.

### References

Final Report of the Expert Panel on Sustainable Finance: Mobilizing Finance for Sustainable Growth, Environment and Climate Change Canada, 2019.

"Sustainable Finance Action Council", Government of Canada website, <https://www.canada.ca/en/department-finance/programs/financial-sector-policy/sustainable-finance/sustainable-finance-action-council.html>.

# Chile

## Taxonomy



### Purpose

Currently under development and will focus on building out a classification system that may steer the market toward green projects and help the government and financial institutions fulfil their climate goals.

### Objectives

Likely be aligned with those of other international taxonomies to ensure harmonisation, with climate change mitigation most likely prioritised before expanding to other objectives.

### Sectoral coverage

The proposed priority sectors were selected based on a range of financial parameters (bank credit, GDP, etc.) and emissions data. They include energy, transport, construction and industry (including mining sub-sector). Lower priority sectors include agriculture; waste; ICT; forestry and land use; and water. The taxonomy will also place large emphasis on transitioning the mining sector, particularly for mining strategically important minerals that are required for a low carbon transition.

Proposing to map economic activities against the ISIC classification system.

### Eligibility and transition

Activities will be eligible if they:

- Make a substantial contribution to the objective(s) (e.g. low carbon mobility); or
- Enable other activities to make substantial contributions (e.g. solar PV panels manufacturing)

Activities that are environment-positive or have technical screening criteria that can be easily adopted from an international taxonomy without the need for a detailed review will be fast-tracked into the taxonomy. Eligibility and transition criteria (especially for mining) will be developed in collaboration with members of the IPSF.

### Governance and engagement

Stakeholders involved in the development of the taxonomy can be mapped into three levels of governance. The first is taxonomy owners (e.g., Ministry of Finance, Ministry of Environment, National Office of Emergency of the Interior Ministry and Central Bank). Next, is coordinators and advisors (e.g., COP25 Scientific Committee and CBI). Third, is the technical and industry experts.

The taxonomy is anticipated to be governed by the public sector, with a supervisory structure to manage the opportunity. A government-endorsed taxonomy would serve as guidance to all players in the financial sector and real economy.

### References

Taxonomy Roadmap for Chile, Climate Bonds Initiative, 2021.

# China

## Green Bond Endorsed Projects Catalogue (2021)



### Purpose

To unify standards of China's green bonds and provide greater harmonisation with global standards. The "Catalogue" aims to clearly define projects eligible for green bonds, lower the possibility of greenwashing, improve credibility of green bonds, further regulate the domestic green bond market and direct funds towards green enterprises, assets and projects. It is used for green bond approval, registration and related disclosures.

### Objectives

Addresses the following six environmental objectives: energy saving; pollution prevention and control; resource conservation and recycling; clean transportation; clean energy; ecological protection and climate change mitigation.

### Sectoral coverage

Provides technical criteria for economic activities in the following overarching categories: energy saving and environmental protection industry; clean production industry; clean energy industry; ecology and environment-related sector; sustainable upgrade of infrastructure; and green services (e.g. carbon emission or renewable energy certificate trading services).

### Eligibility and transition

The three-level classification system sets out the objective, the sector and the conditions needed to be satisfied for taxonomy alignment. As a binary system, if the green bond project or investment is not covered under an eligible program, taxonomy alignment cannot be achieved. It excludes fossil fuel-related projects.

### Governance and engagement

The People's Bank of China, the National Development and Reform Commission and the China Securities Regulatory Commission jointly issued the "Green Bond Endorsed Project Catalogue (2021 Edition)". The Catalogue was first implemented in 2015, but after ongoing public consultation, it has undergone significant iterative development to ensure market acceptance, internationalisation of the catalogue and best practice outcomes. The Catalogue targets green bond users and investors.

### References

Green Bond Endorsed Projects Catalogue (2021 Edition), People's Bank of China, National Development and Reform Commission and China Securities Regulatory Commission, 2021.

# Climate Bonds Initiative

## Taxonomy (CBI)



### Purpose

Provides independent science-based guidance on which investments and assets are compatible with international commitments to a low carbon economy. It outlines screening criteria regarding whether a project is on track to meet the goals of the Paris Agreement.

### Objectives

Focuses on tangible 'green' projects and investments that are aligned with the goals of the Paris Agreement.

