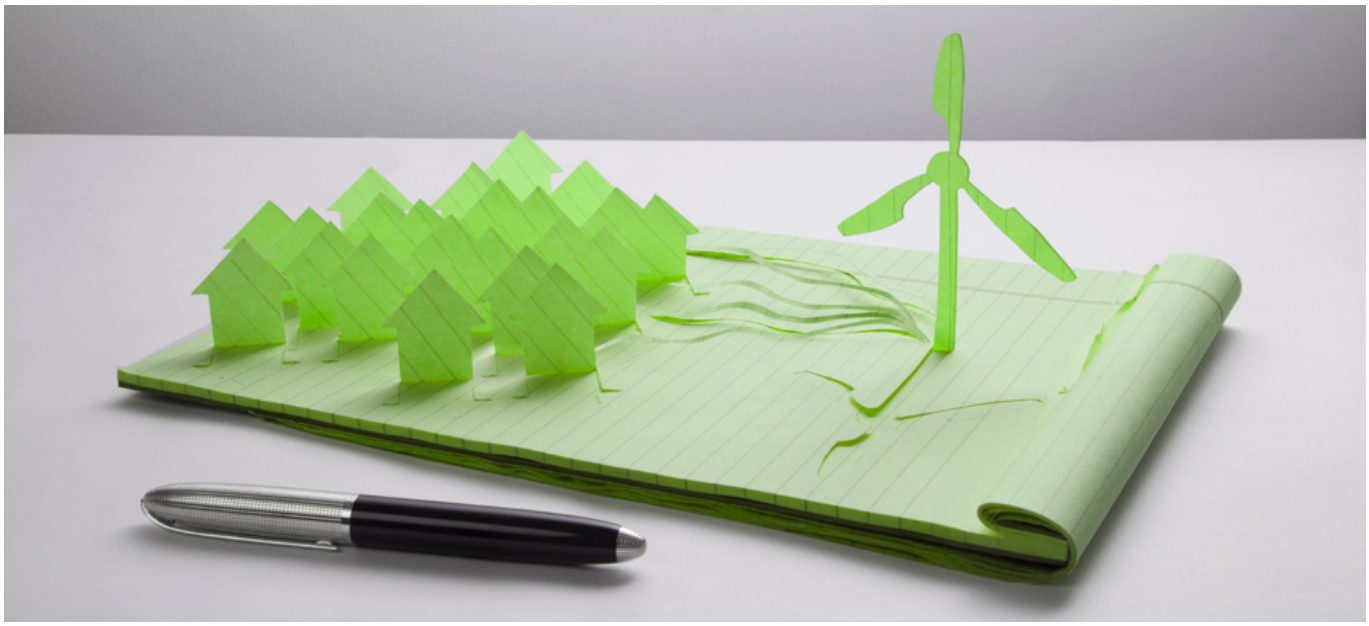

Accelerating green capital

What Australia's first sustainable finance taxonomy means for business

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On 17 June 2025, the Australian Sustainable Finance Institute (ASFI), in partnership with the Commonwealth Treasury, released Version 1 of the *Australian Sustainable Finance Taxonomy* (Taxonomy). The Taxonomy sets out technical criteria across six priority sectors for climate mitigation action, as well as criteria for doing no significant harm (DNSH) in respect of other key environmental objectives and meeting minimum social safeguards (MSS) for corporate governance, human rights and First Nations people's rights.

The release of the Taxonomy is a significant development in Australia's *Sustainable Finance Roadmap*, released in June 2024 [by Treasury]. It provides a 'common language' for identifying economic activities and investments that align with, or contribute to, climate and sustainability outcomes. The Taxonomy is designed to support Australia's legislated target of net-zero emissions by 2050 and to facilitate the flow of capital towards activities that are aligned with the energy transition.

This paper sets out the key features of the Taxonomy and its practical implications for businesses' operations and reporting, followed by an update on the development of sustainable finance taxonomies globally.

Key takeaways

Classification system

The Taxonomy is a classification system that identifies economic activities (assets, projects, facilities and technologies or other measures) considered to make a positive contribution to key environmental sustainability objectives. It sets out the technical screening criteria (TSC) for each activity to be considered Taxonomy aligned, as well as requiring that the activity does not cause significant harm to other environmental objectives and that the entity meets robust minimum social safeguards at the corporate level.

