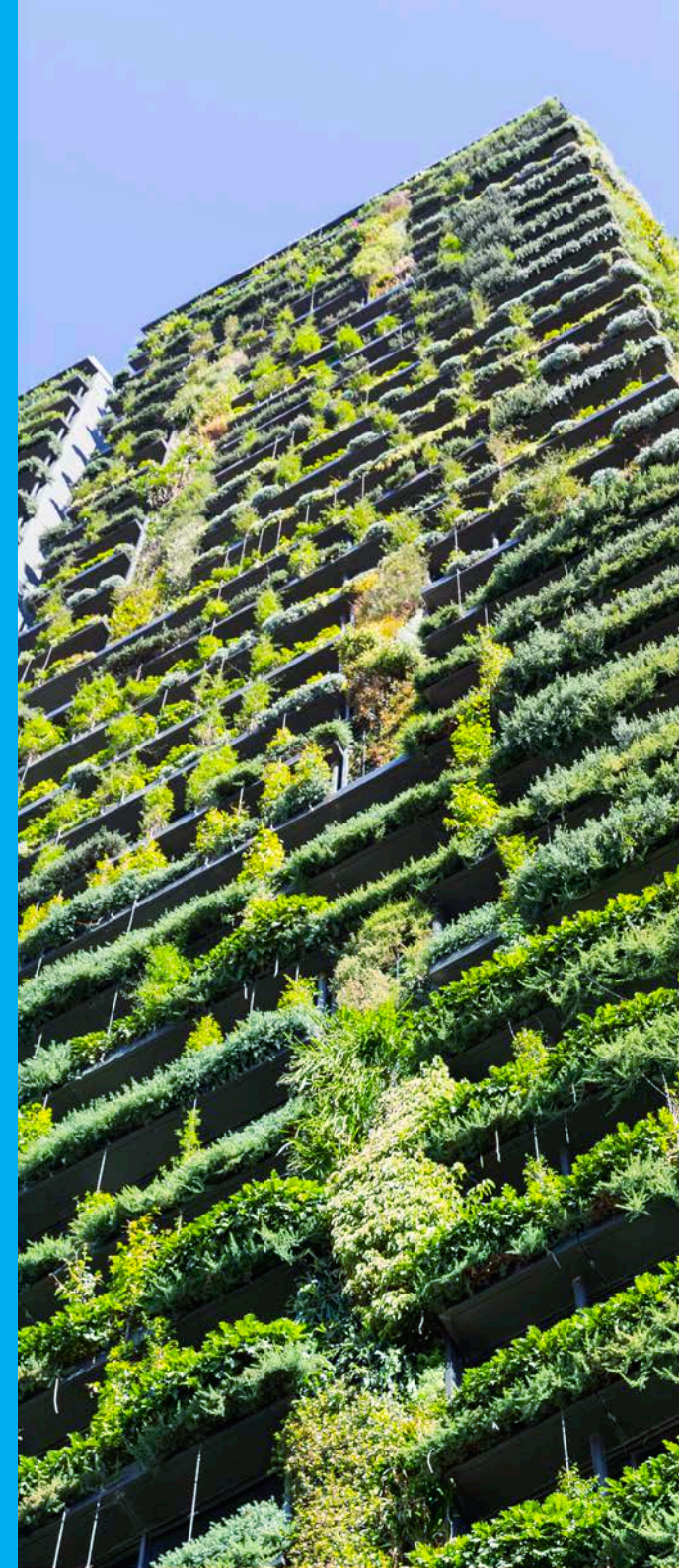


ASFI Momentum Tracker

A first report to track progress
implementing the ASFI Roadmap



Acknowledgement of Country

The Australian Sustainable Finance Initiative 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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Disclaimer

This report reflects the collective output of the Australian Sustainable Finance Initiative (ASFI) and its participants and does not reflect the views of any one participant or the organisation they represent or are employed by. Participation by these individuals should not be taken as endorsement of the recommendations or report by individual organisations.

ASFI and its participants have at all times been mindful of their obligations under Australian competition law. Further, ASFI, its participants and the organisations they represent or are employed by understand the need to comply with competition law in considering or implementing any recommendations or actions arising out of this report.

Individual ASFI participants may have views different to those represented in this report.

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With thanks to the ASFI Steering Committee members and ASFI network for their valuable feedback and contribution.



1 Delivering the Roadmap

The Australian Sustainable Finance Roadmap was launched by the Australian Sustainable Finance Initiative (ASFI) in December 2020 based on an unprecedented collaboration of over 140 participants from 90 organisations across the financial services sector, civil society, academia, financial regulators and government.

The Roadmap sets out a coherent plan for a decade of action that will realign the Australian financial system to support a more resilient, sustainable and prosperous future for all Australians, strengthening the financial system and enabling it to respond to a period of significant change, with elevating climate and social risks, and rapidly shifting global context.

The Roadmap's vision for Australia is a financial system:

- That is sustainable, resilient and stable, and can manage systemic risks and other shocks and strains.
- That meets both the present and long-term needs of all Australians, the environment and the economy.
- Where financial decisions are informed and consider sustainability risks, impacts and opportunities.
- That enhances financial inclusion and well-being, and informed choice.
- Where capital flows support Australia in delivering on sustainable development goals, including facilitating an orderly transition to a net zero emissions, resourceefficient and socially inclusive economy.

The Roadmap included a total of 37 recommendations across the following 4 domains:



1. Embedding sustainability into leadership



2. Integrating sustainability into practice



3. Enabling resilience for all Australians



4. Building sustainable finance markets

There is evidence of some progress across many of the Roadmap recommendations:

- There are emerging examples as to what leadership in sustainability looks like, including board level governance on the risks associated with climate change and, in addition, investing in sustainability training and skills development at senior levels.
- There is good momentum in the industry on aspects of integrating sustainability into practice, including the integration of sustainability into investment valuation frameworks, growing support for adopting a net zero emissions goal by 2050, reporting in alignment with the Task Force on Climate-related Financial Disclosures and a commitment to measure and report the social and environmental impact of investment, lending and insurance decisions in support of the Sustainable Development Goals.
- The importance of financial inclusion is recognised by ASFI participants. Its importance both in Australia and at the global level is demonstrated by it being embraced by financial regulators and standard setting bodies.
- Collaborative efforts are underway within the financial sector to support individual and community resilience to acute shocks as well as chronic threats to climate and health, which amplify the impact of acute shocks on the most vulnerable.
- There is a heightened focus and increasing effort to improve the financial outcomes for First Nations peoples, including the development of Reconciliation Action Plans within the finance sector.
- There are some examples of bond issuance, project investment, lending practices and the development of new tools and frameworks to support a shift in capital allocation into activities that create and support more sustainable and equitable outcomes for Australian people.

Further action and collaboration is needed to make further progress across the 4 domains:

- The industry will benefit from developing and utilising emerging guidance and standards on leadership in sustainability, including on topics such as board accountability and oversight, a matrix to identify skills gaps, and approaches to integrate sustainability objectives into incentives and remuneration packages (of financial institutions and corporate entities).
- There is an opportunity for ASFI 2.0 to work across the different market participants to ensure that the limitations with existing valuation tools, mainstream practices and a lack of quality data on environmental and social risks are addressed so that the sector can properly value risk and make better informed decisions.
- While some examples of activity exist in the financial sector to build resilience for all Australians through Financial Inclusion Action Plans and Reconciliation Action Plans, there is a need for such activities to be escalated to ensure that the products and services are designed and delivered in a way that aligns with consumers' values, needs, and capabilities.
- First Nations peoples are over-represented among financially vulnerable Australians and while the finance sector is making efforts to develop and implement Reconciliation Action Plans, this is still at an early stage of development, and it is anticipated that this will require a significant level of further collaboration and action to ensure that the financial sector serves the needs of First Nations people in a fair and equitable way.
- Climate change presents a systemic risk to Australia's economy and many communities are already being significantly impacted by the increasing frequency and intensity of extreme weather events. While there are some emerging examples of partnerships and collaborative efforts to improve product and service delivery to support vulnerable communities, there is a need to escalate investment flows and capital allocation to support more sustainable, climate-resilient outcomes. There is widespread support for the development and utilisation of a sustainability taxonomy that can help guide the definitions, labels and standards that guide product development, customer service delivery and capital allocation in the financial sector.

Financial market participants are utilising the ASFI recommendations in different ways, including:

- Undertaking a gap analysis against the ASFI recommendations at the organisation/entity level.
- Mapping priorities of the ASFI recommendations at the organisation/entity level.
- Identifying opportunities to build capacity and collaborate with others.

There is support for ASFI to further its work and efforts to build on this momentum and help close the gaps that remain through the creation of ASFI 2.0 as a permanent body.

A survey and consultation with industry participants revealed that:

- Two thirds of respondents have started to take action to implement the ASFI Roadmap recommendations since its release.
- Two thirds of respondents are willing to publicly support ASFI.
- 85% of respondents indicated there was strong or very strong support for the ASFI recommendations from senior leaders inside their organisations.

With the Roadmap recommendations delivered and industry momentum building, there is now an opportunity and urgent need to drive the delivery of this 10-year plan, via a central body that will convene and coordinate the important cross-sectoral collaboration required. The ASFI Steering Committee is now leading a transition to progress a key recommendation of the Roadmap, which is the establishment of a permanent body charged with driving the delivery of the Roadmap – ASFI 2.0.



2 Summary of ASFI recommendations

The following tables summarise the ASFI recommendations and sub-recommendations that were set out in the Roadmap report, alongside each of the four domains for change. At the request of some of the ASFI stakeholders, sub-recommendations (a, b, c, etc) have been added alongside each of the 37 recommendations, where multiple actions are suggested.