### Sectoral coverage

Provides screening criteria for the following sectors: energy, transport, water, buildings, land use and marine resources (including natural ecosystem protection and restoration), industry (including manufacturing), waste and pollution control and ICT. These sectors are broken down into forty-five subcategories of eligible assets and projects.

The Taxonomy does not provide reference to industrial classification codes.

### Eligibility and transition

Adopts a "traffic light" system. Green activities are considered automatically aligned with the Paris Agreement decarbonisation trajectory, orange activities are compatible if they are compliant with screening criteria and red activities are not compatible. Technical screening criteria are developed based on the latest climate science.

### Governance and engagement

The taxonomy is a division of the Climate Bonds Standards and Certification Scheme, developed by CBI. It is governed by the Climate Bonds Standard Board (CBSB) which is comprised of members from institutional investor groups, environmental non-profits and government, with the purpose of seeking to provide direction for the taxonomy and accompanying criteria.

It was developed through an extensive multi-stakeholder approach, recruiting international technical experts to form its technical and industry working groups. These working groups regularly review and update the taxonomy based on the latest climate science, including research from the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA).

The Taxonomy has been developed for use by entities seeking to understand whether an asset, activity or associated financial instrument is aligned with a net zero by 2050 trajectory.

### References

Climate Bonds Initiative Taxonomy, Climate Bonds Initiative, 2021.

# European Union Taxonomy



## Purpose

To provide a harmonised classification system for defining what economic activities are environmentally sustainability at the EU level. In doing so, the taxonomy aims to help reorient capital flows toward sustainable investment and remove barriers to cross-border financing for sustainability projects. The taxonomy also serves as the reporting framework for climate-related disclosures.

## Objectives

The current environmental objectives are: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy, waste prevention, and recycling; pollution prevention and control; and protection of healthy ecosystems.

The Platform on Sustainable Finance (PSF) proposed the following social objectives: decent work (including value-chain workers); adequate living standards and wellbeing for end-users; and inclusive and sustainable communities and societies.

## Sectoral coverage

Includes activities from the following sectors: forestry; environmental protection and restoration activities; manufacturing; energy; water supply, sewerage, waste, and remediation; transport; construction and real estate; ICT; professional, scientific and technical activities; financial and insurance activities; education; human health and social work; and arts, entertainment and recreation. The EU taxonomy uses NACE to classify economic activities.

## Eligibility and transition

An activity is “taxonomy-eligible” and “in-scope” if it has been included in the legislation with technical screening criteria. Taxonomy alignment to “Green” is a three-step process: the activity must make a substantive contribution to an environmental objective; do no significant harm to

other environmental objectives; and meet minimum social safeguards aligned to the OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, Fundamental Principles and Rights at Work of the International Labour Organisation and the International Bill of Human Rights.

## Governance and engagement

Developed by the European Commission (EC) as part of the EU Sustainable Action Plan. Following the publication of the action plan in May 2018, the EC set about developing the taxonomy including “taxonomy-eligible” activities and their associated technical criteria under the direction of a technical expert group (TEG). In June 2019, following initial stakeholder consultation, the TEG published the technical report, which was updated based on feedback from the market. The final report was published in March 2020.

Applies to investors with more than 500 employees, listed corporations and banks. It also applies to EU member states as they set up labels or standards regarding financial products or corporate bonds presented as “environmentally sustainable”.

## References

Final Report on Social Taxonomy, Platform on Sustainable Finance, 2022.

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.



# International Platform on Sustainable Finance (IPSF)

## Common Ground Taxonomy (CGT)



### Purpose

The CGT is not a single taxonomy or exclusive definition of environmentally sustainable economic activities per se, but an analysis on the approaches of the EU Taxonomy and China Taxonomy. It aims to provide a useful analytical tool or reference for jurisdictions developing their own taxonomy.

### Objectives

Substantial contribution criteria for climate change mitigation. No other environmental objectives are currently covered.

### Sectoral coverage

Includes activities across seven sectors: agriculture forestry and fishing; manufacturing; electricity, gas, steam and air conditioning supply; water supply (sewage, waste management and remediation activities); construction; transportation and storage; other (including CCUS and hydrogen storage). Sectors are classified using ISIC.

