

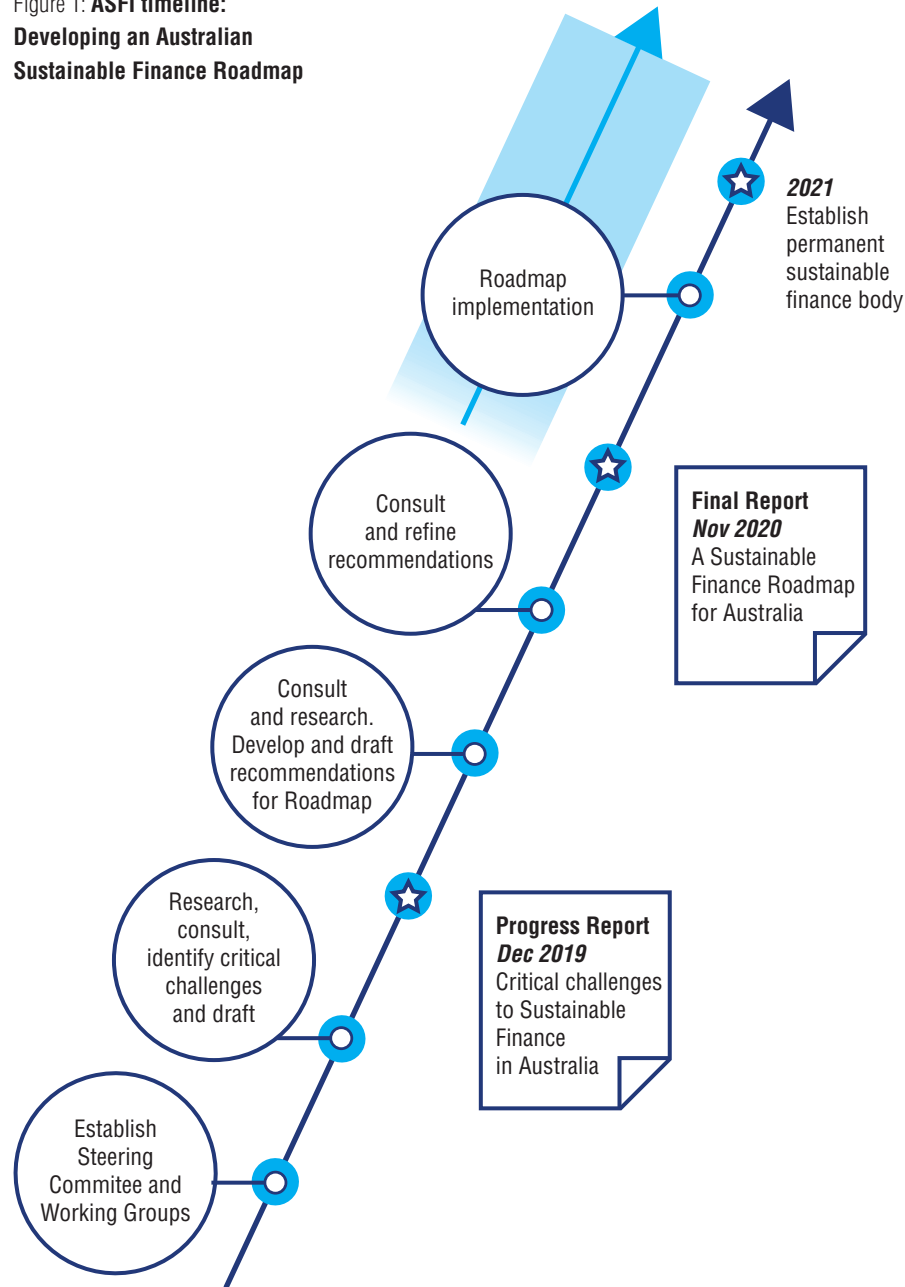
Australian Sustainable Finance Roadmap:

A plan for aligning Australia's financial system with a sustainable, resilient and prosperous future for all Australians

RECOMMENDATIONS – SUMMARY






Figure 1: **ASFI timeline:**
Developing an Australian Sustainable Finance Roadmap



Recommendations

The Roadmap makes a total of 37 recommendations in relation to aligning Australia's financial system with a sustainable, resilient and prosperous future for all Australians.





