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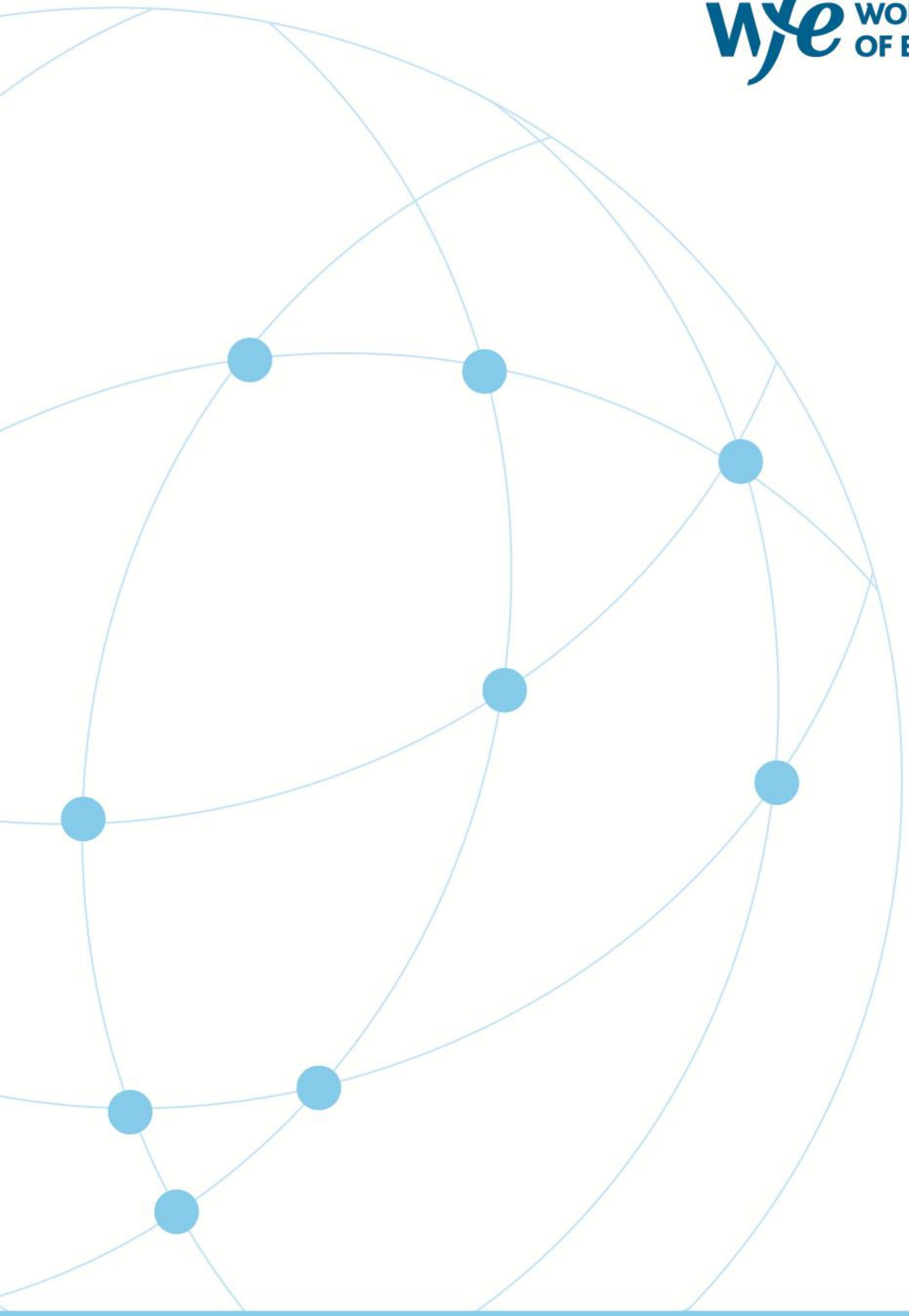

Classifying Capital Part 1: Global taxonomy trends and evolutions

February 2026

Background

Established in 1961, the WFE is the global industry association for exchanges and clearing houses. Headquartered in London, it represents the providers of over 250 pieces of market infrastructure, including standalone CCPs that are not part of exchange groups. Of our members, 36% are in Asia Pacific, 43% in EMEA and 21% in the Americas. The WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some $1.3 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. The exchanges covered by WFE data are home to over 55,000 listed companies, and the market capitalization of these entities is over $111tr; around $124tr in trading annually passes through WFE members (at end-2023).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back more than 40 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policymakers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policymakers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system. If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal.[1]

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Executive Summary

Global efforts to decarbonise industries, build sustainable infrastructure, and address climate and nature-related challenges require unprecedented investment. As governments rely increasingly on private capital to finance this transformation, financial markets need credible frameworks that distinguish sustainable, transitional, and unsustainable activities.

