Australian Sustainable Finance Progress Tracker 2023

Third report on implementation of the Australian Sustainable Finance Roadmap

Australian **Sustainable**
Finance Institute

October 2023

Acknowledgement of Country

The Australian Sustainable Finance Institute acknowledges the Traditional Custodians of Country throughout Australia and recognises their continuing connection to land, waters, species and culture. We acknowledge their ongoing status as the First Peoples of Australia and pay our respects to their Ancestors and Elders past, present and emerging.

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Australian Sustainable Finance Institute

The Australian Sustainable Finance Institute's (ASFI) mission is to align the Australian financial system with a sustainable, resilient and inclusive Australia.

ASFI's creation followed an unprecedented collaborative effort by 140 representatives from across the Australian finance sector, civil society, academia, financial regulators and Government to create the Australian Sustainable Finance Roadmap.

Released in November 2020, the Roadmap sets out 37 recommendations to realign the Australian financial system by 2030, to support a more resilient, sustainable and prosperous future for all Australians.

ASFI was established in July 2021 to coordinate and drive Roadmap implementation, working collaboratively across the financial sector, government, regulators, civil society and academia. Our members are Australian banks, asset owners, asset managers, insurers and financial services companies who are committed to ASFI's vision and willing to contribute to sustainable and impactful solutions.

Acknowledgements

Collaboration is core to ASFI's values and essential for tackling the significant, complex, and inter-connected challenges of sustainability. We acknowledge with gratitude the many financial institutions and partners across Government, industry, academia and the not-for-profit sector that work with and alongside us to achieve the broad and bold ambition of the Roadmap.

In particular, we thank the individuals and organisations that assisted with the preparation of this report including through survey responses, interviews, case studies and other input. Specifically we would like to acknowledge the insights provided by the following people:

- Alix Pearce, *Senior Manager,* Climate & Social Policy, Insurance Council of Australia
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- Richard Lovell, *Executive Director Investments*, Clean Energy Finance Corporation
- Simon O'Connor, *CEO,* Responsible Investment Association of Australasia

Foreword

> *The 2023 Progress Tracker again demonstrates those areas where industry, government, regulators and civil society still need to drive faster, stronger progress towards ASFI's vision of a sustainable, resilient and inclusive financial system. This means more courageous leadership, more investment in capability, more collaboration, and better coordination.*

> *The past 12 months has seen another step-change in Australia's approach to sustainable finance, this time led by the Australian Government ... Australia is moving rapidly from "laggard" to "early follower"*

By **Kristian Fok**, ASFI Chair and CEO, Cbus Super

The past 12 months has seen another step-change in Australia's approach to sustainable finance, this time led by the Australian Government. The announcement by Australian Treasurer, Jim Chalmers, in December 2022 of an Australian Government Sustainable Finance Agenda was a landmark development, and widely welcomed across the finance sector.

Australia is moving rapidly from laggard to 'early follower' – advancing development of a world-leading sustainable finance taxonomy, moving to introduce mandatory climate disclosure for Australian firms from 1 July 2024, and developing a framework for Australia's first sovereign green bond issuance.

These initiatives are establishing a sustainable finance policy architecture that will accelerate the mainstreaming of climate considerations within Australian financial institutions; allow companies, investors, financiers and regulators to substantiate (or debunk) sustainability-related claims; and position Australia to influence the development of robust regional and global sustainable finance frameworks.

The past 12 months have also demonstrated the potential – and necessity – of a new approach to industry and Government collaboration. One that seeks to capitalise on the strengths of each, to do more together. The sustainable finance taxonomy project is a prime example of this model – utilising Government funding and industry expertise with leadership and coordination from ASFI. This collaboration is at the heart of how ASFI does its work – driving, connecting, convening and navigating implementation of the Roadmap.

But there is still much to do, and the 2023 Progress Tracker again demonstrates those areas where industry, government, regulators and civil society still need to drive faster, stronger progress towards ASFI's vision of a sustainable, resilient and inclusive financial system. This means more courageous leadership, more investment in capability, more collaboration, and better coordination.

Tracking progress is important. ASFI's Progress Tracker is a resource for actors across the financial system to take stock of what has been achieved, and identify where they can and must do better. ASFI's broader work program is very much focused on demonstrating what is possible through partnerships across sectors, and I look forward to another great year of partnerships and progress in 2024.

Executive summary

The standout performer in this year's Progress Tracker is the Government's commitment to a Sustainable Finance Agenda, something that was not expressly contemplated in any of the Roadmap's 37 recommendations. This highlights the shift in political context since the Roadmap was published in 2020 and is a game changing development.

Recommendation Scores out of 5

	Average Score 2023	Change from 2022
Domain 1	2.8	▲0.4
Domain 2	3.6	▲1.3
Domain 3	1.8	▲0.4
Domain 4	2.4	▲0.4
Total Average	**2.6**	**▲0.6**

This is the third report on implementation of the Australian Sustainable Finance Roadmap (Roadmap). The Roadmap Scorecard shows that Australia is heading in the right direction and identifies areas for further ambition and progress.

The score for 2023 across all 37 Roadmap recommendations is an average of 2.6 out of 5.0 – an increase of 0.6 from 2022. In some ways this modest progress belies the dramatic shift in the Australian sustainable finance market and in particular sustainable finance policy over the past 12 months.

At the same time, the results underscore the task ahead to translate high level targets and policy into on the ground impact to decarbonise the economy, restore Australia's natural capital and support greater levels of wellbeing across Australian society. Right across Australian governments and the private sector, Australia must now work to bed down and implement existing processes while continuing to scale up ambition through new levers and a greater level of coordination and collaboration.

Strong progress

The standout performer in this year's Progress Tracker is the Government's commitment to a Sustainable Finance Agenda, something that was not expressly contemplated in any of the Roadmap's 37 recommendations. This highlights the shift in political context since the Roadmap was published in 2020 and is a game changing development.

Core planks of the Government's agenda – corresponding to priority Roadmap recommendations – are already underway. On 1 July 2023, development of an Australian sustainable finance taxonomy commenced, led by the Australian Sustainable Finance Institute (ASFI) with funding from the Australian Government (Recommendation 9). At least three, and up to six, sectors will be complete by mid-late 2024 laying the foundations for a fundamental pillar of Australia's sustainable finance policy architecture.

A mandatory climate-related disclosure framework for Australian firms is also under development and is scheduled to take effect from 1 July 2024 (Recommendations 11, 12, 14, 15). The shift from voluntary to mandatory climate disclosure in Australia will support an industry-wide uplift in the quality and comparability of reporting and help firms to integrate climate risk and opportunity into their businesses.

There has also been strong progress on frameworks for nature-related disclosures. Released in September 2023, the Taskforce on Nature Related Disclosures' (TNFD) v1.0 global framework provides a useful starting point for nature disclosures and has received strong support from the Australian Government and industry groups (Recommendation 14).

Beyond the Sustainable Finance Agenda, the release of the Government's inaugural Wellbeing Framework, 'Measuring What Matters' achieves Roadmap Recommendation 30. This is a significant milestone that will enable a more holistic assessment of the wellbeing of Australian society and progress towards Australia's national goals.

In December 2022, the Australian Government joined the International Platform on Sustainable Finance (IPSF), achieving Recommendation 10. The Australian Government has also begun to elevate sustainable finance in broader foreign policy and engagement through initiatives such as the Australia-New Zealand 2+2 Climate and Finance Ministers Dialogue. This is encouraging progress which should be built on.

ASFI's membership has continued to increase over the past 12 months indicating continued and growing support from across the finance sector for realigning the Australian financial system (Recommendation 5). Our work program has likewise expanded and will continue to prioritise the highest impact areas across climate, nature and social wellbeing.

Over the next 12 months, bedding down and supporting implementation of existing reforms will be important. At the same time, the urgency and magnitude of the sustainability challenge demands additional action.

Encouraging steps forward

Now confident that they have the backing of the Australian Government, the Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulatory Authority (APRA) and the Reserve Bank of Australia (RBA) are becoming more visible in their climate change messaging and are allocating greater resources to climate. Australia's financial regulator mandates, guidance and standards are increasingly aligned with climate change objectives (Recommendation 19). There is scope to further align regulator mandates and financial regulation, including the Your Future Your Super framework and directors' duties, with sustainability goals.

Australian businesses are increasingly conducting climate scenario analysis but the quality and comparability is inconsistent (Recommendation 16). At the industry level, APRA has conducted a Climate Vulnerability Assessment (CVA) for Australia's largest banks and is undertaking the same for the insurance sector (Recommendation 17).

There have been encouraging developments to support better outcomes for First Nations people from the financial system (Recommendations 6 and 7). This year ASIC released an Indigenous Financial Services Framework to reduce harm and improve outcomes for First Nations people as they engage with the financial system. ASFI also launched its First Nations and Finance work program which will include a flagship project to improve disclosure of First Nations risks, impacts and outcomes.

The Australian Government has taken modest steps to scale up its programming to attract private capital into the Asia-Pacific, including by expanding the Department of Foreign Affairs and Trade's (DFAT) Emerging Markets Impact Investment Fund (EMIIF) (Recommendation 35). 2023 has seen significant Government commitments to improving residential energy efficiency (Recommendation 37) including $1 billion for the Clean Energy Finance Corporation (CEFC) to support home retrofit finance. But scaling the market for green retrofit finance remains hampered by the lack of national ratings framework and mandatory disclosures of residential energy performance.

Green bonds issuances in Australia and globally have continued to rapidly increase, although remain only a small proportion of total issuances. Around $13 billion of green bonds were issued in the first half of 2023, surpassing the previous years' totals. According to the Responsible Investment Benchmark Report, responsible investment assets under management in 2022 was down slightly from 2021. This was due to unusually strong performance of mining and energy sectors and is expected to recalibrate.

Limited progress

There continues to be a significant skills and capability gap among sustainable finance professionals and in baseline understanding of sustainability among Australian businesses (Recommendation 2). While sustainable finance training is becoming more available, ASFI's capability work program has identified significant gaps. In 2024, ASFI's Sustainable Finance Capability Reference Group will help to develop a capability framework for sustainable finance and principles for the accreditation of sustainable finance courses in Australia.

Australia's emissions targets and projected emissions are not consistent with limiting global temperature rise to 1.5°C (Recommendation 31). While corporate net zero commitments continue to rise, they are not always comprehensive in their coverage of material emissions, and many are not backed up by credible transition plans. This underscores the need for the Government to develop clear transition plan disclosure requirements and guidance.

Increasing frequency of extreme weather events from climate change continues to threaten affordability and availability of insurance (Recommendation 34). This requires a more comprehensive and integrated policy response and long-term funding. On nature, establishing national level targets and policies for nature protection is necessary to support private sector demand for and investments in nature and biodiversity.

Stewardship remains an important avenue for investors to encourage better practice from investees. The industry would benefit from a harmonised code that defines and supports best practice (Recommendation 21). This and consideration of sustainability labelling (Recommendation 27) would be valuable areas for inclusion in the Government's sustainable finance strategy. Likewise, the strategy could consider how reforms to capital weighting rules for banks to account for the lower risk of sustainable loans might unlock significant green finance (Recommendation 32).

With significant pieces of the policy architecture now under development, Australia is increasingly positioned as an 'early follower' with the potential to take a leadership role in our region and beyond – including on setting the standard for transition finance and driving interoperability.

Australia's support for early-stage innovation lags well behind that of other developed nations (Recommendation 32). This should be an important consideration for the Government's response to industrial policy developments in the US and European Union. Australia's green energy export superpower ambitions are also constrained by barriers to the roll-out of renewable energy infrastructure including permitting and approvals, supply chain constraints and a shortage of skills in key areas (Recommendation 37).

Looking ahead: quick wins and priorities

It is pleasing that many of the quick wins and priorities identified in the 2022 Progress Tracker have been progressed: the Australian Government has joined the International Platform on Sustainable Finance; it is developing a sustainable finance strategy with key pillars already underway; the Climate Change Authority (CCA) has been tasked to produce sector decarbonisation pathways by mid-2024; and an International Sustainability Standards Board (ISSB)-aligned climate-related disclosure framework with broad coverage is under development.

Over the next 12 months, bedding down and supporting implementation of existing reforms will be important. For Government, this means ensuring the climate disclosure requirements take effect as planned from 1 July 2024, and that the legislative framework lays the ground for broader sustainability related reporting in the future. It also means supporting the development of a complete sustainable finance taxonomy for climate mitigation and adaptation (at least six sectors) so that it can be used by financial institutions, regulators and broader stakeholders.

For financial institutions and other industry participants, implementation means investing in the capability uplift not just for sustainability teams but right across their organisations to properly mainstream sustainability into business strategy and practice. It also means continuing to translate long-term targets into meaningful action through credible interim targets and transition plans.

At the same time, the urgency and magnitude of the sustainability challenge demands additional action. The Government's forthcoming sustainable finance strategy should set a high bar for ambition across government. The strategy is expected to take a 'climate-first' approach but should also open the door to a broader sustainability agenda that expands to nature and social wellbeing. This should include adopting the IFRS S1 general sustainability disclosure standard, supporting development of a sustainable finance taxonomy for nature, and clearly signalling that Australia will adopt global standards on nature disclosures as they are developed.

On climate policy, ensuring the Government's sector decarbonisation plans are ambitious and clearly sign post the future trajectory of high carbon activities – including use of gas – will significantly influence the flow of capital towards zero carbon and transition activities. The Government can take a step towards supporting better management of physical climate impacts by integrating resilience into existing mechanisms – including the Australian sustainable finance taxonomy, the Australian Renewable Energy Agency (ARENA) and the CEFC.

Australia can help build markets for our green exports by implementing the Government's Southeast Asia Economic Strategy to 2040 recommendation to work more closely with Southeast Asian partners on high-quality and interoperable sustainable finance classifications and climate-related disclosure rules. Expanding Australia's international development finance capabilities would reinforce Australia's position as a key partner on climate, and support Australia's bid to host the United Nations Climate conference COP31.

There are also opportunities to unlock better cooperation and coordination for climate and sustainability outcomes. Treasury's Competition Policy Review should task the Australian Competition and Consumer Commission (ACCC) to clarify, streamline and potentially amend the application of competition law to climate-related collaboration in the public interest. The existing inter-governmental process for establishing a national framework for home energy assessments should be fast-tracked to enable banks to develop green finance products. And the Net Zero Authority has an important role to play in improving coordination on planning, including through the identification of renewable energy and industrial precincts.

The proposal for a constitutionally enshrined Indigenous Voice to Parliament in 2023 received strong finance sector support and helped to raise awareness and support for reconciliation among financial institutions. The rejection of The Voice at the October referendum underscores the need for greater efforts to accelerate reconciliation. Leadership from the finance sector should be part of this. ASFI looks forward to working with our members, government, financial regulators and other partners through our First Nations and Finance work program over the coming 12 months to support economic self-determination and create meaningful change with First Nations communities across Australia.

Roadmap Scorecard

AVERAGE SCORE ACROSS ALL RECOMMENDATIONS: 2.6 out of 5

○ ● ○ ○ ○

CHANGE FROM 2022 ▲ 0.6

DOMAIN 1: Embedding sustainability into leadership

2.8 ○ ● ○ ○ ○ CHANGE FROM 2022 ▲ 0.4

1	Accountability for sustainability is led from the top of financial institutions.	3	○ ○ ● ○ ○	CHANGE FROM 2022 ▲ 1.0
2	Australia's financial system participants collectively build the skills and capabilities that will be necessary for Australia's financial system to support a sustainable, resilient and prosperous future for all Australians.	1	● ○ ○ ○ ○	CHANGE FROM 2022 0.0
3	Financial institutions build inclusive corporate cultures that facilitate and promote the ability of employees to speak up, and strengthen personal professionalism through proactive support of industry-funded employee codes.	2	○ ● ○ ○ ○	CHANGE FROM 2022 0.0
4	Financial institutions: align remuneration structures with sustainable long-term value creation; and consider embedding sustainability targets into remuneration and incentive practices, and rewarding for sustainability performance and leadership, for example through promotion decisions.	2	○ ● ○ ○ ○	CHANGE FROM 2022 0.0
5	The Australian Sustainable Finance Initiative (ASFI) is established as a permanent body that supports Australia's financial system to deliver a sustainable, resilient and prosperous future for all Australians.	5	○ ○ ○ ○ ●	CHANGE FROM 2022 ▲ 1.0
6	Australia's financial system participants establish, through ASFI, a First Peoples Financial Services Office. This Office would be led by an Aboriginal or Torres Strait Islander person.	3	○ ○ ● ○ ○	CHANGE FROM 2022 ▲ 1.0
7	In recognition of Aboriginal and Torres Strait Islander peoples' rights to self-determination, financial institutions work to codify the principle of free, prior and informed consent in decisions made by financial institutions.	2	○ ● ○ ○ ○	CHANGE FROM 2022 0.0
8	Australia's financial system participants establish international partnerships to support the implementation of the Australian Sustainable Finance Roadmap.	4	○ ○ ○ ● ○	CHANGE FROM 2022 0.0

SCORING LEGEND

SCORE: 1.0 Negligible progress
SCORE: 2.0 Modest progress
SCORE: 3.0 Moderate progress
SCORE: 4.0 Advanced progress
SCORE: 5.0 Recommendation implemented

The score for 2023 across all 37 Roadmap recommendations is an average of 2.6 out of 5.0 – an increase of 0.6 from 2022. In some ways this modest progress belies the dramatic shift in the Australian sustainable finance market and in particular sustainable finance policy over the past 12 months.

DOMAIN 2: Integrating sustainability into practice

3.6

○ ○ ● ○ ○

CHANGE FROM 2022 ▲ 1.3

9	Australia's financial system participants establish a key project to explore the implementation of a sustainable finance taxonomy in Australia.	5	○ ○ ○ ○ ●	CHANGE FROM 2022 ▲ 1.0
10	Australia, through a relevant public authority, joins the International Platform on Sustainable Finance (IPSF).	5	○ ○ ○ ○ ●	CHANGE FROM 2022 ▲ 4.0
11	Financial institutions with annual consolidated revenue of more than $100 million report according to the TCFD recommendations by 2023 on an 'if not, why not' basis.	3	○ ○ ● ○ ○	CHANGE FROM 2022 ▲ 1.0
12	All ASX listed companies, beginning with the ASX 300, report according to the TCFD recommendations by 2023 on an 'if not, why not' basis, and guidance is developed for ASX-listed entities to support TCFD-aligned reporting.	3	○ ○ ● ○ ○	CHANGE FROM 2022 ▲ 1.0
13	ASFI, together with CMSI and other stakeholders, develops guidance to support TCFD-aligned reporting by financial institutions and facilitates discussion on how these reporting practices can be developed and implemented.	5	○ ○ ○ ○ ●	CHANGE FROM 2022 ▲ 1.0
14	Australia's financial system participants collectively play a leadership role in the development of the Task Force on Nature-related Financial Disclosures (TNFD).	4	○ ○ ○ ● ○	CHANGE FROM 2022 0.0
15	Sustainability reporting and assurance is mandated for listed entities and for unlisted assets wholly owned by financial institutions.	3	○ ○ ● ○ ○	CHANGE FROM 2022 ▲ 1.0
16	Financial institutions undertake scenario analysis and stress test the resilience of their organisation to physical and transition risks from climate change.	3	○ ○ ● ○ ○	CHANGE FROM 2022 ▲ 1.0
17	Vulnerability assessments to be undertaken or planned by APRA are expanded to include fit-for-purpose assessments for small and medium financial institutions across Australia, as well as the superannuation and insurance sectors.	3	○ ○ ● ○ ○	CHANGE FROM 2022 ▲ 1.0
18	Environmental and social externalities are valued by financial institutions.	2	○ ● ○ ○ ○	CHANGE FROM 2022 ▲ 1.0
19	Financial institutions work with Australia's financial system regulators on an ongoing basis to embed sustainability into regulatory guidance and standards to drive systemwide practice.	3	○ ○ ● ○ ○	CHANGE FROM 2022 ▲ 1.0
20	Australia's financial system participants positively drive best practice for the benefit of the whole of the Australian economy and society, including by: • embedding sustainability into outsourcing and procurement practices; and • embedding sustainability information into products and services for households and businesses.	2	○ ● ○ ○ ○	CHANGE FROM 2022 0.0
21	Australia's financial system participants develop stewardship codes to harmonise and enhance stewardship practices.	2	○ ● ○ ○ ○	CHANGE FROM 2022 0.0

At the same time, the results underscore the task ahead to translate high level targets and policy into on the ground impact to decarbonise the economy, restore Australia's natural capital and support greater levels of wellbeing across Australian society.

DOMAIN 3: Enabling resilience for all Australians

1.8

● ○ ○ ○ ○

CHANGE FROM 2022 ▲0.4

22	Australia's financial system participants support the establishment of community finance that can be accessed by place-based groups, including clubs and social enterprises, as part of a place-based community resilience strategy.	1	● ○ ○ ○ ○	CHANGE FROM 2022 0.0
23	Australia's financial system participants develop income and revenue contingent loans as a mechanism to support individual and community resilience to acute shocks as well as chronic threats to climate and health.	1	● ○ ○ ○ ○	CHANGE FROM 2022 0.0
24	Financial institutions establish Financial Inclusions Action Plans and review current practices and design of products and services to ensure financial inclusion.	1	● ○ ○ ○ ○	CHANGE FROM 2022 0.0
25	Consistent with applicable laws and regulations, financial institutions measure and report on: financial distress for households; and financial outcomes for Aboriginal and Torres Strait Islander customers.	2	○ ● ○ ○ ○	CHANGE FROM 2022 0.0
26	Financial institutions collaborate with regulators and the Australian Government to support networks, programs and initiatives that build individual and community financial capability.	1	● ○ ○ ○ ○	CHANGE FROM 2022 0.0
27	Australia's financial system participants support the development of labelling standards that provide consumers with access to consistent labelling and disclosure of the sustainability of financial services products.	2	○ ● ○ ○ ○	CHANGE FROM 2022 0.0
28	Australia's financial system participants enable Australians to make financial decisions based on their values and sustainability preferences.	2	○ ● ○ ○ ○	CHANGE FROM 2022 0.0
29	Australia's financial system participants collaborate, through ASFI, to develop best practice principles to guide product design, delivery and disclosure to drive sustainable and community-focused outcomes.	1	● ○ ○ ○ ○	CHANGE FROM 2022 0.0
30	Australia's financial system participants support the development and implementation of an Australian-focused well-being framework.	5	○ ○ ○ ○ ●	CHANGE FROM 2022 ▲3.0

Right across Australian governments and the private sector, Australia must now work to bed down and implement existing processes while continuing to scale up ambition through new levers and a greater level of coordination and collaboration.

