DEVELOPING AN AUSTRALIAN SUSTAINABLE FINANCE TAXONOMY – INITIAL PHASE

*Grant Report for Treasury*

*30 June 2024*

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**Introduction**

The Australian Sustainable Finance Institute (ASFI) and the Australian Government have partnered to develop an initial Australian sustainable finance taxonomy (Australian Taxonomy Project). This partnership reflects a shared appetite across government, the finance sector and industry for consistent, credible frameworks to support sustainable finance markets in Australia. The taxonomy is a foundational piece of the Australian Government’s sustainable finance agenda.

The Australian Taxonomy Project commenced in July 2023. In accordance with the terms of the Grant Agreement between ASFI and the Australian Government represented by the Department of the Treasury, ASFI is required to provide a report on progress by 30 June 2024.

This report comprises the following three sections.

1. An overview of the Australian taxonomy’s development to date, including:
   1. the Taxonomy Technical Expert Group’s (TTEG) recommendations on the taxonomy issues outlined in the scope of the project;
   2. the technical screening criteria for the first three priority sectors for development (electricity generation and supply; minerals; mining and metals; and built environment) against the climate change mitigation objective; and
   3. the relevant data and research relied upon to develop the draft recommendations and the technical screening criteria.
2. An alignment analysis of the taxonomy deliverables – including the draft technical screening criteria – with the policy objectives set out in the [Terms of Reference](https://static1.squarespace.com/static/6182172c8c1fdb1d7425fd0d/t/64fe9c082d79333e832f7390/1694407689554/ASFI-CWG+ToRs.pdf).
3. A summary of stakeholder consultation undertaken to date, including:
   1. stakeholders consulted and who they represent;
   2. when and how often each stakeholder was consulted; and
   3. key insights from stakeholder consultation.

ASFI would like to acknowledge the many people and organisations who have generously contributed their time, expertise and input into the Australian taxonomy’s development to date.

