



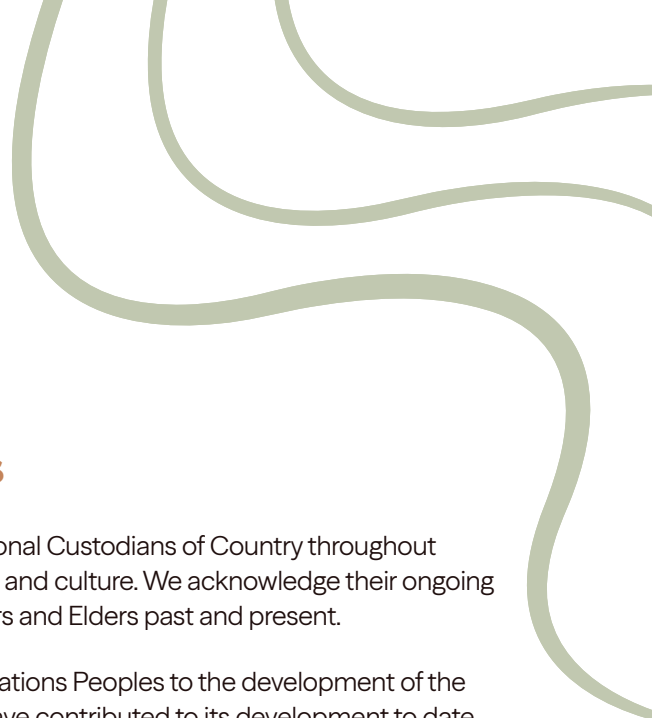
Investing in a Climate Resilient Australia

The Role of the Australian Sustainable
Finance Taxonomy

October 2026

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ASFI values the perspectives, knowledge and experience provided by First Nations Peoples to the development of the Australian Sustainable Finance Taxonomy and sincerely thanks those who have contributed to its development to date.

About the Australian Sustainable Finance Institute

ASFI is a not-for-profit organisation committed to mobilising capital for climate, nature and social impact, and the peak body for the sustainable finance sector in Australia. ASFI's members are large Australian financial institutions – including major banks, superannuation funds, insurers, asset managers and financial services firms – that collectively hold over AU\$18.8 trillion in assets. ASFI's vision is for Australia to have a financial system that is sustainable, resilient and able to meet the present and long-term needs of all Australians, the environment and the economy.

Adaptation & Resilience Taxonomy Scoping Project

ASFI has launched a scoping project on the expansion of the Australian Sustainable Finance Taxonomy to climate change adaptation and resilience. A taxonomy is a classification tool that identifies activities, assets, management actions and operations that substantially contribute to a stated environmental objective. It does this by translating science, data and technological input into asset- and activity-level criteria. By creating a shared understanding of adaptation and resilience across the economy, a taxonomy enables financial institutions, insurers, governments, businesses and households to identify and take coordinated action, thereby supporting capital allocation to adaptation and resilience solutions at scale and reducing systemic risks.

While the Australian Taxonomy's initial development phase focused on climate change mitigation, rising physical risks make adapting and building resilience to climate change an increasingly urgent priority. By providing credible, usable guidance to identify activities and measures that support adaptation and resilience, an expanded taxonomy can help mobilise capital to address Australia's climate resilience investment gap.

The scoping project is overseen by a Steering Committee comprising representatives from financial institution funders and government observers. The project is also informed by a Technical Advisory Group. The project aims to deliver a clear blueprint to guide the development of technical screening criteria for adaptation and resilience in the Australian Taxonomy, including recommendations on coverage and a methodology for developing criteria that are credible, usable and interoperable.

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Scoping Project Steering Committee

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1. Context

1.1. The mounting costs of climate change

Australia is highly exposed to the physical impacts of a changing climate, spanning acute shocks from floods, bushfires and storms to chronic hazards such as prolonged heatwaves, drought and sea-level rise. These impacts are already affecting Australian lives and livelihoods and are projected to worsen considerably over the coming decades.¹

Households are on the frontlines of climate change. According to the Australian Prudential Regulation Authority (APRA), rising insurance costs have priced one in seven Australian homes out of coverage. This could rise to one in four homes and over 40 per cent of households in rural areas by 2050.² Australia's National Climate Risk Assessment (NCRA) estimates that by then, over 1.5 million people could be living in coastal areas exposed to “high to very high” risk of sea level rise and flooding if populations remain as they are today.³

The wider economic and financial costs posed by a changing climate are also rising. Natural disasters currently cost the Australian economy approximately \$38 billion a year and are projected to cost at least \$73 billion by 2060.⁴ Physical climate risks could reduce Australia's Gross Domestic Product (GDP) by 15 per cent by 2050 as a result of climate-related economic damage⁵, with Treasury's 2023 Intergenerational Report estimating that without adaptive changes to current ways of working, higher temperatures alone could reduce cumulative economic output by \$135–423 billion over the period to 2063 through impacts on labour productivity.⁶



Source: New York Times (2020), Matthew Abbott

The Insurance Council of Australia's (ICA) latest Insurance Catastrophe Resilience Report found that in 2025, five declared events damaged 145,000 homes, compared with 173,000 dwellings completed nationally. This work consumed labour and materials but did not increase Australia's housing stock.

1.2. Implications for Australia's financial and economic stability

As the impacts of climate change become more frequent and severe, risks that begin at the level of individual assets, households and businesses can compound and transmit across the economy, creating broader risks to Australia's financial and economic stability (Figure 1).⁷

The Council of Financial Regulators – comprising APRA, the Reserve Bank of Australia, the Australian Securities and Investments Commission and the Commonwealth Treasury – has identified climate change as a long-term structural vulnerability to the financial system.⁸ Australia's National Adaptation Plan rates economic risks from the impacts of climate change, including financial system shocks and volatility, as moderate today, but expects them to rise to high or very high by 2050.⁹

Unmanaged physical climate risk can reduce asset values and increase credit, liquidity and operational risks across the financial system.

When homes, business premises and infrastructure are damaged or destroyed, their underlying value can fall, particularly in high-risk areas.¹⁰ For mortgaged properties, this erosion in the value of the underlying collateral directly increases lenders' credit exposure.¹¹ Affected households may also lose income as a result of economic disruption, impairing their capacity to repay loans and compounding the risk to lenders.¹²

Businesses face disruptions in production, transport and supply chains. These shocks can constrain supply and have the potential to push up costs and prices across the economy, particularly where whole industries are materially impacted.¹³ Rising costs erode purchasing power and slow economic growth, while consumer demand and confidence in affected areas can also fall.¹⁴ Ultimately, these impacts can then transmit to lenders through the households, businesses and sectors that underpin their loan portfolios.

Higher exposure to climate damage and disruption raises the cost of insurance and capital and reduces their availability, limiting access to finance for infrastructure and services and increasing the pressure on government budgets.¹⁵

As extreme weather becomes more frequent, severe and protracted, the economics of insurance markets shift. Rising expected payouts push premiums higher and, in exposed markets, cover may become increasingly difficult to obtain. Higher premiums and reduced insurance availability reflect the underlying risk carried by exposed assets and communities where that risk has not been sufficiently managed.¹⁶

Where insurance coverage becomes unaffordable or otherwise unattainable, the costs of climate damage and disruption are borne by households and businesses, further increasing default risk for lenders. This raises the cost of capital, constrains the finance available to rebuild and ultimately shifts more of the burden onto governments.

A 2025 analysis estimated that the Australian Government spends around \$1.6 billion annually on disaster recovery, far beyond the \$215 million it budgets for.¹⁷ Treasury projects that average Commonwealth expenditure under the Disaster Recovery Funding Arrangements could increase by up to 500 per cent by 2090 under 2.0°C of warming.¹⁸ Meeting costs of this scale through public expenditure alone would place increasing pressure on government balance sheets, strengthening the case for mobilising private capital alongside public investment in adaptation and resilience.¹⁹ While Australia is a high-income country, unaddressed physical climate risks could undermine macrofinancial stability and weigh on Australia's long-term sovereign creditworthiness.²⁰

As the physical risks of climate change become systemic, the economic costs will be borne by all Australians regardless of where they live. However, they will not be distributed equally.

Case Study:

The devastating flooding in Lismore, New South Wales, in 2022 provides a clear example of how physical climate hazards can translate into broader economic and financial risks.

Floodwaters peaked at 14.4 metres, more than two metres above previous records, resulting in:

- 1,720 residential properties impacted, including 1399 properties with major or severe damage, or assessed as destroyed.
- Over \$350 million in damage to public infrastructure deemed essential to the community, such as roads, bridges and wastewater plants.
- 3,170 estimated businesses and 18,000 jobs directly or indirectly impacted.
- \$400 million in lost production, equating to losses of \$9,300 per resident (incurred on top of asset replacement and repair costs).
- Total production projected to be 15 per cent below a 'no floods' baseline in the 16 months to the end of June 2023.