Embedding sustainability into leadership

- 1
 - a) Lead accountability for sustainability from board level
 - b) Integrate sustainability into purpose, corporate strategy, risk management frameworks, remuneration structures and organisational culture
 - c) Manage and measure impact of activities on others
- 2 Build the necessary skills and capabilities by:
 - a) working with existing industry training organisations to deliver new skills and training in sustainable finance across all levels of an organisation
 - b) supporting the establishment of university-hosted centres for sustainable finance
 - c) working with the Australian university sector to ensure that core curriculum for all finance and related discipline degrees includes sustainability
 - d) developing strategic skills partnerships with experts outside of financial institutions to build mutual understanding
- 3
 - a) Build inclusive corporate cultures that facilitate and protect employees to speak up
 - b) Support industry-funded employee codes
- 4
 - a) Align remuneration structures with sustainable long-term value creation
 - b) Consider embedding sustainability targets into remuneration and incentive practices, and rewarding for sustainability performance and leadership
- 5
 - a) Establish the Australian Sustainable Finance Initiative as a permanent body
 - b) Establish special projects and forums consistently with legal obligations of all participants (including competition laws) as a mechanism to provide guidance on implementation of the Roadmap
- 6 Establish a First Peoples Financial Services Office led by an Aboriginal and Torres Strait Islander person
- 7 Work to codify the principle of free, prior and informed consent in decisions made by financial institutions
- 8 Establish international partnerships to support the implementation of the Australian Sustainable Finance Roadmap



Integrating sustainability into practice

- 9 Establish a key project to explore the implementation of a sustainable finance taxonomy in Australia
- 10 Join the International Platform on Sustainable Finance
- 11 Financial institutions with annual consolidated revenue of more than \$100m report according to TCFD recommendations by 2023 on an 'if not, why not' basis
- 12
 - a) All ASX-listed companies, beginning with the ASX 300, report according to TCFD recommendations by 2023 on an 'if not, why not' basis
 - b) Develop guidance to support TCFD-aligned reporting by ASX-listed entities
- 13 Develop guidance to support TCFD-aligned reporting by financial institutions
- 14 Play a leadership role in the development of the TNFD by:
 - a) funding research that supports TNFD's working groups
 - b) engaging in the process to develop the TNFD reporting framework
 - c) establishing, through ASFI, an Australian project to develop guidance for nature-related financial disclosures aligned to Australia's biodiversity challenges
- 15
 - a) Mandate sustainability reporting and assurance for listed entities and for unlisted assets that are wholly owned by financial institutions
 - b) Work to align with international developments in relation to comprehensive corporate reporting
- 16
 - a) Undertake scenario analysis and stress test the institution's resilience to physical and transition risks from climate change
 - b) Create an industry-led stress-testing framework
 - c) Expand scenario analysis and stress tests to include other sustainability-related impacts, for example, biodiversity loss
 - d) Develop guidance on best practice approaches to conducting stress tests that is relevant for financial institutions of different sizes
- 17 APRA expands its vulnerability assessments to include fit-for-purpose assessments for small and medium financial institutions across Australia, as well as the superannuation and insurance sectors
- 18
 - a) Value environmental and social externalities
 - b) Facilitate compilation of national- and state- level data sets by developing general principles and guidance to allow financial system participants to measure and assess multiple capitals
- 19 Work with Australia's financial system regulators on an ongoing basis to embed sustainability into regulatory guidance and standards to drive system-wide practice
- 20 Drive best practice for the benefit of the whole of the Australian economy and society, including by:
 - a) embedding sustainability into outsourcing and procurement practices
 - b) embedding sustainability information into products and services for households and businesses
- 21
 - a) Implement high standard of stewardship
 - b) Develop stewardship codes



Enabling resilience for all Australians

- 22 Support the establishment of community finance that can be accessed by place-based groups as part of a place-based community resilience strategy
- 23 Develop income and revenue contingent loans
- 24
 - a) Establish Financial Inclusion Action Plans
 - b) Review current practices and design of products and services to embed financial inclusion
- 25 Consistent with applicable laws and regulations, measure and report on:
 - a) financial distress for households
 - b) financial outcomes for Aboriginal and Torres Strait Islander customers
- 26 Collaborate to support networks, programs and initiatives that build individual and community financial capability
- 27 Support the development of labelling standards that provide consumers with access to consistent labelling and disclosure of the sustainability of products to provide clarity on quality of products and how sustainability is considered and managed within products
- 28 Enable Australians to make financial decisions based on their values and sustainability preferences, including:
 - a) ensuring financial advisers (human and robot), superannuation funds, accountants and platforms consider the sustainability preferences of consumers, including through use of a standard set of sustainability preference questions
 - b) 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
 - c) 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
 - d) collaborating to develop best practice guidelines for the disclosure of portfolio holdings by superannuation entities and other publicly available funds
 - e) passing regulations to prescribe the content and format of disclosure of portfolio holdings by superannuation entities
- 29 Develop best practice principles to guide product design, delivery and disclosure to drive sustainable and community-focused outcomes
- 30 Support the development and implementation of an Australian-focused well-being framework
- 31 Establish interim science-based targets and trajectories that will support individual financial institutions to make net-zero-aligned decisions



Building sustainable finance markets

- 32** Work collaboratively to support development of a sustainable capital market by:
- a) 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
 - b) removing roadblocks to commercialising impactful technologies and developing investment models that align with liquidity requirements of financial system participants
 - c) working with financial system regulators in developing guidance on sustainable benchmarks and indices
 - d) supporting sustainability-focused businesses across the Asia-Pacific region to raise capital and issue bonds through Australia's capital markets
 - e) supporting sustainability-focused Asia-Pacific businesses to list on ASX or other Australian stock exchanges
- 33** 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
- 34** Work collaboratively to promote climate risk mitigation efforts and to ensure buildings are disaster resilient by:
- a) implementing a framework for assessing the cost of mitigation investment that factors in the broader social costs and benefits
 - b) supporting, through credit guarantees and other measures, banks/lenders to lend for mitigation retrofits through issuance of resilience bonds
 - c) supporting household-level risk mitigation for owners and renters through education and incentives for those who cannot afford to implement retrofitting
- 35** 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:
- a) building market architecture through the establishment of common platforms for information disclosure, trading and intermediary services with strong governance rules and enforcement
 - b) development of standardised documentation and support for credit guarantees and other measures that reduce the risk of financing and investing
 - c) developing social enterprises and impact investments that focus on Asia-Pacific countries
- 36** Support the formation of an independent Social Impact Investment wholesaler for Australia
- 37** Finance the development and regeneration of real assets, including infrastructure and property (housing, industrial and commercial), through:
- a) aligning Australia's Infrastructure Priority List produced by Infrastructure Australia with the objective of achieving net zero emissions by 2050
 - b) efficient and streamlined regulatory requirements for investment into essential assets
 - c) working with AEMO, AEMC, AER, ESB and the COAG Energy Council to expedite an actionable Integrated System Plan
 - d) developing infrastructure investment across the Asia-Pacific region that is focused on delivering social and environmental outcomes
 - e) integrating ESG factors into the investment decision-making process for new infrastructure projects, and for expansions to existing assets, using broadly accepted standards and frameworks relevant to the specific category of infrastructure assets
 - f) using a national rating scheme for the energy performance of homes, such as NAtHERS, and establishing mandatory disclosure of performance at the point of sale and lease
 - g) supporting an industry approach to adopt the three major rating tools (NABERS, Green Star and ISCA's Infrastructure Sustainability rating scheme) as measurement benchmarks and minimum standards for new and existing assets to become more climate change resilient and socially responsible
 - h) integrating built environment ratings into consumer and business lending and investment valuations, including infrastructure projects
 - i) working with stakeholders to update the National Construction Code so that future residential properties are built to be resilient to climate change and broader climate and geological risks and ensure energy efficiency as well as use of sustainable materials



3 Tracking momentum

A key component of the successful attainment and implementation of the ASFI Roadmap recommendations will be the utilisation of a robust and transparent framework to evaluate and track progress over time. This will be an ongoing process and a function that ASFI 2.0 will perform in the future.

This section highlights an initial review of momentum in the industry, drawing from more than 30 case studies of ASFI participants and examples across the wider industry on some of the activities that have taken place or are underway, and how these align with the recommendations of the ASFI roadmap. A survey of industry participants on the future role of ASFI 2.0 and how financial system participants can collaborate to achieve real change is also included in this review.

3.1 Momentum tracker framework

The analysis sets out an initial tracking of momentum, identifying the areas where some progress has been made, as well as identifying areas where there are gaps and further attention is needed. This review is based on the following inputs:

1. A survey of individuals that are involved in the financial services industry to gauge their views and plans, with 31 responses received.
2. More than 30 case studies representing examples of actions and activities that are underway from different organisations that align with the ASFI Roadmap recommendations.
3. A desktop review of some key initiatives that relate to the ASFI Roadmap's objectives and priorities.

The analysis presented in this report is the first effort to deliver on a commitment by ASFI to report on progress against the roadmap, and shall be expanded and included in the work program of the permanent ASFI. While a qualitative approach has been adopted to observe the rate of progress in this review, it is envisaged that one of the key responsibilities of the ASFI 2.0 body will be to measure and evaluate progress against specific metrics that can be quantified and monitored over time.

3.2 Survey response

A survey was sent to the ASFI participants and related parties to solicit their views and perspectives on the ASFI recommendations, areas where progress has been made, challenges and priorities. Based on a relatively small sample size of 31 individuals, a few observations can be made, as summarised below. On the obstacles to implementation, most respondents cited resourcing and time as the major constraints to progress, rather than any fundamental issues with the recommendations themselves.