Sustainable finance taxonomies – frameworks for classifying activities according to sustainability criteria – have emerged as a critical tool in mobilising capital to support the transition to more sustainable economies. By providing clear, science-based definitions of sustainability for different activities, taxonomies standardise market understanding, facilitate capital allocation towards sustainable activities and align market incentives with sustainability objectives.

In this paper, we:

- Provide an overview of the taxonomy landscape
- Outline use cases detailing how taxonomies can support the transition
- Summarise commonalities in structure and characteristics across taxonomies
- Explore how taxonomies are evolving
- Look at how taxonomies can be leveraged as part of a broader sustainability toolkit

The analysis provides a foundation for understanding the taxonomy landscape as a whole and complements WFE's companion paper, Classifying Capital: *Taxonomies Built to Support Transition Finance - Part 2*, which builds on this foundation to examine how transition pathways are integrated into taxonomy design and how such frameworks can support credible decarbonisation and economic transformation.

Key Messages

Exchanges: Taxonomies help exchanges promote sustainable investment opportunities with confidence:

- taxonomies enable the creation of taxonomy-referenced listing segments/labels, indices, benchmarks exchange-traded funds, derivatives etc based on objective criteria;
- taxonomies feed into data and transparency initiatives, and support market integrity.

Policymakers: Taxonomies are an essential tool for sustainable finance. To be effective, they should:

- be science-based and regularly updated to reflect technological and policy developments;
- balance ambition with usability, providing clear, sector-relevant guidance;
- promote interoperability across jurisdictions; and
- be integrated with broader national strategies.

Investors: Taxonomies facilitate the identification of sustainable opportunities, supporting:

- comparability across markets and asset classes;
- a common classification language that reduces search/verification costs and greenwashing risk;
- improved portfolio alignment with sustainability and net-zero objectives; and
- enhanced trust in disclosures and products marketed as being sustainable.

Issuers: Taxonomies help clarify how activities can qualify as sustainable or transitional, enabling:

- access to new sources of sustainable finance;
- clearer communication of sustainability strategies to investors; and
- stronger internal governance on environmental and social performance.

Introduction to taxonomies

Unprecedented investment is needed to decarbonise industries, develop sustainable infrastructure, and adapt to the impacts of climate change. Estimates have suggested that global spending on physical assets would need to rise from $5.7 trillion today to $9.2 trillion annually by 2050, necessitating around 9% of GDP in the late 2020s.[2] The need for financing that supports decarbonisation efforts is particularly acute in emerging and developing economies:

- The University of Cambridge Institute for Sustainability Leadership (CISL) published a study estimating that African states will need to spend in the order of $2.5 trillion by 2030 to meet their climate commitments.[3]
- According to the International Monetary Fund (IMF) in a January 2024 report, meeting climate mitigation and adaptation needs in emerging and developing Asia requires investment of at least $1.1 trillion annually.[4]
- In a 2024 report by the Economic Commission for Latin America and the Caribbean (ECLAC), presented at Dubai's COP28 summit, they noted the region must spend between 3.7% and 4.9% of GDP annually, up from just 0.5% in 2020, amounting to total investments of between $2.1 trillion and $2.8 trillion.[5]

To secure the requisite investment, governments have been increasingly looking to the private sector, and financial services in particular, to mobilise resources for sustainable and climate-related initiatives.

To facilitate investment in sustainable initiatives and incentivise their development, taxonomies were designed to classify activities and standardise definitions of sustainability across markets, providing a consistent and transparent way to identify, categorise, and invest in sustainable activities. In this way, taxonomies act as a bridge between policy objectives, financial markets and real-world projects that support the transition to a more sustainable future.

The link between taxonomies and funding for sustainability and green activities is significant and multifaceted. By providing standardised definitions for what counts as 'green' or 'sustainable' for specified activities, taxonomies are important tools in facilitating capital allocation towards activities that will support the transition to a more sustainable economy. Taxonomies can also be used to incentivise alignment with robust definitions of sustainability when incorporated into capital allocation, procurement and licensing processes.

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[2]From McKinsey report '*The net-zero transition: what it would cost, what it could bring*'

[3] University of Cambridge Institute for Sustainability Leadership (CISL). (2024). *Financing Africa's Low Carbon Green Economy Transition.* Cambridge, UK: University of Cambridge Institute for Sustainability Leadership.