The 37 recommendations are categorised under the following four domains:

-  **1. Embedding sustainability into leadership**
-  **2. Integrating sustainability into practice**
-  **3. Enabling resilience for all Australians**
-  **4. Building sustainable finance markets**

The Roadmap includes an Action Plan (page 74), which sets out which financial system participants are best placed to lead or enable implementation of these recommendations, and the recommended timeframes within which implementation should be completed: short (2021–2022), medium (2023–2025) and long-term (2026–2030). The Roadmap includes actions that will need to be undertaken once to establish or embed the necessary change, and actions that will need to be undertaken on an ongoing or regular basis. In most cases, steps to enable implementation can and should begin immediately, consistently with legal obligations (including competition law).

Figure 2 provides an overview of the suggested timeframes for implementation of the recommendations, noting several recommendations will require ongoing implementation beyond the timeframes indicated.

Figure 2: Australian Sustainable Finance Roadmap – Suggested timeframes for implementation of the recommendations*

	2022	2025	2030	
1. Embedding sustainability into leadership 	1. Accountability for sustainability led from top 3. Support employee codes 5. Establish permanent ASFI	6. Establish a First Peoples Financial Services Office 7. Work to codify free, prior and informed consent	1. Manage and measure impact on others 2. Build skills and capabilities 3. Build inclusive cultures 4. Align remuneration structures with sustainable long-term value creation and consider embedding sustainability targets	5. Establish special projects and forums to provide guidance on Roadmap implementation 8. Establish International partnerships to support Roadmap implementation
2. Integrating sustainability into practice 	10. Join International Platform on Sustainable Finance 12 & 13. Develop TCFD reporting guidance 14. Play leadership role in development of TNFD	16. Create stress-testing framework and develop guidance 19. Embed sustainability into regulatory guidance and standards 20. Embed sustainability into outsourcing and procurement	9. Establish Taxonomy project 11. Financial institutions report according to TCFD on 'if not, why not' basis 12. ASX 300 report according to TCFD on 'if not, why not' basis 14. Fund research and develop TNFD guidance 15. Mandate sustainability reporting and align with international developments	16. Undertake scenario analysis and stress testing for climate risk 17. Expand vulnerability assessments 18. Value environmental and social externalities 19. Embed sustainability information into products and services 20. Develop stewardship codes
3. Enabling resilience for all Australians 	24. Establish FIAPs, review current practices and design of products and services 26. Build financial capability	28. Enable financial decisions based on values and sustainability preferences 29. Develop product design principles	22. Support establishment of community finance 23. Develop income and revenue contingent loans 25. Measure and report on: financial distress for households; financial outcomes for Aboriginal and Torres Strait Islander peoples	27. Develop labelling standards 30. Develop Australian-focused well-being framework
4. Building sustainable finance markets 	31. Establish targets and trajectories to support net-zero-aligned decisions	34. Promote climate risk mitigation efforts and ensure buildings are disaster resilient 35. Support development of sustainability impact and resilience markets 37. Finance development and regeneration of real assets (infrastructure and property)	32. Support development of a sustainable capital market 33. Report on functioning of sustainable finance markets 36. Support the formation of Social Impact Investment wholesaler	

Key for timeframes

Short-term 2021–2022


Medium-term 2023–2025


Long-term 2026–2030


*The numbers within the table refer to the Roadmap recommendation number

The Australian Sustainable Finance Roadmap recommends:

Embedding sustainability into leadership

Recommendation 1

Accountability for sustainability is led from the top of financial institutions. This will be most successful when sustainability is integrated into purpose, corporate strategy, risk management frameworks, remuneration structures and organisational culture.