Source: ASFI survey response, 2021

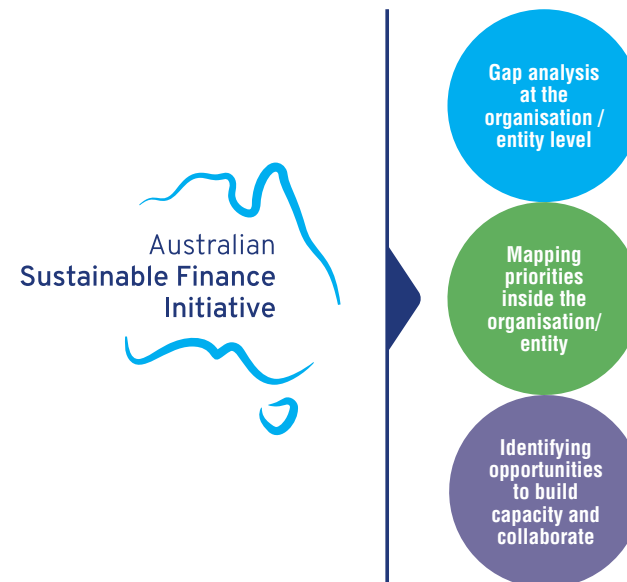


4 Case studies

Different ways in which the industry and financial market participants are taking action to promote more sustainable outcomes are highlighted in this review through a series of case studies representing examples of different activities taking place. These actions are mapped to each of the 4 domains for change as identified by the ASFI Roadmap recommendations. Some examples as to how some of the organisations and entities are utilising the ASFI recommendations are also provided. These insights provide a useful input into the design and areas of focus for ASFI 2.0.

4.1 How the ASFI Roadmap is being utilised

The case studies gathered as part of this review illustrated the different ways that some financial market participants are utilising the ASFI Roadmap recommendations. These are summarised in the following pages, along with some specific examples.



1. Undertaking a gap analysis against the ASFI Roadmap recommendations

NSW Treasury performs high-level gap analysis

NSW Treasury noted that the ASFI Roadmap provides an opportunity to strengthen and drive the sustainable finance agenda in Australia and demonstrate leadership. The Roadmap is already being used to shape the development of a number of internal policies.

NSW Treasury has performed a high-level gap analysis to consider the alignment of the roadmap recommendations with NSW Government initiatives, which reportedly demonstrated a degree of alignment with many of the recommendations.

Release of the roadmap will help support ongoing implementation of these initiatives, and maturation of our approach to meeting our core outcomes of delivering a sustainable fiscal outcome, and a strong resilient and diverse economy.

NSW Department of Planning, Industry and Environment undertakes gap analysis

The Department of Planning, Industry and Environment (DPIE) has used the ASFI Roadmap to demonstrate alignment of the various sustainable finance related initiatives with the roadmap recommendations. This has reportedly assisted in anchoring and informing the Department's thinking and strategy development.

DPIE is currently undertaking a gap analysis on the roadmap's recommendations to identify what role government can and should be playing to ensure Australia's financial system is orientated to ensure capital flows support NSW in delivering on sustainable development goals, including facilitating an orderly transition to a net zero emissions, resource-efficient and socially inclusive economy.

The key take-away from the gap analysis exercise was that the NSW Government's sustainability initiatives and policies are strongly aligned with the roadmap's recommendations and action plan.

Aware Super undertakes a gap analysis against the ASFI recommendations

Aware Super noted that it will continue to reference the recommendations when building out its Responsible Ownership approach and setting key strategic initiatives.

The Fund has specifically identified Recommendation 1 as an area where progress has been made, even prior to the establishment of the ASFI Roadmap.

First Sentier Investors undertakes gap analysis against the ASFI recommendations

Once the final ASFI Roadmap was released, First Sentier Investors completed a gap analysis against its strategic priorities. This review found that there was good alignment between the ASFI recommendations and existing practices or strategic priorities for further development.

The firm notes that where there is alignment between an existing strategic priority for the business and an ASFI recommendation, the content of the recommendation has formed part of the business case for that strategic priority.

2. Mapping priority ESG/sustainability issues at the organisational/entity level to the ASFI Roadmap recommendations

AustralianSuper utilises the ASFI Roadmap to inform its ESG & Stewardship strategy

Key initiatives include:

- Committing to achieve net zero carbon emissions by 2050 in the investment portfolio and developing a comprehensive net zero implementation program across our investment, stewardship, measurement and reporting and collaboration and advocacy activities.
- Publishing its TCFD-aligned Climate Change Report, which includes comprehensive transition and physical risk analysis.
- As a founding member of Climate Action 100+ and steering committee member AustralianSuper participated in the development of the Net-Zero Company Benchmark to provide investors with a consistent framework to measure company progress towards net zero 2050.
- As an investor partner of the Australian Industry Energy Transitions Initiative AustralianSuper is working with industry to develop pathways for emissions reductions across five supply chains in hard to abate sectors: steel, aluminum, liquified natural gas, other metals and chemicals.
- Establishing the Sustainable Development Investments Asset Owner Platform (SDI AOP) with three major global investors. The platform is designed to help investors across the world identify and assess companies on their contribution to the UN Sustainable Development Goals.

AustralianSuper also became a founding member and Steering Committee member of the Investors Against Slavery and Trafficking (APAC) and published its first Modern Slavery statement.

The ASFI Roadmap utilised by the NSW Treasury

The NSW Treasury noted that the ASFI Roadmap process is assisting NSW Treasury in shaping the strategic direction of the sustainable finance work program across NSW Government including aligning with industry developments where appropriate.

The ASFI Roadmap will continue to support the development of the sustainability impact and resilience markets for NSW Treasury, through its sustainability bonds program and its Office of Social Impact Investment.

HESTA utilises the ASFI Roadmap to guide system level change

The HESTA Responsible Investment team used the Roadmap as a compass to guide its general direction, particularly in relation to the pursuit of 'system level' change and selected strategic areas of impact.

It has also been used it as a reference point for new priority areas that emerge in the investment portfolio, such as work related to the rights of Indigenous peoples and cultural heritage.

The principles to 'build genuine relationships', demonstrate respect for the rights of Indigenous peoples in the due diligence processes by investors and the spotlight on self-determination and free, prior and informed consent (FPIC) outlined in recommendations 6 and 7 have formed the basis for the Fund's active ownership activities in this area.

3. Identifying opportunities to build capabilities and collaborate with other sectors and organisations within - and related to - the financial sector

Australian Ethical Investment looks to contribute to developing datasets to address sustainability challenges through collaboration

Australian Ethical noted that the roadmap has provided a menu to check gaps and identify areas where they can best focus energy as it reviews business strategy and assesses areas for evolution and innovation in principled investment management.

The roadmap has reportedly helped focus attention within Australian Ethical on the importance of standardised sustainability frameworks, metrics and labels for transparency and accountability, including to help consumers make informed choices.

As the firm reviews its existing and new partnerships, many of the roadmap recommendations emphasise the power of collaboration to effect the urgent change needed in and beyond the finance sector.

Looking ahead, recommendations 18, 33 and 35 are important for considering how Australian Ethical can more effectively contribute to the development of datasets and government policy which will increase the efficiency and scale of action in finance and the real economy to address sustainability challenges. Focus areas include pricing of carbon and other externalities, including data and mechanisms for measuring, pricing and preserving natural capital.

University of Technology Sydney

The University of Technology Sydney Institute for Sustainable Futures looks to establish an Australian Sustainable Finance Centre that would support financial system participants to implement recommendations by creating an enabling, collaborative learning ecosystem for sustainability.

The focus of the strategy is to develop partnerships between financial system participants and Australian universities that can provide a mechanism for governments, financial sector regulators and finance sector organisations to influence the development of learning opportunities.

Cbus shares its Climate Change Roadmap and decarbonisation pathway framework with industry

Cbus notes that the key learning from ASFI has been understanding the importance of working in collaboration with the finance sector across the capital value chain. It is now sharing the work that has been undertaken on its Climate Change Roadmap and decarbonisation pathways with the banking and insurance sectors. The Fund hopes to continue sharing of information and building on this work across the finance sector to drive greater change.

Cbus has committed to a 45% reduction in emissions by 2030 and net zero greenhouse gas emissions across our total portfolio by 2050. Its updated Climate Change Roadmap: Beyond 2020, includes several actions over the next two years that align with ASFI's recommendations 16 and 31 and are important to achieve these targets.

These include:

- Publishing TCFD-aligned Climate Change Report, which includes comprehensive transition and physical risk analysis.
- Ensuring the Climate Change Roadmap and resulting targets are science-based.
- Use of the NGFS disorderly scenario to incorporate climate change risk (specifically impact on GDP) into their expected returns out to 2050.
- Establishment of emissions baselines against which the 2030/2050 commitments will be measured. This work has identified that 50% of their emissions come from 20 assets.
- Use of six climate models (differing in speed of transition) to establish the 2030 reduction target and model whether a 45% reduction is feasible.
- Initiating significant work on asset class pathways. This includes looking at decarbonisation trajectories for different sectors/regions.
- Identifying Cbus growth as a key challenge given the absolute nature of our targets. Cbus' growth strategy means their projected growth is more than the GDP growth factored into climate models, they will look at how they measure and communicate their progress.
- Assessment of real assets for exposure to key physical risks, the aim being to develop resilience plans for all real assets.
- Establishment of a 1% allocation to climate related solutions which is asset class agnostic, the aim being to increase exposure/understanding of climate solution investments across different asset classes.