DOMAIN 4: Building sustainable finance markets

2.4
○ ● ○ ○ ○
CHANGE FROM 2022 ▲ 0.4

31	Australia's financial institutions collaborate, through ASFI, to establish interim science-based targets and trajectories to align and facilitate the transition to net zero emissions by 2050.	**2** ○ ● ○ ○ ○	CHANGE FROM 2022 0.0
32	Australia's financial system participants work collaboratively to support development of a sustainable capital market.	**2** ○ ● ○ ○ ○	CHANGE FROM 2022 0.0
33	Australia's financial system participants produce a regular report that considers whether Australia's sustainable finance markets are functioning efficiently to support the delivery of net zero emissions by 2050, consistent with science-based targets.	**3** ○ ○ ● ○ ○	CHANGE FROM 2022 ▲ 1.0
34	Australia's financial system participants work collaboratively to promote climate risk mitigation efforts and to ensure buildings are disaster resilient.	**3** ○ ○ ● ○ ○	CHANGE FROM 2022 0.0
35	Australia's financial system participants work collaboratively to support development of sustainability impact and resilience markets including natural capital, carbon, impact investment, and climate mitigation and adaptation.	**2** ○ ● ○ ○ ○	CHANGE FROM 2022 0.0
36	Australia's financial system participants back initiatives to catalyse the establishment of sustainability impact and resilience markets by supporting the formation of an independent Social Impact Investment wholesaler for Australia.	**2** ○ ● ○ ○ ○	CHANGE FROM 2022 ▲ 1.0
37	Australia's financial system participants finance the development and regeneration of real assets, including infrastructure and property (housing, industrial and commercial).	**3** ○ ○ ● ○ ○	CHANGE FROM 2022 ▲ 1.0

PART A

State of Sustainable Finance in Australia

State of Sustainable Finance in Australia: a Snapshot

The shift from industry led to joint industry and Government leadership is expected to accelerate the integration of climate and sustainability considerations into Australian financial institutions.

This year has seen major advances in Australian sustainable finance policy and regulation

The past 12 months have seen significant developments in the Australian sustainable finance ecosystem, most notably the emergence of Australian Government's sustainable finance policy agenda. Announced by Treasurer Jim Chalmers in December 2022, the agenda includes: a mandatory climate disclosure framework; development of an Australian sustainable finance taxonomy; a sovereign green bond program; measures to address greenwashing; and elevating Australia's international engagement on sustainable finance.[1]

The Government also committed to developing a 'whole of Government' sustainable finance strategy that "helps the private sector finance the energy transition and the other big shifts required for net zero."[2] The strategy will start with climate, but over time is expected to incorporate other sustainability considerations including nature and biodiversity.[3] A consultation paper on this strategy is due to be released by the end of 2023.

These developments have been welcomed by the finance sector. Eighteen financial institutions across banking, investment, insurance, and financial services issued a joint statement in support of the Treasurer's announcement:

> *"The Treasurer's commitment to an Australian Government Sustainable Finance Agenda is an important development that provides an opportunity to ensure that Government policy, regulation and activities are aligned to support the growth and credibility of sustainable finance and investment.*
>
> *We support a whole of government Sustainable Finance Agenda that promotes clear, coherent policy and regulation across climate, environment, and social issues.*
>
> *This would signal to the world Australia is committed to sustainability, and help maintain access to cost-effective capital, including to support the net zero transition."*[4]

The shift from industry led, to joint industry and Government leadership is expected to accelerate the integration of climate and sustainability considerations into Australian financial institutions. While voluntary climate disclosure has continued to increase this year, mandatory disclosures will support an industry-wide uplift in the quality and comparability of reporting. Likewise, a sustainable finance taxonomy will allow substantiation of climate-related claims by firms and help manage greenwashing risk.

International progress continues, as Australia catches up

Global sustainable finance frameworks have progressed in 2022, with the release of the International Sustainability Standards Board's inaugural baseline disclosure standards for general sustainability disclosures and climate disclosures. The Taskforce on Nature-related Financial Disclosures also released its final recommendations to harmonise and mainstream corporate disclosures on nature.[5]

With more than 30 sustainable finance taxonomies in place or under development globally,[6] achieving interoperability between different frameworks to support global sustainable finance flows remains critical. A lack of commonly accepted definition for 'transition finance' is emerging as a key barrier to allocating capital to decarbonise high emitting sectors that will be critical for a zero emission future.

Assistant Treasurer Stephen Jones acknowledged this year that, "Australia had some catching up to do" on sustainable finance policy and regulation particularly with respect to jurisdictions such as the European Union, the United Kingdom and Singapore.[7] With significant pieces of the policy architecture now under development, Australia is increasingly positioned as an 'early follower' with the potential to take a leadership role in our region and beyond – including on setting the standard for transition finance and driving interoperability.

More work to do

> *"Australia is heading in the right direction, but we really need to pick up the pace."*
>
> Richard Lovell, *Executive Director Investments, Clean Energy Finance Corporation*

Industry experts interviewed by ASFI for this report stressed that there was more to do, and still a strong role for Government. It was important to bed down existing reforms and developments. This includes developing a complete sustainable finance taxonomy to define and channel sustainable finance and investment, and ensuring the mandatory disclosures framework is implemented rapidly and that there is support for the significant capability uplift this will require across the financial system. Capability and bandwidth to stay abreast of developments and adopt change more broadly is a challenge.

There remains an expectation that the Government's sustainable finance strategy will go further than existing announcements and measures. Gaps to be addressed include aligning financial regulation, such as the Your Future Your Super performance framework, with climate and sustainability goals; government support for an industry-wide stewardship code; more active international engagement; and keeping pace with international developments that address broader sustainability risks and opportunities such as nature and biodiversity, and social wellbeing. Consideration and mitigation of physical risk remains underdone in Australia's policy architecture and in many firms' practices.

> *"The sustainable finance strategy is a brilliant step forward. Government must capitalise on this opportunity and put forward a strategy that sets the bar high for ambition. The key pillars that have been announced are essential, but we also want to see it link up the areas across government that need to be aligned to give confidence to the finance sector that is ready to deploy capital, and that it will address the barriers that are in place in various areas of the existing regulatory framework."*
>
> **Simon O'Connor**, *CEO, Responsible Investment Association of Australasia (RIAA)*

Real economy targets and policies remain critical. Australia's 2035 nationally determined contribution (i.e., emissions reduction target), to come forward in 2025, would send an important signal of Australia's commitment to the transition. Forthcoming sector pathways and plans are likewise critical to drive finance and investment. Clear requirements and guidance on corporate transition plans would support firms to translate their net zero commitments into near term action.

Financial regulators receive boost to climate change efforts

In recent years, Australian financial regulators worked within their remits to encourage appropriate identification, disclosure, and management of climate-related risks in the Australian market. With the Australian Government now unequivocally behind a Sustainable Finance Agenda, financial regulators have become more outspoken on climate-related issues, increased internal resourcing for climate analysis, and signalled a more proactive approach to enforcement of climate-related transgressions.

ASIC Chair, Joe Longo, underscored the centrality of ESG to the proper functioning of fair and efficient markets in his speech to the Australian Council of Superannuation Investors conference:

> *"ESG is not a trend. Nor is it about burdening companies with bureaucracy or shareholders with less-than-optimal returns. It's not a question of 'shareholder returns or ESG', but of shareholder returns with ESG. Rather, it's a question of fair and efficient markets, and of confident investment."*
>
> **Joe Longo**, *Chair, ASIC*[8]

Reserve Bank of Australia Deputy Governor, Michelle Bullock, chose to centre her first speech after being named incoming Governor on how the RBA considers the impacts of climate change in its analysis and policy development.[9] And APRA Deputy Chair Helen Rowell used her speech at ASFI's 2022 Sustainable Finance Summit to outline the challenges of mitigating the risks of climate change to financial resilience and stability.[10] APRA is working with financial institutions to assess system-wide vulnerability to climate risk, and support capability building of risk identification and mitigation through its Climate Vulnerability Assessments.

Greenwashing risks remain

Greenwashing is a particular area of focus, with ASIC receiving additional funding in the 2023 federal budget to step up its enforcement activities.[11] In a speech to the 2023 Responsible Investment Conference, Deputy Chair Karen Chester described sustainable finance as a 'whole of ASIC priority', stating that:

> *"Greenwashing (put simply) is for ASIC … a corrosive agent to market integrity and thus to fair, efficient and informed markets."*
>
> **Karen Chester**, *Deputy Chair, ASIC*[12]

In May 2023, ASIC published a report on its regulatory actions on greenwashing since it released greenwashing guidance in June 2022. It has secured 23 corrective disclosure outcomes, issued 11 infringement notices, and commenced one civil penalty proceeding. The report outlines how and why ASIC intervened, in an effort to support market participants to avoid greenwashing.

Greenwashing risk for industry participants continues to be exacerbated by the lack of established sustainable finance standards – and in particular, the lack of common definitions around sustainability-related terms and claims. The development of an Australian sustainable finance taxonomy, as well as the introduction of a mandatory, industry-wide framework for climate disclosures, will help.

In the meantime, there is evidence globally of some companies choosing not to make climate-related disclosures as a way to avoid greenwashing.[13] It is unclear the extent to which this is occurring in the Australian market, but ASIC Chief Joe Longo has warned that "this kind of response is just another form of greenwashing; an attempt to garner a 'green halo' effect without having to do the work."[14]

Green capital markets continue to grow in Australia, but represent a small percentage overall

The green bond market in Australia remains small compared with total fixed-income issuance but has grown quickly since 2014. Around $13 billion of green bonds were issued in the first half of 2023, surpassing previous years' totals (Graph 1).[15] RBA analysis has found some evidence for a small 'greenium' (i.e., the willingness of investors to pay more for green securities) for AAA-rated kangaroo bonds.[16] The RBA's analysis also indicated that green bonds were no less liquid than conventional bonds.

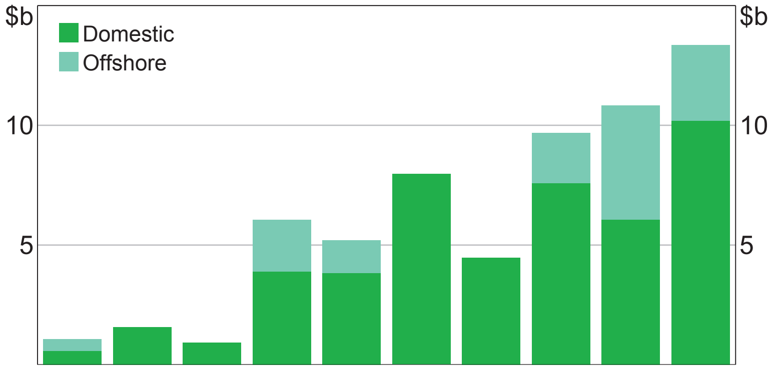
Australian green securitisation issuance reached a record $1.4 billion in 2022, representing 3 per cent of total securitisations.[17] The collateral for these asset-backed securities typically fell into three categories: green mortgages, green automotive loans, and green personal loans (typically for improvements to the energy efficiency of a home). RIAA's Benchmark Report found that sustainability-linked loans totalled $30 billion in 2022, up from $19 billion in 2021.[18]

The RBA's analysis found that ethical funds – defined as managed funds that advertise a commitment to ethical, sustainability-related or ESG objectives – in Australia have continued their growth trend over the past 12 months but still make-up less than 2 per cent of all assets managed by Australian fund managers (Graph 2).[19]

RIAA's Responsible Investment Benchmark Report 2023 found that responsible investment assets under management (AUM) – defined according to RIAA's evaluation framework – was $1.29 trillion in 2022. This was down from $1.54 trillion in 2021.[20] The decline was attributed largely to the unusually strong performance of mining and energy sectors in 2022, which responsible investment funds typically have lower exposure to. The Report also found that many domestic and international fund managers were reporting more conservative figures for responsible investments for 2022 in response to industry and regulatory efforts to tighten standards.

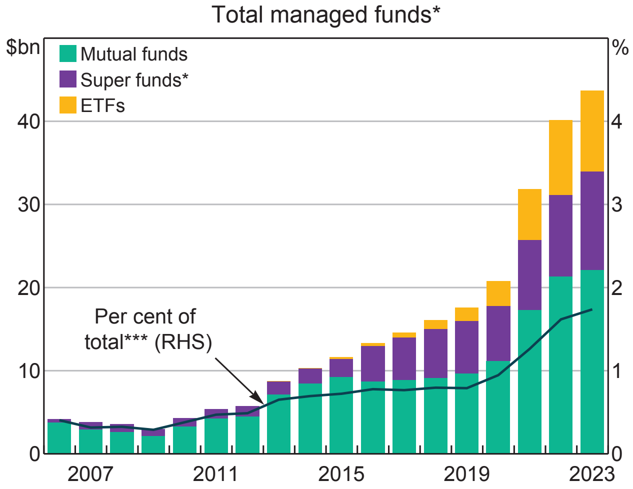
Medium and long-term performance of ethical funds has been found to be on par with other funds.[21] Short term under-performance, driven by mining and energy sector performance, is showing signs of recovery through the first half of 2023 and is expected to recalibrate.[22]

GRAPH 1 **Australian Green Bond Issuance**



Source: Reserve Bank of Australia, 21 September 2023

GRAPH 2 **Australian Ethical Funds**



*Data in each year corresponds to 30 June.

**Includes pension funds.

***Per cent of all assets managed by Australian fund managers.

Sources: ABS; Datastream; RBA; Refinitiv

Source: Reserve Bank of Australia, 21 September 2023

Australian trends in sustainable finance reflect global trends

The growth of green and sustainable financial markets in Australia has largely followed global trends, with both domestic and international markets growing rapidly in recent years. Globally, over $450 billion of green bonds were issued in 2022 contributing to $2 trillion since their inception in 2007.[23] Issuance in recent years has been led by the United States, China and the European Union.

Strong growth in sovereign green bonds issuances is driving an increase in total green bond issuance for 2023 based on results to 1 July 2023.[24] Sovereign green bond issuance is on track for a record annual issuance in 2023, as governments, including the Australian Government, increasingly look to fund their Paris Agreement commitments and boost their climate and sustainability credentials.[25] Sovereign sustainability bond issuance is also on the rise.

Overall, however, global sustainability debt issuance has declined over the past 12 months. There are a range of contributing factors: continued slowing of the global economy as interest rates rise, an elevated risk of recession, and tightening credit conditions in the wake of banking sector issues in early 2023. Lower issuance may also be attributed to borrowers and investors working through new developments in climate and sustainability regulations and standards, as well as increased concerns about greenwashing risk.[26]

Collaboration and coordination remain key

ASFI's 2022 Progress Tracker observed increasing levels of collaboration through industry led initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ) and the finance sector-specific alliances. Since then, the need for collaboration between industry competitors, and the role of government in facilitating this where appropriate, has only become more apparent. In a number of jurisdictions such as the EU, New Zealand and the UK,[27] competition regulators are providing detailed guidance and clarification to market participants to support climate and sustainability related collaborations for the public benefits they provide and allay industry concerns around sustainability related collaborations with competitors.

Currently, uncertainty regarding the application of Australian competition law to industry collaborations on sustainability is creating challenges for a range of collaborative initiatives designed to ensure consistent climate reporting methodologies across industries and sectors; or support the co-design of public-private partnerships to accelerate the flow of capital towards sustainability objectives; and others essential to accelerate progress towards climate and sustainability goals.

The Government's recently announced Competition Policy Review is an opportunity to address existing barriers to sustainability-related collaboration between industry competitors.[28] It can draw from the approaches being taken in the EU, the UK and New Zealand where competition regulators are clarifying the application of law to sustainability-related collaboration; streamlining exemption processes where collaboration is in the public interest to meet sustainability-related policy goals; and in some cases establishing a more permissive regime for climate-related collaboration between competitors.[29]

Industry experts interviewed for this report also stressed the need for greater coordination on government policy and programs. This includes coordination between Commonwealth government agencies, where climate and other sustainability issues cut across various portfolios including Treasury, Climate Change, Environment, and Industry. Greater coordination between Commonwealth, state and territory governments was also identified as critical, particularly to help streamline processes for permitting and approvals. The new Net Zero Authority, announced in May 2023, has an important role to play, including to support effective engagement with communities affected by the transition. Another area where Commonwealth-state cooperation is critical is to accelerate the roll-out of a single national ratings framework for residential energy performance and the introduction of mandatory disclosure at point of sale and lease.[30]

> *Currently, uncertainty regarding the application of Australian competition law to industry collaborations on sustainability is creating challenges for a range of collaborative initiatives.*

PART B

Progress towards Implementation of the Australian Sustainable Finance Roadmap

DOMAIN 1: Embedding sustainability into leadership

AVERAGE SCORE 2023: 2.8

○ ● ○ ○ ○

CHANGE FROM 2022 ▲ 0.4

Overview of Domain Recommendations

The Roadmap recognised that achieving a financial system that is aligned with a sustainable, resilient and inclusive Australia would require a shift in the way that sustainability was approached across the financial sector. Sustainability should be led from the top of FIs and mainstreamed through the business' purpose, strategy, risk management framework, remuneration structures and organisational culture. Australia's financial system participants should work together to supply increasing demand for the skills and capabilities that will support this shift. Aboriginal and Torres Strait Islander rights and perspectives should be recognised and integrated. The Australian Sustainable Finance Initiative that developed the Roadmap should be established as a permanent body to support implementation of the Roadmap, including through partnerships with counterparts internationally.

Summary of Progress for Domain 1

2023 has seen financial institutions continue to mainstream sustainability considerations through their organisations, with climate change increasingly integrated into organisational purpose, strategy, risk management, remuneration practices, and culture (Recommendations 1, 3, 4). The emergence of the Australian Government's sustainable finance policy agenda is expected to drive further integration of climate change and, over time, broader sustainability issues into the core business of financial institutions.

There continues to be a significant skills and capability gap among sustainable finance professionals (Recommendation 2). Incoming mandatory climate reporting will require a capability uplift for the entire financial system, including to raise the level of basic understanding across organisations so that climate disclosure is more than just a compliance exercise but a tool to enhance business practice and performance.

While sustainable finance training is becoming more available, ASFI's capability work program has identified significant gaps. In 2024, ASFI's Sustainable Finance Capability Reference Group will help develop a capability framework for sustainability finance and principles for the accreditation of sustainable finance courses in Australia. Accreditation will support the identification and development of high-quality course offerings focused on the skills and capabilities needed to integrate sustainability into financial institutions.

Established in 2021, ASFI has continued to grow its membership and impact over the past 12 months (Recommendation 5). ASFI's 2023 work program has five pillars: enabling sustainable finance – including development of a taxonomy, and policy engagement; finance sector leadership, including our capability work program; connecting, convening and coordinating including through the annual Progress Tracker and Sustainable Finance Summit; First Nations and finance; and sustainable finance solutions.[31] ASFI has continued to develop its international partnerships (Recommendation 8). The Australian Government has also begun to elevate sustainable finance in its foreign policy and engagement through initiatives such as the Australia-New Zealand 2+2 Climate and Finance Ministers Dialogue. There are opportunities for strengthening Australian Government engagement on sustainable finance as Australia moves from laggard to leader in sustainable finance policy and regulation.

There has been some progress in developing frameworks to support better integration of First Nations rights, perspectives, and opportunities into the financial system (Recommendations 6 and 7). Launched in 2023, ASFI's First Nations and Finance work program will include a flagship project to improve disclosures of First Nations risks, impacts and outcomes, and will integrate First Nations perspectives across all ASFI's work programs. This year, ASIC released an Indigenous Financial Services Framework following consultation and collaboration with First Nations people and communities. This framework will guide ASIC's work to reduce harm and improve outcomes for First Nations people as they engage with the financial system. It can also support better engagement by financial institutions.

Recommendations 1& 3 have been discussed together given their inter-relationship

RECOMMENDATION 1

Accountability for sustainability is led from the top of financial institutions. This will be most successful when sustainability is integrated in purpose, corporate strategy, risk management frameworks, remuneration structures and organisational culture. Financial institutions manage and measure the impact of their activities on others.

SCORE: 3 ○ ○ ● ○ ○ **CHANGE FROM 2022** ▲ **1.0**

RECOMMENDATION 3

Financial institutions build inclusive corporate cultures that facilitate and promote the ability of employees to speak up, and strengthen personal professionalism through proactive support of industry-funded employee codes

SCORE: 2 ○ ● ○ ○ ○ **CHANGE FROM 2022** **0.0**

Financial institutions are continuing to mainstream sustainability considerations – especially climate change – through their organisations

Evidence suggests that climate change is continuing to shift from a niche issue for financial institutions to core business for boards, executives, and strategy and risk management teams. Seventy-one per cent of financial institutions that responded to ASFI's 2023 Progress Tracker survey said sustainability was 'substantially' integrated into their organisation's purpose. Fifty-seven per cent said it was substantially integrated into corporate strategy, and 86% said it was substantially integrated into risk management. Respondents were less advanced in incorporating sustainability into corporate culture, with only 43% saying it was substantially integrated and 57% saying it was somewhat integrated.

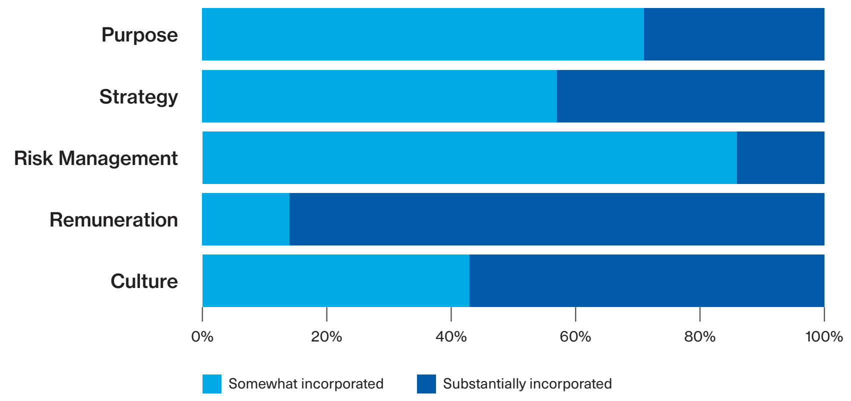
Since 2022, ASFI's Leadership Working Group has supported ASFI member organisations to adopt and drive the organisational transformation needed to set and achieve ambitious sustainability goals. Sessions have focused on issues and topics that are challenging for organisations as they move from making commitments to implementing them. These include influencing, capability, and culture. Using a facilitated peer learning approach, complemented by tools and frameworks that can support this organisational transformation the group has helped participants to mainstream sustainability through their organisations. One of the frameworks used in the group was Deloitte's Sustainability DNA framework which provides a maturity model to assess and build a sustainability culture, and ultimately mainstream sustainability, in organisations – see Case Study 1.