Kristy Graham, CEO



**Part 1: Taxonomy Deliverables and Development**

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| Deliverable 1: Governance and engagement | * Established and convened a formal Taxonomy Technical Expert Group * Established and convened all subject and sector-specific taxonomy advisory groups * Contracted a taxonomy technical expert consortium to deliver technical outputs |
| Taxonomy Technical Expert Group  ASFI, with endorsement from the Council of Financial Regulator’s Climate Working Group Taxonomy Subgroup (CWG) established a Technical Expert Group (TTEG) through an open expression of interest process. The TTEG Terms of Reference, Charter, Conflict of Interest Policy, Register of Interests and Stakeholder Engagement Register are available on ASFI’s website [here.](https://www.asfi.org.au/taxonomy-governance)  The TTEG comprises 25 experts in sustainable finance; whole-of-economy decarbonisation; climate and environmental science and policy; human rights; and Indigenous rights and perspectives. This group provides strategic direction over, input into and endorsement of taxonomy products for the Australian Government’s consideration. A list of current TTEG members can be accessed [here](https://static1.squarespace.com/static/6182172c8c1fdb1d7425fd0d/t/664eb42a02458464cf5d9a7a/1716433963686/TTEG+Member+List+-+May+2024.pdf).  ASFI has convened the full TTEG approximately every six to eight weeks since its establishment. Sub-committees of the TTEG have also been convened between full TTEG meetings to consider specific issues related to the taxonomy’s design. These committees cover: (a) the taxonomy’s transition methodology (now sunset); (b) each of the sectors prioritised for development; (c) the development of a Do No Significant Harm (DNSH) framework; (d) Minimum Social Safeguards (MSS); and (e) the taxonomy’s governance, usability, interoperability, data and equivalence considerations.  Minutes of all full TTEG minutes are available on ASFI’s website [here](https://www.asfi.org.au/taxonomy-governance/#tteg). More information on ASFI’s engagements with the TTEG and TTEG committees is provided in **Part 3**.  Taxonomy advisory groups    ASFI has established and convened taxonomy advisory groups (TAGs) on the following areas: (a) electricity generation and supply; (b) minerals, mining and metals; (c) construction and the built environment; (d) manufacturing and industry; (e) transport; (f) agriculture and land; (g) DNSH; and (h) MSS.  The Australian Taxonomy Project currently comprises a total of 82 TAG members with relevant technical expertise from across the non-profit, academia, consultancy, finance, government, and business and industry sectors. A full list of taxonomy advisory group members is available on ASFI’s website [here](https://static1.squarespace.com/static/6182172c8c1fdb1d7425fd0d/t/66446476f989541a046a0f5f/1715758198988/TAG+Members+-+May+2024.pdf).  TAG members are bound by a TAG Confidentiality Undertaking and a Conflicts of Interest Policy. More information on ASFI’s engagements with the TAGs is provided in **Part 3**.  Contracted technical experts  Global standards setter, the Climate Bonds Initiative, has been contracted to lead a consortium of technical experts to work with ASFI on the delivery of taxonomy technical outputs.  ASFI has also contracted with First Nations Affairs to lead the development of draft MSS criteria specific to First Nations rights and cultural heritage, and to undertake targeted First Nations engagement and consultation on this work.  Finally, ASFI has contracted with Climateworks Centre and Skarn Associates for the provision of key data inputs to inform the draft technical screening criteria. | |
| Deliverable 2: Methodological design | A methodology for defining green and transition in the Australian taxonomy and determining the eligibility of economic activities; and a methodology for determining the Australian taxonomy’s other environmental objectives and social considerations |
| Two methodology reports, endorsed by the full TTEG to inform the development of the Australian sustainable finance taxonomy, were published in December 2023:   1. A **transition methodology report**, which sets out how green and transition activities for climate change mitigation will be determined (**Appendix A**). This report provides a clear methodology for determining what transition means in the context of the Australian taxonomy; and which sectors and activities should be eligible for inclusion in the Australian taxonomy’s transition category. 2. A **DNSH and MSS methodology report**, which sets out the Australian taxonomy’s environmental objectives and how they will be defined; the approach to developing DNSH criteria; and the approach to identifying and defining the taxonomy’s social objectives and their underlying core pillars (**Appendix B**).   Data and information relied upon  The transition methodology report draws on the scoping work undertaken by ASFI in 2022 and early 2023, and international examples from reference taxonomies and other developments in the European Union (EU), the United Kingdom (UK), Singapore, Chile, Columbia, Canada, South Africa, China and ASEAN.  The transition methodology relies on the International Energy Agency Net Zero Emissions 2050 (IEA NZE2050) scenario and Climateworks Centre’s net zero scenario (using the AusTIMES[[1]](#footnote-2) economy model). Other internationally credible scenarios are explored and cross-referenced, however, the intention is to be consistent by applying the same scenario across all sectors and activities for the purpose of determining what sectors and activities are eligible for transition categorisation.  While there are many scenarios available, IEA NZE2050 was selected because of its widespread global use, regular updates, coverage and adoption into other sector pathway work (for example, the Transition Pathway Initiative utilises the IEA NZE2050 scenario). Climateworks Centre’s scenarios are the most detailed and up-to-date scenarios applicable to the Australian context.  Other scenarios drawn on and cross-referenced are: the Network for Greening the Financial System’s net zero 2050 scenario and the Intergovernmental Panel on Climate Change’s 1.5°C scenario, as well as the Australian Energy Market Operator’s high ambition scenario set out in the Integrated System Plan. A full reference list is available in **Appendix A** (p. 25).  ASFI will also be cross-referencing the CSIRO’s rapid decarbonisation pathways scenarios for key sectors.  As set out in the DNSH and MSS methodology report, the DNSH and MSS criteria will be informed by international agreements that Australia has signed or ratified; national legislation, standards, policies and strategies; and finance and corporate sector environmental, social, and governance policies or risk management tools of relevance to Australia, such as disclosure frameworks. The methodology for DNSH also drew on the UK Green Technical Advisory Group’s work on improving the usability of DNSH. A full reference list is available in **Appendix B** (pp. 25-28). | |
| Deliverable 3: ANZSIC mapping | The building of an ANZSIC spreadsheet with relevant columns breaking down ANZSIC codes at the activity level for all priority sectors for development |
