NOTE: ASFI is only accepting responses to their survey on their website, below are the questions and AFMA's proposed responses

1. Headline ambitions

Headline ambitions are the broad, longer-term goals that underpin a taxonomy's environmental objectives and are designed to be considered holistically. Draft headline ambitions have been developed for each of the Australian taxonomy's six environmental objectives in close consultation with TTEG and TAG members, relevant government representatives, and other key stakeholders. The draft headline ambitions are set out in **Section 3** of the public consultation paper.

Do the headline ambitions reflect Australia's highest national goals for climate and environmental sustainability?

As a long-time and early advocate for the development of a globally aligned Australian Taxonomy, AFMA welcomes the first part draft taxonomy and supports the headline ambitions proposed. We agree that basing ambitions upon internationally recognised, globally aligned legislative commitments that are science-based is an appropriate approach. AFMA would encourage ASFI to ensure that any targets, metrics, and methodologies applied are science-based, have a legislative basis, and are accepted/ aligned to international standards. At a high and broad level, the draft Australian taxonomy appears well structured which can aid interoperability with the EU and Singapore-Asia taxonomy.

1.1 On a more technical level, while AFMA appreciates the need for headline ambitions to be highly 'aspirational' but raises our concerns as to when pursuing transition activities, how will industry be able to sufficiently claim an expectation to meet the sunset dates for transition to a 1.5-degree pathway. AFMA questions the result of dates not being met and would ask ASFI, if not already done so, to materially test these activities' ability to feasibly be able to meet these dates. Without such metric testing, AFMA is concerned that this could lead way to a need to revise sunset dates, which also gives rise to questions around the likely tenure of finance that would be offered for an activity claiming to be transitional. In this regard, AFMA notes in the explanatory material in developing the mining transitional criteria, a key reference cited actually refers to a 2 degrees pathway[1].

AFMA also notes that methodologies and metrics surrounding nature and biodiversity are in a state of infancy when compared with climate-based, and lack reliable metrics and international agreement. It is therefore important that the Taxonomy considers these current limitations to ensure feasibility and useability of the Taxonomy and its ability to achieve the

[1] *According to Wood Mackenzie's accelerated energy transition scenario (AET-2), which analyses the capital needed for a 2°C pathway, investors would have to inject a total of US$1.7 trillion into metals and mining from 2020-2035 to fulfil mineral demand"*

overall intended goals. We view these considerations as important to support a whole of market adoption of the taxonomy.

AFMA also wishes to re-emphasize ASFI's message that taxonomies are not a standalone solution for the transition. While taxonomies may be helpful in assessing whether an economic activity meets sustainability criteria, they often fall short in effectively scaling up transition finance to decarbonise the economy without supporting policy. To date, taxonomies have not successfully increased investment in green or transition activities without accompanying policy incentives. This is because taxonomies do not shift the underlying economic incentives needed for companies to transition. For the financial sector to invest in transition and finance transition activity, corporates first need the economic conditions in place for transition activity to be commercially viable. Without commercially viable corporate transition activity, there is no transition activity for the financial sector to invest in or finance.

Additionally, before linking taxonomies to disclosure, transition planning, or product labeling, as ASFI suggests, it is essential to clarify the objectives of the taxonomy and how these linkages will achieve those objectives. For example, the EU taxonomy disclosure has led to high compliance costs without driving significant green investment, highlighting that disclosure alone does not address the underlying economic conditions needed for the transition.

Therefore, whilst we are supportive of voluntary broad market adoption, we do not presently believe there is a sufficient case to mandate the local taxonomy, noting the Government's intention to explore this option in mid-2025, as stated in the recently published Sustainable Finance Roadmap. Localised taxonomies can serve certain purposes, however, in the current fragmented global environment, mandating the taxonomy could create additional operating complexity and burden for the many institutions that operate globally. We note this view has been compounded by recent developments in the region with competing jurisdictions, such as Singapore, who are now refraining from planning any mandatory framework for their taxonomy; and likewise, Hong Kong is continuing with the same approach in their recently issued framework. AFMA would not want the Australian market to be at a disadvantage in this regard and risk our potential role as the leading ESG market in the Asia-Pacific region. AFMA believes that the importance of interoperability between the Australian taxonomy and the other main taxonomies should be a key pillar and aim throughout its formation. This is particularly important for corporates with global businesses and for international financial institutions who will rely on the taxonomy alignment of their client / investee companies to increase their provision of debt and capital to green and transitioning industries.