The Australian Government has come to the table, and this will drive further progress across the finance sector

The ongoing elevation of climate change issues within financial institutions was confirmed by anecdotal evidence from ASFI's interviews with sustainable finance leaders across the sector. An increased focus on greenwashing from Australia's financial regulators was seen as a driver, but more significant was the emergence of an Australian Government sustainable finance policy agenda.

Industry experts that ASFI interviewed for this report identified a significant transformation on sustainable finance from industry led, to industry and Government led. Australia is now in a fast follower position with significant momentum. This shift from voluntary to compliance is expected to further entrench climate as a key consideration for financial institutions.

CHART 1 **Incorporation of sustainability by Australian financial institutions, September 2023**



Source: ASFI research

CASE STUDY 1

Sustainability DNA: a framework for creating sustainable organisations

Since 2022, ASFI has partnered with Deloitte to support ASFI member organisations to adopt and drive the organisational transformation needed to set and achieve ambitious sustainability goals. Over the past year, Deloitte has supported the ASFI Leaders Forum, which brings together senior leaders from member organisations to share knowledge and advance professional practice in relation to sustainable finance. Three meetings have been held with the Forum, with each focused on different themes ranging from how to influence others, build the right capabilities and, most recently, embed sustainability into organisational culture.

In the last meeting, ASFI leveraged Deloitte's Sustainability DNA framework which articulates 16 traits (Figure 1) central to how organisations should organise, operate, and behave to build a culture of sustainability and create shared value. For example, *purpose and values-led* recognises the importance of organisational purpose and values for ethical decision-making, while *Partnership* acknowledges that internal and external collaboration is critical for advancing progress on sustainability issues.

Organisations will find themselves at different stages of maturity for different traits, pioneering in some areas whilst in the early stages of exploring others. The framework articulates four different levels of maturity (Figure 2); Exploring, Doing, Becoming and Being. The first step for any organisation is to understand their current level of maturity, identifying which traits they currently do well and which traits require further reinforcement. This will help to inform more targeted interventions for effecting change and cultivating a strong sustainability culture.

The framework also provides suggestions for how organisations may leverage different 'levers of change' to activate, reinforce, or embed sustainability traits into their DNA (Figure 3). For example, various modes of *communication* can be used to highlight the importance of sustainability to employees while the *organisational design* and *governance* structure can be reviewed to embed greater ownership for sustainability across the business. As culture change is a long and complex journey, organisations should consider the full suite of levers below to support the integration of sustainability into their organisational culture.

Continuous evaluation of sustainability culture over time allows organisations to track progress and measure the effectiveness of interventions. By combining an understanding of the level of current organisational maturity against the traits, and the levers that can be pulled to increase maturity, organisations can identify the type of interventions required to effect change and accelerate the integration of sustainability into organisational culture.

Figure 1: Sustainability DNA Traits

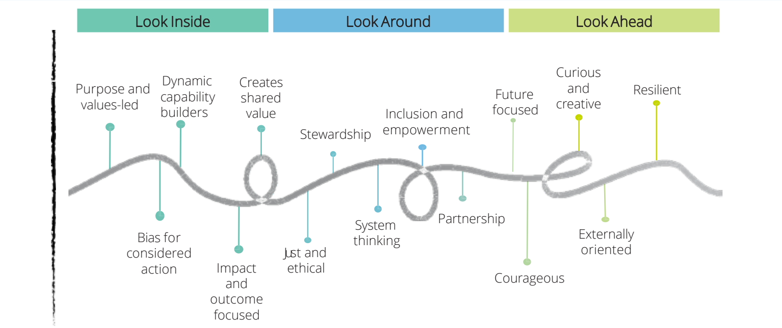


Figure 2: Sustainability DNA Maturity Curve

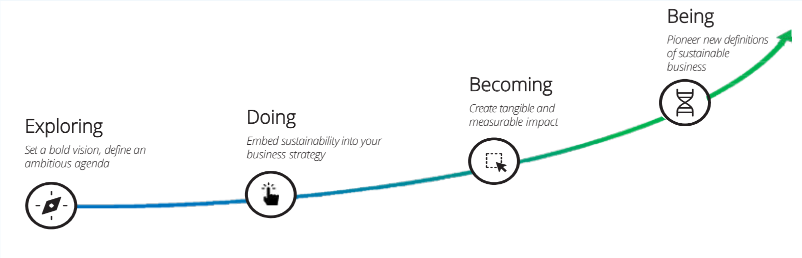


Figure 3: Levers of change

Levers of Change

Strategy	Governance	Organisational design
Talent	Products & Services	Risk
Data	Communication	Ecosystem

> *"Government policy shapes business practice – and in 12 months it feels like the federal Government has gone from zero to hero on sustainable finance policy. It's been a huge shift that will drive further change throughout the economy."*
>
> Karen McWilliams, *Chartered Accountants ANZ*

Greater government leadership is also enabling Australia's financial regulators to take more robust and public approaches to managing climate risks in the market (see Recommendation 19).

To date, the Government has focused on 'climate first' but the expectation from industry is that the sustainable finance policy architecture will be developed to accommodate broader sustainability considerations such as nature and social wellbeing over time. This will be important to enable Australia to keep pace with emerging international trends.

RECOMMENDATION 2

Australia's financial system participants collectively build the skills and capabilities that will be necessary for Australia's financial system to support a sustainable, resilient and prosperous future for all Australians.

SCORE: 1 ● ○ ○ ○ ○ **CHANGE FROM 2022** **0.0**

KEY OBSERVATIONS

A significant skills and capability gap in sustainable finance professionals remains

ASFI's 2022 Progress Tracker reported a sustainable finance skills gap, based on research by the University of Technology Sydney (UTS). This study surveyed Australian sustainable finance professionals to assess the current state of climate skills, finding that more than three quarters of sustainable finance professionals believe these skills are in moderate to high demand in their organisation, with this demand expected to intensify.[32]

Over the past twelve months, additional research into green skills has corroborated these findings on a global scale. LinkedIn's 2023 Global Green Skills report, which draws on data from its membership base of over 930 million users, found that growth in demand for green skills was outpacing supply across all industries. Within the finance sector, only 6.8% of financial services professionals have 'green skills', lagging other industries critical to achieving global sustainability targets, including energy, mining and agriculture.

The report also found 17% growth in green jobs as a share of all finance sector jobs. In the Australian context, the report indicates that there is a lower concentration of 'green talent' within the finance sector than other countries, including Germany, the United States, the United Kingdom, and Canada.[33]

ASFI's work over the past twelve months also found evidence of a sustainable finance skills gap in Australia. Respondents to ASFI's 2023 Progress Tracker survey reported a significant skills gap across the sector and, to a lesser extent, within their own organisations. This is consistent with ASFI's market analysis over 2022-23 to inform the development of our capability work program.

A major skills uplift is required to support incoming mandatory climate disclosure requirements

Many firms captured in the first group of reporting entities under the proposed climate disclosures framework have been reporting under the Taskforce for Climate-related Financial Disclosures (TCFD) or other relevant framework for some years and have already developed capabilities. Smaller firms are likely to be less prepared – but will have more time by virtue of the proposed four-year phase in period.

> *"The level of effort and resources and organisational investment that has been required in the last 12 months is going to be grossly insufficient for what firms will need to do for the next 12 months. So, make sure that over the next 12 months you argue hard within your organisation for a sufficient level of capacity and support to actually meet these requirements."*
>
> Emma Herd, *Partner, EY*[34]

Industry experts have also emphasised the importance of upskilling across the whole organisation:

> *"There's much to do before businesses can meaningfully implement disclosures that go beyond compliance to embrace genuine assessment and management of risk and opportunities. Capability will require deepening the expertise of sustainable finance and climate professionals in financial institutions and businesses and, in parallel, raising the level of basic understanding across organisations so that everyone can incorporate climate and sustainability into their roles. This is a huge task."*
>
> Karen McWilliams, *Chartered Accountants Australia and New Zealand*

Sustainable finance course offerings and resources for professional development in Australia are insufficient to meet demand

There is a growing number of sustainable finance courses being provided by the finance industry, universities, and industry organisations such as Financial Services Institute of Australasia (FINSIA), Chartered Financial Analyst (CFA) Institute, Principles for Responsible Investment (PRI), and UTS.[35] E-resources for professional development are also on the rise. However, ASFI's work to develop a Sustainable Finance Capability Work Program identified several gaps – see Box 1, below.

BOX 1

Gaps in sustainable finance courses and resources

Key sustainable finance course and resource gaps include:

- Training that is targeted to suit the needs of *Australian* sustainable finance and responsible investment professionals, with many existing courses targeted at professional learning in a global context.
- A modular approach for busy professionals who are not able to invest significant time and money in structured learning.
- Courses that keep pace with the dynamic nature of sustainable finance policy, regulation, and practice.
- Courses which focus on professional skills such as influencing, negotiation, leadership, organisational change, and systems thinking.
- Course offerings targeting the public sector.
- A structured ecosystem to support capability including accreditation of courses to ensure developed courses address skills requirements, or a professional body that includes ongoing requirements for professional learning.

ASFI has launched a Sustainable Finance Capability Work Program to address the skills and capability gaps in Australian sustainable finance professionals.

ASFI's Sustainable Finance Capability Reference Group (the Group) will develop principles for the accreditation of courses – a key step to support the maturation of the sustainable finance ecosystem in Australia.[36] The Group will provide expert advice to inform the development of a capability framework for sustainable finance, and principles and a process for the accreditation of high-quality sustainable finance courses. Accreditation is intended to protect the interests of the learner and improve the quality of teaching, learning and professional practice. Initial outcomes from this work will be shared in Q2 2024.

ASFI has also launched a Sustainable Finance Mentor Program, "Limitless" to further develop finance sector capability.[37] The program will match mentees with experienced mentors with the aim of helping participants develop new skills and knowledge, build professional networks and increase their influence for change and ambition on sustainability within their professional and personal spheres. *Limitless* is a nine-month program which will commence in November 2023.

In 2023, ASFI also launched our Sustainable Finance Jobs Board, which provides a dedicated space for sustainable finance professionals to access up-to-date information about sustainable finance opportunities.[38]

RECOMMENDATION 4

Recognising the strong link between strategy, remuneration, risk and performance, financial institutions align remuneration structures with sustainable long-term value creation; and consider embedding sustainability targets into remuneration and incentive practices, and rewarding for sustainability performance and leadership, for example through promotion decisions

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 0.0

Sustainability-related key performance indicators are evident at executive levels, but not always linked to remuneration

Eighty-six per cent of financial institutions that responded to ASFI's 2023 Progress Tracker survey reported that sustainability was 'somewhat' integrated into their organisation's remuneration structures but only 14% said it was 'substantially' integrated. The majority of respondents (86%) said their organisation set sustainability-related key performance indicators (KPI) for their CEO and executive employees. Of these, 83% reported that the KPI was linked to the CEO's remuneration.

While this is a small sample size, it mirrors private sector analysis from Guerdon Associates which found that 88% of ASX100 companies have executive pay incentives linked to a range of ESG metrics and 40% of these entities use environmental measures.[39]

Sustainability-related KPIs are less common for non-executive employees

Survey responses and ASFI's experience through our Leadership Working Group suggest that it is becoming more common to integrate sustainability related KPIs into performance metrics for all employees, but it is still not standard practice. As climate and sustainability becomes 'business as usual' at the board and executive levels, real world impact will require action and buy-in by employees across the organisation. Industry participants interviewed by ASFI for this report identified the upskilling of non-executive employees – including in product development and sales teams – as a key challenge for decarbonising loan books and portfolios, and for making climate disclosures contribute meaningfully to business strategy, impact and performance.

APRA has identified a gap in market understanding of how non-financial performance measures drive behaviour, risk outcomes and performance

In August 2023 APRA finalised new minimum standards for regulated entities in relation to remuneration through the Prudential Standard *CPS 511 Remuneration.* APRA has reported on the approach of 15 entities as they prepared to implement the standard. APRA note that these entities cited challenges in selecting appropriate non-financial measures to include in performance related variable remuneration and a gap in understanding of how these measures drive behaviour, risk outcomes and performance.[40] From 2024 onwards APRA regulated entities will be required to publicly disclose information related to remuneration and large entities will need to disclose detail related to executive payment structures including non-financial measures.[41] Greater transparency through public reporting could support financial institutions to set effective sustainability-related KPIs and incentives.

RECOMMENDATION 5

The Australian Sustainable Finance Initiative (ASFI) is established as a permanent body that supports Australia's financial system to deliver a sustainable, resilient and prosperous future for all Australians.

SCORE: 5 ○ ○ ○ ○ ● CHANGE FROM 2022 ▲ 1.0

KEY OBSERVATIONS

ASFI has continued to grow since its establishment as a permanent body

ASFI was established in 2021 with 21 founding members across the finance sector including major Australian banks, asset owners, asset managers, insurers and financial services firms. ASFI now has 44 members, who are committed to supporting ASFI's objectives and allocating more capital consistent with a sustainable, resilient, and inclusive Australia.

ASFI's work to implement the Australian Sustainable Finance Roadmap recommendations is ongoing. The score allocated this year of 5 out of 5 indicates the establishment of ASFI as per the requirements of this recommendation but does not suggest that we have completed our mission.

In 2023, ASFI has expanded its capabilities and work programs.

As reported in our 2022 Progress Tracker, ASFI initially focused on four priority projects: developing an Australian sustainable finance taxonomy; supporting the work of the Taskforce on Nature-related Financial Disclosures; establishing a sustainable finance leadership forum; and publishing an annual Progress Tracker report.

In 2023, these projects continue and ASFI has launched additional work programs to drive progress across the financial system – see Figure 4.

FIGURE 4 **ASFI's 2023 Work Programs**

Enabling Sustainable Finance	Finance Sector Leadership	Connecting, Convening, Coordinating	First Nations and Finance	Sustainable Finance Solutions
• Sustainable Finance Strategy • Taxonomy • TNFD and Natural Capital • Engagement in government policy processes where relevant to the Roadmap, including by amplifying and coordinating other peak bodies and industry organisations	• Organisational transformation for sustainability ASFI member working group • ASFI Summit • Sustainable Finance Capability • Connecting Australian FIs with global research and best practice	• Progress Tracker • Industry events, media and communications around other areas of work	• Further scoping and establishing ASFI work program in this area by bringing on a First Nations person to lead the work • Establishing a First Nations reference group to guide the work	• Working across the public and private sectors to design blended finance solutions and public private partnerships to achieve sustainability outcomes • Facilitating collaborations to design financing solutions for specific sustainability challenges

Integrating Indigenous perspectives

Providing a whole of finance sector perspective

Supporting cross-sectoral collaboration between industry, government, regulators, universities and others

Working in partnership

Strengthening international connections

More information about ASFI's activities and work programs is available in our Mid Year Report,[42] released in July 2023 and in our annual report which will be released at the end of 2024.

RECOMMENDATION 6

Australia's financial system participants establish, through ASFI, a First Peoples Financial Services Office. This Office would be led by an Aboriginal or Torres Strait Islander person to:

- **facilitate financial system participants' engagement with their communities and organisations on a range of issues related to the inclusive design and delivery of financial services;**
- **build genuine partnerships;**
- **encourage more accessible banking and superannuation services, suitable insurance products and disclosure processes;**
- **demonstrate respect for the rights of Indigenous peoples in the due diligence processes by investors**

SCORE: 3 ○ ○ ● ○ ○ CHANGE FROM 2022 ▲ 1.0

KEY OBSERVATIONS

ASFI has established its First Nations and Finance work program

Led by an Indigenous consultant with significant expertise across First Nations affairs, including in the finance sector, this work program is further exploring how ASFI could deliver on recommendations 6 and 7 of the Roadmap. The program is focused on systems change using the influence of the financial system, particularly with corporates and major projects, to manage risks and improve outcomes for First Nations. It will include:

- A flagship project to improve disclosures of First Nations risks, impacts and outcomes.
- Coordinating, convening and connecting work happening in this area across the financial sector.
- Engagement with policy and regulator engagement to achieve the objectives of this work program.
- Integrating First Nations perspectives in all of ASFI's work programs.

To develop the concept note for this work program in late 2022, ASFI established informal partnerships with Indigenous organisations, industry organisations working this area and financial institutions. ASFI has now begun to formalise these partnerships by establishing a First Nations Reference Group. The group will guide this work and will be a vehicle through which to build genuine partnerships between the finance sector and First Nations representatives. The group includes 30 individuals from ASFI member organisations, partner organisations and representation from Traditional Owner groups from across Australia.[43]

The purpose of the Reference Group is to provide subject matter expertise to inform ASFI's First Nations Program, providing us with insights and assisting with:

- Identifying pressing matters impacting community that might shape the development of ASFI's work program;
- Ideas and practices that support First Nations self-determination and economic reconciliation and the role of the finance sector in this;
- Cultural factors that ASFI's work program should adopt to foster meaningful engagement and drive stronger leadership through better practices, rather than settling for business as usual;
- Identifying gaps and opportunities for the finance sector to support economic self-determination, and providing advice on guidance to support the development of best practice tools and resources for systems change;
- Informing ASFI's activity so that the finance sector can be more responsive to First Nations stakeholders, and conversely support stronger understanding of the finance sector and how it can contribute meaningfully and practically to the future of First Nations self-determination;
- Creating a collaborative and partnership focused sustainable finance sector and supporting increasing understanding and trust between industry, government and First Nations people.

ASFI looks forward to progressing this work program through 2024 in order to achieve meaningful change for First Nations people and their engagement with and participation in Australia's financial system.

RECOMMENDATION 7

In recognition of Aboriginal and Torres Strait Islander peoples' rights to self-determination, financial institutions work to codify the principle of free, prior and informed consent in decisions made by financial institutions. This would include:

- **providing finance where there has been consultation and cooperation in good faith with any Indigenous peoples concerned through their own representatives and representative institutions in order to apply the principle of free, prior and informed consent, and reconsidering projects or activities where that standard cannot be achieved;**
- **when providing finance to Indigenous groups, ensuring decisions align with the principle of free, prior and informed consent."**

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 **0.0**

KEY OBSERVATIONS

The focus of work done to date in the financial sector on free, prior and informed consent (FPIC) has been on cultural heritage and has been led by the Australian Council of Superannuation Investors (ACSI) and the Responsible Investment Association of Australasia, as highlighted in ASFI's 2022 Progress Tracker report. Providing more detailed guidance and information on the application of FPIC beyond cultural heritage will be part of ASFI's First Nations work program in 2024 and beyond (see Recommendation 6).

ASIC's Indigenous Financial Services Framework is a significant milestone towards implementation of this recommendation for Indigenous consumers

Released in February 2023, ASIC's Indigenous Financial Services Framework (the Framework)[44] was developed in consultation and collaboration with First Nations people. This approach helped to build understanding of the needs, perspectives and experience of First Nations consumers engaging with the financial system.

The Framework outlines key learnings from this process that have been tested and confirmed by First Nations stakeholders and sets out how ASIC will use these learnings to inform ASIC's work. It shares the insights gained through the development of the framework so that financial institutions and other stakeholders can use them to support positive outcomes for First Nations peoples through their engagement with the financial system.

Key Learnings from the Framework development are:

1. First Nations peoples had unique, established economies before colonisation. These economies continue today and should be understood, respected and maintained.
2. First Nations peoples have been prohibited and excluded from participating in the Financial System.
3. Financial wellbeing affects all aspects of First Nations peoples' lives.
4. First Nations peoples have many different versions of financial success. This needs to be accepted and encouraged. All First Nations peoples should be empowered to achieve their vision of success.

ASIC found that First Nations consumers can experience long-standing challenges such as navigating personal identification requirements, lack of access to services and digital exclusion. By promoting the framework, ASIC hopes to address these challenges and build best practice engagement for improved financial wellbeing for First Nations people.

ASIC has also convened a series of industry events to share and promote findings from this work and connect financial system participants who are working towards these outcomes.[45] ASIC's work was and will continue to be guided by the following principles and encourages the finance sector to use these principles to inform their work as well:

ASIC Indigenous Financial Services Framework Guiding Principles

1. There is no one-size-fits-all solution. First Nations peoples are vast in diversity with different communities, languages and cultures.
2. First Nations peoples' cultural systems-including knowledge, management and governance systems--provide a continued strength to be acknowledged, understood and built upon.
3. First Nations communities' concepts of family and kinship should be recognised and accepted, including obligations and responsibilities bound by reciprocity, caring and sharing.
4. The colonisation of Australia has a continuing impact on First Nations peoples through intergenerational and transgenerational trauma, knowledge gaps, and limited economic experiences.
5. The human rights of First Nations peoples must be recognised and respected. These include the right to maintain and strengthen distinct economic, social and cultural institutions, while retaining the right to participate fully in the economic life of Australia and its financial system.

RECOMMENDATION 8

Australia's financial system participants establish international partnerships to support the implementation of the Australian Sustainable Finance Roadmap.

SCORE: 4 ○ ○ ○ ● ○ CHANGE FROM 2022 **0.0**

KEY OBSERVATIONS

Australia is continuing to grow and deepen international partnerships that support implementation of the Australian Sustainable Finance Roadmap.

The most notable progress in this area since 2022 is the increased focus and alignment of government-led international engagement on sustainable finance. In December 2022, the Australian Treasurer, Jim Chalmers MP, announced that he had joined the Coalition of Finance Ministers for Climate Action, and that Australia had joined the International Platform on Sustainable Finance and would continue to play an active role in the G20 Sustainable Finance Working Group.[46] International engagement is also signalled to be an important pillar of the forthcoming Australian Government Sustainable Finance Strategy.

Australia has also taken steps to deepen bilateral cooperation on sustainable finance with key partners. In June 2023, the Treasurer and the Minister for Climate Change and Energy, Chris Bowen MP, met with their New Zealand counterparts in the Inaugural Australia-New Zealand 2+2 Climate and Finance Dialogue. The communique from the meeting committed to stronger cooperation on sustainable finance,[47] demonstrating an elevation of the Sustainable Finance Agenda in Australia's government to government relationships.

The Government is also pursuing implementation of the Singapore-Australia Green Economy Agreement, and progressing negotiations for an Indo-Pacific Economic Framework – both of which provide opportunities for deeper collaboration on green and sustainable finance. These initiatives are complemented by closer cooperation on climate and clean energy more broadly, such as through the Australia-United States Climate, Critical Minerals and Clean Energy Transformation Compact.[48]

As Australia's domestic sustainable finance policy and regulation rapidly develops, ASFI has noted growing interest from other countries to partner with Australia to share technical and policy expertise. For example, with support from the EU Climate Dialogues Program, ASFI, with Climate-KIC, convened a series of regulator, policy maker and technical dialogues for Australia and the EU to exchange views, lessons and progress on sustainable finance policy and regulation throughout 2022 and 2023.[49] There is also strong interest from regional partners such Indonesia on how Australia is going about the development of the Australian sustainable finance taxonomy and in particular our approach to defining transition finance.