[4] IMF report, 29 January 2024, "Unlocking Climate Finance in Asia-Pacific: Transitioning to a Sustainable Future"

[5] Reuters "Latin America must invest up to 4.9% of GDP annually to meet climate goals -UN" December 4, 2023

Financial markets are a key forum for the operationalisation of taxonomies as they offer various possible funding mechanisms, such as bonds, equities and indices, that can be made contingent on alignment with taxonomy definitions of sustainability. Exchanges can also encourage or require issuer transparency around taxonomy alignment to enable investors to factor climate change and sustainability into their capital allocation decisions, facilitating investment in activities that will support the transition to a more sustainable economy.

Types of taxonomies

Whilst initially taxonomies focused on defining what counts as 'green' for specified activities, taxonomies have now evolved to encompass broader sustainability and transitional factors, acknowledging interdependencies between different sustainability factors and the importance of transitioning hard-to-abate sectors.

Although taxonomies are often described as '*green*', '*sustainable*', or '*transition*' frameworks, in practice these categories are not always mutually exclusive. Many taxonomies share overlapping features, such as 'green' taxonomies that incorporate both environmental and social objectives or allow for transitional activities within a broader green finance framework. However, the primary emphasis and intended use of each type differs, and for the purposes of this paper, we have grouped taxonomies as follows:

1. **Green Taxonomies**

Green taxonomies provide definitions for what counts as 'green' for different sectors, normally based on what would be required to meet commitments made in the Paris Agreement. These taxonomies focus on activities that make a **substantial contribution to environmental objectives** such as climate change mitigation and adaptation, biodiversity protection, resource efficiency, and the circular economy. The definitions provided in the taxonomy will prescribe processes and science-based thresholds that must be adhered to for activities to be considered 'green' or 'taxonomy aligned' within specified sectors. The thresholds will set performance requirements such as GHG emission limits, while procedural requirements are typically based on regulatory requirements, guidelines and best practice.

Taxonomy regulations generally, but do not always, require entities to report on their 'taxonomy alignment', i.e. the extent to which their activities align with the taxonomy definitions of 'green' and whether their activities do no significant harm to any of the environmental objectives listed in the taxonomy. For financial services entities, this means procuring highly granular data from investees and reporting on the percentage of underlying activities that are taxonomy aligned for relevant products. As a result of the burden posed to market participants, many developers and regulators have opted to make reporting on taxonomy alignment voluntary, maintaining their taxonomy as an official standard to support sustainable capital flows.

Even within this category, taxonomies have evolved considerably, for example by expanding their objectives beyond climate to include nature and biodiversity protection.

2. Sustainable Taxonomies

Sustainable taxonomies operate in the same way as green taxonomies, except that their scope extends beyond climate-related and environmental objectives to cover social and broader sustainability-related issues such as reducing inequality and poverty. For sustainable taxonomies, the definitions for what counts as 'sustainable' for different sectors are normally based on the UN Sustainable Development Goals or other national standards.

Overall, **sustainable taxonomies aim to direct capital towards activities that generate both environmental and social benefits,** reinforcing a whole-economy perspective on sustainable development.

3. Transition Taxonomies

Reflecting the importance of whole-of-economy transitions and the urgency of transitioning hard-to-abate sectors with the largest negative impacts on environmental and broader sustainability objectives, policymakers around the world have been working towards the development of transition taxonomies. Transition taxonomies generally cover green activities while also providing definitions of taxonomy alignment for activities that are not yet green or sustainable but are improving their sustainability performance and mitigating negative sustainability impacts.

To preserve integrity, transition taxonomies commonly include safeguards such as 'sunset clauses' and 'lock-in' protections:

- Sunset clauses set clear, time-bound limits on how long an activity can remain classified as transitional, ensuring it must eventually meet green criteria or be phased out.
- Lock-in protections prevent investment in new high-emitting or inefficient technologies that could extend the lifespan of unsustainable infrastructure, delaying the shift to low-carbon alternatives.

Transition taxonomies are at a more nascent stage of development globally, having begun in 2021 with the development of the Association of Southeast Asian Nations (ASEAN) regional taxonomy. These types of taxonomy have nevertheless gained in popularity with many new national taxonomies taking this form (as witnessed by the Canadian and Australian approaches).