Financial institutions manage and measure the impact of their activities on others.

Recommendation 2

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

- working with existing industry training organisations to deliver new skills and training in sustainable finance across all levels of an organisation;
- supporting the establishment of university-hosted centres for sustainable finance;
- working with the Australian university sector to ensure that core curriculum for all finance and related discipline degrees includes sustainability; and
- developing strategic skills partnerships with experts outside of financial institutions to build mutual understanding.

Recommendation 3

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

Recommendation 4

Recognising the strong link between strategy, remuneration, risk and performance, financial institutions:

- align remuneration structures with sustainable long-term value creation; and
- consider embedding sustainability targets into remuneration and incentive practices, and rewarding for sustainability performance and leadership, for example through promotion decisions.

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.

Based on the model of the Australian Government's Council of Financial Regulators, the ASFI Advisory Council would 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 would undertake a phased program of work to coordinate and facilitate collaboration on implementation of the Roadmap. This would 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.

As a mechanism to provide guidance on implementation, ASFI would 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 would specifically consider Australia's role in the Asia-Pacific region with respect to sustainable finance.

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

- explore the implementation of a sustainable finance taxonomy in Australia;
- establish interim science-based targets and trajectories that would 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;

- work with the Climate Measurement Standards Initiative (CMSI) and other stakeholders to develop guidance for financial institutions to support reporting according to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations; and
- develop guidance for nature-related financial disclosures aligned to Australia's biodiversity challenges.

ASFI would also establish a First Peoples Financial Services Office led by an Aboriginal or Torres Strait Islander person (see Recommendation 6 below).

Recommendation 6

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

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

Recommendation 7

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

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

Recommendation 8

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

Integrating sustainability into practice

Recommendation 9

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

Recommendation 10

Australia, through a relevant public authority, joins the International Platform on Sustainable Finance (IPSF) to enhance coordination and alignment with international sustainable finance initiatives, and to promote best practice in sustainable finance.

Recommendation 11

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

Recommendation 12

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

Recommendation 13

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

Recommendation 14

Recognising that between 7 and 10 per cent of all species on Earth occur in Australia,⁹ and many of these are only found in Australia,¹⁰ Australia's financial system participants collectively play a leadership role in the development of the Task Force on Nature-related Financial Disclosures (TNFD) by:

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

Recommendation 15

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

Australia's financial system participants, including financial institutions, businesses, governments and regulators, work to align with international developments, noting the evolving discussions around convergence of global disclosure frameworks, and in particular the commitment by CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) to work together towards Comprehensive Corporate Reporting.

Recommendation 16

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

To support this, the industry creates a bottom up, industry-led stress-testing framework that includes processes, frameworks, data and tools sufficient for an organisation to stress test its business. This would include information about what organisations are expected to report against and access to generic data and tools for stress testing, including from the Bureau of Meteorology and CSIRO, and environmental data held by government departments. This work should build on CMSI's current work to develop physical climate risk stress tests, which could fall into this category.

Over time, scenario analysis and stress tests are expanded to include other sustainability-related impacts, for example, biodiversity loss.

Guidance should be developed on best practice approaches to conducting stress tests that is relevant for financial institutions of different sizes. Once established, ASFI's Financial Risk and Sustainable Practices Forum would provide a mechanism for discussion on the development and implementation of stress-testing practices as well as scenario analysis and climate modelling.

Recommendation 17

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

Recommendation 18

Environmental and social externalities are valued by financial institutions. To support this, Australia's financial system participants help to compile national- and state-level data sets by developing general principles and guidance to allow financial system participants

to measure and assess multiple capitals including soil, water, education levels and gender diversity. Guidance would address how common metrics can be integrated into investment decisions and risk analysis, including, for example, determining impacts and dependencies, and materiality.

Recommendation 19

Financial institutions work with Australia's financial system regulators on an ongoing basis to embed sustainability into regulatory guidance and standards to drive system-wide practice. ASFI's Financial Risk and Sustainable Practices Forum provides a mechanism for collaboration between financial regulators, financial institutions and stakeholders.

