

Australia's Sustainable Finance Taxonomy: Driving Capital Toward the Sustainable

By Rich Turley and Rana Datta

What to watch for:

Sometime in mid-2025, the Australian Sustainable Finance Institute (ASFI) will deliver an initial [Australian Sustainable Finance Taxonomy](#) (ASFT). While use of the taxonomy will be voluntary at the outset, make no mistake: virtually all businesses will be impacted by the ASFT. Presently, the ASFI is conducting a public consultation on [screening criteria](#) for three initial industry sectors.

Regulatory context:

The taxonomy is just one facet of a broader effort jointly conducted by the Australian government, regulators and representatives from industry, known as the [Sustainable Finance Roadmap](#). Of ten priorities outlined in that roadmap, developing the ASFT is second only to implementing [climate-related financial disclosures](#).

Business impact:

The ASFT will lay out the criteria by which a business' sustainability is measured. Meeting these criteria will determine what funds are available to support business initiatives. Any business will need to understand and align with the ASFT to obtain certain funding in the future. It's not too soon for leaders to consider how the ASFT will impact their organisations' ability to obtain funding.

The taxonomy: A closer look

The Australian Sustainable Finance Institute — whose membership encompasses financial institutions, peak bodies (trade organisations) and academics, among others — was established in 2019 to ensure funding from the nation's financial services system flowed toward initiatives that build a “sustainable, resilient and inclusive Australia.” The ASFT is ASFI's product, intended to help address greenwashing (making false sustainability claims) and to facilitate Australia's transition to net zero carbon emissions.

The ASFT will initially include criteria specific to each of six priority industrial sectors: electricity and energy, industry, built environment, transport, resources, and agriculture and land.

In support of Australia's commitment to net zero greenhouse gas emissions by 2050, the taxonomy will:

- Supply guidance for and foster consistency among businesses, investors and regulators
- Improve transparency and support development of sustainable finance products
- Provide consistent terminology for sustainability initiatives
- Help define how economic activity will change over time

A common language:

The taxonomy will achieve these goals by providing a common language as the basis for identifying opportunities and creating sustainable assets and initiatives. It will also facilitate comparisons among investment products and portfolios by assuring sustainability claims.

Sustainable reform timeline

Priority	2024		2025		2026	Ongoing and future
Implementing climate-related financial disclosure requirements	27 March 2024: Legislation introduced to Parliament.	AASB and AUASB to finalise climate disclosure and assurance standards.	1 January 2025: Climate disclosure obligations commence for Group 1 entities, subject to passage of legislation		1 July 2026: Obligations commence for Group 2 entities	1 July 2027: Obligations commence for Group 3 entities. From 2028: Treasury will conduct a review of climate disclosure requirements in 2028-29 and continue to monitor development of international sustainability-related financial disclosure frameworks.
		ASIC to issue guidance to support compliance with climate disclosure requirements.				
Developing the Australian Sustainable Finance Taxonomy	May 2024: ASFI commences public consultation on technical screening criteria for initial three sectors.	Late 2024: ASFI to deliver technical screening criteria for six priority sectors, against climate mitigation objective.	Mid 2025: ASFI to make initial taxonomy available for use by firms, investors and regulators on a voluntary basis.			Ongoing review and maintenance of the taxonomy to ensure it remains credible and useful. Government to consider incorporating additional sustainability objectives, such as nature or adaptation objectives.
			Mid 2025: Government to review voluntary taxonomy developed by ASFI and explore initial use cases for sustainable finance taxonomies in the financial and regulatory architecture. Government to consider relevant governance arrangements for the taxonomy.			
Supporting credible net zero transition planning		Late 2024-early 2025: Treasury consultation on supporting best practice transition plan disclosures.	By end 2025: Treasury will publish best practice guidance on transition plan disclosures.			Treasury will continue to work with regulators and industry to enhance corporate transition planning.
Developing sustainable investment product labels			Mid-2025: Treasury consultation on developing sustainable investment product labels.		Legislation to be introduced in 2026.	Legislative framework and policy regime to commence in 2027.
Issuing Australian sovereign Green Bonds	4 June 2024: AOFM issues first Treasury Green Bond.		By end 2025: The Government will publish first annual allocation and impact reporting.			Treasury will continue to support the implementation of the Australian Government Green Bond Framework including to ensure that Australia's green bond program continues to align with international best practice.
Addressing data and analytical challenges			Early 2025: CFR to provide advice to Government on options to address sustainability data gaps and challenges.			Ongoing work will continue across Government and the CFR to monitor the availability and quality of sustainability related data.
Identifying and responding to systemic financial risks		Late 2024: APRA will engage with stakeholders to review Prudential Practice Guide CPG 229 Climate Change Financial Risks.		Mid 2025: APRA to publish andingso		The CFR will continue to expand its work on climate and sustainability-related financial risks, deepening risk management capabilities and practices across financial regulators and market participants.

Led by: Government Financial regulators and standards setters Industry

Source: Sustainable Finance Roadmap, Australian Government, The Treasury, 2024.

How will businesses be impacted?

The ASFT is a phenomenon of finance driving new behaviours in business, but it will eventually be backed by regulatory authority. At the same time, the ASFT will be a powerful tool for businesses to understand their own sustainability as well as their ability to obtain green funding.

Adopting the ASFT goes beyond reporting; it will classify what activities qualify as sustainable by measures that businesses, investors and regulators hold in common.

- **Not just words:** It won't suffice to apply new terms to the same data as an afterthought. To acquire green funding in the future, businesses will have to ensure their operations are sustainable according to the criteria defined in the taxonomy.
- **Changes to products and services:** In addition, they'll have to collect the requisite data to demonstrate taxonomy alignment — and this implies deep changes to embed ASFT considerations in the design of products and services, and how data is collected.
- **Process changes:** Aligning an entire business with ASFT will call for cultural and operational change as well as modifications to processes and data structures. There will be some overlap with the metrics and data businesses already use in [greenhouse gas emissions](#) and other reporting. Leaders will want to identify efficiencies where they can.
- **Beyond the enterprise:** Leaders will want to consider their organisations' roles in the supply chains of their trading partners. These partners will be seeking sustainability data from suppliers to support their own taxonomy reporting.

Where to begin?

In aligning with ASFT, business leaders will want to consider their sustainability strategy overall, their sustainability reporting obligations, and how best to achieve synergy between these two slightly different mandates. They will need to define what “success” looks like in taxonomy-aligned sustainability reporting and identify the right people, technology and data to achieve that.

Understanding the board's strategic perspective will be essential to executing a unified approach to deep changes. ASFT alignment's strategic importance should come as tone from the top, and be embedded throughout the company's products, services, reporting and marketing KPIs and messaging. All of this takes time, so now is the right time to begin a conversation with the board and the aforementioned stakeholders, even as the regulations are being finalised.

A note to multinationals: It's important to note the range of taxonomies emerging around the world. The ASFT coordinates with taxonomy development elsewhere in the world, including the European Union, Canada, the United Kingdom and across the Asia-Pacific region.

A multinational enterprise with operations beyond Australia's borders might choose to align with the highest standard worldwide. [International efforts](#) are under way to coordinate sustainable finance taxonomies from other jurisdictions.

Contacts

Rich Turley

Managing Director, Internal Audit Financial Advisory
frich.turley@protiviti.com.au

Lauren Brown

Managing Director, Internal Audit Financial Advisory
lauren.brown@protiviti.com.au