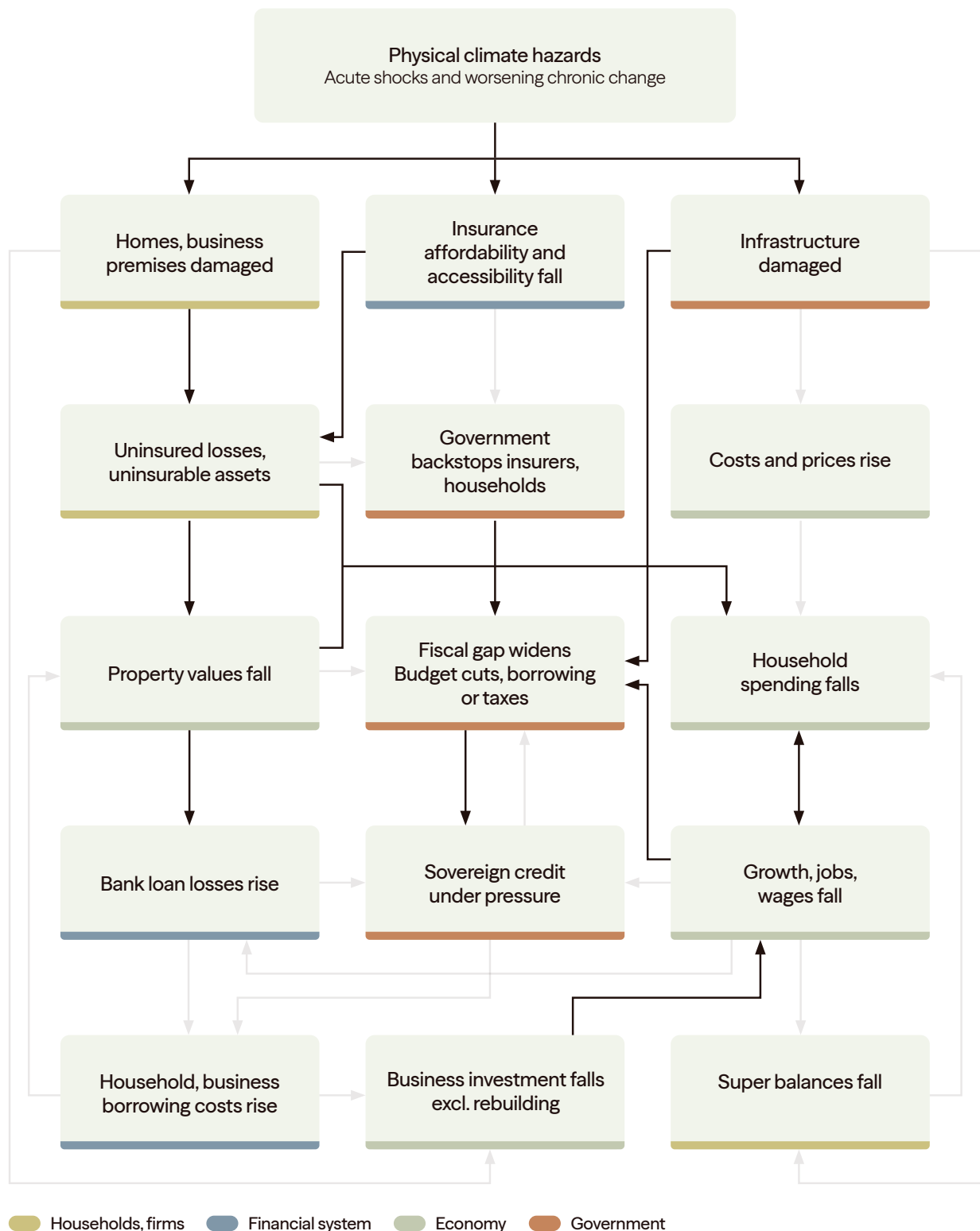
Source: [Lismore City Council, Flood Response, June 2022](#) ; [Sea & Star Advisory for Lismore City Council, Lismore Flooding Impacts & Recovery Statement, July 2022](#)



Source: Getty Images (Photo by: David F, 2020)

Physical climate risks are currently concentrated among households, businesses and assets in highly exposed regions. If these risks are not mitigated and begin to accumulate at a macroeconomic and financial system level, they will be borne more broadly. Households that are not directly exposed to climate hazards already face higher prices for goods and services affected by supply chain disruption. They may also experience higher insurance premiums and lower returns on retirement savings invested in assets and companies that carry physical risk, at the same time as rising living costs increase the pressure to draw down on those savings. As a greater share of public expenditure is directed towards disaster recovery, households could also face reduced access to other services.

Figure 1: Conceptual model of the transmission of physical climate risk across the economy



The distributional impacts of these risks are particularly important. Households and communities with less financial capacity to absorb or recover from climate shocks are likely to face disproportionately severe consequences. They are more likely to be underinsured, live in lower-cost and higher-risk locations, and be unable to rebuild or relocate after a disaster. Households already in insurance affordability stress spend approximately 9.6 weeks of gross income on home insurance, compared to 1.4 weeks for other households.²¹ Aboriginal and Torres Strait Islander communities – particularly in remote and rural areas – are more exposed to climate hazards than the population as a whole, and the risks extend beyond what financial measures can capture, including to their right to self-determination and to cultural knowledges and practices.²²

1.3. Driving coordinated investment in adaptation and resilience

Investing in adaptation and resilience will be central to Australia's long-term economic and fiscal stability as physical climate risks intensify.

While some degree of future warming is locked into the climate system, the losses that follow are not. Strategic and coordinated investment in adaptation and resilience, such as stronger flood and stormwater defences, climate-resilient infrastructure, resilient retrofits to existing housing stock, sustainable water-use technologies and Nature-based Solutions, can reduce the damage caused by physical climate hazards and build systemic resilience to future climate shocks.

The return on adaptation investment

Estimates of the return on investment in adaptation vary based on what is being counted, where the analysis is based and the assumptions that are made. Across all credible analyses, the rate of return on investments in improved resilience is high.²³

- The ICA finds that every \$1 invested in resilience can deliver approximately \$9.60 in avoided losses.²⁴
- The Grantham Institute puts median economic cost-benefit ratios for adaptation investment at approximately 4:1, with internal rates of return of approximately 25 per cent.²⁵
- The Glasgow Financial Alliance for Net Zero reports benefit-cost ratios ranging from US\$2 to US\$14 per dollar invested.²⁶

Beyond avoided losses, adaptation can stimulate economic activity by reducing risk, increasing productivity and promoting innovation, and can provide wider social and environmental co-benefits. Payback periods on resilience investment are also shortening as the frequency and severity of natural disasters increase.²⁷

The scale, diversity and complexity of adaptation mean it cannot be financed or delivered by government or the private sector alone. Australia's National Adaptation Plan (NAP) recognises this challenge, highlighting the need to consider how the public and private sectors can co-invest for mutual benefit.

To be effective and maximise potential returns, investment in adaptation and resilience needs to be systematic. Australia is developing a more granular and sophisticated understanding of where physical climate risks arise across the country and how to address them. The NCRA identifies risks across the economy and the NAP sets national priorities for responding to them. Together, these provide an increasingly clear national picture of the risks Australia needs to address and the outcomes that adaptation investment needs to support.

However, there is still no consistent way for governments, businesses or financial institutions to translate these national risks and policy priorities for climate adaptation and resilience into activity-level definitions and criteria that can support investment and mobilise capital at scale.

Consistently defining priority adaptation and resilience activities and measures across the economy would support the flow of capital towards those activities and measures and help identify capital that is already being invested in them as part of ordinary business expenditure.

Investment in adaptation and resilience is not always easy to identify. In some cases, resilience is the primary purpose of an investment. In most cases, however, resilience is embedded within broader capital expenditure, asset upgrades, maintenance or operational decisions. Whether an activity or measure meaningfully reduces physical climate risk will also depend on the relevant hazard, location, asset and system.

Without a shared, decision-grade framework to define and classify adaptation and resilience actions across key areas of the economy, financial market actors cannot confidently identify or allocate capital towards them.

Expanding the Australian Sustainable Finance Taxonomy to explicitly include adaptation and resilience would fill this gap by providing a common framework to identify credible adaptation and resilience activities and measures across the economy. This could support more consistent public and private investment decisions, help direct capital towards risk reduction and improve the recognition of resilience in financing and risk-management processes.

Priority Actions for Financing Adaptation & Resilience

Through engagement with leaders across banking, insurance, investment, government, industry and research, ASFI identified four interconnected barriers constraining adaptation and resilience finance: the undervaluation of avoided losses, inconsistent definitions and assessment approaches, misalignment between costs and benefits, and challenges with scale and aggregation.

Expanding the Australian Sustainable Finance Taxonomy to adaptation and resilience targets the second barrier to investment identified above.



“The challenge is not simply a lack of capital, but a lack of systems, structures and coordination to deploy it effectively. A taxonomy can help provide the common definitions and criteria needed to identify and finance credible adaptation and resilience activities.”

ASFI, 'Priority Actions for Financing Adaptation & Resilience', 2026

2. The Role of the Australian Sustainable Finance Taxonomy

2.1. What can an adaptation and resilience (A&R) taxonomy enable?

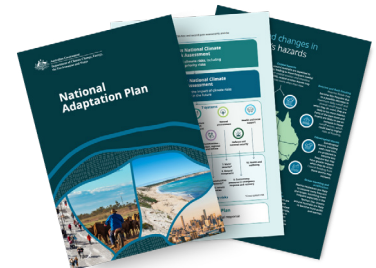
Expanding the Australian Taxonomy to adaptation and resilience would help align capital with Australia's national adaptation priorities and support investment in reducing physical climate risk to households and businesses across the economy.

The Australian Sustainable Finance Taxonomy provides a decision-grade framework to identify, define and classify priority economic activities and measures that substantially contribute to key environmental objectives. Expanding it to adaptation and resilience would provide a common language for identifying credible adaptation and resilience activities and measures across key economic sectors, themes and activities.

This would enable banks to better assess physical climate risk and account for credible resilience measures in lending decisions. Investors could more easily identify and compare adaptation and resilience opportunities across portfolios. Insurers could more consistently recognise measures that demonstrably reduce risk. Together, these uses could help direct capital towards proactive risk reduction, strengthen household and business resilience, and reduce pressure on governments, the financial system and the broader economy.

By providing shared definitions and credible screening criteria, an expanded taxonomy provides the market infrastructure needed to mobilise adaptation and resilience investment at scale. A taxonomy:

- **Creates a shared language** for identifying, defining and classifying adaptation and resilience activities so that actors across the system can take coordinated and scalable actions to reduce systemic risk.
- **Establishes clear and credible criteria** for assessing whether an activity makes a substantial contribution to adaptation and resilience, supporting capital allocation decisions.
- **Makes resilience investment visible** by identifying qualifying expenditure that can be tagged, including resilience measures embedded within broader investments, to support financing, risk-management and investment decisions.
- **Enables consistency and comparability** across finance, insurance, industry, and public-sector decision-making, which improves efficiency and supports co-investment and innovation across actors.
- **Supports financial product development**, including across sustainable lending, labelled instruments, concessional and blended finance, and insurance-related applications, helping expand financing pathways for adaptation and resilience.
- **Enables investment tracking and reporting** across institutions, sectors and regions, improving visibility of where adaptation and resilience investment is occurring and supporting more consistent recognition of resilience actions.



National Adaptation Plan, 2025

Identifies the Australian Sustainable Finance Taxonomy as a tool to mobilise private investment towards a sustainable economy, including for objectives beyond climate change mitigation, such as adaptation and resilience.