| The taxonomy technical team finalised the breakdown of Australian and New Zealand Standard Industrial Classification (ANZSIC) codes at an activity level for the priority sectors, which also includes a comparison of NACE (Statistical Classification of Economic Activities in the European Community) and International Standard of Industrial Classification (ISIC) codes to ensure international comparability with the Australian taxonomy (**Appendix C**).  Data and information relied upon  The comparison benchmarks the identified activities for Australia against the EU, which uses NACE, and other taxonomies in the ASEAN region, which generally use the ISIC codes. The comparison includes best practice metrics and thresholds from other taxonomies to provide a foundation of interoperability with reference taxonomies, but which will then be adapted specifically for the Australian context depending on the data, analysis and expert input from the TAGs.  The ANZSIC-ISIC-NACE mapping has been undertaken for all priority sectors that are covered by other taxonomies (construction and the built environment; manufacturing and industry; and electricity generation and supply; transport; manufacturing and industry; and limited agriculture and forestry) and cross-referenced against the EU and Singapore taxonomies and the Common Ground taxonomy (CGT) for comparison with China.  ASFI engaged with the sector-specific TAGs, the TTEG, and relevant Australian Government policy experts on the ANZSIC mapping to ensure comprehensive coverage of the activities for the first three priority sectors. It will repeat this process in Q3 for the remaining three priority sectors. The minerals, mining and metals sector and agriculture and land sector have not been developed in other reference taxonomies. | |
| Deliverable 4: Technical screening criteria | The technical screening criteria for the first three priority sectors for development against the climate change mitigation objective |
| ASFI released v0.1 of the Australian sustainable finance taxonomy in May 2024 (**Appendix D**). This version was informed by the methodology reports and endorsed by the TTEG for public consultation. It includes the draft climate change mitigation technical screening criteria (TSC) for the first three priority sectors for development: electricity generation and supply; minerals, mining and metals; and construction and the built environment.  Data and information relied upon  The full list of data and information relied on to develop the draft TSC for the first three priority sectors is referenced in **Appendix D** (pp. 89-91) and **Appendix E**. The transition methodology report (**Appendix A**) was also used to inform this work.  Next steps  ASFI went out for public consultation on the draft TSC for the first three priority sectors for development in May-June 2024. Public consultation closes on 30 June, following which ASFI and its technical partners will engage with the relevant TAGs, TTEG committees, and full TTEG to incorporate feedback into v0.2 of the Australian sustainable finance taxonomy. ASFI will publicly consult on v0.2 of the taxonomy in Q4 2024, which will comprise updated TSC for the first three priority sectors for development as well as:   * the draft climate change mitigation TSC for transport; manufacturing and industry; and agriculture and land; * a DNSH framework; * MSS criteria; and * advice for how taxonomy users can demonstrate alignment with the taxonomy. | |
| Deliverable 5: Other environmental and social objectives | Environmental objective headline ambitions and social objective core pillars |
| Climate change mitigation has been identified as the priority objective in the Australian taxonomy’s initial development phase. However, in line with the Australian Government’s broader policy ambitions, the taxonomy is being designed to provide a framework to incorporate other sustainability-related issues over time, with a focus on natural capital and biodiversity, as well as First Nations perspectives and supporting positive social and economic outcomes for First Nations people.  Version 0.1 of the Australian sustainable finance taxonomy (**Appendix D**) sets out the taxonomy’s proposed environmental objective headline ambitions and core social pillars. These were informed by the DNSH and MSS methodology report (**Appendix B**) and endorsed by the TTEG for public consultation.  Environmental objectives and their headline ambitions  As established in **Appendix B**, the Australian taxonomy’s environmental objectives are:   * climate change mitigation; * climate change adaptation and resilience; * biodiversity and ecosystem protection * sustainable use and protection of water resources; * pollution prevention and control; and * transition to a circular economy.   The Australian taxonomy’s environmental objectives are expressed as headline ambitions. Headline ambitions are the aspirational goals linked to each environmental objective. The proposed headline ambitions for the Australian taxonomy’s six environmental objective are set out in **Appendix D**.  Data and information relied upon  The Australian taxonomy’s headline ambitions are based on international climate and broader environmental agreements that Australia supports, such as the Paris Agreement and the Kunming-Montreal Global Biodiversity framework; underpinned by science-based information, including alignment to the 1.5°C trajectory; and informed by local commitments and strategies on environmental objectives, including Australia’s response to international agreement or leadership on a particular area.  Social objectives and their core pillars  The Australian taxonomy’s proposed social objectives and their underlying core pillars, as endorsed by the TTEG, are set out in **Appendix D**.  The Australian taxonomy’s social objectives will inform the development of draft MSS criteria. The taxonomy’s three proposed social objectives are: elements of corporate governance; human rights; and First Nations rights and cultural heritage.  Data and information relied upon  The Australian taxonomy’s proposed social objectives and their underlying core pillars are informed by international agreements Australia has signed or ratified; national legislation, standards, policies and strategies; and disclosure and related expectations for corporates and investors.  Next steps  ASFI went out for public consultation on the draft environmental headline ambitions for the Australian taxonomy in May-June 2024. Public consultation closes on 30 June, following which ASFI and its technical partners will engage with the DNSH TAG, the DNSH TTEG Committee, and full TTEG to incorporate feedback and reach a determination on the final headline ambition language. ASFI and its technical partners will then use these headline ambitions to inform the development of generic and specific DNSH criteria.  ASFI and its technical partners are in the process of developing streamlined MSS criteria for the Australian taxonomy’s social objectives and core pillars, in consultation with the MSS TAG, the MSS TTEG Committee, and the full TTEG.  Public consultation on the DNSH and MSS components of the Australian taxonomy will commence in Q4 2024. | |
| Deliverable 6: Public Consultation | Comprehensive public consultation on draft criteria |
| In the first round of public consultation, which ran from 28 May to 30 June 2024, ASFI sought feedback on v0.1 of the Australian sustainable finance taxonomy (**Appendix D**) and undertook targeted engagement with the following stakeholder groups:   * finance sector participants (including from wholesale, retail and investment banking; asset owners and managers; insurance; private equity; reporting and assurance; credit rating agencies; ESG data providers; and key peak bodies); * real economy participants, from the three economic sectors currently under development in the taxonomy: energy; minerals, mining and metals; and construction and built environment sectors; * federal and state government departments and agencies; * non-government organisations, including environmental and human rights non-governmental organisations; and * scientific and technical experts, including from universities and thinktanks.   The ASFI Taxonomy Team went on a roadshow across key Australian states and territories and delivered a total of 47 briefings for these stakeholder groups during the first round of public consultation. Each briefing ran for between 60 and 90 minutes, and was targeted to its audience. A full list of public consultation briefings is available at **Appendix H**.  ASFI anticipates that many stakeholders will provide feedback through the first consultation process. ASFI will work with its technical partners, the TAGs, TTEG committees and full TTEG to review and incorporate feedback in Q3 2024 to inform v0.2 of the Australian sustainable finance taxonomy. This version will be released for public consultation in Q4 2024. All feedback received through public consultation, unless otherwise requested, will be published on ASFI’s website. | |