Establishment of the First Nations Peoples' Rights Working Group

The First Nations Peoples' Rights Working Group was established by the Responsible Investment Association Australasia (RIAA). It is a highly active collaboration of finance sector participants and First Nations organisations. The ASFI Roadmap has proven extremely useful for:

- 1) Contextual analysis and framing – the roadmap's background on First Peoples in Australia and the intersection with the finance sector provide useful reference material and articulate a common understanding across the finance sector of the opportunities and barriers. This context has helped shape and validate the Working Group's objectives and activities.
- 2) Prioritisation and focus – the roadmap provides an important focus for the Working Group in its engagement with First Nations people and organisations. The endorsement of the recommendations by the finance sector provides weight to the Working Group's engagement efforts. The Working Group is collaborating with First Nations organisations on investor toolkits and resources to support the ASFI recommendations.
- 3) Guiding advocacy – the roadmap's articulation of the principle of self-determination and the role of the finance sector has guided the Working Group when making its submission to the Uluru Statement Interim Voice Co-Design Report.

First Australians Capital incorporates ASFI recommendations into project to address racial equity

The ASFI Roadmap recommendations regarding First Nations People have identified the need for sector wide collaboration to addressing First Peoples financial exclusion. First Australians Capital (FAC) has incorporated these recommendations into a proposal to the Kelloggs Foundation to address Racial Equity through a collaboration with RIAA and Reconciliation Australia.

The First Australians Economic Justice and Reconciliation project incorporates key levers of change through an Indigenous-led strength-based approach to Indigenous business sustainability and systemwide policy and actions across the finance and investment industry.

FAC recognizes systemic changes in the finance sector will be achieved through cross-sectoral collaboration, which is in alignment with ASFI recommendation 6. The project will facilitate genuine partnerships between financial system participants and First Peoples organisations and communities to: i) codify the principle of free, prior and informed consent in decisions made by financial institutions, ii) translate the UN Declaration on the Rights of Indigenous Peoples (UNDRIP) into principles, standards and toolkits for investors and promote good practice, iii) develop a Reconciliation Action Plan (RAP) framework for the finance sector.

FAC aims to build Indigenous business capacity, increase access to capital, increase Indigenous voices in responsible investment, develop Indigenous cultural standards for sustainable finance and grow investment in Indigenous communities advancing a more just economy and reconciled nation.

The project brings together Indigenous leaders with the leading member-based responsible investment association in Australia.



4.2 Roadmap domain: **Embedding sustainability into leadership**

This domain for change and related recommendations focuses on the importance of financial institution leadership – both through leaders within the industry and the industry as a whole – is key to ensuring that there is appropriate valuing of, and accountability for, sustainability performance and the broader impact of financial institution activities across Australian society, the environment and the economy.

4.2.1 **Observations**

As the case studies and examples illustrate, there are some examples as to what leadership in sustainability looks like in practice, although this is also an area that many of the ASFI participants noted will benefit from further guidance and standards, including on topics such as board accountability, a matrix to identify skills gaps, and approaches to integrate sustainability objectives into incentives and remuneration packages (of financial institutions and corporate entities).

New guidance by the Australian Institute of Company Directors (AICD) on stakeholder voices and effective governance is a useful framework for financial institutions as they build out their broader sustainability strategy. In addition, the Australian Prudential Regulatory Authority (APRA) launched a guide that sets out requirements for entities to design and maintain prudent remuneration arrangements that promote effective risk management, sustainable performance and long-term soundness, including an explicit mention of Environmental, Social and Governance (ESG) issues.

This will be an area of focus in ASFI 2.0 to help work with industry groups, financial regulators and supervisors to develop and utilise appropriate guidance and support for financial market participants to embed sustainability into an organisation's governance structure, culture, purpose, strategy and day-to-day activities.

Australian Institute of Company Directors (AICD) launches guide to help directors identify and elevate key stakeholder voices to the board

The AICD has developed a guide to help directors identify and elevate key stakeholder voices to the board.

The guide explores:

- The board's role in stakeholder governance
- Directors' legal duties in relation to stakeholders
- Principles boards should apply to ensure effective stakeholder governance
- How boards can balance the interests of stakeholders when making decisions
- The hallmarks of good stakeholder governance

The guide incorporates advice from Australian stakeholder groups representing customers, employees, suppliers, Aboriginal and Torres Strait Islander peoples, as well as activists and community groups on matters such as climate change, human rights and environmental issues. The focus is on non-shareholder stakeholders.

The guide also offers:

- Insights from prominent directors, stakeholder groups, subject matter experts and board advisers
- Key questions the board should be asking
- Case studies demonstrating effective stakeholder governance
- Links to practical tools and other relevant resources

This guide will lead boards through the process of identifying and proactively engaging with key stakeholders and determining how best to balance the interests of stakeholders in decision making.

It can be used by directors of all organisations. Even the smallest organisation will have important stakeholder relationships and can benefit from applying the principles outlined in the guide.

Climate change governance at AustralianSuper

AustralianSuper identifies climate change in the Terms of Reference of its Investment Committee, which has responsibility for investment portfolio management on delegation from the Fund's board.

AustralianSuper has a multi-disciplinary Climate Change Committee comprising representatives from the investment, risk, policy and corporate affairs teams. The Committee is responsible for developing and overseeing the Fund's climate change strategy from an investment and organisational perspective.

Establishing an Australian Sustainable Finance Learning Committee

An Australian Sustainable Finance Learning Committee is in the process of being established by UTS' Institute for Sustainable Futures. The aim is to provide a collaborative mechanism for exchange to communicate, co-design and implement learning across Australia's financial system.

The Committee will operate as a Community of Practice and will comprise of university practitioners, finance sector organisations (including banks, insurers, superannuation funds, investment managers and service providers), government representatives, financial sector regulators and stakeholders. The Committee will focus on the establishment of a learning ecosystem that supports learning for sustainability across Australia's financial system through:

- Formal education courses of study that provide a mechanism for an individual to acquire skills
- Continuing professional development (CPD) that ensures that skills are continuously updated to support practitioners in their evolving roles
- New knowledge generated through research projects which is then communicated to individuals through CPD programs

A Net Zero Masterclass is also being piloted to build the skills of employees across Australia's financial system.

Australian Council of Superannuation Investors partners to consult with Traditional Owners and Indigenous stakeholders

Australian Council of Superannuation Investors (ACSI) and the Church of England Pensions Board has partnered with a group of 64 international investors representing US\$10.2 trillion in assets under management to write to investee companies around the world to understand their approach to consultation with Traditional Owners and Indigenous stakeholders, in particular in relation to free, prior and informed consent. The investor group aims to examine the approach taken to date and how standards have been applied and monitored across the sector.

The ASFI Roadmap recommendation focuses on the provision of finance. The ongoing stewardship in relation to investee companies is vital to promote sustainability and therefore, our work program is ongoing. Investors are seeking to understand and promote better practice to manage this material investment risk. The work program will include engagement with Traditional Owners, Indigenous stakeholders, companies and investors.

The work will promote a better understanding by investors of the risks associated with failure appropriately protect Indigenous cultural heritage. We want to understand how companies across the industry are managing these risks and working to ensure that a disaster like the Juukan Gorge never happens again. Good practice exists within the sector and the investor group is seeking to better understand the practices of companies to ensure best practice becomes the minimum operating standard. This is the beginning of a long process, aimed at more sustainable financial outcomes over the long-term.

Australian Prudential Regulatory Authority (APRA) launches prudential practice guidance for all APRA regulated entities on remuneration practices, including non-financial measures

CPS511 requires an entity to maintain a remuneration framework that sets out the key policies and processes needed to meet CPS 511 requirements. This includes the structure and terms of remuneration arrangements, the process for managing risks from the remuneration practices of any third-party service providers, and operational systems and processes.

In incorporating non-financial measures into the design of variable remuneration arrangements, the guidance notes that good practice would be to ensure that:

- the impact of non-financial measures on individual variable remuneration can be easily understood, particularly in complex methodologies;
- remuneration outcomes are sensitive to the assessment of non-financial measures, as there is otherwise limited scope to impact behaviours;
- non-financial measures can impact each and all components of variable remuneration, including any long-term and short-term incentive plans; and
- the impact of non-financial measures is not merely considered in cases of significant events, such as misconduct or adverse risk outcomes.

Defining non-financial measures

APRA notes that the purpose of applying a material weight to non-financial measures is to promote a balanced approach to incentives, encourage the prudent management of risk, and limit financial performance measures so that they are not the only or predominate driver of remuneration outcomes.

APRA expects an entity to define non-financial measures that best suit their particular strategy and risk objectives, and reflect their specific risk profile. The selection of non-financial measures is critical in articulating, shaping and promoting the goals and incentives for employees. A prudent entity would be able to demonstrate how non-financial measures support their desired risk culture, and promotes the prudent management of key risks.

Illustrative examples of non-financial measures used domestically and internationally include:

- Risk management objectives and initiatives, including remediation activities, control effectiveness, regulatory and audit findings, and risk culture surveys;
- Best interests of beneficiaries (RSE licensee), including fund performance and member returns;
- Conduct risk, such as breaches, incidents, event reports and customer complaints; and
- Broader indicators, such as strategic goals, employee engagement, customer satisfaction, and environmental, social and governance criteria.

A prudent entity would be able to demonstrate how non-financial measures incentivise risk management, and would not rely only on metrics such as strategic goals. It is important that the use of broader indicators do not lead to the exclusion of risk management indicators.

National Australia Bank embarks on training bankers in identifying climate-related financial risks and transition planning so they can better work with customers

National Australia Bank (NAB) is building a team of climate experts to support the low carbon transition plans of its biggest greenhouse gas-emitting customers.

Over the next two years, a group of corporate and institutional bankers will complete a new course developed for NAB with Melbourne Business School (MBS).