2. Electricity Generation and Supply

Detail regarding the proposed electricity generation and supply criteria is set out in **Section 4** of the public consultation paper.

2.1 Do you agree with the proposal to provide the market with system-level advice for energy utilities or portfolios of assets that contain gas firming facilities? If so, please provide feedback on what issues should be covered in the advice. If not, please elaborate.

AFMA considers that gas plays a core role in the transition by providing firming capacity to support renewables; as well evidenced. This role is important from both an energy security perspective and helping to cap energy costs in the early years of renewables while they lack competitive pricing.

The Government's Future Gas Strategy and AEMO's ISP both make clear that gas is a necessary part of the transition. We are concerned that not categorising gas firming as transitional, could have serious negative consequences on the much-needed investment in supply supporting renewable capacity and that this categorisation appears contrary to government policy and the NEM outlook, particularly as it relates to the East Coast.

AEMO's 2024 Gas Statement of Opportunities states: "*During Australia's transition to a net zero emissions future, gas will continue to be used by Australian households, businesses and industry, and support the reliability and security of the electricity sector. The 2024 GSOO continues to forecast risks of shortfalls on extreme peak demand days from 2025 and the potential for small seasonal supply gaps from 2026, predominantly in southern Australia, ahead of annual supply gaps that will require new sources of supply from 2028. Gas consumption by residential, commercial and industrial consumers is forecast to decline, but production in the south is forecast to decline faster*."

We therefore do not believe that providing the market with system-level advice for assets containing gas-firming facilities is sufficient. We believe that gas firming should be separately considered and introduced with some restrictions, as we understand was the case in the EU Taxonomy. We are concerned that without appropriate classification of gas firming, we risk losing the stabilisation of the energy grid that gas firming will provide.

In this context, it is also important to note that a large amount of gas generators providing firming capacity already have capacity to provide hydrogen and other renewable gases. These assets therefore are future proofed renewables-ready assets. They provide an in-built option for reducing emissions that should be a viable in-transition investment option; lifelong gas emissions are not an intrinsic feature of a gas plant.

Overarchingly, it is AFMA's view that this has been put forward as an activity-based classification, focusing on specific asset criteria, where the consultation question is framed and focused on gas firming at a 'system level'- which raises the question as to how this could become compatible as part of the taxonomy. From a sustainable finance product perspective a 'system level' approach would likely relate only to a regulated electricity generation firm that is seeking corporate financing. In this case, the most relevant financial instrument is likely to be a Sustainability Linked Bond and therefore raises into question how this fits into the planned green or transition activity based definitions being proposed.

AFMA does however acknowledge the difficulties in accommodating gas as a transition enabler given the systemic rather than activity level benefits. To balance the challenge of addressing the role of gas, AFMA understands it was introduced with some restrictions in the EU taxonomy.

Some members note a potential solution could be to include abated gas in the transition category which might employ a decreasing threshold overtime, an approach adopted in other taxonomies to account for future hydrogen adoption, or to meet a specific percentage of Scope 1 emissions being reduced, offset or captured. Alternatively, as suggested by some, if not feasible, a system enabling category could be added that could include Carbon Capture, Utilisation and Storage (CCUS) technologies. Whilst it could not be considered green, a measured and declining approach with any necessary restriction, could be considered.