The Government's Southeast Asia Economic Strategy to 2040 recommended, among other things, that Australia expand its work with Southeast Asian partners on high quality and interoperable sustainable finance classification and climate related disclosure rules.[50] This recognises Australia's capacity to play a greater leadership role on sustainable finance in the Asia-Pacific region.

DOMAIN 2: Integrating sustainability into practice

AVERAGE SCORE 2023: 3.6

○ ○ ● ○ ○

CHANGE FROM 2022 ▲ 1.3

Overview of Domain Recommendations

The Roadmap set out thirteen recommendations to integrate sustainability into the practice of financial system participants, driving stronger sustainability outcomes within FIs and across supply chains, and supporting the shift of capital towards sustainable, resilient and inclusive activities. The recommendations to develop an Australian sustainable finance taxonomy and adopt best practice sustainability-related disclosure are cornerstones of a well-functioning sustainable finance policy architecture and in line with international developments. This domain also includes recommendations to support better climate-related risk management, valuing of natural capital and social externalities, greater regulatory guidance and standards, and more effective stewardship.

Summary of Progress for Domain 2

At ASFI's establishment in mid-2021, our founding members and broader stakeholders identified the development of an Australian sustainable finance taxonomy (Recommendation 9) as key to unlocking sustainable capital in Australia. On 1 July 2023, taxonomy development for climate mitigation commenced, led by ASFI with funding from the Australian Government. At least three, and up to six, sectors will be complete by mid-late 2024, providing a fundamental pillar of Australia's sustainable finance policy architecture.

In December 2022, the Australian Government joined the International Platform on Sustainable Finance, achieving Recommendation 10. While this is a welcome development, there are opportunities to deepen Australia's international engagement. In particular, Australia can share its experience and learnings through the taxonomy project, including the emerging methodology for 'transition finance' to support harmonisation of definitions of transition globally which will be critical for unlocking transition finance.

2023 has been a milestone year for climate-related reporting with the release of International Sustainability Standards Board standards, progress on an Australian mandatory climate disclosure framework, and increased uptake of voluntary climate reporting among corporates (Recommendations 11, 12, 14, 15). The proposed introduction of mandatory climate disclosures has received strong support from across the finance sector. The challenge now is to continue to build capability to support high quality disclosures, and ensure the framework can accommodate broader sustainability disclosures as they are introduced in line with international developments. As a next step, the Government should adopt IFRS S1 Standard for General Sustainability Disclosures.

Released in September 2023, the Taskforce on Nature Related Disclosures' v1.0 global framework provides a useful starting point for nature disclosures and has received strong support from the Australian Government and industry groups (Recommendation 14). Further work is required by regulators, government, and the private sector to operationalise nature-related reporting in Australia in a way that supports strong take-up by financial institutions. There have been positive developments in developing data sets and methodologies to support financial institutions to internalise environmental and social considerations (Recommendation 18). These include the establishment by the Australian Government of Environment Information Australia (EIA), and the launch of ASFI's partnership with Farming for the Future (FftF): Valuing Natural Capital.

Australian businesses are increasingly conducting scenario analysis to assess their exposure to potential physical and transition risks associated with different decarbonisation pathways (Recommendation 16). Incoming mandatory disclosure requirements are expected to drive improved quality and consistency of scenario analysis. APRA's inaugural Climate Vulnerability Assessment involved working with Australia's largest 5 banks to stress test the impact of different climate scenarios on the banking sector. APRA published its findings from the CVA in November 2022 and is currently conducting a CVA on the general insurance sector (Recommendation 17).

Australia's financial regulator mandates, guidance and standards are increasingly aligned with climate change objectives (Recommendation 19). Now confident that they have the backing of the Australian Government, ASIC, APRA and the RBA are becoming more visible in their climate change messaging and are allocating more resources to climate-related activities and analysis. There remains an opportunity to further align regulator mandates and financial regulation (such as the Your Future Your Super rules, and the framework for Directors Duties) with sustainability goals.

Substantial progress has not been observed in embedding sustainability into outsourcing and procurement practices, or into consumer information (Recommendation 20). In particular, analysis of the impact of Australia's Modern Slavery Act (2018) suggests the legislation is failing to drive substantive improvements in companies' approaches to eliminating modern slavery in their supply and distribution chains. Likewise, there has not been observable progress on introducing an industry-wide stewardship code for the Australian market (Recommendation 21).

RECOMMENDATION 9

Australia's financial system participants establish a key project to explore the implementation of a sustainable finance taxonomy in Australia. The project should involve a broad group of key stakeholders, including civil society, asset owners, asset managers, banks, insurers, financial regulators, legal experts, industry experts, technology experts, sustainability experts, state governments, and the Australian Government.

SCORE: 5 ○ ○ ○ ○ ● CHANGE FROM 2022 ▲ 1.0

BOX 2 **What is a sustainable finance taxonomy?**

A sustainable finance taxonomy is a set of definitions of economic activities and assets that positively contribute to key sustainability objectives. The taxonomy will provide a common standard for green and transition finance, helping accelerate the allocation of capital towards sustainable activities to achieve Australia's net-zero ambitions. The taxonomy will:

- make it easier for financial institutions to identify investment opportunities and create sustainable activities and assets;
- provide the finance sector with greater confidence in and assurance over sustainability claims;
- enable comparability between investment products and portfolios; and
- reduce transaction costs, thereby increasing the attractiveness of green sustainable transactions.

KEY OBSERVATIONS

ASFI, in partnership with the Australian Government, has commenced work on the development of the Australian sustainable finance taxonomy – see Box 2. The initiative draws from work undertaken internationally on sustainable finance taxonomies to develop an Australian taxonomy that is credible, usable, and internationally interoperable, while reflecting the Australian economy and context. The taxonomy will provide a common standard for sustainable and transition finance in Australia, thereby helping channel more capital into supporting the climate transition and achieving our emissions reduction targets.

An Australian Sustainable Finance taxonomy is underway

In July 2023, in partnership with the Australian Government, ASFI commenced the development of the Australian sustainable finance taxonomy.

This work is being overseen by the Australian Council of Financial Regulators' Climate Working Group (CWG). This partnership reflects a shared appetite across government and industry for new frameworks that support the growth of credible sustainable finance markets in Australia.

The taxonomy's initial development phase will run for 12 to 18 months, including the creation of climate mitigation technical screening criteria for priority sectors and associated technical work on data requirements, the methodology for incorporating transitional activities, Minimum Social Safeguards and a Do No Significant Harm framework.

The first three priority sectors for taxonomy development are:

1. Electricity generation and supply (Energy);
2. Minerals, mining and metals; and
3. Construction and the built environment.

Contingent on additional resourcing, up to three of the following additional priority sectors could be developed over an 18-month period: manufacturing/industry; transport; and agriculture.

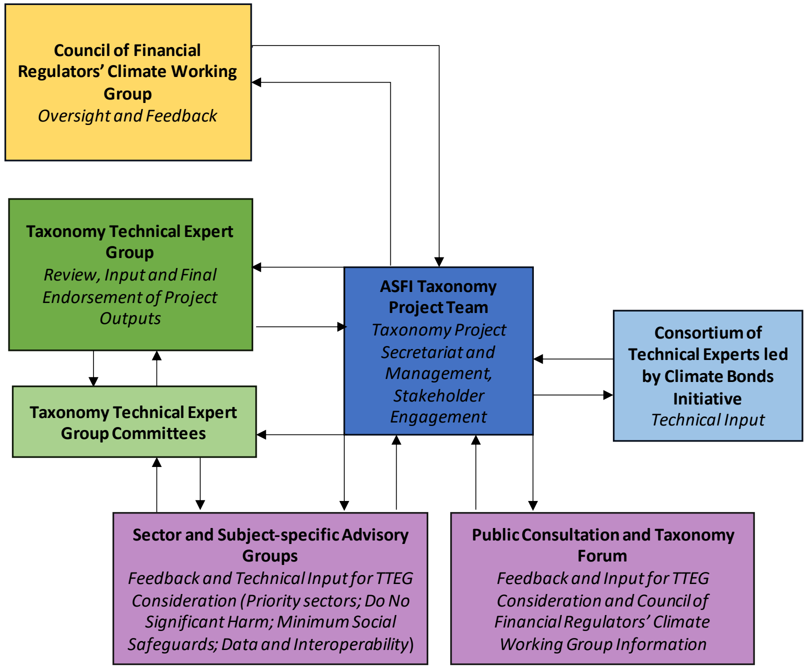
ASFI has convened a Taxonomy Technical Expert Group (TTEG) to provide strategic direction over, input into, and endorsement of an Australian sustainable finance taxonomy. The TTEG, endorsed by the CWG, comprises 25 senior leaders with expertise in sustainable finance; whole-of-economy decarbonisation; climate and environmental science and policy; human rights; and Indigenous rights and perspectives.

ASFI is working with the global standard setter, Climate Bonds Initiative (CBI) as the lead technical partner for this work. CBI has provided technical assistance for the development of several taxonomies around the world, including the European Union and Singaporean taxonomies.

As part of its work in this phase, the TTEG will provide advice on the future development priorities for the Australian taxonomy including expanding the taxonomy to cover additional sectors for climate mitigation, and the development of criteria for the other sustainability objectives: climate adaptation, environmental protection, the transition to a circular economy and key social outcomes.

The CWG will oversee work on the taxonomy development, as part of its role in supporting the development and implementation of the Australian Government's forthcoming sustainable finance strategy. Led by the Department of Treasury, the CWG will review products endorsed by the TTEG and provide feedback through ASFI to facilitate alignment with the Government's key sustainable finance policy objectives and wider market and regulatory developments in sustainable finance.

FIGURE 5 **Australian Sustainable Finance Taxonomy Governance and Information Flows**



The definitions and criteria that form a sustainable finance taxonomy require updating on an ongoing basis as scientific understanding evolves, and new markets develop. The Australian sustainable finance taxonomy's development phase will provide a strong foundation for an enduring taxonomy framework, which could include permanent institutional arrangements for the development and maintenance of taxonomy products, and the incorporation of finalised taxonomy criteria into regulatory architecture to support sustainable finance.

Australian Sustainable Finance Taxonomy Scoping Phase: 2022-June 2023.

Following its establishment in 2021, ASFI identified the development of an Australian sustainable finance taxonomy as an immediate, strategic priority for Australia. Between June 2022 and June 2023, ASFI undertook a taxonomy scoping project. The scoping project was industry funded and led, with engagement from government and regulators.

ASFI worked with a Technical Advisory Group (TAG) and broader stakeholders to inform the taxonomy scoping project deliverables. The TAG comprised 56 members and observers from across the financial services sector, ESG market specialists, academics and international taxonomy experts. The TAG had seven observers, representing the Australian Banking Association, the Financial Services Council, and the Australian Department of Treasury and Council of Financial Regulator agencies (the Reserve Bank of Australia, the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority).

The taxonomy scoping project focused on identifying key framework design elements for an Australian sustainable finance taxonomy. Project deliverables included three reports, set out below.

Report 1: Analysis of International Taxonomies and Considerations for Australia (October 2022)

This report compares taxonomy frameworks used in 13 jurisdictions internationally with similar economic compositions and needs to Australia, and identifies lessons to inform the development of an Australian taxonomy. There were 12 taxonomies in place globally and 15 under development when this report was written, representing over 55 per cent of global Gross Domestic Product.

Report 2: Australian Framing Paper – Designing Australia's Sustainable Finance Taxonomy (December 2022)

This report provides recommendations on the core design elements for an Australian taxonomy. Through a public consultation process that helped inform the report, ASFI found there is broad consensus on the core design elements of an Australian taxonomy, including in relation to credibility; usability; interoperability; and prioritisation and impact. Consultation also revealed strong support for the inclusion of a transition category in an Australian taxonomy.

Report 3: Australian Taxonomy Transition Methodology Research Paper (July 2023)

This report identifies key considerations to inform the methodology for integrating transition activities in an Australian taxonomy. The report's findings were informed by and adapted from the most advanced transition methodologies currently under development internationally, as well as international best practice on transition financing and disclosures.

RECOMMENDATION 10

Australia, through a relevant public authority, joins the International Platform on Sustainable Finance (IPSF).

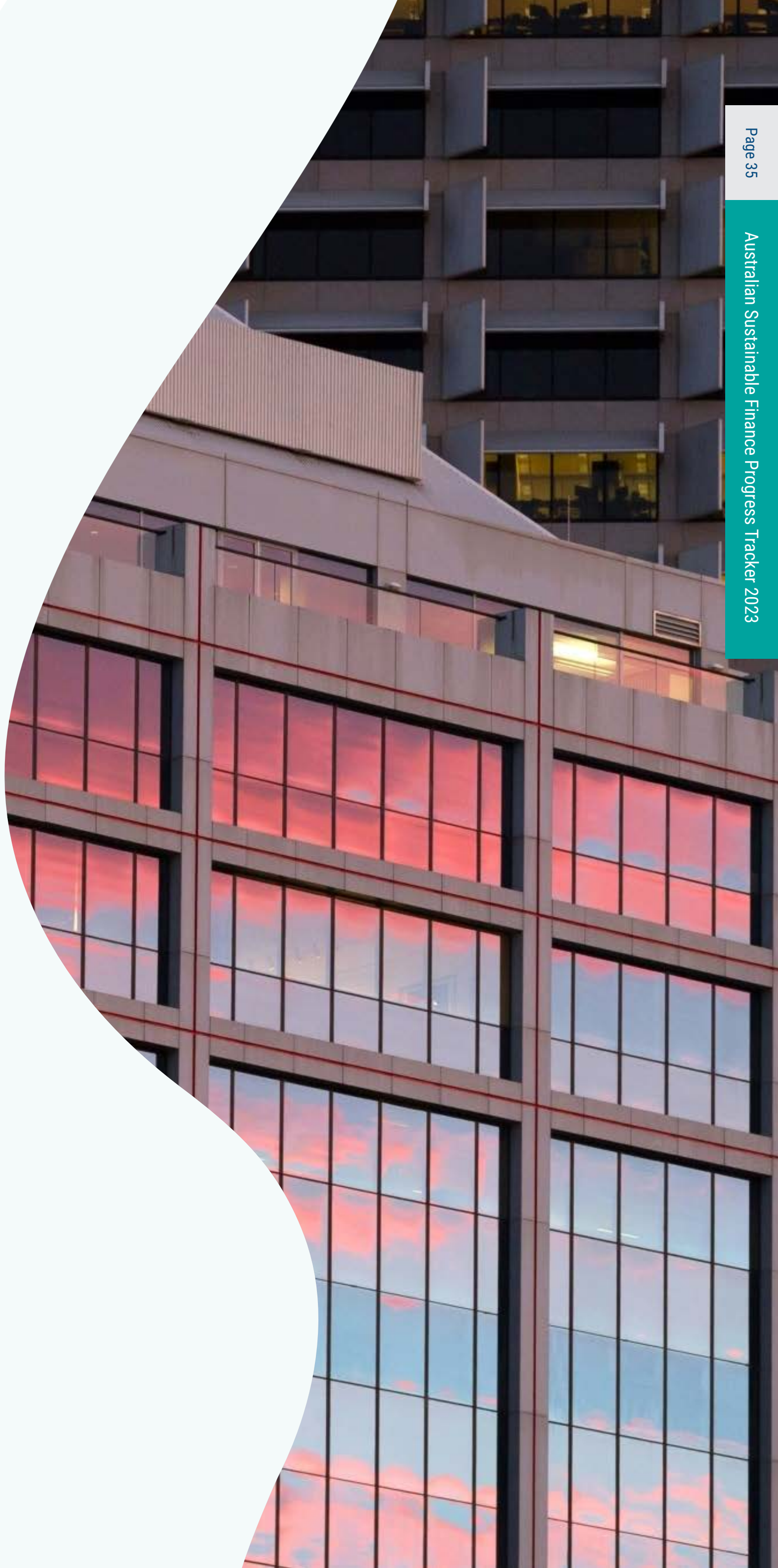
SCORE: 5 ○ ○ ○ ○ ● CHANGE FROM 2022 ▲4.0

KEY OBSERVATIONS

In 2022 Australia joined the International Platform on Sustainable Finance, successfully achieving this recommendation.

The IPSF is a multilateral forum of public authorities responsible for developing sustainable finance policy. IPSF focuses on increasing private capital investment into environmentally sustainable initiatives through the development of tools such as taxonomies, disclosures, standards and labels. Together, the 17 members of the IPSF represent 55% of greenhouse gas emissions, 51% of the world population and 55% of global GDP.[51]

In December 2022 the Australian Treasurer announced that Australia had joined the IPSF.[52] The IPSF is one of several avenues through which Australia can promote the development of robust, interoperable sustainable finance policy, drawing on our domestic experience. See further discussion on Australia's international engagement in Recommendation 8.



Recommendations 11, 12, 13 & 15 have been discussed together given their inter-relationship

RECOMMENDATION 11

Financial institutions with annual consolidated revenue of more than $100 million report according to the TCFD recommendations by 2023 on an 'if not, why not' basis.

SCORE: 3 ○ ○ ● ○ ○ **CHANGE FROM 2022** ▲ **1.0**

RECOMMENDATION 12

All ASX listed companies, beginning with the ASX 300, report according to the TCFD recommendations by 2023 on an 'if not, why not' basis, and guidance is developed for ASX-listed entities to support TCFD-aligned reporting.

SCORE: 3 ○ ○ ● ○ ○ **CHANGE FROM 2022** ▲ **1.0**

RECOMMENDATION 13

ASFI, together with CMSI and other stakeholders, develops guidance to support TCFD-aligned reporting by financial institutions and facilitates discussion on how these reporting practices can be developed and implemented.

SCORE: 5 ○ ○ ○ ○ ● **CHANGE FROM 2022** ▲ **1.0**

RECOMMENDATION 15

Sustainability reporting and assurance is mandated for listed entities and for unlisted assets wholly owned by financial institutions.

SCORE: 3 ○ ○ ● ○ ○ **CHANGE FROM 2022** ▲ **1.0**

KEY OBSERVATIONS

2023 has been a milestone year for climate-related reporting with the release of International Sustainability Standards Board standards, progress on an Australian mandatory climate disclosure framework, and increased uptake of voluntary climate reporting among corporates.

In June 2023, the ISSB issued its general sustainability disclosure standard (IFRS S1) and climate disclosure standard (IFRS S2), with broad support from governments and financial institutions globally

ISSB was established in December 2021 by the IFRS Foundation with the aim to develop comprehensive global baseline standards for sustainability disclosure. IFRS S1 and S2 incorporate and build on the recommendations of the Taskforce on Climate-related Financial Disclosures.[53] See Box 3 for more information on the content of these standards.

> *"The global economy needs common reporting standards to reduce fragmentation and drive comparability in climate-related financial data. Built upon the foundation of the TCFD framework, the ISSB Standards provide a global baseline for companies to disclose decision-useful, climate-related financial information—information that is critical for creating more transparent markets, helping achieve a smooth low-carbon transition, and building a more resilient and sustainable global economy."*
>
> Mary Schapiro, *Head of the TCFD Secretariat and Vice Chair for Global Public Policy at Bloomberg L.P.*[54]

The ISSB is working to support effective implementation of S1 and S2, and from 2024 will take over the TCFD's responsibilities in monitoring progress towards climate-related disclosures.[55] There is an expectation that the ISSB will also proceed with the development of further sustainability disclosure standards.[56]

The ISSB has received strong support globally, with various countries indicating they are looking to adopt the standards, including Australia, Brazil, Canada, Chile, China, Egypt, Japan, Kenya, New Zealand, Nigeria, Malaysia, Singapore, South Africa, and the UK.[59]

BOX 3 **The ISSB's inaugural sustainability standards: IFRS S1 and IFRS S2**

1. General sustainability disclosure (IFRS S1) requires entities to communicate all sustainability-risks and opportunities that could reasonably be expected to affect the entity's cash flow, its access to finance or cost of capital over the over the short, medium, and long term. This includes governance processes, strategy for managing sustainability-related risks; the process used to identify, assess, prioritise and monitor these risks; performance in relation to sustainability-related risks including progress towards any targets set by the entity.[57] An entity's sustainability-related risks and opportunities arise out of the interactions between its stakeholders, society, the economy and the natural environment throughout the entity's value chain.
2. Climate disclosure standards (IFRS S2) requires entities to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance, or cost of capital over the short, medium or long term. This specifically includes the physical and transition risks to which the entity is exposed to in relation to general purpose financial reports.[58]

Both ISSB standards are meant to be applied together, with S1 playing a foundation for sustainability reporting upon which the subsequent standards will be based.

Australia's mandatory climate disclosure framework will be phased in starting from 1 July 2024

Over the past 12 months, the Australian Government has progressed its mandatory climate reporting framework for large Australian firms. The Department of Treasury released its first consultation issues paper in December 2022.[60] It received 194 submissions from a broad range of stakeholders who were "almost universally supportive of the Government mandating climate-related risk disclosures."[61]

In June 2023, Treasury released a second consultation paper outlining key elements of the framework design and implementation.[62] The paper confirmed that Australian disclosure standards – to be developed by the AASB in late 2022 – will be aligned as far as practicable to the ISSB. The requirements will be phased in over four years from 1 July 2024 and will apply to both listed and unlisted entities.

A separate framework is being developed by the Department of Finance to mandate climate disclosure by Government owned or managed entities. The intention is that this will align as closely as possible to the corporate framework.

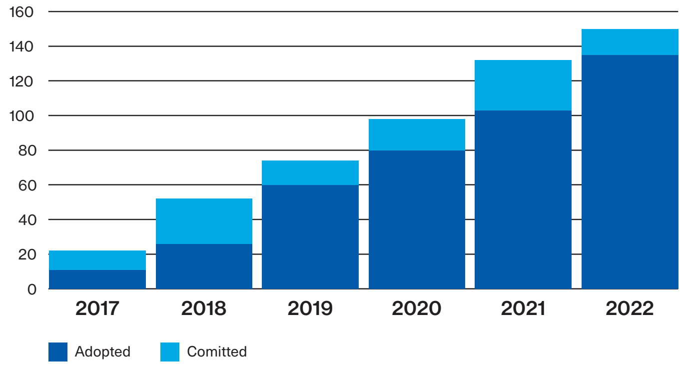
To date, Australia has only committed to develop an Australian-equivalent to IFRS S2. Moving to adopt the baseline standard for general sustainability reporting as set out in IFRS S1 will support alignment of Australian practice with international trends and support the development of future standards over time, such as on nature and social impacts.