### Eligibility and transition

Technical screening criteria define eligibility of activities. The criteria are adopted from the EU Taxonomy and/or China Taxonomy, based on whether criteria are present in both taxonomies and which criteria is more stringent. The taxonomy does not currently allow for transition activities. Do no significant harm criterion excluded at this stage due to the technical complexity. Minimum safeguards are also excluded due to lack of comparability across taxonomies.

### Governance and engagement

In June 2020, the IPSF initiated a working group to develop the CGT. The IPSF is a multilateral forum between policymakers, in charge of developing sustainable finance regulatory measures. Its work is informed by 12 observers, including the Coalition of Finance Ministers for Climate Action, International Financial Reporting Standards Foundation (IFRS), European Investment Bank, World Bank Group and United Nations Environment Programme – Finance Initiative, among others.

In July 2020, the EU and China initiated a Working Group to identify commonalities and differences in the EU Sustainable Finance Taxonomy and China's Green Bond Endorsed Project Catalogue, with the first version of the CGT published in November 2021. Other taxonomies may be added in future.

Target users include issuers of green bonds, financial institutions, research and academic institutions and jurisdictions looking to analyse or develop their own taxonomy.

### References

Common Ground Taxonomy: Climate Change Mitigation, International Platform on Sustainable Finance Taxonomy Working Group, 2022.

# Japan

## Basic Guidelines on Climate Transition Finance



### Purpose

Provide guidance over expected disclosure elements for transition finance, help direct more capital to support achieving the Paris Agreement by facilitating financing for climate transitions, especially in hard-to-abate sectors and ensure the credibility of “transition finance” labelling.

### Objectives

Developed specifically to facilitate climate transitions (e.g. climate change mitigation).

### Sectoral coverage

The guidelines do not have a specific sectoral coverage. However, they highlight the importance of facilitating climate transitions for hard-to-abate sectors. The taxonomy also notes decarbonisation roadmaps will be developed for each industrial sector in the future.

### Eligibility and transition

Recommendations to ensure credibility and robustness. The guidelines have four key elements:

- Transition strategies should be aligned to the Paris Agreement and disclosures should be aligned to existing frameworks such as the Task Force on Climate-Related Financial Disclosures (TCFD)
- Material core business activities should be covered by transition strategy
- Must reference credible science-based targets, transition pathways and independently verified
- Transparency should be of central focus to the transition

strategy

### Governance and engagement

Developed by the Japanese Government in 2021, observed by a committee of academics and industry organisations. Investors, industry, and rating agencies were consulted and engaged. Target users include issuers and investors.

### References

Basic Guidelines on Climate Transition Finance, Financial Services Agency, Ministry of Economy, Trade and Industry and Ministry of the Environment, Japan, 2021.

# Korea

## Green Taxonomy (K-Taxonomy)



### Purpose

Provide tangible principles and guidance to identify and classify green economic activities. It aims to facilitate financial flow to green projects, provide an agreed-upon standard to control greenwashing and serve as a reference point for the financial sector to shift investment from carbon-heavy industries.

### Objectives

The six environmental objectives include: climate change mitigation; climate change adaptation; sustainable conservation of water; circular economy; prevention and management of pollution and biodiversity conservation.

### Sectoral coverage

K-Taxonomy is divided into the “Green Category” which consists of economic activities contributing to positive environmental outcomes and the “Transition Category” which consists of activities necessary to transition to achieve national net zero goals.

Activities in the Green Category are sub-categorised into the following sectors: industry; energy generation; transport; urban and building; agriculture; carbon capture; climate change adaptation; water; circular economy; and pollution and biodiversity.

Transition Category activities include GHG reduction for small and medium-sized enterprises; liquified natural gas hydrogen production; and sustainable shipping and transport.

### Eligibility and transition

Activities will meet taxonomy requirements if they satisfy the following:

- Activity standard: the activity falls under any category of green or transition activities
- Accreditation standard: the activity achieves one or more of the six environmental objectives
- Exclusion standard: the activity meets do no significant harm requirements
- Protection standard: the activity complies with all laws and regulations related to human rights, labour, safety, anti-corruption and destruction of cultural property

There are specific quantitative GHG emissions thresholds for some individual sub-categories in the Green Category. Some activities that meet the Activity Standard are exempt from the Accreditation Standard because of their innate environment-positive attributes (e.g. operation of non-polluting public transportation).