**Part 2: Policy Alignment Analysis**

Part 2 of this report maps the core taxonomy design principles outlined in the Terms of Reference between ASFI and the CFR CWG Taxonomy Subgroup to the Government’s sustainable finance policy objectives, and analyses how the taxonomy deliverables align with these objectives.

The core principles guiding the development of the Australian sustainable finance taxonomy are credibility; usability; interoperability; and prioritisation for impact. These principles were identified in collaboration with industry and Government during the Australian taxonomy scoping phase.

In developing the Australian taxonomy, the TTEG and ASFI are required to ensure that these core principles are upheld and, if a conflict between principles occurs, that the right balance is reached and appropriately consulted on. More information is provided below.

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| Taxonomy design principles | Alignment of taxonomy deliverables with design principles and policy objectives |
| **The taxonomy should be credible and science-based.**  *The taxonomy should be science- and evidence-based, technology neutral, and informed by up-to-date information and best practice.*  *Credibility helps ensure the taxonomy is robust and supports the flow of capital towards activities with strong sustainability attributes.* | This design principle aligns with the Australian Government’s Sustainable Finance Strategy consultation paper, which states that Australia’s sustainable finance arrangements should be “*aligned with science-based global climate and sustainability goals, and with Australia’s policy targets and commitments. They should encourage high-ambition approaches by firms, institutions and entities, including where these go beyond baseline standards established by regulation and policy. They should ensure that activities aligned with certain sustainability objectives do not undermine other sustainability goals.”*  As set out in Part 1, the Australian taxonomy’s green and transition methodology (**Appendix A**) and DNSH and MSS methodologies (**Appendix B**) are underpinned by internationally recognised, science- and evidence-based information and approaches.  Technical screening criteria  Internationally recognised and credible 1.5°C-aligned scenarios have been used to identify (a) which activities can be classified as ‘green’ or ‘transition’ under the Australian taxonomy; and (b) to inform the TSC for those activities, including the greenhouse gas emissions thresholds.  The core reference scenario for the Australian taxonomy’s development is the IEA NZE2050, and the Australian 1.5°C scenario developed by Climateworks Centre based on partnership with CSIRO, which downscales the IEA’s TIMES model to the Australian context. While other credible 1.5°C scenarios have been developed, including by the Intergovernmental Panel on Climate Change and the Network for Greening the Financial System, the IEA’s NZE2050 model is commonly used as a reference in global capital markets, and using it strengthens the taxonomy’s interoperability. Where data are available and applicable to an activity, the Australian taxonomy defines performance level requirements for green and transition activities using objective, science-based TSC, utilising emissions intensity thresholds that are consistent with 1.5°C-aligned pathways.  For some activities, emissions intensity thresholds are not applicable. In these cases, other relative or absolute performance indicators, targets, and measures, including specific technologies or products, and standards or codes are used depending on which is more appropriate to set the thresholds for green or transition activities. For a limited range of activities, automatic eligibility is granted based on the verified contribution that can be attributed to the underlying technology. For example, all solar, wind, and ocean energy generation activities are proposed as automatically eligible until 2030 due to a high degree of certainty that they fit within the 100g CO2e/kWh emissions intensity threshold fixed until that date.  More information on this is available in **Appendix D**.  Environmental objective headline ambitions and core social pillars  The Australian taxonomy’s headline ambitions are informed by international climate and broader environmental agreements that Australia supports, such as the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework. They are also underpinned by science-based information and frameworks, and informed by national commitments and strategies, including Australia’s leadership on particular environmental objectives.  The Australian taxonomy’s proposed social objectives and their underlying core pillars align with international agreements Australia has signed or ratified; national legislation, standards, policies and strategies; and best-practice disclosure frameworks for corporates and investors. Where it is considered necessary and appropriate, such in relation to gaining the free, prior and informed consent of First Nations peoples to undertake projects on their lands, the Australian taxonomy’s MSS criteria will likely go above the baseline standards set by current regulation and policy.  More information on this is available in **Appendix B and D**.  Through the first round of public consultation, ASFI has encouraged feedback on the credibility of the Australian taxonomy’s draft TSC for the first three priority sectors for development and environmental objective headline ambitions. |
| **The taxonomy should be usable by a broad range of users.**  *The taxonomy should be designed in a manner that is clear, efficient, and understandable by the financial and real economy sectors, as well as by organisations of different sizes and maturities. It should also leverage available and fit-for-purpose data and proxies to promote transparent and comparable reporting that reduces the burden on users.* | This design principle aligns with the Australian Government’s Sustainable Finance Strategy consultation paper, which states that sustainable finance frameworks *“should make it simpler for firms to report opportunities and risks, back up sustainability claims, and pursue sustainability-aligned investments. They should also make it easier for individual shareholders and decision-makers to access, understand and act on sustainability-related information. Where complex regulatory arrangements are required, these should be proportional to need and aligned as far as practical with existing regulatory thresholds, frameworks and models”.*  Technical screening criteria  **Electricity generation and supply**: The draft TSC for the electricity generation and supply sector are based on an assessment of taxonomy practices implemented in other jurisdictions, to ensure ease of use by the market. They also account for conditions specific to the Australian energy context.  **Minerals, mining and metals**: To date, coverage of mining activities in taxonomy development internationally has been limited. The draft minerals, mining and metals TSC seek to balance ambition, credibility and usability, including through a proposed ‘stepped’ pathway approach. ASFI has explicitly sought feedback in the first round of public consultation on the usability of (a) the stepped approach; (b); the proposed thresholds and trajectories identified for copper, lithium and nickel; (c) and the proposed criteria for scope 3 emissions from iron ore.  **Construction and the built environment**: The draft TSC for construction and the built environment seeks to balance credibility and ambition with usability considerations, including by aligning with existing legislative requirements and accounting for data accessibility constraints. A framework for weighing the suitability of potential proxies, such as the NABERS Energy star ratings, the Green Star Rating system and the Nationwide House Energy Rating Scheme (NatHERS), has also been developed to balance the credibility of emissions accounting with the benefits of improved usability.  More information on this is available in **Appendix D**. |
| **The taxonomy should be interoperable and broadly compatible with international approaches to sustainable finance taxonomies.**  *The taxonomy should be broadly compatible with international standards and other jurisdictions’ sustainable finance taxonomies, while still taking into account the Australian context in which it will operate.* | This design principle aligns with the Australian Government’s Sustainable Finance Strategy consultation paper, which outlines that “*Australia’s arrangements should be aligned with global frameworks for sustainable finance to ensure comparability and minimise compliance burdens and costs for Australian and international firms and investors. This should include consistency in the design of regulatory requirements or standards, recognising that in some cases divergence will be necessary to reflect Australia-specific economic and policy priorities.”*  The Australian taxonomy’s design features draw on international examples from reference taxonomies and developments in the EU, the UK, Singapore, Chile, Columbia, Canada, South Africa, China and ASEAN. Initially prioritising the development of TSC for climate change mitigation also supports interoperability with international taxonomies and consistency with sustainability-related disclosure frameworks.  The core 1.5°C reference scenario for the taxonomy’s development is the IEA NZE2050. As outlined above, the IEA NZE2050 is commonly used as a reference in global capital markets, contributing to the Australian taxonomy’s interoperability.  The comprehensive mapping of the classification and selection of economic activities for the Australian taxonomy against leading international taxonomies and industry classification codes also promotes international alignment and interoperability.  Finally, the draft TSC account for international practices implemented in the development of other taxonomies where doing so is relevant and practical in an Australian context. Approaches to developing criteria for the electricity generation and supply sector are well established internationally, for example, lending themselves well to interoperability.  More information on this is available in **Appendix D**. |
| **The taxonomy should be tailored to Australian priorities.**  *These include supporting the allocation of capital towards transition activities; aligning with broader Government climate policy objectives; supporting the foundation for broader regulatory frameworks on sustainable finance; being adaptable to incorporating other climate and sustainability objectives such as nature in the taxonomy.* | This design principle aligns with the Australian Government’s Sustainable Finance Strategy consultation paper, which seeks to help “*mobilise the private sector investment needed to support net zero, Australia becoming a renewable energy superpower and other sustainability goals. The Strategy should support investment in transition activities, as they are critical to ensuring our economy can effectively pivot to a low to zero emissions world, meeting our emissions reductions targets, and providing the critical resources and support needed for our region’s energy transition.”*  Financial decision-makers in Australia lack access to the information they need to (a) confidently identify sustainable activities that align to their net zero climate targets and (b) deploy capital in an efficient and effective way at the scale and speed required for Australia to meet it climate and sustainability ambitions. This challenge is most acute with respect to transition activities, where global best practice is still emerging and there is a lack of consensus on the purpose, intent, and meaning of transition finance.  The Australian taxonomy’s transition methodology seeks to provide that clarity by establishing granular and useful definitions that allow investors, lenders and regulators to clearly identify which existing or new activities are aligned to Australia’s climate goals (green activities), and which activities are on a clear pathway to alignment with Australia’s climate goals and will remain part of a future Paris-aligned net zero economy (transition activities).  Taxonomy coverage and activity selection  The taxonomy sector coverage aligns with the six sector decarbonisation plans that the Australian Government is developing to inform its 2050 Net Zero plan and 2035 emission reduction targets.  **Electricity generation and supply**: Activities were selected for inclusion in the Australian taxonomy based on:   * their ability to deploy before 2030, given the immediate need to decarbonise electricity generation and considering this is a critical decade to achieve net zero by 2050; * the focus on major decarbonisation levers as a priority rather than solving for edge cases and residual emissions and the role of an activity (technology) as a major decarbonisation lever; * the maturity of the given activity (technology) as described by the Technology Readiness Level (TRL), with the taxonomy aiming to focus on TRL of 9 and above; and * the role of a given economic activity in the 2050 economy envisaged both by the science-based modelling and governmental strategies and policies.   **Minerals, mining and metals**: When selecting priority minerals for the Australian taxonomy, minerals’ presence on global criterial and strategic minerals lists was considered as a proxy indicator for their importance to the clean energy transition. Other indicators were also considered, including projected demand increases for clean energy technologies and end use of minerals in the clean energy transition.  While copper, lithium, nickel and iron ore have been prioritised in the initial development phase, the inclusion of other minerals is under active consideration.  **Construction and the built environment**: Modelling of sectoral carbon budgets demonstrates that the projected rapid decarbonisation of electricity supplied through Australia’s distribution utilities will have the most significant effect on emissions reduction within the building sector. The Australian taxonomy’s framework design for the construction and built environment sector takes this into account in its approach to prioritising electrification, embodied carbon, refrigerants and metrics.  More information is available in **Appendix D**.  Finally, ASFI has undertaken research and analysis to identify pathways and options to expand the Australian taxonomy’s criteria to other sustainability goals over time. |