Assurance will be a key feature of Australia's disclosure framework, to enhance the credibility of disclosures

Assurance requirements will be phased and scaled to allow for skills, capacity, and processes in the market to be developed at a manageable pace.

In August 2023, the International Auditing Assurance Standards Board (IAASB) released its exposure draft of an overarching standard for assurance on sustainability reporting. The Government has indicated that Australian assurance requirements should align with IAASB standards as far as possible.[63]

FIGURE 6 ASX200 companies adopting or committed to TCFD disclosures over time.[66]



Source: ACSI, 2023. Promises, Pathways and Performance: Climate Change Disclosure in the ASX200.

Australian listed companies are increasingly reporting against the TCFD framework

The Taskforce on Climate-related Financial Disclosures has overtaken the Global Reporting Initiative standards as the most common framework used by ASX100 companies.[64] In 2022, 135 ASX200 companies used the TCFD framework to guide their climate disclosures – up 31% from 2021. A further 15 companies have committed to adopting the TCFD framework, which means in the next reporting period nearly 75% of the ASX200 will use TCFD to report on climate risks and opportunities. According to ACSI:

> *"This take-up highlights the increased recognition of the systemic and financially material climate change risks impacting Australian companies and affecting the wider economy. It also reflects the growing expectations of key stakeholders, including regulators and investors, who are often seeking comparable and decision-useful information on how climate change may affect a company's long-term performance."*[65]

While reporting is on the rise, ACSI notes that the quality of analysis, transparency of methodologies and depth of disclosure varies considerably across companies:

> *"Too many companies are only at the stage of 'partial' alignment to the TCFD framework for their disclosures… Full alignment to the TCFD framework does not always correlate with sufficient disclosure. Some companies make broad, sweeping statements, with little qualitative or quantitative detail about how climate risk manifests in its specific circumstances, or what steps the company is taking to manage the risks identified."*

Analysis by KPMG found that only around 50% of reporting entities obtain third party assurance.[67] "This lack of independent verification of reported sustainability data suggests that 'greenwashing' remains a risk for those who do not obtain third-party verification."

Respondents to the ASFI Progress Tracker survey reported that financial institutions are moderately prepared for mandatory reporting but that the wider market is underprepared. This suggests that there is a significant capability uplift required to meet incoming mandatory climate reporting requirements. See further discussion of capability for reporting in Recommendation 2.

RECOMMENDATION 14

"Australia's financial system participants collectively play a leadership role in the development of the Task Force on Nature-related Financial Disclosures (TNFD) by:

- **funding research that supports TNFD's working groups;**
- **engaging in the process to develop the TNFD reporting framework;**
- **establishing, through ASFI, an Australian project to develop guidance for nature related financial disclosures aligned to Australia's biodiversity challenges"**

SCORE: 4 ○ ○ ○ ● ○ CHANGE FROM 2022 **0.0**

KEY OBSERVATIONS

Frameworks for nature disclosures continue to evolve

Global momentum on nature is growing with the adoption of the United Nations Global Biodiversity Framework (see below), and increasing recognition of nature risks, opportunities and dependencies including from the financial sector. This has seen the emergence of multiple nature-related standards and disclosure frameworks for businesses. These include the recently released TNFD framework v1.0, new guidance by the Science-based Targets Network (SBTN) and Global Reporting Initiative (GRI) Biodiversity Standard. Central banks in the European Union, UK and Singapore are also at various stages of developing rules that recognise the relationship between nature and financial system sustainability.[68]

Australia is actively supporting TNFD development and implementation

As reported in ASFI's 2022 Progress Tracker, The Australian Government has been involved with the TNFD from its nascency as a strategic sovereign funder. TNFD has also received strong support from industry groups.

- The Responsible Investment Association Australasia, was appointed as the official convenor of the TNFD Consultation Group for Australia & New Zealand. In its capacity as convenor, RIAA worked with the Australian Government to host three TNFD information sessions in 2023. RIAA also runs a nature working group which is focused on several priority areas: awareness and education, nature-related risks and exposures, activating nature-related investment opportunities, strategy and systems and corporate engagement.[69]
- The Australian Council of Superannuation Investors has recognised the strong interest from long-term investors to manage risks associated with biodiversity loss and in the pursuit of opportunities associated with preserving nature. ACSI's work during 2023 has included the provision of feedback on the fourth beta version (v0.4) of the TNFD framework[70] and varied research and engagement work amongst their members to identify and understand gaps to respond to the TNFD recommendations and identify areas of opportunity for support and guidance.
- During 2023, ASFI helped facilitate piloting activities with financial institutions to inform the final first version (v1.0) of the TNFD framework, which was released in September 2023. ASFI and Chartered Accountants Australia and New Zealand (CA ANZ), provided a joint feedback submission to the TNFD on its fourth and final beta framework (v0.4).

Further work is required to ensure TNFD can be meaningfully implemented by financial institutions and other businesses

The finalisation of v1.0 of the global TNFD framework is a welcome starting point for nature disclosures. Further work is required by regulators, government, and the private sector to operationalise nature-related reporting in Australia in a way that supports strong take-up by financial institutions. This will require identification of indicators that support firms to track, measure and report on risks and opportunities that matter, and that support efficient aggregation of data across large, diversified portfolios.

As part of responding to these needs, in 2023 ASFI launched a new partnership with Macdoch Foundation's Farming for the Future, 'Valuing Natural Capital', which aims to integrate natural capital considerations into financial and business decision-making of financial institutions with a specific focus on agribusinesses (see case study in Recommendation 18). It is expected that international frameworks on nature disclosures will continue to develop, including by the ISSB. To support alignment of the Australian market with international trends, the Australian Government could signal an intention to adopt global nature-related standards as they are finalised.

The United Nations Biodiversity Conference (COP15) set ambitious global goals for nature

In December 2022, the 15th Conference of Parties to the UN Convention on Biological Diversity concluded with the adoption of the Kunming-Montreal Global Biodiversity Framework (GBF) – an historic agreement through to 2030 that aims to guide global action on nature to halt and reverse nature loss.[71]

The GBF has four global goals to protect nature:[72]

- halting human-induced extinction of threatened species and reducing the rate of extinction of all species tenfold by 2050;
- sustainable use and management of biodiversity to ensure that nature's contributions to people are valued, maintained and enhanced;
- fair sharing of the benefits from the utilisation of genetic resources, and digital sequence information on genetic resources; and
- that adequate means of implementing the GBF be accessible to all Parties, particularly Least Developed Countries and Small Island Developing States.

These are supported by twenty-three targets to be achieved by 2030, which include effective conservation and management of at least 30 per cent of the planet and 30 per cent of degraded ecosystems under protection by 2030, restoration of 30 per cent of terrestrial and marine ecosystems and halving the introduction of invasive species.

Significant efforts are needed to achieve the goals of the GBF. Presently, there are not sufficient monitoring, tracking and regulatory mechanisms to hold countries, governments and businesses to account for progress against the targets. The commitments and targets of the GBF need to be embedded in domestic legislation, and collaboration between the public and private sectors is needed to enable operationalisation of the GBF and the achievement of tangible outcomes.

National targets and policies for nature protection and restoration are an important part of an enabling environment to support 'nature positive'

In response to Graeme Samuel's 2020 independent review of the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act),[73] the Government has set out a plan to reform the EPBC Act (*Nature Positive Plan: better for the environment, better for business*).[74] $214.1 million was committed to the implementation of the Nature Positive Plan in the 2023-24 Budget.[75] The Plan will also see the establishment of an independent, national environmental data and information office, Environment Information Australia (see Recommendation 18).

Australia will host the first Global Nature Positive Summit in Sydney in October 2024. The Summit will bring together ministers, corporate and finance leaders, environment groups, First Nations peoples, scientists and civil society to discuss the world's dependence on nature and the actions needed to halt biodiversity loss and to repair and regenerate natural assets[76]. This landmark event will be an opportunity to demonstrate Australia's leadership on nature and natural capital.

The Government has also introduced legislation that aims to create a national framework for a 'Nature Repair Market', a biodiversity market that could support restoration and enhancement of nature.[77] Successful development of nature and biodiversity markets in Australia will rely on national and state level regulation that mandates the protection and restoration of nature. As such, the success of the biodiversity market legislation will be linked to broader environmental policy reforms including the EPBC Act reform.[78] To support private sector demand for nature and biodiversity, the Government should also look to develop national level targets and policies that further the goals agreed in the GBF, and consider what role government could play as a market participant to stimulate market development.

RECOMMENDATION 16

Financial institutions undertake scenario analysis and stress test the resilience of their organisation to physical and transition risks from climate change.

To support this, the industry creates a bottom up, industry-led stress-testing framework that includes processes, frameworks, data and tools sufficient for an organisation to stress test its business.

SCORE: 3 ○ ○ ● ○ ○ CHANGE FROM 2022 ▲ 1.0

KEY OBSERVATIONS

ASX200 are increasingly assessing business resilience against Paris-aligned decarbonisation scenarios

A 2023 report by the Australian Council of Superannuation Investors found that the majority of the ASX200 (59% or 118 companies) publicly disclosed that they have undertaken scenario analysis to test business resilience against physical and transition climate risks.[79] For finance companies in the ASX200 this figure is higher: around 70% have adopted scenario analysis.

Increasingly, companies are conducting analysis against Paris-aligned 1.5°C or well below 2°C scenarios (46% or 91 companies, up from 38% or 76 companies the previous year).[80] This means companies are testing their resilience against more stretching decarbonisation pathways.

BOX 4 **What is scenario analysis?**

A quantitative or qualitative analysis that considers future climate scenarios to assess the impacts from potential physical and transition risks of climate change on the entity's business, strategy, and financial performance over time. Analysis is conducted against multiple possible scenarios which typically include:

- an orderly transition consistent with meeting the Paris 2 goals of 1.5°C or 'well below' 2°C
- a disorderly transition consistent with meeting the above goals
- a 'hot house' scenario where temperature increases exceed 3°C.

Scenario analysis by firms lacks comparability, transparency and completeness

ACSI reported that inconsistencies in approaches by disclosing entities make it difficult for investors and other interested stakeholders to compare relative exposure to climate risk. Companies use a variety of different scenarios and often fail to adequately disclose the assumptions underpinning their analysis. An overview of key challenges in the disclosure of scenario analysis is at Box 5 below.

ACSI notes: *"Ultimately, the inconsistency in disclosure of scenario analysis and scenarios used makes it difficult for investors to assess the integrity, rigour and comparability of companies with peers and the broader market."*

Quality and transparency of scenario analysis will be aided by the introduction of mandatory climate disclosure requirements in Australia from 1 July 2024, which will include requirements to conduct scenario analysis. The Department of Treasury's June consultation paper on the climate disclosure framework proposed a phase in approach where reporting entities would be required to conduct qualitative scenario analysis initially, moving to quantitative scenario analysis over time.

The Treasury paper proposes that entities be required to disclose against two possible future states, one of which must be consistent with the global temperature goal set out in the Climate Change Act (currently "1.5°C or well below 2°C"). Feedback from various industry stakeholders suggested that this level of guidance is insufficient to support comparable reporting or provide clarity for reporting entities.[81] There was strong support for requiring entities to disclose against two or more defined future states. One of these should be a 1.5°C scenario (that would test exposure to transition risk), another should be a higher warming scenario aligned with current trajectories (that would highlight exposure to physical risks).

Assessment of physical risks is a key weakness in existing disclosures

ACSI's report found that analysis of physical risks under different temperature scenarios lagged behind analysis of transition risks. This underscores the value of the climate disclosure framework requiring companies to conduct analysis against a high warming scenario, so that firms are encouraged to assess physical impacts at high temperatures.

ACSI's report sets out examples of good practice in physical risk analysis and disclosure and notes that physical risk assessment is expected to be assisted by the Australian Government's first National Climate Risk Assessment to be delivered incrementally over 2023 and 2024.[82]

BOX 5

Challenges in the disclosure of scenario analysis

Application of scenario: Scenario analysis is used to assess transition and/or physical risks, and there is considerable variety in how well this distinction is disclosed. Better practice is for companies to include in the assessment both their business resilience to transitional risks against Paris-aligned scenarios, and physical risks at highest emissions and temperature scenarios to capture the impact of these extremes on the resilience and future value of the business.

Level of analysis and disclosure: The depth of analysis, including the use of in-depth quantitative and qualitative analysis and disclosure varies considerably between companies. Some companies only provide high level descriptions of types of risk and lack specific risk assessment. Better practice company examples include transparency about scenario methodology and disclosure of detailed analysis of a range of material transitional and physical risks across different time horizons. Some companies also provide quantitative analysis for each scenario which further assists investors in assigning future value to a company.

Frequency: The frequency of scenario analysis assessments also varies, with some companies undertaking analysis yearly or every few years, or as one-off exercises, or alternating physical and transitional risk assessments. This makes comparison between a company's prior analysis, and against peers difficult. Company disclosure of how often analysis is undertaken is also lacking.

Scope: Some companies test their entire business, others only test the resilience of part of their business such as particular locations, assets or business divisions. Again, this leaves investors without a complete picture of the effects of scenarios on a company or the broader systemic risk across the index.

RECOMMENDATION 17

Vulnerability assessments to be undertaken or planned by APRA are expanded to include fit-for-purpose assessments for small and medium financial institutions across Australia, as well as the superannuation and insurance sectors.

SCORE: 3 ○ ○ ● ○ ○ CHANGE FROM 2022 ▲ 1.0

KEY OBSERVATIONS

APRA has conducted its inaugural Climate Vulnerability Assessment on Australia's five largest banks

In November 2022, APRA published key insights and challenges identified from its inaugural Climate Vulnerability Assessment conducted throughout 2021-2022 on behalf of the Council of Financial Regulators.[83] The CVA was designed to assess the long-term financial risks of climate change for the five largest Australian banks. APRA noted that the CVA has broader relevance to other financial institutions that are seeking to leverage the learnings and insights from the assessment and benchmark climate scenarios for their own purposes.

The CVA used two climate scenarios for the CVA aligned to the Network for Greening the Financial System (NGFS) global scenarios: a Delayed Transition Scenario which involved delayed policy action on climate change followed by a rapid reduction in global emissions after 2030; and a Current Policies Scenario which involves continued increase in global emissions beyond 2050.[84]

Key insights included:

- Under both scenarios assessed, physical and transition risks would increase overall bank lending losses in the medium-long term, but there was significant variability in lending losses across the banks.
- Climate risks are likely to be more concentrated in specific regions or industries.
- The banks' response to increasing physical and transition risks included adjusting their risk appetites and lending approach, i.e., reduced lending in some areas.
- The process of undertaking the CVA benefitted the participating banks by accelerating development of their climate risk management capabilities.
- Climate-related data quality and accessibility were a challenge, but this is not a reason not to do climate risk analysis.

The CVA results indicated that climate-related lending losses would be unlikely to cause severe stress to the banks. This was largely because lending losses were concentrated in specific regions and industries that represent only a small proportion of banks' overall lending exposures.

Public comments by incoming RBA Governor, Michelle Bullock, have contextualised this finding:

> *"Do these results mean that we do not need to worry about the impact of climate change on financial stability? Unfortunately, no. These are early exploratory exercises that covered only some aspects of climate risk and were subject to a number of limitations."*[85]

APRA is undertaking CVA with the general insurance sector

APRA is currently conducting a CVA to assess the impact of climate risk on access and affordability of general insurance.[86] APRA has also indicated it will consider extending this exercise to superannuation and the broader banking sector in the future.[87]

Other CFR agencies are conducting complementary activities. The RBA has said it will support the work of APRA by extending its own analysis of climate risk to include both banks and insurers.[88] Treasury is expanding its climate modelling capability, including assessing the impact of climate change on the economic and fiscal outlook. ASIC continues its work on improving standards of climate-related governance and disclosure by listed companies.[89]

RECOMMENDATION 18

Environmental and social externalities are valued by financial institutions. To support this, Australia's financial system participants help to compile national- and state-level data sets by developing general principles and guidance to allow financial system participants to measure and assess multiple capitals including soil, water, education levels and gender diversity. Guidance would address how common metrics can be integrated into investment decisions and risk analysis, including, for example, determining impacts and dependencies, and materiality.

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 ▲ 1.0

KEY OBSERVATIONS

A number of initiatives have been announced or launched over the past 12 months that have the potential to support the achievement of this recommendation – outlined below. Natural capital was also incorporated in Treasury's National Wellbeing Framework, released in July 2023 which includes the following sustainability related indicators: biological diversity, resource waste, protected areas, air quality, and emissions reductions (see Recommendation 30).

ASFI's Valuing Natural Capital partnership with Farming for the Future is helping to integrate natural capital considerations into financial and business decision-making of financial institutions with a specific focus on agribusinesses (see Case Study 2, below). Developing an Australian Sustainable Finance Taxonomy for nature could further support financial institutions to incorporate environment-related risks and impacts into their operations.

The Government is taking steps to improve access to government-held environmental and agricultural data and information

The 2023-24 Federal Budget included funding of $51.5 million over four years to establish Environment Information Australia, the country's first independent, national environmental data and information office.[90] EIA is intended 'to provide an authoritative source of high-quality environmental information.' This is a welcome step from the Australian Government, which has an important role to play together with state governments in supporting high quality data as a foundation from financial institutions and other businesses to better incorporate nature risks, impacts and opportunities into their decision making.

This year the Australian Bureau of Statistics (ABS) commenced modernising the way in which official agricultural statistics are produced.[91] Statistical information has historically been collected via agricultural censuses and large-scale sample surveys. The modernisation program aims to address current agricultural sector data requirements to better inform decisions by government, industry and farmers.

In 2018, the Australian Government and all states and territory governments agreed on a National Strategy and Action Plan to implement Environmental Economic Accounting (EEA) across Australia.[92] As part of this work, the Department of Climate Change, Energy, the Environment and Water (DCCEEW), in partnership with the ABS and other partners coordinate the EEAs. This includes initiatives such as the development of Australia's first National Ocean Ecosystem Account and the release of a prototype dashboard – inclusive of ocean, land, ecosystem and waste accounts – to support environmental accounting in Australia.[93]

Australia and the United States to work together on measuring the economic value of nature

Australia and the United States have signed an agreement pledging to work together to better measure the economic value of nature and reflect it in national accounts.[94] As part of this agreement the two countries will work together to develop a global standard for measuring nature condition, value and contribution to the economy, jobs and wellbeing for future incorporation into national economic measures.

The scope of the agreement includes:

- Natural capital accounting to measure and report the amount, condition and economic contribution of nature.
- Environmental-economic statistics to support decision making and help better understand how the economy and environment interact.
- Improve measuring the value of nature-based solutions to better understand their contribution to combat climate change, reduce risk and improve resilience.

CASE STUDY 2

Valuing Natural Capital, an ASFI and Farming for the Future partnership

In August, ASFI launched our new partnership with Macdoch Foundation's Farming for the Future: 'Valuing Natural Capital'. The partnership will bring together Australian agricultural producers and financial institutions to integrate natural capital considerations into financial and business decision-making of financial institutions.

FftF is creating a national-scale evidence base that connects on-farm natural capital management and farm productivity. This will inform the establishment of key natural capital indicators and metrics related to farm business productivity, profitability, and resilience. It will be designed to help farmers to include natural capital in analysis of their business performance and set goals and targets for specific natural capital outcomes. This will enable banks and agri-investors to work with farmers to invest in natural capital for the benefit of their businesses and for society more broadly.

The ASFI-FftF partnership will:

1. Explore the key natural capital indicators established by FftF to determine their linkages with: increased agricultural productivity and profitability, climate adaptation and resilience, nature risk dependencies; and carbon mitigation and carbon sequestration benefits.
2. Identify and link natural capital indicators to key financial indicators utilising FftF research project outputs to enable financial institutions and agricultural businesses to better understand risk and productivity.
3. Work with participants of ASFI's Natural Capital Advisory Group (NCAG) to test and support the outcomes of the partnership through the exploration of the natural capital topic and general upskilling of the group participants. The group is comprised of expert participants and observers from financial institutions, academia, government, agriculture and property valuation specialists. As part of the program of work, the NCAG will review case studies and undertake piloting of integrated climate and nature risk assessment, disclosure and reporting using frameworks such as TNFD and TCFD.
4. Identify and validate key natural capital indicators to underpin agricultural land valuations based on the productive capacity of the landscape.

The 'Valuing Natural Capital' partnership is supported by the largest research study of its kind and is a collaboration that is aiming to respond to the gap in robust and quality data that can serve as a base for financial and business decision making and transparent disclosure and reporting.

RECOMMENDATION 19

Financial institutions work with Australia's financial system regulators on an ongoing basis to embed sustainability into regulatory guidance and standards to drive systemwide practice

SCORE: 3 ○ ○ ● ○ ○ CHANGE FROM 2022 ▲ 1.0

KEY OBSERVATIONS

Regulatory mandates, guidance and standards are increasingly aligned with climate objectives

In June 2023, the Government released an updated Statement of Expectations for APRA outlining for the first time that the regulator must consider risks related to climate change as part of its work. This includes promoting transparency in relation to financial risks and the adoption of climate reporting standards.[95] The change was reflected in APRA's updated Statement of Intent.[96]

In August 2023, APRA updated its Prudential Practice Guide SPG530 to clarify that Registrable Superannuation Entities (RSEs) are required to demonstrate an understanding of the ESG risks and opportunities of investments.[97] Funds are expected to consider ESG factors, including climate change risk, when setting, implementing and monitoring the investment strategy and as part of investment risk management.

ASIC has stepped up its action on greenwashing

ASIC has continued to step up its focus on greenwashing. In May 2023, ASIC released a report on its 37 recent greenwashing interventions against listed companies, managed funds and superannuation funds.[98] Four main categories of misconduct were identified:

1. Net zero statements and targets without a reasonable basis or were factually incorrect.
2. Terms including 'carbon neutral', 'clean' or 'green', were not used on reasonable grounds.
3. Inaccurate labelling or vague use of terminology for sustainability-related funds.
4. Sustainability-related investment screens or exclusions were vague or overstated in a PDS or through website resources for ESG-related products.[99]

In the 2023 Federal Budget, the Government allocated $4.3 million additional funding for ASIC to ramp up its anti-greenwashing activities.[100]

Regulators are increasingly focused on climate risk

While Australian financial regulators have acknowledged climate change as a key area of concern for some years, they are now able to do so with the explicit endorsement of the Australian Government. This is supporting a greater level of public communication on climate change and greater resourcing for climate analysis and activities within the regulators.

In the past 12 months, senior figures at ASIC, APRA and the RBA have made significant speeches on their respective agency's approach to climate, indicating that climate is now a key consideration in carrying out their mandates.[101] See discussion at Part A: Snapshot of Sustainable Finance in Australia.

