# Rules and Tools From Australia's Sustainable Finance Roadmap

## Insights for Canada's sustainable finance future

IISD REPORT

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International Institute for Sustainable Development



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Written by Jessica Kelly

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# Executive Summary

Compared to its global peers, Canada's financial system is behind when it comes to future-proofing investments—specifically, guiding private funds toward more climate- and nature-aligned activities. To seize growth opportunities for the clean-energy transition while mitigating climate-related financial risks, the system needs an upgrade. The federal government's plan to back national-interest projects and attract private investment is a timely opportunity to start modernizing the financial rules that govern it.

In recent years, Australia—through its Treasury, regulators, and the industry-led Australian Sustainable Finance Institute—has deployed numerous sustainable finance policy upgrades, both mandatory and voluntary, guided by a policy roadmap aimed at better aligning private financial activities with national emission reduction objectives and climate-aligned international finance norms. As a middle power peer and fossil fuel exporter, Australia is a compelling case study for Canada on how to advance sustainable finance despite ongoing fossil fuel activities.

One of the key strengths of the Australian approach is its focus on interoperability, not only for use with international markets but also for domestic reporting and analytical use. Other strengths that support credibility include key limits on transition labelling for natural gas energy and inclusion of Indigenous rights in taxonomy criteria. Canada can also learn from the omissions and vulnerabilities of the Australian approach by incorporating nature and biodiversity objectives alongside climate objectives early in the design process and avoiding market-distorting subsidies for fossil fuels.

A review of the Australian approach identifies five recommendations applicable to Canadat:

- **Prioritize interoperability** in two directions: 1) internationally, with other credible sustainable finance frameworks of key non-U.S. trade partners; 2) domestically, with reporting systems and regulatory bodies to ensure usability.
- **Accelerate domestic decarbonization** by championing policies that align private investment with national emissions reductions plans. Be intentional about prioritizing rules and tools for sectors that can decarbonize rapidly and compete in a net-zero future.
- **Exclude fossil fuel production activities from transition labelling.** Fossil fuels are neither a stable nor a growth industry in a net-zero future, and Canada's financial institutions are already considerably overinvested. Sustainable finance policy and labelling must support activities that move Canada's economy toward net-zero.
- **Integrate adaptation and nature** indicators and goals early to support key economic sectors and nature-positive investment. Back Canada's biodiversity and nature advantage by prioritizing its value through sustainable finance policies.
- **Uphold Indigenous rights** and establish social safeguards for corporate engagement with Indigenous Peoples. The financial sector should be a tool of reconciliation, respecting Indigenous rights and governance, while guiding investor activities toward best practices.

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# 1.0 Introduction

For Canada to achieve a net-zero and climate-resilient economy by 2050, the Government of Canada estimates that CAD 125 billion–140 billion in annual investment will be required, the majority of which will come from the private sector (Department of Finance Canada, 2024b). In the shadow of this challenge, Canada is championing 15 national-interest projects through its Building Canada Act and Major Projects Office. These actions are intended to create the infrastructure to diversify Canada's trade relationships, unlock new markets, and position Canada as both a clean-energy and conventional-energy superpower (Government of Canada, 2025). The stated goals of the Climate Competitiveness Strategy, announced in Budget 2025, outline whole-of-government action to mobilize public and private sector capital toward investments in clean-growth technologies. The newly announced Canada Strong Fund aims to seed billions of dollars in private investment for national-interest projects, as well as for projects in clean and conventional energy, critical minerals, agriculture, and infrastructure (Government of Canada, 2026b).

The call and need for private investment to build Canada is clear. But investments should move Canada closer to its emission reduction goals, not put them out of reach. As Canada resets its strategy for investment and trade, backs major projects, and facilitates investors, both domestic and international, it must also set the rules to align financial flows with net-zero progress and establish the tools and guidance to discern green, transition, and conventional economic activities. Without this guidance, Canada risks missing an important opportunity to catalyze the growth of a net-zero economy.

Canada's 2030 Emissions Reduction Plan states that without intentional sustainable finance design, Canada will not be able to accelerate the financial transition needed to meet emission reduction goals (Environment and Climate Change Canada, 2022). Failure to implement broad coverage of climate-aligned financial rules for Canada's financial sector will not only keep Canada lagging behind global peers but also keep Canada's financial institutions overinvested in fossil fuels at a time of global energy transition. Canada's financial sector is among the most heavily invested in fossil fuel activities (InfluenceMap, 2025; Toronto Climate Observatory, 2024). This puts its banks, pension funds, Crown corporations, and other financial entities at risk.

Government has limited fiscal capacity, but it does have the ability to set the rules and policy environment for private investment. A renewed effort to launch a Canadian taxonomy is now underway, supported by the Canadian Climate Institute in collaboration with the investor-led Business Future Pathways. Priority sectors and taxonomy indicators are to be identified over the next 2 years. The taxonomy development process will provide some overdue guidance for investment activities, but as a voluntary tool, it will have limited reach and impact.

Without complementary rules and tools like mandatory disclosure and transition plans and regulatory clarity regarding sustainability labelling and greenwashing, financial institutions will not be sufficiently motivated, and investors will not be sufficiently informed about climate risk. Canada needs a clear and comprehensive sustainable finance policy framework that provides guidance and builds confidence in sustainability-minded investors, both domestic and international.

This is the journey that Australia has been on—identifying and implementing the necessary rules and tools to help private finance mitigate climate risk, navigate transition and green investment, support national climate objectives, and align with international standards and practices. The Australian Treasury's Sustainable Finance Roadmap establishes clear policies, guidance, and interoperable tools for transition-minded investors and markets. It was implemented in parallel with the government's 2024 National Interest Framework, and its *Future Made in Australia* agenda[1] (The Treasury, 2025b), linking private investment to national clean energy, industrial, and decarbonization priorities.

