Australian Sustainable Finance Taxonomy

Field Guide

What it is: An **evidence-based classification** for economic activities to identify:

Green activities
aligned to 1.5°C GHG emissions reductions pathway

Transition activities
credible steps and measures toward alignment

Transport | **Manufacturing and Industry** | **Minerals, Mining and Metals** | **Agriculture and Land** | **Electricity generation and Supply** | **Construction and buildings**

Scope of Version 1:
Six sectors
Substantial Contribution criteria for **Climate Change Mitigation**

Alignment Steps /Components:

Substantial Contribution to climate change mitigation *activity level*

Do No Significant Harm to five environmental objectives *activity level*

Minimum Social Safeguards *entity level*

What are the benefits?

Showcase sustainability credentials
Objective and trustworthy,reduced risk of greenwashing

Improve access to and cost of capital
High taxonomy alignment attracts domestic and international sustainable lenders and investors

Gain competitive advantage
Highly taxonomy aligned companies show higher profitability, efficiency and market valuation

Tips for companies:

- Map your activities to taxonomy activities
- Quick-screen:
  - Green: substantial contribution criteria and DNSH
  - Transition: defined transition measures/criteria
  - All: consider Minimum Social Safeguards at entity level)
- (If promising) do a full assessment
- Where not fully met – consider alignment plan to address the gaps.
- Use and disclose taxonomy alignment information smartly:
  - Compute % of taxonomy-aligned revenue, CapEx, OpEx
  - Track year-on-year trajectory
  - Map and integrate the data in various uses:
    - Investor/lender relations
    - Internal decision-making
    - Public disclosure (weigh benefits and scope)

Tips for Green Bond issuers:

- Include taxonomy-alignment commitments in your Green Bond Framework
- Screen & allocate use of proceeds via activity-level taxonomy alignment (Green & Transition)
- Apply emissions-intensity thresholds at the midpoint of tenor; shorter tenors can be grandfathered if thresholds tighten
- Respect transition criteria/measures with sunset dates; disburse before sunset if tenor extends beyond it.
- Use taxonomy metrics to support post-issuance (impact) reporting

Tips for debt financing providers

- Use taxonomy criteria to design sustainable lending frameworks & products, and to screen borrowers for green/ sustainable loans
- Apply taxonomy-aligned KPIs/SPTs to set sustainability-linked loan requirements and link them to the pricing ratchet
- Integrate portfolio-level KPIs in own sustainability reporting (loan book taxonomy-aligned share, % of new originations aligned, green vs transition mix)

Tips for equity investors

- Use entity-level taxonomy-alignment KPIs to define the investment thesis, pre-contractual commitments
- Roll up alignment to the portfolio level consistently; weight intensity metrics by proper denominator
- Differentiate green vs. transition
- Use taxonomy to support investee engagement (ISSB/AASB S2 – compatible)
- Use taxonomy elements to define the engagement ladder: e.g. close DNSH gaps, then MSS compliance, to full alignment
- Report portfolio taxonomy KPIs to asset owners (% aligned, % new capital aligned, green vs transition mix) + taxonomy-based engagement outcomes

Quick wins

✔ Climate disclosures (ISSB/AASB S2): taxonomy metrics are decision-useful and can support disclosures (esp. “Strategy” and “Metrics & Targets” pillars)

✔ Transition plan storytelling: set taxonomy-alignment and transition CapEx targets linked to taxonomy activities/measures.

Important to note

! Sector boundaries & activity definitions matter! - check the activity descriptions carefully.

! Use precise wording for claims (Full/Partial/Substantial Contribution-only alignment).

! Expect offshore investors/buyers to request comparisons/mapping with other taxonomies.

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