2.2. Users, use cases and potential beneficiaries of the taxonomy



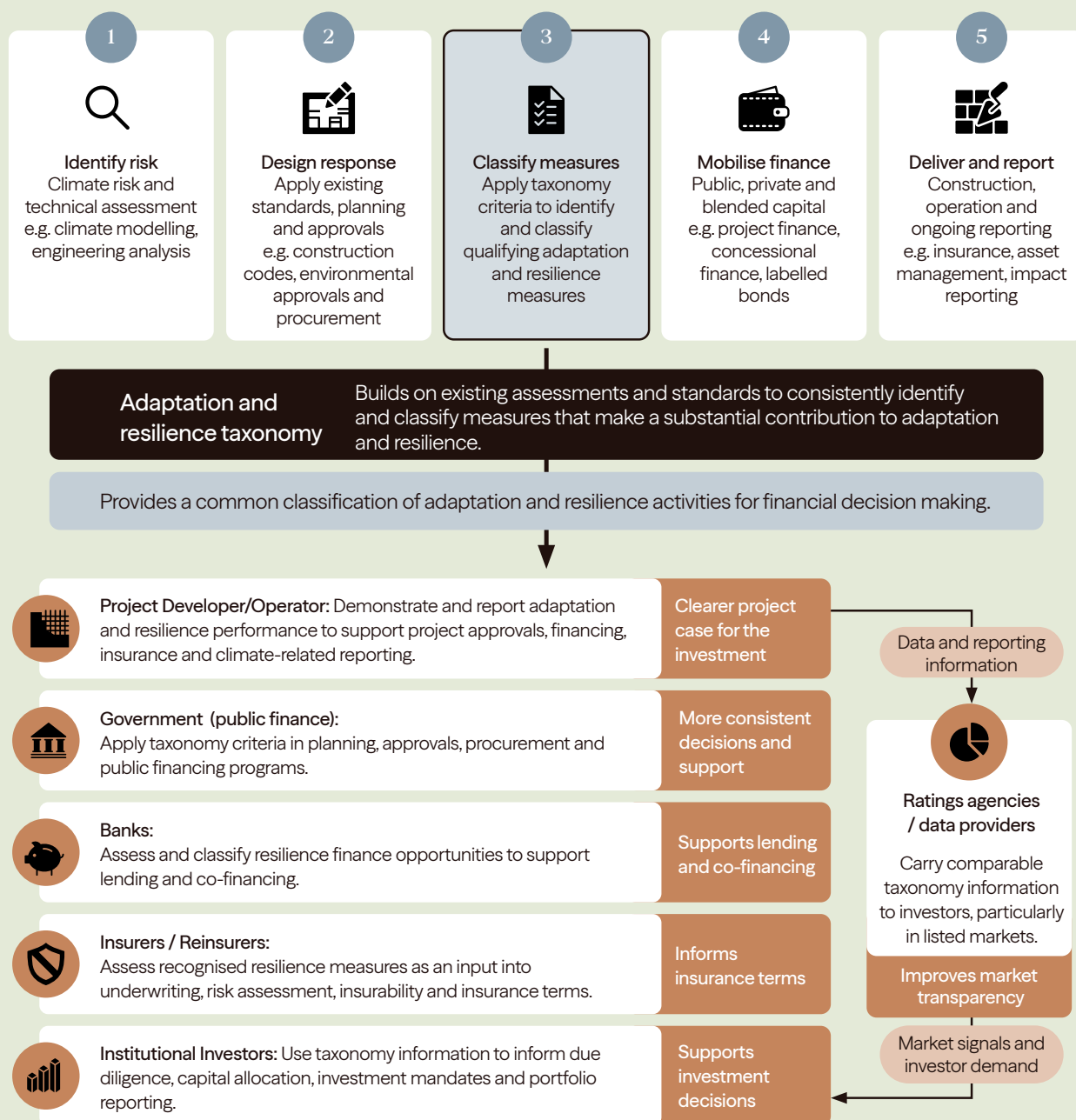
A taxonomy does not replace existing risk assessment, technical standards or institutional decision-making.

A detailed articulation of the different users and use cases for an A&R taxonomy is set out in **Section 3**.

2.3. How a taxonomy can support adaptation and resilience finance

The examples below illustrate how a taxonomy could support financing decisions at two very different scales.

Case Study 1: Major infrastructure upgrade



Key outcomes

Enables more efficient financing of adaptation and resilience projects



Consistent classification
of qualifying adaptation and resilience measures



Reduced duplication
across assessment, financing and reporting

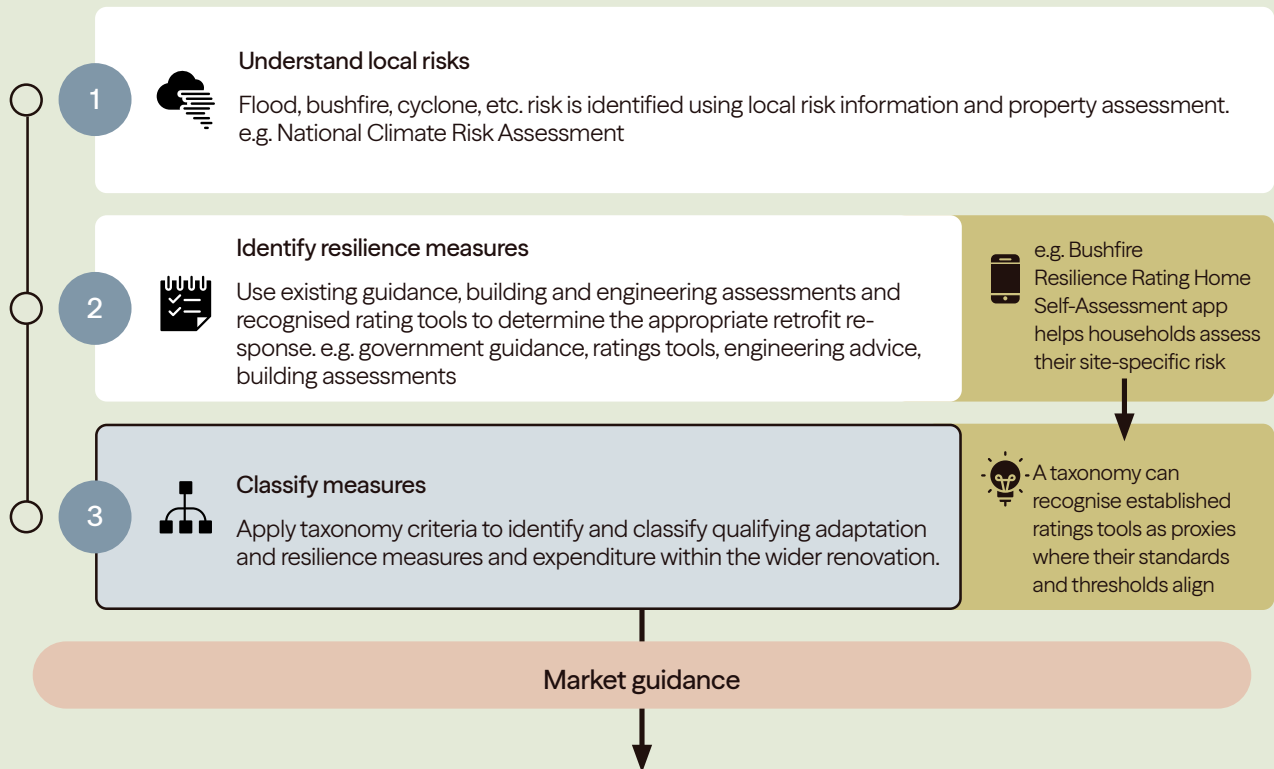


Better capital alignment
between public and private finance

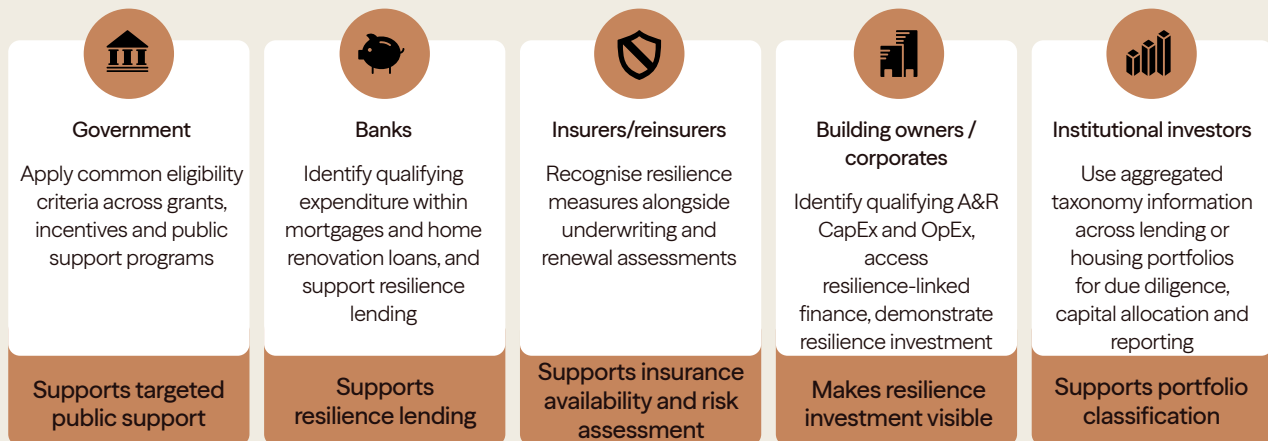


Faster implementation
with broader social and economic benefits

Case Study 2: Home retrofit in a climate-exposed area



Household retrofit (resilience measures for home upgrades illustrated on next page)



Key outcomes

A taxonomy can enable many smaller resilience upgrades to become visible, comparable and easier to support at scale



Embedded resilience identified

Within broader home upgrades.



Aggregation at scale

Across homes, places and portfolios.