Transition taxonomies present particular challenges for policymakers around ensuring integrity and preventing the classification from becoming a 'catchall' for any entity that claims they will improve the sustainability of their activities over time. Alignment with transition taxonomies, as well as other types of taxonomy where thresholds are updated over time, also poses challenges for entities that make ambitious commitments to improve the sustainability of their activities only to potentially be penalised further down the line for failing to meet their targets, whether or not they are at fault for doing so. Despite these risks, the fact that these taxonomies provide clear criteria and transition expectations for activities is seen as mostly outweighing the risks posed, which can be mitigated in several ways by developers and regulators.

The companion WFE paper, *Classifying Capital: Taxonomies Built to Support Transition Finance – Part 2,* covers the challenges, approaches and potential solutions in more detail.

Taxonomy use cases

Taxonomies can support the transition to a more sustainable economy in the following ways:

1. **Facilitating Standardisation and Clarity**: Taxonomies provide a standardised framework for classifying economic activities based on whether they are sustainable. This clarity enables investors, financial institutions, and governments to easily and reliably identify and assess investments and projects that support the transition to a more sustainable economy.

2. **Encouraging Capital Allocation**: By providing clear and robust classifications, governments and investors can better allocate capital to projects and sectors that have a meaningful positive impact on sustainability-related issues. This targeted allocation is essential for the efficient use of limited resources.

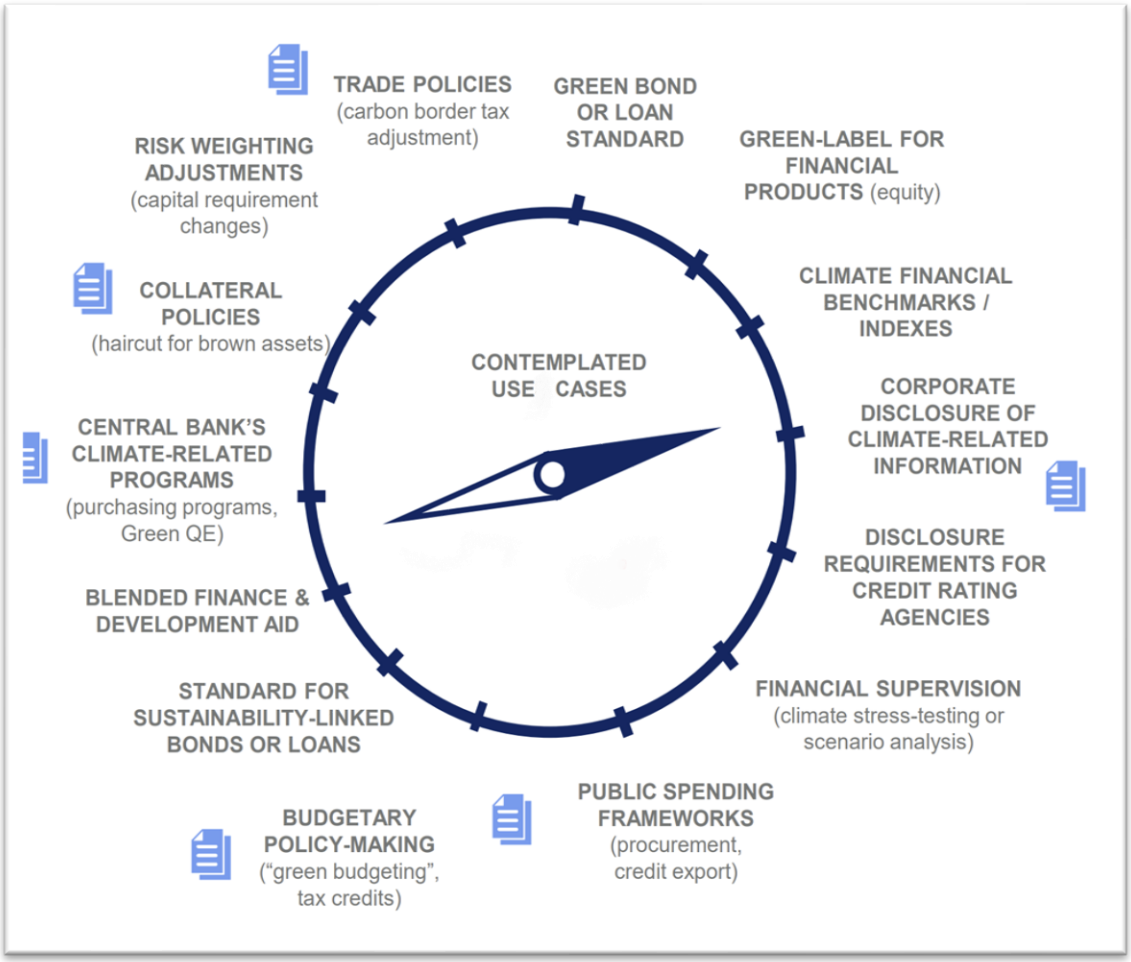
3. **Encouraging Market Growth**: Investors are increasingly interested in environmentally and socially responsible investment opportunities. Taxonomies grant investors the confidence to scale their investments in sustainable projects by credentialising the sustainability of those projects. By providing robust and high-integrity sustainability classifications, taxonomies enable investors to be sure that their investments will be reliably considered to be sustainable by the broader market and policymakers.

