

Australian Sustainable Finance Progress Tracker

Second report on implementation of the Australian Sustainable Finance Roadmap

Acknowledgement of Country

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





Foreword	5
Executive summary	6
Roadmap Scorecard	8
PART A State of Sustainable Finance in Australia	12
State of Sustainable Finance in Australia: a Snapshot	13
Key themes underpinning the evolving landscape in Australia	13
PART B Progress towards Implementation of the Australian Sustainable Finance Roadmap	16
Domain 1: Embedding sustainability into leadership	17
Domain 2: Integrating sustainability into practice	28
Domain 3: Enabling resilience for all Australians	41
Domain 4: Building sustainable finance markets	48
Glossary	60
Approach & Methodology	61
References	63
Endnotes	66

KPMG

KPMG was the research partner and has undertaken the underlying research used to support this paper.

KPMG's input into this report has been prepared at the request of the Australian Sustainable Finance Institute Limited (ASFI) in accordance with the terms of KPMG's engagement letter dated 25 August 2022. The services provided in connection with KPMG's engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed. The information contained in this report has been prepared based on material gathered through an industry survey, desktop review and interviews with markets participants. The findings in this report are based on a qualitative study and the reported results reflect a perception of the respondents. No warranty of completeness, accuracy or reliability is given in relation to the information and documentation provided this parties consulted as part of the process. The sources of the information provided are indicated in this report. KPMG has not sought to independently verify those sources. The report is intended to provide an overview of the current state of the sustainable finance in Australia, as defined by ASFI.

The information in this report is general in nature and does not constitute financial advice, and is not intended to address the objectives, financial situation or needs of any particular individual or entity. As the report is provided for information purposes only, it does not constitute, nor should be regarded in any manner whatsoever, as advice intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Appropriate professional advice should be obtained before acting on this information. KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form. The findings in this report have been formed on the above basis. Other than KPMG's responsibility to ASFI, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

KPMG is an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited ("KPMG International"), a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation. Liability limited by a scheme approved under Professional Standards Legislation.

Australian Sustainable Finance Institute

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

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

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

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

ASFI acknowledges and thanks the many financial institutions and partner organisations that assisted with the preparation of this report including through survey responses, interviews, case studies and other input.

Foreword

The concept of 'sustainable finance' is moving from the margins into the spotlight of global attention and into the mainstreams of leading financial institutions, government treasuries and financial regulators.

Australia is behind many of its international peers. It is imperative that we catch up, building on international best practice and experience.

By Kristian Fok, ASFI Chair and CIO, Cbus Super

The Australian Sustainable Finance Roadmap marked an unprecedented collaboration across 140 representatives from finance sector organisations, civil society, academia, government and regulators. This group of financial services practitioners, regulators, policy-makers and experts were aligned in their message: that a failure to identify and address sustainability-related risks in the financial system would threaten Australia's ability to maintain a healthy environment, a strong and prosperous economy, and a thriving society.

The Roadmap set out 37 Recommendations to align the Australian financial system with a sustainable, resilient and inclusive Australia. These recommendations will not only address sustainability-related risks, but direct capital into sustainable and socially beneficial activities, and help ensure the activities of financial system actors are a force for good—consistent with better social, environmental and economic outcomes, and strong long-term financial returns for clients, members and shareholders.

Two years since the Roadmap's publication, we can see a marked shift across the finance landscape. The concept of 'sustainable finance' is moving from the margins into the spotlight of global attention and into the mainstreams of leading financial institutions, government treasuries and financial regulators.

Globally, financial institutions are increasingly committed to net zero emission by 2050 and working to produce credible transition plans. Initiatives such as the Taskforce on Nature-related Financial Disclosures (TNFD) and the International Sustainability Standards Board's sustainability reporting standards are enjoying strong support; governments around the world are introducing mandatory disclosures regimes, sustainable finance taxonomies, and other policies to channel investment to sustainable activities.

This shift is underway in Australia too. The passage into law of national emissions reduction targets for 2030 and 2050 was an important first step to supporting capital to flow to transition activities consistent with the Paris Agreement goals. Increasingly, Australian financial regulators are focusing on sustainability-related risks. The Government's proposed climate-related reporting rules will drive better information for investors, consumers, and regulators. The Modern Slavery Act is supporting firms to take a closer look at their distribution and supply chains to help eliminate the unacceptable practice of modern slavery.

This is encouraging progress. But we remain at the very early stages of the journey to a sustainable, resilient, and inclusive Australia, and this is reflected in the Roadmap Scorecard in this Progress Tracker. From a policy and regulatory perspective, Australia is behind many of its international peers. It is imperative that we catch up, building on international best practice and experience to avoid higher costs of capital, inefficient capital allocation decisions, and missed opportunities to position Australia front and centre of the zero carbon transition.

Those of us in Australia's financial institutions need to double down our efforts to accelerate progress and ensure that sustainability is front of mind not just for a few leading organisations in a few areas, but right across the sector and right across portfolios, lending books and underwriting businesses. The case studies throughout this Report showcase examples of innovation and leadership that can serve as inspiration, as well as highlighting areas for future focus.

The Australian Sustainable Finance Institute (ASFI) was established in July 2021 to support these efforts. ASFI's mission is to bring together the finance sector, government, regulators, industry, academia and policy organisations to collaborate and drive implementation of the Roadmap's recommendations. We are leading the development of an Australian Sustainable Finance Taxonomy, supporting the development of natural capital markets, fostering a culture of leadership on sustainability within industry, and tracking progress of sustainable finance through this annual Progress Tracker.

There has been tremendous support for ASFI's mission and approach to date. ASFI now has 30 members from across banks, superannuation funds, asset managers and owners, insurers, and financial services firms. And we have strong partnerships with industry organisations, think tanks, green finance institutes and governments in Australia and across the globe. There is a sense of all actors pulling in the same direction. I look forward to continuing to work with all of you to achieve our vision for a sustainable, resilient, and inclusive Australian financial system for the benefit of all Australians.

Executive summary

The forces that inspired 140 diverse stakeholders to come together and develop the Australian Sustainable Finance Roadmap have only become stronger in the two years since its publication

This year has seen momentum building towards our goal of a financial system aligned with a sustainable, resilient, and inclusive Australia. There has been progress across a broad range of recommendations from the Australian Sustainable Finance Roadmap, and some standout achievements. The Roadmap Scorecard shows this progress and also highlights some important gaps and opportunities for focus in 2023 and beyond.

This is the second report on implementation of the Australian Sustainable Finance Roadmap (Roadmap) implementation, and the first effort to quantify progress through a scorecard. The overall score is modest – an average of 2.0 out of 5 across all four Roadmap domains. This indicates the substantial effort required to translate recent momentum into real world impacts that create a safe climate, restore our natural capital, and support a thriving society.

Strong progress

A handful of recommendations received a score of 4 out of 5, indicating they are close to being fully implemented. Among these was Recommendation 5, to create ASFI as a permanent institution. ASFI was established in July 2021 with 21 founding members representing large financial institutions from across the finance sector committed to aligning financial flows for a better future. This achievement demonstrates that Australia's leading financial institutions are strongly committed to Roadmap implementation. It also provides the foundation and mechanism to drive further progress.

ASFI has initiated a project to lead the development of an Australian sustainable finance taxonomy, consistent with Recommendation 9. The project has received strong engagement and broad support from across the finance sector, government, regulators and civil society. The taxonomy project recently released its first paper 'Analysis of international taxonomies and considerations for Australia.' It underscored the need for an Australian taxonomy to be credible, science-aligned and inter-operable with international taxonomies. Once developed and integrated into the broader regulatory framework, the taxonomy will form a fundamental pillar of Australia's sustainable finance policy architecture, and support financial institutions to align their capital with sustainability objectives.

Another area of strong progress is Recommendation 14, which recommends that Australia's financial system participants play a leadership role in the development of the Task-force on Nature-related Financial Disclosures (TNFD). The TNFD is enjoying strong support from across Government and the finance sector and will help underpin better environmental practice and the development of markets such as the Australian Government's proposed national biodiversity market.

Areas of modest but significant progress

There are various Recommendations that did not achieve high scores, but nonetheless have shown remarkable progress since the Roadmap was published. Chief amongst them is the elevation of sustainability – and especially climate – as a Board and C-suite issue. Increasingly, sustainability is dealt with at Board and senior executive levels and seen as core to risk assessment and management and, to a lesser extent, strategic planning, and remuneration structures (Recommendations 1 and 4).

Climate and sustainability disclosures is another area that has shown significant progress (Recommendations 11, 12, 13 and 15). Climate-related financial reporting by Australian firms is on the rise with 103 of the ASX 200 firms now fully or partially aligning their disclosures to the TCFD. The Government's proposed climate-related reporting framework will help Australia match the progress of international peers including the UK, New Zealand and Canada which have mandatory reporting frameworks already in place. Mandatory disclosure rules will institutionalise the practice of identifying and addressing climate risk, support investors and consumers to make better-informed decisions, and help regulators combat greenwashing.

Financial institutions are increasingly undertaking climate-related scenario analysis to stress test their businesses under different warming trajectories (Recommendation 16). This reflects an increased focus by financial institutions and financial regulators on the physical, transition and liability risks posed by climate change. APRA's Climate Vulnerability Assessment of major Australian banks, and the introduction of climate-related practice guidance CPG 229, is expected to

support further improvements by financial institutions in understanding and managing climate risk and opportunities (Recommendation 17). There is scope to continue to develop and refine sustainability-related regulatory guidance and standards to improve consistency, and remove inadvertent deterrents to sustainable practices by financial institutions.

Gaps and opportunities

The Scorecard indicates significant opportunities for improvement through government policy and regulation, as well as finance sector leadership. An emerging skills gap in sustainable finance professionals is inhibiting progress on sustainable finance and could increase the costs and risks associated with the transition to a net zero, climate resilient economy (Recommendation 2).

Recognition and protection of Aboriginal and Torres Strait Island people's rights and perspectives through the financial system remains an area of weakness (Recommendation 6 and 7). There is more that can be done, building on efforts by groups such as the Responsible Investment Association of Australasia (RIAA) and the Australian Council of Superannuation Investors (ACSI) to work closely with First Nations representatives and organisations to improve finance sector awareness and practices, and by financial institutions through Reconciliation Action Plans.

Other gaps and opportunities include:

- Building on the work led by Climateworks Centre to develop national and sector-specific decarbonisation pathways (Recommendation 31). These provide a critical foundation for sound policy making and investment decisions.
- Embedding sustainability through supply chains, improving access to information for investors through sustainability labelling schemes, and harmonising frameworks to support financial institutions to engage in effective stewardship practices (Recommendations 20, 21, and 27).
- A greater focus on initiatives to improve financial well-being and inclusion, including through future Progress Trackers (Recommendation 30).

The outlook ahead

The Roadmap Scorecard is set against a backdrop of the transition of sustainable finance from a niche issue, into the economic, social and political mainstream. Part A of this Report, provides a snapshot of the state of sustainable finance in Australia. It describes accelerating investor demand for sustainable finance products, a tightening regulatory landscape globally particularly on greenhouse gas emissions, and a raft of net zero commitments by financial institutions – with accompanying expectations for credible transition plans. Expectations are also increasing for financial institutions to value natural capital, and actively support social goals such as self-determination for First Nations peoples, gender equality, and the elimination of modern slavery.

This is evidence that the forces that inspired 140 diverse stakeholders to come together and develop the Australian Sustainable Finance Roadmap have only become stronger in the two years since its publication. Australia lags behind its international peers across the range of sustainable finance metrics, but has the opportunity to learn from their experiences and rapidly accelerate progress. There are signs that the Australian Government, elected in May 2022, is ready to support this shift. Legislating Australia's climate targets, prioritising policies to reduce emissions and support critical infrastructure, and committing to introduce climate-related risk disclosures are encouraging first steps.

Quick wins and priorities

There are some quick wins to be had, and some critical gaps that should be prioritised. By joining the International Platform on Sustainable Finance, the Australian Government would increase its influence in setting global norms, particularly on transition finance and taxonomies. There is also an opportunity for the Government to develop an Australian Sustainable Finance Strategy that would identify and prioritise the policies, programs and initiatives needed to support and drive sustainable finance in Australia. This would signal Australia's commitment to managing climate and sustainability-related risks in the

financial system, helping to ensure continued access to cost-effective capital. Similar government strategies have been influential in the development of sustainable finance markets internationally.

The development of sector specific transition pathways will be a more challenging task. However it will be fundamental to sound policy making, efficient allocation of capital, and effective regulatory oversight. There are also opportunities for Government to help Australia secure its position in the clean energy economy through more support for early-stage climate innovation, and to support a thriving society by establishing a new Social Impact Wholesale vehicle.

Financial institutions should continue to adopt and improve the quality of sustainability-related disclosures, in line with global trends and expectations. Adoption of the ISSB standards once finalised, and introducing a mandatory climate-related disclosure framework that has broad coverage would support Australia's progress towards a more sustainable, resilient and inclusive financial system. Reporting should include the publication of credible transition plans consistent with best practice guidance.

Conclusion

The Roadmap Scorecard shows clear signs that Australia has commenced its journey towards a more sustainable, resilience and inclusive financial system. Momentum is growing and players are aligning. The political, social and economic drivers are building. It is time to implement and accelerate progress to match the urgency of the challenges before us. It is time to work together to deliver a safe climate, restore our natural heritage and support a thriving society in Australia and across the Asia-Pacific region.

AVERAGE SCORE ACROSS ALL RECOMMENDATIONS: 2.0



DOMAIN 1: Embedding sustainability into leadership

2.38



1 Accountability for sustainability is led from the top of financial institutions.

2.0



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

1.0



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

2.0



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

2.0



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

4.0



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

2.0



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

2.0



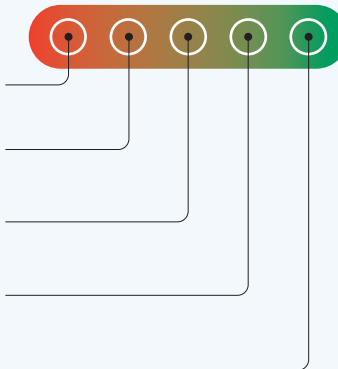
8 Australia's financial system participants establish international partnerships to support the implementation of the Australian Sustainable Finance Roadmap.

4.0



SCORING LEGEND

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



The Roadmap Scorecard shows progress against a broad range of recommendations and some standout achievements, but a modest overall score of 2 out of 5. This demonstrates the substantial effort required to translate recent momentum into real world impacts.

	DOMAIN 2: Integrating sustainability into practice	2.31	
9	Australia's financial system participants establish a key project to explore the implementation of a sustainable finance taxonomy in Australia.	4.0	
10	Australia, through a relevant public authority, joins the International Platform on Sustainable Finance (IPSF).	1.0	
11	Financial institutions with annual consolidated revenue of more than \$100 million report according to the TCFD recommendations by 2023 on an 'if not, why not' basis.	2.0	
12	All ASX listed companies, beginning with the ASX 300, report according to the TCFD recommendations by 2023 on an 'if not, why not' basis, and guidance is developed for ASX-listed entities to support TCFD-aligned reporting.	2.0	
13	ASFI, together with CMSI and other stakeholders, develops guidance to support TCFD-aligned reporting by financial institutions and facilitates discussion on how these reporting practices can be developed and implemented.	4.0	
14	Australia's financial system participants collectively play a leadership role in the development of the Task Force on Nature-related Financial Disclosures (TNFD).	4.0	
15	Sustainability reporting and assurance is mandated for listed entities and for unlisted assets wholly owned by financial institutions.	2.0	
16	Financial institutions undertake scenario analysis and stress test the resilience of their organisation to physical and transition risks from climate change.	2.0	
17	Vulnerability assessments to be undertaken or planned by APRA are expanded to include fit-for-purpose assessments for small and medium financial institutions across Australia, as well as the superannuation and insurance sectors.	2.0	
18	Environmental and social externalities are valued by financial institutions.	1.0	
19	Financial institutions work with Australia's financial system regulators on an ongoing basis to embed sustainability into regulatory guidance and standards to drive systemwide practice.	2.0	
20	Australia's financial system participants positively drive best practice for the benefit of the whole of the Australian economy and society, including by: <ul style="list-style-type: none"> • embedding sustainability into outsourcing and procurement practices; and • embedding sustainability information into products and services for households and businesses. 	2.0	
21	Australia's financial system participants develop stewardship codes to harmonise and enhance stewardship practices.	2.0	



DOMAIN 3: Enabling resilience for all Australians

1.44



- 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.
- 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.
- 24** Financial institutions establish Financial Inclusions Action Plans and review current practices and design of products and services to ensure financial inclusion.
- 25** Consistent with applicable laws and regulations, financial institutions measure and report on: financial distress for households; and financial outcomes for Aboriginal and Torres Strait Islander customers.
- 26** Financial institutions collaborate with regulators and the Australian Government to support networks, programs and initiatives that build individual and community financial capability.

1.0



1.0



1.0



2.0



1.0



- 27** Australia's financial system participants support the development of labelling standards that provide consumers with access to consistent labelling and disclosure of the sustainability of financial services products.

2.0



- 28** Australia's financial system participants enable Australians to make financial decisions based on their values and sustainability preferences.

2.0



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

1.0



- 30** Australia's financial system participants support the development and implementation of an Australian-focused well-being framework.

2.0





DOMAIN 4: Building sustainable finance markets

2.00



- 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.
- 32** Australia's financial system participants work collaboratively to support development of a sustainable capital market.
- 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.
- 34** Australia's financial system participants work collaboratively to promote climate risk mitigation efforts and to ensure buildings are disaster resilient.

2.0



2.0



2.0



3.0



- 35** Australia's financial system participants work collaboratively to support development of sustainability impact and resilience markets including natural capital, carbon, impact investment, and climate mitigation and adaptation.

2.0



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

1.0



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

2.0





PART A

State of Sustainable Finance in Australia

State of Sustainable Finance in Australia: a Snapshot

The sustainable finance market in Australia has evolved over the last 12-18 months. The level of ambition, sophistication, and activity of market participants, from financial institutions, to regulators, to universities, has increased markedly. This evolution is likely to be further catalysed by the recent change in government at Commonwealth level.

Sustainability factors are increasingly being considered by financial institutions (FIs)—assets under management (AUM) incorporating responsible investment principles have reached new highs in Australia and globally,¹ sustainable debt issuance continues to grow² and more corporates are integrating ESG risks and opportunities into strategy, decision making and reporting.

Globally, sustainable finance is progressing through multilateral fora such as the G20, the International Platform on Sustainable Finance, ASEAN and APEC, with sustainable finance norms and standards being discussed and developed.

Leading international jurisdictions have developed critical pieces of sustainable finance architecture, including taxonomies, corporate and financial sector climate disclosure frameworks and, in some cases, are aligning government spending and incentives to sustainability objectives. The rigour of disclosure framework application, and the credibility of sustainability claims made (greenwashing) are increasingly being tested by regulators, NGOs, and other stakeholders through legal systems in a number of countries.

To date, global progress has been faster and more significant than in Australia. The Australian landscape, however, has been influenced by this global progress, with leading Australian corporates and FIs moving ahead of domestic regulation, as they compete internationally for capital and clients.

Australia is at a turning point for the growth and credibility of the sustainable finance and investment market. With the change in political context potentially unlocking market confidence and enabling Australia to catch up to leading countries with mature sustainable finance policy and regulation, there is the expectation that the landscape will change rapidly throughout 2023, with both federal and state governments playing an increasing and positive role in its development.

“Australia is at a turning point for the growth and credibility of the sustainable finance and investment market”

Key themes underpinning the evolving landscape in Australia

Responsible investment continues to attract more capital

The Australian market for responsible investment reached new heights in 2021, as more Australians seek exposure to assets that consider and integrate ESG risks and opportunities. Based on the Responsible Investment Association of Australasia (RIAA) 2022 Benchmark Report, responsible investment AUM reached \$1.5 trillion, representing 43% of total professionally managed funds³.

ESG integration remains the most common approach to responsible investing, with AUM growing to \$752 billion (+20%).⁴ Corporate engagement and shareholder action grew to \$726 billion (+54%), overtaking negative screening, AUM \$705 billion (+26%) to become the second most common approach.⁵ There was also a more than doubling of sustainability themed investments with AUM growing to \$161 billion (+112%), indicating a shift from a focus on managing ESG risks to seeking specifically to capitalise on sustainability opportunities.⁶

Surveyed investment managers cited demand from underlying investors to align investments with mission/values and demand from institutional investors as the top two key drivers of the observed market growth.⁷

Sustainable debt issuance rises, including more sustainability linked loans

FIs in Australia and globally continue to write increasing levels of debt linked to ESG metrics. Access to, and the cost of capital, is now emerging as a legitimate driver of the growth in sustainable finance. Research estimates that globally sustainable finance debt issuance is

approaching US\$5 trillion in value⁹. Green Bond issuance represents the largest segment of sustainable debt markets, representing 40% of annual global issuance volumes in FY21/22⁹. There is continued growth in other sustainable finance facilities, especially Sustainability-Linked Loans (SLLs), which are now the second largest format by issuance volumes.¹⁰ Further increase in the issuance of other forms of sustainable debt is expected in the coming twelve months, such as social and sustainability bonds.

In Australia, the depth of the market and diversity of issuance has also seen sustainable debt establish itself as a more credible investment category. The Australian ESG bond market is expected to grow by about 25%, to AUD\$25 billion this year¹¹.

Signs of harmonising sustainability disclosure frameworks

The Task Force on Climate-Related Financial Disclosures (TCFD) continues to be the leading framework adopted for climate reporting by FIs and corporate entities, both in Australia and globally. Whilst Australia has not yet mandated TCFD aligned reporting, other jurisdictions have proposed or finalised laws requiring disclosure aligned to the TCFD recommendations. TCFD-aligned regulations are in force or coming into force in the Americas (Brazil, Canada, U.S.), Europe (the EU), and Asia-Pacific (Singapore and New Zealand)¹²

Broader nature-based risks and opportunities are an area of increased focus through the Task Force on Nature-related Disclosures (TNFD). Launched in 2021,¹³ the TNFD builds on the approach developed by TCFD and aims to provide organisations with a framework to identify and report broader nature related risks and opportunities, including biodiversity loss and ecosystem degradation.¹⁴ This initiative has been strongly supported by the Australian Government, as the second largest funder of the framework.