The roadmap does not seek to reform mainstream finance, nor does it address the harms of adverse financing or pick winners for the market. Its scope focuses on supporting credible information for investors, containing greenwashing, monitoring risk, and aligning with national decarbonization priorities. It is also a marketing tool, helping to attract sustainable investment in Australia by providing a clear, credible, and cohesive policy framework. Australia's progress in this area has been championed by its financial sector, but it has also been achieved alongside domestic fossil fuel investments. Despite the policy contradiction of supporting fossil fuel development alongside clean-growth objectives, the former did not derail advancement of the latter for Australia. This is an important lesson for Canada as it wrestles with the sustainability of its fossil fuel sector.

This policy brief provides an overview of the rules and tools employed in Australia's Sustainable Finance Roadmap along with five recommendations that Canada should consider. As Canada opens its doors to investors, it must also upgrade and calibrate its financial system to align with climate realities and sustainability goals.

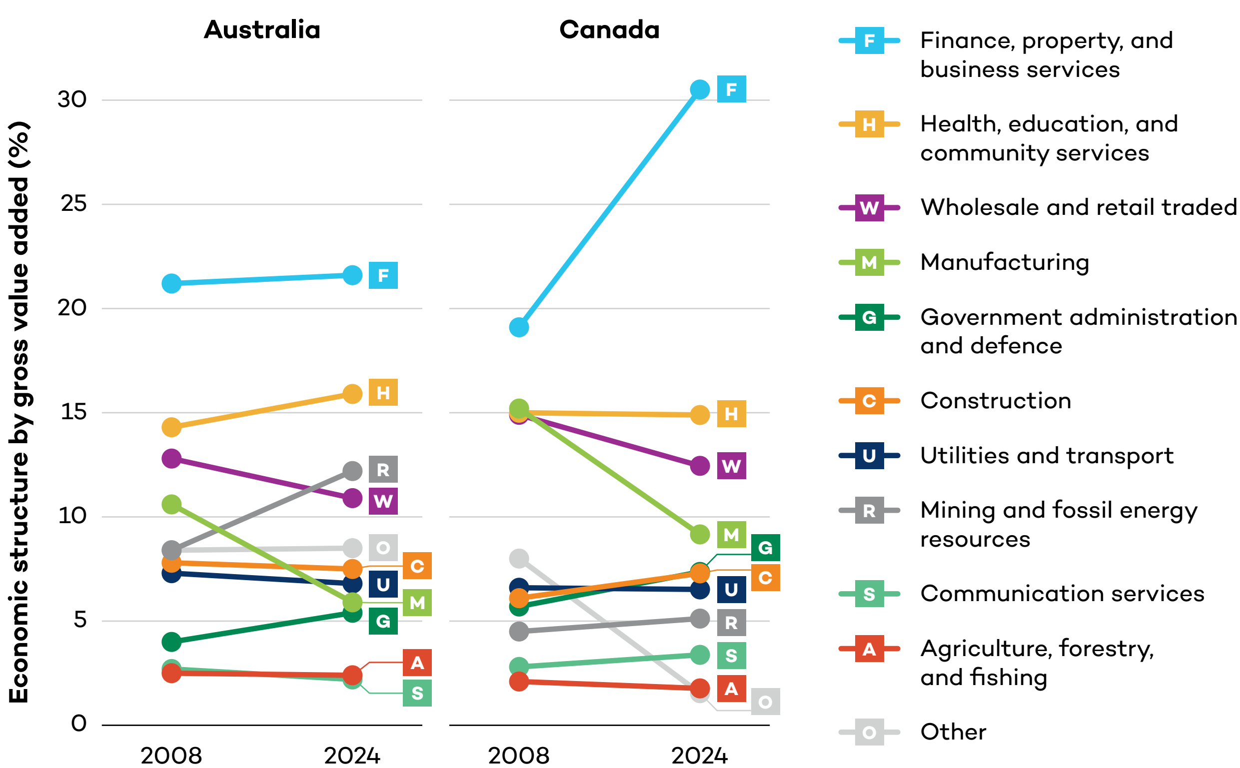
[1] *Investing in a Future Made in Australia* is the Australian Government's signature industrial strategy, launched to boost local manufacturing, create jobs, and secure net-zero goals by leveraging renewable energy and critical minerals. It targets major investments in green metals, hydrogen, and clean energy, aiming to transition the economy toward sustainable manufacturing. See more here: https://www.pm.gov.au/media/investing-future-made-australia

# 2.0 Why Australia Matters: Friendlier competition

Canada and the United States have been referred to as "cousins," but Australia is, in many ways, a closer relation to Canada with more attributes in common. As middle powers with key roles in international relations, Canada and Australia follow similar legal and political structures, occupy large strategic and coastal territories, and maintain open economies that rely heavily on trade, commodity exports, capital flows, and fossil fuel production. Australia is also comparable to Canada due to diverse and powerful subnational governments within its territories, as well as strong state recognition of Indigenous rights and titles.