4. **Incentivising and Enabling Policy Alignment:** Taxonomies can be integrated into national and regional regulatory, funding, procurement and licensing frameworks to incentivise or require entities to align their activities with taxonomy definitions of 'sustainability'.

5. **Protecting Against Greenwashing**: By providing objective definitions of what counts as being 'sustainable' for different activities and requiring entities to report on how their activities align with those definitions, taxonomies (along with other measures such as regulation around labelling and third-party assurance of transition plans etc.) can help protect investors and issuers from greenwashing (i.e. false, misleading and unsubstantiated claims about the sustainability-related characteristics of investments, projects and activities).

6. **International Cooperation**: Taxonomies can serve as a common language and framework for international cooperation on sustainable finance. Clear and objective criteria enable investors and governments to compare investments and projects more easily, and international alignment between taxonomies can further promote consistency and harmonisation in financing sustainable projects.

While the adoption of taxonomies as valuable tools for the financial sector commenced a decade ago, the process of formulating national taxonomies gained substantial momentum in 2019 and has since been used in a surprising number of contexts as identified by Natixis in the diagram below.[6]



How Taxonomies are Structured

By the close of 2025, over 33 nation states and a variety of international organisations had adopted taxonomies. As of February 2024, the IFC, working on behalf of the Sustainable Banking and Finance Network (SBFN), identified 47 sustainable finance taxonomies or lists of eligible activities issued globally since 2012.

As the number of taxonomies continues to grow, we are now beginning to see evidence of a move towards harmonisation and interoperability between taxonomies, which is only to be welcomed. Initiatives such as the International Platform on Sustainable Finance's Common Ground Taxonomy, the SBFN's Roadmap for Advancing Interoperability and Comparability of Sustainable Finance

[6] Published by Natixis, published initially in November 2021 and updated July 2023 'The new geography of taxonomies': see link here

Taxonomies and others are promoting greater interoperability among these frameworks, supporting cross-border investment and policy alignment.

Despite significant international divergence in the detailed content of national and regional taxonomies, there is a common structure and set of characteristics that taxonomies generally share. These are outlined below.

1. Most taxonomies cover a fixed set of economic activities

Due to their prescriptive nature, taxonomies generally do not cover all economic activities within the jurisdiction that they are designed to function in. This is because most taxonomies aim to provide specific definitions and thresholds for each activity they cover, necessitating a prescriptive rather than a principles-based approach.

Where taxonomies aim to provide definitions and thresholds that are objective, backed by science and consistent with the broader sustainability objectives of the relevant jurisdiction, each activity covered by a taxonomy generates a significant amount of work for the taxonomy developer. As a result, these taxonomies tend to have a limited scope, e.g. the EU Taxonomy covers the economic activities of roughly 40% of EU-domiciled listed companies in sectors that are responsible for almost 80% of direct greenhouse gas emissions in Europe,[7] meaning that taxonomies should not be viewed as a panacea for classifying all economic activities.

How each taxonomy developer prioritises what economic activities to include varies between jurisdictions in line with national/regional economies and sustainability objectives. Chile, for instance, is establishing definitions and criteria tailored to its mining sector, while New Zealand is prioritising agricultural activities. Most taxonomies cover a core set of activities relating to key sectors including energy, manufacturing, transport, construction & real estate, agriculture and professional services.

Sectoral and economic activity-level classification systems such as the International Standard Industrial Classification of All Economic Activities (ISIC) and Nomenclature of Economic Activities (NACE) are often used to define sectors and activities. ISIC is a particularly popular system because it is a standard United Nations Statistical Division classification and has broad international application.[8]

In an effort to cover a broader range of economic activities, the Bank Negara Malaysia pioneered a principle-based taxonomy - the Climate Change and Principle-based Taxonomy (CCPT) - whereby any economic activity is eligible for taxonomy alignment if it meets certain overarching principles.[9] The CCPT assesses activities against overarching principles of mitigation, adaptation, and transition. Its qualitative, outcome-focused design provides flexibility for local application but does not allow for the detailed technical screening criteria found in other taxonomies such as the EU or ASEAN models. While this model has not been widely replicated internationally, similar principle-based elements have

[7] https://ec.europa.eu/commission/presscorner/detail/pl/qanda_21_1805. As of October 2025, post Omnibus the list of activities the EU Taxonomy covered is not anticipated to change, but rather the scope of the activities that companies must report on under the taxonomy. The main change proposed in the Omnibus Package is the introduction of a materiality assessment, which allows companies to exclude activities not considered material to their business, defined as less than 10% of turnover, CapEx, or OpEx.