Initial activities and sectors

Version 1 of the Taxonomy focuses on climate change mitigation, setting out how business can take climate mitigation action across 71 activities in six priority sectors:

- Electricity generation and supply
- Minerals, mining and metals
- Construction and buildings
- Manufacturing and industry
- Transport
- Agriculture and land.

Voluntary but influential

The Taxonomy is now available for voluntary use, providing guidance for how businesses can take climate mitigation actions to align with it. In reporting alignment with the Taxonomy, ASFI's priority is for entities to report transparently and disclose which criteria (for example, TSC, DNSH and/or MSS) of the Taxonomy alignment is sought. While not mandatory, the Taxonomy is expected to develop into a market standard for sustainable finance in Australia, informing investment decisions, disclosures and product labelling.

Interoperable

The Taxonomy is closely modelled on the European Union (EU) and Singapore taxonomies, ensuring international interoperability and supporting cross-border investment. It is tailored to the Australian context, particularly in its treatment of mining, agriculture and remote energy systems.

Additional guidance

Treasury is consulting on additional guidance for the implementation of the Taxonomy and a labelling system for sustainable investment products, anticipated to be released in early 2026. In addition, ASFI is partnering with 90 financial institutions as part of a voluntary pilot program to test alignment with the Taxonomy and identify areas for improvement in preparation of a Version 2. The Taxonomy is intended to be a live document which will be updated as necessary and expand to other environmental objectives, including adaptation and resilience.

What is the Taxonomy?

The Taxonomy provides a benchmark for green and transition finance in Australia, helping to facilitate allocation of capital towards activities that enable Australia's net-zero ambitions.

It has been developed by ASFI and the Treasury following extensive public consultation and engagement with experts and advisory groups comprising government and non-government representatives.

The Taxonomy is designed to be used by a wide range of market participants, including corporates, financial institutions, investors and public sector entities, to guide investment, lending, disclosures and transition planning. In particular, the Taxonomy is aims to:

- make it easier for financial institutions to identify investment and lending opportunities (such as a green loan to a company to build or acquire a solar farm)
- provide corporate entities with greater confidence in and assurance over sustainability claims, including in corporate reporting, transition planning and target setting
- support the provision of consistent and comparable information to users
- enhance comparability between investment products and portfolios
- reduce transaction costs associated with due diligence by providing market clarity on whether a transaction is contributing to Australia's climate change mitigation goals, increasing the attractiveness of transactions for sustainable activities.

By providing a credible, consistent and interoperable framework for the Australian market, supporting capital allocators, lenders and investors in identifying and substantiating the climate credentials of investments and business activities, the Taxonomy is also anticipated to reduce greenwashing, strengthen investor confidence and support the development of a robust sustainable finance market in Australia.

Key elements of the Taxonomy

Technical screening criteria (TSC)

The 71 activities covered by the Taxonomy each have specific, measurable performance thresholds that must be met for the activity to be considered taxonomy aligned. These include adopting a clearly defined emissions baseline, meeting prescribed emissions intensity limits, demonstrating a reduction in emissions or developing and maintaining management plans in accordance with specified criteria.

The TSC are based on credible, science-based decarbonisation scenarios for a 1.5C-aligned pathway, including those developed by the International Energy Agency (IEA), CSIRO and [non-profit research institute within Monash University] the Climateworks Centre. The criteria are then tailored to the Australian context using local data and modelling to provide requirements that are relevant and achievable.

Green and transition classifications

For hard-to-abate sectors (for example, mining and agriculture), the Taxonomy provides both 'green' and 'transition' pathways, recognising the need for progressive decarbonisation in some sectors.

Green activities

Activities are classified as 'green' if they are already aligned with a net-zero pathway.

For example, manufacturing of zero-emissions transport and electric vehicles, manufacturing of renewable energy technologies, renewable energy generation, green hydrogen production, green animal production, establishment of a permanent forest and restoration and rehabilitation of ecosystems.

Transition activities

Activities are classified as 'transition' if they are using decarbonisation measures (standalone technologies, inputs, processes and practices) to improve the emissions performance of an activity and bring it into closer alignment with the green classification:

For example, energy storage technology, low-carbon fuel technology, use of sustainable aviation fuel in aircrafts, research and development into low-carbon

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Businesses can use the Taxonomy to inform their decarbonisation strategies, set science-based targets and benchmark their progress.

processes, application of biochar to agricultural soils, land management practices to increase carbon sequestration and agroforestry [land management that assimilates trees with crops and pastures].