It is AFMA's understanding that upstream gas will be dealt with under the manufacturing and industry pathway. AFMA considers that the role of upstream gas production should be considered alongside its use as a fuel for electricity generations as without upstream investment it is likely that there will be inadequate gas to allow gas generation to provide

firming capacity. AFMA would also highlight that the Government's Future Gas Strategy determined that Carbon Capture and Storage (CCS) technology will have a role to play in the transition as it relates to both energy security and carbon management. AFMA believes that this activity and its role should therefore be explored in this taxonomy to provide greater clarification on eligibility of CCS technologies. We believe this is an important consideration given that other jurisdictional taxonomies, such as Singapore's, are referencing it as being eligible with conditions.

AFMA would encourage ASFI to work with the energy sector more closely on this activity, and AFMA would be glad to assist ASFI in this.

On a scale of 1-3, how much of a challenge is it to acquire lifecycle assessment data for upstream scope 3 emissions? (1 = not likely to ever be available, 2= challenging but can be resolved in time with better disclosures and evolving practices, 3= not challenging, data is readily available).

2.2

While much of the data required to make science-based informed investment decisions and support the forthcoming disclosure requirements remains a key challenge and obstacle, AFMA understands that the ability to access reliable data for upstream scope 3 emissions is particularly difficult at this stage. We would measure this as Level 2, in that we believe one day it is likely to be materially possible, but we view this as reasonably feasible in a few years out.

Greater investment in data systems and machine-readable standardised accurate data is crucial; as is support in helping SMEs provide the necessary data. We believe this is likely to be achieved in the medium rather than the short term.

AFMA understands that the Treasurer has asked the Council of Financial Regulators (CFR) to conduct a detailed assessment of options to address key sustainability-related data challenges faced by financial system participants, with the aim to provide recommendations to the government by the end of the year. AFMA would encourage ASFI to work with the CFR and Treasury on this important project. Any current limitations should be thoroughly considered as part of the methodology and TSC.

Are the proposed ISO standards suitable for assessing lifecycle emissions requirements in Australia? If not, which standard(s) is more suitable?

2.3

AFMA agrees that the use of internally aligned and recognised ISO standards is appropriate for assessing life cycle emissions requirements in Australia. AFMA understands that these standards are the generally applied global standards and so have been adopted in other taxonomies.

Are the proposed technical screening criteria (TSC) usable and clear? In this context, usability of criteria refers to whether they are comparable, clear, objective and easy to understand.

2.4

Yes, AFMA agrees that they are useable and clear.

Are the proposed TSC credible? In this context, credibility of criteria refers to whether a transparent, scientific approach aligned to the Paris agreement temperature goal has been used, informed by the latest technological understanding.

Broadly, AFMA believes that Technical Screening Criteria (TSC) 3 and 4 follow what is in the EU Taxonomy and we understand a threshold of 100g CO2e /kWh is what is expected of advanced countries to align with the Paris agreement. However, it is not clear how this would apply in the AU context, and especially given our trajectory and before 2030. For example, in criteria 3, AFMA questions how an operator, or a bank, would determine / demonstrate if clients' activities fulfill the requirement of having >67% of newly connected generation capacity being <100g CO2e/kWh, especially noting that this threshold is being assessed at a system/grid level i.e. for NEM, or WEM as a whole, and not just for the connection that they are responsible for.

Additionally, TSC 4 requires that the average system grid emissions factor is <100g CO2e/kWh although Australia's electricity network is currently far from this at >550g CO2e/MWh, and not expected to be <100 g CO2e/MWh until post 2035 at the earliest (dcceew.gov.au). Given that the majority of T&D infrastructure supply for the NEM and states (eastern/southern) is interconnected, it would appear that none of the T&D infrastructure operators could satisfy this criterion given the current emissions factor of our grid (still largely reliant on coal) and the assessment being done at the network level. Therefore, it would seem that only TSC 1 and 2 would be 'accessible' to operators in AU who would have to demonstrate connectivity of energy sources from solar, wind, tidal which are generally < 100g CO2e and infrastructure that supports grid connection from other sources, would need to be considered on a case by case basis.