The most significant reporting development occurred with the formation of the International Sustainability Standards Board (ISSB), announced at the 2021 United Nations Climate Change Conference (COP26).

The ISSB brings together leading sustainability disclosure organisations to consolidate existing leading frameworks with the aim to develop “disclosure of material information about a company’s significant sustainability-related risks and opportunities that is necessary for investors to assess a company’s enterprise value”.¹⁵ The ISSB issued two exposure draft standards in March 2022, one on climate-related disclosures and one on general sustainability-related disclosures, with the initial consultation period ending in July 2022.¹⁶ The ISSB is currently deliberating a range of topics based on feedback received through the consultation period with final standards expected in H1, 2023.

Globally, sustainability reporting continues to develop at a fast pace. In the last 6 months, in addition to the ISSB standards, two other significant sets of proposed standards commenced consultation, with standards proposed by the US Securities Exchange Commission (SEC) and the European Financial Reporting Advisory Group (EFRAG). Overall, across the three proposals, there is a broad commonality of approach adopted, but divergence in terms of expected audience, scope and scale.

The aim of the ISSB Board’s proposals is to create a global baseline for investor-focused sustainability reporting that local jurisdictions (e.g. the US and the EU) can build on.

95 companies representing 70% of the ASX 200’s market capitalisation have net zero commitments in place.

Domestic climate related corporate reporting continues an upward trend

Driven by global investor and regulatory expectations, climate-related reporting has been increasing for large corporates and FIs in Australia despite the lack of mandated climate-related reporting domestically. ACSI research in July 2022 showed a majority (52%) of ASX 200 companies now fully or partially align their climate disclosures to TCFD recommendations, up from only 11 in 2017.¹⁷ The breadth of reporting is also increasing, however improvement is still required. Climate scenario analysis was disclosed by 44% of the ASX 200, however this information was often inconsistent, incomparable, and unverifiable.¹⁸ Physical risk reporting is also increasing with 21% of ASX 200 now disclosing, however the potential financial impacts and business risk of physical risks identified are often not quantified.¹⁹

FIs are also embedding climate consideration across their businesses, however there is more work to be done. APRA recently conducted a self-assessment survey across the banking, insurance, and superannuation industries on how their climate risk practices align to expectations set out in Prudential Practice Guide CPG 229 Climate Change Financial Risks.²⁰ APRA found that the medium and large APRA regulated FIs who responded are “generally aligning well to APRA’s guidance, especially in the areas of governance and disclosure. Climate risk, however, remains an emerging discipline compared to other traditional risk areas, with only a small portion of survey respondents indicating that they have fully embedded climate risk across their risk management framework”.²¹

Net zero the leading sustainability issue

In the last few years, we have seen a proliferation of net zero targets by countries. In the lead up to COP26 in October 2021, seven of Australia's top 10 trading partners had mid-century net zero targets, accounting for 68% of Australia's two way trade.²² Australia has also set net zero targets through the *Climate Change Act 2022*, which includes a 43% reduction in greenhouse gas emissions by 2030, below 2005 levels, and net zero by 2050,²³ potentially unlocking investment opportunities associated with decarbonisation. However there is still significant work to do—to align pledges with the Paris Agreement of Climate Action Tracker assessments undertaken over national emissions reduction pledges, there are no 1.5°C Paris Agreement compatible commitments (as of October 2022).²⁴

Australian publicly listed companies have also taken steps—95 companies, representing 70% of the *ASX 200*'s market capitalisation, have net zero commitments in place.²⁵ Importantly, more granular interim targets are also being set to support long-term commitments.²⁶ Despite these gains, shadow carbon pricing in capital allocation decisions is only used by 29 of 200 *ASX 200* entities.²⁷

Increasing levels of collaboration through industry led initiatives

At a global FI level, the Glasgow Financial Alliance for Net Zero (GFANZ) was established in April 2021 to bring together the financial sector to help accelerate the transition to net zero. The alliance represents 500+ of the world's largest FIs across asset owners, asset managers, banks, insurers and asset consultants²⁸. GFANZ signatories collaborate across sectors to address challenges associated with net zero transition and ensure credible action. A number of Australian FIs are signatories to the various alliances that sit under GFANZ, including Net-Zero Banking Alliance, Net-Zero Insurance Alliance and the Net Zero Asset Owner Alliance, amongst others.

In addition to the formation of the Australian Sustainable Finance Institute, Toitū Tahua: NZ Centre for Sustainable Finance and the Sustainable Finance Institute Asia have also been established increasingly bringing a cross-financial sector perspective to support the growth and credibility of sustainable finance and investment markets and provide a finance sector perspective into the development of policy and regulation in this area.

Strong growth in sustainable finance without the appropriate supporting architecture threatens the integrity and credibility of the market and creates significant greenwashing risks

While considerable growth in sustainable finance markets should mean an equivalent growth in the environmental and social outcomes achieved, measurement and reporting frameworks rarely measure the outcomes in a rigorous and consistent way.

Even in relatively deep and mature European sustainable finance markets, with the supporting architecture of a taxonomy and corporate and financial sector climate disclosure frameworks, greenwashing is considered a significant risk. Concerns have been raised about the climate targets of many sustainability-linked bonds' (SLBs) which were found to be weak, irrelevant, or even already achieved.²⁹ Investigations have also been undertaken by regulators into ESG claims made by large international asset managers.³⁰

In Australia, the Australian Securities and Investments Commission (ASIC) released market guidance in June, 2022, on how to avoid greenwashing when offering or promoting sustainability-related products. ASIC are now playing a more active role in supervision of ESG claims made by corporates and investment managers.³¹ The Australian Competition and Consumer Commission (ACCC) is also increasing activity and recently announced a campaign to identify misleading environmental and sustainability marketing claims.³²



PART B

Progress towards Implementation of the Australian Sustainable Finance Roadmap





DOMAIN 1: Embedding sustainability into leadership

DOMAIN SCORE: 2.38



Overview of Domain Recommendations

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

Summary of progress for Domain 1

The standout observation from this Domain is that sustainability—and especially climate change—is no longer a niche consideration. Rather, sustainability is increasingly dealt with at Board and executive levels and seen as core to risk assessment and management and, to a lesser extent, strategic planning, and remuneration structures. This was evident from interviews conducted by ASFI with industry experts to inform this report, and from APRA's Climate Risk Self-Assessment Survey of

64 large and medium-sized Australian FIs. The shift is being supported by a more proactive focus from financial regulators on climate-related risk management and greenwashing. We are, however, a long way from seeing this translate into an alignment of capital flows with sustainable outcomes in practice.

There is emerging evidence of a skills gap in sustainable finance professionals which is inhibiting progress on sustainable finance and could increase the costs and risks associated with the transition to a net zero, climate resilient economy. A forthcoming report by the University of Sydney's Institute for Sustainable Futures is expected to make the case for the establishment of a partnership between industry, government, regulators, universities, and other professional finance training providers to build understanding of skills shortages and plan for skills development.

Implementing Recommendation 5, ASFI was established as a permanent institution in July 2021. ASFI now has 30 members from across the finance sector committed to supporting implementation of the Roadmap and to allocating capital consistent with the Roadmap's objectives. ASFI has four priority projects underway including leading the development of an Australian Sustainable Finance Taxonomy and has established strong relationships with partner organisations in Australia and internationally.

Progress on the recognition and protection of Aboriginal and Torres Strait Island people's rights and perspectives has been more modest. Efforts by groups such as the Responsible Investment Association of Australasia (RIAA) and the Australian Council of Superannuation Investors (ACSI) to work closely with First Nations representatives to improve finance sector awareness and practices, and by FIs through Reconciliation Action Plans, should be built on in 2023.

RECOMMENDATION 1

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

SCORE: 2.0 

KEY OBSERVATIONS

Many FIs are beginning to take steps to embed sustainability into corporate strategy, risk management frameworks, remuneration and culture, however there is significant variation in progress across the industry.

Globally, regulation is a key driver of progress and in Australia climate related guidance, such as CPG 229, released by the Australian Prudential Regulatory Authority (APRA) in November 2021 is supporting regulated entities to integrate climate risk into risk management and governance frameworks, and comply with existing risk management (CPS/SPS 220) and governance (CPS/SPS 510) obligations. A 2022 survey of medium to large APRA regulated entities indicated strong progress³³:

- integrating climate risk into Board level governance - 80% of institutions reporting that the Board or Board committee oversee climate risk on a regular basis; and
- embedding climate risk into risk management - 79% of institutions reporting that climate risk is embedded into elements of their risk management framework.

The survey also reported slightly lower levels of integration of climate risk into strategic planning processes (63%).

63% of institutions reporting that they have incorporated climate risk into their strategic planning process.

80% of institutions reporting that the Board or Board committee oversee climate risk on a regular basis.

79% of institutions reporting that climate risk is embedded into elements of their risk management framework.

The rise in integrated reporting across the corporate sector indicates a growing integration of sustainability, in many cases driven by investor demand. However, reporting still remains primarily focused on ESG related risks that are material to the business, rather than the impacts of businesses and FIs on society and the environment. Integrated reporting is found to be implemented by a small cohort of ASX200 companies, with 11% referencing sustainability in their primary report to shareholders in 2021³⁴.

Whilst climate change is the most common sustainability issue being actively integrated into risk management and corporate strategy, social considerations are also increasingly in focus, driven by legislative reporting requirements such as the obligations under the Modern Slavery Act 2018. The reporting of material social risks by Australian companies is significantly higher than their global counterparts, social risks are reported as material by more Australian businesses than their international peers, although the reasons for this are unclear.³⁵

The Sustainable Development Goals (SDGs) are being increasingly used to demonstrate the alignment of a companies' purpose and strategy to key sustainability themes with recent research suggesting that 59% of the ASX 150 companies reported performance against the SDGs,³⁶ however there is currently no standardisation of impact measurement frameworks and very little reporting of negative contributions to the SDGs.

CASE STUDY

Teachers Mutual Bank Limited – embedding sustainability in organisational leadership and practice

Teachers Mutual Bank Limited (TMBL) describes its approach to sustainability as 'built-in not bolted on'. This is reflected in its purpose statement: 'banking for good for those who do good' and evidenced throughout its strategy and practices. Sustainability is viewed as a strategic, competitive advantage for the bank as a whole, and for members and employees in particular—helping to attract and retain high quality, values aligned staff. TMBL is currently seeking approval from members (who are the owners of the bank, as a mutual entity) to amend its constitution to legally require the board and management to consider the impacts of their decisions on members, staff, society and the environment. This amendment is consistent with the requirements of B Corp Certification—an international verification standard for companies dedicated to using business as a force for good.

TMBL is one of only 42 banks and credit unions globally that is a Certified B Corp. Sustainability is a central pillar in TMBL's strategic plan and is one of its 3 values along with passion and advocacy. Sustainability is also built into remuneration structures: all executive and staff have key performance indicators for values and sustainability which connect to performance management and remuneration outcomes. The organisational culture encourages and rewards prioritisation of sustainability: the vast majority (over 90%) of TMBL staff have ranked sustainability as their number 1 issue in employee survey data over the past 6 years. TMBL is the only bank named by the Responsible Investment Association of Australasia (RIAA) as a Responsible Investment leader in its Annual Benchmarking Report. 100% of TMBL's wholesale and retail loans and deposit products are certified under the RIAA Certification, building in responsible investment as standard for the bank's customers, rather than an option or choice. These RIAA products on the balance sheet represent \$10.8 billion.

Since 2012, TMBL has been net zero for scope 1 and 2 emissions. The bank has undertaken a comprehensive physical risk assessment including scenario testing in line with the Climate Measurement Standards Initiative (CMSI) and APRA's CPG 229. It does not finance or invest in the fossil fuel industry.

RECOMMENDATION 2

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

SCORE: 1.0



KEY OBSERVATIONS

There is strong demand for sustainable finance skills, and a shortage of skilled professionals

FIs across the sector are finding it challenging to recruit and retain enough mid and senior level professionals with a tight labour market making it hard to retain expertise. Recent research by UTS (highlighted in the case study below) found that more than three quarters of sustainable finance professionals surveyed believed climate skills are in moderate to high demand in their organisation, with this demand expected to intensify.

The industry, universities and training institutions are starting to develop new course offerings to upskill university students and finance sector professionals in sustainable finance. These courses use a range of delivery models including:

- Online certificates in climate risk and green and sustainable finance (offered by FINSIA)³⁷
- University subjects in sustainable finance, for example at UTS and Macquarie University
- Partnerships between FIs and universities to offer sustainable finance training for employees. For example NAB is partnering with Melbourne Business School to offer corporate and institutional bankers' climate-related financial risk and transition training,³⁸ while Westpac has partnered with Monash University to upskill bankers on ESG issues³⁹.

However, despite this activity, Australia is lagging behind our international peers. The European Union's sustainable finance training program and Singapore's National University of Singapore and the Singapore Green Finance Centre's partnership are progressive examples of tertiary offerings in sustainable finance. Furthermore, the G20 has begun laying the foundations for a climate training alliance.

The more that FIs can demonstrate a need for these skillsets, and actively advocate—or even sponsor—educational establishments to provide these courses, the faster that a skilled Australian workforce will develop in this space. The UK's Green Finance Education Charter, designed as a mechanism to help build the capacity and capability of the green finance workforce, could provide a useful model for Australia to adopt.

Financial institutions across the sector are finding it challenging to recruit and retain enough mid and senior level professionals with 'job shifting' making it hard to retain expertise.

CASE STUDY

University of Technology Sydney skills research

To understand the current state of climate skills across the Australian financial system, the Institute for Sustainable Futures (ISF) at UTS invited sustainable finance professionals to complete a survey exploring the issue. The survey and analysis was undertaken in collaboration with the CSIRO Climate Mission. Responses came from the breadth of Australia's financial system, with close to 30% of respondents working in asset management/investment and another quarter in banking.

Evidence is emerging of a climate skills gap in the Australian financial system

More than three quarters of respondents said that climate skills are in moderate to high demand in their organisation, with 67% of respondents saying that demand is outstripping supply.

While a majority of respondents reported that their organisation has a good understanding of the climate skills it needs, a significant proportion, over 40%, think it does not. Respondents identified that organisations are still trying to understand the skills requirements and that it is challenging in a fast-evolving space with no agreed competency framework for climate skills. The survey also indicated that professionals with climate skills are not well networked through their workplaces.

The gap is likely driven by a rapid acceleration in attention on climate and climate risk without a corresponding focus on skills development and training. After years of inaction on climate, there is now a need to deploy solutions quickly, but it takes time to develop the expertise.

There are risks to the financial system, to Australia's decarbonisation plans, and to Australia's cost of capital if skills gaps are not properly addressed

We can expect demand for skills across the finance and real economy sectors to continue to grow, and a deficit of skills would increase costs and risks associated with the transition

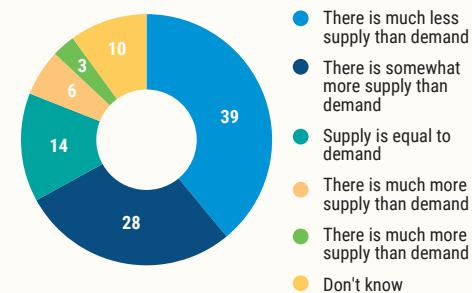
to a net zero, climate resilient economy. Demand will also grow for other sustainability skills driven by developments like TNFD and the ISSB sustainability reporting standards. Financial regulators such as APRA are now actively examining competencies within financial institutions. As a country, Australia risks falling behind others who are proactively addressing skills and training challenges, and an ongoing skills shortage could hold back both real economy progress and the ability of the finance system to support decarbonisation through financing and investment.

More research and system-wide partnerships will help identify and address skills shortages

The UTS survey findings align with research in overseas jurisdictions, but more comprehensive and systematic research is required to identify and track skills development over time. This would support academic institutions and other training providers to anticipate demand for skills and to develop training offerings that meet the needs of the market. ISF also advocates for the establishment of a partnership between industry, government, regulators, universities and other professional finance training providers to build understanding of skills shortages and plan for skills development.

A report analysing the full findings of the survey and presenting recommendations to address the growing skills gap will be released by ISF in October 2022 and made available at uts.edu.au.

Demand for climate skills in relation to supply



RECOMMENDATION 3

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

SCORE: 2.0 

KEY OBSERVATIONS

Enhanced industry codes of practice and legislation are enabling more progress on the remediation of misconduct and the development of improved corporate cultures; based on requirements for customer centric ethics and, promotion of trust and respect. There has been significant activity in this area since 2019.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Financial Services Royal Commission) from December 2017 to February 2019, found that across the financial services sector, multiple entities' actions amounted to misconduct having fell below expected standards. This included failing to take proper steps to assess the culture and governance within organisations.

In July 2019, after the release of the Royal Commission findings, amendments to the Banking Code of Practice⁴⁰ were introduced and served to make it clearer, easier to understand, stronger and with greater protections for all bank customers. The Banking Code of Practice includes 10 guiding principles which aim to provide an "ethical, customer-orientated and sustainable framework".

In alignment with the Banking Code of Practice, the General Insurance Code of Practice⁴¹ has also been reorientated towards serving the community including a statement that the general insurance industry will "provide value, transparency and fairness of products and services" and that it will promote "trust, integrity and respect". In the prior version of the General Insurance Code⁴², integrity, transparency and fairness were not a feature of the code.

The Better Advice Act pertaining to Financial Advisers has also been passed, and the administration of this act has been passed from Financial Adviser Standards and Ethics Authority (FASEA) to ASIC. The Better Advice Act requires financial advisers to comply with the Financial Planners and Advisers Code of Ethics, which were also refreshed following the Royal Commission. The code promotes the values trustworthiness, competence, honesty, fairness and diligence and also seeks to raise the education, training and ethical standards of financial advisers and planners.

RECOMMENDATION 4

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

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

SCORE: 2.0 

KEY OBSERVATIONS

Evidence suggests that superannuation, banking, and insurance companies are increasingly considering how to align remuneration with sustainability performance

For example, NAB, QBE and Insignia Financial have recently adopted climate considerations into their respective incentive plans. This follows the lead of the UK market, where it is increasingly common for FTSE 100 financial services companies to introduce climate-related measures into their short- and long-term incentive plans. In the UK, major banks (including Barclays, Lloyds and HSBC) have adopted measures that combine a series of environmental goals in their incentive plan design (e.g. sustainable financing, reduction in carbon footprint and increasing use of renewable energy). We note, however, that their Australian peers lag in aligning environmental and sustainability goals with long term incentives, more typically including these measures in short term incentive plans, with over 80% of listed companies across a range of sectors linking short-term executive incentive plans with ESG measures.⁴³

APRA's CPS 511 remuneration standard will be implemented progressively from 1 January 2023, with the objective of strengthening remuneration practices across the banking, insurance, and superannuation industries

Within CPS 511,⁴⁴ remuneration frameworks must be aligned with an entity's business plan, strategic objectives and risk management framework, and promote effective management of financial and non-financial risks, sustainable performance, and the entity's long term-soundness. APRA-regulated entities must publicly demonstrate how they are meeting these requirements, encouraging non-financial risks to be given material weighted in remuneration frameworks in the future. This should see financial services companies giving greater consideration to non-financial measures in their long term incentives, including environmental measures.

This, combined with increasing pressure from investors to integrate ESG metrics in executive remuneration, means that this could be an area of focus in future progress trackers.

RECOMMENDATION 5

Establish the Australian Sustainable Finance Initiative as a permanent body, and; 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

SCORE: 4.0 

KEY OBSERVATIONS

ASFI was established as a permanent institution in July 2021

ASFI was established with 21 founding members across the finance sector including major Australian banks, asset owners, asset managers, insurers and financial services firms. Membership has grown to 30 members committed to supporting implementation of the Australian Sustainable Finance Roadmap and to allocating capital consistent with a sustainable, resilient and inclusive Australia.

ASFI's approach is to drive progress through coordinating across the finance sector with government, academia, civil society to support collaboration and best practice. ASFI works closely with industry associations, regulators, government, and universities to achieve its mission of realigning the Australian financial system so that capital flows to sustainable activities. ASFI's Advisory Committee membership reflects this close collaboration and includes representatives from across these sectors (see asfi.org.au). ASFI has established strong international partnerships with international counterparts to learn from international experience and facilitate inter-operability of Australian frameworks (see Recommendation 8).

ASFI has established four priority projects to date

ASFI's initial areas of focus and delivery model differ slightly from what was envisaged in the Roadmap, reflecting developments between the Roadmap release and the time that ASFI was established. Consistent with the Roadmap's mandate, ASFI is prioritising projects that have the greatest potential to drive change across the whole of the financial system:

- Developing an Australian Sustainable Finance Taxonomy (see Recommendation 9).
- Supporting the work of the Taskforce on Nature-related Financial Disclosures (see Recommendation 14).
- Leadership Forum to build a strong community of sustainable finance leaders who can share experiences, build knowledge, and collaborate to drive change within their organisations and across their networks.
- Publish an annual Progress Tracker Report to assess progress towards implementation of the Australian Sustainable Finance Roadmap.

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.

SCORE: 2.0 

KEY OBSERVATIONS

There is growing recognition of the intersection between First Nations people's rights and the financial system

The establishment of a First Peoples Financial Services Office has not been progressed by ASFI during this report period, however there is growing activity from several First Nations organisations to better integrate First Nations perspectives, people and outcomes into financial services. Organisations like First Australians Capital support the growth of Indigenous businesses, the First Nations Clean Energy Network is ensuring First Nations people can benefit from the energy transition in Australia, and First Nations Foundation is providing financial education and wellbeing training, including delivering cultural competency training for the finance sector, so FIs can provide better products, services and experiences for their Indigenous customers.