Regulators hold key levers to accelerate progress towards sustainability goals

There remain gaps and opportunities in how Australian financial regulators address climate change and broader sustainability challenges in the Australian financial system. The mandates of ASIC and the RBA are yet to be updated to explicitly consider climate change and broader sustainability risks are also not yet reflected in regulator mandates.

There is also an argument that mandates could go further to require the regulators to proactively support the achievement of climate and sustainability objectives. This would encourage APRA and others to consider what levers are at their disposal for incentivising allocation of capital towards climate solutions (see Recommendation 32 for a discussion on green capital weightings to incentivise green finance).

Finally, there are opportunities to further align regulator guidance and standards and broader financial regulation with sustainability goals. The Your Future Your Super performance testing framework continues to disincentivise decarbonisation.[102] The Government could also consider amendments to the framework for Directors Duties to support Australian businesses to adequately address climate and broader sustainability-related risks and opportunities. The Government's recently announced Competition Policy Review provides an opportunity to ensure Australian competition law can better support collaboration between market competitors where necessary and useful to achieve climate and broader sustainability goals – see discussion in Part A of this report.

RECOMMENDATION 20

"Australia's financial system participants positively drive best practice for the benefit of the whole of the Australian economy and society, including by:

- **embedding sustainability into outsourcing and procurement practices**
- **embedding sustainability information into products and services for households and businesses.**

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 **0.0**

KEY OBSERVATIONS

Reporting on modern slavery is mandatory for large businesses but is not translating to improved practice

The Modern Slavery Act 2018 requires large Australian businesses to report annually on the risks of modern slavery in their operations and supply chains, and actions to address those risks.[103] But the scope and quality of reporting remains relatively low. A 2023 report by the Australian Council of Superannuation Investors, 'Compliance without Ambition', found that companies have made progress in modern slavery risk management according to the legislation, but focus to date remains on foundational action rather than action beyond meeting compliance obligations.[104] Only 13% of ASX200 companies' modern slavery statements reported on modern slavery risks within their own operations and only 10% identified steps taken to ensure grievance mechanisms are trusted and accessible to address modern slavery complaints.[105]

In May 2023, Professor John McMillan AO led an independent review of the first three years of the Modern Slavery Act's operation.[106] The Review makes 30 recommendations to better align the Act with international best practice. These include lowering the reporting threshold from firms with consolidate revenue of $100m to $50 million; mandating a due diligence system; and introducing penalties for failing to report or misleading reporting.[107] These reforms, if introduced, would support more comprehensive and meaningful assessment and action by businesses to address modern slavery concerns. There have also been industry efforts to improve the quality of modern slavery disclosure – see Case Study 3 below.

Evolving sustainable finance policy architecture will support progress

Mandatory climate disclosure – and in time, broader sustainability reporting – is expected to encourage firms to identify and address sustainability related risks in their supply and distribution chains. Disclosure rules combined with the development of an Australian sustainable finance taxonomy should likewise improve the quality of sustainability-related information and give regulators and industry a standard against which to assess and validate sustainability-related claims.

CASE STUDY 3

Investors Against Slavery and Trafficking Asia Pacific

Investors Against Slavery and Trafficking Asia Pacific (IAST APAC) is an investor-led, multi-stakeholder project established in 2020 to assist companies in addressing modern slavery risks. IAST APAC comprises 42 investors with AU$9.4 trillion in Assets Under Management.[108] It is convened by First Sentier Investors with Steering Committee members Aware Super, AustralianSuper, Ausbil Investment Management, Fidelity, ASCI, Walk Free and Finance Against Slavery and Trafficking (FAST).[109]

The initiative has two workstreams. The first initially focused on publishing and distributing an investor statement that set out investor expectations regarding company action to assess and address modern slavery going beyond the requirements of the Australian Modern Slavery Act. The investor statement was published in September 2020.[110] It was sent to ASX100 companies in November 2020 and the remainder of the ASX200 in June 2021. This workstream has evolved into other focus areas, particularly policy advocacy. It has set up new subgroups for members to work together on specific tasks, including the review of the Australian Modern Slavery Act, and addressing data gaps in modern slavery reporting.

The second workstream focuses on collaborative engagement by IAST APAC investors with specific focus companies in the Asia-Pacific region. Collaborative engagement aims to maximise leverage, generate efficiencies and build knowledge. The initial sectors of focus are consumer discretionary, consumer staples, technology, and health care. It will add the extractives sector in future work.

> *"Modern slavery is a complex issue that requires a coordinated approach at many levels. Ultimately, there is one KPI that matters: have you found modern slavery in your operations or supply chain? By finding, fixing and preventing it together, we are much more likely to achieve positive change."*
>
> Kate Turner, *Global Head of Responsible Investment, First Sentier Investors*[111]

RECOMMENDATION 21

Australia's financial system participants develop stewardship codes to harmonise and enhance stewardship practices

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 **0.0**

KEY OBSERVATIONS

Stewardship continues to be a key avenue for investors to support better corporate climate and sustainability practices through engagement with investee companies

The Responsible Investment Benchmark Report 2023 identified corporate engagement and shareholder action as the most significant responsible investment approach used by investment managers, alongside ESG integration.[112] Reporting of engagement activities and the outcomes of these engagements grew steadily in 2022, representing $790 billion in assets under management (up from $726 billion in 2021).[113]

BOX 6 **What is stewardship?**

Stewardship refers to the responsible allocation and management of capital by investors (asset owners and fund managers and third parties) to create and preserve long term value for current and future generations. Stewardship is an umbrella term that covers:

- Active ownership (voting);
- Corporate engagement;
- Collaboration; and
- Policy and advocacy.[114]

A harmonised stewardship code would support industry best practice

Updates to APRA's SPS 530 Investment Governance represent improvements in the regulatory landscape to better recognise some contemporary stewardship practices and considerations. However, there have not been steps towards developing a harmonised stewardship code.

There continues to be two stewardship codes for investors in the Australian market. The Australian Asset Owner Stewardship Code has been developed by the Australian Council of Superannuation Investors and has 16 signatories. The Financial Services Council has a separate code for asset managers, Principles of Internal Governance and Asset Stewardship.

Industry experts interviewed for this report identified the need for an industry-wide code that supports best practice – such as the Aotearoa New Zealand Stewardship Code (see Case Study 4). In other markets, government has played a role in developing and embedding stewardship expectations for investors. There is an opportunity to progress this area through the Government's forthcoming sustainable finance strategy.

CASE STUDY 4

Aotearoa New Zealand's Stewardship Code

Aotearoa New Zealand's first Stewardship Code was launched in September 2022.[115] It aims to give investors a clear framework for using their influence to steer the companies they own on critical environmental, social and corporate governance issues.

The Code was developed though an 18-month industry-led collaboration. It now has 18 signatories holding over NZ$100 billion in assets under management, representing the majority of the New Zealand market.[116]

The Code aims to bring transparency and accountability to the practice of stewardship, also called active ownership. Active owners use various levers to influence a company towards more sustainable outcomes, including voting, engaging directly with the company, filing shareholder resolutions, or advocating for policy changes.

The principles in the Code aim to codify investor expectations in seeking to achieve long-term value creation - not only for the economy, but also for our environment and society. The Code is expected to evolve and improve over time.

DOMAIN 3: Enabling resilience for all Australians

AVERAGE SCORE 2023: 1.8

● ○ ○ ○ ○

CHANGE FROM 2022 ▲ 0.4

Overview of Domain Recommendations

Domain 3 of the Roadmap focuses on actions that support increased financial resilience, financial inclusion and financial capabilities, especially for vulnerable individuals and communities. FIs should establish Financial Inclusion Action Plans (FIAPs), and improve reporting on financial distress for households, and financial outcomes for Aboriginal and Torres Strait Islander customers. Consistent labelling standards should be developed for financial products to support consumers to understand how sustainability is considered and managed in those products. Australia should develop and implement a wellbeing framework, inspired by New Zealand's Living Standards Framework.

Summary of Progress for Domain 3:

Progress in Domain 3 has been more modest than other areas of the Roadmap. The standout exception is the release in June 2023 of the Australian Government's first wellbeing framework 'Measuring What Matters'. This is a significant milestone that substantially achieves Roadmap Recommendation 30. The framework aims to provide a more holistic assessment of the wellbeing of Australian society and progress towards Australia's national goals. It establishes a foundation to underpin better policy-making and enable financial institutions and other businesses to better understand the relationship between their operations and social and environmental factors.

Recommendations 22-26 in this domain relate to financial wellbeing and inclusion. While important, these have not been a focus of ASFI's work to date and there is limited data available to support an over-arching analysis of progress. This section of the Progress Tracker highlights some of the excellent work that is happening at the community level to support place-based capital, home ownership for essential workers, and better financial outcomes for First Nations people. Announced in May 2023, the Government's proposed Net Zero Authority will have an important role in support communities impacted by the zero carbon transition.

The Australian Government has indicated it will consider sustainability labelling as part of its forthcoming sustainable finance strategy (Recommendation 27). There is an opportunity to channel more capital into sustainable activities by following the EU's example and requiring financial advisors to understand the sustainability preferences of their clients (Recommendation 28).

Recommendations with progress:
Recommendations 22-26 have been discussed together given their inter-relationship

RECOMMENDATION 22

Australia's financial system participants support the establishment of community finance that can be accessed by place-based groups, including clubs and social enterprises, as part of a place-based community resilience strategy.

SCORE: 1 ● ○ ○ ○ ○ CHANGE FROM 2022 **0.0**

RECOMMENDATION 23

Australia's financial system participants develop income and revenue contingent loans as a mechanism to support individual and community resilience to acute shocks as well as chronic threats to climate and health.

SCORE: 1 ● ○ ○ ○ ○ CHANGE FROM 2022 **0.0**

RECOMMENDATION 24

Financial institutions establish Financial Inclusions Action Plans and review current practices and design of products and services to ensure financial inclusion.

SCORE: 1 ● ○ ○ ○ ○ CHANGE FROM 2022 **0.0**

RECOMMENDATION 25

"Consistent with applicable laws and regulations, financial institutions measure and report on:

- financial distress for households to bring greater focus on individual impact and measures being taken by the institution to address financial vulnerability;
- financial outcomes for Aboriginal and Torres Strait Islander customers. This would involve working in partnership with Indigenous peoples on the approach to measurement and evaluation of outcomes for Indigenous customers. The tools used to collect relevant data should be culturally appropriate."

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 **0.0**

RECOMMENDATION 26

Financial institutions collaborate with regulators and the Australian Government to support networks, programs and initiatives that build individual and community financial capability

SCORE: 1 ● ○ ○ ○ ○ CHANGE FROM 2022 **0.0**

Recommendations 22-26 each aim to support the wellbeing, financial inclusion and/or financial capability of individuals and communities, especially vulnerable or marginalised groups. These recommendations have not been a focus of ASFI's work to date as they are being progressed by individual financial institutions and some industry organisations such as the Australian Banking Association (ABA) and the Insurance Council of Australia (ICA). There is limited data available to support an analysis of over-arching progress. High-level commentary on specific areas is set out below along with some leading case studies showcasing excellent work that is happening at the community level.

KEY OBSERVATIONS

The Australian Government has announced a $100m Outcomes Fund and a new Net Zero Authority to support Australian communities

In the 2023 federal budget, the Australian Government committed $100 million for an "Outcomes Fund" to address disadvantage by funding community-based programs that deliver agreed, measurable social impacts.[117] Outcomes funds are a results-oriented approach to funding which incentivise organisations and programs to achieve specific social and environmental impact. The fund will be co-designed with stakeholders including states, territories, and social enterprises.[118] Impact Investing Australia has welcomed this step to implement one of the recommendations from the Government's Social Impact Investing Taskforce, noting its potential to create more investible opportunities and help address complex social issues.[119]

In May 2023, The Australian Government announced it would legislate a new Net Zero Authority to promote orderly and positive economic transformation and support workers, industries and communities – particularly in the regions – as Australia decarbonises. The mandate of the Net Zero Authority has three pillars:

1. Support workers in emissions-intensive sectors to access new employment, skills and support as the net zero transformation continues.
2. Coordinate programs and policies across government to support regions and communities to attract and take advantage of new clean energy industries and set those industries up for success.
3. Help investors and companies to engage with net zero transformation opportunities.

This mandate provides further opportunity to support place-based finance in Australian communities.[120]

One additional FI FIAP commitment in 2023

A FIAP is an agreed strategy of practical actions that an organisation will undertake to improve financial inclusion in Australia. Good Shepherd supports FIAP organisations to put together a series of measurable actions to improve the financial inclusion, resilience, and wellbeing of their customers, employees, suppliers, and communities.

As of September 2023, over 50 organisations from across a range of industries, including the finance sector, have FIAPs in place (up from over 40 in 2022).[122] ASFI's 2022 Progress Tracker reported that nine FIs across superannuation, banking, and insurance had FIAPs.[123] In 2023, one additional financial institution (Bendigo and Adelaide Bank) made a FIAP commitment.

CASE STUDY 5

The Place Based Capital Program

Impact focused enterprise, Ethical Fields, has established the Place Based Capital Program to design, evaluate, and establish financial models to support 'place-based capital' in local communities across Australia.[121]

"Place-based capital" refers to funding and investment that is readily available, flexible, and supportive of local aspirations, opportunities, needs and challenges. It allows local individuals, community groups and businesses to lead, participate and co-invest in the development of their local communities.

The Place Based Capital Program has identified strong investment opportunities in local communities, and a desire from these communities to ensure that benefits of investment flow back to local people and organisations. The program aims to help local groups overcome barriers and find solutions to achieving these goals.

The Place Based Capital Network includes eighty people, representing twenty places, from over fifty local government areas and forty organisations across Australia. Over the next twelve months the program and network will:

1. Build local capability in community wealth building, financial systems, local investing and collective investing systems and structures.
2. Identify and better understand the local and shared capital and investment needs, challenges and opportunities.
3. Research, design and evaluate capital and investment solutions that support locally led, owned and inclusive capital, development, investment, returns and impact. Including both local, regional and national structures.
4. Create a next steps plan to implement the preferred solutions and to continue to advance Place Based Capital in all local places across Australia.
5. Capture and share learnings and outputs widely and broadly to create a bigger impact.

Ethical Fields is seeking to partner with financial institutions and others who want to be part of developing innovative place-based finance solutions. Interested organisations can visit their website for more information.

Rising costs increase financial stress and put home ownership out of reach

Financial pressure for Australian households has increased in the past 12 months, driven by factors including high inflation and rising interest rates.[124] Roy Morgan data reported that in the three months to June 2023, 28.7% of mortgage holders were at risk of 'mortgage stress', the highest since 2008.[125] Rising interest rates and rising home prices has led to a sharp decline in housing affordability, and a rising gap in wealth between those who own homes and those who don't.[126] High rental rates are exacerbating the savings challenge for aspiring home owners.

In this context, not-for-profit fund manager HOPE Housing is offering a pathway to home ownership for Australia's essential worker community – see Case Study 6.

CASE STUDY 6

HOPE Housing

Since the end of WWII, Australian housing and retirement policy has been designed around the home ownership model. More than just a safe and secure roof over our heads, home ownership has been a foundation for high rates of financial inclusion, resilience in tough economic times, and wealth equality.

Falling rates of home ownership and the current affordability crisis threaten to undermine this foundation. Shared equity is emerging as a model in developed economies including in Europe and the US, to help home ownership remain within reach for the next generation by providing a steppingstone to full home ownership.

Established as a not-for-profit fund manager, HOPE Housing offers a shared equity approach for Australia's essential worker community. The fund makes equity contributions of up to 50 per cent to homes for eligible frontline workers. HOPE Housing partners with mutual bank Police Bank, who provides the homeowner with mortgage finance on their 50 per cent share.

A key tenet of the scheme is the integration of the equity and mortgage components, reducing the debt loading on a homeowner and facilitating progressive equity buybacks over time, stepping homeowners into full ownership. Investors benefit from access to a stable and secure asset class with well understood growth characteristics, while enabling home ownership rather than perpetuating the landlord/tenant dynamic.

The fund has been operational for 9 months, supporting 22 essential workers and their families into homes. It has a target return of 10% p.a., and aims to deliver a social dividend of more than 30 cents for every $1 invested through: reduced commute and time away from family helping to enhance physical and mental wellbeing; improvements to workplace productivity and participation; and greater resilience and inclusion for essential workers

HOPE Housing has been designed to meet the Best Financial Interests Duty required by superannuation funds, while also providing a model for better supporting the overall objectives of the retirement system. It seeks to meet the escalating housing needs of its membership base and help to avert the looming retirement poverty crisis that will be amplified by a reduction in home ownership rates.

HOPE Homeowners, Sean and Beth McElhenny with their children.
Photo credit Blake Sharp-Wiggins

Supporting better financial outcomes for First Nations people

ASIC, in collaboration with First Nations people and communities, has established an Indigenous Financial Services Framework to support First Nations people to achieve and experience positive financial outcomes.[127] For more information on the framework see Recommendation 7.

Since 2006, First Nations Foundation (FNF) has been supporting First Nations people to improve their financial capabilities – see Case Study 7.

CASE STUDY 7

First Nations Foundation

The First Nations Foundation[128] is a charity organisation enabling financial prosperity for Indigenous Australians. One in two First Nations people are currently in financial distress. Through training sessions, workshops, and digital resources, FNF aims to improve Indigenous Australians' understanding of money management through the following programs:

- **My Money Dream:** this is an online or face to face financial literacy training program that was created by Mob, for Mob to help teach skills for financial security and future prosperity. Topics covered include 'culture and the economy', 'reducing expenses and eliminating debt', and 'automating your finances'.
- In 2022 this program has trained 892 individuals through both online and face-to-face workshops and programs. This was done with the help of 12 different organisations that trained and partnered with FNF for the delivery.
- **Indigenous Women's Financial Wellness Project:** this program includes financial education, events and resources for Aboriginal and Torres Strait Islander women. This program has had over 230 attendees at monthly webinars and online special events and includes a Facebook community, fact sheet resources and the Rich Black Women Podcast.
- **On Country Program:** designed for professionals working in community organisations and/or financial wellbeing roles to provide culturally appropriate financial literacy resources for First Nations communities and clients. This includes 40 facilitators trained to deliver workshops which have engaged 33 different communities so far.
- **Culture and Money –** This is culture awareness training specifically for the financial service sector. The training explores the relationship between First Nations people and money and how finance organisation can better relate to their Indigenous customer and members.

Photo credit First Nations Foundation

RECOMMENDATION 27

Australia's financial system participants support the development of labelling standards that provide consumers with access to consistent labelling and disclosure of the sustainability of financial services products to provide clarity to consumers on the quality of, and how sustainability is considered and managed within, products. The development of labelling standards should link to the implementation of a sustainability classification system (taxonomy).

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 **0.0**

KEY OBSERVATIONS

The Australian Government has indicated it will consider sustainability labelling as part of its sustainable finance strategy currently under development

In the meantime, the Responsible Investment Association Australasia's Responsible Investment Certification Program continues to provide a voluntary option for certification of responsible, ethical and impact investment products.[129] ASFI reported on this program along with regulatory developments in the UK and EU in our 2022 Progress Tracker.

RECOMMENDATION 28

Australia's financial system participants enable Australians to make financial decisions based on their values and sustainability preferences including;

- **ensuring financial advisers (human and robot), superannuation funds, accountants and platforms consider the sustainability preferences of consumers. The client fact-find process should be conducted in a way that is simple for consumers to understand and include a standard set of sustainability preference questions;**
- **for ASIC to consider strengthening its Regulatory Guide 65 to facilitate meaningful disclosures on the extent to which product issuers disclose whether and how labour standards, environmental, social or ethical considerations are taken into account for investment products;**
- **for trustees of registrable superannuation entities and responsible entities of other publicly available funds to voluntarily disclose their portfolio holdings within 90 days of each half year;**
- **for financial institutions to collaborate and develop best practice guidelines for the disclosure of portfolio holdings by superannuation entities and other publicly available funds (in the absence of regulations being passed by the Australian Parliament);**
- **for the Australian Parliament to pass regulations to prescribe the content and format of disclosure of portfolio holdings by superannuation entities."**

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 **0.0**

KEY OBSERVATIONS

Some Australian financial institutions solicit information on sustainability preferences, but are not required to

Eight-five per cent of financial institutions who completed ASFI's 2023 Progress Tracker survey reported that they solicit information from their members, clients and/or customers regarding their sustainability preferences. They reported seeking this information through a variety of means including engagement surveys, introductory discussions, workshops and email communications. It is unclear the extent to which this reflects broader market practice.

Requiring FIs and financial advisors to solicit information on their clients' sustainability preferences could significantly increase allocation of capital for sustainable activities

In 2022, the EU passed regulation requiring financial advisors to ask existing and new clients about their sustainability preference and ensure that the products offered match those preferences.[130] Advisors must help clients understand the concept of sustainability preferences and explain the difference between products through clear language and keep records of these client preferences. There is emerging evidence from the EU that requiring financial advisors to actively seek clients' preferences and providing a clear way for them to articulate those preferences has led to an increase in demand for sustainability aligned investments.[131]

Eight-five per cent of financial institutions who completed ASFI's 2023 Progress Tracker survey reported that they solicit information from their members, clients and/or customers regarding their sustainability preferences. They reported seeking this information through a variety of means including engagement surveys, introductory discussions, workshops and email communications. It is unclear the extent to which this reflects broader market practice.

As the Australian sustainable finance policy and regulatory architecture matures, and in particular once the Australian sustainable finance taxonomy is developed as a mechanism to assess and validate the sustainability credentials of financial products, similar requirements could be introduced in Australia to support the allocation of capital into sustainable activities.

Lack of consistent terminology creates challenges for sustainable finance disclosures

Uncertainty around definitions of commonly used terms such as 'responsible', 'sustainable' or 'ethical' investment hampers confidence in sustainable finance claims and creates a greenwashing risk. Industry initiatives are underway to support more consistent definitions for key sustainability related terminology. For example, the Responsible Investment Association of Australasia and UN Principles for Responsible Investment are working with the CFA Institute and Global Sustainable Investment Alliance on a collaboration to align and refine ESG terminology globally. The Responsible Investment Association Australasia is also partnering with the Financial Services Council to produce joint guidance for the Australian market on ESG labelling standards. Both initiatives are due to be finalised by the end of 2023.

Also at a global level, the Global Investors for Sustainable Development (GISD) Alliance – a United Nations formed alliance – has created a definition for what qualifies as 'investing in the Sustainable Development Goals'. These definitions are being used by Australian asset owners – including Aware Super, which is a GISD member – to create a framework for assessing how their investments are contributing to SDGs. In some cases, this assessment is also being incorporated into due diligence processes for certain asset classes.