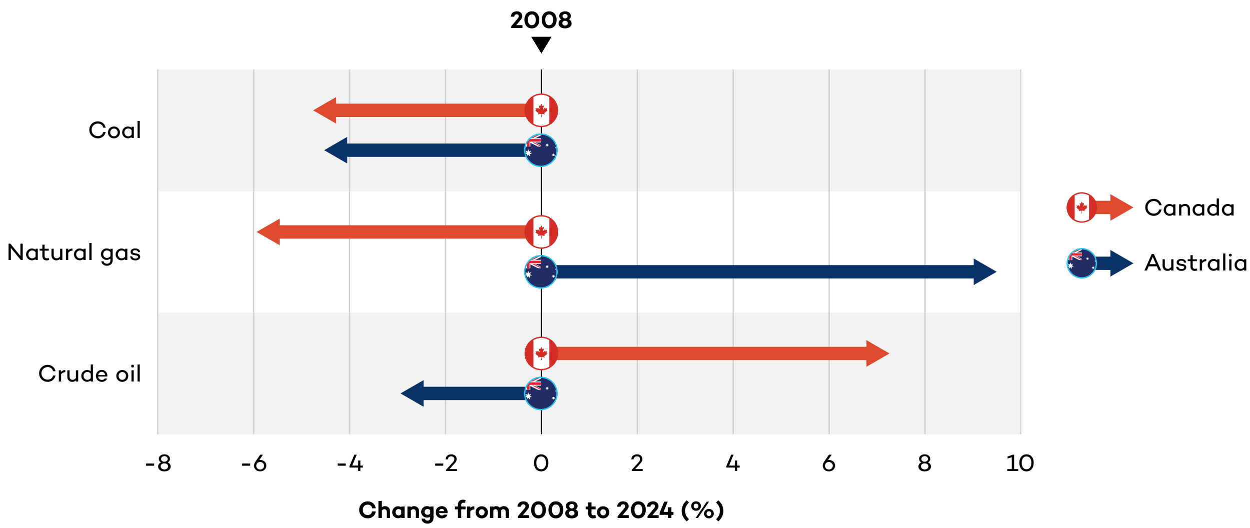
Historically, Canada and Australia have shared similar economic structures and export profiles. In 2008, both countries held roughly the same economic structure, with a few key distinctions in manufacturing and mining, but over the past decade and a half, key divergences have emerged. Australia has outpaced Canada in minerals and metals with significant growth in the export value of iron and steel (Figures 1 and 2). Canada, in turn, has experienced growth primarily through the export value of its crude oil, as well as growth in financial and property services sectors.

**Figure 1.** Changes in economic structure over time—Australia and Canada




Sources: Australian Bureau of Statistics, 2025a; Government of Canada, 2025b.

**Figure 2.** Changes in selected exports, as percent change in total merchandise export value




Source: Australian Bureau of Statistics, 2025b; Statistics Canada, 2026.

Over the past 15 years, both countries have grown as fossil fuel exporters—Canada through crude oil exports and Australia through liquefied natural gas (LNG) exports. Canada has largely phased out the production and export of coal, while Australia is still the second largest exporter of thermal coal and accounts for over half of global metallurgical coal exports (Office of the Chief Economist, 2025). In 2024, Canada and Australia were among the top emitters per capita, at 14 and 14.1 tonnes of carbon dioxide equivalent ($tCO_2e$) per capita, respectively (World Bank, 2024).

At the same time, both countries' federal governments have made recent commitments to become clean-energy superpowers (Government of Canada, 2026a; The Treasury, 2025b). The tension between conventional energy incumbencies and clean-energy emergence is reflected in the fiscal policies of both countries, where government subsidies to the fossil fuel sector continue even as they simultaneously promote investments in renewable energy. The use of fossil fuel subsidies can distort markets, encourage overconsumption, and lock countries into fossil fuel dependence (Do & Picciariello, 2026). This means sustainable finance policies will only go so far if governments continue to subsidize fossil fuel investments.

Despite national energy policies, at the international level, climate-related financial risk disclosures, investment taxonomies, and transition plans are quickly becoming the norm rather than the exception, with key investor markets, including the European Union (EU), the United Kingdom, and China. Both Australia and Canada are exposed to these foreign markets, and their financial industries must comply with sustainable finance rules imposed by foreign direct investors who hold stock. Australia's concerns about a future slowdown in foreign investment helped facilitate the financial industry's uptake of sustainable finance efforts (Nicole Yazbek-Martin, personal communication, July 15, 2025).

Additionally, climate extremes pose significant risks for property losses and migration. In Australia, where northern parts of the country may become uninhabitable due to extreme heat (Jones, 2025), the risks to the domestic economy and infrastructure have pushed climate-related risk mitigation onto the ledgers. Property and real estate make up almost 53% of Australia's personal wealth (UBS, 2025); in Canada, it surpasses 70% according to some estimates (Ayala, 2025).

Despite these warning signs, Canada's financial institutions remain among the largest global investors in fossil fuels (Banking on Climate Chaos, 2026; Oil Change International, 2025; The Toronto Climate Observatory, 2024). But the financial landscape is changing, and the trend of rapidly accelerating and cost-competitive clean-energy technologies like renewables, battery storage, and electric vehicles will only add pressure to phase out investments in fossil fuel energy. Investments in fossil fuels for export need to be calibrated against a volatile international market and overall declining global demand. Canada's financial sector needs a transition plan for this inevitability.

The United States's drastic change in trade, energy, and climate policy triggered record amounts of money being removed from funds that prioritize environmental, social, and governance in 2025, as investors pulled back due to perceived risks and reduced political backing, especially in the United States and Europe (Bioy et al., 2025; Lauerman, 2025). Australia, and to a lesser extent Canada, weathered this financial flux with more consistent net inflows of sustainable investment (Bioy et al., 2025). In this way, Canada and Australia can be viewed as competitors for global sustainable investment, with both offering relatively safe harbours for sustainability-minded investors. This signals an opportunity for Canada to draw in more private investment with a clean energy and sustainability focus. At present, Canada lacks the information and tools needed to guide investors toward credible sustainable investments. As Australia pulls ahead with a clear regulatory plan and industry guidance, Canada must offer its own sustainable finance system that is both credible and interoperable with international investors and peers. A national taxonomy is a start, but it must connect to a broader strategy that moves Canada's financial institutions away from climate- and nature-related financial risk.

# 3.0 Australia's Sustainable Finance Roadmap: Rules and tools

Australia's roadmap is built around three key objectives: 1) improve transparency on climate and sustainability, 2) enhance financial system capabilities, and 3) establish government leadership and international engagement on sustainable finance (Australian Government Treasury, 2024a). Each objective identifies specific mechanisms and strategies, as well as the role of government, regulators, and industry in driving change and measuring progress. These efforts are being implemented over a prescribed time frame (Figure 3) and are described briefly in this section.

**Figure 3.** High-level roadmap time frame


Source: Adapted from the The Treasury, 2024b.