Better alignment

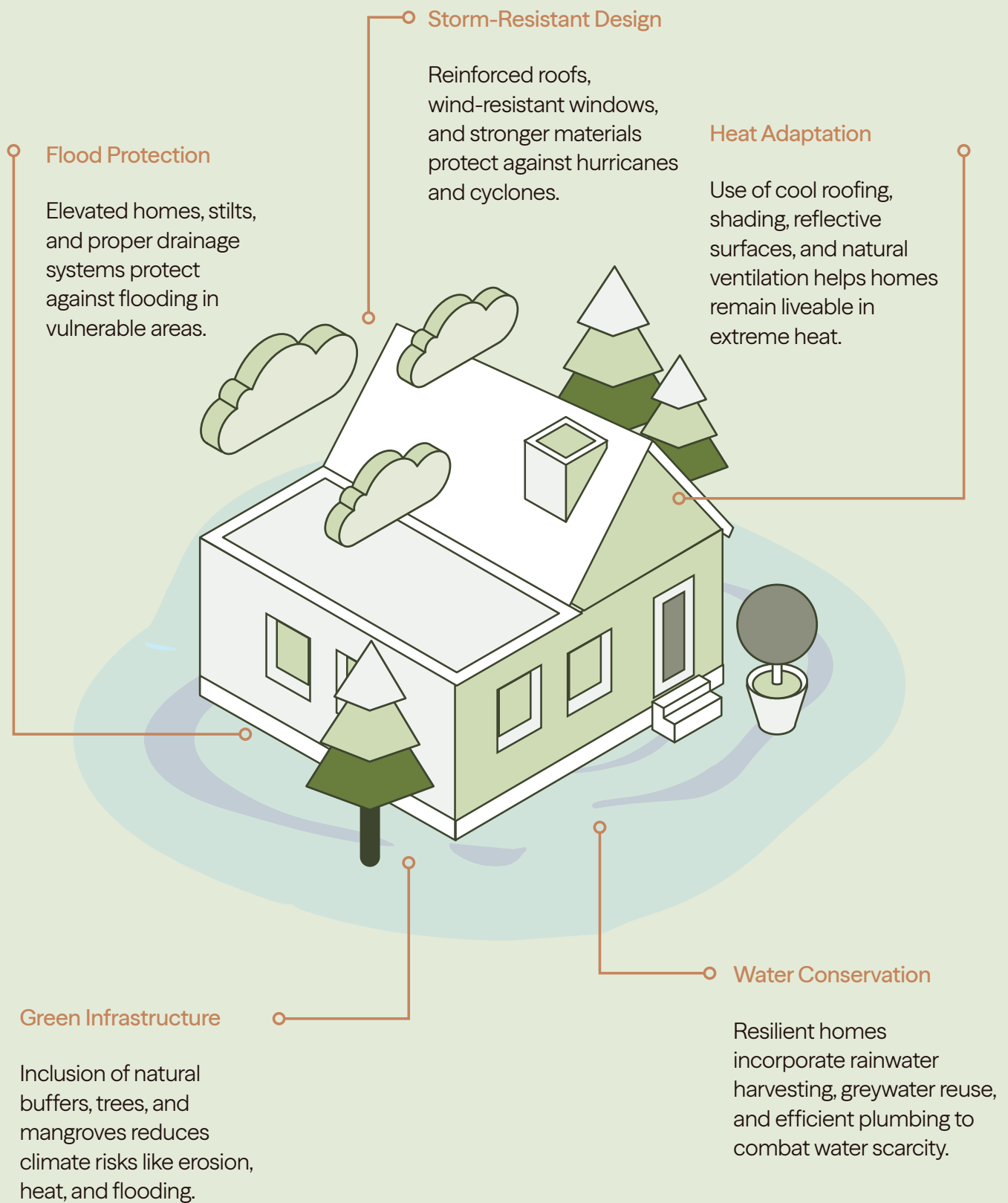
Across grants, lending and insurance.



More resilient homes and communities

with potential to reduce vulnerability and losses.

Case Study 2: Illustrative resilience measures for home upgrades



3. Adaptation & Resilience Taxonomy Use Case Analysis

This section sets out how a sustainable finance taxonomy with substantial contribution criteria for adaptation and resilience can be applied across the financial system. It considers how banks, non-financial corporates, insurers, institutional investors and government entities could use an A&R taxonomy to embed adaptation and resilience into their activities to drive real-world outcomes for Australians.

This work forms part of ASFI's scoping project on the expansion of the Australian Sustainable Finance Taxonomy to adaptation and resilience. The project will deliver a blueprint in Q1 2027 to guide the development of an expanded taxonomy, including recommendations on coverage (which sectors, themes, and activities should be prioritised) and a methodology for designing technical screening criteria that are credible, usable and aligned to existing standards, frameworks and tools.

The use cases set out below will inform the A&R taxonomy blueprint in two ways. First, identifying how, by whom, and to what benefit an A&R taxonomy would be used will help guide the assessment of initial coverage. Second, the use cases will inform the methodology so that criteria are designed to be usable across a range of applications, such as in lending decisions, underwriting assessments and government procurement.

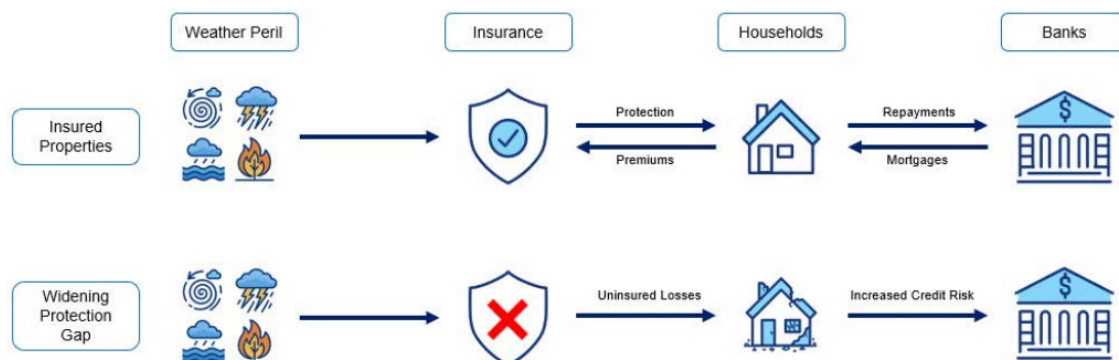
This project is being undertaken by ASFI with input from the Technical Advisory Group and strategic oversight from the Steering Committee. ASFI will also undertake targeted engagement with key stakeholders at relevant stages of the scoping phase. The purpose of this work is to ensure that an expanded Australian Taxonomy is fit for purpose: usable by the actors across the financial system who would apply it and capable of supporting capital at scale towards activities that build systemic resilience to the physical climate risks Australia is facing now and into the future for the benefit of all Australians.

3.1. Banks

Physical climate risk is not simply a sustainability issue for Australian banks. It affects the assets, borrowers and communities on which banking activity depends. As of June 2026, Australian authorised deposit-taking institutions (ADIs) held approximately \$2.6 trillion in residential mortgage credit, alongside almost \$500 billion in commercial property lending.^{28,29} Residential mortgages remain the largest asset class on Australian bank balance sheets, making the long-term resilience of households, property assets and local economies increasingly relevant to the banking sector.³⁰

As climate impacts intensify, the capacity of borrowers and communities to anticipate, withstand and recover from climate-related shocks is becoming increasingly relevant to banks' risk profiles and lending activities. Extreme weather can affect banks through several channels, including damage to homes, businesses, infrastructure and productive assets, which can reduce collateral values and disrupt economic activity.³¹ It can also weaken borrowers' repayment capacity through loss of income, business interruption, reduced productivity and increased operating costs.³² These impacts can extend beyond directly affected borrowers, as disruptions to production, transport and supply chains place upward pressure on costs and prices across the economy.³³ Sustained price pressures can further strain household and business finances, creating additional risks for banks across their lending portfolios.

APRA's 2026 Insurance Climate Vulnerability Assessment estimates that around one in seven Australian households in freestanding homes is currently uninsured on its affordability measure, rising to around one in four by 2050.³⁴



Transmission of weather perils to prudential risks (Source: APRA (2026) Mind the Gap: An Insurance Climate Vulnerability Assessment, Figure 3)

A widening protection gap increases the risk that households face uninsured losses, weakening their financial resilience and increasing the potential for mortgage stress following extreme weather events.

These risks are increasing the importance of adaptation and resilience for banks, both in managing their own physical climate risk exposure and in supporting the resilience of borrowers and the assets they finance.

Banks are developing increasingly sophisticated approaches to identifying physical climate risk. Climate stress testing, climate-related disclosures and portfolio-level hazard analysis are helping banks and regulators build a more detailed understanding of potential sources of physical climate risk and exposure across portfolios.

In 2024, the Commonwealth Bank of Australia disclosed that approximately \$31 billion of its home loans were in areas exposed to high physical climate risk, split across flood, cyclone and fire, representing over 2 per cent of its total exposure.^{35,36}

However, identifying physical climate risk exposure does not, on its own, indicate which activities or measures can credibly reduce that risk and support adaptation and resilience outcomes. Nor does risk identification alone provide a consistent basis for identifying, tracking or reporting adaptation and resilience finance.

Where an A&R taxonomy could add most value for banks

For banks, the clearest near-term value of an A&R taxonomy lies in having consistent criteria to identify qualifying resilience measures, including those embedded within broader lending and asset upgrades. Specifically, it could be used to:

- **Integrate A&R into sustainable finance frameworks and lending processes:** Provide consistent eligibility criteria that banks can apply across labelled and non-labelled lending, capital market transactions and due diligence, drawing on existing technical standards and rating tools where appropriate.
- **Recognise qualifying resilience measures within mainstream lending:** Help banks identify A&R expenditure within larger infrastructure projects, corporate loans, mortgages, home renovation loans and SME lending, rather than relying on standalone resilience products.
- **Support portfolio management and reporting:** Enable consistent identification, tagging and aggregation of A&R finance across lending portfolios. Combined with location-specific physical-risk data, this could help banks assess where A&R finance is being directed relative to portfolio risk exposure.
- **Align bank lending with public and concessional finance:** Provide shared eligibility criteria across bank lending, government grants, concessional finance, guarantees and other risk-sharing arrangements, supporting coordination between banks and public financiers.

Together, these applications could help banks better manage physical climate risk, recognise and support proactive investment in adaptation and resilience and help households and businesses build resilience at scale.

Greater alignment between bank lending, insurance recognition and government grants or other public support would also create more consistent incentives for risk reduction, strengthening resilience for customers, communities and the financial system.

Applications of an A&R taxonomy for banks

The table below identifies potential applications of a sustainable finance taxonomy with substantial contribution criteria for adaptation and resilience across banking functions.