RECOMMENDATION 29

Australia's financial system participants collaborate, through ASFI, to develop best practice principles to guide product design, delivery and disclosure to drive sustainable and community-focused outcomes.

SCORE: 1 ● ○ ○ ○ ○ CHANGE FROM 2022 **0.0**

KEY OBSERVATIONS

There is little evidence of progress against this recommendation, with product design and delivery principles not currently being developed. It has also not been an area identified by ASFI members or other partners as one that is critical to achieving the most progress towards the ambition of the Roadmap. There has however been significant progress on disclosures (see Recommendations 11, 12, 13, 15), the credibility of which will be supported by the Australian sustainable finance taxonomy which is currently under development (Recommendation 29)

RECOMMENDATION 30

Australia's financial system participants support the development and implementation of an Australian focused wellbeing framework.

SCORE: 5 ○ ○ ○ ○ ● CHANGE FROM 2022 **▲3.0**

KEY OBSERVATIONS

The Federal Government has released Australia's first national wellbeing framework, 'Measuring What Matters', substantially achieving this recommendation.

Released in July 2023, Measuring What Matters aims to provide a more holistic assessment of Australia's wellbeing and progress towards national goals rather than traditional economic assessments.[132] It goes beyond standard economic indicators (such as GDP growth and employment) to assess national wellbeing across five themes: health, security, sustainability, cohesiveness, and prosperity (see Figure 7). ASFI particularly welcomes the inclusion of a sustainability pillar in the framework which includes the following indicators: emissions reduction; air quality; protected areas; biological diversity; climate resilience; and resources use and waste generation.

> *"Traditional economic indicators have long been the focus of public debate and remain a vital part of measuring progress, but they are far from the whole story. Making use of additional metrics will deepen our understanding of how Australians are faring, support more informed discussions about what needs to be done to improve the lives of Australians and help better inform policy making across all levels of government."*
>
> Measuring What Matters, *p 4*

The initiation of national assessments that recognise the importance of social and environmental wellbeing to Australia's progress and prosperity is a significant milestone. It puts in place a foundation that will underpin better policy-making, and better enable businesses

– including financial institutions – to understand the relationship between their operations and social and environmental factors.

> *"By providing an overarching national framework for understanding and tracking wellbeing outcomes, the Government hopes that this statement will underpin the broader efforts of business, community groups and others, to deliver better outcomes and opportunities for Australians"*
>
> Measuring What Matters, *p 5*

The Measuring What Matters framework was developed through extensive stakeholder consultation. A total of 285 stakeholder submissions were made in two public consultations, indicating the broad and deep interest in the development of this framework. The Government has outlined that the framework will continue to be refined and improved over time in response to feedback and improved data. The Government will also consider ways to better link policy decisions with considerations of wellbeing metrics and ensure the impact of the framework extends beyond the public sector.

FIGURE 7 **Measuring What Matters: Australia's First Wellbeing Framework.**

Inclusion, fairness and equity

Overall life satisfaction

Healthy

Healthy throughout life
- Life expectancy
- Mental health
- Prevalence of chronic conditions

Equitable access to quality health and care services
- Access to health services
- Access to care and support services

Secure

Living peacefully and feeling safe
- Feeling of safety
- Experience of violence
- Childhood experience of abuse
- Online safety
- National safety
- Access to justice

Having financial security and access to housing
- Making ends meet
- Homelessness
- Housing serviceability

Sustainable

Protect, repair and manage the environment
- Emissions reduction
- Air quality
- Protected areas
- Biological diversity
- Resource use and waste generation

Resilient and sustainable nation
- Fiscal sustainability
- Economic resilience
- Climate resilience

Cohesive

Having time for family and community
- Time for recreation and social interaction
- Social connections
- Creative and cultural engagement

Valuing diversity, belonging and culture
- Experience of discrimination
- Acceptance of diversity
- First Nations languages spoken
- Sense of belonging

Trust in institutions
- Trust in others
- Trust in key institutions
- Trust in Australian public services
- Trust in national government
- Representation in parliament

Prosperous

Dynamic economy that shares prosperity
- National income per capita
- Productivity
- Household income and wealth
- Income and wealth inequality
- Innovation

Access to education, skills development and learning throughout life
- Childhood development
- Literacy and numeracy skills at school
- Education attainment
- Skills development
- Digital preparedness

Broad opportunities for employment and well-paid, secure jobs
- Wages
- Job opportunities
- Broadening access to work
- Job satisfaction
- Secure jobs

Source: The Commonwealth of Australia, 2023. *Measuring What Matters: Australia's First Wellbeing Framework.*

DOMAIN 4: Building sustainable finance markets

AVERAGE SCORE 2023: 2.4

○ ● ○ ○ ○

CHANGE FROM 2022 ▲ 0.4

Overview of Domain Recommendations

Domain 4 sets out a range of recommendations designed to catalyse private finance and investment to support the net-zero transition, increase climate resilience, protect and restore Australia's natural capital, and promote better social outcomes. Australia should develop science-based targets and trajectories for the transition to net-zero emissions by 2050. Measures are proposed to support capital flows for innovative climate solutions, increase disaster preparation and resilience of buildings and communities, increase investment in social enterprises, and support low emissions real property and infrastructure.

Summary of Progress for Domain 4

Climate policy has progressed in Australia with the implementation of the Safeguard Mechanism reform and a range of Government commitments including to produce decarbonisation plans for six key economic sectors based on pathways to be developed by the Climate Change Authority. Nevertheless, Australia's emissions targets and projected emissions are not consistent with limiting global temperature rise to 1.5°C (Recommendation 31).

While corporate net zero commitments continue to rise, they are not always comprehensive in their coverage of material emissions, and many are not backed up by credible transition plans. The incoming climate disclosure framework will require covered entities to report on key elements of their transition plans, if they have them. Internationally, guidance is being developed to support high quality transition plans. There have been calls for the Government to develop guidance for the Australian market, building on what is already in place in other jurisdictions.

2023 has seen significant Government commitments to improving residential energy efficiency (Recommendation 37). These include $1 billion for the Clean Energy Finance Corporation to support home retrofit finance, $300m to upgrade social and public housing, and funding to expand the National Home Energy Rating Scheme (NatHERS) to apply to existing homes. Fast-tracking the adoption of a national ratings framework and mandatory disclosure would support banks to develop green finance products. Barriers remain to the roll-out of green infrastructure more broadly, including permitting delays, supply chain constraints and skills shortages. The development of "Renewable Energy industrial Precincts" and stronger inter-government coordination could help.

Increasing frequency of extreme weather events from climate change continues to threaten affordability and availability of insurance (Recommendation 34). While state and Commonwealth Government commitments to disaster preparedness funding are welcome, a more comprehensive and integrated approach is required including to raise the standard for new builds, fund the retrofit of existing homes, and reform land-use planning rules to prevent building in disaster-prone areas.

The Australian Government is scaling up its impact investment capabilities in the Asia-Pacific through an additional $210 million for the Department of Foreign Affairs and Trade's Emerging Markets Impact Investment Fund (Recommendation 35). Successive DFAT reports have identified blended finance as a key tool for supporting greater investment in, and deeper connections with, South and Southeast Asia. However, Australia's ability to support partner countries through development finance remains constrained by our lack of dedicated blended finance mechanism. At home, the Government has committed funding to supporting social enterprises and will convene an Investor Roundtable to discuss how to unlock private capital to support social impact investing initiatives (Recommendation 36).

Reforming capital weighting rules for banks to recognise the lower risk of sustainable loans has the potential to unlock significant green finance (Recommendation 32). This type of reform would be supported by consistent market definitions that will be developed through the Australian sustainable finance taxonomy. Australia remains behind other developed countries in our support for energy and climate innovation. The International Energy Agency reported that Australia's funding for research, development and demonstration is 0.019% of GDP, significantly below the IEA member average of 0.039%.

RECOMMENDATION 31

Australia's financial institutions collaborate, through ASFI, to establish interim science-based targets and trajectories to align and facilitate the transition to net zero emissions by 2050.

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 **0.0**

KEY OBSERVATIONS

The political context has shifted significantly since the Roadmap's release. Government is now taking a strong role in setting targets and putting in place policies to support decarbonisation. While industry leadership – both by individual financial institutions, and through organisations such as ASFI – remains essential, ASFI is not seeking to coordinate targets and trajectories of Australian financial institutions. ASFI is continuing to support ambitious decarbonisation action and policy through our work programs (see Recommendation 5).

Australia's emissions reduction targets are not yet aligned with Paris Agreement commitments

In 2022, the Australian parliament legislated targets to reduce national emissions by 43 per cent on 2005 levels and reach net zero emissions by 2050. This was a welcome step-up in ambition and sent a positive signal for finance and investment in Australia's transition.

However, Australia's 2030 target is still not consistent with limiting global temperature rise to 1.5°C. Credible analysts have suggested that a 1.5°C consistent pathway for Australia is at least a 67% reduction relative to 2005 levels by 2030, and net zero by 2038.[133]

Australia and others are not on track to meet emissions reduction targets

In September 2023, the UNFCCC released a key input report for the Paris Agreement's first 'global stocktake' of climate action, due to be conducted at the 'COP28' conference in Dubai late this year. The report shows progress over the past two decades. In 2010, the expected global temperature increase by 2100 was between 3.7 and 4.8ºC, whereas current projections show that if net zero targets are fully implemented, global temperature increases could be contained to 1.7–2.1ºC. Every tenth of a degree reduced will also see a reduction in physical climate impacts.

However, the report also shows there is a huge gap between what countries have committed to and what they are on track to achieve.[134] It suggests global greenhouse gas emissions should be reduced by 43% by 2030 and 60% by 2035. Experts have pointed out that this would be an unprecedented and extreme change from recent and historical emissions trajectories.[135]

In the Australian context, Government projections indicate that Australia is not yet on track to meet our commitments. Australia's emissions are projected to be 32% below 2005 levels in 2030 – 11% short of our point target, and 5% short of our budget (i.e., target for cumulative emissions reductions).[136]

Under Paris Agreement rules, Australia is required to put forward a 2035 emissions reduction target in 2025. The Government has requested the Climate Change Authority to deliver advice on what this target should be in late 2024. Finance sector groups including ASFI, the Australian Council of Superannuation Investors, the Insurance Council of Australia, and the Investor Group on Climate Change have called for the 2035 target to be Paris aligned or specifically 1.5 degree aligned.[137] According to modelling by Climateworks Centre and the CSIRO, this implies a 2035 target of net zero emissions.[138] Australia's emissions are projected to be 38% below 2005 levels by 2035,[139] demonstrating that significant additional measures are needed.

Government to develop decarbonisation plans for key sectors

In May 2023, the Australian Parliament passed reforms to the Safeguard Mechanism which require large emitters to reduce their emissions by 4.9% each year by 2030. The Safeguard Mechanism applies to around 215 facilities representing approximately 28% of Australia's emissions. The reforms took effect from 1 July 2023. They were an important step forward for Australian climate policy and received strong support from the finance sector.[140]

Recognising the need for emissions reductions in areas not covered by the Safeguard Mechanism, in July 2023, the Australian Government committed to developing decarbonisation plans for six key sectors: electricity and energy; industry; resources; the built environment; agriculture and land; transport.[141] The plans are intended to be robust, ambitious but achievable, and accepted by the broader community. The plans will feed into the Government's development of a new Net Zero 2050 plan and 2035 targets to be put forward under the Paris Agreement in 2025.

Climate Change Authority to develop sector pathways by mid-2024

To help inform the Government's sector plans, Parliament has requested the Climate Change Authority develop 'sector pathways' by 1 August 2024.[142] These pathways, and the scenario modelling that underpins them, will form a critical input for policy development, and for financial institutions and other businesses to develop robust climate targets and transition plans.

The CCA has indicated it will draw on work already done by organisations in conducting its modelling and developing the sector pathways (in addition to conducting broad stakeholder consultation). Figure 8 on page 57 provides an overview of the four main modelling exercises that have been conducted to produce Australia-specific decarbonisation scenarios, as well as work by the Australian Energy Transition Initiative to develop decarbonisation pathways for key industrial sectors.

Businesses have net zero commitments, but the credibility of these commitments is uncertain

Sixty-one per cent of the ASX200 (121 companies) have committed to reduce their emissions to net zero by 2050 or earlier, up from 45% last year. These companies represent 80% of the ASX200 by market capitalisation.[143] This is positive, but closer examination suggests that many companies may not be well positioned to achieve their commitments:

- 14% of companies with net zero commitments have no interim targets, which calls into question the credibility of the net zero target;
- While scope 3 emissions are often material to ASX200 companies' emissions profiles, only 22% of the ASX200 (43 companies) have scope 3 targets;
- The Science Based Targets Initiative (SBTI) is a globally recognised approach to verifying that emissions targets are consistent with the requirements of climate science. Only 25% of the ASX200 (49 companies) have set targets aligned with the SBTI.

The lack of alignment between long term ambition and shorter-term actions was reflected in responses to the Carbon Market Institute's Australian Business Climate Survey 2023. The survey collected views from 301 individuals working in organisations engaged in climate policy and carbon markets across the economy. Support for long term ambition was strong: more than two-thirds (68%) of respondents supported Australia's net zero target being brought forward to no later than 2045. But only 30% of respondents supported a national 2035 target above 70% - which is broadly considered necessary for Australia's emissions to be consistent with Paris Agreement goals.

The Investor Group on Climate Change 2023 "The State of Net Zero Investment in Australia" survey found similar trends: 70% of investors surveyed had set net zero by 2050 targets, many of which (57%) apply to the whole of their portfolios.[144] But only 35% had interim targets for 2030.[145] In the banking sector, the five largest Australian banks have each set a net zero by 2050 target. They are at various stages of setting 2030 targets for their most emissions intensive 'financed emissions' sectors in accordance with the Net Zero Banking Alliance framework.[146] Analysis of Australian banks' interim sector targets' alignment with Paris goals is not readily available.[147]

Overall, Australian governments and businesses need to reconcile the difference between long term ambition and near-term action. Government policy ambition is a focus of international investors, as evidenced through the PRI's Collaborative Sovereign Engagement on Climate Change initiative. Through this, 25 global institutional investors with around $12.2 trillion in assets under management are engaging with the Australian Government to help close the gap between current action and a Paris-aligned emissions reduction trajectory.[148]

The role of transition planning

Industry experts interviewed by ASFI for this report highlighted the important role of transition plans as a tool to support the translation of climate targets into meaningful action. The Government's proposed mandatory climate disclosure framework includes a requirement for entities to report on transition plans – if they have them – including information about offsets, targets, and mitigation strategies. Internationally, various frameworks are being developed to support entities to produce high quality transition plans. These include the UK's Transition Plan Taskforce guidance,[149] and guidance by the Glasgow Financial Allianz for Net Zero.[150] There is an opportunity for Australia's mandatory disclosure framework to support comparability and adequacy of disclosure by outlining clear minimum requirements for disclosure of transition plans and guidance for a consistent format of disclosure. Government should also look to produce more detailed transition plan guidance to support best practice, aligned with relevant international guidance.

FIGURE 8 Overview of Australian decarbonisation scenario modelling exercises

	Context	Budget / point target	Sector coverage	Scenarios	Model
"Solutions, actions and benchmarks for a net zero emissions Australia" *Author:* Climateworks Centre supported by CSIRO modelling.	Provides a guide for Australian government and businesses on priorities across technology acceleration, pathways and benchmarks for achieving net zero emissions by 2050. Climateworks is currently reviewing and updating these scenarios for publication in the second half of 2023.	Budget. Three scenarios are included which all achieve a net zero target by or before 2050. Both the "2C Deploy" and "2C Innovate" scenarios achieve net zero by 2050 and the "1.5C All-in" target achieves net zero at approximately 2035.	• Electricity • Transport • Industry • Buildings • Agriculture and land	2C Deploy: Emissions reductions for a 2.0°C degree global temperature limit. This is through government intervention to regulate emissions and deploy demonstrated technologies. 2C Innovate: Emissions reductions for a 2.0°C degree global temperature limit. Emerging technology is explored to create carbon reduction in emission-intensive sectors. 1.5C All-in: combines elements from both 2C models to limit emissions and facilitate technology innovation. Achieves net zero at around 2035.	The analysis utilises the Aus-TIMES Model, an Australian adaptation of a techno-economic modelling framework developed by the International Energy Agency (IEA).
"Sectoral Pathways to Net Zero Emissions" *Authors:* Net-Zero Asset Owner Alliance (NZAOA) and University of Technology Sydney (UTS) Institute for Sustainable Futures	Modelled pathways for industries to take towards the Paris-Agreement goal across five key sectors requiring urgent decarbonisation. The authors will shortly publish updated scenarios for all G20 countries including Australia.	Budget (1.5ºC pathway of decarbonisation with a no/limited overshoot path	• Energy (primary and secondary) • Industrial (Cement, Steel, Chemical Industry, Textile & Leather, Aluminium) • Buildings • Agriculture, food processing, fisheries, forestry, wood and water utilities • Transport including aviation & road transport	1.5°C scenario for scope 1, 2 and 3 emissions.	This is the 4th iteration of this study. It builds on the One Earth Climate Model developed by UTS.
"Net Zero Australia: Final results from a groundbreaking study" *Authors:* The Net Zero Australia partnership between Melbourne Energy Institute at University of Melbourne, the University of Queensland, Princeton University and Nous Group.	This analysis includes a detailed breakdown of possible scenarios and sensitivities at a sector level with high temporal and spatial resolution mapping of the transition infrastructure requirements for net zero emissions.	Point target, i.e., models a least-system-cost linear trajectory from 2020 to net zero in 2050 for Australia's domestic emissions and linear trajectory from 2030 to net zero in 2060 of offshore emissions from fossil fuel exports).	• Energy • Industrial • Transport • Land* * whereas other sectors are modelled in the economy-wide transition model, land sector including CO2 sinks and non-CO2 sources are subject to expert assessment of long-term trends	Six core scenarios are included: 1. Reference scenario; 2. No constraint on GHG emissions; 3. Rapid electrification: including a full renewable rollout; 3. Slower electrification: including an unconstrained renewable rollout; 4. Full renewable rollout: no fossil fuel use by 2050; 5. Constrained renewables rollout; 6. Onshoring: domestic production of (clean) iron and aluminium displacing exports of iron ore, bauxite, alumina, and fossil fuels.	This analysis downscaled across 17 areas of the economy using the modelling method developed by Princeton University and Evolved Energy Research for its 2020 Net-Zero America study (Larson et al., 2021). It also used from Evolved Energy Research the EnergyPATHWAYS tool and the Regional Investment and Operations tool.
"Decarbonising the NEM Report" *Authors:* The Clean Energy Investment Group supported by analysis from Baringa Partners	Practical decarbonisation scenario for decarbonising the National Electricity Market (NEM) in line with 1.5°C.	Budget (the model is constrained by a 1.5°C carbon budget for the economy, as well as existing government commitments including a 43% carbon reduction by 2030 and net zero by 2050.)	• Electricity in the National Electricity Market (NEM) • It draws upon carbon budgets published by Climateworks for non-electricity sectors to develop the NEM carbon constraint.	Decarbonisation pathway for the NEM, aligning with a 1.5°C economy-wide carbon budget. It assumes current market design, policy, and network development from the AEMO ISP optimal development pathway. It also assumes a strong electrification of the economy, which increases NEM demand.	Baringa developed an independent NEM carbon trajectory using iterative modelling. This included investor views on the credibility of coal closures, new generation build, and future electricity demand to align with the top-down applied constraints. It draws upon carbon budgets published by Climateworks for non-electricity sectors to develop the NEM carbon constraint.
Additional relevant publications	The Australian Energy Transitions Initiative, building on Climateworks Centre's scenarios, has produced analysis of credible pathways to industrial decarbonisation.[151] See: Climateworks Centre and Climate-KIC Australia 2023, "Pathways to industrial decarbonisation: Positioning Australian industry to prosper in a net zero global economy", Australian Energy Transitions Initiative, Phase 3, Climateworks Centre.				

RECOMMENDATION 32

Australia's financial system participants work collaboratively to support development of a sustainable capital market by:

- **working with financial system regulators to develop guidance for financial institutions on treatment of green and resilience or sustainable assets related to risk weightings and capital treatment of such assets;**
- **removing roadblocks to commercialising impactful technologies and developing investment models that align with liquidity requirements of financial system participants;**
- **working with financial system regulators to develop guidance on sustainable benchmarks and indices;**
- **supporting sustainability-focused businesses across the Asia-Pacific region to raise capital and issue bonds through Australia's capital markets;**
- **supporting sustainability-focused businesses in the Asia-Pacific to list on ASX or other Australian stock exchanges, including clean technology businesses that deliver products and services throughout this region.**

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 **0.0**

KEY OBSERVATIONS

Green capital weightings a lever for accelerating green and sustainable capital flows

Analysis by the economics advisory firm, Mandala Partners, suggests that the global banking regulations developed after the 2008 financial crisis – known as "Basel III" – are constraining sustainable investment. These rules require banks to hold capital in proportion to the riskiness of their lending, in accordance with prescribed 'capital weightings'. Reforming the Basel framework to recognise the lower risk of sustainable assets has the potential to unlock significant green finance. See Case Study 8 below.

The Government's forthcoming sustainable finance strategy consultation provides an opportunity to consider how Australia could develop "green capital weightings". The Australian sustainable finance taxonomy, once complete, will support the identification of green assets for the purposes of this type of reform.

The International Energy Agency (IEA) has identified a significant gap in Australia's support for clean energy and climate innovation

The Australia climate technology sector currently employees 3,000 people and is expected to create 2,400 new jobs in the coming 12 months.[154] There are currently 228 climate tech companies in Australia and 34% of these companies have already had measurable positive impacts through their work.[155] But according to the IEA's "Energy Policy Review for Australia", Australia lacks policy and regulation to support a thriving innovation ecosystem.

Released in April 2023, the report provides in-depth peer reviews of Australia's energy and climate policy and ambition. It found that Australia has ample clean energy finance and investment, a resilient project pipeline, and a strong focus on technology commercialisation. But we underperform on support for research, development and demonstration. Australian funding for this early-stage innovation is a mere 0.019% of GDP, significantly below the IEA member average of 0.039%.

Released after this report, the 2023 Federal Budget saw modest commitments to supporting innovation, including $2 billion for a Hydrogen Head Start program to provide revenue support for investment in renewable hydrogen energy through competitive production contracts.[156] There was also $5.6 million funding for the Government to undertake analysis of opportunities to support Australia's clean energy competitiveness (including as a response to the US Inflation Reduction Act and the EU's Green Deal Industrial Plan). Before the end of 2023, this analysis will identify opportunities to "further catalyse clean energy industries, ensure Australian manufacturing competitiveness, and attract capital investment."[157]

CASE STUDY 8

Mandala Partners – reforming global capital rules to promote sustainable investment

A growing body of research shows that firms with good environmental credentials are also better borrowers. They are less likely to default on their loans and are less likely to be late on their repayments.[152]

In a well-functioning market, environmentally friendly borrowers would enjoy a lower cost of capital. When their loans were securitised and sold-on in the form of bonds, the bonds would be more valuable because the underlying asset would be stronger and safer.