## Objective 1: Improve transparency on climate and sustainability

### Mechanism: Mandatory climate-related risk disclosure

The roadmap's foundation is set through legislated requirements for mandatory climate-related financial disclosures across the board, aligning with the International Sustainability Standards Board standards (The Treasury, 2024a). Requirements are being phased in across the economy over 3 years, starting in 2025 with Australia's largest companies and financial institutions, as well as entities that exceed the National Greenhouse and Energy Reporting scheme publication threshold (The Treasury, 2024b). These entities include facility thresholds of 25,000 tonnes or more of $CO_2e$ (Scope 1 and Scope 2 emissions) and corporate thresholds of 50,000 tonnes or more of $CO_2e$ (Clean Energy Regulator, Australia, 2025). Australia's financial regulators moved in lockstep to finalize their climate disclosure and assurance standards to align with legislation. The Australian Securities and Investments Commission (ASIC) also moved quickly to provide guidance to the market to help preparers comply with new reporting obligations.

Legislation reset the baseline for financial disclosures and provided a clear signal to the market that Australia is tracking climate-related impacts on and from its economic activities. Part of the success of the legislative strategy for Australia is that its largest banks and insurance institutions were supportive of the initiative, recognizing the climate risk on the horizon and altering their own investment strategies as a result (Australian Prudential Regulation Authority, 2022; The Treasury, 2024b). The financial industry in Australia participates broadly and publicly with climate vulnerability assessments and provides leadership for improving transparency on climate and sustainability risks. Climate-risk disclosure across the economy upgrades the whole financial system and sets the baseline for transition planning.

## Mechanism: Taxonomy

Australia's taxonomy development process was championed by the industry-led Australia Sustainable Finance Institute (ASFI) in partnership with the Commonwealth Treasury. The taxonomy aims to support the mobilization of private capital toward sustainable activities and provide a basis for further measures to address greenwashing and transition planning, all while facilitating Australia's transition to net-zero (The Treasury, 2024b). The taxonomy focuses on mitigation and is aligned with a credible 1.5°C pathway that is recognized by global capital markets (ASFI, 2025a).

Priority sectors for the taxonomy were identified through a process that upheld the objectives of contributing to Australia's net-zero goals, economy (both current and future), and government priorities (ASFI, 2025a). The following sectors were prioritized for taxonomy development:

1. electricity generation and supply (energy)
2. minerals, mining, and metals
3. construction and the built environment
4. manufacturing and industry transport
5. agriculture
6. land

Australia's taxonomy is the world's first to establish technical criteria and indicators for minerals, mining, and metals. It was also the first taxonomy to set expectations for engagement with First Nations peoples and the management of cultural heritage. Alongside a Do No Significant Harm framework that aims to ensure that climate mitigation activities do not cause significant harm to the taxonomy's other environmental objectives, minimum social safeguards are defined at the entity level in relation to corporate governance, human rights (including labour rights), and First Nations' rights and cultural heritage protection (ASFI, 2025a).

Upstream oil and gas production, including LNG, are excluded from the Australia taxonomy's green and transition labels. While it was acknowledged that fossil fuels play a role in Australia's current economy, fossil fuel investments did not pass the taxonomy test of emissions reductions, value to the economy, and revenue generation (ASFI, 2025a). Australian fossil energy giants Santos and Woodside objected to the exclusion of abated natural gas from the taxonomy's transition label, noting inconsistency with the government's Future Gas Strategy (Santos, 2024; Woodside Energy, 2024).

In the end, other sectors were given priority for taxonomy development, and transition labelling for natural gas was limited to specific and time-bound use in the firming of renewables and hard-to-abate industrial sectors, provided it is paired with decarbonization measures like carbon capture or implemented as "low-carbon gas" (biomethane, low-carbon hydrogen, and/or ammonia) (Australia Sustainable Finance Institute, 2025a).

ASFI's broad and ongoing technical consultation resulted in requests from participants for an enduring shared public–private governance model to guide the taxonomy's long-term success (Australia Sustainable Finance Institute, 2025c). ASFI is also leading the development of a taxonomy market implementation program, a world's first, bringing together financial institutions, central financing authorities, the Australian Office of Financial Management, and market intermediaries (data providers, certifiers, assurers) to pursue a series of objectives across three streams: taxonomy-aligned labelled bond guidance, taxonomy implementation pilots, and domestic/international integrations (Australia Sustainable Finance Institute, 2025d).

## Mechanism: Transition plans

On the heels of the taxonomy's release, the Treasury issued its draft *Climate-Related Transition Planning Guidance* (The Treasury, 2025a). The draft guidance aims to provide voluntary, best-practice guidance for organizations undertaking climate-related transition planning. It is built around four key design principles:

1. alignment with the International Financial Reporting Standards Transition Planning Taskforce framework and domestic standards under the Australian Accounting Standards Board Sustainability framework,
2. support for domestic decarbonization and climate resilience,
3. balancing ambition with flexibility so that organizations at different levels of maturity can engage, and
4. a "climate first but not only" approach that focuses on climate but also encourages the integration of broader sustainability objectives.

Australia's government delivered its taxonomy and transition planning guidance in close succession, providing a starting point and map for guiding businesses that want to identify and manage climate-related risks and opportunities, while aligning with international standards and adapting to domestic realities.

### Mechanism: Sustainable investment product labels

The roadmap identifies 2027 as the target year for commencement of sustainable investment product labelling and legislation.

Australia's taxonomy will support the development of sustainable investment product labels to help investors identify, compare, and make informed decisions about sustainable investment products in Australia. The Australian Treasury released an initial consultation paper that considers 1) current regulation and disclosure requirements for sustainability-labelled financial products, 2) overseas frameworks, and 3) design options for a national framework. The objective of sustainable product labelling is to ensure that investors have confidence in the sustainability claims made by product issuers and to ensure that investors can confidently compare different products making sustainability claims (Australian Government Treasury, 2025a). This initiative helps improve transparency and reduce the risk of greenwashing.