[8] https://unstats.un.org/unsd/classifications/Econ/isic

[9] https://www.bnm.gov.my/documents/20124/938039/Climate+Change+and+Principle-based+Taxonomy.pdf

featured in emerging frameworks in other developing markets such as that of the Philippines (whose taxonomy was formally adopted in 2024,[10] adopting a 'principles-before-metrics' approach whereby technical screening criteria will be added in due course) and Bangladesh[11] (whose taxonomy was adopted in 2022 and revised in 2023, featuring a hybrid approach with qualitative sectoral mapping). These developments reflect the reality that in many emerging markets, data availability, technical capacity, and economic priorities make a flexible, principle-driven model more practical than prescriptive science-based thresholds.[12]

2. Taxonomies are centred around core sustainability-related objectives

Taxonomy definitions of sustainability will be based on fixed objectives. Taxonomy objectives tend to be high-level sustainability-related objectives, such as climate changes mitigation, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. The precise objectives for each taxonomy will depend on the strategic priorities of the taxonomy developer and the jurisdiction within which they operate, though most taxonomies have objectives relating to climate change mitigation or GHG emissions reduction.

Whether or not an activity can be considered 'taxonomy aligned' will typically depend on whether it advances one of the taxonomy objectives and does no significant harm to any of the other objectives. The 'do no significant harm' (DNSH) principle ensures that an activity does not support one taxonomy objective at the expense of another. While most taxonomies incorporate DNSH or equivalent safeguards, the EU model remains the most detailed and binding, with activity-level criteria and cross-references to other legislative frameworks. For an analysis of how the EU applies the DNSH principle in its Taxonomy and regulation more broadly, see the Justice Research Centre's report: *The implementation of the 'Do No Significant Harm' in selected EU instruments*.[13] Other taxonomies tend to apply DNSH in a more principle-based manner, e.g. the ASEAN Taxonomy equivalent to DNSH, the Essential Criteria, require that any activity contributing to one environmental objective must not cause significant harm to the others, but do not set out activity-level criteria. The ASEAN Taxonomy represents a more principle-based, qualitative approach that relies on guidance and international standards (such as the IFC Performance Standards or ISO environmental management norms) rather

[10] The Bangko Sentral ng Pilipinas (BSP) formally adopted the SFTG Version 1 through Circular No. 1187 (dated 15 February 2024). This is the *principle-based* version currently in force. BSP issued the User Guide on the SFTG (Memorandum M-2024-035) in mid-2024, clarifying that further consultations will follow to update and expand the taxonomy.

[11] Bangladesh has adopted a principle-based taxonomy framework under its Sustainable Finance Policy (Bangladesh Bank, 2022; revised 2023). The taxonomy provides qualitative sector-level guidance for identifying eligible activities that contribute to environmental and social objectives, such as renewable energy, waste management, and sustainable agriculture. While it does not prescribe quantitative technical screening criteria, it offers activity lists and broad eligibility descriptions, making it a hybrid model that combines principles with sectoral guidance. Its primary focus is on practical usability for domestic banks rather than scientific benchmarking, reflecting Bangladesh's goal of mainstreaming sustainability within its financial sector.

[12] https://www.csagroup.org/wp-content/uploads/CSA-Group-Research-Global-Financial-Taxonomies-Considerations-for-the-Canadian-Context.pdf?srsltid=AfmBOooR21dDPsJdc_K5WrNWEurqO-R4IYS94G68t0mgQslnhHKcZGyT

[13] JRC SCIENCE FOR POLICY REPORT Beltrán Miralles, M., Gourdon, T., Seigneur, I., Arranz Padilla, M., Pickard Garcia, N. 'The implementation of the 'do no significant harm' in selected EU instruments 31759ENN (1).pdf

than detailed, activity-specific thresholds. In practice, this ensures conceptual consistency with DNSH while offering greater flexibility for jurisdictions at different stages of regulatory and data readiness.[14]

While the overarching taxonomy objectives do not generally change over time, the specific requirements around whether an activity contributes to improved performance under a particular objective will typically be updated regularly to reflect the latest science, technology and progress towards national and regional sustainability commitments. Although necessary, the process of updating taxonomies creates some operational and legal uncertainty for companies that intend to ensure continued taxonomy alignment.