### Governance and engagement

Developed by the Korean Ministry of Environment, with an expert committee across energy, transport and logistics, construction, ecosystem, water, pollution management and circular economy. The process involved extensive consultation and four revisions prior to publishing the final version. Financial institutions, government agencies, industry and public stakeholders were invited to participate in the consultation process.

Used for green finance (e.g. green project financing, green loans, and green funds) to evaluate the sustainability performance of investments and disclosure.

### References

K-Taxonomy, Ministry of Environment of Korea, 2021.

# New Zealand Taxonomy

## The Aotearoa Circle Sustainable Agriculture Finance Initiative (SAFI) Guidelines



### Purpose

Improve the flow of sustainable finance to New Zealand's agricultural sector and support better on-farm sustainability outcomes. Agriculture is one of the largest trade sectors in Aotearoa New Zealand (NZ), with dairy farming, beef and horticulture comprising a significant proportion of exports. To help NZ keep pace with the emerging taxonomies, while also making it fit for purpose, specific guidance's are provided.

### Objectives

Environmental objectives include: climate change mitigation; climate change adaptation; sustainable use and protection of water; circular economy, waste prevention and recycling; pollution prevention and control and healthy ecosystems. Social objectives include: labour rights; animal health and welfare; health and safety.

### Sectoral coverage

Developed specifically for the agricultural sector. Phase one provided guidance for livestock and crops (perennials and non-perennials). The Aotearoa Circle plans to develop a broader Taxonomy for New Zealand in the future.

### Eligibility and transition

To be aligned, the on-farm operation must: do no significant harm to any of the environmental objectives; comply with minimum social safeguards; and make a substantial contribution to at least one (or both) of the climate change mitigation or adaptation objectives. No further guidance on transition.

### Governance and engagement

Led by the Sustainable Agriculture Finance Initiative (SAFI), the guidance was developed for the agriculture industry. SAFI was established by The Aotearoa Circle and is led by a Steering Group comprised of the major banks in NZ and the Ministry for Primary Industry. SAFI members are independent public, private, iwi, M ōri and community sector leaders.

The guidance considered the approach of international frameworks as a starting point, including the EU Taxonomy, as well as existing good farming practice standards used by New Zealand growers and farmers. It was developed by SAFI's Steering Group, and reviewed by key industry stakeholders across the dairy, arable, horticulture and red meat sectors.

Phase One Guidance will be reviewed by the Steering Group in 2022 who seek to incorporate feedback from the financial sector on its usability.

A broader national taxonomy is currently being explored by the Toit ōhau, The Centre for Sustainable Finance.

### References

A definition and taxonomy for monitoring the Aotearoa New Zealand agritech sector, Ministry of Business, Innovation and Employment, 2022.

Sustainable Agriculture Finance Initiative (SAFI): phase one guidance for sustainable agriculture finance for crops (perennials and non-perennials) (June 2021), The Aotearoa Circle, 2021.

Sustainable Agriculture Finance Initiative (SAFI): phase one guidance for sustainable agriculture finance for livestock (June 2021), The Aotearoa Circle, 2021.

Sustainable Finance Forum: roadmap for action final report: November 2020, Aotearoa New Zealand's Sustainable Finance Forum, 2019.

# Sustainable Development Goals Finance Taxonomy (China)



## Purpose

To identify Sustainable Development Goals (SDG) aligned economic activities, with a particular focus on enabling socio-economic empowerment and advancing vulnerable groups.

## Objectives

Six focus areas: basic infrastructure; affordable housing; health; education, technology, and culture; food security; and access to financial services.

## Sectoral coverage

SDG aligned activities in the following sectors have been included in the taxonomy: agriculture, forestry, and fishing; construction; manufacturing; commercial services; education; energy supply; human health and social work; ICT; transport; water supply and waste management; and wholesale and retail trade.

Sectors are classified according to the Chinese industry classification system code.

## Eligibility and transition

Activities are mapped against the relevant SDGs, specifying indicators and impact measures that must be addressed. A baseline measurement occurs, as well as changes during the investment to evaluate its impact outcome. Activities must align with national development strategies and policies, international best practices for social development and provide social benefits for SDG-targeted sectors and groups, while avoiding significant harm to the others.