## Objective 2: Improving financial system capabilities

### Mechanism: Enforcement against greenwashing

Australia has a detailed, regulator-coordinated regime against greenwashing that, in comparison to Canada's, provides "greater legal certainty and is less likely to disincentivize voluntary environmental, social, and governance disclosures—a critical consideration for a country trying to align capital markets with net-zero goals" (Walker & Saryyeva, 2025, p. 7). The two key regulators—ASIC and the Australian Competition and Consumer Commission—have developed clear, enforceable greenwashing guidance, backed by enforcement actions and cross-agency coordination (Walker & Saryyeva, 2025).

The roadmap commits ASIC to enhance its supervisory and enforcement activities in conjunction with the other sustainable finance reforms (The Treasury, 2024b). The Australian Competition and Consumer Commission has established guidelines on environmental claims, which require claims made about environmental impacts to be truthful, transparent, and accurate. This is similar to Canada's regime, where false claims protections are extended to greenwashing and distinct from the strictly labelling approach used by the United Kingdom and the EU (Segal, 2025).

### Mechanism: Identifying and responding to systemic financial risk

In 2022, the Australian Prudential Regulation Authority completed a climate vulnerability assessment (CVA) with five of its largest banks and the Australian Banking Association. The exercise modelled three possible scenarios for the estimated future financial impact of climate change on their businesses, as well as how they might respond to the resulting physical and transition risks (Australian Prudential Regulation Authority, 2022).

The banking CVA results suggested that climate-risk impacts would lead to losses in the medium-to-long term and that impacts would likely be concentrated in specific regions and industries (Australian Prudential Regulation Authority, 2022). For example, mortgage lending losses were anticipated to be higher in northern Australia, while bank losses were higher from lending to business sectors that are more exposed to transition risks, such as mining, manufacturing, and transport. In response to these potential losses, the banks agreed to embed that risk into their processes, predicting that they would adjust their risk appetites and lending practices (Australian Prudential Regulation Authority, 2022).

In 2023, a similar CVA was launched with the insurance industry (Australian Prudential Regulation Authority, 2024). A key objective of the insurance CVA was not only to help understand the physical and transition climate risks that can impact the industry, but also how those risks impact household affordability. In March 2026, the Australian Prudential Regulation Authority released its insurance CVA and found that by 2050, one in four Australian households (excluding strata properties) may be uninsurable, with up to AUD 16 billion in annual expected losses from weather events (Australian Prudential Regulation Authority, 2026). These findings have significant impacts not only on households but on banks, insurers, and government.

Informed by both the banking CVA and insurance CVA, Australia's Sustainable Finance Roadmap commits to continue expanding work on tracking climate- and sustainability-related prudential risks to Australia's financial system.

## Mechanism: Addressing data and analytical challenges

Assessing the availability and quality of sustainability-related data to support informed financial sector decision making is a key ongoing initiative of the roadmap. Data integrity supports usability, interoperability, and credibility with investors.

In November 2023, the Treasurer requested that the Council of Financial Regulators develop options to address key sustainability-related data challenges faced by financial system participants. The Council of Financial Regulators identified four key topics as its focus:

1. accessibility of corporate climate data by market participants,
2. estimation and use of Scope 3 emissions by business and financial institutions,
3. data to inform companies' assessments of physical and transition-related climate risks, and
4. nature-related data relevant to understanding financial risks.

In early 2025, the Council noted "challenges facing financial system participants in estimating, reporting and disclosing such data, given that this is a complex and evolving area with a range of tools, methods and standards" (Council of Financial Regulators, 2025a). The Council further noted that "navigating a more complex international environment in a way that supported such initiatives was a key challenge," and that it was supportive of efforts "without undue regulatory burden" (Council of Financial Regulators, 2025b).

A similar refrain was echoed by the Canadian Securities Administrators around the same time, when announcing a pause in the development of guidelines for climate-related disclosures. The Canadian Securities Administrators cited the shifting "global economic and geopolitical landscape … resulting in increased uncertainty and rising competitiveness concerns for Canadian issuers" (Canadian Securities Administrators, 2025). There is no doubt that the global economy has become increasingly complex in recent years. Yet efforts can and should continue to improve data and analytical challenges in the financial system. The complex international environment is unlikely to become less complex. However, there is a careful line to walk between monitoring data and analytical challenges without contributing to those challenges.

## Mechanism: Fit-for-purpose regulatory frameworks

Australia's taxonomy is designed to be "fit for purpose" by using sector-specific Technical Screening Criteria to align with 1.5°C scenarios and incorporating "Do No Significant Harm" and minimum social safeguards into its labelling criteria. In other words, the taxonomy is intentional in its purpose to improve sustainability.

As the understanding of sustainability risks evolves for different investments, so too will taxonomy and regulatory rules for green and transition investment transform over time. Australia's roadmap aims to design financial regulatory frameworks with ongoing stakeholder consultation. An example of this was when Australia's Treasury consulted on how to refine the superannuation (public pension) performance test with sustainability standards. Pension fund and investment managers expressed concern that their existing investment strategies may materially differ from prescribed sustainability benchmarks, adding risk for failing the performance test (Australian Government Treasury, 2024a). This added risk could discourage investment in activities that may otherwise be in the best financial interests of pension members (The Treasury, 2024a). In other words, financial returns must be placed ahead of sustainability considerations when it comes to pension fund management. Sustainable finance benchmarks should not undermine financial returns. Tempering investment realities with sustainability benchmarks is a critical balancing act for transition finance. Australia has taken the approach of accommodation in these cases, preferring to bring investors onside and then working through challenges collaboratively.

## Objective 3: Anchor government leadership and international engagement

### Mechanism: Sovereign green bonds

Australia issued its first Green Treasury Bond in mid-2024. Initially issuing AUS 7 billion, the bond was oversubscribed, with more than AUS 22 billion in bids from 105 investor institutions across Australia, Asia, Europe, and North America (Chalmers et al., 2024b). As of February 2025, over three quarters of proceeds raised have been allocated to projects spanning renewable electricity generation, grid infrastructure, energy storage, green hydrogen, and electrified transport (Australian Office of Financial Management, 2025). Renewable generation projects are expected to deliver 4,600 GWh of clean electricity, while other investments have supported hydrogen production capacity, community battery storage, and more than 100 km of new or upgraded electric rail (Australian Office of Financial Management, 2025).

