

MEDIA RELEASE

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Strong support for the development of a sustainable finance taxonomy

The endorsement by the Treasurer of Australia, the Hon Jim Chalmers MP, on Monday, sits alongside support from investors, banks, and insurers for the immediate development of a sustainable finance taxonomy that is science-based, usable, inter-operable with international jurisdictions and that addresses issues critical to the Australian economic context.

ASFI today releases its second taxonomy paper, which recommends key design elements for an Australian sustainable finance taxonomy and a timeline for immediate development.

The paper follows the announcement from the Australian Treasurer, the Hon Dr Jim Chalmers, MP, at an event hosted by ASFI on Monday 12 December in Sydney, that Government would work to accelerate sustainable finance in Australia and play a leadership role in the development of an Australian Sustainable Finance Taxonomy. The Government's endorsement of ASFI's taxonomy project lays the foundation for an even stronger partnership between Government and the finance sector to develop and implement the taxonomy.

Chief Executive Officer Kristy Graham says:

“This report is the result of a collaborative process across the finance sector- with strong engagement from across superannuation, asset management, banking, insurance and financial services as well as government and regulators. The 15 recommendations provide a pathway for the development of a taxonomy that is science based, interoperable with international taxonomies and useable.”

“One of the key drivers for ASFI to prioritise the development of a taxonomy, was the call from the finance sector for a consistent framework and methodology to help guide the allocation of capital towards decarbonisation activities in the Australian economy, in a way that is internationally credible and consistent across the industry. This ensures Australia remains an attractive investment destination as climate risks are increasingly priced by international markets. Taxonomies are being developed to play this role in nearly 30 countries.”

“The report validates this, with most stakeholders saying the key purpose of the taxonomy should be to help direct capital flows towards climate mitigation and other sustainability objectives, guide an orderly and just transition, and help address greenwashing.

“Treasurer Jim Chalmers was generous in his remarks that he had a well-worn copy of ASFI’s first taxonomy report released in October. We hope this report will assist him and the Treasury as we work closely with them to develop an Australian sustainable finance taxonomy”

The recommendations set out a pathway for taxonomy adoption that starts with immediate use of the taxonomy for the development and labelling of green financial products and sustainability standards, and to assist financial institutions assess the credibility of transition plans, which Australian regulators could use to regulate greenwashing. The report also sets out possible longer-term uses including fuller integration of the taxonomy as part of corporate and financial sector disclosures.

Graham says, “International experience has demonstrated the power of strong partnerships between the finance sector and Government to develop taxonomies. We look forward to capitalising on the momentum that is already behind ASFI’s work to help Australia catch up with international developments in this area.”

ASFI worked with EY on this report. EY Oceania Partner Climate Change & Sustainability Emma Herd said: “This is a hugely significant milestone for the growth of sustainable finance in Australia. A Sustainable Finance Taxonomy will help build consistent definitions, tools and data points to accelerate the movement of capital into real world outcomes. By defining what *sustainability* is, Australia’s financial institutions will be better placed to set sustainable finance targets, develop products and transparently disclosure on outcomes against a standardised set of criteria.”

The recommendations paper will be open for public comment until mid-February with ASFI planning a series of roundtables in late January 2023 to receive feedback on the draft recommendations. More information is on the ASFI website: www.asfi.org.au

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Explainer: What is a taxonomy

A sustainable finance taxonomy is a set of definitions of activities or assets that are considered sustainable, and which can be used to define sustainable investments credibly and transparently.

Taxonomies help to make it easier to identify opportunities, to create sustainable assets and activities and guide capital to support the achievement of Australia’s climate, environmental and social objectives. They also provide the finance sector with confidence and assurance of sustainability claims, enabling comparability between investment products and portfolios and reducing transaction costs.