Banking function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Governance and strategy	Embed adaptation and resilience criteria into sustainable finance frameworks and lending processes	Provides common criteria for qualifying A&R activities, measures and embedded expenditure, drawing on existing standards and rating tools. Banks can apply these criteria in sustainable finance frameworks, lending policies and due diligence, alongside existing physical climate-risk assessments and transition planning where relevant.	✓ Supports consistent application across lending, labelled finance and capital markets. ✓ Helps set and track A&R financing priorities within banks' existing sustainable finance strategies. ✓ Reduces the need for banks to develop their own definitions and eligibility criteria for identifying qualifying A&R activities and expenditure.
Portfolio management and reporting	Identifying, aggregating and reporting adaptation and resilience finance across lending portfolios	Provides consistent criteria for identifying and tagging qualifying A&R activities and expenditure, including resilience measures embedded within broader loans. Banks could combine this information with location-specific physical-risk data to assess where A&R finance is being directed relative to portfolio risk exposure.	✓ Supports consistent internal and external reporting of A&R finance across lending portfolios. ✓ Improves visibility of where A&R finance is directed relative to physical climate risk exposure, informing portfolio monitoring and financing decisions. ✓ Supports climate-related financial disclosures by helping banks identify and report qualifying A&R finance as part of their response to physical climate risks.
Wholesale banking	Project and infrastructure finance	Provides criteria for identifying qualifying resilience measures within larger projects and financing arrangements. Used alongside existing climate-risk assessments, design standards and technical due diligence, the criteria could support consideration of resilience measures during project planning and financing decisions.	✓ Supports earlier consideration of qualifying resilience measures in project design and financing. ✓ Provides a common reference for developers, lenders and public financiers, potentially reducing duplication across eligibility assessments. ✓ Enables identification of qualifying resilience expenditure within broader infrastructure projects.
	Use-of-proceeds lending and debt facilitation	Provides common eligibility criteria for identifying qualifying A&R expenditure when banks originate use-of-proceeds loans or arrange labelled debt, including resilience measures embedded within broader projects. Guidance on eligible expenditure and project boundaries could support consistent project identification, eligibility assessment and allocation reporting, without implying that the entire loan or asset is taxonomy-aligned. For bonds, issuers remain responsible for project selection, allocation and reporting.	✓ Supports credible identification of qualifying resilience expenditure within larger transactions. ✓ Provides consistent eligibility criteria for lending and labelled debt, supporting clearer financing claims and allocation reporting.

Banking function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Wholesale banking	Sustainability-linked loans	Provides a reference for identifying credible adaptation and resilience activities, expenditure or outcomes that could inform borrower-level targets.	✓ Provides a clearer basis for defining underlying adaptation and resilience activities. ✓ May support more credible engagement with borrowers. ✓ Could support greater market confidence in adaptation and resilience-related targets by reducing reliance on broadly defined concepts.
Retail and commercial banking	Recognising qualifying resilience measures within mainstream lending (e.g. mortgages, home renovation loans) and dedicated resilience products	Provides criteria for identifying qualifying resilience measures within ordinary mortgages, home renovation loans, SME and agricultural lending, drawing on external rating tools where appropriate. The same criteria could also inform insurance recognition and relevant government incentive programs.	✓ Makes qualifying resilience components identifiable within mainstream lending. ✓ Supports alignment between lending, insurance recognition and government grants, while allowing dedicated resilience products where appropriate.
Capital markets	Securitisation and aggregation of smaller resilience loans	Provides consistent criteria for identifying and tagging qualifying A&R measures financed through mortgages, SME and agricultural loans. This could help banks aggregate smaller loans that finance qualifying resilience measures for potential securitisation or other capital-markets funding.	✓ Improves transparency of the underlying A&R measures financed through smaller loans. ✓ Provides a consistent basis for identifying and aggregating resilience-related lending. ✓ May support future securitisation and other funding structures, subject to suitable credit and cash-flow characteristics.
Public and concessional financing solutions	Aligning bank lending with public grants, guarantees and concessional finance	Provides common criteria for identifying qualifying A&R activities and expenditure, helping banks and government align eligibility requirements for lending, grants, co-financing, guarantees and other risk-sharing arrangements, including blended finance.	✓ Helps identify a pipeline of qualifying A&R projects and measures that could be suitable for public and private co-financing. ✓ May reduce duplication and transaction complexity where banks and public financiers use common eligibility criteria. ✓ Supports coordination between bank lending and government grants or incentives, including for household resilience upgrades.

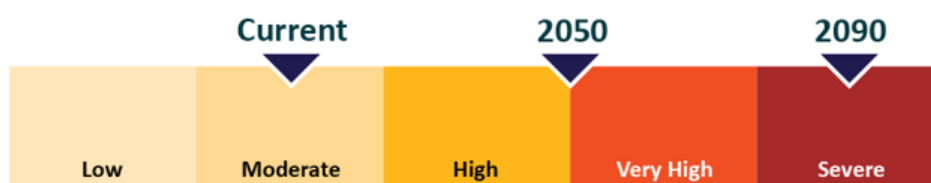
3.2. Non-financial corporates

Non-financial corporates own and operate a significant share of the assets, infrastructure and supply chains underpinning the Australian economy. Their decisions on asset location, project design, capital investment and ongoing operations directly influence how businesses and the systems they depend on withstand physical climate hazards.

Australia's National Adaptation Plan recognises the responsibility of businesses to understand and manage climate risks to their own assets and activities, alongside the wider role of governments and other stakeholders in enabling adaptation.

The Cost of Inaction: Scaling Vulnerabilities

Australia's 2025 National Climate Risk Assessment (NCRA) illustrates why corporate action on adaptation and resilience is becoming increasingly important. It rates the current risk to the real economy as moderate, rising to high–very high by 2050 and severe by 2090, assuming no change in adaptation investment or approach.³⁷



National impact ratings for the risk to the real economy at current, 2050 and 2090 timeframes (Source: Australian Government, National Adaptation Plan (2025), Figure 6.1)

These risks extend beyond damage to individual assets. Disruptions to critical infrastructure, essential services and supply chains, alongside higher insurance costs and reduced labour productivity, can compound across businesses and the wider economy. The Australian Government's 2023 Intergenerational Report estimated that higher temperatures alone could reduce Australia's cumulative economic output by \$135–423 billion to 2063 through their direct impact on labour productivity, depending on the warming scenario and without changes to working practices.³⁸

Making adaptation and resilience investment more visible

Australian companies are increasingly identifying physical climate risks, but the link between those risks and financial and investment decisions remains less developed. A recent review of 159 AASB S2-aligned climate reports from ASX-listed entities highlights this gap. While Australian organisations have made progress in climate governance and scenario analysis, disclosure of adaptation and resilience investment remains limited, with little detail on how physical climate risk assessments inform capital allocation.³⁹

Adaptation and resilience investment is also often embedded within ordinary business expenditure, including asset upgrades, routine renewals, maintenance and operational changes, rather than undertaken as standalone projects. As a result, companies may already be investing in resilience without consistently identifying or quantifying the qualifying components of their capital expenditure (CapEx) and operational expenditure (OpEx). This can limit visibility of how investment is responding to material physical climate risks, both within businesses and for lenders, investors and insurers.

Where an A&R taxonomy could add most value for non-financial corporates

For non-financial corporates, an A&R taxonomy could help integrate resilience into investment decisions and make qualifying expenditure more visible, particularly where resilience measures are embedded within broader projects and ordinary business activities. Specifically, it could be used to:

- **Inform investment planning and asset management:** Provide common criteria for identifying qualifying A&R measures from early project design through to asset upgrades, renewals and ongoing operations, alongside existing risk assessments and technical standards.
- **Identify and track A&R expenditure:** Help companies recognise qualifying components of broader CapEx and, where applicable, OpEx, supporting internal budgeting, forecasting and investment monitoring.
- **Support sustainable finance:** Establish consistent eligibility criteria for identifying A&R expenditure under sustainable finance frameworks, including green, social, sustainability and resilience loans and bonds.
- **Strengthen climate-related reporting:** Support more consistent identification and disclosure of A&R activities and expenditure, strengthening the connection between material physical climate risks, adaptation strategies and capital allocation.

Together, these applications could help companies better manage physical climate risk, embed adaptation and resilience into investment decisions and make proactive adaptation and resilience expenditure more visible to lenders, investors and insurers.

Greater consistency in how adaptation and resilience investment is identified could support access to finance, strengthen business continuity and asset performance, and help build resilience across businesses, supply chains and communities.

Applications of an A&R taxonomy for non-financial corporates

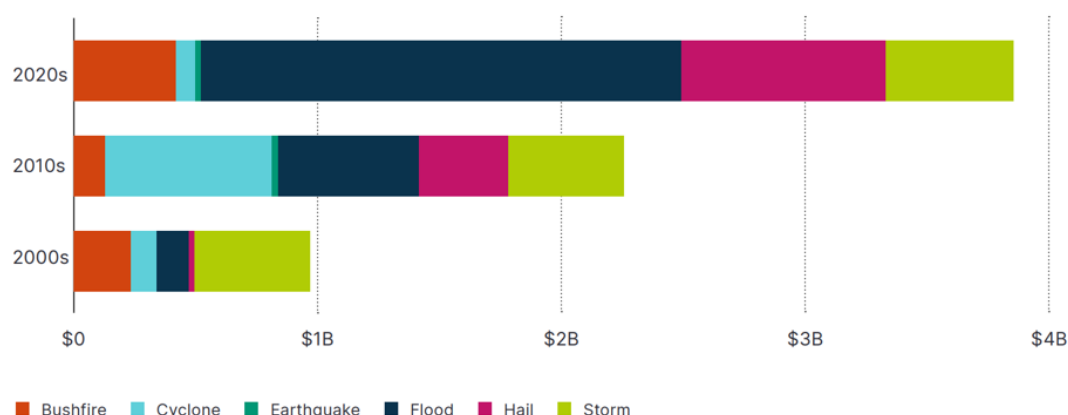
The table below identifies potential applications of a sustainable finance taxonomy with substantial contribution criteria for adaptation and resilience across different non-financial corporate functions.

Corporate function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Governance and strategy	Integrating A&R into business strategy and investment priorities	Provides common criteria for identifying qualifying activities and measures that respond to material physical climate risks. Companies could apply these alongside existing risk assessments and sector-specific frameworks when setting investment priorities.	✓ Supports more consistent consideration of A&R in corporate strategy and investment decisions. ✓ Provides a common reference for engagement with lenders, investors and insurers.
Capital planning and asset management	Identifying qualifying A&R measures within new projects, asset upgrades and renewals	Provides criteria for identifying qualifying A&R measures and expenditure within broader CapEx, including where resilience is embedded in routine asset renewals or additional upgrades. These criteria could inform decisions from early project design through to ongoing asset management, alongside climate-risk assessments, engineering analysis and relevant standards.	✓ Helps identify qualifying A&R expenditure within broader projects and asset renewal programs. ✓ Supports earlier consideration of resilience measures in project design, investment appraisal and asset management.
Operations, maintenance and procurement	Recognising A&R within operational expenditure and supply-chain decisions	Provides a consistent basis for identifying qualifying operational measures and OpEx, where relevant criteria are developed. Companies could also draw on A&R criteria in procurement specifications and supplier engagement.	✓ Improves visibility of resilience measures embedded in routine operations and maintenance. ✓ Supports more consistent A&R expectations across procurement and relevant supply-chain relationships.
Products and business development	Identifying products and services that enable customers to adapt and build resilience	Provides criteria for identifying qualifying products and services that help other businesses, assets and activities adapt to physical climate risks and build resilience. Companies could use these criteria to identify revenue from qualifying resilience solutions and substantiate related product claims.	✓ Helps companies identify and track revenue from qualifying resilience products and services. ✓ Provides a more consistent basis for communicating the resilience benefits of these solutions to customers and investors.
Treasury and corporate finance	Incorporating A&R into sustainable finance frameworks and use-of-proceeds financing	Provides common eligibility criteria for identifying qualifying A&R activities, measures and expenditure, including resilience measures embedded within broader projects. Companies could incorporate these criteria into sustainable finance frameworks, with guidance on eligible expenditure and project boundaries supporting consistent project selection, eligibility assessment, allocation and reporting for green, sustainability and resilience loans and bonds.	✓ Helps identify a pool of eligible A&R expenditure for financing. ✓ Supports clearer eligibility criteria and more robust use-of-proceeds claims. ✓ Gives capital providers more consistent information about financed expenditure.