Australia's five state authorities have been issuing labelled bonds ("green" or "sustainability") since 2016, although with varying definitions of "eligible projects," reflecting different policy agendas and the perception of investor demand (Alexander & Jayawardhana, 2025). A challenge raised by active subnational players in the bond market is the range of definitions for labelled bonds, adding to the complexity of these products for investors, indicating that the Australian labelled debt market may still be in the relatively early stages of development (Alexander & Jayawardhana, 2025).

Nevertheless, as more taxonomy-aligned bonds are issued and sustainability labelling legislation is crafted, green and sustainability bonds will continue to be a key mechanism for raising capital for net-zero and clean-growth projects at both the national and subnational levels in Australia. Of note is the South Australia Financing Authority's recent decision to issue all future state debt under a "sustainability" label, a shift meant to more fully align investment activities with primary state expenditures—health, educational, and social services—and align outcomes under the UN's Sustainable Development Goal framework (South Australia Government Financing Authority, 2025; Leanne Villelonga, personal communication, July 10, 2025). Time will tell whether South Australia's alignment with the UN Sustainable Development Goals offers a clearer and more credible framework for sustainability-labelled debt, particularly in an increasingly crowded bond market.

### Mechanism: Stepping up international engagement

Australia's approach to sustainable finance engagement on the international stage has been to promote high ambition, knowledge sharing, capability development, and interoperability. The roadmap clearly defines priority engagement areas in support of Association of Southeast Asian Nations, bilateral and regional/multi-lateral agreements such as the G20 Sustainable Finance Working Group, and the Paris Agreement (The Treasury, 2024b).

Australia's roadmap clearly identifies government tasks for international engagement:

- elevate sustainable finance as a key pillar of the country's broader climate- and nature-related international engagement,
- prioritize making sustainable finance and disclosure frameworks internationally interoperable as part of Australia's broader climate and nature-related international engagement, and
- advocate for differentiated international trading markets for resources produced to higher environmental, social, and governance standards through G20 engagements.

Through this approach, Australia has positioned itself as a key player and influencer in sustainable finance, actively engaging in and sharing international conversations and standards for the future.

# 4.0 Five Recommendations for Canada's Sustainable Finance Future

Australia's Sustainable Finance Roadmap offers many insights that Canada can apply, and it is a good strategy to take what is useful and improve upon it. Below are five insights worth highlighting for the Canadian context.

## 1. Interoperability: Make tools and policies cohesive and useable

Canada's sustainable finance policies should prioritize interoperability with international peers and investment partners (e.g., the EU, the United Kingdom, China, Australia), as well as functionality and alignment with domestic reporting standards. Policies should not work at cross purposes but should support each other.

Australia's sustainable finance actions are considered among the most cohesive internationally (Segal, 2025). Finance rules and tools are designed to work together and not at cross purposes, balancing a mix of broad and clear regulation (disclosure, greenwashing), organization (taxonomy, transition plans, labelling, data and risk management), and promotion (green bonds, international engagement). This can support better uptake alongside predictability for the market. For example, broad legislation in Australia that ensured climate-related risk disclosure covered all financial entities helped alignment across the economy. For now, Australia's taxonomy is voluntary, but future considerations include "embedding the taxonomy in Australia's regulatory architecture" (as was done in the EU), meaning it may become linked with mandatory climate-related financial disclosure rules (ASFI, 2025a).

The Australian Retirement Trust, an AUS 230 billion super fund, recommended that the disclosure standards from the Australian Accounting Standards Board be aligned with green and transition activities in the taxonomy to promote consistency across the two instruments (McNally, 2024). In this way, early adherence to the taxonomy becomes a solution to potential future needs for financial disclosure and transition plans.

The interoperability of Australia's taxonomy with global taxonomies, especially the EU, was flagged by multiple Australian agencies, industries, and experts as a key design requirement. Using internationally recognized benchmarks, labelling, and standards helps with adoption across the economy. Several international frameworks were highlighted for taxonomy alignment and credibility: the Paris Agreement, Kunming–Montreal Global Biodiversity Framework, Global

Plastics Treaty, Taskforce of Nature-related Financial Disclosures, Taskforce on Climate-related Financial Disclosures, and the EU's Corporate Sustainability Reporting Directive (McNally, 2024). Alignment with and improvement of best international practices have been key drivers in the Australian roadmap.

Australia's financial sector also called for policy interoperability and alignment across domestic standard setters for auditing and accounting (McNally, 2024). Improving information and upholding standards, while also having regulatory clarity, can help mitigate the risk of greenwashing. The varying definitions used across subnational and national green bonds, for example, highlight the importance of usability by multiple stakeholders. Interoperability between national and subnational financial entities supports cohesion and uptake of sustainable finance initiatives.

Canada faces some challenges to sustainable finance policy cohesion and modernization due to provincial authority over many aspects of financial securities activities in Canada. The Canadian Securities Administrators have been slow to move on needed guidance for disclosures, for example, and provincial economic agendas do not necessarily align with sustainable development and net-zero objectives. And yet, the finance world is moving forward with an accounting of climate risk and sustainability merit for investment activities, demonstrating the need for all jurisdictions to act. Canada's federal government can lead in this area, but action and coordination from provinces, regulators, and the financial industry are critical for investor confidence and clarity at a time when Canada is seeking significant private investment. All financial stakeholders, whether benefactors or beneficiaries, should be aligning with sustainable investment growth if Canada is to move toward a net-zero economy.

## 2. Net-Zero Alignment: Accelerate domestic decarbonization

Canada should place domestic net-zero objectives at the heart of its sustainable finance policy.

