

PRI RESPONSE

AUSTRALIAN SUSTAINABLE FINANCE TAXONOMY V0.1

December 2024

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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 Australian 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 second of two rounds of public consultation. In this round, ASFI is seeking feedback on the draft climate change mitigation criteria that have been developed for six priority sectors, as well as generic do no significant harm and minimum social safeguard criteria.

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KEY RECOMMENDATIONS

Sustainable finance taxonomies are crucial to ensure well-functioning financial markets that collectively contribute to climate and broader environmental goals. They help investors assess whether investments meet robust sustainability standards and align with policy commitments such as the Paris Agreement on Climate Change, the Sustainable Development Goals (SDGs) and national sustainability and climate change goals. They are also cornerstone instrument of [sustainable finance policy frameworks](#) through their ability to provide a science- and evidence-based foundation for disclosure, stewardship and duty-based policies.

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](#).

- PRI supports further guidance on how the Australian sustainable finance taxonomy can be used under existing and emerging regulations. We notably highlight the opportunity to embed a sustainable taxonomy into disclosure provisions, provisions for transition plans, public finance instruments and stewardship instruments. We also recommend aligning other sustainability classification instruments, such as sectoral roadmaps and labelling schemes, with the Australian taxonomy.
- PRI welcomes the formulation of DNSH and MSS criteria for the Australian sustainable finance taxonomy, which should form an integral part of defining the taxonomy alignment of an economic activity. Efforts to ensure the clarity and usability of the DNSH criteria should not come at the expense of the science- and evidence-based approach – as enshrined in the Australian taxonomy’s objective of ‘credibility’.

DETAILED RESONSE

DEMONSTRATING TAXONOMY ALIGNMENT (SECTION 4)

QUESTION 1

As a voluntary tool, do you think further guidance is required to clarify how the taxonomy can be used under existing and emerging regulations? If so, what taxonomy uses do you consider to be a priority to enhance the taxonomy’s voluntary adoption?

PRI supports further guidance on how the taxonomy can be used under existing and emerging regulations.

In PRI’s submission to the first consultation on the Australian sustainable finance taxonomy in June, we lent our support for the ambition to embed the taxonomy in Australia’s regulatory architecture. We also welcome and support the more detailed background that is provided in the ‘Taxonomy in the Policy Context’ section (page 14-16) of the current public consultation paper

PRI notably wants to highlight the opportunity to embed a sustainable taxonomy into:

- **Disclosure provisions**, such as the AASB and AUASB disclosure and assurance standards and the related guidance being developed by ASIC. Companies will, most notably, already be required to disclose the amount and percentage of assets aligned with climate-related opportunities and the amount of capital deployed towards climate-related opportunities (AASB S2 para 29(d) and (e)). Mandating use of the taxonomy by companies for these purposes would improve consistency and lend credibility to these disclosures.
- Provisions for **transition plans**, notably to inform financial planning, such as the pending Treasury consultation on supporting best practice transition plan disclosures
- **Public finance instruments**, such as Future Made in Australia, Future Fund investments, and sovereign bond issuances
- **Stewardship instruments**, in tandem with continued consideration for a government-issued Code

PRI also notes that sustainable taxonomies can be considered as part of a broader suite of sustainable finance instruments which should ideally be designed to be coherent with such taxonomies, and include:

- **Sectoral emission, technology and investment pathways**, such as six sector specific plans that were issued under the umbrella of Australia's Net Zero Plan
- **Labelling schemes for financial products**, which can align with the taxonomy where the objective focuses on increasing capital flow toward sustainable activities
- **Sustainability-related financial disclosure**, especially in disclosure sections regarding financial planning and transition plans.

Further guidance could make clear if, how and when the Australian taxonomy would be integrated in the above policy instruments. We also encourage continued engagement with the Federal Government in this regard – our [Guide](#) identifies resourcing, sequencing and implementation, and additional tools and guidance as three key considerations for effective implementation of a taxonomy.