There is also increasing recognition and work by investor organisations such as the Responsible Investment Association of Australasia (RIAA) and Australian Council of Superannuation Investors (ACSI) on the importance of self-determination and exploration of the ways that investors can support this. The RIAA First Nations Peoples' Rights Working Group⁴⁵ continues to provide an active forum for collaboration between finance sector participants and First Nations organisations, including First Nations Heritage Protection Alliance, First Australians Capital, Reconciliation Australia, First Nations Foundation, First Nations Clean Energy Network, and has established a number of initiatives that contribute to recommendations of the Roadmap.

Practical tools are being developed to support better engagement by investors

In October 2021, the RIAA Working Group published an Investor Toolkit⁴⁶ which aims to provide the investment community with practical guidance to assess how cultural heritage and relationships with Indigenous partners are managed by companies (see case study below). ACSI has also established a company engagement framework for investors to use to support constructive engagement with high-risk companies, supporting them to identify and manage the risk of unconstructive company relationships with First Nations people, which can create a significant investment risk if not properly managed (see case study under Recommendation 7).

The RIAA Working Group is currently conducting research into First Nations Peoples' Investment Markets to understand the opportunities for investing in the First Nations economy, and to determine how investment can support self-determination for Aboriginal and Torres Strait Islander people. This research will provide an important map of the current state of First Nations Peoples Investment Markets in Australia, and the barriers and enablers to unlock opportunities in this space.

Public debate around First Nations self-determination presents an opportunity to enable further progress

Continued progress against this recommendation may be enabled through scaling up and better coordinating work to integrate First Nations people, perspectives, and outcomes into financial services and the design and delivery of services and products. ASFI is conducting exploratory work with organisations and First Nations representatives in this space to determine how to best progress this recommendation. Initial steps include a workshop to be held at the end of October 2022, with ASFI partners to explore various options to take this work forward.

CASE STUDY

Investor Toolkit to support Indigenous Peoples' Rights and Cultural Heritage Protection

In partnership with the First Nations Heritage Protection Alliance, the RIAA First Nations Peoples' Rights Working Group has produced an Investor Toolkit - An Investor Focus on Indigenous Peoples' Rights and Cultural Heritage Protection. The toolkit builds capacity in the finance sector to "demonstrate respect for the rights of Indigenous peoples in the due diligence processes by investors", in collaboration with First Nations organisations.

The toolkit is a key mechanism to:

- help investors understand the importance of appropriately managing relationships with Indigenous stakeholders;
- provide practical guidance to the investment community on appropriate engagement questions for use across multiple sectors;
- assist investors in their integration activities through a simple 'red-flag' guide; and
- magnify, respect, and support the rights of Indigenous Peoples by supporting investors to align their policies and practices to the UN Declaration on the Rights of Indigenous Peoples.

The toolkit has become a valued resource for investors and companies that was downloaded 3,000 times in its first five weeks.

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.

SCORE: 2.0 

KEY OBSERVATIONS

Legislative reform aims to address significant gaps in protection of cultural heritage and First Nations People's rights

Indigenous heritage and free, prior, and informed consent (FPIC) is still under the spotlight following the destruction of Juukan Gorge. In October 2021, the Northern Australia Committee published their final report ('A Way Forward') as part of the inquiry into the destruction of the site. The report emphasises the need for legislative change at Commonwealth, State and Territory levels to ensure the protection of Aboriginal and Torres Strait Islander heritage⁴⁷ The NSW Government is currently undertaking a review of the *Heritage Act 1977*.⁴⁸

FIs and Reconciliation Action Plans

Reconciliation Action Plans (RAP) have been increasing in prevalence amongst Australian companies with the purpose to embed the principles of reconciliation within businesses. According to Reconciliation Australia, the financial services industry has a high uptake of accredited RAPs, with 45 FIs listed on their website as having a RAP.⁴⁹ Reconciliation Australia identify four RAP types, starting with 'Reflect' (for organisations new to reconciliation), 'Innovate', 'Stretch', and 'Elevate' (for organisations with a proven track record of embedding RAP initiatives).⁵⁰ Sixty percent (27/45) of the FIs have a 'Reflect' RAP while just over 13% (6/45) have either a 'Stretch' or 'Elevate' RAP, indicating that most FIs with RAPs are at in the initial phases of implementation.

Dhawura Ngilan Business and Investor Initiative

In March 2021, Rachel Perkins, former Indigenous Heritage Chair of Australia, together with the First Nations Heritage Protection Alliance presented Dhawura Ngilan: A vision for Aboriginal and Torres Strait Islander heritage in Australia and the Best Practice Standards in Indigenous cultural heritage management, along with legislation to RIAA's First Nations Peoples' Rights Working Group, and called on investors to add their voices to First Nations voices to call for stronger protection of cultural heritage. In response, RIAA, in partnership with First Nations Heritage Protection Alliance and the UN Global Compact Network Australia, established the Dhawura Ngilan Business and Investor Initiative.

The initiative brings together First Nation business and investor communities to create a shared vision for strengthening Australia's Aboriginal heritage laws and establishing standards for the private sector that uphold the rights of First Nations Peoples in line with the United Nations Declaration on the Rights of Indigenous Peoples. This initiative is working to adapt the Dhawura Ngilan vision and best practice standards to provide practical guidance to businesses and investors on how to ensure that their actions and policies contribute to the protection of First Nations' cultural heritage protection instead of its destruction. Led by Dr Terri Janke, a Wuthathi/Meriam woman, an international authority on Indigenous Cultural and Intellectual Property (ICIP) and co-chief author of Australia's State of Environment Report 2021), the guides will be launched in early 2023.

New Zealand's approach to support First Nations People in the financial system

The New Zealand Reserve Bank's Te Ao Māori ("Māori World") Strategy aims to improve understanding of the Māori economic ecosystem and the financial challenges faced by Māori people in the New Zealand economy. New Zealand has also initiated the development of the Indigenous Peoples Economic Co-operation Arrangement (IPETCA) to "strengthen the economic empowerment of Indigenous Peoples in the Asia Pacific region".⁵¹ The Australian government has committed to collaborating with Indigenous Australians to aid in the implementation of this arrangement in Australia.⁵²

CASE STUDY

ACSI - Consultation with First Nations people

The destruction of 46,000 year old caves at the Juukan Gorge in May 2020 caused irreversible loss of Indigenous cultural heritage and had a devastating impact on First Nations People, particularly the Puutu Kunti Kurrama and Pinikura people. In response to this event, the Australian Council of Superannuation Investors (ACSI) co-led engagement by a coalition of international investors with global extractive companies to understand their positions and practices. A subsequent analysis of companies' responses identified some clear gaps in disclosure and approach.

ACSI also coordinated extensive consultation between investors and First Nations Groups, companies, government and community groups to better understand the issues and the risks, aimed at reaching a shared position on what superannuation investors should expect of investee companies.

ACSI's report on this work, *Company Engagement with First Nations People*,⁵³ provides guidance on building and maintaining long-term and constructive relationships, with First Nations groups and aims to help investors manage material risks. The report also identifies gaps in company practice, including:

- confidentiality clauses that prevent First Nations groups from publicly objecting to projects.
- failing to engage early enough, or on an ongoing basis throughout the project.
- failing to mitigate power imbalances with resource-constrained First Nations communities.

The report sets out elements that are required for good-faith, constructive engagement, including:

- integrated risk assessments that align with international law and standards.
- establishing and maintaining free, prior and informed consent (FPIC).
- better transparency and accountability.

ACSI has also published a policy to guide companies to establish and maintain better processes for engaging with First Nations peoples, respecting First Nations peoples' rights, and protecting cultural heritage.⁵⁴

ACSI continues to advocate for change in how investors engage with investee companies, and for better regulation to lift standards across the market. Enshrining FPIC in relevant laws and creating an expectation among investors that companies' properly implement FPIC are important steps towards respecting and protecting the rights of First Nations peoples and helping to ensure the mistakes and catastrophic impacts of Juukan Gorge are not repeated.

RECOMMENDATION 8

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

SCORE: 4.0 

KEY OBSERVATIONS

Government and private sector partnerships

There is considerable activity by Australian regulators and government agencies with their international counterparts bilaterally, and through multilateral fora such as the UNFCCC, G20, ASEAN, APEC, IOSCO and NGFS. While many of these engagements are now aligned with Roadmap implementation, this is not necessarily their focus. The expectation is that as government policy settings continue to shift and are more supportive of many of the recommendations in the roadmap, so too will the focus of Government's international partnerships.

The Australian financial sector has increasingly signed up to global net-zero alliances. Further information on this is in Part A of this Report.

ASFI has established constructive partnerships with key international counterparts to drive Roadmap implementation

The global nature of capital markets means that international inter-operability of sustainable finance policy and regulation is critical to enable global capital flows. Several of Australia's international counterparts have significant experience in developing and implementing sustainable finance policy and initiatives, such as sustainable finance taxonomies, mandatory disclosure regimes and centres of sustainable finance. To promote international inter-operability, and to support Australia to learn from the experiences of other jurisdictions, ASFI has also established several partnerships with counterpart organisations internationally. Close working relationships have been formed with:

- Toitū Tahua Centre for Sustainable Finance in New Zealand;
- the Sustainable Finance Action Council in Canada, who are providing advice to the Canadian government on sustainable finance policy, including taxonomies;
- the Sustainable Finance Institute Asia, who are supporting development of the ASEAN taxonomy;
- the EU Platform on Sustainable Finance providing expert advice to the EC on sustainable finance policy, particularly the taxonomy; and
- the Green Finance Institute in the United Kingdom, who are supporting the development of the UK green finance taxonomy.

ASFI has also been connected to the Monetary Authority of Singapore and the Singapore taxonomy process under the Australian Singapore Green Economy Agreement negotiations, with this relationship expected to be formalised after agreement signing later this year. Additionally, ASFI is connected with the OECD Environment Directorate on transition finance and continues to make the case for Australian Government Treasurer to join the International Platform on Sustainable Finance, which is the primary global forum for policymakers that are in charge of developing sustainable finance regulatory measures.





DOMAIN 2: Integrating sustainability into practice

DOMAIN SCORE: 2.31



Overview of Domain Recommendations

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

Summary of progress for Domain 2

There has been encouraging momentum towards the implementation of many recommendations in this domain - albeit from a low base. ASFI has established a project to develop an Australian sustainable finance taxonomy, working with experts across the financial sector, government, regulators, and the policy community. The first paper from this project 'Analysis of international taxonomies and considerations for Australia' has been released which underscores the need for an Australian taxonomy to be credible, science-aligned and interoperable with international taxonomies. ASFI will continue its efforts to coordinate this industry-led project, noting the importance of continued close engagement from Government including to integrate the taxonomy into other aspects of sustainable finance policy and governance.

Climate-related financial reporting by Australian firms is on the rise with 103 of the ASX 200 firms now fully or partially aligning their disclosures to the TCFD. The Government's proposed climate-related reporting framework will help Australia catch up to international peers including the UK, New Zealand and Canada which have mandatory reporting frameworks already in place. Mandatory disclosure rules will institutionalise the practice of identifying and addressing climate risk, support investors and consumers to make better-informed decisions, and help regulators combat greenwashing.

The International Sustainability Standards Board (ISSB)'s development of baseline standards for sustainability reporting has been well received by the Australian financial sector. Likewise, the Task-force on Nature-related Disclosures is enjoying strong support from across Government and the finance sector and will help underpin better environmental practice and the development of markets such as the Australian Government's proposed national biodiversity market. Adopting ISSB and TNFD standards in the Australian regulatory framework would support Australia's progress in line with international developments.

Reflecting an increased focus by FIs and financial regulators on the physical, transition and liability risks posed by climate change, FIs are increasingly undertaking climate-related scenario analysis to stress test their businesses under different warming trajectories. APRA's Climate Vulnerability Assessment of major Australian banks, and the introduction of climate-related practice guidance CPG 229, is expected to support further improvements by FIs in understanding and managing climate risk and opportunities. There is scope to continue to develop and refine sustainability-related regulatory guidance and standards to improve consistency, and remove inadvertent deterrents to sustainable practices by FIs.

The Australian Government should continue to strengthen its ability to actively shape and inform global and regional sustainable finance developments by joining the International Platform for Sustainable Finance. There is likewise significant room for improvement in embedding sustainability through supply chains, improving access to information for investors and consumers, and harmonising frameworks to support FIs to engage in effective stewardship practices.

RECOMMENDATION 9

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

SCORE: 4.0 

WHAT IS A SUSTAINABLE FINANCE TAXONOMY?

Sustainable finance taxonomies are a set of common definitions to transparently define sustainable economic activities. Taxonomies make it easier to identify investment risks and opportunities, to create sustainable assets and activities, and guide capital to support the achievement of Australia's climate, environmental and social objectives. They also: provide confidence to investors (and regulators) when making certain sustainability claims; enable comparability between Investment products and portfolios; and reduce transaction costs.

KEY OBSERVATIONS

ASFI is co-ordinating a project to develop an Australian sustainable finance taxonomy

The ASFI Taxonomy Project is an industry-led initiative, working closely with government and regulators, to develop an Australian sustainable finance taxonomy. This work has strong support from the Australian Council of Financial Regulators (CFR 2021), which recognises the risks to Australia and its financial system if it does not actively shape emerging international norms in this area informed by Australia's interests.

Building on sustainable finance taxonomies internationally, including work done by the UK, Japan, Canada, Singapore, and the EU, this project is working with experts and stakeholders across the Australian financial system to determine what a sustainable finance taxonomy should look like in Australia to ensure international credibility and inter-operability while reflecting the Australian economy and context. It is seeking to coordinate with the development of taxonomies in our region, including New Zealand and Singapore, and with jurisdictions that have similar economic structures, like Canada.

The Taxonomy project is being implemented in a phased approach:

- 1) Scoping and framework design
- 2) Establishment of institutional governance and development of taxonomy
- 3) Industry take-up, application, and maintenance.

Key areas of focus that have been identified so far include:

- **Designing a transition mechanism:** Given the importance of transition activities in the Australian context, the project is focusing strongly on how an Australian Taxonomy can promote the integrity of Australia's net-zero transition by mobilising capital in alignment with credible science-based transition pathways.
- **Ensuring scientific credibility:** All jurisdictions consulted have emphasised the need to ensure the taxonomy is science-based and credible. Given the plethora of existing and emerging taxonomies, including the EU and Singapore, that are available to the market, there is a strong view that if Australia were to develop a taxonomy that is not robust and scientifically credible, it will not be used by the market. An effective Australian taxonomy will be one that is applicable to the structure of Australia's economy and its starting point for the transition to net zero and uses credible science-based criteria to determine the green and transition activities to achieve the global climate objectives, regardless of specific government policy objectives.

- **A robust and enduring governance structure:** an appropriate governance structure for the development and maintenance of the taxonomy has been identified as key to ensuring the credibility and market legitimacy of the taxonomy. ASFI is drawing on advice, experience, and examples from other jurisdictions to shape options for the design of the governance structures for the development of an Australian taxonomy, to safe-guard and prioritise scientific integrity, ensure market credibility and usability as a private finance tool.

The taxonomy project recently released its first paper 'Analysis of international taxonomies and considerations for Australia.' It underscored the need for an Australian taxonomy to be credible, science-aligned and inter-operable with international taxonomies. The paper is available for download at asfi.org.au.

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.

SCORE: 1.0 

KEY OBSERVATIONS

Australia has not yet announced that it will join the IPSF

In late 2019, the EU launched the International Platform for Sustainable Finance together with relevant public authorities from Argentina, Canada, Chile, China, India, Kenya and Morocco. The IPSF is the pre-eminent forum for national governments to:

- exchange information on sustainable finance practices;
- identify opportunities to scale up sustainable finance globally; and
- enhance international coordination towards alignment and inter-operability of sustainable finance policy and regulatory frameworks.

Since its launch, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, Norway, Senegal, Singapore, Switzerland and the United Kingdom have also joined the IPSF. Together, the 18 members represent 55% of GHG emissions, 55% of global GDP and 50% of the world population.

The IPSF has been driving work on the common ground taxonomy project, to identify commonalities and differences between the EU and China taxonomies, and it is increasingly focusing discussions and research on transition finance. At the date of this report, Australia has not announced that it will join the IPSF.

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

RECOMMENDATION 11

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

SCORE: 2.0 

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.

SCORE: 2.0 

RECOMMENDATION 15

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

SCORE: 2.0 

KEY OBSERVATIONS

There has been a large increase in climate-related disclosures in Australia in a relatively short period of time

A 2022 ACSI report on climate change disclosures in the ASX 200⁵⁵ found that 103 companies are now either fully or partially aligning their disclosures to the TCFD, a significant lift in adoption from when the TCFD was first established in 2017, where only 11 of the ASX 200 companies used it. Science-based approaches are also growing, with 36 companies found to have disclosed one or more of their targets as 'science-based'.⁵⁶

This reflects a strong global increase in TCFD aligned disclosures, supported by mandatory reporting obligations

The Financial Stability Board's last report on the status of TCFD reporting (2021)⁵⁷ found that more than 2,600 organisations have expressed their support for the TCFD recommendations, an increase of over a third since the 2020 status report. These supporters include 1,069 FIs, responsible for US \$194 trillion worth of assets. TCFD adopters now span 89 countries and nearly all sectors of the economy, with a combined market capitalisation of over US \$25 trillion.⁵⁸

Multiple jurisdictions have proposed or implemented regulations mandating disclosure

Countries with mandatory disclosure regimes aligned with TCFD to some extent, include the UK, New Zealand, France, Canada and Hong Kong. In the UK, over 1,300 UK-registered companies and FIs are now reporting against the TCFD. This includes many of the UK's largest traded companies, banks and insurers, as well as private companies with over 500 employees and £500 million in turnover.

In January 2022, the Singapore Stock Exchange (SGX) required all listed companies to provide climate reports integrated into their sustainability reporting on a “comply or explain” basis⁵⁹. Whilst not mandating fully aligned TCFD reporting, key elements of the TCFD recommendations are being required.

The Australian Government has indicated its commitment to an enhanced climate-related risk reporting framework aligned to international standards,⁶⁰ and Australian regulators and industry bodies are increasingly supporting the adoption of TCFD aligned climate related disclosures. The Council of Financial Regulators⁶¹ (CFR) Climate Working Group supports consistent, comparable, and reliable climate and sustainability-related information to ensure a fair and efficient market and encourages the use of TCFD.⁶² ASIC recommends listed companies with material exposure to climate risk consider reporting under the TCFD framework.⁶³ APRA's prudential practice guide: CPG 229, provides guidance for the financial services sector on the management and disclosure of climate-related risk, and also endorses disclosures aligned with the TCFD.

Globally, regulators are encouraging greater coverage and improved quality of climate disclosures

The U.S. Securities and Exchange Commission (SEC) has proposed a new rule to enhance and standardise the way organisations disclose climate-related risk.⁶⁴ The proposal, if enacted, will require more detailed reporting by entities of their climate-related risks, emissions, and net-zero transition plans.

The European Financial Reporting Advisory Group (EFRAG) recently issued 13 exposure drafts of European Sustainability Reporting Standards, which would be applicable to most listed and large companies located in the EU and certain foreign companies or groups that generate revenue in the EU. The exposure drafts include the so called “double materiality” concept, integrating considerations of the impact on an entity's financial value and the entity's impact on the world at large. The double materiality principle considers a wider range of stakeholders than the ISSB standards or the US SEC, which focus on the needs of investors. The EU proposals aim to drive consideration of all significant impacts from the perspective of an investor and wider stakeholders in society, who may be impacted⁶⁵.

There is a continued trend towards more and better-quality assurance of sustainability disclosures

As the recognition of the materiality of climate and other ESG issues grows, so too does the need for a higher standard “financial information equivalent” assurance for sustainability related reporting. While organisations are increasingly reporting on climate-related and broader sustainability disclosures, assurance of sustainability related disclosures remains voluntary. Mandatory assurance would likely contribute to improved quality of disclosures.

KPMG's research of the ASX's Corporate Governance Principles and Recommendations reviewed the reporting trends of ASX listed entities and found 49 percent of the S&P/ASX200 currently obtain external assurance of environmental and social disclosures.⁶⁶ However, the majority of assured sustainability reports only receive limited assurance for specific data points, while key elements of the report—such as the determination of material metrics, the process to set targets, and key narrative claims—are often not assured.

International Sustainability Standards Board (ISSB) expected to drive increased climate reporting

The formation of the International Sustainability Standards Board (ISSB) by the IFRS Foundation, and its announcement at COP26 has provided considerable momentum to the uptake of climate and broader sustainability reporting. of reliable, The ISSB is set to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

Following its historic establishment, the ISSB released two draft Sustainability Disclosure Standards in March 2022 – covering general sustainability disclosure requirements and specific climate-related disclosures.

Under the draft standards, companies would report on all relevant sustainability topics (not just on climate-related risks and opportunities) across four content areas consistent with the TCFD framework: governance, strategy, risk management, and metrics and targets. The ISSB Board has stated that it aims to issue the final standards early in 2023, whereafter local jurisdictions will have to determine whether and when to mandate adoption of the proposals. Near-term adoption of the new sustainability reporting requirements is expected in several jurisdictions, including Australia.

CASE STUDY

Strong Australian support for ISSB standards as a global baseline

Australia's most influential business and finance peak bodies, including ASFI, came to an unprecedented consensus on the need for sustainability reporting through the new proposed ISSB reporting regime to set a global baseline. The group, which collectively represents the voice of 20 peak professional, industry, and investor bodies in Australia—representing more than 400 companies, approximately 300 investors with US\$33 trillion assets under management, and 500,000 business and finance professionals—came together to prepare a joint response to the two ISSB exposure drafts.⁶⁷

In the submission, the Group considered that clear, transparent, comprehensive, and comparable disclosure of sustainability related information should be part of the foundation of a well-functioning global financial system. The group supported a global approach to the development of sustainability disclosure standards and for the ISSB to be the global body to issue these standards. The group submission emphasised the need for a climate-first approach and for assurance to give credibility to sustainability information, including the development of criteria for limited and reasonable assurance engagements. The group expressed their willingness and desire to work with the Australian Government and key national and international stakeholders as the reporting regime is finalised and phased in.