Bankers will be trained in identifying climate-related financial risks and transition planning so they can better work with customers.

Over the next four years the training program will involve more than 30,000 colleagues refining the skills needed to serve customers and communities well, including the environmental impacts of business operations and sustainable business practises.

NAB started the training program with Melbourne Business School (MBS) in May 2021.

NAB also trains its bankers through its Career Qualified in Banking Program, where all employees will undertake a professional qualification that's been developed in partnership with the Financial Services Institute of Australia (FINSIA).

https://news.nab.com.au/news_room_posts/nab-skilling-bankers-to-support-big-carbon-emitters-transition/

Teachers Mutual Bank mission using banking to be a force for good

Teachers Mutual Bank Limited (TMBL) is different to other banks: profit-for-purpose is the business model and philosophy. Social responsibility drives everything the Bank does: business practices, people, and products.

The Bank operates under socially responsible strategies, standards and practices that apply to all the banking divisions and products. These are written into the Constitution and the member-owned structure. The Business Objective of the Lending Risk Policy is that “The Bank strives to provide quality services to members via prudent lending practices that are financially, socially and environmentally sustainable.”

The Bank applies strict social responsibility criteria when it comes to investing and lending members' money, and is the only Australian bank to certify retail deposits, mortgages as well as wholesale funding.

It does not lend to or invest in sectors that harm our society or our world, including alcohol, armaments, correctional facilities, cryptocurrency, deforestation or gross environmental degradation, fossil fuels, gambling, military activities, political activities, pornography, slavery, tobacco, or uranium.



4.3 Roadmap domain: Integrating sustainability into practice

This domain for change and series of recommendations addresses the need to embed sustainability issues into decision making and valuation frameworks. Financial institutions rely heavily on valuation of risk to underpin the investment, lending and insurance decisions being made daily. Yet limitations with existing valuation tools, mainstream practices and a lack of quality data on environmental and social risks challenge the sector in being able to respond to the new sets of risks and opportunities. These challenges need to be addressed so that the sector can properly value risk and make better informed decisions.

The challenges in decision-making and valuation are closely linked to the frameworks, tools and standards used across the financial system to inform investment, lending and insurance decisions. As the sector grapples with evolving challenges, risks and opportunities, new sets of frameworks, tools and standards are rapidly emerging to fill gaps. To ensure long-term financial stability and that society's needs are met, it is essential that the industry aligns the tools, frameworks and standards to manage all risks and embrace opportunities.

4.3.1 Observations

As the case studies and examples illustrate, there are some good examples of the financial sector integrating sustainability issues into their activities, particularly in relation to the adoption of net zero emissions goals by 2050, reporting in alignment with the Task Force on Climate-related Financial Disclosures (TCFD) and a commitment to measure the social and environmental impact to help realise the Sustainable Development Goals (SDGs).

The importance of collaboration and cross-industry activities was another notable feature of the activities that different market participants are involved in when putting sustainability into practice, particularly around standards of data, measurement, disclosure, utilisation of scenario analysis and appropriate metrics.

There is an opportunity for ASFI2.0 to build on this momentum and work across the different market participants to ensure that the industry standards evolve in an efficient and effective way to achieve sustainable outcomes, including working with regulators and government agencies to solidify and reinforce the standards that the industry is seeking to adopt and codify into best practice.

Industry-led collaboration through the Climate Measurement Standards Initiative (CMSI)

CMSI was established as an industry-led collaboration to assist with, and support, climate-related financial disclosures. CMSI involves insurers, banks, re-insurers, investors, scientists, reporting standards professionals, service providers and supporting parties. CMSI worked in parallel to the development of the ASFI Roadmap to get a head start on the development of Australian specific guidance materials for TCFD reporting for the Financial sector.

Taking a phased approach to a large complex task – CMSI focused its first sprint on developing technical, business and scientific standards for climate-related physical risk projections of the future costs of repairing and replacing Australian buildings and infrastructure.

By bringing together leading industry, scientific and financial experts, CMSI hopes to increase Australia's ability to address climate change by enabling companies to make informed, scientifically robust, strategic decisions.

In its first phase, the CMSI has published and recommended financial disclosure guidelines and developed scientific scenario specifications for the purpose of disclosure of scenario analyses for climate-related physical damage to buildings and infrastructure. It considers a wide range of chronic and acute risks for the general insurance, banking and asset owner sectors. These guidelines and specifications are open-source and voluntary.

In further phases CMSI intends to iterate the recommendations provided in the reports in line with further developments in climate science and the application to financial disclosure; extend the physical risk analysis to cover additional impacts and more complex risks; and develop additional guidance around scenario development for transition risks.

APRA releases a draft Prudential Practice Guide on Climate Change Financial Risk for consultation

The draft Prudential Practice Guide (PPG) aims to assist entities by providing guidance on prudent practice in the management of financial risks arising from climate change, including with respect to governance, risk management, scenario analysis and disclosure.

The plan to develop this PPG was outlined in [APRA's 2020 letter](#) to industry on climate change financial risks. It responds to requests from regulated entities for more information about APRA's expectations, and insights on better industry practice, in managing climate change financial risks. The draft PPG is designed to assist entities to consider climate risks and opportunities within their existing risk management frameworks, and to support well-informed decision-making.

APRA has engaged with the other agencies from the Council of Financial Regulators in preparing the draft PPG and has also aligned the draft PPG with recommendations from the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD). The draft PPG has also been informed by APRA's engagement with peer regulators in other jurisdictions.

Scenario analysis is an area where APRA sees a wide range of capabilities and practices. APRA is currently undertaking a climate vulnerability assessment (CVA) involving Australia's largest banks, which will involve climate scenario analysis in line with the expectations outlined in the draft PPG. In due course, the lessons from the CVA exercise will be shared with the wider industry to support entities in improving their scenario analysis.

<https://www.apra.gov.au/consultation-on-draft-prudential-practice-guide-on-climate-change-financial-risks-0>

Mercer develops climate risk analytical tools and publishes its progress

In alignment with ASFI recommendations 11 and 12, Mercer published its progress in alignment with the Task force on Climate-related Financial Disclosure (TCFD) recommendations and supports asset owner clients who are looking to do likewise.

The scenario analysis and related analytics encouraged by ASFI recommendation 16 were reportedly important stepping-stones for Mercer's net-zero commitment, and the executive and board support that underpins that commitment.

Mercer has developed analytical tools that pair scenario analysis with stress testing, including physical, policy and transition risks. The results allow the firm to have practical conversations with its internal stakeholders about portfolio outlook in a changing world. The tools that are applied to Mercer's own funds are also available and have been utilised by its clients globally.

NSW Department of Planning, Industry and Environment (DPIE) launches key sustainability initiatives

- 1) Recognising Natural Capital Program (ReNCaP), a national initiative which aims to identify and test how natural capital can be recognised on the balance-sheet. This project has adopted a co-design approach with both State and Federal Government participation with a strong engagement from the finance sector.
- 2) The Climate Risk Ready program (CRR) is jointly sponsored by NSW Treasury, to improve the management of climate risks to NSW Government assets and services and to mainstream these considerations into government decision making.
- 3) National housing disclosure and ratings work, on behalf of the Federal Government, in collaboration with the finance and social housing sectors. This work is focusing on ensuring consistent and reliable data underpins decision making regarding funding and finance and ultimately interventions in the housing market.

In addition to the above activities, the newly announced Net Zero Industry and Innovation Program includes a focus on Clean Technology Innovation – which aims to identify and facilitate the commercialisation of sustainable technologies, including identifying suitable funding/finance vehicles which can be led by governments

Responsible Investment Association Australasia (RIAA) launches Nature Working Group

Guided by the ASFI Roadmap recommendation 14 and supported by RIAA's annual member survey results which highlighted nature and biodiversity as a top ESG priority, RIAA is launching a Nature working group to play a leadership role in supporting the development of the Taskforce on Nature-related Financial Disclosures (TNFD).

This working group will primarily serve and provide a platform for working towards establishing a TNFD reporting framework and guidance for nature-related financial disclosures. The working group objectives are to:

- Build out the recommendations of the Australian Sustainable Finance Initiative (ASFI) and [Aotearoa Circle's Sustainable Finance \(SFF\) Roadmaps](#)
- Engage with the latest international developments (particularly the TNFD)
- Address nature-related financial risks and expand opportunities in Australia and Aotearoa New Zealand.

Aware Super measures its contribution to the Sustainable Development Goals (SDGs)

As part of Aware Super's strategic initiatives, in 2018 a framework was established to help measure the impact of its investments and assess how some of its key investments are contributing to the United Nations Sustainable Development Goals (SDGs).

The Impact Measurement Framework measures the positive impact of our investments across the following areas:

- social impacts, such as jobs creation and access to affordable housing
- environmental impacts, such as climate change solutions and renewable energy generation
- sustainability impacts, such as waste avoided and contributions to a circular economy.

Aware Super measures the positive impacts of 10 assets – representing approximately \$1.6 billion of its members' retirement savings. Over time, the Fund intends to add more assets and a greater percentage of its overall portfolio.

Impact measurement results for the year to 30 June 2020 include:

- 228 FTE additional jobs created (SDG 8)
- 178 key workers benefiting from affordable housing (SDGs 10 & 11)
- 133 retirement village villas fitted with solar energy (SDG 11)
- 400,849 MWh of renewable energy generated (SDG 7)
- 477,000 M3 of agricultural waste reused, avoiding landfill (SDG 12)

This information is publicly disclosed in its 2020 annual report: <https://aware.com.au/content/dam/ftc/digital/pdfs/about/reportsaudits/reports/AR2020-AwareSuper.pdf>



4.4 Roadmap domain: **Enabling resilience for all Australians**

Climate change presents a systemic risk to Australia's economy and many communities are already being significantly impacted by the increasing frequency and intensity of extreme weather events. Summer bushfires and COVID-19 demonstrated how vulnerable Australians are to acute shocks. While Australia has well-established welfare arrangements for old age, unemployment and health, the same provisions do not exist to support individuals through traumatic events.