3. The specific requirements for taxonomy alignment are set by dynamic technical criteria

For each activity captured by a given taxonomy, the definitions and thresholds for being classified as 'taxonomy aligned' are normally underpinned by detailed and dynamic technical criteria. Generally, taxonomy developers will establish technical advisory groups, such as the EU's Technical Expert Group or Australia's Taxonomy Technical Expert Group (TTEG), to produce advice on precise definitions and thresholds for each activity. As what counts as 'sustainable' for different activities will change over time, in line with scientific and technological progress, these definitions and thresholds need to be regularly updated to ensure their continued integrity.

Where taxonomies incorporate a transition-focused classification, a different, more principles-based, approach to establishing definitions and thresholds for taxonomy alignment is sometimes adopted, reflecting the particular nature and challenges of classifying transitional activities within a taxonomy framework.

Given the complexity in developing a taxonomy, many developers leverage the groundwork laid by others, adjusting as needed to meet needs of their country or region. Developers that adopt this approach foster greater international consistency, facilitating enhanced consumer understanding, investment comparability and the allocation of capital towards sustainable projects across borders.

4. Entities are not generally required to align with a taxonomy, but they may be required to disclose their taxonomy alignment

Whilst governments and regulators do not generally require entities to align their activities with taxonomy definitions of sustainability, many require entities to report on whether, and the extent to which, their activities are taxonomy aligned. As outlined in the section above on use cases, governments and regulators may additionally incorporate requirements around taxonomy alignment into funding, procurement and licensing criteria to incentivise alignment.

[14] ASEAN Taxonomy Board, "ASEAN Taxonomy for Sustainable Finance Version 4" (November 2025)

How Taxonomies are Evolving

As societal interest and concern in sustainability-related matters have evolved, so too have taxonomy developers sought to adapt and extend their taxonomies. Most notably, developers are exploring how to accommodate sustainability factors beyond climate and the transitional activities that are needed for economy-wide transformation.

In the EU, expansion is already underway, starting with factors beyond climate. Initially, EU Taxonomy technical standards were only developed for the Climate Change Mitigation and Climate Change Adaptation objectives. Once those objectives and technical standards were finalised and started to become embedded, the EU began to develop technical standards for sustainability factors beyond climate, namely Sustainable Use and Protection of Water and Marine Resources, Transition to Circular Economy, Pollution Prevention and Control, Protection and Restoration of Biodiversity and Ecosystems.

The EU has explored extending its Taxonomy framework beyond environmental objectives to cover additional sustainability factors such as social issues. The Platform on Sustainable Finance (PSF), the body that provides the European Commission with technical advice on the Taxonomy, has submitted advice[15] on how social objectives and criteria could be developed. However, the Commission has not yet advanced a legislative proposal for a Social Taxonomy, choosing instead to prioritise coherence and simplification through the 2025 Omnibus Package. The Omnibus Package focuses on improving usability and alignment across existing sustainability legislation rather than expanding the Taxonomy's scope at this stage. The evolution of these discussions[1617], and how transition and social elements might eventually be integrated, is considered in our companion paper, *Classifying Capital: Global Taxonomy Trends and Evolutions – Part 2*.

In some countries, like Georgia[18] and Malaysia[19], taxonomies have already been designed to cover a broad range of sustainability factors, including social issues. Some taxonomy developers have also incorporated transitional activities into their taxonomies. For example, the ASEAN Taxonomy includes an 'Amber' classification for 1) activities for which some remediation of harm is outstanding and 2) activities that demonstrate[20] a path to sustainability. We cover this in more depth in our companion paper Classifying Capital: *Taxonomies Built to Support Transition Finance - Part 2*

[15] https://finance.ec.europa.eu/system/files/2022-08/220228-sustainable-finance-platform-finance-report-social-taxonomy_en.pdf

[16] https://finance.ec.europa.eu/system/files/2022-03/220329-sustainable-finance-platform-finance-report-environmental-transition-taxonomy_en.pdf

[17] For example: Natixis report 'Extended Taxonomy: acknowledging "in betweenness" to soften elitism | Our Center of Expertise (natixis.com)' and other input by the Platform on Sustainable Finance in July 2021 sustainable-finance-platform-report-taxonomy-extension-july2021_en.pdf (europa.eu)