RECOMMENDATION 13

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

SCORE: 4.0 

KEY OBSERVATIONS

The Climate Measurement Standards Initiative (CMSI) has been formed as an industry led collaboration between banks, insurers, scientists, regulators, reporting standard professionals and service providers

The aim of CMSI is to build the standards of, and confidence in, climate-related reporting. It aims to provide guidance for disclosures under the TCFD, as well as providing scientific guidance for the development of scenario analysis and climate risk projections.

The CMSI has developed Financial Disclosure Guidance, as well as its Climate Science Guidance, providing materials for Australian Banks, general insurers and asset owners.

The guidance has good uptake from major FIs as well as services providers working with the finance sector.⁶⁸ The reports have been downloaded 4600 times and the second phase of CMSI has so far focused on integrating the science from the latest IPCC report (AR6) into the guidance and will continue in 2023, taking into account the changing landscape of climate-related reporting and involving industry organisations (Australian Banking Association (ABA) and the insurance Council of Australia (ICA) in addition to individual institutions.

RECOMMENDATION 14

Recognising that 7-10% of all species on Earth occur in Australia,⁶⁹ and many of these are only found in Australia,⁷⁰ Australia's financial system participants collectively play a leadership role in the development of the Taskforce on Nature-related Financial Disclosures (TNFD).

SCORE: 4.0 

KEY OBSERVATIONS

The World Economic Forum estimates that over half the world's GDP (\$44 trillion USD) is moderately or highly dependent on nature⁷¹

At the same time, environmental degradation is continuing—and in fact accelerating—at an alarming rate.⁷² The recently released State of the Environment report reveals that the state and trend of the environment in Australia is poor and deteriorating and this ongoing environmental decline has negative economic impacts on industries, businesses, regions, and communities.⁷³ Australia has some of the highest rates of species decline amongst OECD countries and has lost more mammal species than any other continent in the world.⁷⁴

The independent statutory review of the *Environment Protection and Biodiversity Conservation Act* by Dr Graham Samuel found that significant investment is required to improve the environment, reverse the current unsustainable trend, and enable future development to be sustainable.⁷⁵ It also found that private capital is increasingly interested as the global shift towards investment in environmental, social, and corporate governance outcomes grows.

Australia plays a leadership role in the development of TNFD

The Taskforce on Nature-related Financial Disclosures (TNFD) was established in 2021 to develop a risk management and disclosure framework that supports organisations to identify, manage, and report on their nature-related risks and opportunities. The TNFD framework complements and aligns its structure with the existing TCFD framework. The TNFD is adopting an open innovation approach that encourages market participants to support development of the framework. The taskforce is releasing a series of “beta” frameworks for testing and feedback, with the final version due to be released in September 2023.⁷⁶

Australia is host to one of the TNFD’s eight market-led global consultation groups, established to engage nature-related businesses and finance organisations across Australasia.⁷⁷ The consultation group is convened by RIAA. The TNFD has also assembled a forum for consultation with 700+ domestic and international institutions in the financial industry.⁷⁸ Australian domestic participants include banks, superfunds, industry associations, asset managers, and audit and consulting firms.

The Australian Government has been involved with the TNFD from its nascency—as the second largest sovereign funder and forum member. The Department of Climate Change, Energy, the Environment and Water (DCCEEW) is working closely with the private sector and industry organisations, including ASFI, to inform the framework and ensure the TNFD captures and incorporates the experiences of Australian organisations. This has provided an opportunity for Australian FIs and market intermediaries to be at the forefront of considerations on how the financial sector can start to recognise, value, report and act on evolving climate and nature-related risks and opportunities, as demand for innovative solutions to climate change and biodiversity loss grows in coming decades.

ASFI is supporting early engagement with TNFD

ASFI is currently scoping piloting activities with FIs to inform the final TNFD framework (to be released late 2023) and demonstrate the practical integration of climate and nature considerations from the perspective of asset owners and managers. This would also identify relevant guidance and considerations in banking and insurance, both critical parts of the finance sector in Australia; and help inform the development needs of new ESG analytics, technologies, and approaches to capture nature data in a cost-effective way that can be incorporated into financial products and services.

The TNFD has strong support globally

Globally, support for the TNFD is strong. The G20 Sustainable Finance Roadmap encourages international bodies to further advance nature- and biodiversity-related metrics to support corporate and financial institution disclosure.⁷⁹ The reach and influence of the TNFD is global, with the Governments of Bangladesh, Canada, France, Japan, Peru, Scotland, Switzerland, the Netherlands and the United Kingdom participating in the TNFD Forum alongside the Government of Australia.⁸⁰ Global finance institutions, including Barclays, Bank of America, BlackRock, HSBC, UBS and Axa also sit in the TNFD Forum as well as a number of Australian FIs including Australian Super, CBA, Ethical Partners Funds Management, Fidelity International, HESTA, Macquarie Group, Melior Investment Management, NAB, Ninety One and Westpac.⁸¹

RECOMMENDATION 16

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

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

SCORE: 2.0 

KEY OBSERVATIONS

Scenario analysis and stress testing by FIs

Evidence suggests Australian FIs are increasingly undertaking climate-related scenario analysis to understand and address climate risk in their businesses. Seventy-two per cent of the 64 Australian FIs surveyed in APRA’s 2022 Climate Risk Self-Assessment Survey reported conducting climate-related scenario analysis⁸². A majority of those institutions had undertaken three or more climate-related scenario analyses. The most common climate scenarios used included:

- Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) 2.6, RCP 4.5 and RCP 8.5;
- Network for Greening the Financial System (NGFS) Current Policies (Hot House World) Scenario, and Delayed Transition (Disorderly) Scenario; and
- International Energy Agency (IEA) Net Zero Emissions (NZE) by 2050 Scenario, Stated Policies Scenario (STEPS) and Sustainable Development Scenario (SDS).

Some institutions have also developed their own scenarios, or referenced APRA's Climate Vulnerability Assessment, which is based on the Network for Greening the Financial System (NGFS) scenarios with additional modelling for the Australian context (see recommendation 17). The practice of scenario analysis and stress testing was part of a general trend within surveyed institutions towards incorporating climate across their risk management frameworks.

In analysing the results of the survey, APRA found that: "In general, the [survey] responses show that institutions consider that they have moderate vulnerability to both physical and transition risks under a high-risk scenario, and they consider these risks to be within an acceptable range for the institution's current risk appetite."⁸³

The survey also found that 22% of FIs surveyed indicated they are unsure of their vulnerability to physical and transition risks. In response, APRA noted that sophisticated analysis and access to reputable data may be challenging for some organisations, but that APRA's guidance CPG 229 provides guidance on other tools that can support institutions undertaking analysis for the first time or that have limited resources.

It should be noted that APRA's survey deliberately focused on large and medium sized Australian FIs, which are likely best resourced to incorporate climate risk into their businesses including through stress testing and scenario analysis. Smaller FIs may be less progressed with regard to scenario analyses and climate risk integration more broadly. APRA Deputy Chair, Helen Rowell, said that "[w]ith stakeholder expectations on climate risk only going to rise further in coming years, we urge all regulated entities – not only those involved in the survey – to consider the findings and reflect on their preparedness"⁸⁴.

Stress testing frameworks

APRA's Prudential Practice Guide CPG 229 Climate Change Financial Risks provides that APRA regulated institutions should develop capabilities in climate risk scenario analysis and stress testing, or have access to external capabilities. It gives a broad overview of what leading practice in climate risk scenario analysis looks like, noting that approaches should be proportionate to an institution's size, business mix and complexity.

Guidance for climate scenario analysis and stress testing has been developed by TCFD⁸⁵, the Climate Measurements Standards Initiative,⁸⁶ and the Network for Greening the Financial System.⁸⁷ ASFI will consider whether there is the need for further, Australia-specific guidance in order to implement this Recommendation, considering also the interlinkages with activity discussed under Recommendation 17 on vulnerability assessments being led by APRA.

Guidance for scenario analysis and stress testing beyond climate—e.g. for biodiversity loss—is less well developed. The Network for Greening the Financial System (NGFS) has examined design of nature-related scenarios and environmental risk analysis,⁸⁸ as have some countries,⁸⁹ and growing interest and sophistication in nature scenario analysis is expected to continue in Australia and internationally.

Australian FIs are increasingly undertaking climate-related scenario analysis to understand and address climate risk in their businesses.

RECOMMENDATION 17

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

SCORE: 2.0 

KEY OBSERVATIONS

APRA in conjunction with the Council of Financial Regulators is leading a Climate Vulnerability Assessment ("CVA")

APRA's aim is to assess the nature and extent of financial risks that large banks in Australia may face due to climate change.⁹⁰ This is consistent with practices of financial regulators globally.

The CVA is being completed by Australia's five largest banks to:

- Measure the potential financial risks to banks, the financial system and economy posed by both physical and transition climate risks
- Understand how banks may adjust their business models and implement management actions in response to the different scenarios
- Improve banks' climate risk management capabilities.

The CVA uses two climate scenarios as the foundation for assessing potential climate risk impacts on the banks. These climate scenarios are aligned to the scenarios developed by the Network for Greening the Financial System (NGFS), which are commonly used by regulators in other jurisdictions including Europe, the UK and France.⁹¹ Scenario 1 involves a delayed but then rapid reduction in emissions by 2050 ("Disorderly Transition: Delayed Transition Scenario"), while Scenario 2 is largely based on a continuation of current global policies and forecasts ("Hot House World: Current

Policies Scenario").⁹² Using a defined set of internationally accepted scenarios promotes comparability with other jurisdictions and between banks. APRA supplemented the NGFS scenarios with Australia-specific modelling to help account for domestic factors.

The CVA is part of APRA's wider efforts to improve scenario analysis capabilities within the financial sector and strengthen the understanding and management of climate-related risks, including the publication of APRA's Prudential Practical Guidance CPG229 Climate Change Financial Risks (see Recommendation 16).

APRA has indicated that the CVA may be applied to other parts of the financial sector in the future:

"The banking sector was selected for the inaugural CVA due to its centrality and systemic importance to the Australian financial system, and to best meet the objective of considering the overall macroeconomic impact of climate risk. The experience gained from this CVA may be applied to similar future activities in the insurance and superannuation sectors, as well as inform future banking-sector activities."⁹³

In the banking sector, some mid-tier lenders are already commencing climate risk data capture and modelling activities to prepare for potential CVA requests in the near future.

RECOMMENDATION 18

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

SCORE: 1.0 

KEY OBSERVATIONS

Financial and economic models do not recognise and value the human and natural capital that underpins a productive and prosperous Australian economy and healthy society

To catalyse the incorporation of environmental and social externalities, extensive data and information is needed at the national and state level to underpin the protection and enhancement of Australia's natural and social capital.

International developments provide an opportunity to improve how environmental and social externalities are valued

Valuation standards and guidance for environmental externalities have evolved significantly since the release of the Roadmap. These include the mainstreaming of initiatives like the Natural Capital Protocol for FIs, which provides a global framework for the incorporation of natural capital valuations on corporate balance sheets, underpinned by the United Nations System of Environmental Economic Accounting standards, and the Taskforce on Nature-related Financial Disclosures, which seeks to consolidate this approach and provide a comprehensive risk management framework for industry and FIs to measure and report on the material nature-related risks.

Australian capital markets have an opportunity to start to trial and apply these global principles and guidance in a local context. This will contribute to the development of consistent Australian specific standards and metrics to assess nature-related risks and opportunities and integrate natural capital into decision making.

Private and public sector collaboration is essential to ensure the datasets are commonly agreed and trustworthy, and can support effective decision-making to enable improved social, environmental, and economic outcomes. The financial services sector and government policy makers will need to ensure that the finance sector disclosure, reporting and measurement frameworks are aligned and comparable with the Government's ongoing development of national and regional environmental economic accounts, and the development of social wellbeing indicators through the Government's "wellbeing budget" and other initiatives to measure, track and report on social capital.

Government has a role to play in valuing externalities

The UN Environment Programme and World Bank Group recommend public finance or policy and regulation as two approaches governments should consider to foster a sustainable financial system that values externalities.⁹⁸ In collaboration with the states and territories, the Federal Government's Department of Climate Change, Energy, the Environment and Water (DCCEEW) is developing a common national approach to environmental economic accounting that aligns with the United Nations System of Environmental Economic Accounting,⁹⁹ to help foster a consistent approach to non-financial capital accounting across multiple levels of government. The publication over time by the Australian Government of national and eventually regional accounts across all ecosystem biomes and realms and the measurement, and tracking of the extent, condition and value of ecosystem services and assets, will help integrate the consideration of the natural environment as central to the economy.



RECOMMENDATION 19

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

SCORE: 2.0 

KEY OBSERVATIONS

In November 2021, APRA released prudential practice guide CPG 229 'Climate Change Financial Risks'

Recognising climate change as a material and systemic risk to the financial system, APRA has increased its efforts in recent years towards ensuring regulated institutions take a strategic and risk-based approach to the management of climate risks and opportunities to provide FIs guidance on managing physical, transition and liability risks associated with climate change (see Figure below).

CPG 229 does not create new requirements or obligations, but rather aims to support institutions in complying with existing risk management and governance prudential requirements. The guidance is aligned with recommendations from the Task Force on Climate-related Financial Disclosures (TCFD).

The Australian Securities and Investments Commission,⁹⁵ the Reserve Bank of Australia⁹⁶ and the Australian Competition and Consumer Commission⁹⁷ have also stepped up their efforts to manage climate-related risks in the Australian economy, promote best practice climate disclosure, and deter and pursue greenwashing.

Opportunities to clarify guidance and duties for FIs

Existing regulatory guidance in some areas is inconsistent and potentially conflicting, constraining the ability of FIs to take all prudent steps to manage sustainability-related risks, take into account the sustainability preferences of members and clients, and align capital allocation decisions with Australia's national level objectives (e.g. emissions reduction commitments). There is an opportunity for improved regulatory cohesion.

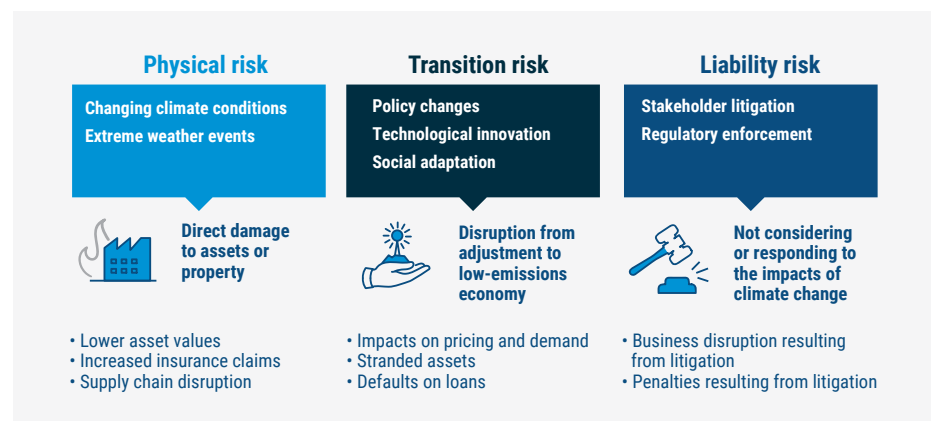
To advance progress against this recommendation, a review of existing guidance and duties in consultation with the finance sector could be conducted to identify and remove inadvertent deterrents for responsible investment approaches. Specific examples include:

- Clarify expectations for FIs to consider sustainability-related system level risks in decision-making including expectations to set and disclose net-zero transition plans through amendments to CPS and CPG 220.
- Clarify and make explicit that superannuation trustees' covenants oblige them to consider and address sustainability-related system-level risks when formulating investment strategies, and that actively managing risks includes an expectation that funds would set and disclose net-zero transition plans and have access to relevant expertise and competencies through amendments to section 52(6) of the Superannuation Industry (Supervision) Act 1993 and SPS and SPG 530, 220 and 515.
- Ensure that requirements for risk weightings and capital treatment appropriately take into account climate and sustainability-related risks, and in the longer term consider options to incentivise increased allocations through these measures.

There is also an active debate in Australia around possible changes to the defined purpose of superannuation. Any changes should be consistent with, and not undermine, a recognition that superannuation funds and asset managers are required to take into account long-term trends, risks and opportunities related to sustainability in their investment decisions.

Opportunities for Government to support regulators to manage sustainability-related risk

The mandates of and resources for relevant regulators (including APRA, ASIC, RBA, ACCC) should enable those regulators to adequately support FIs to manage sustainability-related risks and opportunities. Introduction of mandatory sustainability reporting, improvements in data availability and management, and establishment of sectoral transition pathways, would all support regulators to fulfil their role to help the financial system properly manage sustainability related risks and opportunities.



Source: APRA Information Paper – Climate Risk Self-Assessment Survey⁹⁴

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.

SCORE: 2.0 

KEY OBSERVATIONS

Sustainable procurement policies are becoming more common in the financial services sector

A growing number of Australian banks and insurers¹⁰⁰ are applying responsible sourcing codes that include a range of principles and issues with some FI's also including from Indigenous procurement in their policies.¹⁰¹ Procurement policies are also the primary means of implementing modern slavery obligations, generally covering environmental and social sustainability issues.

The Modern Slavery Act requires large businesses (including FIs) to prepare annual Modern Slavery Statements setting out the entity's actions to identify and address modern slavery risks in their global operations and supply chains. This is supporting firms to take a closer look at their distribution and supply chains to help eliminate the unacceptable practice of modern slavery. The Australian Banking Association (ABA) has a Modern Slavery Working Group which was formed in 2019 to explore how modern slavery exists in Australia and how banks can best assist law enforcement to put an end to serious crimes. In March 2022 the Working Group released a paper outlining member banks' knowledge of modern slavery practices in Australia to help create a shared understanding of the banking industry's intersections with, and role in addressing, modern slavery.¹⁰²

Particularly for large FIs, collecting and analysing the data to manage ESG related risks in their value chains is a growing challenge, and one where a range of traditional and innovative solutions and providers are emerging.

Sustainability information and labelling is critical to support household and businesses make financial decisions in line with their preferences

There is a growing number of investment managers with strong policies, systematic processes, and public disclosure of these, however more could still be done in this area.¹⁰³

CASE STUDY

SERVICES AND TOOLS FOR MANAGING SUSTAINABILITY THROUGH SUPPLY CHAINS:

There are a range of service providers entering the market to support better integration of sustainability into supply chains. One example is Givvable, an AI-Powered Supplier Intelligence Platform helping companies embed sustainability & ESG into outsourcing and procurement practices by screening, validating and tracking the sustainability profile and actions of suppliers at scale. Suppliers' sustainability credentials are auto-mapped to corporate targets, sustainability frameworks and reporting standards and the UN Sustainable Development Goals, enabling companies to quickly identify and continuously monitor how a supplier advances their sustainability targets and objectives.

Givvable is working with mid-to-large corporate and government customers across the Asia-Pacific, operating in a range of industries including financial services (banking, insurance and investment), property & construction, manufacturing, utilities and food & beverages.

Platforms such as Givvable help companies:

- Embed sustainability & ESG criteria across all stages of supplier engagement (including in requests for proposal, on-boarding and contract renewal).
- Identify action or inaction of existing and potential suppliers, and uncover gaps and areas for improvement by suppliers.
- Address poor response rates or quality of supplier survey, and validate self-reported claims.
- Track spend against forward-looking sustainability & ESG targets.
- Meet internal and external sustainability reporting and regulatory disclosures and requirements.

RECOMMENDATION 21

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

SCORE: 2.0 

KEY OBSERVATIONS

There is a growing expectation that investors engage with investee companies on sustainability and climate issues to support appropriate risk management and a transition to zero emissions, climate resilient businesses.

The RIAA Benchmark Report 2022 identifies corporate engagement and stewardship by investment managers as the second most common responsible investment approach after ESG integration.¹⁰⁴ The report found that the proportion of investment managers who report on corporate engagement (stewardship) activities and outcomes nearly doubled in 2021 compared to the previous year.¹⁰⁵ It identifies a wide gap between leaders and non-leaders on stewardship,¹⁰⁶ which could reflect the resources and capabilities needed to effectively engage in and report on stewardship and suggests a need for more collective tools and approaches. Climate Action 100+ is one collaborative stewardship focused on encouraging climate action from the largest corporate emitters, with 52% of Climate Action 100+ focus companies having now set net-zero targets.

Development of stewardship codes remains important in supporting progress

The Australian market has not yet developed a harmonised stewardship code. The Australian Council of Superannuation Investors continues to work with members to review and update its Australian Asset Owner Stewardship Code.¹⁰⁷ At the time of writing, nineteen asset owners are signatories to the Code. The Financial Services Council has a separate code for asset managers, Principles of Internal Governance and Asset Stewardship¹⁰⁸

In contrast, the UK Financial Reporting Council's Stewardship Code 2020 applies to asset owners, asset managers and service providers (such as investment consultants, proxy advisors, data and research providers). In 2021, the code was updated to set higher standards for investors recognising that 'environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship'.¹⁰⁹ Two hundred and thirty five FIs are signatories to the UK Code, as at 7 September 2022, including many who are also active in Australia.

In September 2022, the Toitū Tahua: Centre for Sustainable Finance and the Responsible Investment Association of Australasia launched the Aotearoa New Zealand Stewardship Code.¹¹⁰ The code sets a framework for investors to influence companies on critical environmental, social and corporate governance issues. It aims to create and preserve inter-generational value for the people whose money is invested, and New Zealanders more broadly, as well as efficiently directing capital where it's needed for a resilient economy. This code provides principles-based guidance to enable effective stewardship and enable asset owners and managers to meet client and beneficiary expectations in this area.

Guidance also exists at the global level. For example, the United Nations supported Net-Zero Asset Owners Alliance (NZAOA) and Net Zero Asset Manager Initiative (NZAMI) include guidance and expectations on the use of stewardship as a part of achieving net zero by 2050 or sooner.