This series of recommendations recognise that all Australians engage with – or are impacted by – Australia's financial system, whether through banking, insurance or investment. However, their level of inclusion, understanding of the sector, access to essential services, capacity to engage and involvement with the sector varies widely. As such, greater attention is needed to bolster the financial resilience of all Australians to acute shocks.

Individuals have differing levels of access to financial services, financial capability, confidence and education, as well as variable expectations in the sustainability performance and ethics of their financial services products.

The rights of First Nations people and measures to support meaningful engagement between financial system participants and Indigenous people is of particular importance to improve their financial outcomes and close the gaps that exist. The sheer reach of financial institutions requires a proactive approach to ensuring products and services serve Australians well and adequately meet the needs, interests, and expectations of all Australians.

4.4.1 **Observations**

There is a growing awareness and realisation of the importance of financial inclusion across and within the financial services industry, both in Australia and at the global level, where it is increasingly being embraced by financial regulators and standard setting bodies.

While some examples of activity are underway in this domain, particularly in relation to the adoption of Reconciliation Action Plans (RAPs) and the rights of First Nations people to improve their financial outcomes, it is anticipated that this will require a significant level of further collaboration and action across the financial system participants to ensure that the financial sector serves the needs of all Australians in a fair and equitable way.

The adoption of Reconciliation Action Plans (RAPs) is becoming widespread across the finance sector

There are a range of financial institutions, organisations and regulatory bodies that have adopted a Reconciliation Action Plan, with a [RAP Impact Report](#) highlighting the breadth and depth of progress and the gaps that remain.

For illustrative purposes, some examples of RAPs that have been developed by financial sector participants are provided below. This list is not intended to be exhaustive but illustrative of the range of different participants and approaches that are emerging across the financial sector.

[Hesta's Reconciliation Action Plan](#) Innovate - "HESTA acknowledges Aboriginal and Torres Strait Islander peoples as the Traditional Custodians of all Lands on which we come together. At HESTA, we know that Aboriginal and Torres Strait Islander cultures enrich this nation and we pay our respects to Elders, past and present."

[Hostplus 'Innovate' Reconciliation Action Plan](#) - "We are committed to ensuring all Australians have access to the tools and resources required to enjoy the retirement they deserve. We are also very aware of the current social and economic challenges faced by members of Aboriginal and Torres Strait Islander communities around the country. The Innovate Reconciliation Action Plan represents an important step on our journey to promote awareness of these challenges both internally and externally. Significantly, the document also serves as a road map of the actions the fund will take over the coming 18 months to help close the gap between Indigenous and non-Indigenous Australians as we work to deliver a brighter future for our members."

[IAG Reconciliation Action Plan](#) Elevate - "At IAG, our vision for reconciliation is that Aboriginal and Torres Strait Islander peoples, businesses and communities will be safer, stronger and more confident as we partner with Indigenous-led organisations and engage the passion of our people."

[QBE Reconciliation Action Plan](#) Elevate - "As an active insurer of Aboriginal and Torres Strait Islander communities in Australia, we've long been committed to those communities and the preservation of Indigenous culture, values and traditions. Our vision for reconciliation is for Australia's First Peoples to be valued, accepted and to experience equality in our society. We value their customs and rich heritage and want to see this preserved and celebrated for generations to come."

[Westpac](#) Elevate - "Our 2018-2020 Reconciliation Action Plan (RAP) – the fourth since we launched our initial plan in 2010, lays out our vision for reconciliation, focusing on four areas where we believe we can achieve the most significant outcomes. It has been ranked 'Elevate' status by Reconciliation Australia, the highest status to be awarded."

[National Australia Bank Elevate](#) - "Working together with Indigenous Australia, we are helping to strengthen financial resilience, increase business and employment opportunities, and develop NAB's cultural capabilities. In turn, this helps improve life outcomes in economic empowerment, employment, and education for Indigenous Australians, and a better future for all of us. Our commitment to Indigenous Australians has been guided by our Reconciliation Action Plans which cover economic participation, employment and career development, and cultural understanding."

Australian Business Roundtable for Disaster Resilience & Safer Communities leads Resilience Valuation Initiative

Through the Resilience Valuation Initiative, the Australian Business Roundtable for Disaster Resilience & Safer Communities (ABR) is leading a coalition of stakeholders to advance an accepted process with enabling methodologies for understanding the value of a resilience-building asset, feature or activity in Australia.

Current members of the ABR are leaders from Australian Red Cross, IAG, Munich Re, Optus and Westpac Group.

The ASFI Roadmap calls out the need for and benefits of investing in risk reduction and disaster mitigation and provided an important reference point in developing our rationale.

The Resilience Valuation Initiative is well aligned to the ASFI Roadmap, specifically recommendations 18 and 34. We see our work potentially delivering against the framework for assessing the cost of mitigation investment that factors in broader social costs and benefits proposed by ASFI.

<http://australianbusinessroundtable.com.au/our-initiatives>

Putting the Financial Inclusion Action Plan into practice

The Financial Inclusion Action Plan (FIAP) Program provided a platform for organisations from diverse sectors to combine forces to collectively improve the lives of millions of people in Australia.

40 organisations joined the program who together employed over 250,000 people with 80 percent of the Australian population as customers. Demonstrating that realising greater financial inclusion and resilience is not the responsibility of any one sector, these members represented financial services, utilities, social services, government, education and legal services amongst other sectors. It was led by Good Shepherd Australia New Zealand and the Centre for Social Impact.

<https://sdgs.org.au/project/financial-inclusion-action-plan/>

Some links to examples of FIAPs are provided below.

<https://www.iag.com.au/financial-inclusion-action-plan>

<https://www.qbe.com/au/about/sponsorship-community/fiap>

<https://www.australianunity.com.au/about-us/fiap>



4.5 Roadmap domain: **Building sustainable financial markets**

This series of recommendations recognises the importance of building a sustainable financial market and that collaboration between the private and public sector and civil society is key to achieving that outcome. Australia's financial system plays a key role in supporting a strong and resilient economy and in generating long-term prosperity for Australians through the allocation of capital.

There is an urgent need to shift new and existing capital into investments that create and better support sustainable and equitable outcomes for Australian people, our economy, the environment and investment and trade in the region.

The increase in frequency and extremity of weather events is putting pressure on affordability and accessibility of property insurance in areas prone to extreme weather events. The scale of changes in the climate means the issue of access to mitigation and insurance that supports resilience is no longer just impacting minority pockets of the population but is being felt across larger cohorts. This requires a more active consideration of issues that will affect affordability and accessibility of property insurance, such as improving the resilience of existing building stock, improving land use planning and consents, and improving building codes for new builds.

Natural capital, carbon, social and affordable housing, social enterprises, community facilities, and climate change mitigation and adaptation are among some of the areas that have been identified where there is a need for the financial system to scale investment.

Aligned and globally agreed definitions, labels and standards of what constitutes a sustainable investment or product will help facilitate capital flowing to sustainable outcomes, enable assurance and enhance comparability.

To realise this vision, in addition to the actions that financial institutions take, there is an important role for policy settings and regulator guidance and supervision to reinforce factors for sustainable finance. This will assist in setting clear direction for Australia's financial system and financial institutions.

While much progress has been made in Australia already, further consistency and harmonisation of guidance in regulatory settings will enhance the financial system's ability to align with and support a prosperous and sustainable Australian economy, environment and society. Further, Australia's financial system is part of an interconnected and interdependent global financial system and needs to remain relevant and maintain access to the global financial system.

4.5.1 Observations

While there are some emerging examples of partnerships and collaboration to enable investment, bond issuance and capital allocation decisions to support more investment into mitigation and adaptation activities, a robust and consistent framework that encompasses such activities needs to be developed in alignment with a consistent interpretation of fiduciary duty obligations. There is widespread support for the utilisation of a sustainability taxonomy that can help guide the definitions, labels and standards that guide product development and service delivery in the financial sector.

TCorp's Sustainable Bonds program

TCorp is invested in the future of NSW and recognises it has a role to play in Australia's contribution to the meeting the United Nations Sustainable Development Goals (SDGs).

TCorp established the NSW Sustainability Bond Programme which allows it to issue green, social and/or sustainability bonds, providing a mechanism for investors to contribute capital to accomplish environmental and social goals.

https://www.tcorp.nsw.gov.au/resource/Case_study-Helping_the_NSW_Government_deliver_on_sustainable_social_and_green_infrastructure.pdf

Net zero emissions commitments gather momentum

An initiative of ClimateWorks Australia with Monash Sustainable Development Institute. The Net Zero Momentum Tracker monitors Australia's progress towards net zero emissions across key sectors of the economy.

The latest update indicated that 195 organisations have been analysed, 52 of which have committed to net zero by 2050 pathway. In addition to the State Governments and Territories all committing to net zero emissions, the commitments span the corporate sector, banking, insurance, superannuation funds, asset managers and other financial market participants.

<https://www.climateworksaustralia.org/net-zero/>

The Centre for Policy Development develops materials to clarify directors' duties on climate change and guidance to combat 'greenwashing'

The Centre for Policy Development (CPD) released a new supplementary legal opinion by Noel Hutley SC and Sebastian Hartford Davis on climate change and directors' duties, building on their landmark 2016 and 2019 opinions on company directors' duties to consider, disclose and respond to climate-related risks.