## Governance and engagement

Jointly initiated by the United Nations Development Programme (UNDP), China and the Ministry of Commerce. It is voluntary, with a focus on providing guidance rather than regulation or enforcement.

It was co-created by the Chinese national government and international experts from various sectors, including industry, finance, social development and research with several rounds of multi-lateral consultation. Targeted users include financial institutions, industry, analysts and policymakers.

## References

Technical Report on SDG Finance Taxonomy (China) 2020 Edition, United Nations Development Programme, 2020.

# Singapore Green Finance Industry Taskforce (GFIT) Taxonomy



## Purpose

To facilitate the flow of capital to support the transition to a low carbon economy and the other environmental objectives of Singapore and the ASEAN nations. It aims provides a common framework for the classification of sustainable economic activities.

## Objectives

Environmental objectives include: climate change mitigation; climate change adaptation; protect healthy ecosystems and biodiversity; promote resource resilience and circular economy; pollution prevention and control. To date, economic activities and technical screening criteria have only been developed for climate change mitigation.

## Sectoral coverage

Sectors include agriculture and forestry/land-use; buildings/ construction/real estate; transportation and fuel; energy (including upstream); manufacturing/industrial; information and communication technology; waste/circular economy; and carbon capture and storage.

Sectors were chosen based on contribution to GHG emissions and the scale of economic activity in the ASEAN region, or their ability to enable climate change mitigation or adaptation in other sectors. Sectors are classified according to ISIC.

## Eligibility and transition

Quantitative science-based screening criteria will define eligible economic activities. Activities can be classified as green, amber, or red which denotes a different level of contribution to the environmental objectives. Activities must also do no significant harm to any of the other environmental objectives, comply with minimum social safeguard requirements and local laws and regulations.

The proposed thresholds for energy take into consideration temporal changes, with the green and amber (e.g. transitioning) thresholds decreasing over time. Following release of the second consultation paper, economic activities and technical screening criteria have only been developed for climate change mitigation and three of the eight focus sectors (energy, transport, and buildings).

## Governance and engagement

GFIT is an industry-led initiative convened by the Monetary Authority of Singapore consisting of representatives from financial institutions, corporates, non-governmental organisations, and financial industry associations.

The first consultation paper was released in January 2021, seeking feedback on the broad approach. A second consultation paper was released in May 2022, including the “traffic light” approach and granularity to thresholds for classification. GFIT is working on the activity-level criteria and thresholds for the remaining focus sectors for the climate change mitigation objective. The remaining objectives will be covered in future iterations of the taxonomy.

Financial institutions are intended to be the primary users, with companies, industry regulators and policymakers as secondary users. Taxonomy reporting can also be harmonised with reporting for other frameworks, including Task Force on Climate-Related Financial Disclosures (TCFD), Carbon Disclosure Project (CDP) and Science-based Targets Initiative (SBTI), to provide a comprehensive assessment of performance across sustainability and environmental objectives. Financial institutions are expected to start reporting on alignment from 2023 onwards.

## References

Identifying a Green Taxonomy and Relevant Standards for Singapore and ASEAN, Green Finance Industry Taskforce, 2022.

# United Kingdom

## Taxonomy



### Purpose

Defines environmentally sustainable economic activities. It aims to help tackle 'greenwashing' and set a high bar globally with a rigorous, science-based taxonomy that helps accelerate green finance and support the UK's transition to a net zero economy.

### Objectives

Six environmental objectives are: climate change mitigation; climate change adaptation; sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems. Technical screening for climate change mitigation and adaptation objectives will be prioritised.

### Sectoral coverage

Sectoral coverage has not yet been released. However, the government is looking to develop technical screening criteria in the energy sector, namely the role of nuclear power.

### Eligibility and transition

Eligibility to be determined through technical screening criteria that defines substantial contribution to an environmental objective.

To be taxonomy aligned, an activity must: make a substantial contribution to an environmental objective; do no significant harm to the other objectives; and meet a set of minimum safeguards (for example, constituting alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights).