Corporate function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Internal budgeting and management reporting	Identifying, budgeting and tracking A&R expenditure across business budgets and forecasts	Provides consistent criteria for aggregating A&R CapEx and, where applicable, OpEx identified across business units. This information can be incorporated into internal budgets, forecasts and management reporting alongside physical climate risk assessments and investment plans.	✓ Improves visibility of planned and actual A&R expenditure across the business. ✓ Supports internal monitoring of A&R investment against budgets and strategic priorities.
Disclosure and reporting	Reporting A&R activities and expenditure as part of climate-related financial disclosures	Provides consistent criteria for identifying qualifying A&R activities and expenditure, helping companies demonstrate how their investments respond to material physical climate risks. This information could support relevant climate-related disclosures (under AASB S2), including information on adaptation strategies and capital deployment (i.e. Paragraph 29(e)).	✓ Strengthens the connection between disclosed physical climate risks, adaptation strategies and related investment. ✓ Improves the consistency and comparability of information available to lenders, investors and other stakeholders.

3.3. Insurers

Australia's insurance sector is already absorbing a significant share of economy-wide losses from extreme weather events. Between 2022 and 2026, insurers received more than 409,000 claims relating to declared catastrophes and significant weather events, at a total insured cost of \$11.3 billion.⁴⁰



Average incurred claim costs per peril, adjusted for inflation (Source: ICA (2026), Insurance Catastrophe Resilience Report 2025-26)

For insurers, physical climate risk is therefore not only a question of absorbing losses after disasters. It is increasingly a question of whether the underlying risk can be reduced before those losses occur. As climate-related risks increase, higher expected losses can flow through to claims costs and premiums, contributing to pressure on insurance affordability and availability.

APRA's 2026 Insurance Climate Vulnerability Assessment (ICVA) found that Australian home insurance premiums increased by an average of 7.2 per cent annually between 2010 and 2025, compared with annual wage growth of 3.1 per cent.⁴¹

Under its higher physical-risk stress scenario, expected annual weather-related losses across Australian homes increase from less than \$7 billion in 2024 to more than \$16 billion by 2050.⁴²

Rising insurance costs can widen the protection gap, leaving households more exposed to uninsured losses, increasing credit risks for mortgage lenders and placing greater pressure on government disaster assistance.⁴³

Reducing the underlying risk is hence becoming increasingly important to maintaining insurance availability. APRA identifies reducing underlying weather-peril risk as likely to be the most effective long-term approach to addressing this gap, including through protective infrastructure, more resilient buildings and retrofits to existing homes.⁴⁴

From identifying risk to recognising risk reduction

Insurers already have sophisticated capabilities for assessing physical climate risk. Catastrophe modelling, claims data and actuarial and pricing practices help insurers identify where weather-peril risks are concentrated and estimate their potential financial impacts. APRA's ICVA, for example, drew on the modelling and pricing practices of Australia's five largest general insurers.⁴⁵

A key challenge for insurers is recognising resilience measures undertaken by policyholders and assessing their effectiveness in reducing risk. Insurers need confidence that these measures are appropriate to the relevant hazard and asset, and that their risk-reduction benefits can be demonstrated.⁴⁶ Existing technical standards, rating schemes and resilience programs support these assessments, but their application may differ across hazards, assets and jurisdictions.

Resilience measures are also frequently embedded within routine maintenance and asset upgrades rather than undertaken as standalone projects. Consistently identifying these measures, alongside evidence of their effectiveness, could help insurers recognise resilience improvements through underwriting and annual policy renewals.

A sustainable finance taxonomy could complement these approaches by providing a common financial classification through which credible resilience measures can be recognised more consistently across insurers and the wider financial system.

Where an A&R taxonomy could add most value for insurers

For insurers, the clearest near-term value of an A&R taxonomy could be to provide a common classification for recognising credible resilience measures, including those embedded in routine maintenance and asset upgrades. Specifically, it could be used to:

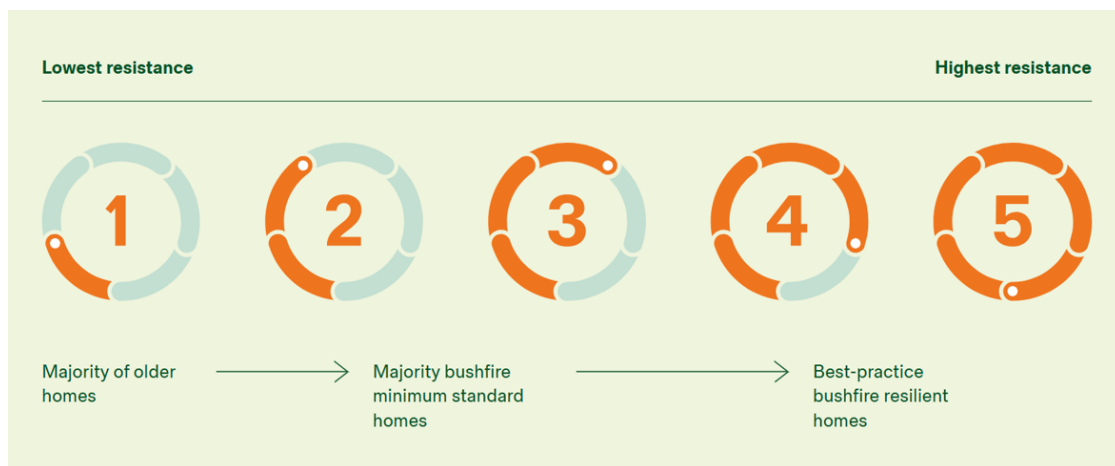
- **Support underwriting:** Enable consistent recognition of qualifying resilience measures alongside evidence of demonstrated risk reduction, complementing existing technical and actuarial assessments.
- **Align insurance incentives with financing:** Provide shared criteria that insurers, banks and governments can use to recognise the same resilience measures across insurance incentives, lending and grant programs.
- **Support reinsurance:** Help insurers identify and aggregate recognised resilience measures across insured portfolios, providing additional information that could inform reinsurance assessment and negotiations.

Together, these applications could strengthen incentives for investment in adaptation and resilience measures that credibly reduce risk at an asset and network level. Over time, greater recognition of demonstrated risk reduction could support broader efforts to maintain insurance availability and affordability for households, businesses and communities exposed to climate hazards.

Case study: Embedding resilience ratings in the taxonomy to support consistent recognition across the financial system

The [Bushfire Resilience Rating home self-assessment app](#) provides an example of how existing tools could support the identification and recognition of resilience investments. The tool combines location-specific bushfire risk with an assessment of a home's resilience to identify recommended improvements. Once completed and certified, these improvements can be recognised by participating insurers.

APRA's 2026 ICVA highlights the scheme as an example of how shared risk information can support financial recognition of resilience investment.⁴⁷



Bushfire Resilience Rating scale, illustrating increasing levels of resistance from 1 (lowest) to 5 (highest), with indicative ratings for older homes, homes built to minimum bushfire standards and best-practice bushfire-resilient homes. (Source: Resilient Building Council)

An A&R taxonomy could recognise established rating schemes where their standards and thresholds align with relevant taxonomy criteria, avoiding duplication of existing technical assessments.

For example, the same approach could extend to cyclone-resilient roof upgrades. A household could finance an eligible upgrade through bank lending, access an applicable government grant and have the completed resilience improvements recognised by an insurer.⁴⁸ Shared taxonomy criteria could help align eligibility across these applications, while leaving risk assessments and financial decisions to the relevant institutions.

Applications of an A&R taxonomy for insurers

The table below identifies potential applications of a sustainable finance taxonomy with substantial contribution criteria for adaptation and resilience across different insurance functions.

Insurance function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Underwriting	Recognising demonstrated risk reduction in underwriting and annual policy renewals	Provides common criteria for identifying qualifying resilience measures, including those embedded in routine maintenance and asset replacement. Draws on existing standards and evidence of risk-reduction performance to complement insurers' risk assessments.	✓ Supports more consistent recognition of resilience measures in underwriting assessments. ✓ Helps translate recognised risk-reduction measures into a more consistent basis for underwriting decisions. ✓ Strengthens transparency around the resilience measures considered in underwriting decisions.
Reinsurance	Aggregating and communicating recognised resilience measures across insured portfolios	Provides criteria to identify and aggregate qualifying resilience measures across insured assets, enabling insurers to communicate recognised resilience characteristics and supporting evidence to reinsurers.	✓ Supports more consistent assessment of portfolio resilience and provides additional information for reinsurance negotiations, alongside evidence of risk reduction. ✓ Could support future resilience-linked reinsurance and insurance-linked securities, including catastrophe bonds.
Product design	Recognising eligible resilience measures through existing products, incentives and customer engagement.	Provides shared criteria for qualifying measures and recognised external rating tools, enabling insurers, banks and governments to assess the same resilience upgrade for their respective products and programs.	✓ Supports alignment between insurance incentives, resilience lending and government grants. ✓ Helps corporates and large asset owners demonstrate portfolio-level resilience in insurance negotiations, potentially informing insurance terms. ✓ Encourages investment in measures with demonstrated risk-reduction benefits.