QUESTION 2

Should the taxonomy provide guidance to lenders and users on the approach and expectation for evidencing alignment with the DNSH and MSS criteria?

PRI welcomes the formulation of DNSH and MSS criteria for the Australian sustainable finance taxonomy, which aligns with the third of three components it has formulated in a [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 notes that, based on the above, DNSH and MSS criteria should form an integral part of defining the taxonomy alignment of an economic activity: this could be made specific in guidance.

We also note and support the objective to ensure the clarity and usability of the DNSH criteria, but emphasise that this should not come at the expense of the science- and evidence-based approach – as enshrined in the Australian taxonomy’s objective of ‘credibility’. PRI does not have the capacity to assess DNSH criteria for individual economic activities, but from an overall perspective supports the approach to prioritise a quantitative approach with clear thresholds/process-based criteria over a principles-based approach.

DO NO SIGNIFICANT HARM (SECTION 11)

QUESTION 34

Is there any other feedback you would like to provide on the proposed DNSH framework?

PRI refers to its response to question 2 on guidance for DNSH criteria.

In addition, we recommend that the Australian taxonomy refers to Australia’s Strategy for Nature 2024-2030, which serves as its National Biodiversity Strategy and Action Plan in response to the Global Biodiversity Framework and its related targets.

MINIMUM SOCIAL SAFEGUARDS (SECTION 12)

QUESTION 35

Are the proposed MSS criteria, indicators and guidance clear and usable? If your answer is no, please provide suggestions on how they could be improved.

PRI suggests referencing the [Final Report on Social Taxonomy](#), published by the EU Platform on Sustainable Finance, as a model for the indicators to include and how to approach the issue of MSS. This study can provide elements to finetune the criteria, indicators and guidance – including on the need to invest for a Just Transition, which is currently not directly mentioned in the consultation document.

In terms of specific **criteria**, PRI suggests including a reference to international standards in Human Rights criteria 2: “The entity has a human rights due diligence process *aligned with international standards* to...”

In terms of **indicators and guidance** in appendix 6, PRI has the following suggestions for the corporate governance indicator 3 (the entity’s internal controls, systems and training are sufficient to ensure

compliance with relevant laws and regulations, including those related to anti-bribery and corruption; fair competition and taxation; and consumer protection regulations)

- To include an explicit requirement for whistleblowing mechanisms to ensure anonymity.
- To link “a process for screening, selecting, monitoring, and engaging with suppliers on their environmental and social impacts” with a company’s Human Rights due diligence processes, requiring these to be in line with international standards.

QUESTION 36

Would additional guidance for SMEs on a proportionate approach to aligning with the MSS criteria and guidance be useful? If so, how should the existing guidance be modified?

Yes, PRI supports adopting a proportional approach and providing additional guidance for SMEs. The approach taken by Capital Markets Malaysia with its [Simplified ESG Disclosure Guide](#), could be a useful example on how to approach the issue of proportionality.

However, it is important to consider that respecting human rights is a responsibility for all businesses, as stipulated by the UNGPs. For this reason, a proportional approach should not reduce the level of protection for at-risk, marginalised and vulnerable stakeholders and rights holders.

QUESTION 37

Should the human rights criteria apply across the entity’s operations and whole value chain or just the entity’s operations and supply chain? Why/why not?

Human rights criteria should apply across the entity’s operations and whole value chain. Limiting the assessment to the supply chain would increase the risk that downstream human rights risks and impacts are not identified and addressed.

A [recent study](#) by the Danish Institute for Human Rights provides examples of how due diligence can be carried out along the value chain.

QUESTION 38

Should the taxonomy include negative indicators on human rights?

Yes, negative criteria aligned with international standards along the lines of those suggested would help ensure effective safeguards

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 and the Australian Government further to implement a sustainable finance taxonomy in Australia.

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

More information on www.unpri.org