Transition and enabling activities will also be recognised. Transition criteria will be set at 'best-in-sector' emissions levels. Enabling activities are those that support the transition by enabling substantial contributions to environmental objectives in other sectors, but which are not yet sustainable themselves (e.g. manufacturing components of wind turbines).

### Governance and engagement

Will be developed by the UK Government. The Green Technical Advisory Group (GTAG) has been established to provide independent, non-binding advice on developing and implementing the taxonomy. The GTAG is made up of subject matter experts and key financial market stakeholders.

The UK government plans to consult on the first two environmental objectives, climate change mitigation and adaptation in 2022. Consultation on the remaining objectives will follow in 2023. Technical screening criteria will be legislated following consultation and finalisation. Over time, the government may update the technical screening criteria or expand them to new sectors, following the same process of consultation and legislation.

Reporting against the taxonomy will form part of sustainability disclosure reporting in the UK. Certain companies will be required to disclose which proportion of their activities are taxonomy-aligned and providers of investment funds and products will have to do the same for the assets that they invest in.

### References

Greening Finance: A Roadmap to Sustainable Investing, HM Treasury and Department for Work and Pensions and Department for Business, Energy and Industrial Strategy, 2021.





# APPENDIX B

## GLOSSARY

Term	Definition
AMS	ASEAN Member States: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam
ANZSIC	Australian and New Zealand Standard Industrial Classification system
ASEAN	Association of Southeast Asian Nation
ASFI	Australian Sustainable Finance Institute
CBI	Climate Bonds Initiative
CCUS	Carbon capture, utilisation and storage
CDP	Carbon Disclosure Project
Climate Bonds Standards	The Climate Bonds Standard and Certification Scheme is a labelling scheme for bonds, loans and other debt instruments developed by the CBI
Climate Change Act	Climate Change Act 2022
CSAG	Canadian Standards Association Group
DNSH	Do No Significant Harm
EC	European Commission
EU	European Union
FF	The ASEAN Taxonomy's Foundation Framework, a qualitative, principles-based framework for assessing activities.
Foreign Direct Investment	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
GDP	Gross Domestic Product
GFIT	Green Finance Industry Taskforce
Green Bond Principles	The Green Bond Principles, developed by the International Capital Market Association, endeavour to provide 'green' credentials to bond investments that finance environmentally sustainable projects
GTAG	The Green Technical Advisory Group established by the EU and the UK Government
GVA	Gross Value Added
ICMA	International Capital Market Association, a member-based, trade association, representing international capital markets and aims to promote high standards of practice, regulation and stakeholder support
ICT	Information and communication technology
IEA	International Energy Agency, an autonomous intergovernmental organisation established in the framework of the OECD and which provides policy recommendations, analysis and data on the global energy sector
IFRS Foundation	International Financial Reporting Standards Foundation
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
IPCC	United Nations Intergovernmental Panel on Climate Change
IPSF	International Platform on Sustainable Finance
ISIC	International Standard Industrial Classification of All Economic Activities
ISSB	International Sustainability Standards Board
LNG	Liquefied natural gas
NACE	Nomenclature statistique des activités économiques dans la Communauté européenne, a European industry standard classification system established by EU law
Nationally Determined Contribution	A non-binding climate action plan countries develop and adopt to significantly reduce national greenhouse gas emissions and adapt to climate change impacts in accordance with the Paris Agreement
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
PS	The ASEAN Taxonomy's Plus Standard, will provide granular activity-level criteria and thresholds for assessing economic activities in priority sectors.
PSF	Platform on Sustainable Finance
Reconciliation Action Plan	Initiatives and strategies aimed to bridge the gap between Aboriginal and Torres Strait Islander peoples and non-Aboriginal and Torres Strait Islander peoples.
SAFI	Sustainable Agriculture Finance Initiative
SBTi	Science Based Targets initiative
SDG	Sustainable Development Goals
SFAC	Sustainable Finance Action Council, developed by the Canadian Government
Social Bond Principles	Social Bond Principles, a voluntary framework developed by the ICMA for the issuance of social bonds
TAG	ASFI Taxonomy Technical Advisory Group
TCFD	Task Force on Climate-Related Financial Disclosures
TEG	Technical expert group on sustainable finance established by the European Commission
UNDP	United Nations Development Programme
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
VBIAF	Value-based Intermediation Financing and Investment Impact Assessment Framework

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