2.5 As it relates to the 'transmission and distribution of renewable and low-carbon gases' TSC, AFMA notes that retrofitted pipelines part of residential networks are ineligible. While AFMA agrees that renewable and low-carbon gases will likely be of most use in the hard-to-abate sectors and that residential electrification seems the most cost-effective current solution, but AFMA questions the need for exclusion.

More broadly, unless there is a scientific basis for exclusion, AFMA would caution ASFI against any unnecessary exclusion or over-restriction. AFMA believes that the taxonomy should only exclude activities that do not support climate change mitigation or are actively contrary to this objective. Our technological understanding is ever evolving as is in our view of how we will achieve net zero in this sector.

Specifically on the energy generation from modern bioenergy TSC, AFMA understands that other taxonomies such as the Climate Bonds Initiative (CBI) and Singapore, usually also refer to a net plant efficiency threshold (>=25%), as well as bottom ash recovery (>=75% in the Singapore Taxonomy) and recovery of metal from ash (>=70% in CBI). AFMA believes this could be relevant to add on top of the energy intensity thresholds.

For pumped hydropower storage we also understand that it could be relevant to add a footnote specifying that the underlying hydropower project should meet the green technical criteria for hydropower.

On transmission and distribution of renewable and low-carbon gases 'how to define low carbon gases', AFMA queries if low carbon hydrogen includes blue hydrogen, and seeks clarification. Existing thresholds on low-carbon hydrogen/ammonia, similar to the CBI for instance ((in tCO2e/tH2)), could be beneficial in setting clear boundaries.

2.6 Are there any activities for which the TSC are unclear?

AFMA understands that thresholds for electricity generation beyond 2030 will follow in the next public consultation scheduled for end 2024, AFMA would encourage ASFI to work with the Department of Climate Change, Energy, the Environment and Water (DCCEEW) to ensure coordination on their forthcoming NEM 2030 review. We believe that this section may require a second consultation following the results of this review.

In this context, it is also our understanding that energy, beyond electricity, is likewise being considered in the second consultation. While AFMA sees some merit in this, we would caution that DCCEEW's sectoral plan covers energy and electricity jointly. We believe taxonomy's sectoral plans should be aligned to the Government's sector plans which we understand tie together government policy on the transition.

Are there any activities for which further detail is required?

2.7 As it relates to the 'transmission and distribution of renewable and low-carbon gases' TSC, AFMA notes that some renewable gases, such as hydrogen, may utilise existing natural gas pipelines, as proposed in the Government's National Hydrogen Strategy. AFMA would encourage ASFI to provide greater detail on the screening and eligibility as it relates to the line: "New or retrofitted gas transmission pipelines that are transporting 100% hydrogen and/or its derivatives and/or other low-carbon gases."

2.8 Are there any additional activities that should be included, which comply with the taxonomy transition methodology? *Note: hydrogen production will be included under the Manufacturing and Industry sector of the taxonomy.*

3. Minerals, Mining and Metals

Detail regarding the proposed minerals, mining and metals criteria is set out in **Section 5** of the public consultation paper.

Is the methodology for the development of intensity thresholds [for copper, lithium and nickel] clear?

3.1 AFMA would encourage ASFI to expand the taxonomy from solely covering mining/ on-site refining to including downstream refining and processing too; as important sectoral activities requiring classification.

3.2 Are emissions intensity thresholds [for copper, lithium and nickel] usable at the mine site level?

3.3 Does the trajectory for future thresholds adequately balance ambition, credibility and usability?

AFMA is unclear as to whether there is a sunset date for transition thresholds and requests clarity. AFMA also notes that the transition thresholds mention '50% fuel costs. We believe this could be defined or elaborated, to add clarity on its scope.

Should biofuels and e-fuels be included in the list of eligible measures?

3.4 Given the role biofuels and e-fuels may be planned in the transition, AFMA would encourage their inclusion in the list of eligible measurers.

3.5 Which biofuels and e-fuels are most important to include specifically for the mining sector, and why?

Should any requirements be attached to the inclusion of biofuels or e-fuels (e.g. standards, certifications)? In answering this question, please consider how your answers are aligned to the taxonomy's core principles of credibility and usability.