The latest analysis emphasises that the bar for directors continues to rise amidst surging global action on climate, and highlights legal risks associated with "greenwashing" – including around corporate net zero emissions commitments – as scrutiny of climate-related targets grows.

'Greenwashing' on climate creates clear legal risks. Greenwashing can constitute misleading or deceptive conduct, including for organisations selectively disclosing their exposures or not taking credible steps to operationalise net zero commitments. Care needs to be taken to ensure that climate-related targets and analysis are rigorous, underpinned by appropriate governance, strategy and action, and reflected in financial statements as required

Superannuation funds can play a catalytic role in supporting the climate transition and should prepare for greater scrutiny of their climate-related governance and risk management. Recent developments, including the REST settlement, have highlighted the need to mainstream climate risks as a core focus of governance and risk management, especially as the investment risks and opportunities related to climate become increasingly dynamic and complex. As universal owners, superannuation funds have a major interest in supporting an economically and socially sustainable zero carbon transition.

Industry-level collaborations on climate must consider the implications of competition law but, if properly managed, these issues should not impede collective action to address climate change. There is growing enthusiasm to collaborate across sectors and supply chains to develop and roll out low-emissions technology, and to design and deliver industry-level net zero pathways. In some circumstances, coordination between competitors, on climate as on other issues, may constitute cartel conduct, but exemptions and authorisations are available. Provided collaborative initiatives across industries and sectors are mindful of these provisions and proactively address them, competition law need not represent a major obstacle to collaboration on climate.

<https://cpd.org.au/wp-content/uploads/2021/04/Summary-of-Conclusions-Climate-Risks-Roundtable-.pdf>

Institutional investors collaborate to launch Climate League 2030 to support emissions reductions in alignment with a net zero by 2050 outcome in Australia

Climate League 2030 is a ten-year, private sector-focused initiative to support and act towards a goal of reducing Australia's annual greenhouse gas emissions by at least a further 230 million tonnes from what is projected for 2030.

The initiative is coordinated by the Investor Group on Climate Change (IGCC) and assisted by foundational supporters Aware Super, Cbus, IFM Investors and the Queensland Investment Corporation.

To help put Australia on a Paris-aligned emissions trajectory, investors, banks, insurers and businesses must be part of the solution. To participate in Climate League 2030 organisations support the initiative's goal and commit to taking at least one new action each year that will make a demonstrable contribution to reducing Australian emissions. Participants can commit actions under the following themes:

- **Integrating** Paris-aligned emissions reduction goals into the organisation's investment policy or business strategy
- **Collaboration** between investors, clients and companies to deliver absolute emission reductions
- **Investing** in line with the goals of the Paris Agreement

Climate League 2030 participants will report annually on the progress towards their existing commitments and detail how these actions are helping to reduce Australian domestic emissions. Each participant will also pledge at least one new action each year. The collective progress of the registered actions in contribution to the initiative's goal will be reported periodically.

Climate League 2030 was launched in October 2020 starting with investor participants. Over the following 18 months it will be progressively opened to banks, insurers and companies to replicate the coverage and success of initiatives in other markets, such as [We Are Still In](#) in the U.S. and the [Climate Leaders Coalition](#) in New Zealand.

Mercer commits to achieve net-zero absolute carbon emissions by 2050 across its Managed Funds and Trust

Mercer noted that the clear signal of industry intent embedded in ASFI recommendation 31 added credibility to its proposal internally to achieve net zero emissions by 2050 for its Managed Funds and the Mercer Super Trust.

The clarity afforded by the ASFI roadmap also enabled Mercer to launch its Analytics for Climate Transition advisory service for asset owners looking to make similar commitments.

Australian Super supports the Sustainable Development Investments Asset Owner Platform

Australian Super's participation in collaborative investor initiatives like the Sustainable Development Investments Asset Owner Platform (SDI-AOP) are important mechanisms for influencing change on a global scale.

The Fund's involvement in the SDI-AOP with APG, British Columbia Investment Management Corporation and PGGM brings together a group of asset owners who collectively manage more than US\$1 trillion in assets.

The platform has been developed specifically by asset owners for asset owners, to help investors identify and assess companies on their contribution to the Sustainable Development Goals by providing a common taxonomy and extensive IA-powered mapping. The SDGs are important for investors as they provide a pathway for fostering sustainable economic development and growth by tackling 17 of world's most urgent sustainability challenges including climate change, water scarcity, healthcare access and social inequality.

Adding an SDG lens to the investment process alongside traditional ESG metrics can provide a holistic view of the investment portfolio and future opportunities, while offering valuable insights to integration and stewardship practices.

The next big step for the platform is defining forward-looking metrics to enable reporting on SDI outlooks of companies based on SDG-aligned patents. This is an important development as the industry moves towards more transparency about how investment portfolios can contribute to solutions for global sustainability challenges.

Partnerships to invest in Australia's clean energy transition

Powering Australian Renewables (PowAR) reached agreement to acquire the Australian assets of Tilt Renewables Ltd (Tilt).

PowAR – a partnership between QIC, the Future Fund and AGL Energy Ltd – announced that it has joined with Mercury NZ Limited to acquire all the outstanding shares not already owned in Tilt.

Under the terms of the proposed transaction, PowAR will take ownership of all of Tilt's Australian businesses and Mercury NZ will take ownership of all of Tilt's New Zealand businesses.

Tilt is a developer and operator of renewable generation assets across Australia and New Zealand, with total operating capacity of 836 MW across seven wind farms in operation and two further windfarms in commissioning. The company has a development pipeline of more than 5,000 MW1 capacity across various technologies, including wind, solar and battery storage and peaking capacity.

The transaction, when completed, will reinforce PowAR's standing as Australia's largest owner and operator of renewable energy, with installed capacity of 1,313MW across seven operating wind and solar farms, with a further two wind farms in the final stages of commissioning. PowAR's development pipeline would represent the largest, high-quality portfolio of renewable energy development opportunities in Australia, at more than 3,500MW across wind, solar, battery storage and peaking capacity.

<https://www.qic.com.au/investment-capabilities/global-infrastructure/assets/powar>

5 Priority actions for financial system participants

ASFI's primary focus in developing the roadmap was to identify actions that can be taken by financial institutions and other key participants in the financial ecosystem, including (but not limited to) banks, insurers and investors, industry groups, regulators, governments, academia and other participants.

The financial system is made up of different participants, some of which have a unique capacity to lead in the implementation of the ASFI Roadmap recommendations, other who might play a more supporting role. The following table summarises the key role that different participants can play in supporting a more sustainable financial system, both at the organisation/entity level and in collaboration with each other.

Developing solutions and identifying who can lead and enable systems change

WHO	WHAT
Financial Institutions (e.g. Banks, Insurance, Superannuation funds, Asset managers and Financial advisers)	<ul style="list-style-type: none"> Leadership and accountability Purpose and strategy Culture Remuneration Capacity building Transparency, disclosure, reporting <ul style="list-style-type: none"> Product and service design Valuation Scenario analysis and stress testing Mobilisation of capital
Regulators	<ul style="list-style-type: none"> Regulatory guidance and standards Vulnerability assessments Capacity building
Government	<ul style="list-style-type: none"> Data Education and capacity building Regulations Frameworks <ul style="list-style-type: none"> Market architecture Resilience instruments Partnerships
Others (e.g. Industry bodies, ASX, Indigenous organisations, Academia, cross collaboration initiatives)	<ul style="list-style-type: none"> Transparency, disclosure and reporting Codes Collaboration Partnerships
Collaboration across the financial system participants	<ul style="list-style-type: none"> Market development and innovation Partnerships Targets and trajectories Definitions Standards <ul style="list-style-type: none"> Frameworks Codes, guidance, principles Capability and capability building Ratings and labelling Monitoring and evaluation

Source: Reproduced from the Australian Sustainable Finance Roadmap, Figure 3, Page 24

5.1 Call To Action

As we have seen from this review, there is strong momentum and support for more sustainable financial outcomes, many of which align with some of the key priorities and areas of focus as set out in the ASFI Roadmap. Building on this momentum, we have compiled some suggested actions for organisations and entities as we move towards collectively reinforcing and accelerating the progress that has been made thus far.

5.1.1 Checklist

Some of the possible actions that financial system participants can take today, to help accelerate the shift towards a more sustainable financial system that serves all Australians include:

- ❑ Utilise the ASFI Roadmap recommendations workbook provided by ASFI to:
 - Undertake a gap analysis
 - Consider what additional actions can you take / what role you can play
- ❑ Embed relevant ASFI Roadmap recommendations into organisational priorities and actions
 - Review how the organisation's priorities map to the ASFI recommended priorities over the short, medium and long term
- ❑ Consider opportunities to partner and collaborate with others to address specific barriers, problems or challenges
- ❑ Become a founding member of the establishment of the ASFI 2.0 – ASFI is now seeking founding members to support the establishment of a permanent ASFI, that will continue the work of ASFI, driving progress, and convening our sector.
- ❑ Express interest in getting involved in ASFI 2.0 including:
 - Participate in peer-to-peer networking to share stories and overcome challenges, break through innovations;
 - Get involved in communications and outreach efforts;
 - Undertake in-house education to garner support at the board level and amongst senior leaders; and
 - Nominating sustainability champions inside financial institutions to play a leading role in achieving change inside their organisations, leading workshops to get buy in for the vision and Roadmap recommendations.

5.1.2 Gap analysis

As we have seen in this review, some financial participants have already undertaken a gap analysis of their actions against the 37 ASFI recommendations. To support others in undertaking a similar review, a workbook has been developed to identify the recommendations and sub-recommendations that are most relevant to different types of participants across the 4 domains for change.