Insurance function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Claims and supply-chain procurement	Integrating resilience into repairs, rebuilding and supplier procurement	Identifies qualifying resilience improvements within repair and reinstatement works and provides a common reference for resilience-related requirements in procurement and engagement with contracted builders and suppliers.	✓ Supports opportunities for more resilient reinstatement following damage. ✓ Creates greater consistency in recognising resilience-related work across repair and procurement supply chains.
Disclosure and reporting	Climate-related disclosure and reporting	Provides a common classification for consistently reporting adaptation and resilience-related investments, products and activities.	✓ Supports credible and comparable reporting of adaptation and resilience activities. ✓ Strengthens transparency around adaptation and resilience-related activities. ✓ Could support aspects of climate-related financial disclosure by helping insurers consistently identify and report adaptation and resilience activities linked to physical climate risks.
Institutional investment	Fixed income portfolio allocation (e.g. investing in labelled bonds that finance adaptation and resilience activities)	Provides criteria for identifying whether activities and expenditure financed through labelled bonds qualify as adaptation and resilience, supporting investment selection, portfolio allocation and reporting.	✓ Supports consistent identification of adaptation and resilience investments. ✓ Improves transparency and comparability of A&R allocations across fixed income portfolios.
	Real asset investments (e.g. resilient infrastructure equity investments)	Several of the use cases identified for investors and asset managers are also relevant to insurers in their role as institutional investors. Refer to the 'Institutional Investors' section below for more detailed applications.	

3.4. Institutional investors

Physical climate risks are becoming increasingly material to investment portfolios, including the \$3.2 trillion held in APRA-regulated superannuation funds and managed on behalf of Australian beneficiaries.⁴⁹ Climate hazards directly and indirectly impact the companies and assets that investors own. Floods, fires, and extreme heat, for example, can pose a risk to investors by affecting asset valuations or impairing a company's or borrower's ability to repay loans or pay dividends. Physical climate risks can also exacerbate other risks that investors manage, such as credit and liquidity risk.⁵⁰

A recent analysis of Australia's 30 largest superannuation funds found that under a high warming scenario (3.7°C by 2100), investment returns could fall by up to 46 per cent by 2050, largely due to physical climate-related risks.⁵¹

Adaptation and resilience can help protect investment value at both an asset and systems level. At an asset level, particularly in the infrastructure sector, adaptation can improve the cashflow of portfolio companies by safeguarding revenue-generating services from physical risk and protecting long-term value.⁵² At a macro level, investors – especially diversified universal asset owners – focus on the resilience of the broader networks and systems that underpin the resilience of individual assets. For example, if a climate hazard affects a power grid, it may also affect transport and communications networks, increasing overall economic losses that impact portfolio returns.⁵³

The Investor Group on Climate Change's 2025 survey of Australian institutional investors found that, in the prior year, 43 per cent of investors had assessed physical risk, while only 22 per cent of investors had invested in adaptation solutions.⁵⁴ Expanding the Australian Taxonomy could help address this gap by building a shared understanding of adaptation and resilience activities that will improve systemic resilience to physical climate risks and support strategic investment in climate change adaptation.⁵⁵

Where an A&R taxonomy could add most value for institutional investors

For institutional investors, an A&R taxonomy could support the management of physical climate risk at a systems and asset level. Specifically, it could be used to:

- **Support systemic resilience:** Asset-level resilience is dependent on resilient systems and networks. A shared classification framework could help consistently identify, track and report investment in activities and measures that contribute to resilience across the economy.
- **Scale fixed income investments:** Investors can direct capital into adaptation and resilience through labelled bonds and other use-of-proceeds instruments. An A&R taxonomy could provide consistent criteria for identifying and reporting eligible expenditure, supporting the development and comparability of adaptation and resilience-labelled investment opportunities.
- **Inform real assets investment:** Provide common criteria to support the screening and due diligence of infrastructure, property and other real asset investments for credible adaptation and resilience measures.

Together, these applications could help institutional investors understand whether and how physical climate risks are being managed across their portfolios, identify credible adaptation investment opportunities, and protect the long-term value of assets held for Australian beneficiaries.

Applications of an A&R taxonomy for asset owners

The table below identifies potential applications of a sustainable finance taxonomy with substantial contribution criteria for adaptation and resilience across different asset owner functions.

Investment function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Investment strategy and governance	Developing an adaptation and resilience plan and setting portfolio-level objectives	Provides a classification system that can inform an adaptation and resilience plan and underpin objectives to improve portfolio resilience to physical climate risk and increase allocation to credible adaptation solutions.	✓ Consistent portfolio-level adaptation and resilience objectives. ✓ Supports increased allocation to adaptation and resilience and more consistent monitoring of portfolio-level objectives.
	Portfolio-level risk management and ongoing monitoring	Provides a consistent basis for identifying qualifying adaptation and resilience activities and measures across portfolios and wider systems.	✓ Supports consideration of investments that contribute to the resilience of systems and networks on which diversified portfolios depend.
	Writing adaptation and resilience requirements into investment mandates	Provides a common language for what asset managers must deliver and report.	✓ Can be used to inform consistent requirements for asset managers. ✓ Enables more comparable reporting.
Disclosure	Portfolio-level climate-related disclosure (physical risk reduction)	Provides criteria for identifying credible adaptation and physical risk-reduction activities and expenditure.	✓ Can help substantiate sustainability claims ✓ Improves the consistency and comparability of reporting. ✓ Reduces greenwashing risk.
Stewardship and engagement	Asset- and company-level engagement on physical risk, adaptation and resilience	Supports investor engagement by providing a shared reference for assessing adaptation and resilience. For example, investors can ask companies to report taxonomy-aligned adaptation and resilience CapEx. Provides an internal benchmark to compare adaptation and resilience actions across assets and companies.	✓ Targeted and consistent engagement on actions that would increase systemic resilience in line with Australia's adaptation and resilience objectives.
	Systems stewardship and policy advocacy	Provides an anchor for advocacy with the broader market and governments. Supports engagement with governments on adaptation and resilience beyond individual assets or companies, where wider system or place-based interventions are needed to support resilience.	✓ Better public-private coordination on adaptation and resilience investment to build systemic resilience.

Investment function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Strategic asset allocation	Use-of-proceeds fixed income (e.g. labelled bonds)	Provides criteria for identifying credible adaptation and resilience activities and investments.	✓ Increases comparability and could result in lower due diligence costs. ✓ Supports the development of a verifiable opportunity pipeline for labelled bonds.
	Real asset allocation (real estate; infrastructure; natural resources)	Identifies credible adaptation and resilience activities and assets that can help safeguard, or maintain long-term value. Where relevant criteria are developed, it could also help identify potential maladaptation.	✓ Increases the resilience of real assets within an investment portfolio. ✓ May reduce due diligence costs and supports comparability.

Applications of an A&R taxonomy for asset managers

The table below identifies potential applications of a sustainable finance taxonomy with substantial contribution criteria for adaptation and resilience across different asset manager functions.

Investment function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Investment strategy and governance	Informing internal investment frameworks and implementing investment mandates	Provides activity-level criteria that supplement in-house investment frameworks/mandates.	✓ Consistent, credible internal standards. ✓ Lowers reliance on bespoke definitions and approaches. ✓ Supports engagement with asset allocators.
Investment decision-making	Use-of-proceeds fixed income investing (e.g. labelled bonds)	Provides criteria for assessing whether a labelled instrument's proceeds finance credible adaptation and resilience activities.	✓ May reduce due diligence costs and support comparability between instruments. ✓ Supports the development of a verifiable opportunity pipeline for labelled bonds.
	Equity investing (e.g. infrastructure assets)	Provides criteria for identifying credible adaptation and resilience activities and measures within investee assets and, where relevant, identifying potential maladaptation.	✓ Can streamline due diligence processes related to adaptation and resilience investments. ✓ Supports identification of measures that can reduce physical climate risk and help protect long-term asset value. ✓ Can support business continuity and the resilience of revenue-generating services.
Stewardship and engagement	Engagement with portfolio companies	Provides a common reference for credible adaptation and resilience activities and measures that can inform engagement with portfolio companies and related disclosure requests.	✓ Enables more consistent and comparable engagement with portfolio companies. ✓ Supports better disclosures by portfolio companies.
Disclosure and reporting	Climate-related reporting (physical risk mitigation)	Provides criteria for identifying credible climate risk mitigation activities to report back to asset allocators and for mandatory disclosure.	✓ Provides mandate accountability. ✓ Can help substantiate sustainability claims. ✓ Improves the consistency and comparability of reporting.

3.5. Government

Australia's public capital system plays a foundational role in financing and catalysing private finance for adaptation and resilience. Governments are highly exposed to physical climate risks. They own and operate critical public infrastructure and assets, underwrite segments of the insurance market, and ultimately bear the growing fiscal burden of disaster relief and recovery.

Governments are also uniquely positioned to shape the conditions for private capital flows, through public expenditure, policymaking and regulation. Given that public funding alone cannot meet the scale of investment required, public finance can play an important catalytic role in mobilising private capital for adaptation and resilience.

Currently, the Australian Government spends around \$1.6 billion annually on disaster recovery, far beyond the \$215 million it budgets for.⁵⁶ Treasury analysis indicates that the average Commonwealth expenditure under the Disaster Recovery Funding Arrangements in 2090 could increase by up to 500 per cent under 2.0°C of warming.⁵⁷ These growing fiscal pressures strengthen the case for earlier and more coordinated investment in adaptation and resilience.

Where an A&R taxonomy could add most value for government entities

An A&R taxonomy could support federal, state and local government entities across public expenditure, policymaking and regulation. Specifically, it could be used to:

- **Support sovereign and semi-sovereign financing:** Provide a decision-support framework for identifying credible resilience investment within large-scale infrastructure and other public expenditure and help governments communicate their approach to managing physical climate risk to sovereign and semi-sovereign bond holders.
- **Coordinate public-private investment:** Provide a shared language between government and private capital, helping align public funding, concessional finance and other support with private investment.
- **Support evidence-based policymaking:** Provide a more consistent basis for identifying and reporting adaptation and resilience investment across the economy. Government and regulators could use this information to measure progress, improve transparency, identify potential investment gaps and inform more targeted policy and funding decisions.

Together, these applications could help governments use public funding, financing and policy to crowd in private investment in adaptation and resilience by providing a clearer, shared basis for identifying credible activities and measures. Greater alignment between public and private financing could help scale adaptation and resilience investment while reducing the growing fiscal costs of physical climate impacts.

Applications of an A&R taxonomy for government departments and agencies

The table below identifies potential applications of a sustainable finance taxonomy with substantial contribution criteria for adaptation and resilience in public expenditure, policymaking and regulation.