As demonstrated in other markets, particularly the UK, an effective way to increase the practice and quality of stewardship is to require FIs to report on their stewardship activities in line with an agreed code or standard. This should be a consideration for the Australian Government in developing its climate-related disclosure regime.





DOMAIN 3: Enabling resilience for all Australians

DOMAIN SCORE: 1.44



Overview of Domain Recommendations

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

Summary of progress for Domain 3

Many of the recommendations in this domain that relate to financial wellbeing and inclusion, while important, have not been a focus of ASFI's work to date and there is limited data available to support an analysis of progress. The Australian Government's Financial Inclusion Action Plan Program found that in 2020 extreme financial distress affects at least 11% of Australia's population. This has likely deteriorated further as a result of COVID-19 and increased cost of living challenges, indicating that a focus on financial wellbeing and resilience continues to be critical.

Demand for sustainable and responsible investment options in Australia is growing, as is the range and volume of 'green' or 'sustainable' marketed products. However, investors typically lack sufficient information to accurately assess the sustainability-related credentials of investment products. Internationally, jurisdictions such as the UK and the EU have or are developing sustainability labelling standards. In Australia, industry-led guidance and programs are currently performing this role including RIAA's Responsible Investment Certification Program, the Financial Services Council's Guidance Note 44, and RIAA's Responsible Returns Tool. An agreed Australian sustainable finance taxonomy would support development of rigorous labelling standards in Australia.

The Australian Treasurer has proposed to follow Aotearoa New Zealand's example of putting wellbeing at the centre of the national budget and Indigenous Business Australia – a Commonwealth corporate entity that provides financing and investment services for Indigenous Australians – has set a leading example for impact measurement, evaluation, and reporting in its 2022 Impact Report, demonstrating what can be done in this area.

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

RECOMMENDATION 22

Australia's financial system participants support the establishment of community finance that 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 investment.

SCORE: 1.0 

RECOMMENDATION 23

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

SCORE: 1.0 

RECOMMENDATION 24

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

SCORE: 1.0 

RECOMMENDATION 25

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

- financial distress for households to bring greater focus on individual impact and measures being taken by the institution to address financial vulnerability; 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.

SCORE: 2.0 

RECOMMENDATION 26

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

SCORE: 1.0 

KEY OBSERVATIONS

Recommendations 22-26 each aim to support the well-being, financial inclusion and/or financial capability of individuals and communities, especially vulnerable or marginalised groups. While important, these recommendations have not been a focus of ASFI's work to date and there is limited data available to support an analysis of progress. Some high-level commentary on specific areas is set out below.

Financial Inclusion Action Plans (Recommendation 24)

The Financial Inclusion Action Plan (FIAP) Program led by Good Shephard on behalf of the Australian Government provides a platform for organisations from diverse sectors to address barriers to financial inclusion and wellbeing. A FIAP is an agreed strategy of practical actions that an organisation will undertake to improve financial inclusion in Australia. Good Shepherd supports FIAP organisations to put together a series of measurable actions to improve the financial inclusion, resilience and wellbeing of their customers, employees, suppliers, and communities. Since 2016, over 40 organisations have made commitments through FIAP, including nine FIs across the superannuation, banking, and insurance sectors.¹¹¹

In 2020, the FIAP Program reported¹¹² that:

- 11% or 2.1 million Australians were experiencing severe or high financial stress
- Only 50% of adults reported having 3 or more months of savings
- 1 in 5 adults feel over-indebted, only just managing to keep up with their repayments.

COVID-19 and cost-of-living challenges have likely exacerbated these challenges.

Reporting by FIs on financial distress for households and financial outcomes for Aboriginal and Torres Strait Islander customers (Recommendation 25)

In October 2022, Indigenous Business Australia (“IBA”)—a corporate Commonwealth entity for First Nations people and businesses—released its second impact report. IBA provides financing and investment services for Indigenous Australians to support home ownership, business development, and investment. The case study below outlines the approach taken to the Impact Report and key findings.

Networks, programs and initiatives that build individual and community financial capability (Recommendation 26)

In February 2022, the Australian Government released a National Financial Capability Strategy to provide a framework for future Government actions to build Australia’s financial capability and measure collective progress in priority areas.¹¹³ It identified four target cohorts: young Australians; women; people in or nearing retirement; and Aboriginal and Torres Strait Islander peoples. The strategy was accompanied by a financial capability monitoring and evaluation framework and a new biennial national financial capability survey. Under this strategy, government agencies such as ASIC, Services Australia and the ATO will continue to deliver key financial information resources in partnership with state and territory governments, universities, financial services providers, not for profits organisations and employers,¹¹⁴ providing an opportunity for strengthened partnerships in this area.

CASE STUDY

IBA, Impact Report 2022

The Indigenous Business Australia (IBA) Impact Report aims to provide a baseline for understanding IBA’s external footprint and the ripples of impact from IBA’s activities on First Nations people in Australia. In conducting regular impact reports, IBA seeks to better understand how its customers define “success” and ultimately to assess whether IBA has been a key enabler and facilitator for its customers to achieve a full experience of life from an economic, social and cultural perspective.

The Impact Report shows how IBA is combining an investment approach with a strong impact focus to successfully to tackle persistent social challenges and unlock opportunities for First Nations’ people’s economic independence and wellbeing. It is a leading example of impact measurement, evaluation, and reporting as it:

- **Adopts a rigorous framework for analysis:** IBA developed a robust framework for analysis. It partnered with Indigenous evaluation expert, Dr Kevin Dolman, to develop the impact framework and undertake the evaluation helping to ensure rigour and independence.
- **Measures economic, social and cultural impacts:** the Impact Report aims to understand the economic, social and cultural impact of its programs. It goes beyond measuring outputs (e.g. number of home loans and business loans provided) to measure outcomes, including second and third

order impacts that show the effect of IBA’s activities on customers’ lives. This includes measures such as the safety and security of owning home, and the flow on impacts for securing employment and providing children’s education. The report reveals that overall, IBA customers and co-investors are achieving significant positive impacts across the key product lines of homes, business and investments.

- **Showcases powerful stories:** The Report concluded that IBA provides a doorway to the economy for people who have traditionally faced exclusion from such opportunities. IBA positions its customers as the ‘stars of the report’, noting that it is Aboriginal and Torres Strait Islander Australians who walk through the door and make the most of the opportunities offered by IBA’s products and services.
- **Ensures learnings drive future action:** Key findings from the Impact Report are used to inform IBA’s forward strategy to help continually improve the way that IBA delivers services and works with customers. The Report recognises there is further room for improvement and outlines five recommendations for areas where IBA can continue to improve the scale and depth of its impact.

At the IBA Impact Report launch event (LtoR): Bernadette Hardy (business owner, hardyhardy), Natt Smith (homeowner), the Hon Linda Burney MP, Eddie Fry (Chair, IBA), Kia Dowell (Executive Director, IBA), Andrew Smith (CEO, Worimi Local Aboriginal Land Council), Dr Kevin Dolman (Indigenous Evaluation Services) [image source: Indigenous Business Australia].



Given the inter-relationships recommendations 27 and 28 will be discussed together

RECOMMENDATION 27

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

SCORE: 2.0 

RECOMMENDATION 28

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

SCORE: 2.0 

KEY OBSERVATIONS

Consumers are increasingly seeking to align financial decisions with their values

Eighty three per cent of Australians expect their bank account and their super to be invested responsibly and ethically. There is also a growing appetite to move financial service providers based on values alignment. Seventy four per cent of Australians would consider moving to another provider if they found out their current fund was investing in companies undertaking activities

inconsistent with their values, rising to 87% for the younger generation. Seventeen per cent of Australians now have responsible investments, up 28% since 2020.¹¹⁵

To enable consumers to make these decisions, sustainability information is required on products and services as well as broader practices of FIs. The ongoing work by RIAA through the Responsible Returns website provides consumer information on independently certified ethical and responsible super, banking and investment products¹¹⁶ and, driven by consumer demand, FIs are also starting to provide sustainability information to consumers.

There is a growing number of sustainable finance products for households and businesses, however only 12% of consumers have banked with a sustainable financial institution or made use of sustainable banking products and services¹¹⁷, highlighting a likely growth market. Similarly, the range of superannuation products being designed to reflect members' sustainability preferences is increasing rapidly, with certification under RIAA's Responsible Investment Certification Program, indicating this growth, and the value the market and consumers place on independent certification to help them assess the sustainability credentials of products and investment options¹¹⁸.

There is increased scrutiny of greenwashing by Australian Regulators

As part of intensified efforts to prevent greenwashing, in June 2022 the Australian Securities and Investment Commission (ASIC) published an information sheet titled "*How to avoid 'greenwashing' for superannuation and managed funds.*"¹¹⁹ The information sheet lists nine questions along with explanatory examples that entities should consider when preparing communications and disclosures about sustainability-related products.

ASIC's information note warns that "*[g]iven the lack of standardised labelling for sustainability-related products, you need to be particularly careful to ensure that product labels are not misleading. You should think carefully about*

using absolute terms in a product label." This suggests that labelling standards are a clear gap in the regulatory framework to support investors and regulator activities, and could be inhibiting the development and promotion of sustainable financial products.

Industry-led guidance and programs are seen as enablers of progress for investors

In August 2022, the Financial Services Council published FSC Guidance Note No 44 Climate Risk Disclosure in Investment Management.¹²⁰ It notes the significant investor interest in ESG-related issues and a proliferation of 'green' or 'sustainable' products and services in Australia. The voluntary guidance is aimed at fund managers and includes guidance for labelling of financial products that make climate-related claims, as well as expectations for reporting the performance of those claims.

Since 2005, the Responsible Investment Association Australasia (RIAA) has managed a responsible investment labelling program that embeds standards, transparency requirements and an assessment of the appropriateness of product names and descriptions (see case study overleaf).

Given the lack of standardised labelling for sustainability-related products, [firms] need to be particularly careful to ensure that product labels are not misleading.

CASE STUDY

Responsible Investment Association Australasia's (RIAA) Responsible Investment Certification Program

The RIAA Responsible Investment Certification Program is the longest-running program of its kind in the world, and a leading initiative for distinguishing quality responsible, ethical and impact investment products and services in Australia and New Zealand. RIAA certification involves a clear and holistic assessment of labels to ensure they are named accurately relative to the outcomes of the investment strategy applied and what would be reasonably expected by the investor.

Claims made in RIAA certified product labels must be honest, substantiated, and not false, misleading or puffery.

RIAA's Certification Symbol provides confidence that a product or provider is delivering on its responsible investment promise and meeting the Responsible Investment Standard. Products and providers certified by RIAA are featured on the Responsible Returns online tool, connecting consumers who care about responsible and ethical investing to products and providers that match their investment beliefs and personal values.

Since RIAA's Certification Program launched in 2005, 193 products have been certified in Australian dollars including 5 banking products, 77 investment products and 38 super fund products.

Internationally, many jurisdictions are developing labelling standards for sustainable financial products

The UK's Financial Conduct Authority¹²¹ is developing a classification and labelling system for sustainable investment products pursuant to the UK Government's "Greening Finance: A Roadmap to Sustainable Investing" strategy.¹²²

The European Union Sustainable Finance Disclosure Regulation sets out requirements for disclosure of products that have sustainable investment as an objective, or that promote environmental and/or social characteristics¹²³

The development of labelling standards will be aided by an agreed Australian Sustainable Finance Taxonomy (recommendation 9). This will be particularly important for labelling standards to meet consumer expectations for sustainable financial products, which focus on the sustainability outcomes achieved, rather than integration of ESG risks into the investment process. It can also be used to underpin credible, comparable and consistent disclosures and reporting by FIs.

Portfolio holdings disclosure requirements could support consumers to make informed choices, however this is not the intent or effect of current rules

Under current portfolio holdings disclosure rules (introduced on 31 March, 2022), superannuation funds are required to disclose their holdings, including information about the identity, value and weightings of their investments, with portfolio holdings disclosure to occur every six months thereafter. However, super funds are not required to disclose the holdings of funds that are managed externally. Given almost three-quarters of super funds use external managers for over 90% of their assets, there is a substantial gap in existing disclosure requirements. Disclosure requirements are not intended to capture sustainability information to enable consumers to make financial decisions aligned with their values and sustainability preferences, and they are not provided in a format that would enable that despite 79% of Australians wanting their super fund or investment provider to communicate the impacts their investment is having on the planet.¹²⁴

CASE STUDY

RIAA's Responsible Returns Tool

RIAA's Responsible Returns tool empowers consumers to find, compare, and choose superannuation, banking and investment products aligned with their sustainability preferences. It supports consumers to do so by enabling their own research into ethical investment products while also providing a useful tool for investment advisers to source products that match client needs. Responsible Returns offers filtering options for the 170+ products included in the platform by product type, investment approach, inclusions, exclusions, geography, and asset class.¹²⁵ All products featured have been certified in line with the Australian and New Zealand Responsible Investment Standard to ensure they act on their responsible investment claims.

RECOMMENDATION 29

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

SCORE: 1.0 

There is little evidence of progress against this recommendation, with product design and delivery principles not currently being developed. There has however been significant work on disclosures with engagement in the ISSB standards from across the financial system and the commencement of the work on an Australian Sustainable Finance Taxonomy, which focuses on credibly measuring outcomes achieved.

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.

SCORE: 2.0 

KEY OBSERVATIONS

The Australian government has signalled an interest in using wellbeing as a focus of budgetary decision making, but how far this will go and the implications for the private sector are not yet clear.

In July 2022, Federal Treasurer Jim Chalmers proposed that Australia follow Aotearoa New Zealand's example and put wellbeing at the centre of the national budget.¹²⁶ This is a significant announcement that has the capacity to build on the current focus on GDP to consider other measures of prosperity as outcomes against which federal budgets could be assessed, along with measures of health, the environment, gender, children's welfare, and the welfare of Aboriginal and Torres Strait Islander people.

There is also an alliance of governments who have adopted well-being approaches, including Iceland, Finland, New Zealand, Scotland and Wales. The model scores how budget measures affect important issues such as health, the environment, equality and living standards, as well as gross domestic product.

The publication over time by the Australian Government of national, and eventually regional, accounts across a range of wellbeing metrics will help integrate the consideration of the natural and social outcomes as central to the economy.

A specific wellbeing budget chapter could include measures for living standards, such as education attainment, health outcomes, the environment, gender, children's welfare, and the welfare of Aboriginal and Torres Strait Islander people. A discussion as to how wellbeing should be measured in future budgets is also expected, ahead of likely consultations with key stakeholders.

Significant work behind the scenes has already taken place: in collaboration with the states and territories, the Federal Government's Department of Climate Change, Energy, the Environment and Water (DCCEEW) is already developing a common national approach to environmental economic accounting that aligns with the United Nations System of Environmental Economic Accounting,¹²⁷ therefore fostering a consistent approach to non-financial capital accounting across multiple levels of government.

The publication over time by the Australian Government of national, and eventually regional, accounts across a range of wellbeing metrics will help integrate the consideration of the natural and social outcomes as central to the economy.





DOMAIN 4: Building sustainable finance markets

Overview of Domain Recommendations

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

Summary of progress for Domain 4

Work by Climateworks Centre and others to develop decarbonisation pathways has been a valuable input into policy and planning processes, including AEMO's 2022 Integrated Strategic Plan for the National Electricity Market. This work should be built on by the Australian Government together with the private sector and other stakeholders, to develop updated, agreed pathways. These would support sound policy-making including the development of an Australian sustainable finance taxonomy and help to accelerate finance and investment consistent with the goals of the Paris Agreement.

The climate tech start-up sector in Australia and internationally has grown in recent years, with capital rushing in to fund climate solutions. However, significant gaps remain for financing of unproven technology and solutions with a hardware component – which are critical for reducing emissions in harder-to-abate sectors. The case study in Recommendation 32 explores the barriers, and how they can be overcome through Government interventions and financial innovation.

Increasing frequency of extreme weather events from climate change is leading to greater levels of non-insurance and under-insurance. The average Australian household paid \$1,532 in direct costs in 2021-22 due to extreme weather events. Greater action to strengthen the resilience of Australian homes, businesses and communities including through amendments to building codes, and reviews of the land use planning frameworks.

There are some excellent examples of innovative finance to support improved sustainability and social outcomes, including the use of Government finance to catalyse private investment through National Housing Finance and Investment Corporation and the Emerging Markets Impact Investment Fund. But these remain relatively small scale compared to the scale of sustainability challenges. Despite strong support from industry and policy experts, the Australian Government is yet to provide national level support for development of the social impact investment market, including to establish a social impact investing wholesaler. A leading example from the private sector of innovative financial products to support sustainability is the North Queensland Airport re-financing which links biodiversity outcomes to the cost of borrowing.

DOMAIN SCORE: 2.00



The market and ecosystem for green home loans has been catalysed by innovative finance from the Clean Energy Finance Corporation. In partial fulfillment of Recommendation 37, the National Home Energy Ratings Scheme (NatHERS) has been expanded to allow assessment of the energy performance of the whole home, not just the building envelope. The National Construction Code is being upgraded to require new homes to meet a 7 star rating (formerly it was 6 stars). These are welcome developments to support investment and finance for lower emissions homes.

AEMO's 2022 Integrated System Plan sets out a 'whole of system' plan for the National Electricity Market to supply affordable, reliable electricity while supporting Australia's net zero ambitions. The broad-based stakeholder support for AEMO's 'Step Change' scenario which sees renewables generate 83% of NEM energy by 2030-31 will help drive finance and investment consistent with that pathway. The Australian Government's recent announcement to develop a national Energy Performance Strategy provides an opportunity to work with State and Territory Governments to implement measures that support the flow of capital for energy efficiency solutions.

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.

SCORE: 2.0 

KEY OBSERVATIONS

In Australia, all states and territories, along with the more recent Australian Government target, are aiming to achieve net zero emissions by or before 2050. This is consistent with the growing global movement towards net zero.

At the time of the Roadmap release, half of the world's economic output was estimated to be generated in areas where there were moves to cut carbon emissions to net zero by 2050. As momentum towards net zero carbon emissions has built, meeting the Paris Agreement is now linked to the competitive position of sovereign nations.

Australia's FIs have a critical role to play in ensuring that Australia efficiently transitions to a low carbon economy in the context of the broader global economic transition. Setting 'science-based' portfolio targets that reference credible and appropriate decarbonisation pathways is therefore crucial to inform investment and portfolio management decisions, and to support counterparty engagement on transitional climate risk.

Legislated national emissions reduction targets for Australia a welcome first step

The Government's *Climate Change Act 2022* legislates Australia's commitments to reduce emissions by 43% on 2005 levels by 2030, and to achieve net zero emissions by 2050. This was welcomed across the finance, business and policy communities as an important step towards unlocking the finance and investment needed for economy-wide decarbonisation and supporting net zero planning and implementation.

Setting a science-aligned national target for 2035 will be key step to drive transition activities, finance and investment. The Investor Group on Climate Change has proposed that a 75% reduction on 2005 emissions by 2035 would be consistent with a net zero by 2050 trajectory.¹²⁸ Just as critical are policies that enable progress towards those targets, including a robust Safeguard Mechanism and, in the absence of an economy-wide carbon price, complementary policies that address emissions across all sectors enabling finance and investment to flow for the transition.

Emissions reduction targets an emerging norm for FIs

There has been a significant increase in FIs setting portfolio emissions reduction targets both in Australia and globally. A survey conducted by the Australian Prudential Regulatory Authority (APRA) between March and May 2022 indicated that 73% of 64 APRA-regulated institutions who responded across the banking, insurance, and superannuation industries have set one or more climate-related targets. A material portion of these targets address financed emissions¹²⁹.

Many FIs, including Australian ones, have joined global net zero alliances under the umbrella of the United Nations' Glasgow Financial Alliance for Net Zero (GFANZ)¹³⁰:

- The Net-Zero Banking Alliances represents about 40% of global banking assets (approx. US\$70 trillion).¹³¹
- The Net-Zero Asset Managers Initiative has 220 signatories representing \$57 trillion assets under management.¹³²
- The Net-Zero Asset Owner Alliance has 74 members representing \$10.6 trillion in assets under management.¹³³
- The Net-Zero Insurance Alliance has over 29 members representing 14% of premium volume globally.¹³⁴

Signatories are typically required to commit to net zero emissions by 2050, introduce sector targets and to publish information on their transition plans and progress.

Guidance emerging but no mandated standards for Australia

Various frameworks are under development globally to provide guidance to FIs (and other businesses) on how to produce credible net zero transition plans. The UK Government launched a Net Zero Transition Plan taskforce to develop a 'gold standard' for transition plans, supporting the UK's mandated requirement for large companies and certain FIs to publish transition plans from 2023. GFANZ released its draft transition plan framework for consultation in June 2022.

This guidance will help support better quality transition planning and analysis by FIs. However, the absence of a mandated requirement to produce transition plans, and guidance that is fit for the Australian context, will likely inhibit both the adoption and quality of transition planning in Australia.

Sector decarbonisation pathways a necessary input for credible transition planning and policy-making

Sector-specific decarbonisation pathways aligned with the Paris Agreement goals are a critical piece of the sustainable finance policy architecture which, along with mandatory climate disclosures and a sustainable finance taxonomy, would help accelerate finance and investment consistent with the Paris Agreement goals.

Agreed pathways for Australia would help FIs to appropriately consider emissions-related risks and opportunities in their financing and investment, supporting them to develop credible transition plans and better manage risks and optimise returns.

Sector specific decarbonisation pathways are also needed to underpin the development of an Australian sustainable finance taxonomy, forming the basis on which to determine whether an investment in a given sector or technology can be considered aligned with science-based climate targets. Particularly in the absence of an economy-wide carbon price, decarbonisation pathways should be a key tool for Australian policy-makers to target emissions reduction policies to encourage an efficient and least-cost transition over time.

The implementation of this recommendation 31 should involve Government working closely with the private sector and other stakeholders, and will underpin the implementation of other recommendations such as development of a taxonomy and high quality, comparable disclosures and so should be a priority in the near term.