The transition classification is particularly relevant, and provides flexibility and guidance, for both hard-to-abate activities with no immediate low- or zero-emissions equivalent and existing assets that are important in a transition aligned with the Paris Agreement [a legally binding international treaty on climate change signed by 195 countries in 2015] and still have a long lifecycle left.

For example, if a mine site or specific facility activity cannot meet the relevant green criteria, the entity cannot call that activity 'green'. However, it will be able to undertake decarbonisation measures and, by doing so, make some progress and be represented in the Taxonomy as moving towards alignment with the green criteria.

Environmental objectives

The Taxonomy identifies six overarching environmental objectives:

- Climate change mitigation
- Climate change adaptation and resilience
- Biodiversity and ecosystem protection
- Sustainable use and protection of water resources
- Pollution prevention and control
- Transition to a circular economy.

These environmental objectives are closely aligned with the EU and Singapore taxonomies.

The TSC in Version 1 of the Taxonomy is focused on climate change mitigation, with the initial six sectors and 71 activities selected based on their contribution to climate change mitigation. The other five environmental objectives are reflected in the DNSH criteria and will be incorporated into the TSC in future iterations of the Taxonomy.

DNSH criteria

To be Taxonomy aligned, activities that are aligned with climate mitigation must not cause significant harm to the Taxonomy's five other environmental objectives noted previously.

The DNSH criteria are based on Australia's environmental laws and regulations and consists of both generic and activity-specific criteria. Meeting the DNSH criteria does not mean that the activity makes a positive contribution to the objectives covered by the DNSH criteria.

For example, the DNSH criteria for climate change adaptation and resilience requires that material climate-related physical risks to the activity, if any, are identified and adaptation solutions, including an appropriate adaptation plan, are implemented to substantially mitigate the potential impacts of those risks.

MSS

To be Taxonomy aligned, the entities themselves must also meet minimum standards for corporate governance and a defined set of social norms in relation to human rights and First Nations peoples.

Compliance with MSS is determined at the entity level through an assessment of performance criteria against the three social pillars and the core topics underlying them, as shown in Table 1. This is informed by international and domestic legislation and guidelines.

Criteria for meeting the MSS includes that the entity:

- demonstrates a commitment to implementing high-quality corporate governance, including for environmental and social matters
- has a public policy commitment in place that outlines the entity's commitment to respect human rights in line with the expectations
- recognises the rights of First Nations in line with the *United Nations Declaration on the Rights of Indigenous Peoples* (UNDRIP), and implements policies and processes to respect and support those rights.

Interoperability and transparency

The Taxonomy is designed to be compatible with international taxonomies, supporting Australian businesses in accessing global capital and meeting the expectations of international investors. In particular, and as mentioned previously, the Taxonomy is closely aligned with the EU and Singapore taxonomies.

Users are expected to be transparent about which criteria they are aligning with (for example, TSC, DNSH, MSS) and to disclose the basis for any claims of alignment. Partial alignment is permitted, provided it is clearly disclosed.

Table 1. MSS compliance criteria

Social pillars	Core topics	Legislation/standards
Corporate governance	Good corporate governance, taxation, anti-corruption and bribery, fair competition, consumer protection, community engagement	*OECD Guidelines for Multinational Enterprises on Responsible Business Conduct*, domestic legislation and guidelines
Human rights	Employment, labour and working conditions, occupational health and safety; modern slavery, procurement practices; gender equality, non-discrimination and equal opportunity	*United Nations Guiding Principles on Business and Human Rights* (UNGPs), *OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, Modern Slavery Act 2018*
First Nations people's rights and cultural heritage	First Nations rights, First Nations cultural heritage	UNDRIP, *International Finance Corporation* (IFC) *Performance Standards*

Source: Australian Sustainable Finance Taxonomy

Next steps and further guidance

ASFI is collaborating with the Australian Office of Financial Management and the Treasury to develop taxonomy-aligned labelled bond guidance. This is anticipated to be released in early 2026 and designed to facilitate uptake of the Taxonomy over time.

In addition, ASFI will be partnering with 90 financial institutions that have opted in to align with the Taxonomy to test its usability across a range of cases. This is intended to identify the highest-value-use cases of Taxonomy alignment in Australia and inform any amendments to the TSC to enhance its usefulness.