**Part 3: Stakeholder Consultation**

Under the Grant Agreement between ASFI and the Australian Government, ASFI is responsible for managing all stakeholder engagement and consultation for the development of the Australian sustainable finance taxonomy. Part 3 of this report outlines ASFI’s approach to stakeholder consultation on the Australian taxonomy’s initial development and provides an overview of consultation undertaken to date.

In August 2023, ASFI undertook an extensive taxonomy stakeholder mapping exercise to inform a stakeholder engagement plan for the taxonomy’s initial development phase. ASFI’s mapping exercise identified over 250 stakeholder organisations with an interest in the Australian taxonomy’s development. While a significant proportion of stakeholder organisations that have an interest in the taxonomy’s development are financial sector participants, government, non-profit and real economy participants from across the six sectors prioritised for development also have varying degrees of interest in the taxonomy project and need to be effectively consulted.

Purpose and principles of engagement

The purpose of engaging with stakeholders on the Australian taxonomy’s design and development is threefold:

* seek diverse and informed technical and other input to optimise taxonomy outputs;
* ensure stakeholders interested in the taxonomy are properly consulted and given the opportunity to provide input on matters of relevance to them; and
* socialise the taxonomy with a diversity of stakeholder groups and foster understanding and alignment in relation to its use and objectives.

The key principles informing ASFI’s approach to stakeholder engagement are inclusivity, timeliness, transparency and respect. The taxonomy engagement principles were developed based on feedback from the ASFI Taxonomy Scoping Project (conducted June 2022 through July 2023) and an assessment of international taxonomy development processes. A more detailed explanation of these principles is set out in **Appendix F.**

Key stakeholder groups

ASFI identified the following key stakeholder groups in its mapping exercise:

1. Council of Financial Regulators Climate Working Group Taxonomy Subgroup (CWG)
2. Taxonomy Technical Expert Group (TTEG)
3. Federal Government departments and agencies
4. State treasuries, treasury corporations and other government agencies
5. Financial sector participants (including from wholesale, retail and investment banking, asset owners and asset managers, insurance, private equity, reporting and assurance, credit rating agencies, ESG data providers and finance sector peak bodies)
6. Real economy participants from all priority sectors, including industry peak bodies
7. Non-government organisations, including environmental NGOs
8. Scientific and technical experts, including from universities and thinktanks

