

PRI RESPONSE

AUSTRALIAN SUSTAINABLE FINANCE TAXONOMY V0.1

June 2024

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To inform this briefing, the following investor group has been consulted: PRI Regional Policy Reference Group for (Australia). This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

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United Nations
Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Australia Sustainable Finance Institute (ASFI) call for feedback on Australian Sustainable Finance Taxonomy V0.1.

ABOUT THIS CONSULTATION

ASFI and the Australian Government have partnered to develop an Australian sustainable finance taxonomy. To inform this work, ASFI is undertaking public consultation at key stages in the project. This is the first of two rounds of public consultation. In this round, ASFI is seeking feedback on the draft climate change mitigation criteria that has been developed for three priority sectors, as well as draft headline ambitions.

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KEY RECOMMENDATIONS

The PRI welcomes the Australian sustainable finance taxonomy proposal by ASFI, the design of which aligns closely with the PRI and World Bank [sustainable finance taxonomy implementation guide](#).

- The PRI notably supports the overall approach taken by the Australian sustainable finance taxonomy to maintain a clear distinction between ‘green’ and ‘transition’ activities, and the approach to identify transition activities based on ‘technology readiness levels’
- PRI agrees with the Australian sustainable finance taxonomy approach to base its headline ambitions on international environmental and climate agreements and Australia’s local commitments and strategies on environmental objectives; but recommends to include a specific reference to the Global Biodiversity Framework headline ambitions for ‘biodiversity and ecosystem protections’ and ‘sustainable use and protection of water resources’ to provide clarity and indicate that alignment with the broader set of targets and objectives will be sought out in the taxonomy.

Although not directly subject to the consultation questions, the PRI lends its support for the ambition expressed in the public consultation paper to embed the taxonomy in Australia’s regulatory architecture.

DETAILED RESPONSE

HEADLINE AMBITIONS

DO THE HEADLINE AMBITIONS REFLECT AUSTRALIA’S HIGHEST NATIONAL GOALS FOR CLIMATE AND ENVIRONMENTAL SUSTAINABILITY?

PRI welcomes the formulation of headline ambitions for the Australian sustainable finance taxonomy, which aligns with the first of three components it has formulated in a [sustainable finance taxonomy implementation guide](#) jointly published with the World Bank:

- **Objectives** which define the aims of the taxonomy.
- **Activity lists** which detail eligible economic activities (i.e. those activities that can make a positive contribution to the objectives of the taxonomy). Taxonomies may also go beyond sustainable economic activities and include, for instance, economic activities that are needed to enable a transition towards achieving social or environmental goals or economic activities that are inherently harmful: such ‘extended’ taxonomies should always make clear that they are not only identifying sustainable economic activities, and maintain a clear distinction between the different types of economic activities (i.e. sustainable, transition, harmful) so that investors can clearly distinguish the degree to which their investments are (not) contributing to the objectives defined by the taxonomy.
- **Performance criteria** which determine whether the eligible activities are aligned with the objectives of the taxonomy. Criteria should be defined for how economic activities can significantly contribute to the objectives of the sustainable finance taxonomy, as well as for ensuring that economic activities do no significant harm to any of the objectives. To be aligned with a sustainable finance

taxonomy, an economic activity must significantly contribute to one its objectives, while doing no significant harm to any of the other objectives

PRI has taken the view that [public policy is to be guided by scientific consensus and international norms](#), but also needs to be tailored to specific national circumstances. We therefore support the principles identified in the consultation document that the “Australian taxonomy’s headline ambitions should “*be based on international environmental and climate agreements that Australia supports (for example, the Paris Agreement; and the Kunming-Montreal Global Biodiversity Framework); be underpinned by science-based information, including alignment to a 1.5°C trajectory; and be informed by local commitments and strategies on environmental objectives, including Australia’s response to international agreements or Australia’s leadership on an objective*”.

PRI believes that the headline ambitions should reference relevant scientific consensus and international norms where relevant, and has in that regards one key reflection on the headline ambitions for ‘Biodiversity and ecosystem protections’ and ‘sustainable use and protection of water resources:

- Although the wording of the ambitions, and timelines associated, are aligned with the Kunming-Montreal Global Biodiversity Framework, they fail to mention the latter. Specific reference to the Global Biodiversity Framework (as is done with the Paris Agreement in the climate ambition) would provide clarity and indicate that alignment with the broader set of targets and objectives will be sought out in the taxonomy. As a key multilateral agreement, investors look to the Global Biodiversity Framework to ensure consistency across jurisdictions and certainty in the direction of travel for policy developments.

DRAFT SECTORAL CLIMATE CHANGE MITIGATION CRITERIA

Providing detailed feedback on the selection of sectors or the specific technical screening criteria outlined in sections 4 to 6 of the consultation document falls outside the remit of PRI’s work and expertise.

PRI does support the overall approach taken to maintain a clear distinction between ‘green’ and ‘transition’ activities, and the approach to identify transition activities based on ‘technology readiness levels’ – i.e. have a continued role or uses in a net zero post-2050 economy; do not have low carbon emissions alternatives; can be decarbonised across scope 1, 2 and 3 emissions even if decarbonisation is only economically feasible in the long term; and the risk of locking in future high carbon assets can be mitigated.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of ASFI further to implement a sustainable finance taxonomy in Australia

Please send any questions or comments to policy@unpri.org.

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