In this respect, ASFI has confirmed that the Taxonomy is a live document and will be periodically revised to incorporate updated pathways, technologies, technical considerations and additional activities, sectors and environmental objectives.

What does the Taxonomy mean for Australian businesses and how can it be used?

Taxonomy alignment

Entities can now use the Taxonomy to demonstrate alignment of their business activities and investments with climate change mitigation in a credible way that is useful to capital markets.

The key metrics entities can use to demonstrate alignment include the percentage of the entity's total net revenue derived from products or services that are taxonomy aligned, or the percentage of the entity's total capital expenditure (or total operational expenditure) allocated towards taxonomy-aligned activities.

Corporate reporting

While use of the Taxonomy is voluntary, it is expected to become a valuable reference for corporate reporting, particularly climate-related financial disclosures as Australia's mandatory climate disclosure regime comes into effect. Reporting entities can leverage the Taxonomy to demonstrate progress towards climate-related opportunities each year, especially when disclosing under the metrics and targets criteria of Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures*.

Transition planning and target setting

Businesses can use the Taxonomy to inform their decarbonisation strategies, set science-based targets and benchmark their progress. For example, setting forward-looking targets to increase taxonomy-aligned capital expenditure to decarbonise mine site operations.

The disclosure of forward-looking targets that are taxonomy aligned, particularly related to capital expenditure, can be valuable for an entity and has been recognised in best-practice guidance materials by the [UK-based climate action organisation] Science Based Targets Initiative and the [UK-Government-created] Transition Plan Taskforce.

Access to finance

The Taxonomy provides a clear, credible framework for businesses seeking to attract sustainable finance, including green and transition-labelled debt. By providing a clear and credible framework, it enables businesses to substantiate the climate credentials of their activities to investors, lenders and other stakeholders.

We expect the Taxonomy to increasingly become a benchmark for accessing sustainable finance, both domestically and internationally, as more investors and lenders seek to substantiate the climate credentials of their portfolios.

Risk management and competitiveness

Aligning with the Taxonomy also enhances risk management and competitiveness. It enables businesses to better manage climate-related risks, respond to investor and regulatory expectations, and reduce the risk of greenwashing. As global capital markets increasingly require credible, taxonomy-aligned disclosures, Australian businesses that align with the Taxonomy will be better positioned to access international investments and remain competitive.

Engaging with the Taxonomy and global developments

The development of sustainable finance taxonomies is a global trend, with over 47 national, regional and international frameworks published or in advanced development as of early 2024.

These taxonomies are central to the global transition towards a low-carbon economy, providing clarity and integrity to sustainable finance markets, reducing greenwashing risks, and directing capital towards activities that support climate and broader sustainability objectives.

The EU's framework remains the most comprehensive and the only one with mandatory reporting for both financial institutions and corporates. China, Singapore, Indonesia, Malaysia, Thailand, the Philippines and several other countries have published national taxonomies, mostly on a voluntary basis, while regional initiatives such as the ASEAN and Latin American frameworks aim to harmonise approaches. Many other countries, including the UK, US, New Zealand and several in Africa and the Middle East, are consulting on or developing their own taxonomies.

The most advanced frameworks—those in the EU, Singapore, China and now Australia—use detailed technical criteria and science-based pathways aligned with the Paris Agreement. Others adopt a more principles-based approach to allow flexibility for emerging markets or a 'traffic light' system to categorise activities as sustainable, transitional or ineligible, supporting transition finance in carbon-intensive sectors.

For Australian businesses, the emergence of a domestic taxonomy—closely aligned with leading international frameworks—will facilitate access to global capital and align the market with international best practice.

Businesses across all sectors, particularly those in energy, resources, industry and agriculture, should familiarise themselves with the Taxonomy, assess their current and planned activities against its criteria, and consider how alignment can support their access to sustainable finance and their broader transition strategies.

However, the diversity of taxonomies and the evolving nature of international standards can create complexity, particularly for multinational businesses and investors. Proactive engagement with taxonomy developments—both domestically and internationally—will be important for ensuring ongoing eligibility for sustainable finance and compliance with any disclosure requirements, as well as managing reputational risks and capitalising on emerging opportunities in the sustainable finance landscape.

Ultimately, a robust and interoperable sustainable finance taxonomy will not only support Australia's transition to a sustainable economy but also position its businesses as credible and attractive partners in the global market for sustainable investment. **FS**