AFMA would encourage the inclusion of biofuels and e-fuels to be aligned with the forthcoming Guarantee of Origin scheme. Many states are developing renewable gas and biofuel schemes such as New South Wales and currently being considered in Victoria. These schemes should be taken into account.

3.6 AFMA notes that the explanatory material appears to propose excluding existing biodiesel on 'ethical grounds', referring to evidence from a report dated 2011. AFMA believes that any case made for exclusion of any activity or asset needs to be appropriately evidenced. Therefore, we suggest seeking an updated report with thorough thought as to the current percentage of biodiesel production that presently raises any such ethical concerns. AFMA is concerned that there may be cases of exemption by standard/ certification but where the assessment infrastructure is yet to be established for a related activity, but likely involves a significant overhead to establish such a rigor. For example, Conola oil production in Australia meets baseline assessments required for EU use in biodiesel, baseline criteria which were established by the EU in 2018.

AFMA also suggests that the Do No Significant Harm criteria section is the appropriate integrity measure to address such concerns within the taxonomy.

To ensure alignment with government policy, AFMA would encourage the inclusion of biofuels and e-fuels to be aligned with the forthcoming Guarantee of Origin scheme. Many states are developing renewable gas and biofuel schemes such as New South Wales and are currently being considered in Victoria.

Does the rationale for including Scope 3 emissions requirements for minerals align with the taxonomy's core principle of credibility? Please explain.

3.7 Whilst AFMA does not have subject matter specialists within its membership, from a financier perspective with experience in dealing with this sector, AFMA understands that some believe the Scope 3 requirements, on face value, appear quite materially challenging to meet.

3.8	Are the proposed criteria around Scope 3 emissions usable and clear? If you answer no, please provide suggestions on how it could be improved.
3.9	Do you agree with the 40% materiality threshold for Scope 3 emissions? If not, how would you change it and based on what?
3.10	Which other factors could be considered for determining whether a Scope 3 requirement should or should not be applied to criteria for minerals covered in the taxonomy?
	Noting that the proposed criteria in this public consultation paper apply only to existing mines, what are the key considerations that should be taken into account when developing criteria for new mines, within the defined emissions boundary?
3.11	AFMA notes that the definition of low carbon steel producers is currently not provided and requests clarification. AFMA does however question if the taxonomy should also mention mine closures, specifically projects related to rehabilitation and restoration), as well as water control techniques as part of the green category and tailing management as part of the transition category. AFMA also seeks further information as to what the criteria for new mines would be.

Proposed iron ore criteria:

	Are the proposed measures and materiality thresholds for iron ore mining [green] criteria clear and usable, including from a data availability perspective? If not, how could they be improved?
3.13	As noted in the consultation paper, '*For Australian iron ore mine sites, 25 per cent offtake to low carbon iron producers represents a highly ambitious target.'* This suggests that producers would need to develop market power to influence this, noting the expected significant premium in cost in supply. Therefore, whilst the rationale in this criterion is understood, we caution that there is a need to ensure feasibility and applicability when developing criteria.
3.14	Is using 2020 as a baseline for iron ore emissions reductions suitable?
3.15	Is the requirement to measure/audit and report on offtake agreements feasible? Please comment on any constraints users may face in complying with this requirement.
3.16	Are iron ore producers able to evaluate the emissions intensity of the steel producers they sell to?
3.17	What reporting requirements would be needed to support producers meeting this target?

3.18	Is there adequate data availability to assess entity-level requirements for producers outside Australia? Please substantiate your response.
3.19	Are there any material decarbonisation levers missing from the measures listed?
3.20	Is the 50% materiality threshold needed to demonstrate that measures programmes are sufficient / significant?
3.21	What additional detail is needed to ensure the transition criteria can be used?
The following set of questions is asked about the proposed copper, lithium and nickel criteria:	
3.22	Does the proposed threshold adequately align with the core taxonomy principles of credibility and usability? If not, why?
3.23	What additional detail is required to aid usability?
3.24	Is the trajectory proposed feasible?
3.25	Are there any material decarbonisation levers missing from the measures?
3.26	Is the 50% materiality threshold needed to demonstrate that measures are sufficient/significant?
3.27	What additional detail is needed to ensure thresholds can be used?