Recommendation 20

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

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

Recommendation 21

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

Enabling resilience for all Australians**Recommendation 22**

Australia's financial system participants support the establishment of community finance that can be accessed by place-based groups, including clubs and social enterprises, as part of a place-based community resilience strategy. This should include collaborative initiatives with local government partners, development of standardised documentation that can reduce the costs for social enterprises to access finance, and support for credit guarantees and other measures that reduce the risk of financing and investing.

Recommendation 23

Australia's financial system participants develop income and revenue contingent loans as a mechanism to support individual and community resilience to acute shocks as well as chronic threats to climate and health, which amplify the impact of acute shocks on the most vulnerable.

Recommendation 24

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

Recommendation 25

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

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

Recommendation 26

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

Recommendation 27

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

Recommendation 28

Australia's financial system participants enable Australians to make financial decisions based on their values and sustainability preferences. This includes:

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

- for financial institutions to collaborate and develop best practice guidelines for the disclosure of portfolio holdings by superannuation entities and other publicly available funds (in the absence of regulations being passed by the Australian Parliament); and
- for the Australian Parliament to pass regulations to prescribe the content and format of disclosure of portfolio holdings by superannuation entities.

Recommendation 29

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

Recommendation 30

Australia's financial system participants support the development and implementation of an Australian-focused well-being framework, informed by global thinking and based on New Zealand's 12 domains of well-being in its Living Standards Framework.

Building sustainable finance markets

Recommendation 31

Australia's financial institutions collaborate, through ASFI, to establish interim science-based targets and trajectories to align and facilitate the transition to net zero emissions by 2050. This will support individual financial institutions to make net-zero-aligned decisions on lending, insurance and investment.

Recommendation 32

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

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

Recommendation 33

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

The report would provide advice to regulators, government and financial market participants on measures that could be introduced to enhance the efficient functioning of capital markets. A key area for consideration would be whether intermediaries are supplying, and financial system participants are demanding, services that support implementation. Areas of focus of a report would include the availability and appropriateness of market benchmarks and indices that align with net zero targets, impediments to investment such as market liquidity, and diversity of investment opportunities.

Recommendation 34

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

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

Recommendation 35

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

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

Recommendation 36

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

Recommendation 37

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

- aligning Australia's Infrastructure Priority List produced by Infrastructure Australia with the objective of achieving net zero emissions by 2050;
- efficient and streamlined regulatory requirements for investment into essential assets, including energy network, transport concessions and social infrastructure, with the aim of substantially reducing the time/cost/effort involved to invest and finance critical infrastructure;
- working with the Australian Energy Market Operator (AEMO), Australian Energy Market Commission (AEMC), Australian Energy Regulator (AER), Energy Security Board (ESB) and COAG Energy Council to expedite an actionable Integrated System Plan with the objective of unlocking critical investment into transmission, interconnection, renewables and distribution;
- developing infrastructure investment across the Asia-Pacific region that is focused on delivering social and environmental outcomes;
- integrating environmental, social and governance (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, such as GRESB's Infrastructure Asset Assessment, Infrastructure Sustainability Council of Australia's (ISCA) Infrastructure Sustainability rating and the Green Building Council of Australia's Green Star Rating System;
- using a national rating scheme for the energy performance of homes such as the Nationwide House Energy Rating Scheme (NatHERS) and establishing mandatory disclosure of performance at the point of sale and lease;
- supporting an industry approach to adopt the three major rating tools (National Australian Built Environment Rating System (NABERS), Green Star and ISCA's Infrastructure Sustainability rating scheme) as measurement benchmarks, provided they implement a net zero emissions pathway consistent with a 1.5°C trajectory across operational and embodied carbon, and minimum standards for new and existing assets to become more climate change resilient and socially responsible;
- integrating built environment ratings into consumer and business lending and investment valuations, including infrastructure projects; and
- working with stakeholders, including the construction sector, 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.

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