Government function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Public expenditure	Grants	Could be used to identify eligible funding activities, inform or support assessment criteria, and ensure grantees meet government objectives in relation to climate risk, resilience, adaptive capacity, avoiding maladaptation and doing no significant harm to other environmental objectives.	✓ Supports the direction of public capital towards activities that contribute to adaptation and resilience while reducing the risk of maladaptation and other environmental harms. ✓ Provides applicants with a standardised benchmark and clear criteria to inform projects and support high-quality, comparable grant applications.
	Procurement	Could be used to inform resilience requirements and assessment criteria in procurement and tender processes, for example, for proven performance under heat, flood and fire, durability, and hazard resistance. ⁵⁸	✓ Helps governments plan, design and procure infrastructure and buildings in line with the National Adaptation Plan.
	Public-private partnership (PPP) processes	Could be used to identify qualifying adaptation and resilience activities and measures within PPP project selection, appraisal and contracting.	✓ Establishes a standardised benchmark for identifying climate adaptation activities and measures that can be financed, supporting the bankability of adaptation projects and resilient infrastructure.
	Government-backed reinsurance arrangements (Australian Reinsurance Pool Corporation)	Could provide criteria for recognising qualifying household and strata resilience measures.	✓ Provides a consistent basis for identifying recognised risk-reduction measures that may inform program design and insurance incentives.
Disclosure	Public sector disclosures	Could be used to identify and assess approaches to managing physical climate risks and adaptation and resilience opportunities in public-sector climate reporting.	✓ Supports the information architecture needed for Government to identify climate-related risk management and opportunity metrics in line with Australia's adaptation and resilience objectives.
Policy alignment	Policy and regulatory alignment	Can be used as an evidence-based policy tool to guide policy and regulation that targets economic activities covered by the taxonomy. Supports the implementation of a range of policy instruments, including climate-related disclosures, transition planning, and sector-specific standards.	✓ Policy consistency and interoperability. ✓ If used consistently in climate-related disclosures, could provide decision-useful information for regulators and governments on where investment in adaptation and resilience is occurring.

Government function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Regulation	Climate-related reporting guidance and capacity building	Can be used to inform public disclosures on climate risk and adaptation and resilience opportunities.	✓ Consistent metrics and data to support more efficient and useful disclosures.
	Anti-greenwashing enforcement	Provides a science-based classification system for making and assessing sustainability-related claims specific to adaptation and resilience.	✓ Transparent, consistent and comparable sustainability claims, which lowers the risk of greenwashing across the financial system.

Applications of an A&R taxonomy for government specialist investment vehicles

Specialist investment vehicles (SIVs), including the Clean Energy Finance Corporation (CEFC), the National Reconstruction Fund Corporation (NRFC) and the Northern Australia Infrastructure Facility (NAIF), help accelerate investment in businesses and projects that support Australia's economic, environmental and social objectives in accordance with their mandates. Given that government funding alone cannot meet national investment needs, SIVs play a critical catalytic role in crowding in private capital.⁵⁹

The CEFC is Australia's 'green bank', and as a specialist climate investor, has capabilities and a track record in renewable energy, energy efficiency and low emissions financing. While the CEFC's Investment Mandate is to invest in activities that facilitate both the achievement of Australia's greenhouse gas emissions reduction targets and the increased flows of finance into the clean energy sector, further consideration of adaptation and resilience in its mitigation investments is crucial.⁶⁰

The Australian Government's National Adaptation Plan identifies updating the CEFC's Investment Mandate Direction to require the CEFC to "consider physical climate risk and co-benefits of adaptation and resilience" as a likely priority action for Government.⁶¹ There is also potential scope for an amendment to the CEFC Act to expand the CEFC's investment remit to include climate adaptation and resilience in its own right given its ongoing increase as a matter of national significance. Such an amendment would enable the CEFC to invest directly in and catalyse increased flows of finance into adaptation and resilience activities, expanding and complementing their current role in climate mitigation.

The NRFC invests in projects that strengthen key areas of the economy and deliver long-term national benefits, including renewable energy and transport. The NRFC considers environmental, social and governance (ESG) matters in its direct and indirect investments, beginning with due diligence.⁶² The NAIF provides concessional finance to infrastructure projects that support economic diversification and resilience across northern Australia. NAIF's investment mandate incorporates climate considerations, including ensuring resilient infrastructure.⁶³

The table below identifies potential applications of a sustainable finance taxonomy with substantial contribution criteria for adaptation and resilience for government SIVs.

Government function	Application	Role of an A&R taxonomy	Potential impact / outcomes
SIVs	Mandate-consistent screening	Provides clear, science-based criteria to verify adaptation co-benefits.	✓ Helps verify adaptation and resilience co-benefits to ensure public capital deployed under existing mandates is resilient to physical climate hazards. ✓ Supports alignment with government policy priorities, such as the National Adaptation Plan.
	Risk mitigation and investment opportunity identification	Identifies and defines activities and measures that mitigate physical climate risks.	✓ Supports the identification, structuring and scaling of credible adaptation and resilience investments and co-benefits. ✓ Supports the design of financial covenants by providing clear, standardised criteria for adaptation and resilience measures.
	Concessional and blended finance	Establishes standardised technical criteria for activities and measures eligible for concessional/blended finance.	✓ Identifies which adaptation activities (or resilience co-benefits) qualify for concessional finance, helping developers design eligible projects or products. ✓ Creates a shared language for public and private co-investors, providing a common basis for determining eligibility and supporting efforts to crowd in commercial capital.
	Due diligence	Provides clear, science-based criteria for identifying whether a project or business substantially contributes to adaptation and resilience.	✓ May reduce duplication in due diligence and improve efficiency.
	Aggregation and pooled finance	Clearly defines and classifies resilient assets and adaptation activities and measures, supporting the aggregation of diverse or small-scale projects into pooled structures.	✓ Helps scale adaptation and resilience finance through pooled structures, and improves the visibility of adaptation and resilience opportunities for institutional investors.
	Refinancing	Creates a common language for adaptation and resilience between SIVs and commercial debt markets.	✓ May help facilitate refinancing pathways into commercial debt markets as projects mature and derisk.
	Annual impact reporting and disclosure	Establishes baseline metrics and performance indicators to assess alignment.	✓ Enhances portfolio transparency and enables consistent, comparable reporting.

Applications of an A&R taxonomy for central financing authorities

The Australian Office of Financial Management (AOFM) is Australia's sovereign debt manager. The AOFM issues bonds, including green bonds, on behalf of the Australian Government. Its Green Bond Framework identifies climate change adaptation as one of the Government's three "Green Goals", which all eligible expenditures must align with. Eligible expenditures can include operating, capital, and balance sheet expenditures, including:

- direct and indirect investments (such as physical and intangible assets);
- transfers to public or private entities (through grants, loans, and subsidies and contributions), including international transfers such as overseas development aid; and
- tax expenditures that meet the Green Bond Criteria (such as concessional rates that reduce the rate of tax that applies to certain groups).⁶⁴

Australia's semi-sovereign debt managers, including the Treasury Corporation of Victoria (TCV), Queensland Treasury Corporation (QTC), and New South Wales Treasury Corporation (TCorp) also issue green bonds to finance eligible projects and assets.⁶⁵ Eligible Green Expenditures under TCV's Sustainable Bond Framework include those that contribute to climate change adaptation and resilience. Where applicable, screening criteria for Eligible Green Expenditures under TCV's Framework have been informed by the Australian Taxonomy (for climate change mitigation).⁶⁶ QTC's Sustainable Bond Framework includes climate adaptation and resilience as a category of Eligible Green Expenditure. QTC's Framework similarly notes that it will consider opportunities to align elements of the Framework to the Australian Taxonomy as it is "developed, tested, and implemented in the market".⁶⁷ Eligible Green Projects under the NSW Sustainability Bond Framework include projects that support climate change adaptation, consistent with the NSW Climate Change Adaptation Strategy and State Disaster Mitigation Plan.⁶⁸

While climate adaptation and resilience are recognised as key objectives in many green bond frameworks, a majority (80 per cent) of bonds globally allocate between 0 and 10 per cent of proceeds to adaptation initiatives.⁶⁹ This trend is reflected domestically: of the \$2 billion in Green Treasury Bonds issued by the AOFM in 2024-25, only 4 per cent was allocated to climate change adaptation.⁷⁰ Despite this, there is evidence of strong investor demand for labelled bonds containing eligible adaptation and resilience expenditures.⁷¹

Expanding the Australian Taxonomy to adaptation and resilience would help translate high-level policy goals into standardised, activity-level criteria. Central financing authorities could use these criteria to identify eligible adaptation and resilience expenditure, particularly for major infrastructure projects. Institutional investors are increasingly interested in how governments are managing physical climate risk and are showing growing interest in adaptation and resilience within bond programs.⁷² By providing a consistent basis to determine qualifying adaptation and resilience expenditure across issuers, the taxonomy helps investors evaluate these opportunities while enabling governments to clearly communicate their approach to managing physical climate risk.

The table below identifies potential applications of a sustainable finance taxonomy with substantial contribution criteria for adaptation and resilience for central financing authorities.

Government function	Application	Role of an A&R taxonomy	Potential impact / outcomes
Sovereign and semi-sovereign debt	Labelled debt issuance (green, social or sustainability bonds)	Provides clear, standardised criteria for identifying qualifying adaptation and resilience expenditure within major infrastructure projects (e.g. desalination plants) and other eligible projects.	✓ Supports aggregation of qualifying expenditure for inclusion in labelled bond programs. ✓ May reduce investor due diligence costs by providing bond purchasers with standardised criteria to assess qualifying resilience expenditure.
	Post-issuance impact reporting	Provides a consistent classification for identifying and reporting eligible adaptation and resilience expenditure over time, alongside relevant impact metrics and reporting frameworks.	✓ Simplifies annual reporting and mitigates greenwashing risk by providing credible and comparable criteria. ✓ Supports investor ESG reporting and sovereign risk analysis.

4. Resources

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"Moderate: The impacts are limited to a few local regions, with minimal effects on a state or national level and on vulnerable communities. There is moderate potential for loss of life or property damage, and limited disruption to community stability, livelihoods and natural systems. The risk to national security, resource security and environmental health is low, with minor threats to biodiversity and sustainable resource use.
High: The impacts affect multiple regions within one or 2 states, noticeably impacting vulnerable communities and moderately exacerbating inequalities. There is a high potential for loss of life and property damage, with noticeable disruptions to community stability, livelihoods and natural systems. National security, resource security and environmental health face high risks, with threats to biodiversity and sustainable resource use.
Very high: The impacts are significant across multiple states, affecting safety and security nationally. Vulnerable communities face substantial impacts, exacerbating inequalities. There is a very high risk of significant loss of life and property damage, with major disruptions to community stability, livelihoods and natural systems. National security, resource security and environmental health face substantial threats.
Severe: The impacts are widespread across multiple states, severely affecting vulnerable communities and exacerbating inequalities. There is a major risk of significant loss of life and property damage, with severe disruptions to community stability, livelihoods and natural systems. National security, resource security and public health face severe threats."
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