Stakeholder engagement snapshot: 1 July 2023 – 30 June 2024

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| *Council of Financial Regulators Climate Working Group Taxonomy Subgroup (CWG)* | |
| *Who* | Representatives from the Department of the Treasury (Treasury); Australian Prudential Regulation Authority; Reserve Bank of Australia; and Australian Securities and Investments Commission |
| *What* | The CWG provides governance oversight to the development of the Australian taxonomy. Led by Treasury, the CWG considers products endorsed by the TTEG and may provide feedback through ASFI to facilitate alignment with the Government’s key sustainable finance policy objectives and wider market and regulatory developments in sustainable finance. ASFI and the CWG’s engagement is governed by the ASFI-CWG Terms of Reference, available on ASFI’s website [here](https://static1.squarespace.com/static/6182172c8c1fdb1d7425fd0d/t/64fe9c082d79333e832f7390/1694407689554/ASFI-CWG+ToRs.pdf). |
| *When* | ASFI and the CWG have met approximately every eight weeks since the project commenced: 27 July 2023; 31 August 2023; 19 October 2023; 15 December 2023; 7 March 2024; 16 May 2024; 23 May 2024; and 28 June 2024. |
| *Key Insights* | * 27 July: The constitution of TTEG was discussed and ASFI’s proposed shortlist of TTEG members was endorsed out-of-session by the CWG. * 31 August: Six proposed priority sectors for initial development under the Australian taxonomy were put forward by ASFI and approved by the CWG. * 19 October: ASFI provided an overview of its stakeholder engagement plan, with a focus on the taxonomy advisory groups, and provided the CWG with an overview of the transition methodology and approach to DNSH and MSS, which were pending TTEG endorsement. * 15 December: ASFI provided an update on the release of the taxonomy methodology reports; a progress update on the development of TSC for the first three priority sectors for development, DNSH and MSS; and presented the taxonomy expansion recommendations as endorsed by the TTEG for the CWG’s consideration. * 7 March: ASFI introduced the draft headline ambitions for the taxonomy’s environmental objectives, as endorsed by the TTEG, and the workplan for taxonomy governance, use and institutions, data and equivalence. * 23 May: ASFI introduced the draft taxonomy criteria for the first three priority sectors for development, as endorsed by the TTEG; and the proposed taxonomy release and public consultation plan. * 28 June: ASFI provided an update on the work being undertaken on the taxonomy’s proposed governance and institutional arrangements; the development of DNSH and MSS criteria; and initial feedback received during the first round of public consultation. |
| *Taxonomy Technical Expert Group (TTEG)* | |
| *Who* | The TTEG comprises 25 senior leaders with expertise in sustainable finance, whole-of-economy decarbonisation; climate and environmental science and policy; human rights; and indigenous rights and perspectives. A list of TTEG members can be found on ASFI’s website [here](https://static1.squarespace.com/static/6182172c8c1fdb1d7425fd0d/t/64cc7196efd6ae16dddfd6e5/1691120023048/TTEG+Member+List.pdf). |
| *What* | The TTEG provides strategic direction over, input into and endorsement of taxonomy outputs. ASFI and the TTEG’s engagement is governed by the TTEG Terms of Reference, Charter and Conflict of Interest policy. These resources are available on ASFI’s website [here.](https://www.asfi.org.au/taxonomy-governance)  ASFI has also established a number of TTEG committees (a full list is provided in **Appendix F**). The purpose of these committees is to channel expertise and streamline advice from the TTEG on sector and subject-specific aspects of the taxonomy’s development. |
| *When* | ASFI and the TTEG have met roughly every six weeks since the project commenced: 31 August 2023; 12 October 2023; 5 December 2023; 13 March 2024; 30 April 2024; and 11 June 2024.    The TTEG Transition Methodology Committee; DNSH Committee; and MSS Committee each met in October 2023 to provide recommendations to the full TTEG on relevant methodological design considerations for the Australian taxonomy. The TTEG Transition Methodology Committee met a further two times in 2023 to discuss scoping and coverage for the six sectors prioritised for development. This committee has now sunset.  The TTEG Electricity Generation and Supply Committee; Minerals, Mining and Metals Committee; and Construction and the Built Environment Committee each met several times in 2024 to prepare recommendations to the full TTEG on the draft TSC for climate change mitigation.  The TTEG DNSH and MSS committees have also each met several times in 2024 to prepare recommendations to the full TTEG on the environmental objective headline ambitions and core social safeguards, as well as on draft generic DNSH criteria and MSS criteria.  ASFI convened the TTEG committees on manufacturing and industry; transport; and agriculture and land in June 2024. These committees will meet for the first time in July 2024. |
| *Key Insights from full TTEG meetings* | * 31 August: As this was the inaugural meeting of the TTEG, members were introduced to each other, the project and its governance arrangements. An overview of the draft methodological framework was also provided by ASFI’s technical partners. * 12 October: Members considered and endorsed the recommendations of the TTEG committees for the transition methodology, DNSH sustainability objectives, and design and approach to determining MSS. The TTEG was also introduced to a proposed pathway to expand the Australian taxonomy criteria beyond climate mitigation to additional sectors and categories. * 5 December: Members endorsed the proposed pathway to expand the Australian taxonomy criteria beyond climate change mitigation. * 13 March:Members considered and endorsed the draft environmental objective headline ambitions and draft social objectives and core pillars. * 30 April: Members considered and endorsed the draft TSC for the first three priority sectors for development. * 11 June: Members considered and discussed the proposed institutional arrangements for the Australian taxonomy.   The minutes of all full TTEG minutes are available on ASFI’s website [here](https://www.asfi.org.au/taxonomy-governance/#tteg). |
| *Taxonomy Advisory Groups (TAGs)* | |
| *Who* | The TAGs bring together key stakeholders and experts from across industry, policy, academia and civil society to contribute technical insights and advice to the Australian taxonomy’s design. The following subject-specific and sector-specific TAGs have been established:     * Taxonomy Advisory Group on DNSH * Taxonomy Advisory Group on MSS * Taxonomy Advisory Group on Electricity Generation and Supply * Taxonomy Advisory Group on Minerals, Mining and Metals * Taxonomy Advisory Group on Buildings and Construction * Taxonomy Advisory Group on Manufacturing and Industry * Taxonomy Advisory Group on Transport * Taxonomy Advisory Group on Agriculture and Land   A list of TAG members to date can be found on our website [here](https://static1.squarespace.com/static/6182172c8c1fdb1d7425fd0d/t/654b1050c9b7c56a3dcfd85a/1699418211515/TAG+Membership+v3.pdf). There are currently 82 TAG members. |
| *What* | The TAGs provide advice and input into technical taxonomy work prepared by ASFI’s consortium of technical experts to help shape the TSC for climate mitigation across the economic sectors that have been prioritised for development; DNSH criteria for those same sectors; and the application of MSS under the Australian taxonomy.  The TAGs have been constituted by ASFI following an open expression of interest process, and do not have decision-making powers over the taxonomy’s development.  Advice from TAG members is captured in meetings and through a series of targeted post-meeting surveys. |
| *When* | The following TAGs were convened in October 2023 and have since each met between three and five times to provide input and feedback:   * Taxonomy Advisory Group on DNSH * Taxonomy Advisory Group on MSS * Taxonomy Advisory Group on Electricity Generation and Supply * Taxonomy Advisory Group on Minerals, Mining and Metals * Taxonomy Advisory Group on Buildings and Construction   The following TAGs were convened in May 2024 and met together for an initial orientation meeting in June 2024:   * Taxonomy Advisory Group on Manufacturing and Industry * Taxonomy Advisory Group on Transport * Taxonomy Advisory Group on Agriculture and Land |