A few key features of the workbook:

- It maps the 37 recommendations and sub-recommendations to each type of participant.
- The financial market participants are further broken down into categories, namely banking, insurance, superannuation, asset managers and financial advisers. Other participants included are government, financial regulators, industry bodies, ASX, indigenous organisations, and academia.
- It identifies the suggested timing for each action over three time periods, namely 2021-2022, 2023-2025 and 2026-2030.
- It highlights the potential role that each participant might play in terms of either 'lead' or a 'support' the implementation of the recommended actions.
- In many cases, there are more than one suggested leading or supporting group alongside each recommendation, highlighting the crucial role that collaboration will play in achieving a sustainable financial system that serves all Australians.

6 Establishing ASFI 2.0

The Roadmap set out a coherent plan for a decade of action that will realign the Australian financial system to support a more resilient, sustainable and prosperous future for all Australians. Then it will help position the finance system to navigate significant change, mitigate the risks and continue to attract global capital.

A key recommendation of the Roadmap is the establishment of a permanent body to drive and coordinate the delivery of the Roadmap. The review of stakeholder needs and priorities as part of this review also reaffirms the need for such a body.

The ASFI Steering Committee is now leading a transition to implement the recommendation to establish a permanent body charged with driving the delivery of the Roadmap – ASFI 2.0. As part of this important phase, ASFI is now seeking founding members to support the establishment of a permanent ASFI, that will continue the work of ASFI, driving progress, and convening our sector, making it easier for international and domestic stakeholders to engage with the whole financial system.

ASFI 2.0 will be established as a company limited by guarantee, incorporated as a not for profit, registered as a charity with the ACNC. ASFI 2.0:

- will be funded by industry plus other sources (such as government for either core funding or programmatic funding)
- Industry funders become members of ASFI 2.0, giving them voting rights, rights to nominate directors and other exclusive access (such as regular updates, priority access to forums and chair forums, and input to program of work)
- Directors will be sought from members, but may also include some co-opted seats for non-funders to ensure cross sectoral representation (e.g. government, industry body, other such as CSIRO, academia etc)
- Cross sectoral Advisory Group established to inform and input into direction of work plan of ASFI 2.0, encompassing a permanent voice from government, regulators, civil society, industry bodies and industry

ASFI 2.0 is to be constituted for a broader public good with a mission aligned to creating system wide change to the financial services system, and as such most of the work of ASFI will be freely available to non-funders/non-members.

ASFI ROADMAP 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.

ASFI would be governed by a board composed of representatives of financial institutions, with an Advisory Council composed of government, regulators, industry bodies and civil society representatives contributing perspectives and providing advice to the board on workplan priorities.

ASFI would undertake a phased program of work to coordinate and facilitate collaboration on implementation of the Roadmap.

6.1 The need for a permanent ASFI 2.0 body

A permanent ASFI 2.0 is a critical and unique forum to drive the delivery of the Roadmap by:

- 1. Driving Impact:** ASFI is uniquely positioned to direct and coordinate the implementation of the Roadmap, driving programs of work that deliver recommendation and report on progress.
- 2. Convening:** ASFI is a unique forum for cross-sectoral collaboration across the full financial services sector, together with government, regulators and civil society.
- 3. Connecting:** ASFI has built strong national and international relationships with industry associations, peak bodies, civil society, think-tanks and environmental and social research bodies to support implementation of the Roadmap and alignment with global sustainable finance developments.
- 4. Navigation:** ASFI provides a central point to help financial services organisations navigate the rapidly evolving field of sustainable finance, including banking, insurance, superannuation, asset management and financial advisory services.

6.2 ASFI 2.0 and the financial system

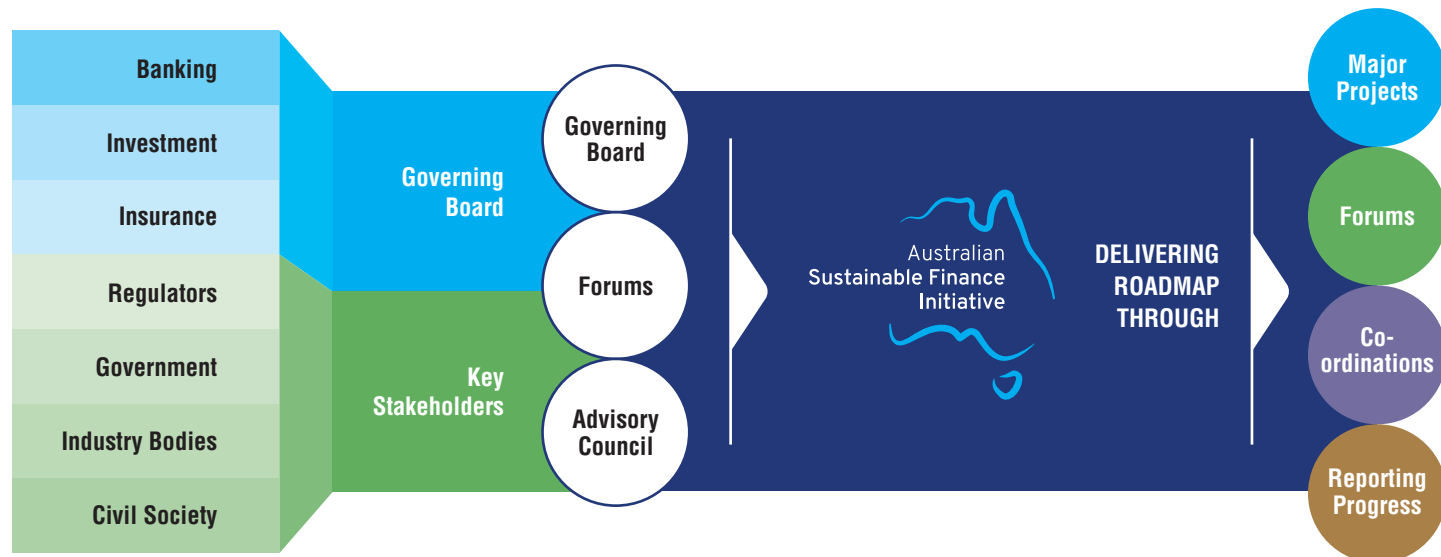
The ASFI 2.0 will act as the enabling body that brings together the critical organisations and participants in the financial system - including both public and private sector and the intersection between the groups - to deliver the recommendations of the Roadmap.

ASFI 2.0 will be governed by a board composed of representatives of financial institutions, with an Advisory Council composed of government, regulators, industry bodies and civil society representatives contributing perspectives and providing advice to the board on workplan priorities.

The ASFI Advisory Council will convene on a regular basis with state and federal government departments, with the objective of ensuring the work of ASFI is informed by government and societal priorities.

ASFI will undertake a phased program of work to coordinate and facilitate collaboration on implementation of the Roadmap. This will include delivery of an annual statement on the financial system's collective progress in implementing the Roadmap's recommendations, and reporting on the development of partnerships with federal, state and local governments.

Bringing the Roadmap to Life
Creating a permanent body



6.3 Forums and significant projects

ASFI 2.0 will focus on closing the gaps and addressing system-wide challenges that each financial system participant cannot achieve in isolation. In doing so, it will establish special projects and forums consistently with legal obligations of all participants (including competition laws).

It is recommended that four forums are established:

1. Financial Risk and Sustainable Practices Forum
2. Sustainable Finance Markets Forum
3. Leadership Forum
4. Australian Sustainable Financial System Forum

All ASFI forums will specifically consider Australia's role in the Asia-Pacific region with respect to sustainable finance.

A key principle in determining whether ASFI will take on a specific project would be whether it has implications across the whole of Australia's financial system.

Priority special projects include:

- explore the implementation of a sustainable finance taxonomy in Australia;
- establish interim science-based targets and trajectories that will support individual financial institutions to make net-zero-aligned decisions on lending, insurance and investment;
- develop best practice principles to guide product design, delivery and disclosure to drive sustainable and community focused outcomes;
- working with the Climate Measurement Standards Initiative (CMSI) and other stakeholders to develop guidance for financial institutions to report according to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations;
- develop guidance for nature-related financial disclosures aligned to Australia's biodiversity challenges; and
- establish a First Peoples Financial Services Office led by an Aboriginal or Torres Strait Islander person.

6.4 Next steps

The next steps in the formation of ASFI 2.0 include establishing the governance model, fundraising to support the planned activities (which has already commenced), formally launching the body and delivering on the priority areas of focus (as described above) to accelerate change across Australia's financial system.

ASFI is now seeking founding members to support the establishment of a permanent ASFI and invites financial system participants to get in touch for further information on what becoming a Founding Member involves. This invitation is open to any organisation or entity in the financial services sector, civil society networks, academia, financial regulators and government (federal, state and local).

To be part of this next stage, please contact ASFI secretariat via info@sustainablefinance.org.au

PLANNING GOVERNANCE APRIL–JUNE	FUNDRAISING MAY–JUNE	ESTABLISHMENT JUNE–JULY	OPERATION AND DELIVERY JULY–ONWARDS
<p>Working to establish the governance model for ASFI 2.0 including:</p> <ul style="list-style-type: none"> • Board of directors • Advisory board • Membership model • Company structure • Priority work plan • Delivery of the ASFI Momentum Tracker 	<p>Fundraising for the core funding to establish the body, seeking:</p> <ul style="list-style-type: none"> • Founding members • Government co-investment • Broader membership development 	<p>Register, set up and launch of ASFI 2.0.</p> <ul style="list-style-type: none"> • Register as company • Appointing executive • Establish governing board • Launching ASFI 2.0 • ASFI Steerco and co-chairs transition hand over to governing board and executive 	<ul style="list-style-type: none"> • Delivering priority programs • Convening forums • Coordinating sector • Reporting on progress

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