Central to Australia's transition finance approach has been its anchoring to domestic net-zero objectives and decarbonization plans, with a focus on high-emitting sectors. The *Future Made in Australia* agenda prioritized industries in one of two streams: a Net Zero Transformation Stream (including industries where Australia will have a comparative advantage as the global economy transitions to net-zero) and the Economic Resilience and Security Stream, which includes industries where some level of domestic capability is necessary to deliver economic resilience and security (The Treasury, 2025b).

Australia's Net Zero Plan identifies six key sectors for emissions reduction opportunities, along with government action to support these sectors: electricity and energy, industry, resources, transport, agriculture and land, and the built environment (Department of Climate Change, Energy, the Environment and Water, 2025). The taxonomy's priority sectors are closely aligned with these domestic decarbonization priorities. This demonstrates a policy alignment for public and private financial flows to sectors where decarbonization can have the most material impact. For example, the greening of domestic electricity production and supply has material impacts across the economy. Australia's rapid deployment of renewables and battery storage has been supported through a combination of public and private finance.

Decarbonizing sectors that are export focused is also part of Australia's plan, including green mining, metals and minerals, and agriculture. High-emitting sectors like gas and LNG have not received the same net-zero priority from government, although government has provided support for key projects. Australia's approach has been to focus sustainable finance efforts on priority sectors that can be decarbonized more readily than fossil fuels and are likely to have better returns to the economy in the longer term.

As Canada contemplates projects of national interest and renews its global trade and investment strategies, it is essential that key Canadian industries rapidly decarbonize to compete globally and support domestic net-zero goals. Canada should support sustainable finance guidelines for key economic activities that can align with net-zero, like heavy industry, buildings and construction, transportation, agriculture, and a clean electricity supply to support them all. Establishing priority sectors for Canada's taxonomy over the next 2 years will send both domestic and international market signals—signals that should point toward net-zero.

## 3. Fossil Fuel Limits: No green or transition labels

Canada should exclude upstream fossil fuel production from transition and green finance labelling under Canada's taxonomy and place clear limits on transition labelling for fossil fuel energy in priority sectors. Taxonomy labelling should be reserved for sectors and activities that can be sustained and grow under a net-zero economy.

Placing clear definitions and limits on fossil fuel activities within sustainable investment labelling and guidelines is critical for international credibility and investment predictability. Upstream oil and natural gas extraction and transport are ineligible under nearly every global sustainable finance labelling system, including in the EU and Canada's other key trading partners (Climate Bonds Initiative, 2023). Mixed taxonomies that include both green and transition labels have, in some cases, included natural gas power generation, but with significant limits on both the level of emissions and the time frame for when the activity is considered compatible with the taxonomy.

Experts have shown that LNG and natural gas are not proven transition fuels, often producing more emissions than anticipated (Dusyk & Haig, 2025; Greenford, 2023; Haig, 2025). Including natural gas and LNG in a transition taxonomy would go against international best practice and reduce the credibility of the Canadian effort. It would also serve to crowd more private funding into Canadian fossil fuels, a path incompatible with the Paris Agreement and with declining global demand for fossil fuels. Canada's financial institutions and regulators must develop the policies, tools, and guidance that are credible to both domestic and international sustainability investors.

In Australia's transition taxonomy, only an interim role is identified for natural gas in two applications (provided it is coupled with carbon capture and storage): in cases for firming renewables where alternatives do not exist and for limited applications in hard-to-abate industrial sectors. Importantly, Australia's taxonomy does not classify natural gas production as a transition activity, despite heavy debate. The taxonomy's principles of international credibility and interoperability, in combination with its own sector decarbonization plans (Department of Climate Change, Energy, the Environment and Water, 2025), meant adhering to limits on fossil fuel inclusion in sustainable investment labelling. Afterall, oil and gas activities can make efforts to mitigate or "decarbonize" their activities, but they cannot fully transition due to Scope 3 emissions. This does not prevent the government and investors from supporting fossil fuel projects in Australia, but it does exclude fossil fuel energy production from being labelled as a "transition" activity.

This was not a straightforward decision for Australia. As a fossil fuel producer and exporter, the industry made its case to be labelled a transition activity (Santos, 2024; Woodside Energy, 2024). ASFI and the Treasury articulated a clear process for defining green and transition activities that can first and foremost contribute to the country's net-zero goals, as well as current and future economic growth, and the government's current priorities (ASFI, 2025a). The emissions impacts and declining demand horizons for fossil fuel energy mean it did not pass the test for consideration for taxonomy labelling.

This may be perceived as a challenge for Canada with its powerful oil and gas sector, not to mention its ties and proximity to pro-fossil fuel expansion policies in Washington. But if a fellow fossil fuel producer and middle power like Australia can do it, it proves it is possible. Taxonomies should be used to improve upon each other, seeking to advance sustainable investment globally. Canada needs to keep up with its peers, not move them backwards. The federal government's *Made-in-Canada Sustainable Investment Guidelines*, released in 2024, do not anticipate that new natural gas production, including LNG, would be eligible under a transition label (Department of Finance Canada, 2024a). This is the rational, credible, and informed outcome of many years of discussion and design. Staying firm to these guidelines makes sense for Canada's future, despite current geopolitical headwinds.

# 4. Early Adaptation: Planning for resilience and nature

Canada should integrate adaptation and nature indicators and objectives early on in sustainable investment labelling, taxonomy, and legislation to keep pace with global sustainable investment trajectories.

Australia's roadmap initiatives were developed with a focus on climate mitigation, but there is consideration for incorporating nature and adaptation objectives (The Treasury, 2024b). This is one example of where Canada can build on the Australian example. The Responsible Investment Association Australia and the Principles for Responsible Investment both called for specific reference in the taxonomy to the Kumming–Montreal Global Biodiversity Framework (McNally, 2024). AustralianSuper, an AUS 335 billion super fund, expressed its support for expanding the taxonomy to incorporate nature-related issues "to better consider material environmental risks and factor in economic opportunities" (McNally, 2024). Mercer Super, an AUS 65 billion super fund, said the taxonomy should be extended to consider climate adaptation as well as mitigation to provide focus for investment in Australia's resilience to physical risks (McNally, 2024).

