HESTA consultation submission

Australian Sustainable Finance Taxonomy –
Second consultation

November 2024

Super with impact

Issued by H.E.S.T. Australia Ltd ABN 66 006 818 695 AFSL 235249, the Trustee of HESTA ABN 64 971 749 321.

About HESTA

HESTA is a profit-to-member industry super fund investing more than $88 billion[1] on behalf of over one million members, who work predominantly in the health and community services sector. Our purpose is to invest in and for people who make the world better. We bring that purpose to life through Super with impact™. This, is the positive outcome we create by supporting our members to face the future with confidence, being a gutsy advocate for a fair and healthy community and delivering investment excellence with impact.

We recognise the importance of pursuing a growing, sustainable, and inclusive economy and the role that the taxonomy can play to shape, guide and influence investors, businesses and the broader community to make decisions that accelerate Australia's transition to a net zero economy. This underpins our response to this consultation.

Introduction

HESTA welcomes the opportunity to make a submission to the second consultation on the Australian Sustainable Finance Taxonomy ("taxonomy").

As long-term investors, we believe that our members' best financial interests are served by a deep commitment to responsible investment. We seek to use our expertise and influence to deliver strong long-term returns while accelerating our contribution to a more sustainable world.

[1] As of 20 November 2024.

HESTA:

1. Supports the adoption of the taxonomy to drive capital into activities that will decarbonise the Australian economy.
2. Supports future extension of the taxonomy to biodiversity and ecosystem protection and reflection within the taxonomy criteria of the interdependency of this objective with climate change mitigation.

Support for the taxonomy

We believe that a taxonomy that is credible, usable, internationally interoperable and tailored to Australian priorities, can significantly accelerate Australia's transition to a net-zero economy by helping to drive capital into activities that will decarbonise the economy at the speed and scale required to reach climate commitments under the Paris Agreement. We support the identified environmental and social objectives, the taxonomy's priority sectors and the use of *Do No Significant Harm* and *Minimum Social Safeguard* frameworks such that activities that support achievement of an objective do not have unacceptable negative consequences in other areas.

While supporting prioritisation of the climate change mitigation objective, we also note the interdependency between the climate change mitigation objective and biodiversity and ecosystem protection objective. We support future extension of the taxonomy beyond climate change mitigation in particular to biodiversity and ecosystem protection and encourage that such a process consider the potential for identified priority sectors to positively contribute to climate mitigation and biodiversity and ecosystem protection.

Usability of the taxonomy

Usability of the taxonomy by a range of market participants including but not limited to companies, banks and investors will be a key determinant of the level of adoption achieved and the taxonomy's resultant success in driving capital into activities that will support Australia's net zero transition.

Strong disclosure is vital for effective investment decision making. We believe that the taxonomy provides an opportunity to enhance transparency and to strengthen the quality of information available to the market through credible, comparable and usable definitions that promote trust and confidence. In particular, we believe the taxonomy has the potential to enhance the rigour of use of proceeds for debt-based finance that will be critical to Australia's net zero transition.

As an investor, the enhanced rigour and transparency brought about by the taxonomy should support investment decision making consistent with the best financial interest of beneficiaries. Specifically, we see the potential for investor use of the taxonomy to include:

- Identify investments that contribute to Australia's net zero transition for capital allocation;
- Assess activity level debt based financial instruments as a criteria for portfolio eligibility or to inform portfolio positions;
- Support assessment of entity level transition plans for consistency with green or transition criteria;
- Support relative assessment of companies e.g. in terms of capex, opex and revenues, to inform capital allocation;
- Support relative assessment of investment manager portfolio alignment to inform manager selection;
- Support development of portfolio level targets for green and/or transition investments; and
- Measure and report portfolio level alignment with green or transition criteria.

We also believe there is potential for taxonomy criteria to be used by others that service investors, for example index providers could use the taxonomy to develop green or transitioning indices.

Strong take up of the sustainable finance taxonomy has the potential to bring alignment to the actions of companies, banks, investors, government and regulators, and to incentivise both domestic and international capital allocation that support growth in green activities and decarbonisation opportunities that accelerates Australia's net zero transition.

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