4. Construction and the Built Environment

Detail regarding the proposed Construction and Built Environment criteria is set out in **Section 6** of the public consultation paper.

4.1	Do you support a 'sunrise' trigger for refrigerants and embodied carbon?
4.2	Is the nominated two-year sunrise date (1 Jan 2027) appropriate? If not, what should it be and why?
	Do you support a sunset date for transition criteria? If not, what should it be and why?
4.3	From a practical perspective, the sunset date appears to have some dependency on existing energy sector target dates, and the possibility of these not being met should be a consideration. AFMA believes this possibility needs to be thoroughly considered, addressed and any such implications explored.

4.4	Do you agree with the framework for assessing the suitability of proxies for the screening criteria?
4.5	Are there additional proxies that should be considered for the Australian building sector?
4.6	Do you support the proposed alignment with the NCC requirements and revisioning process for energy efficiency for new buildings, or should those requirements be subject to an uplift, like the 10% required by the Green Star Buildings criteria? If you support an uplift, what should it be and for what reasons? As it relates to the New Construction TSC that states 'Constructed to: the relevant energy efficiency requirements of the National Construction Code', we suggest a footnote or explanation on what can be found in this code would be useful for the reader's easy reference.
4.7	If you currently support an uplift, should this continue indefinitely or should it be revisited in the future as the NCC continues to be revised?
4.8	Is the time allowed for industry adaptation appropriately calibrated for commercial and residential applications? It is AFMA's understanding that the requirements for accessing transition finance to support conversion of existing buildings appears highly data intensive, with a dependency on the progress of electricity sector decarbonisation targets that again, may not materialise when expected. This could therefore pose a number of uncertainties for financiers in understanding due diligence, developing covenants and tenor of transition finance that could be offered that may therefore limit its potential for application.
4.9	Should the sunrise date apply to all buildings or be restricted to only some sectors such as houses?
4.10	Should rooftop solar be a prerequisite for green screening criteria?
4.11	Should rooftop solar screening criteria be applied to all building use types or is it only appropriate for a limited selection of building use types, such as single-family dwellings? If you support limiting to select building use types, which types of buildings and why?
4.12	Are there other measures instead of or in addition to on-site solar that should be recognised?
4.13	Are there better ways to screen for the contribution of rooftop solar for any building than currently proposed?

AFMA notes that this question is the final consultation question on the Construction and Built Environment sector. AFMA however, has some additional points which we think are important and in scope for this phase of the consultation, which we would appreciate being considered.

As it relates the TSC for the transition category for Acquisition and Ownership which states 'An emissions intensity at or below the published target'; AFMA questions how this can be benchmarked

to justify the ambitiousness of the criteria. Likewise, AFMA questions if the criteria of reducing 30% of the emissions as it relates to Renovation should be categorised as green instead of transition.

More broadly, as it relates to construction, we believe a specific category for data centres should be considered for inclusion. Alternatively, data centres could be covered as part of a newly added ICT category. Given the relevance and the increasing demand for inclusion of ICT, including from Australian corporates, we would recommend considering including the information and communications technology sector into the next consultation. In particular, we suggest that anything around 5G / fibre optic development and data centres would be relevant; noting that both the Singaporean and EU taxonomies have both included data centres.

Looking ahead, AFMA considers that, from a real estate/ construction perspective, any related EV infrastructure as part of new developments could be added. As ASFI will be aware, current policy suggests a likely trajectory of transitioning away from diesel vehicles toward EV and/or biofuel, it would therefore be opportune to consider developing a frame of reference for that within this taxonomy; particularly as it relates to these technologies for buildings and the wider network.