The CVA conducted with Australia's largest banking institutions, published in 2022, dedicates a chapter to agriculture's climate-related risk, elevating the sector in importance for risk mitigation (Australian Prudential Regulation Authority, 2022). The inclusion of agriculture and land in the Australian taxonomy's priority sectors further demonstrates the urgency for these sectors to become climate- and nature-aligned.

Incorporating nature-related objectives into taxonomies is gaining momentum globally. Nature's services underpin over half of the world's GDP—an estimated USD 58 trillion (UN Environment Programme, 2025). Failure to account for climate adaptation and nature, as well as emissions mitigation, may expose investors and economies to financial risks and missed economic opportunities (UN Environment Programme, 2025). The Paris Agreement and Kunming–Montreal Global Biodiversity Framework underscore the importance of mobilizing finance for solutions that achieve both decarbonization and nature-related goals.

Canada's territories host incredible biodiversity, vast agricultural lands, forests, and protected areas. Canada can capitalize on its bio-advantage by defining criteria and indicators for adaptation and resilience activities within its priority sectors. Canada's recently announced Force of Nature strategy is a nod in this direction, with commitments to explore opportunities to improve the way Canada accounts for the value of nature, and how to integrate that value into decision making.

Improving the sustainability of agriculture and protecting natural assets through activities that can sequester carbon, lower greenhouse gas emissions, and protect biodiversity should be considered alongside mitigation efforts. Omission of key land-based sectors from Canada's first taxonomy would be a missed opportunity for Canada to support these sectors and demonstrate international leadership.

## 5. Indigenous Inclusion: Guidance for corporate engagement

Canada should uphold Indigenous rights and establish minimum social safeguards for corporate engagement with Indigenous Peoples in its sustainable investment guidelines, in consultation with Indigenous financial leaders.

Canadian and Australian territories stretch over lands traditionally occupied and stewarded by Indigenous Peoples. Both countries have made efforts to account for past social and cultural harms by their governments (Truth and Reconciliation Commission, 2015; Waapihk Research, 2024). A more recent extension of this socio-cultural accounting has been an approach of economic reconciliation, providing financial support and preferential terms for Indigenous economic investment, equity stakes in key projects, and commitments to positive community outcomes (ASFI, 2024; Canada Indigenous Loan Guarantee Corporation, 2024).

Australia's taxonomy is a world first to set social safeguards for financial entities that engage in activities that impact First Nations' rights and the management of cultural heritage. Criteria for financial entities to meet this safeguard include recognizing Indigenous rights under the UN Declaration on the Rights of Indigenous Peoples and implementing policies and processes to respect and support those rights; recording and reporting on potential and actual impacts through its operations; and agreeing on appropriate engagement in line with the UN Declaration on the Rights of Indigenous Peoples' principle of Free, Prior, and Informed Consent (ASFI, 2025a).

It is important to note that Australia has been flexible on this new safeguard, allowing entities to have taxonomy-aligned financing so long as they disclose whether they meet the criteria or not (ASFI, 2024). This supports adoption of the taxonomy while gathering information about how safeguard guidance and uptake can be improved.

Australia's inclusion of safeguards for Indigenous Peoples is a world first for taxonomies, but it should not be the world's last. The intersection of Indigenous rights, titles, and claims and Canada's economic development is complex and historically full of missteps. It is important to build a sustainable finance framework that acknowledges and elevates Indigenous rights and community well-being. Failure to do so allows a whole set of institutions to continue to work against reconciliation.

As Indigenous nations across Canada expand their equity investments in national resources, energy, and infrastructure projects (with and without government support), it is essential that they are given meaningful opportunity to exercise agency, authority, and self-governance as rightsholders. Yet recent Canadian analysis shows that "corporate disclosures do not fully capture the governance realities that shape development on Indigenous lands" (Whitford, 2026). Calls are growing for distinct reporting and equity standards developed by Indigenous rights holders themselves (Indigenous Clean Energy, 2025; Whitford, 2026).

Canada's financial sector must engage openly and meaningfully regarding how their investment activities impact Indigenous Peoples. As part of this process, there should be consideration of how other finance tools, like sustainability labelling, bonds, and greenwashing rules, are aligned with positive outcomes for Indigenous communities, including the protection of rights and how these different tools work together to maximize positive impacts for Indigenous communities.

# 5.0 Conclusion

Australia's Sustainable Finance Roadmap offers a useful model that Canada can build off to implement cohesive and credible financial mechanisms that support net-zero objectives and sustainable investment growth. It also offers insight into a country and economy not unlike Canada's, navigating the global energy transition, mitigating risk, and calibrating opportunity.

Canada should use and improve on the model provided by Australia. Canada's financial sector should adopt sustainable finance rules and tools that are

- interoperable and cohesive,
- net-zero aligned,
- placing limits on fossil fuels,
- inclusive of adaptation and nature indicators, and
- inclusive of Indigenous rights and protections.

Canada requires clear and useable rules and tools to improve investor understanding of climate risk and identify opportunities for investment in climate mitigation and adaptation activities that can help transition Canada's economy to net-zero. Adopting climate- and nature-aligned rules into Canada's financial system is a business requirement as much as a climate imperative, as it becomes the norm among Canada's key trading and investment partners.

A key word of caution is that Canada's progress on upgrading its sustainable finance policies must be accompanied by public finance policies that do not distort markets toward fossil fuels. While price relief and affordability are key motivators for consumer-level subsidies, subsidies at the production level ahead of other clean-energy technologies will only distort reality and delay Canada's inevitable transition away from fossil fuels. Canada needs to do more in this area to catch up with international peers and upgrade its financial sector to support a net-zero economy. With a comprehensive sustainable finance policy framework, Canada can better compete globally for green and transition investment, provided it gives investors the information and guidance needed for both credibility and bankability.

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