Some banks and financial institutions are increasingly taking environmental credentials into account in their lending. But this is not occurring on the scale that the evidence would recommend, particularly in developing countries.

This is where global banking regulations play an important role. The Basel III framework sets the global standard for how much capital banks are required to hold. Capital requirements vary according to different loan characteristics. The more risky a loan is considered, the more capital the bank has to hold. Currently, capital requirements do not take into account the environmental or climate credentials of loans.

Reforming these rules could significantly incentivise green lending and reduce the cost of capital for green projects and activities. Mandala's analysis shows that introducing green capital weightings could see an additional US$11 trillion of sustainable investment globally over the next 10 years.[153] These benefits disproportionately accrue to developing countries. Achieving these reforms, however, requires consistency in green taxonomies and data assets across major economies. Delivering this consistency will be key to unlocking this investment.

RECOMMENDATION 33

Australia's financial system participants produce a regular report that considers whether Australia's sustainable finance markets are functioning efficiently to support the delivery of net zero emissions by 2050, consistent with science-based targets.

SCORE: 3 ○ ○ ● ○ ○ CHANGE FROM 2022 ▲ 1.0

KEY OBSERVATIONS

Part A of this Progress Tracker provides a snapshot of sustainable finance in Australia. This year's analysis has been aided by reporting from the Reserve Bank of Australia,[158] which has recently increased its focus on green markets.

RECOMMENDATION 34

Australia's financial system participants work collaboratively to promote climate risk mitigation efforts and to ensure buildings are disaster resilient by:

- **implementing a framework for assessing the cost of mitigation investment that factors in the broader social costs and benefits;**
- **supporting, through credit guarantees and other measures, banks/lenders to lend for mitigation retrofits through issuance of resilience bonds;**
- **supporting household-level risk mitigation for owners and renters through education and incentives for those who cannot afford to implement retrofitting.**

SCORE: 3 ○ ○ ● ○ ○ CHANGE FROM 2022 0.0

KEY OBSERVATIONS

Climate change continues to put pressure on insurance

Last year, close to 70% of Australians were impacted by storms, floods, cyclones and bushfires alone.[159] ASFI's 2022 Progress Tracker reported that increasing frequency of extreme weather events from climate change was leading to higher levels of non-insurance and under-insurance. This trend has continued in 2023.[160]

Insurance prices increased 14.2% in the year to June 2023 – the largest jump in insurance costs on record apart from the introduction of the GST in 2000. Research conducted by consumer advocacy organisation, CHOICE, identified five key problems with the home and contents insurance market:[161]

1. **Complex product design:** Home and contents policies are complex and difficult to compare across insurers, often leading to people being unintentionally underinsured.

2. Unaffordable premiums: At their most recent renewal, 87% of policyholders have seen their premiums rise. Insurance unaffordability is worse in disaster-prone areas, and many households on low incomes have been priced out of the insurance market completely.

3. Inaccessible information on natural hazard risk: Finding information on the level of risk to your home is very difficult, and the information that is available is piecemeal and often inaccurate.

4. Actions by homeowners to mitigate risk are not being considered by insurers: 44% of policyholders would consider investing in measures to lower the cost of their premium but many insurers do not recognise these kinds of measures when pricing policies.

5. Housing in high-risk areas needs solutions beyond insurance: When homes are no longer insurable or safe to live in, governments need to plan for other solutions, including relocation.

The Insurance Council of Australia has also recognised the scale and urgency of the challenge, and the need for coordinated and comprehensive action:

> *"If we don't act, as climate change drives an increase in the frequency and severity of extreme weather events around the world, we can expect to see growing challenges for homeowners living in high-risk areas obtaining adequate insurance cover."*
>
> Andrew Hall, *CEO, ICA*[162]

Government funding for disaster preparedness, and industry initiatives, are welcome steps

In 2022, the Australian Government's Disaster Ready Fund committed $1 billion over 5 years for projects that reduce the risk of future natural hazard impacts for infrastructure upgrades such as flood levees, seawalls, and hazard warning systems.[163] This funding has been matched by state governments in New South Wales and Queensland for Resilient Homes programs that support homeowners to repair, retrofit, raise or demolish, rebuild or relocate flood-affected homes.[164]

There have also been industry initiatives to support greater resilience. For example, Australian Government has also established a Hazards Insurance Partnership to bring the insurance industry and Government together to identify the most pressing issues, test the best policy solutions, and support better consumer outcomes through more affordable products and better understanding of insurance products.[165] The Resilient Building Council (RBC) has developed a multi-hazard resilience rating tool to help integrate resilience into building assessments and ratings (see Case Study 9 below).

A more comprehensive and coordinated approach to policy, funding, and collaboration is needed

The current approach to protecting Australians – especially vulnerable Australians – from exposure to the physical impacts of climate change is insufficient. CHOICE has called for coordinated action from governments and the insurance industry to ensure that people are effectively protected against the effects of extreme weather events.[166]

The Insurance Council of Australia has echoed this call, and put forward a detailed set of proposals for policy reform across four areas:

1. Uplift the National Construction Code requirements to ensure new homes can withstand extreme weather events.
2. Increase funding for retrofitting existing homes, especially where insurance is unaffordable and move to a 10-year rolling funding cycle.
3. Reform land use planning frameworks so that houses are not built in disaster-prone areas.
4. Improve competence and compliance regimes to ensure houses are built and retrofitted to high standards.

Effectively managing the physical impacts of climate change would also be supported by better integrating resilience into existing climate-related policy and mechanisms. Opportunities to do this include incorporating a resilience objective into the Australian sustainable finance taxonomy and expanding the mandates of the Australian Renewable Energy Agency and the Clean Energy Finance Corporation to include resilience as well as emissions reduction.

CASE STUDY 9

Resilient Building Council: Pioneering Resilience Ratings for Safer Homes

Natural disasters such as bushfires, floods, storms, cyclones and heatwaves are becoming more frequent and severe due to climate change. Governments, insurers, banks, households and the 2020 Royal Commission into Natural Disaster Arrangements have identified a critical need to make Australian homes more resilient to these events.

In response, the Resilient Building Council is spearheading a world first Resilience Rating System. The system scientifically measures the resilience of homes and delivers customised adaptation action plans for households. It empowers householders to make smart investments and supports the development of market solutions by providing a common standard for quantifying asset risk and the impact of risk reduction activities.

The first of these systems tools, the Bushfire Resilience Rating Free Home Self-Assessment App, was launched in October 2023 with Australian Government support. Over 1,200 households across Australia helped co-design and test the app, which collects hundreds of data points and translates decades of scientific research into an intelligible household resilience rating.

The next phase of RBC's Resilience Ratings program will be launched by mid-2024, establishing a professional Multi-Hazard & Energy Efficiency Resilience Rating and certification program. The system will provide a single home assessment integrating bushfire, flood, storm, cyclone, heatwave, and energy efficiency ratings; customised household recommendations; and residual rating certification. The Ratings can be applied to new or existing homes, and address both current and future projected climate risk.

This harmonised assessment reduces costs, optimises benefits, and mitigates maladaptation risk. Having tailored adaptation recommendations enables an assessment of the cost of upgrades at household and broader scales. Measurably increasing the resilience of homes yields quantifiable benefits for households, insurers, governments, banks, investors and markets.

The system will create a credible, readily usable market mechanism for capital, insurance, finance and property markets to recognise household risk reduction and reward climate resilient rated assets. Market recognition and incentives will stimulate private investment in disaster risk reduction at scale across Australia, ensuring safer homes and sustainable and insurable communities. It will allow the development of financial products such as finance for retrofits, green mortgage discounts, insurance pricing recognition for reduced disaster risk, and government grants and subsidies for low-income vulnerable households to undertake retrofits.

The project is a multi-disciplinary collaboration of researchers, engineers, federal and state governments, including the National Emergency Management Agency, NSW Reconstruction Authority, Victorian Department of Energy, Environment and Climate Change Action National Scorecard Team, Queensland Reconstruction Authority, building practitioners, at risk communities, and the banking, investor, building, supply chain and insurance industries.

RECOMMENDATION 35

Australia's financial system participants work collaboratively to support development of sustainability impact and resilience markets including natural capital, carbon, impact investment, and climate mitigation and adaptation, with a focus on:

- **building market architecture through the establishment of common platforms for information disclosure, trading and intermediary services, with strong governance rules and enforcement;**
- **development of standardised documentation to reduce transaction costs, and**
- **support for credit guarantees and other measures that reduce the risk of financing and investing;**
- **developing social enterprises and impact investments that focus on Asia-Pacific countries.**

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 0.0

KEY OBSERVATIONS

The Australian Government is scaling up its impact investment capabilities in the Asia-Pacific

The 2023-24 federal budget included an additional $210 million to expand the Department of Foreign Affairs and Trade's Emerging Markets Impact Investment Fund (EMIIF). EMIIF – to be re-branded as Australian Development Investments – was established by DFAT in 2020 to provide access to finance for small and medium-sized businesses (SMEs) in the Asia-Pacific. It is a fund of fund model, that supports promising new fund managers to attract private capital and make strong returns, building the intermediary ecosystem for SME finance primarily in South and Southeast Asia. The expanded EMIIF will continue its focus on gender lens investment and have an increased focus on supporting climate and clean energy outcomes. This was a welcome step towards increasing Australia's blended finance capabilities and presence in the region.[167] Released in August 2023, DFAT's Development Finance Review affirmed that DFAT should scale up its blended finance capabilities, while stopping short of recommending Australia join other developed countries in establishing our own Development Finance Institute (DFI).[168] The Government's subsequently released "Southeast Asia Economic Strategy to 2040" likewise recognised the potential for blended finance to play a key role in supporting partner countries and deepening Australia's economic ties to the region.[169]

ASFI supports these findings and notes that Australia's ability to support partner countries through development finance remains constrained by our lack of dedicated blended finance mechanism. ASFI's submission to the Review recommended the Government establish a dedicated blended finance capability that is separate to DFAT and operates at arm's length from government.[170] During stakeholder consultations on the Review there was strong support for a DFI from the development NGO community, think tanks, and private and institutional investors. The Clean Energy Finance Corporation is an example (in the domestic context) of how this type of institution can effectively and efficiently support the development of new markets and crowd in institutional capital.

An Independent Review of Australian Carbon Credits Unit (ACCU) scheme found opportunities to improve the functioning and integrity of Australian carbon markets

Led by former Chief Scientist Professor Ian Chubb, the Review concluded that the ACCU scheme was fundamentally sound but nevertheless made 16 recommendations to improve its integrity and operations. These include changes to clarify governance arrangements, improve transparency, facilitate positive project outcomes and co-benefits, and enhance confidence in the integrity and effectiveness of the scheme. The Government accepted all 16 recommendations and allocated $18.1 million to implement priority reforms.[171]

The Government is looking to establish a "Nature Repair Market"

In 2023, the Government introduced legislation to create a national framework for a 'Nature Repair Market', a biodiversity market that could support restoration and enhancement of nature. See Recommendation 14 for further discussion.

RECOMMENDATION 36

Australia's financial system participants back initiatives to catalyse the establishment of sustainability impact and resilience markets by supporting the formation of an independent Social Impact Investment wholesaler for Australia.

SCORE: 2 ○ ● ○ ○ ○ CHANGE FROM 2022 ▲ 1.0

KEY OBSERVATIONS

The Australian Government has taken steps towards supporting social impact investment

In his January 2023 Quarterly Essay, Australian Treasurer Jim Chalmers outlined his philosophy of 'values-based capitalism' and signalled a role for Government in supporting the social impact investment market:

> *"Across the social purpose economy, in areas such as aged care, education and disability, effective organisations with high-quality talent can offer decent returns and demonstrate a social dividend – but they find it hard to grow because they find it hard to get investors. Right now, the market framework that would enable that investment in effect doesn't properly exist."*[172]

While a Social Impact Investment wholesaler did not come to pass in this year's federal budget, the Government did announce a $100 million Social Impact Investment Outcomes Fund (see Recommendations 22-23) and a $11.6 million Social Enterprise Development Initiative. The latter will provide grants, education and mentoring to social enterprise organisations to build their capability to access and unlock greater capital and support their participation in the social impact investing market.[173]

The Government also committed to convene an Investor Roundtable to discuss how to unlock private capital to support social impact investing initiatives.[174] There is precedent for pooling Australian institutional capital and government funding to provide flexible finance to Australian businesses through the Australian Business Growth Fund.[175]

RECOMMENDATION 37

Australia's financial system participants finance the development and regeneration of real assets, including infrastructure and property (housing, industrial and commercial)

SCORE: 3 ○ ○ ● ○ ○ CHANGE FROM 2022 ▲ 1.0

KEY OBSERVATIONS

The Australian Government has made significant commitments to improving residential energy efficiency

The 2023 federal budget included significant allocations to support householders to upgrade their homes to be more efficient and lower cost:

- $1bn for the Clean Energy Finance Corporation to support affordable finance for home upgrades. The CEFC has already helped catalyse the green home loans market for new builds. It is now resourced to help tackle the challenge of home retrofits. This funding tranche will have a lower return requirement allowing more flexibility for the CEFC in its approach to building this nascent market. The CEFC is expected to release a Request for Proposals in late 2023 seeking implementation partners (such as banks and non-bank lenders) for the program.
- $300m to upgrade social and public housing in partnership with the states and territories – a really important step to lower energy bills for some of the most vulnerable people in our community. This investment, along with $310m in tax breaks for small business energy efficiency, will help build the service delivery eco-system for the broader market.
- Funding to expand the NatHERS home energy rating framework to apply to existing homes and expand the Greenhouse and Energy Minimum Standards Program to apply to more appliances. Minimum standards and energy ratings are proven, cost-effective policies. These reforms, along with mandatory disclosure of energy performance, will help underpin the development of financial products in this space.

State and territory governments key to progress on home energy efficiency

There is strong finance sector support for a national ratings scheme, mandatory energy disclosure, and measures to encourage the upgrade of rental homes.[176] These policies will help banks and others develop green finance products to accelerate home energy efficiency – making an important contribution to decarbonisation and supporting better health and economic outcomes for Australian householders. There reforms rely on state and territory governments for their implementation. Accelerated action by these governments is key to progress.

In May 2023, major Australian banks and other financial institutions released a joint industry statement on home energy policy. The statement urged state, territory and federal governments to act decisively to deliver healthy, comfortable and energy smart homes for Australians. Specifically, it called for accelerated progress to deliver a single national ratings framework, mandatory disclosure of energy performance, and policies and incentives to support renters.[177]

Barriers remain to green infrastructure build out

The Government has committed $20 billion for new transmission infrastructure to be implemented through the Clean Energy Finance Corporation as part of the Rewiring the Nation program.[178] Projects are underway in Tasmania, New South Wales and Victoria. There have also been steps to reform the Regulatory Investment Test for Transmission to take into account social risks and benefits.[179]

Permitting and approvals, supply chain constraints, and skills shortages remain barriers to accelerating the roll-out of green infrastructure. There is a need for greater coordination between Commonwealth and state and territory governments.

The development of dedicated "Renewable Energy Industrial Precincts" (REIPs) that cluster industrial energy users together with access to low-cost renewable energy could support the development of Australia's green industries. Shared infrastructure would help avoid over-investment, and scale would help attract skilled workforces.

The NSW Government has announced it is working with industry to develop clean manufacturing precincts with priority areas in the Hunter and Illawarra Regions, the state's largest 2 industrial areas.[180] The Queensland Government is consulting a draft Queensland Renewable Energy Zone Roadmap to coordinate development of clean energy infrastructure in areas of high industrial potential.[181] The Federal Government's proposed Net Zero Authority could play an important role in coordinating and supporting the identification and implementation of REIPs.

Approach & Methodology

This report covers the progress made by participants in the Australian financial system against the Australian Sustainable Finance Roadmap, released in 2020. Research conducted to inform the report consists of four components:

- ASFI member and industry partner surveys
- Interviews with key market participants
- Open call and targeted collection of case studies
- Desktop research and analysis

Surveys

ASFI's 2023 Progress Tracker survey was distributed to ASFI member organisations and select other FIs. Seven responses were received. The survey consisted of ten questions designed to solicit information useful for assessing progress against key Sustainable Finance Roadmap recommendations, particularly where other data is limited.

Interviews

Semi-structured interviews were held by ASFI with 5 representatives from industry bodies and the investment community to ascertain views on the state of sustainable finance in Australia, progress towards Roadmap implementation, and what the critical barriers and opportunities are to achieving progress. ASFI also incorporated insights from its many conversations with members carried out in the course of our work.

Collection of case studies

Case studies that demonstrated good practice against specific recommendations were requested through an open call, and also identified through ASFI's work. Case studies were selected based on their relevance to specific recommendations, an assessment of the value of showcasing particular examples of leadership or innovation. In particular, we looked to highlight examples of industry collaboration that could unlock progress on sustainable finance.

Desktop research and analysis

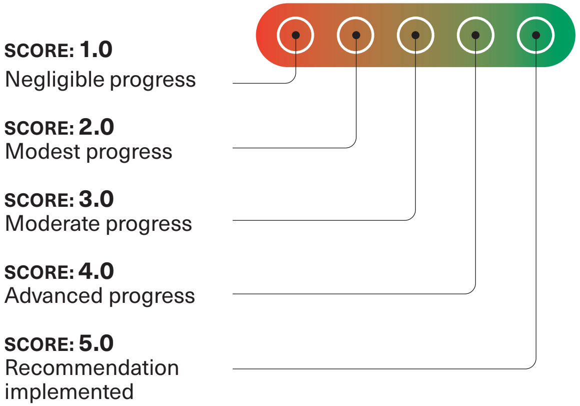
ASFI's research team conducted desktop research, including FI's public reports and websites, industry body reports, academic research, news articles, government policy, announcements and legislation, and guidance.

Limitations

The survey research from this study relies on self-reported data from FI respondents. The small sample size of responses limited the conclusions that could be drawn from the survey but will be built on over time. Desktop research and analysis was limited by the information made publicly available by FIs and other sources.

Approach to scoring

Progress against each recommendation was qualitatively assigned a score on a scale of one to five. One being the least amount of observable progress and five being the most. Definitions of the scale are detailed in the following legend



SCORE: 1.0
Negligible progress

SCORE: 2.0
Modest progress

SCORE: 3.0
Moderate progress

SCORE: 4.0
Advanced progress

SCORE: 5.0
Recommendation implemented

The Australian Sustainable Finance Roadmap in 2024

The Australian sustainable finance landscape has evolved rapidly since the Roadmap was published in 2020. A number of Roadmap recommendations have been achieved, others have been overtaken by current developments or are less relevant in today's context. At the same time, new priorities are arising as frameworks and practices continue to develop in Australia and internationally.

The framing of Roadmap recommendations reflect the context in which they were developed – where the most feasible path to progress relied on industry leadership and recognised the need for industry collaboration in achieving progress. With Government now demonstrating a firm interest in the Sustainable Finance Agenda, there is a strong case for industry to work with Government and to support the development of policy and regulation alongside industry initiatives, drawing on the capability, expertise, and execution capacity in industry as well as the leadership, convening power and regulatory role of Government.

In this context, ASFI will continue to adapt the way that we work to achieve the overall ambition of the Roadmap. As part of this we will consider options to refine our approach to annual reporting on implementation of the Australian Sustainable Finance Roadmap.

Glossary

Abbreviation	Name
AASB	Australian Accounting Standards Board
ABA	Australian Banking Association
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACCU	Australian Carbon Credits Unit
ACSI	Australian Council for Superannuation Investors
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
APRA	Australian Prudential Regulation Authority
ARENA	Australian Renewable Energy Agency
ASFI	Australian Sustainable Finance Institute
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
AUM	Assets Under Management
CBI	Climate Bonds Initiative
CA ANZ	Chartered Accountants Australia and New Zealand
CCA	Climate Change Authority
CEFC	Clean Energy Finance Corporation
CFA	Chartered Financial Analyst
CFR	Council of Financial Regulators
CMSI	Climate Measurement Standards Initiative
COAG	Council of Australian Governments
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CVA	Climate Vulnerability Assessment
CWG	Climate Working Group
DCCEEW	Department of Climate Change, Energy, the Environment and Water
DFAT	Department of Foreign Affairs and Trade
DFI	Development Finance Institute
EEA	Environmental Economic Accounting
EIA	Environment Information Australia
EMIIF	Emerging Markets Impact Investment Fund
EPBC	Environmental Protection and Biodiversity Conservation
ESB	Energy Security Board
ESG	Environmental, Social and Governance
EU	European Union
FAST	Finance Against Slavery and Trafficking
FftF	Farming for the Future
FI	Financial Institution
FIAP	Financial Inclusion Action Plan
FINSIA	Financial Services Institute of Australasia
FNF	First Nations Foundation
FPIC	Free Prior and Informed Consent
G20	Group of Twenty
GBA	Global Biodiversity Framework
GDP	Gross Domestic Product
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse Gas
GISD	Global Investors for Sustainable Development
GRESB	Global Real Estate Sustainability Benchmark
GRI	Global Reporting Initiative
IAASB	International Auditing Assurance Standards Board
IAST	APAC Investors Against Slavery and Trafficking Asia Pacific
ICA	Insurance Council of Australia
IEA	International Energy Agency
IFRS	International Financial Reporting Standards
ISCA	Infrastructure Sustainability Council Australia
ISP	Integrated System Plan
IPSF	International Platform on Sustainable Finance
ISSB	International Sustainability Standards Board
KPI	Key Performance Indicator
NABERS	National Australian Built Environment Rating System
NatHERS	Nationwide House Energy Rating Scheme
NEM	National Electricity Market
NGFS	Network for Greening the Financial System
NGO	Non-Government Organisation
NSW	New South Wales
NZAOA	Net-Zero Asset Owner Alliance
PRI	Principles for Responsible Investment
RBA	Reserve Bank of Australia
RBC	Resilient Building Council
REIP	Renewable Energy Industrial Precinct
RIAA	Responsible Investment Association Australasia
RSE	Registrable Superannuation Entity
SBTN	Science-based Targets Network
SDG	Sustainable Development Goal
SME	Small and Medium Sized Enterprise
TAG	Technical Advisory Group
TCFD	Task Force on Climate-Related Financial Disclosures
TNFD	Task Force on Nature-Related Financial Disclosures
TTEG	Taxonomy Technical Expert Group
UK	United Kingdom
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
US	United States
UTS	University of Technology Sydney

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