CASE STUDY

Australian decarbonisation pathways

Climateworks Centre has published decarbonisation pathways nationally and by sector, supported by CSIRO modelling.¹³⁵ These provide a guide for government and business decision-makers on priority technologies, deployment pathways and benchmarks for achieving net zero emissions. Decarbonisation Futures utilises the Aus-TIMES Model—an Australian adaptation of a technoeconomic modelling framework developed by the International Energy Agency (IEA) and used in over 60 countries—to explore through ‘scenario analysis’ three possible low-emission futures. Two of the scenarios achieve net zero emissions by or before 2050, and one is aligned with the 1.5C Paris Agreement goal which sees Australia reaching net zero around 2035.

The pathways cover technology solutions in buildings, industry, transport, electricity and agriculture (see chart). Each of these sectors must overcome unique challenges during the transition to net zero. In the buildings, electricity generation and light road transport sectors, many of the technologies required for full decarbonisation are available, and deployment and integration are the main challenges. In other sectors—particularly industry, transport, and agriculture and land—there is significant scope for technological solutions in hard-to-abate areas, as well as the scaling-up of currently available technologies.

Decarbonisation pathways can support planning and investment

Government and FIs have drawn on these scenarios in their planning. The Australian Energy Market Operator (AEMO) commissioned CSIRO and Climateworks to develop economy-wide net zero scenarios to inform the 2022 Integrated Strategic Plan for the National Electricity Market.¹³⁶ For the first time, modelling to assess the NEM impacts of economy-wide decarbonisation and extent of transport and industry electrification informed the assumptions attributed to each scenario¹³⁷

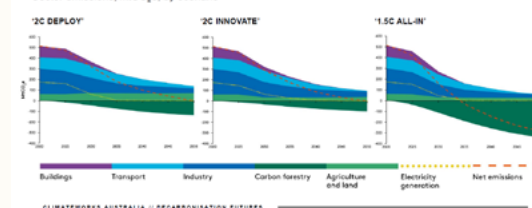
Banks and energy companies have drawn on the decarbonisation scenarios to inform the development of their net zero planning. For example, Westpac’s market update to the ASX on its new climate targets referred to science-based scenarios from the International Energy Agency (IEA) and CSIRO/ClimateWorks including AEMO’s Australia Hydrogen Superpower Scenario as a reference for the bank’s target to cut absolute financed Scope 1,2 and 3 emissions and the bank’s upstream oil and gas and power generation targets.

Work is ongoing

Further sectoral decarbonisation pathways are being developed in partnership with industry and government. These include the Australian Industry Energy Transitions Initiative¹³⁸ which is supporting Australian industry to develop pathways and take action towards net zero emissions across five critical supply chains of the Australian economy: Steel, Aluminium, Liquefied natural gas, Selected metals (such as copper, nickel, lithium), and Chemicals (especially fertilisers & explosives). It is convened by Climateworks and Climate-KIC, in collaboration with the global Energy Transitions Commission, with knowledge partners CSIRO, Rocky Mountain Institute and BloombergNEF. It is funded by philanthropy, company contributions and the Australian Government through the Australian Renewable Energy Agency’s (ARENA) Advancing Renewables Program.

All sectors can achieve very significant emissions reduction; residual emissions are 2-4 x lower than in our 2014 pathways

Sector emissions, MtCO₂e, by scenario



RECOMMENDATION 32

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

SCORE: 2.0



KEY OBSERVATIONS

This recommendation groups together five diverse sub-recommendations that would support the development of capital markets to enable finance and investment to flow into sustainable activities, and deter investment into unsustainable activities. Overall, the market for sustainable finance and investment is rapidly growing indicating a growth in sustainable capital markets. Sustainability themed and impact investing grew to \$191 billion in 2021, up from \$105 billion in 2020, with \$19 billion of the 2021 total comprised of sustainability linked loans and climate change and circular economy the two most popular themes.¹³⁹

Risk weightings and capital treatment of green and sustainable assets are not currently a priority of Australian regulators

The explicit incorporation of sustainability—and specifically climate—risks into the prudential framework through risk weightings is not under active consideration by Australian financial regulators. Rather, the Council of Financial Regulators' ('CFR') Climate Working Group has identified the following three areas of focus,¹⁴⁰ where additional guidance would support developing market confidence:

- further analysis of climate-risk exposures of FIs and the financial system, primarily by completing the Climate Vulnerability Assessment (see recommendation 18).

- strengthening high-quality and comparable climate-related disclosures including through submission to the International Sustainability Standards Board's work to develop a baseline for sustainability disclosures (see recommendation 14).
- supporting a coordinated approach to sustainable finance and taxonomies, including through supporting ASFI's work to lead development of an Australian sustainable finance taxonomy.

In contrast, the European Banking Authority (EBA)—the European Union's financial regulator—has initiated a public consultation on the role of environmental risks in the prudential framework for credit institutions and investment firms.¹⁴¹ Its discussion paper, released in May 2022, focuses on whether and how environment risks should be incorporated into the Pillar 1¹⁴² prudential framework and is part of the EBA's broader work on ESG risk which includes transparency, risk management, Pillar 2¹⁴³ supervision and macroprudential capital buffers.

Removing roadblocks to commercialising impactful technologies and developing investment models that align with liquidity requirements of financial system participants

The development and deployment of climate technology solutions (or "climate tech") is a small but growing industry in Australia. It is estimated to provide 4,000 jobs and \$1.4 billion has been raised in the past 12 months for early-stage climate tech firms.¹⁴⁴ The case study below, "Supporting the Australian Innovation Ecosystem", outlines the opportunities and barriers for developing innovative technology and financial structures in Australia to support sustainable solutions.

Working with financial system regulators to develop guidance on sustainable benchmarks and indices

A range of climate and net zero transition-related indices have been developed by benchmark providers.¹⁴⁵ In addition, the Clean Energy Finance Corporation (CEFC) has launched the Australian Climate Transition Index (ACT Index).¹⁴⁶ The ACT Index seeks to identify some 100 Australian companies from within the ASX 300 which are likely to perform well in a world undergoing a 2°C transition. It was developed through a two year collaboration between BNP Paribas, Climateworks Centre, sustainability analysts from ISS ESG and Monash University. BNP Paribas issued a series of green bonds linked to the ACT Index, with CEFC committing \$60 million as a cornerstone investor alongside Aware Super and QBE Insurance.

The European Union has regulations in place that specify criteria that index administrators must have in place in order to label an index as either an EU Climate Transition Benchmark or an EU Paris-Aligned Benchmark.¹⁴⁷ This has not been a focus of Australian financial regulators to date, however with an increasing focus on greenwashing, and the review of Your Future Your Super legislation that is currently underway, we may see increased activity during 2023.

Supporting the Australian Innovation Ecosystem

The innovation imperative

Australia has the opportunity to play a major role in developing and commercialising innovative climate and environmental solutions. This would help give Australia front-row access to these technologies rather than relying on imports from overseas which are subject to supply chain interruptions and competition from overseas markets. It is also an important way that Australia can capture the benefits of the net zero transition by commercialising our own innovations, rather than allowing them to be developed offshore only to be imported back into Australia.

We need innovation not just in the real economy, but also in financial models and structures to support the development and uptake of zero emissions technology.

There are barriers to developing and deploying climate tech in Australia. The climate tech start-up sector has grown in recent years, with capital rushing in to fund climate solutions. However, there are still significant gaps, especially for financing of “deep tech” (new, unproven technology) and “hard tech” (solutions with a significant hardware component) – both of which are critical for reducing emissions in harder-to-abate sectors such as cement, steel and chemical manufacturing.

Investing in deep/hard tech companies require financiers to have strong technical expertise and provide high up-front capital investments (relative to financing software start-ups), which present a challenge to the traditional venture capital model. In many cases, institutional capital is standing on the sidelines because the cheque sizes involved are too small to make it worth their while. Government grants play a useful role but typical requirements for 50% match funding and open knowledge sharing is a constraint for many start-ups. There is also a need for more risk tolerant investment capital that can accept lower than market

returns and catalyse private investment into early-stage firms.

Opportunities exist to overcome these barriers through financial innovation and Government interventions—the NSW Government’s proposed climate tech fund is one promising initiative. Government has significant capacity to support Australian innovation by stimulating demand for low-carbon and other environmentally beneficial products, which increases the attractiveness of investing in climate solutions. This could be through introducing sustainable procurement conditions for Government spending, or incentives for private sector procurement and production (e.g., tax credits and contracts for difference). Government-funded technical due diligence of new innovations could be another cost-effective intervention.

We need innovation not just in the real economy, but also in financial models and structures to support the development and uptake of zero emissions technology. We are starting to see examples of this—see box below on the Impact Ventures Fund. Government could accelerate these developments through seed funding that supports financial innovation, or removing barriers such as the limitation on investing in finance products for the Commonwealth’s Early Stage Venture Capital Limited Partnership (a program which offers favourable tax treatment for investment in early stage venture capital funds).

Impact Ventures Fund

The Australian climate technology accelerator program, EnergyLab, has partnered with Australian fund manager Impact Ventures to create a unique fund structure that provides sustainability-focused high-growth technology businesses with access to both capital and support for unlocking further capital. The Impact Ventures Fund:

- aggregates a large group of smaller investors who could not otherwise access these investment opportunities due to the minimum cheque size requirement of most funds and start-ups.
- identifies promising Australian climate technology

accelerator programs and funds them to help build and support a pipeline of investible climate-tech firms,

- involves investors in selecting start-ups, leveraging a wide pool of expertise in the due diligence process,
- provides investors with exposure to around 10 start-ups per investment, creating much-needed diversification in their start-up portfolio, and
- passes tax benefits immediately back to investors, providing some short-term returns.

Impact Ventures Fund has deployed capital into 23 start-ups over the last 18 months and is on track to invest in about 30 per year on an ongoing basis. Early results indicate it can deliver market returns or higher.

RECOMMENDATION 33

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

SCORE: 2.0 

KEY OBSERVATIONS

As the quality and coverage of ASFI's Progress Tracker builds over time, it is expected that this report will provide an assessment of the extent to which Australia's sustainable finance markets are functioning efficiently to support the delivery of net zero by 2050. While this assessment has not been a specific focus of the Progress Tracker this year, it is a section that can be built out in future years.

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.**

SCORE: 3.0 

KEY OBSERVATIONS

Increasing frequency of extreme weather events from climate change is leading to higher levels of non-insurance and underinsurance

The Insurance Council of Australia (ICA) has declared 11 insurance catastrophes since 2019, resulting in \$13 billion in claims costs.¹⁴⁸ Analysis commissioned by the ICA found that the average Australian household paid \$1,532 in direct costs in 2021-22 because of extreme weather events—an increase from the 10-year rolling average of \$888 per household.¹⁴⁹ The study forecast that, as climate change worsens, the direct economic costs of extreme weather events will rise to rise to \$35.2 billion per annum by 2050.

The ICA has warned that this trend of worsening extreme weather is directly impacting the affordability and availability of insurance, particularly in those communities most exposed to extreme weather events such as cyclones, floods, and bushfires. More expensive insurance premiums (reflecting increased risk) are resulting in an increased incidence of non-insurance and underinsurance.

The ICA is calling for greater action to strengthen the resilience of Australian homes, businesses, and communities; shift the current approach to what gets built where; and transition Australia's economy to net zero emissions. Commonwealth, State and Territory governments should invest in household resilience and disaster risk preparation, continue to amend national building codes to require a greater standard of resilience, and review land use planning frameworks.¹⁵⁰

"At risk communities cannot afford to wait any longer, which is why the Insurance Council's advocacy encourages urgent and collaborative action from industry, policymakers and stakeholders. The removal or reduction of state taxes [on insurance products] provides the possibility of immediate relief, while the impact of the necessary resilience, mitigation and land-use planning changes can be progressively realised as homes are retrofitted, built-back better or communities are moved out of harm's way."¹⁵¹

At risk communities cannot afford to wait any longer, which is why the Insurance Council's advocacy encourages urgent and collaborative action from industry, policymakers and stakeholders.

Governments are taking steps to increase support for disaster preparedness and resilience

In September 2022, the Australian Government established a “Disaster Ready Fund”, which will provide up to \$200 million per year to invest in projects such as flood levees, cyclone shelters, fire breaks and evacuation centres around the nation.¹⁵² The ICA welcomed this measure, and called on state governments to match this funding.¹⁵³ The ICA referenced its *Building a More Resilient Australia* report which estimates that an investment of \$2 billion over 5 years in resilience and disaster preparedness would save government and households at least \$19 billion to 2050 in reduced financial, health and social costs.¹⁵⁴ Some state and territory governments are also taking steps to improve resilience. For example, the Queensland Government has also created the Resilient Homes Fund which provides funding and offers voluntary home buybacks for owners severely affected by the 2021-2022 floods.¹⁵⁵ There remains significant work to do across the range of mitigation measures outlined in the Roadmap and elsewhere, including to support home retrofits and address land-use planning frameworks to ensure homes and communities are not built in high-risk areas.

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

SCORE: 2.0 

KEY OBSERVATIONS

Environmental and social impact investment markets are relatively nascent in Australia

However, where governments, NGOs, the private sector, and financial system participants have worked collaboratively to support their development, these markets are beginning to grow. This is the case for biodiversity markets, particularly in New South Wales and Queensland, and social impact investment markets, led by the Office of Social Impact Investment in NSW and some key cornerstone investors, philanthropic foundations and intermediaries who are supporting market growth.

There are not yet standardised market structures in environmental or social impact investment markets

The development of these markets in Australia is occurring mainly at the state level, with carbon markets being a notable exception. In the case of biodiversity markets, early signals from the recently elected Australian Government suggest they may play a greater role in standardising biodiversity and natural capital markets, potentially expanding the role of the Clean Energy Regulator that establishes market frameworks and regulates carbon markets nationally.¹⁵⁶ On 1 July 2022, the Australian Government also announced an independent review of the integrity of Australian Carbon Credit Units, led by former Chief Scientist Professor Ian Chubb to ensure the Australian carbon crediting scheme remains strong, credible and well supported. The review is due to report back to government by 31 December 2022.¹⁵⁷

In the absence of clear frameworks, market participants are working together to demonstrate the potential of new financial products to support better social and environmental outcomes, as highlighted in the case study on the North Queensland Airports sustainability linked loan (see overleaf).

Social impact investing is still a relatively nascent market in Australia with market activity being largely supported at state level rather than national level

The NSW Government, through the Office of Social Impact Investment (OSII), has been instrumental in supporting the growth of social impact investing by actively using social impact bonds as a tool to deliver better social services and results and providing tools, resources, and support for market development. For example, OSII makes publicly available sample legal documents, financial model templates, educational modules on how to develop a social impact investment and technical guidance for outcomes measurement to support other jurisdictions or other market participants reduce the time and cost taken to develop social impact bonds.¹⁵⁸ There is also an opportunity for the Australian Government to build on its Impact Investment Ready Growth Grants program and provide more comprehensive support for the development of the social impact investing market nationally (see Recommendation 36 for further discussion of this).

In addition to Government support for these markets, some large FIs and philanthropic foundations are using their capital to anchor new social investment funds, support first time fund managers and demonstrate that attractive risk-adjusted returns and business value can be delivered in addition to positive social and environmental impact. QBE's Premiums4Good program is an example of this, where a portion of premiums are invested in social impact bonds, social bonds, green bonds, infrastructure or social impact funds that are seeking to deliver positive social and environmental impact in addition to risk adjusted returns. As at June 2021, there was USD1.4 billion invested in the Premiums4Good portfolio.¹⁵⁹

CASE STUDY

Sustainability-linked loan for North Queensland Airports supports biodiversity conservation and First Nations partnerships

In September 2022, North Queensland Airports refinanced around \$760 million of debt with one of Australia's first sustainability-linked loans to support improvements in biodiversity and natural capital. The unique approach aligns NQA's environmental priorities to its financing by linking the cost of borrowing to achieving key specific sustainability targets within a specified timeframe.

In what is believed to be a first for the Australian sustainable finance market, the loan includes a biodiversity target focused on species conservation. Other loan targets focus on reducing greenhouse gas emissions—including a requirement to achieve net zero for scope 1 and 2 emissions by 2025, and a requirement to measure and reduce scope 3 emissions.

The loan terms specify that NQA will work in partnership with Dawul Wuru Aboriginal Corporation's Yirrganydji Land and Sea Ranger program to achieve the conservation goals, recognising the skills and knowledge of Aboriginal and Torres Strait Islander peoples as the traditional custodians of country. The structure also supports improved opportunities for First Nations peoples by prioritising procurement from contractors with a defined percentage of Aboriginal or Torres Strait Islander employees.

"The initiatives reflect the importance of addressing climate change, our stewardship of important natural habitat and the opportunity we have to ensure that Australia's First Peoples are empowered to contribute to our operations," said Richard Barker, North Queensland Airports' Chief Executive Officer.

"This transaction really demonstrates to the market how to capture a more holistic approach at a time when many listed institutions are increasingly considering biodiversity in their sustainability ambitions," said Charles Davis, Commonwealth Bank of Australia's managing director of sustainable finance

and ESG. CBA served as joint sustainability coordinator and lender on the transaction with Westpac Banking Corp and National Australian Bank.

Eliza Mathews, Head of Sustainable Finance, Westpac Institutional Bank, said this innovative financing move by NQA will be followed by similar transactions globally and in Australia. "We expect more corporate borrowers and lenders around the world will look to lift efforts to improve the state of nature, in the same vein as the past decade's global push to get greenhouse gas emissions down to net-zero, and use sustainable financing to achieve these goals.

"While the focus on natural capital is about 10 years behind climate, it's not going to take 10 years to catch up given regulatory, stakeholder and market pressures related to stopping the decline of natural capital and biodiversity."

Bespoke and unique targets and measurements that link the cost of borrowing to sustainable targets, like biodiversity, require careful consideration to establish. Measurement and verification will be a critical piece to ensuring the loan achieves its sustainability goals.

Australia is also supporting the growth of carbon markets and impact investment markets in Southeast Asia and the Pacific

Alongside the Australian Government, some Australian FIs and other investors are also investing in regional markets. For example, the Australian Government and ANZ have worked with the Impact Investment Exchange in Singapore to establish orange bonds, to unlock private capital to support women and girls in developing countries.¹⁶⁰ The Australian Government, through the Department of Foreign Affairs and Trade, has also established the Emerging Markets Impact Investment Fund (EMIIF), a public investment vehicle that supports impact and gender lens investment market development in South Asia, Southeast Asia, and the Pacific.¹⁶¹ EMIIF provides capital and technical assistance to financial intermediaries who then provide access to financing for SMEs in these regions, thereby supporting SMEs to grow such that they generate profit alongside positive social and environmental outcomes¹⁶² (see case study for further information). These blended finance mechanisms demonstrate the positive role that collaboration between government and the finance sector can play in building these markets in Australia and internationally.

CASE STUDY

DFAT's impact fund supports early-stage firms in the Indo-Pacific

In 2020, the Department of Foreign Affairs launched the Emerging Markets Impact Investment Fund (EMIIF), with the objective of building the impact investment market in the Indo-Pacific. EMIIF does this through providing catalytic investment to financial intermediaries that finance small and medium enterprises. To date, EMIIF has made three investments, mobilising 5 dollars of private investment for every EMIIF dollar invested.

EMIIF also offers targeted technical assistance to support investee fund managers to strengthen their impact approach and build their track record and profile, including by adopting market-leading gender equality standards. EMIIF's focus on first time fund managers is designed to increase the number of high-quality impact focused funds in the Indo-Pacific, unlocking long term, sustainable economic growth opportunities. EMIIF also works with its portfolio SMEs, many of which are social enterprises, to assist them in developing skills and tools to grow their business and impact.

EMIIF investments include a "first loss" position in the Lendable MSME Fintech Credit Fund that is helping to close the financial inclusion gap in emerging markets. EMIIF's US\$4 million investment helped unlock over US\$85 million in public and private co-investment. Lendable has now financed 6 fintechs in Southeast Asia including Amarth—a platform that enables access to finance for female micro-entrepreneurs in rural Indonesia who were previously unbanked.

RECOMMENDATION 36

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

SCORE: 1.0 

KEY OBSERVATIONS

Wholesalers used to grow social impact investments markets internationally

The concept of a social impact investment (SII) wholesaler, where government creates a vehicle that invests in a way that draws in private capital and supports the growth of a thriving social impact investment intermediary sector, is being explored by a range of governments wanting to support the growth of impact investment markets domestically or in emerging economies. A flagship example of an SII wholesaler is Big Society Capital in the United Kingdom. Big Society Capital was established in 2011 and aims to build a thriving social impact investment ecosystem.¹⁶³ Since its foundation, the UK SII market has grown six times the size in 2020 as compared to 2011, amounting to a social impact investment market of £5.1 billion and over 5,000 investments and has also increased awareness of the market, increased the number of intermediaries operating within the market, and attracted co-investment from diverse investor types (such as banks, charities, government agencies and pension funds)^{164, 165}. Wholesalers have also been created in markets such as Japan, South Korea, and Canada.¹⁶⁶

In Australia there is strong support for a SII wholesaler¹⁶⁷

However, there are relatively few large FIs actively involved in the SII market. Despite advocacy for development of a national SII wholesaler from organisations such as Impact Investing Australia and the Social Impact Hub, action to date has been limited. The key barrier to development of an SII market is a lack of government leadership, which has limited benchmarking capacity, investor awareness, and scalability of the market.¹⁶⁸

Government is active in supporting the growth of the SII market, however efforts have been piecemeal and largely State Government driven

While the EMIIF discussed in recommendation 35 demonstrates Australian Government activity internationally to facilitate impact investing, efforts have not been matched domestically. The Department of the Prime Minister and Cabinet established a Social Impact Investing Taskforce in 2019, which resulted in consultation of over 140 organisations and publication of an interim report.¹⁶⁹ Amongst the findings and recommendations is the proposition to create an Australian SII wholesaler. The final report and recommendations were finalised in 2021, but were never released to the public, and the Australian Government has since taken no further action.¹⁷⁰

Government has experience with social investment vehicles, including the National Housing Finance and Investment Corporation (see case study) and the Emerging Markets Impact Investment Fund (see case study for recommendation 35), but further work is needed to establish a robust social impact investment market in Australia.