| *Key Insights* | * October 2023 TAG meetings: ASFI introduced the Australian Taxonomy Project. TAG members provided initial technical advice – especially in relation to data and information sources – to inform the development of TSC for electricity generation and supply; minerals mining and metals; and buildings and construction, as well as further qualifying criteria for DNSH and MSS. * November 2023 TAG meetings: Sector-specific TAGs provided initial feedback on the scope and bounding of the sectors and the proposed activity classification. The DNSH and MSS TAGs provided early input into the taxonomy’s draft environmental objective headline ambitions and core social pillars respectively. * February 2024 TAG meetings: Sector-specific TAGs provided feedback on the methodologies for developing TSC and the data underlying their design. The Electricity Generation and Supply TAG also provided feedback on the draft TSC. The DNSH TAG provided feedback on final draft versions of the environmental objective headline ambitions and the MSS Tag provided feedback on the framework for compliance with MSS and the approach to streamlining MSS criteria. * March 2023 TAG meetings: The DNSH TAG provided guidance on international and Australian frameworks that could be used as proxies to develop DNSH criteria for the taxonomy. * April 2024 TAG meetings: The Construction and the Built Environment TAG and Minerals, Mining and Metals TAG provided feedback on the draft TSC. The DNSH and MSS TAGs provided feedback on draft DNSH generic criteria and draft MSS criteria respectively. * Other (Construction and the Built Environment TAG): A subset of the Construction and Built Environment TAG – comprising members from the Green Buildings Council of Australia; NABERS; and the Department of Climate Change, Energy, the Environment and Water – met three times between February and April 2024 to discuss the integration of data proxies. This work is ongoing. |
| *Australian Government* | |
| *Who* | ASFI is engaging directly with policy and technical leads from key Australian Government departments and agencies, including the Department of Climate Change, Energy, the Environment and Water (DCCEEW); the Department of Agriculture, Fisheries, and Forestry (DAFF); the Department of Industry, Science and Resources (DISR); the Department of Foreign Affairs and Trade (DFAT); the Clean Energy Regulator (CER); the Australian Energy Market Operator (AEMO); and the Climate Change Authority (CCA). A comprehensive list of government engagement on the taxonomy project to date is provided at **Appendix G.** |
| *What* | ASFI met with various teams within the above Australian Government departments and agencies to discuss where their policy priorities intersect with the Australian taxonomy’s development and where or how the taxonomy should integrate an area of Government’s relevant data or information.  In some instances, Government representatives with specific technical expertise have been asked to participate in the taxonomy’s development via the relevant taxonomy advisory group. This is particularly the case for the construction and the built environment sector. |
| *When* | Ongoing / ad hoc. |
| *Key Insights* | ASFI and its technical team met with key Australian Government stakeholders in a series of introductory meetings throughout October and November 2023. ASFI identified a range of opportunities to collaborate with different areas of Government on the taxonomy’s development to enable consistency between taxonomy outputs and public policy objectives, standards and data. ASFI continues to work closely with key Government leads to support alignment. This includes:   * ensuring sector definitions are aligned with the Government’s sectoral decarbonisation plans; * ensuring coverage of priority activities across the different sectors; * the use of key Government data to baseline TSC; * the development of additional digits in the ANZSIC to capture new activities that are currently not classified; and * scoping the definition of the other environmental sustainability objectives and aligning the taxonomy expansion proposal with Government policy priorities in the environment, adaptation and circular economy.   More insights are provided in **Appendix G**. |
| *State and territory governments* | |
| *Who* | State and territory treasuries, their issuing agencies, and other state government representatives as relevant. |
| *What* | The purpose of engaging with state governments is to provide an update on the taxonomy’s development at key points in the process, with a focus on information relevant to the policy mandates of state and territory governments and potential use cases for state treasuries and their issuing agencies. |
| *When* | ASFI convened in-person and online meetings with all state and territory treasuries and their issuing agencies in May and June 2024, aligning with the first round of public consultation. ASFI will continue to convene state and territory government representatives on an ad hoc basis. |
|  | In the first round of public consultation, ASFI also met with the relevant NSW and ACT Government policy areas to socialise and seek feedback on the draft built environment TSC. |
| *Key Insights* | State treasury corporations have indicated a strong interest in aligning proceeds from sub-sovereign green bond issuances, and policy expenditure programs, with eligible taxonomy activities. |
| *Environmental NGO Taxonomy Forum* | |
| *Who* | The Environmental NGO (ENGO) Taxonomy Forum comprises representatives from the following organisations:   * Australian Land Conservation Alliance * Australian Conservation Foundation * Climate Integrity * CSIRO * Minderoo Foundation * Ocean Decade Australia * Pollination Group * Pew Research Centre * Wilderness Society * WWF |
| *What* | ASFI is running an engagement forum specifically for ENGOs at key intervals over the course of the Australian Taxonomy’s development. The purpose of the ENGO Taxonomy Forum is to socialise the Australian Taxonomy Project and what it means from an environmental perspective; seek advice and feedback on pathways for the taxonomy’s expansion into broader sustainability objectives and on the headline ambitions for the taxonomy’s environmental objectives; and engage and consult on the development of DNSH criteria. |
| *When* | Ongoing / ad hoc. The ENGO Taxonomy Forum has been convened on 22 November 2023; 14 February 2024; and 31 May 2024. |
| *Key Insights* | 22 November: ASFI introduced the Australian Taxonomy Project and sought preliminary advice on options to extend the development of TSC beyond climate change mitigation.  13 February: Participants provided feedback on the draft environmental objective headline ambitions prior to their finalisation for public consultation.  31 May: ASFI provided a briefing on Australian sustainable finance taxonomy v0.1 and provided time for Q&A to support feedback through public consultation. |
| *International Engagement* | |
| *Who* | Stakeholders from other jurisdictions that have developed or are developing sustainable finance taxonomies, including from the EU, UK, Canada, ASEAN and New Zealand. |
| *What* | The purpose of ASFI’s international taxonomy engagement is twofold: to share information with stakeholders on the development of taxonomies in other jurisdictions and taxonomy development processes; and to share information and engage with other jurisdictions directly in relation to taxonomy development and interoperability. |
| *When* | Ongoing.  An informal International Group on Taxonomies was convened on 23 November 2023 and 22 May 2024. It comprises representatives from ASFI, the Centre for Sustainable Finance Canada, the Sustainable Finance Institute Asia, and the New Zealand Centre for Sustainable Finance.  In May 2023, ASFI representatives, including ASFI’s Head of Taxonomy and Natural Capital, travelled to Indonesia to exchange knowledge on sustainable finance taxonomies with Indonesian Government representatives. |