[18] Please see the Georgia Taxonomy for further detail

[19] https://www.sc.com.my/api/documentms/download.ashx?id=a0ab5b0d-5d7d-4c66-8638-caec92c209c1

[20] ASEAN Taxonomy Version 4 published November 2025 https://asean.org/asean-taxonomy-board-releases-complete-version-of-asean-taxonomy-for-sustainable-finance/

Taxonomies as Part of a Broader Sustainability Toolkit

Taxonomies form an important part of effective sustainability toolkits. Over time, alignment with taxonomy criteria - combined with robust transition plans, decision-useful disclosures, and rigorous due diligence and sound risk management processes – will see entities benefit from increased access to sustainable finance and venture opportunities. Entities that achieve taxonomy alignment will also benefit from enhanced long-term resilience to escalating physical and transition-related sustainability risks. In these ways, taxonomies serve as important tools for both value creation and value protection.

Taxonomies work alongside complementary regulatory, policy and private sector-led initiatives to enable entities to realise the benefits of implementing more sustainable practices. For example, taxonomies play a critical role in labelling regimes for financial products (such as the UK's Sustainability Disclosure Requirements and Labelling regime) by providing an objective basis on which to categorise the activities that comprise financial products' underlying investments as sustainable or transition positive. In this way, taxonomies bolster investor confidence in financial products marketed as 'sustainable', facilitating capital allocation to projects and sectors that have a meaningful positive impact on sustainability-related issues, incentivising the development of those projects and sectors, and meeting investor demand for sustainable investments.

Taxonomies can also play an important role in shaping entities' reporting and narratives on sustainability. By prescribing specific disclosures and providing clear definitions of sustainability, they bring certainty and comparability to an area often dominated by complicated and subjective materiality assessments. Taxonomy alignment also provides a solid and objective grounding for entities' sustainability claims, providing protection against greenwashing allegations. The protection that taxonomies afford against greenwashing allegations in turn empowers entities to craft a public narrative that duly promotes their sustainability credentials, minimising the growing market trend of greenhushing (i.e. minimising references to your sustainability credentials in public-facing and official publications as a way of mitigating the risk of greenwashing allegations).

However, it is worth noting that taxonomies alone cannot eliminate the risk of misrepresentation or selective disclosure. Their effectiveness depends on being embedded within a broader ecosystem that includes credible transition plans, robust governance, transparent disclosure frameworks, independent assurance, and regulatory supervision. Investor scrutiny and consistent data verification are also essential to ensuring that reported alignment reflects genuine sustainability performance rather than aspirational commitments.

When supported by these complementary measures, taxonomies can help entities communicate their sustainability credentials with greater confidence, reducing the risk of both greenwashing and greenhushing.

Conclusion

Taxonomies have become central to the architecture of sustainable finance, providing a common language that links policy objectives, capital markets, and real-economy activities. Their value lies in their ability to combine clear definitions, objective criteria, and robust disclosure standards to mobilise investment towards activities with measurable positive impacts.

The next stage of development for taxonomies globally will likely focus on expanding their scope to incorporate a broader spectrum of sustainability factors and accommodating activities that advance

the transition to a more sustainable economy, ensuring continued alignment with evolving science. Transition taxonomies that capture credible decarbonisation and transformation pathways represent the most forward-looking and pragmatic evolution of this tool, ensuring that sustainable finance frameworks reflect the full complexity of real-world economic change.

At the same time, efforts to enhance interoperability across jurisdictions will be essential to reduce fragmentation, lower compliance costs, and facilitate cross-border capital flows into sustainable and transitional projects.

For policymakers and developers, the challenge ahead is to preserve scientific integrity and policy credibility while making taxonomies sufficiently flexible and practical for markets. For market participants, taxonomy alignment will increasingly serve as a marker of transparency, credibility, discipline, and long-term resilience in a rapidly evolving sustainability landscape. This will enable participants to benefit from enhanced long-term enterprise value and increased access to financing opportunities.

Over time, the integration of taxonomies into investment decision-making, regulatory frameworks, and corporate strategy will not only shape financial markets but also accelerate the global transition to a sustainable economy. Taxonomies will also continue to evolve, with the integration of transition-focused taxonomies into investment decision-making, regulation, and corporate strategy defining the next stage of sustainable finance. This paper provides the global context for that evolution. The WFE's companion publication, *Classifying Capital: Global Taxonomy Trends and Evolutions – Part 2*, explores in greater depth how policymakers can design taxonomies that credibly finance decarbonisation and whole-of-economy transformation.