An SII wholesaler has the potential to support growth of a social impact investment ecosystem in Australia in a cost-effective way for government by providing an asset on the government's balance sheet and reinvesting reflows so that the initial capitalisation generates impact multiple times over.

CASE STUDY

National Housing Finance and Investment Corporation

Although typically focused rather than acting as a broader SII wholesaler, the National Housing Finance and Investment Corporation (NHFIC) provides an example of government playing an active role in facilitating social impact investment. NHFIC has an Affordable Housing Aggregator (AHBA) function, which provides low-cost, long-term loans to registered community housing providers (CHPs) to support the provision of more social and affordable housing¹⁷¹. NHFIC funds AHBA loans by issuing Commonwealth Government guaranteed, social bonds into the wholesale capital market. The funds raised by NHFIC enables CHPs to finance the construction and supply of new social and affordable dwellings. There has been strong uptake amongst FIs of the social bond issuances, including by Australian superfunds and insurers.

A social impact investment wholesaler has the potential to support growth of a social impact investment ecosystem in Australia in a cost-effective way for government

RECOMMENDATION 37

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

SCORE: 2.0 

KEY OBSERVATIONS

This recommendation groups together nine diverse sub-recommendations focused on increasing finance flows into built infrastructure and real estate consistent with a sustainable, resilient and inclusive Australia. There has been notable progress in some of these sub-recommendations, as outlined below, with much work still to be done.

AEMO released its Integrated System Plan (ISP) in June 2022

The 2022 ISP is intended to provide a 'whole of system' plan for the National Electricity Market to supply affordable, reliable electricity to homes and businesses in the eastern and south-eastern states, while supporting Australia's net zero ambitions.¹⁷² The ISP's development included extensive consultation on a draft ISP published in December 2021 which identified four scenarios for the pace of energy transformation to net zero by 2050. Stakeholders identified the most likely transition scenario to be the relatively fast, ambitious, 'Step Change' scenario, which forecast renewables would generate 83% of NEM energy by 2030-31.

AEMO's final report notes:

"Since then, momentum towards decarbonisation has accelerated, confirming the Step Change scenario as a solid foundation for planning NEM investment. Some coal-fired power stations have brought forward their planned exists, offshore wind generation has gained more support, and investors have focused even more on climate and environmental, social, and governance

*considerations. The NEM state governments have sharpened their policies on energy, electric vehicle, renewables and emissions abatement, shifting to an electrification of the economy supported by firmed renewable energy."*¹⁷³

This progress, and the broadly held view that the *Step Change* scenario reflects Australia's most likely transition pathway, will help drive the investment and finance necessary to bring about the *Step Change* transition. AEMO notes that recent volatility in the NEM driven by global disruption of international energy markets and supply chains has confirmed energy security as a driver of the transformation, and the potential for firmed renewables to protect consumers from global commodity shocks.

AEMO also notes that supply chain limitations and other factors threaten planned delivery timelines of some transmission projects that are critical for realising the *Step Change* scenario. The Australian Government's Rewiring the Nation policy will support delivery of transmission investment. AEMO suggests Government could further support the transition including through changes to the regulatory framework, financial mechanisms to better align benefits with costs and the timing of their imposition, and improved recognition of the impact on landholders and communities hosting the required infrastructure.

A national rating scheme for energy performance

The Nationwide House Energy Rating Scheme (NatHERS), which provides energy ratings for new dwellings, was updated in September 2022 to provide measurement tools the building sector can use to support the transition to net zero emissions.¹⁷⁴ The Scheme can now be used to rate the energy performance for the whole home – not just the building envelope – including major appliances, solar panels and batteries. There has also been agreement among State and Territory Governments to increase the minimum energy performance rating for new homes under the National Construction Code 2022 from 6 to 7 stars. The NatHERS website notes that these new minimum energy efficiency requirements will make

homes more comfortable and help owners of new homes save an average of \$183 power bills every year.¹⁷⁵ More discussion on residential energy efficiency is in the case study below.

Government announces National Energy Performance Strategy

In October 2022, the Australian Government announced it would begin development of a National Energy Performance Strategy.¹⁷⁶ The strategy is expected to outline measures to improve energy efficiency and management in residential, commercial and industrial sectors. It provides an opportunity to work with State and Territory Governments to implement measures that support investment and finance for technologies and systems that reduce energy useage and can often represent cost savings for households and businesses.

Disclosure of building energy performance

Disclosure requirements relating to the energy performance of most commercial buildings at point of sale and lease have been in place since at least 2017.¹⁷⁷ In 2022, Commonwealth, State and Territory Energy Ministers agreed a draft National Framework for Residential Energy Efficiency Information which includes a commitment to “*nationally harmonised settings for state and territory governments to implement their own disclosure schemes, and supports a market environment that encourages disclosure in the residential sector.*”¹⁷⁸ This is yet to result in comprehensive disclosure requirements across all states and territories.

A market for green home loan products is emerging, incentivising more energy efficient homes and spurring the development of a supportive ecosystem

The market for green home loans is emerging, led by the provision of discounted finance through the Clean Energy Finance Corporation, and supported by developments in building standards and rating tools (see case study below). To date, this has focused on the construction of new homes. There remains a significant need to improve the energy efficiency performance of existing homes through retrofits. In particular, support is needed for individuals and groups who are less able to finance home retrofits and upgrades. Banks and non-bank lenders are also offering personal loans for home-owners seeking to improve the energy efficiency of their homes through retrofits or the purchase of energy efficient appliances.¹⁷⁹

There remain some significant barriers to truly scaling up energy efficiency in the housing market. One is improving data availability to facilitate the verification of energy efficiency improvements for homes. The second is a taxonomy that would define what is considered a ‘green’ investment in the housing space helping banks make investments with confidence that support progress towards their net zero targets.



CASE STUDY

Green home loans supporting residential energy efficiency

The Clean Energy Finance Corporation (CEFC) is helping drive greater energy efficiency and resilience in the residential sector by supporting the creation of green home loan products to accelerate the construction and renovation of market-leading, energy efficient housing. In 2020, Bank Australia was the first lender to take up CEFC finance with its Clean Energy Home Loan. This delivered eligible borrowers an interest rate discount of up to 0.4 per cent for up to five years on their mortgages for homes that achieved a minimum of 7 stars rating under the Nationwide House Energy Rating Scheme (NatHERS). Since January 2020, Bank Australia has helped finance greener homes across Australia with more than 170 households building highly rated energy efficient homes or making significant green upgrades to their property.

In June 2021, Australia's largest non-bank financial institution, Firstmac Limited (Firstmac), launched the Firstmac Green Home Loan supported by CEFC finance. According to Firstmac, there is increased customer demand for financial products that help them contribute to Australia's transition to a more sustainable future. Firstmac's response was to discount the base interest rate for all construction loans and loans for homes less than one-year-old, where the home has a NatHERS energy rating of at least 7 stars.

While the CEFC has led the charge in this investment space, more banks are following its lead and offering discounted home loans tied to a minimum 7 stars NatHERS rating. This indicates that they see competitive lending to sustainable homes as good business.

The increasing momentum for residential energy efficiency is driven in part by banks that have net zero commitments focused on how their residential lending book will contribute to these targets. It is being supported by policy developments and more advanced tools are coming online to further drive progress. For example:

- The new NatHERS in-home tool certificate assesses the energy performance and carbon footprint of the whole home and is expected to drive greater efficiency and electrification (in new homes).
- NatHERS is also expanding to introduce a nationally-consistent approach for assessing existing homes, and to support homeowners to do energy efficiency retrofits.
- RapidRate, CSIRO's artificial intelligence tool, has the potential to complete digitally accurate NatHERS rating estimates for every dwelling in Australia at low cost and without requiring site visits.

The financial and non-financial benefits from retrofitting homes for energy efficiency were highlighted in the recently released The Victorian Healthy Homes Program by Sustainability Victoria in August 2022. The report found that for a modest budget of less than \$3,000 of home retrofit, benefits of \$887 in healthcare savings over a 3-month winter period and \$87 of electricity savings were realised. Further, non-monetary benefits such as 49% of the households reporting that they were less likely to go to bed early to keep warm, had also been realised.

The CEFC continues to engage with market players to develop financial products to incentivise energy efficiency retrofits. It actively develops the financial structures and plays an important coordination role between the various market participants to improve the flow of finance to lower emissions activities—in this case, residential buildings. As demonstrated by the green home loans programs, the market will respond by developing important enabling platforms such as energy assessment tools to further enable the green finance products.

There remain some significant barriers to truly scaling up energy efficiency in the housing market. One is improving data availability to facilitate the verification of energy efficiency improvements for homes. The second is a taxonomy that would define what is considered a 'green' investment in the housing space helping banks make investments with confidence that support progress towards their net zero targets.

Glossary

Abbreviation	Name	Abbreviation	Name	Abbreviation	Name
ACCC	Australian Competition and Consumer Commission	FIAP	Financial Inclusion Action Plan	RCP	Representative Concentration Pathway
ACSI	Australian Council for Superannuation Investors	FPIC	Free Prior and Informed Consent	RIAA	Responsible Investment Association Australasia
AEMC	Australian Energy Market Commission	FSB	Financial Stability Board	SDG	Sustainable Development goals
AEMO	Australian Energy Market Operator	FTSE 100	Financial Times Stock Exchange 100 Index	SDS	Sustainable Development Scenario
AER	Australian Energy Regulator	G20	Group of Twenty	SEC	Securities Exchange Commission
AHBA	Affordable Housing Bond Aggregator	GDP	Gross Domestic Product	SGX	Singapore Stock Exchange
APEC	Asia-Pacific Economic Cooperation	GFANZ	Glasgow Financial Alliance for Net Zero	SII	Social Impact Investment
APRA	Australian Prudential Regulation Authority	GHG	Greenhouse Gas	SLL	Sustainability-Linked Loans
ARENA	Australian Renewable Energy Agency	GRESB	Global Real Estate Sustainability Benchmark	SME	Small and Medium Sized Enterprises
ASEAN	Association of Southeast Asian Nations	IBA	Indigenous Business Australia	STEPS	Stated Policies Scenario
ASFI	Australian Sustainable Finance Institute	ICA	Insurance Council of Australia	TCFD	Task Force on Climate-Related Financial Disclosures
ASIC	Australian Securities and Investments Commission	IEA	International Energy Agency	TMBL	Teachers Mutual Bank Limited
ASX	Australian Stock Exchange	IFRS	International Financial Reporting Standards	TNFD	Task Force on Nature-Related Financial Disclosures
ATO	Australian Taxation Office	IOSCO	International Organization of Securities Commissions	UN	United Nations
AUM	Assets Under Management	IPCC	Intergovernmental Panel on Climate Change	UNFCCC	United Nations Framework Convention on Climate Change
CBA	Commonwealth Bank of Australia	IPETCA	Indigenous Peoples Economic and Trade Cooperation Arrangement	US	United States
CEFC	Clean Energy Finance Corporation	ISCA	Infrastructure Sustainability Council Australia	UTS	University of Technology Sydney
CER	Clean Energy Regulator	ISF	Institute for Sustainable Futures	WEF	World Economic Forum
CFR	Council of Financial Regulators	ISP	Integrated System Plan		
CHP	Community Housing Providers	ISPF	International Platform on Sustainable Finance		
CMSI	Climate Measurement Standards Initiative	ISSB	International Sustainability Standards Board		
COAG	Council of Australian Governments	MSME	Micro, Small and Medium Sized Enterprises		
CSIRO	Commonwealth Scientific and Industrial Research Organisation	NAB	National Australia Bank		
CVA	Climate Vulnerability Assessment	NABERS	National Australian Built Environment Rating System		
DCCEEW	Department of Climate Change, Energy, the Environment and Water	NatHERS	Nationwide House Energy Rating Scheme		
DFAT	Department of Foreign Affairs and Trade	NEM	National Electricity Market		
EBA	European Banking Authority	NGFS	Network for Greening the Financial System		
EC	European Commission	NGO	Non-Government Organisation		
EFRAG	European Financial Reporting Advisory Group	NHFIC	National Housing Finance and Investment Corporation		
EMIIF	Emerging Markets Impact Investment Fund	NQA	North Queensland Airports		
ESB	Energy Security Board	NZAMI	Net Zero Asset Manager Initiative		
ESG	Environment, Social and Governance	NZAOA	Net-Zero Asset Owner Alliance		
EU	European Union	OECD	Organisation for Economic Co-operation and Development		
FASEA	Financial Adviser Standards and Ethics Authority	OSII	Office of Social Impact Investment		
FI	Financial Institution	RAP	Reconciliation Action Plan		
		RBA	Reserve Bank of Australia		

Approach & Methodology

This report covers progress made by the Australian finance sector against the Australian Sustainable Finance Roadmap, released in 2020. The research conducted to inform the report consisted of four components:

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

Surveys

An ASFI Member survey was distributed to ASFI Members and selected other FIs. Ten responses were received across banking, insurance, asset management and superannuation. The purpose of the survey was to give members the opportunity to report their understanding of the state of sustainable finance in Australia and assess progress against each of the 37 recommendations from the Australian Sustainable Finance Roadmap. The survey consisted of 43 questions.

A shorter survey with four questions was distributed to select industry partner organisations. The purpose of the survey was to understand how different organisations have contributed to implementation of the Roadmap.

Interviews

Interviews were held by ASFI with seven representatives from industry bodies, government, academia and the investment community to ascertain views on the state of sustainable finance in Australia, progress towards Roadmap implementation, and what the critical barriers and opportunities are to achieving progress.

Collection of case studies

Case studies that demonstrated good practice against specific recommendations were requested by the research team from ASFI members, partner organisations and through an open call distributed through ASFI networks and communication channels.

Desktop research and analysis

The KPMG and ASFI research team conducted complementary desktop research. The research sought to identify progress made against each of the thirty-seven recommendations. Documents reviewed by the research team included but are not limited to reporting and websites of FIs, industry body reports, news articles, government announcements, regulation, legislation and related guidance.

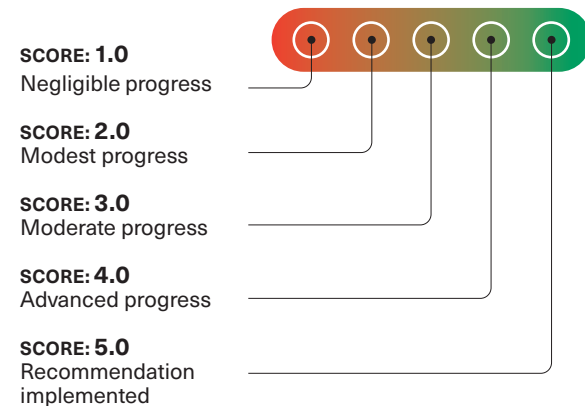
Limitations

The survey research from this study relies on self-reported data from the financial institution respondents. The small sample size of respondents limited the conclusions that could be drawn from the survey data, however is intended to provide a baseline for future surveys.

Desktop research and analysis was limited by the information made publicly available by Australian FIs.

Approach to scoring

Following the outcome of all research and stakeholder input, the perceived progress of each recommendation was qualitatively assigned a score on a scale of one to five. One being the least amount of observable progress and five being the most. Definitions of the scale are detailed the following legend.





References

ABA 2021, Banking Code of Practice, <https://www.ausbanking.org.au/wp-content/uploads/2021/10/2021-5-Oct-Banking-Code-WEB.pdf>

ABA 2022, Typologies and Indicators of Modern Slavery, https://www.ausbanking.org.au/wp-content/uploads/2022/03/Typologies-and-Indicators-of-Modern-Slavery_2022.pdf

ACCC 2022, ACCC internet sweeps target 'greenwashing', fake online reviews, <https://www.accc.gov.au/media-release/accc-internet-sweeps-target-greenwashing-fake-online-reviews>

ACCC 2022, Green Marketing and the ACCC, <https://www.accc.gov.au/system/files/Green%20marketing%20and%20the%20ACCC.pdf>

Accenture 2022, Green skills for a nation whose time has come – Charting the Path for Future Generations, <https://www.accenture.com/content/dam/accenture/final/markets/growth-markets/document/Accenture-Green-Skills-For-Singapore-Oct2022.pdf>

ACSI 2018, Australian Asset Owner Stewardship Code.

ACSI 2021, Company Engagement with First Nations People, <https://acsi.org.au/wp-content/uploads/2021/12/Company-Engagement-with-First-Nations-People.Dec21final.pdf>

ACSI 2022, ASX climate ambition encouraging, but action must follow - ACSI research, <https://acsi.org.au/media-releases/asx-climate-ambition-encouraging-but-action-must-follow-acsi-research/>

ACSI 2022, Promises, pathways & performance – climate change disclosure in the ASX200, <https://acsi.org.au/wp-content/uploads/2022/07/ACSI-Research-Climate-Change-Disclosure-in-ASX200-July-2022.pdf>

AETI, Supporting Australian Industry in working towards net-zero carbon supply chains, <https://energytransitionsinitiative.org/>

AEMO 2021, 2021 Inputs, Assumptions and Scenarios Report, <https://aemo.com.au/-/media/files/major-publications/isp/2021/2021-inputs-assumptions-and-scenarios-report.pdf?la=en>

AEMO 2022, Integrated System Plan 2022, <https://aemo.com.au/-/media/files/major-publications/isp/2022/2022-documents/2022-integrated-system-plan-isp.pdf?la=en>

ANZ 2021, ANZ Reconciliation Action Plan, October 2021 – October 2024, <https://www.anz.com.au/content/dam/anzcomau/documents/pdf/aboutus/esg/workplace-participation-diversity/anz-rap-2021-2024.pdf>

ANZ 2022, Good Energy Home Loan, <https://www.anz.co.nz/personal/home-loans-mortgages/loan-types/good-energy/>

ANZ 2022, Sustainable Finance Insights, Q2 2022, <https://www.anz.com/institutional/insights/articles/2022-07/anz-sustainable-finance-insights/>

APRA 2022, APRA publishes findings of latest climate risk self-assessment survey, <https://www.apra.gov.au/news-and-publications/apra-publishes-findings-of-latest-climate-risk-self-assessment-survey>

APRA 2022, Climate Risk Self-Assessment Survey, <https://www.apra.gov.au/information-paper-climate-risk-self-assessment-survey>

APRA 2021, Climate Vulnerability Assessment, https://www.apra.gov.au/sites/default/files/2021-09/Climate%20Vulnerability%20Assessment_1.pdf

APRA 2021, Final Prudential Standard CPS 511 Remuneration, https://www.apra.gov.au/sites/default/files/2021-08/Final%20Prudential%20Standard%20CPS%20511%20Remuneration%20-%20clean_0.pdf

APRA 2022, Information paper - Climate risk self-assessment survey, <https://www.apra.gov.au/information-paper-climate-risk-self-assessment-survey>

Armour, C. 2021, Managing climate risk for directors, ASIC, <https://asic.gov.au/about-asic/news-centre/articles/managing-climate-risk-for-directors/>

ASFI 2022, ISSB peak Australian bodies submission, <https://www.asfi.org.au/news/issb-peak-australian-bodies-submission>

ASIC 2021, 21-349MR ASIC welcomes new International Sustainability Standards Board and updated climate-related disclosure guidance, <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-349mr-asic-welcomes-new-international-sustainability-standards-board-and-updated-climate-related-disclosure-guidance/>

ASIC 2022, 22-141MR How to avoid 'greenwashing' for superannuation and managed funds, <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-349mr-asic-welcomes-new-international-sustainability-standards-board-and-updated-climate-related-disclosure-guidance/>

ASX 2022, ASX Corporate Governance Recommendations: Reporting on Environmental and Social Exposures, <https://assets.kpmg/content/dam/kpmg/au/pdf/2022/asx-corporate-governance-environmental-social-exposures.pdf>

Australian Government Department of Prime Minister and Cabinet 2019, Social Impact Investing Interim Report, <https://www.pmc.gov.au/resource-centre/domestic-policy/social-impact-investing-taskforce-interim-report>

Australian Government Department of Home Affairs 2022, Disaster Ready Fund to deliver long-term resilience, <https://minister.homeaffairs.gov.au/MurrayWatt/Pages/disaster-ready-fund-deliver-long-term-resilience.aspx>

Australian Government 2022, National Financial Capability Strategy 2022, <https://minister.homeaffairs.gov.au/MurrayWatt/Pages/disaster-ready-fund-deliver-long-term-resilience.aspx>

Big Society Capital 2020, Impact Report 2020, <https://bigsocietycapital.com/impact-report-2020/>

CEFC 2022, Australian Climate Transition Index, https://www.cefc.com.au/media/nzcx033/cefc_investmentinsights_actindex.pdf

CFR 2022, Council of Financial Regulators Climate Change Activity Stocktake 2022, <https://www.cfr.gov.au/publications/policy-statements-and-other-reports/2022/council-of-financial-regulators-climate-change-activity-stocktake-2022/>

Climate Action Tracker 2022, Countries, <https://www.cfr.gov.au/publications/policy-statements-and-other-reports/2022/council-of-financial-regulators-climate-change-activity-stocktake-2022/>

Climate Change Authority 2021, Trade and investment trends in a decarbonising world, https://www.climatechangeauthority.gov.au/sites/default/files/2021-11/Trade%20and%20investment%20trends%20in%20a%20decarbonising%20world_0.pdf

Climate Change Bill, 2022 (AU).