| *Key Insights* | 23 November: The International Group on Taxonomies provided general updates on taxonomy development in their respective jurisdictions. Members discussed the role taxonomies play in driving transition, and the complexities associated with the treatment of fossil fuels in different jurisdictions in this regard. ASFI shared its principles-based approach to determining which activities will fall under the Australian taxonomy’s ‘transition’ category. Members also discussed the growing focus on reconciliation and First Nations communities and priorities in the context of sustainable finance taxonomies.  22 May: The International Group on Taxonomies provided general updates on taxonomy development in their respective jurisdictions. ASFI introduced v0.1 of the Australian Sustainable Finance Taxonomy, with a focus on the draft TSC for minerals, mining and metals.  Indonesia exchange: This forum provided an opportunity for ASFI and the Indonesian Government to work together to share challenges and learnings on sustainable finance taxonomies and support collective climate and sustainability goals. ASFI met with participants from Indonesia’s Fiscal Policy Agency (BFK) and Financial Services Authority (OJK) to share technical knowledge of taxonomies. This included building a shared understanding of the fundamental components of sustainable finance taxonomies, how they are used in practice by business and industry to facilitate green capital flows, and the impacts and opportunities for regulators and policymakers. The trip highlighted the critical need for regional collaboration on sustainable finance to ensure that our financial system supports a sustainable future for all. |
| *General Taxonomy Forum* | |
| *Who* | This is an open forum designed to be accessible to the general public. It is advertised through ASFI’s wider communication channels, including its general database and LinkedIn. |
| *What* | The General Taxonomy Forum supports understanding and awareness of the Australian taxonomy’s purpose, use cases and timeline for development. The forum comprises a series of webinars, which are recorded and made publicly accessible via ASFI’s website. |
| *When* | Ongoing.  ASFI held the first General Taxonomy Forum webinar on 27 September 2023, which introduced the Australian Taxonomy Project's key objectives, governance arrangements and forward work program. It also provided time for open Q&A about the project.  ASFI held the second General Taxonomy Forum webinar on 6 December 2023 to socialise the methodological design features of the Australian taxonomy with the general public. It also provided time for open Q&A on this work.  ASFI held the third General Taxonomy Forum webinar on 28 May 2024 at which it officially released v0.1 of the Australian sustainable finance taxonomy. This webinar marked the commencement of the first round of public consultation. It also provided time for open Q&A. |
| *Key Insights* | There is significant and growing external interest in the Australian Taxonomy Project.   * 183 people registered for the first General Taxonomy Forum, of which 89 joined the webinar live. * 319 people registered to attend the second General Taxonomy Forum, of which 128 joined the webinar live. * 509 people registered to attend the official release of v0.1 of the Australian taxonomy on 28 May, of which 290 joined the webinar live.   Questions asked by participants initially focused largely on the governance arrangements, opportunities for public consultation and how the Australian taxonomy will cover broader environmental objectives, such as biodiversity protection and pollution control and prevention.  In the most recent General Taxonomy Forum webinar, participants expressed interest in what the Australian taxonomy means for corporate reporting and how it will be applied. A range of sector-specific and technical questions were also asked by various participants, indicating a high level of maturity on, and interest and engagement in, the Australian taxonomy’s development.  ASFI will gain further insights through the feedback it receives in the first round of public consultation. This feedback will be collated after 30 June 2024, when the first round of public consultation closes. |
| *First Nations Engagement* | |
| *Who* | Stakeholders with expertise in First Nations considerations and perspectives, including in relation to Free, Prior and Informed Consent (FPIC). |
| *What* | ASFI has contracted First Nations Affairs to draft the MSS criteria for First Nations rights and cultural heritage and to undertake targeted First Nations consultation on this work.  First Nations considerations and perspectives are being incorporated into the taxonomy’s design through the TAGs and TTEG, especially the MSS TAG and TTEG MSS Committee.  ASFI is also engaging on an ad hoc basis with its First Nations Reference Group to seek advice on key issues and best practice integration, and with First Nations representatives and experts from other jurisdictions, particularly Canada and New Zealand. |
| *When* | Ongoing. |
| *Key Insights* | There is an opportunity for Australia to be a global leader on the incorporation of First Nations considerations and perspectives into taxonomy design, especially in relation to FPIC best practice. |
| *Public Consultation* | |
| *Who* | All stakeholders with an interest in the development of an Australian taxonomy, especially those who have not had an opportunity to engage or provide their views to date and wish to do so. |
| *What* | ASFI is responsible for running public consultation on the draft Australian taxonomy as part of the Australian Taxonomy Project. In particular, ASFI is seeking feedback on whether the draft TSC are aligned with the key principles of credibility, usability, interoperability and prioritisation for impact.  Public consultation does not extend to the methodological design of the taxonomy, which was finalised and endorsed by the TTEG in December 2023. |
| *When* | The first round of public consultation on v0.1 of the Australian sustainable finance taxonomy ran from 28 May to 30 June 2024.  The second round of public consultation on v0.2 of the Australian sustainable finance taxonomy will be held in Q4 2024. |
| *Key Insights* | In the first round of public consultation, the ASFI Taxonomy Team went on a roadshow across key Australian states and territories and delivered a total of 47 briefings. Each briefing ran for between 60 and 90 minutes, and was targeted to its audience. In total, over 1000 people were briefed on the development of the Australian sustainable finance taxonomy either in person or online during the public consultation period. A full list of public consultation briefings is available at **Appendix H**.  The level of stakeholder engagement throughout the public consultation period was high across all stakeholder groups. ASFI anticipates that many stakeholders will provide substantive feedback through the consultation process, to help further refine the draft environmental objective headline ambitions and TSC for the first three priority sectors for development. |

In addition to the above stakeholder engagements, ASFI has been invited to and attended numerous conferences, workshops and meetings over the past 12 months to maximise engagement with relevant stakeholder groups; ensure the Australian Taxonomy Project is well socialised throughout the initial development phase; and support the broader establishment of Australia’s sustainable finance architecture. Exchanges at these events have not gone beyond the provision of publicly available information.

1. Climateworks Centre and [CSIRO](https://www.csiro.au/en/) have joint ownership of the AusTIMES model- a detailed whole-of-economy model of Australia. AusTIMES is based on globally recognised frameworks from the [International Energy Agency](https://www.iea.org/). AusTIMES explores future energy and emissions scenarios and offers insights into achieving emissions reduction goals at the least cost to society. https://www.climateworkscentre.org/news/how-our-economy-wide-decarbonisation-models-are-helping-to-guide-the-energy-transition/. [↑](#footnote-ref-2)