Climate Salad 2022, Climate Tech Industry Report, <https://www.climatesalad.com/climate-tech-industry-report>

Climateworks Centre 2020, Decarbonisation Futures, <https://www.climateworkscentre.org/resource/decarbonisation-futures-solutions-actions-and-benchmarks-for-a-net-zero-emissions-australia/>

CMSI, Home, <https://www.cmsi.org.au/>

Commonwealth Bank, CommBank Green Loan, https://www.commbank.com.au/home-loans/commbank-green-loan.html?mch=ps&mcpid=71700000083564516&qclid=CjwKCAjwwL6aBhBlEiwADycBlMg1ItEJ8tVL17WvqYZAFjqDEVUOTumQONybK0qbarhu-RK17XSxC-ZYQAvD_BwE&qclsrc=aw.ds

Convention on Biological Diversity, Australia – Main Details, <https://www.cbd.int/countries/profile/?country=au>

CSIRO 2021, Multi-Sector energy modelling, https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/isp/2021/csiro-multi-sector-modelling.pdf?la=en

DCCEEW 2004, Threatened species and ecological communities in Australia, <https://www.dcceew.gov.au/environment/biodiversity/threatened/publications/threatened-species-and-ecological-communities-australia>

DCCEEW 2020, National Environmental Economic Accounting Strategy and Action Plan, <https://eea.environment.gov.au/about/national-strategy-and-action-plan>

DCCEEW 2020, National Strategy and Action Plan, <https://eea.environment.gov.au/about/national-strategy-and-action-plan>

DCCEEW 2021, Australia State of the Environment 2021, <https://soe.dcceew.gov.au/>

DCCEEW 2021, Biodiversity - Australia state of the environment 2021, <https://soe.dcceew.gov.au/overview/environment/biodiversity>

DCCEEW 2022, Independent Review ACCUs, <https://minister.dcceew.gov.au/bowen/media-releases/independent-review-accus>

DCCEEW 2022, National construction code (NCC updates mean energy efficiency ratings expansion for new residences, <https://www.energy.gov.au/news-media/news/national-construction-code-ncc-updates-mean-energy-efficiency-ratings-expansion-new-residences>

DCCEEW 2022, Residential buildings, <https://www.energy.gov.au/government-priorities/buildings/residential-buildings>

DCCEEW, Trajectory for Low Energy Buildings, <https://www.energy.gov.au/government-priorities/buildings/trajectory-low-energy-buildings>

Department of Prime Minister and Cabinet 2020, Social Impact Investing Taskforce, <https://www.pmc.gov.au/domestic-policy/social-impact-investing-taskforce>

DFAT 2022, Indigenous peoples, <https://www.dfat.gov.au/international-relations/themes/indigenous-peoples>

DNB 2020, Indebted to nature – Exploring biodiversity risks for the Dutch financial sector, <https://www.dnb.nl/media/4c3fqawd/indebted-to-nature.pdf>

EBA 2022, EBA launches discussion on the role of environmental risks in the prudential framework, <https://www.eba.europa.eu/eba-launches-discussion-role-environmental-risks-prudential-framework>

EDGE, Building Resilience Rating Tool, <https://edgeenvironment.com/project/insurance-council-australia-building-resilience-rating-tool/>

EMIIF 2022, Emerging Markets Impact Investment Fund, <https://emiif.fund/>

EMIIF, About EMIIF, <https://emiif.fund/about/>

EPBC 2020, Independent review of the EPBC Act, <https://epbcactreview.environment.gov.au/>

ESMA 2022, ESMA Prioritises the Fight Against Greenwashing in its New Sustainable Finance Roadmap, <https://www.esma.europa.eu/press-news/esma-news/esma-prioritises-fight-against-greenwashing-in-its-new-sustainable-finance>

European Commission 2019, EU transition climate benchmarks - Regulation (EU) 2019/2089, https://ec.europa.eu/info/law/eu-transition-climate-benchmarks-regulation-eu-2019-2089_en

Eyers, J. 2022, Government sits on social impact report for a year, <https://www.afr.com/companies/financial-services/government-sits-on-social-impact-report-for-a-year-20220112-p59nn5#:~:text=Leaders%20in%20the%20emerging%20social,for%20more%20than%20a%20year.>

FCA 2022, Sustainability disclosure requirements investment labels - FCA, <https://www.fca.org.uk/publications/discussion-papers/dp21-4-sustainability-disclosure-requirements-investment-labels>

FIAP, National Action Plans, <https://www.fiap.org.au/nationalactionplans#:~:text=Since%20the%20FIAP%20program%20started,framework%20supported%20by%20Good%20Shepherd.>

FIAP, Why FIAP, <https://www.fiap.org.au/whyfiap>

Financial Reporting Council 2022, UK Stewardship Code, <https://www.frc.org.uk/investors/uk-stewardship-code#review-of-reporting-2021>

Financial Services Council (FSC), 2017, FSC Standard 23: Principles of Internal Governance and Asset Ownership

Finsia, The Certificate in Green and Sustainable Finance, <https://www.finsia.com/education/qualifications/certified-professional-banker/the-certificate-in-green-and-sustainable-finance>

FinTech Australia 2022, Australia lagging on uptake of 'green finance' solutions, however 60% of consumers want their bank to become more sustainable, <https://www.fintechaustralia.org.au/australia-lagging-on-uptake-of-green-finance-solutions-however-60-of-consumers-want-their-bank-to-become-more-sustainable/>

FSC, Climate Risk Guidance Note No. 44- Financial Services Council (FSC), <https://www.fsc.org.au/web-page-resources/fsc-standards/1522-23s-internal-governance-and-asset-stewardship>

G20 2022, G20 Sustainable Finance Roadmap, https://g20sfwg.org/wp-content/uploads/2022/01/RoadMap_Final14_12.pdf

GFANZ, About Us, <https://www.gfanzero.com/about/>

GFANZ, Glasgow Financial Alliance for Net Zero, <https://www.gfanzero.com/>

Global Sustainable Investment Alliance 2020, Global Sustainable Investment Review 2020, <http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf>

GRESB, Infrastructure Asset Assessment, <https://www.gresb.com/nl-en/infrastructure-asset-assessment/#:~:text=What%20is%20the%20GRESB%20Infrastructure,infrastructure%20assets%20around%20the%20world.>

Guerdon Associates 2021, 2021 and Beyond: Global Executive Incentive Trends, <http://www.guerdonassociates.com/wp-content/uploads/2021/01/GECN-Guerdon-2021-Global-ESG-Plus-Rpt-Final-Web.pdf>

ICA 2022, Building a more resilient Australia: Policy proposals for the Australian Government, <https://insurancecouncil.com.au/wp-content/uploads/2022/02/220222-ICA-Election-Platform-Report.pdf>

ICA 2014, General Insurance Code of Practice, https://insurancecouncil.com.au/wp-content/uploads/2021/06/Code_of_Practice_2014.pdf

ICA 2021, General Insurance Code of Practice, https://insurancecouncil.com.au/wp-content/uploads/2021/10/ICA007_COP_Report_2021-Updates_2.1_LR.pdf

ICA 2022, Insurance Catastrophe Resilience Report 2021-2022, https://insurancecouncil.com.au/wp-content/uploads/2021/09/ICA008_CatastropheReport_6.5_FA1_online.pdf

ICA 2022, Insurance Council Welcomes Disaster Ready Fund, <https://insurancecouncil.com.au/resource/insurance-council-welcomes-disaster-ready-fund/>

IFRS 2022, ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures, <https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/>

IGCC 2022, Making the Transition Happen, <https://igcc.org.au/wp-content/uploads/2022/09/IGCC-Policy-2025-PrioritiesWeb.pdf>

IIX, Orange Bond Initiative, <https://iixglobal.com/orange-bond-initiative/>

Impact Investing Australia 2018, Scaling Impact: Blueprint for collective action to scale impact investment in and from Australia, <https://impactinvestingaustralia.com/wp-content/uploads/2020/06/Scaling-Impact.pdf>

Infrastructure Australia 2022, Resilience Principles: Infrastructure Australia's approach to resilience, <https://www.infrastructureaustralia.gov.au/publications/resilience-principles>

Infrastructure Australia 2022, Infrastructure Priority List, <https://www.infrastructureaustralia.gov.au/infrastructure-priority-list>

InTheBlack 2022, The green future of sustainable finance, <https://intheblack.cpaaustralia.com.au/environment-and-sustainability/green-future-of-sustainable-finance>

IPBES 2019, Global Assessment Report on Biodiversity and Ecosystem Services, <https://ipbes.net/global-assessment>

ISC, IS Rating Scheme, <https://www.iscouncil.org/is-ratings/>

KPMG 2021, ASX 200 Corporate reporting trends, <https://assets.kpmg/content/dam/kpmg/au/pdf/2021/asx200-corporate-reporting-trends-2021-report.pdf>

KPMG 2022, Big shifts, small steps – Survey of Sustainability Reporting 2022, <https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/10/ssr-small-steps-big-shifts.pdf>

KPMG 2022, Comparing sustainability reporting proposals, <https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/06/comparing-sustainability-reporting-proposals-talkbook.pdf>

Mercer 2022, A landscape overview of transition-oriented climate indexes, <https://www.mercer.com.au/content/dam/mercer/>

[attachments/asia-pacific/australia/Mercer-Sustainable-Investing-June-2022-v2.pdf](#)

MFAT 2021, The Indigenous Peoples Economic and Trade Cooperation Arrangement, <https://www.mfat.govt.nz/en/trade/nz-trade-policy/the-indigenous-peoples-economic-and-trade-cooperation-arrangement/>

MSCI 2022, As TCFD Comes of Age, Regulators Take a Varied Approach, <https://www.msci.com/www/blog-posts/as-tcfd-comes-of-age-regulators/03140250988>

Modern Slavery Act, 2018 (AU).

Minister for Climate Change and Energy 2022, Address to the IGCC 2022 Climate Change Investment and Finance Summit, <https://www.minister.industry.gov.au/ministers/bowen/speeches/address-igcc-2022-climate-change-investment-and-finance-summit>

NGFS 2019, Origin and Purpose, <https://www.ngfs.net/en/about-us/governance/origin-and-purpose>

NGFS 2022, Statement on Nature Related Financial Risks, https://www.ngfs.net/sites/default/files/medias/documents/statement_on_nature_related_financial_risks_-_final.pdf

NGFS 2022, Membership, <https://www.ngfs.net/en/about-us/membership>

Net Zero Asset Managers 2022, The Net Zero Asset Managers initiative, <https://www.netzeroassetmanagers.org/>

NHFIC 2021, Affordable Housing Bond Aggregator (AHBA), <https://www.nhfc.gov.au/what-we-do/affordable-housing-bond-aggregator/>

NAB 2021, NAB skilling bankers to support big carbon emitters transition, <https://news.nab.com.au/news/nab-skilling-bankers-to-support-big-carbon-emitters-transition/>

NAB 2022, Home buyers to benefit from NAB's energy efficient incentive, <https://news.nab.com.au/news/home-buyers-to-benefit-from-nabs-energy-efficient-incentive/>

NSW Government 2021, NSW Heritage Act review, <https://www.environment.nsw.gov.au/policy-and-law/legislation/nsw-heritage-act-review>

Office of Social Impact Investment, Initiatives, <https://www.osii.nsw.gov.au/initiatives/sii/>

Parliament of the Commonwealth of Australia, A Way Forward, 2021.

Prime Minister of Australia 2022, Biodiversity certificates to increase native habitat and support Australian landholders, <https://apo.org.au/sites/default/files/resource-files/2021-10/apo-nid314616.pdf>

QBE 2021, Premiums4good, <https://www.qbe.com/au/about/sponsorship-community/premiums4good>

Queensland Government, Resilient Homes Fund, <https://www.qld.gov.au/housing/buying-owning-home/financial-help-concessions/resilient-homes-fund>

RBA 2021, Climate Risks and the Australian Financial System, <https://www.rba.gov.au/speeches/2021/sp-dg-2021-10-14.html>

Reconciliation Australia 2022, Who has a RAP?, <https://www.reconciliation.org.au/reconciliation-action-plans/who-has-a-rap/>

Reconciliation Australia 2022, The RAP Framework, <https://www.reconciliation.org.au/reconciliation-action-plans/the-rap-framework/>

Responsible Returns, Home, <https://www.responsiblereturns.com.au/>

Reynolds, G. 2022, Climate Action to Spur Australian Green Bonds to Record Year, <https://www.bloomberg.com/news/articles/2022-08-20/climate-action-to-spur-australian-green-bonds-to-record-year?leadSource=verify%20wall>

RIAA 2021, Annual Report FY21, <https://responsibleinvestment.org/wp-content/uploads/2021/12/RIAA-Annual-Report-FY21.pdf>

RIAA, First Nations Peoples' Rights Working Group, <https://responsibleinvestment.org/first-nations-peoples-rights-working-group/#:~:text=RIAA's%20First%20Nations%20Peoples'%20Rights,and%20their%20portfolio%20of%20companies.>

RIAA 2022, From Values to Riches 2022: Charting consumer demand for responsible investing in Australia, https://responsibleinvestment.org/wp-content/uploads/2022/03/From-Values-to-Riches-2022_RIAA.pdf

RIAA 2021, Investor Toolkit – An Investor Focus on Indigenous Peoples' Rights and Cultural Heritage Protection, <https://responsibleinvestment.org/wp-content/uploads/2021/10/Investor-Toolkit-An-Investor-Focus-on-Indigenous-Peoples-Rights-and-Cultural-Heritage-Protection.pdf>

RIAA 2022, Responsible Investment Benchmark Report, <https://responsibleinvestment.org/ri-certification/what-is-responsible-returns/>

RIAA 2022, What is responsible returns?, <https://responsibleinvestment.org/ri-certification/what-is-responsible-returns/>

RMIT, SDG Measurement and Disclosure 3.0: A study of ASX150 companies, 2021.

Rocha, P., Rathi, A. & Gillespie, T. 2022, Empty ESG Pledges Ensure Bonds Benefit Companies, Not the Planet, Bloomberg, <https://www.bloomberg.com/news/features/2022-10-04/greenwashing-enters-a-22-trillion-debt-market-derailing-climate-goals?leadSource=verify%20wall>

SEC 2022, SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors, <https://www.sec.gov/news/press-release/2022-46>

Stewardship Code 2022, Stewardship Code Aotearoa New Zealand, https://static1.squarespace.com/static/631db66ef2f5cc508cedaef6/t/633265a4ecbbd96101ab70da/1664247206556/2022+NZ+Stewardship+Code+A4_5.2.pdf

TCFD 2017, Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures, <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

TCFD 2021, Task Force on Climate-related Financial Disclosures – 2021 Status Report, [https://www.fsb.org/2021/10/2021-status-](https://www.fsb.org/2021/10/2021-status-report-task-force-on-climate-related-financial-disclosures/)

[report-task-force-on-climate-related-financial-disclosures/](#)

TNFD 2022, About, <https://tnfd.global/about/>

TNFD 2022, TNFD Consultation Groups, <https://tnfd.global/consultation-and-engagement/consultation-groups/>

TNFD, The TNFD Forum, <https://tnfd.global/about/the-tnfd-forum/>

UK Government 2021, Greening Finance: A Roadmap to Sustainable Investing, <https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing>

UNEPFI 2022, Net Zero Banking Members, <https://www.unepfi.org/net-zero-banking/members/>

UNEPFI, The Second Progress Report of the Net Zero Asset Owner Alliance Advancing Delivery on Decarbonisation Targets, 2022.

UNEPFI 2022, Net Zero Insurance Alliance, <https://www.unepfi.org/net-zero-insurance/>

UNEPFI 2021, Taskforce on Nature-related Financial Disclosures (TNFD) launched, <https://www.unepfi.org/themes/ecosystems/tnfd-launch/>

Westpac 2022, Westpac launches ESG training for bankers to support pathway to net zero, <https://www.westpac.com.au/about-westpac/media/media-releases/2022/25-january/>

World Bank 2017, Roadmap for a Sustainable Finance System, <https://sustainabledevelopment.un.org/content/documents/-245112128312112017153333-RoadmapforaSustainableFinancialSystem.pdf>

World Economic Forum 2020, Half of World's GDP Moderately or Highly Dependent on Nature, Says New Report, <https://www.weforum.org/press/2020/01/half-of-world-s-gdp-moderately-or-highly-dependent-on-nature-says-new-report/>

- 1 Global Sustainable Investment Alliance, [Global Sustainable Investment Review 2020](#), 2020
- 2 Bloomberg, [Climate Action to Spur Australian Green Bonds to Record Year, 2022](#)
- 3 RIAA, [Responsible Investment Benchmark Report, 2022](#).
- 4 Ibid.
- 5 Ibid.
- 6 Ibid.
- 7 Ibid.
- 8 ANZ, [Sustainable Finance Insights, Q2 2022, 2022](#)
- 9 Ibid.
- 10 Ibid.
- 11 InTheBlack, [The green future of sustainable finance, 2022](#).
- 12 MSCI, [As TCFD Comes of Age, Regulators Take a Varied Approach, 2022](#).
- 13 TNFD, About.
- 14 UNEPFI, [Taskforce on Nature-related Financial Disclosures \(TNFD\) launched, 2021](#).
- 15 IFRS, [ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures, 2022](#).
- 16 Ibid.
- 17 ACSI, [Promises, pathways & performance – climate change disclosure in the ASX200, 2022](#).
- 18 Ibid.
- 19 Ibid.
- 20 APRA, [Information paper - Climate risk self-assessment survey, 2022](#).
- 21 Ibid.
- 22 [Climate Change Authority, Trade and investment trends in a decarbonising world, 2021](#).
- 23 Climate change Bill, 2022
- 24 Climate Action Tracker, [Countries, 2022](#).
- 25 ACSI, [ASX climate ambition encouraging, but action must follow - ACSI research, 2022](#).
- 26 Ibid.
- 27 Ibid.
- 28 GFANZ, [About Us](#).
- 29 Bloomberg, [Empty ESG Pledges Ensure Bonds Benefit Companies, Not the Planet, 2022](#).
- 30 ESMA, [ESMA Prioritises the Fight Against Greenwashing in its New Sustainable Finance Roadmap, 2022](#).
- 31 ASIC, [22-141MR How to avoid 'greenwashing' for superannuation and managed funds, 2022](#).
- 32 ACCC, [ACCC internet sweeps target 'greenwashing', fake online reviews, 2022](#).
- 33 APRA, [Information paper - Climate risk self-assessment survey | APRA, 2022](#).
- 34 KPMG, [ASX 200 Corporate reporting trends, 2021](#).
- 35 KPMG, [Big shifts, small steps – Survey of Sustainability Reporting 2022, 2022](#).
- 36 RMIT, [SDG Measurement and Disclosure 3.0: A study of ASX150 companies, 2021](#).
- 37 Finsia, [The Certificate in Green and Sustainable Finance](#).
- 38 NAB, [NAB skilling bankers to support big carbon emitters transition, 2021](#).
- 39 Westpac, [Westpac launches ESG training for bankers to support pathway to net zero, 2022](#).
- 40 ABA, [Banking Code of Practice, 2021](#).
- 41 ICA, [General Insurance Code of Practice, 2021](#).
- 42 ICA, [General Insurance Code of Practice, 2014](#).
- 43 Guerdon Associates, [2021 and Beyond: Global Executive Incentive Trends, 2021](#).
- 44 APRA, [Final Prudential Standard CPS 511 Remuneration, 2021](#).
- 45 RIAA, [First Nations Peoples' Rights Working Group](#).
- 46 RIAA, [Investor Toolkit – An Investor Focus on Indigenous Peoples' Rights and Cultural Heritage Protection, 2021](#).
- 47 Parliament of the Commonwealth of Australia, [A Way Forward, 2021](#).
- 48 NSW Government, [NSW Heritage Act review, 2021](#).
- 49 Reconciliation Australia, [Who has a RAP?, 2022](#).
- 50 Reconciliation Australia, [The RAP Framework, 2022](#).
- 51 MFAT, [The Indigenous Peoples Economic and Trade Cooperation Arrangement, 2021](#).
- 52 DFAT, [Indigenous peoples, 2022](#).
- 53 ACSI, [Company Engagement with First Nations People, 2021](#).
- 54 Ibid.
- 55 ACSI, [Promises, pathways & performance – climate disclosure in the ASX200, 2022](#).
- 56 'Science-based target' is defined in the ACSI Report (2022) as "a clearly defined emissions reduction pathway, from a baseline year, that is set in line with latest climate science necessary to meet the goals of the Paris Agreement of limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C."
- 57 TCFD, [Task Force on Climate-related Financial Disclosures – 2021 Status Report, 2021](#).
- 58 Ibid.
- 59 Accenture, [Green skills for a nation whose time has come – Charting the Path for Future Generations, 2022](#).
- 60 Minister for Climate Change and Energy, [Address to the IGCC 2022 Climate Change Investment and Finance Summit, 2022](#).
- 61 The Council of Financial Regulators is a coordinating body of Australia's main financial agencies: APRA, ASIC, the RBA and the Australian Treasury.
- 62 CFR, [Council of Financial Regulators Climate Change Activity Stocktake 2022, 2022](#).
- 63 Cathie Armour, [Corporate governance update: climate change risk and disclosure Managing climate risk for directors, ASIC, 2021](#).
- 64 SEC, [SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors, 2022](#).
- 65 KPMG, [Comparing sustainability reporting proposals, 2022](#).
- 66 ASX, [ASX Corporate Governance Recommendations: Reporting on Environmental and Social Exposures, 2022](#).
- 67 ASFI, [ISSB peak Australian bodies submission, 2022](#).
- 68 Climate-KIC, 2022, pers comm
- 69 Convention on Biological Diversity, [Australia – Main Details](#).
- 70 DCCEEW, [Threatened species and ecological communities in Australia, 2004](#).
- 71 World Economic Forum, [Half of World's GDP Moderately or Highly Dependent on Nature, Says New Report, 2020](#).
- 72 IPBES, [Global Assessment Report on Biodiversity and Ecosystem Services, 2019](#).
- 73 DCCEEW, [Australia State of the Environment 2021, 2021](#).
- 74 DCCEEW, [Biodiversity - Australia state of the environment 2021, 2021](#).
- 75 EPBC, [Independent review of the EPBC Act, 2020](#).
- 76 TNFD, [About, 2022](#).
- 77 TNFD, [TNFD Consultation Groups, 2022](#).
- 78 TNFD, [The TNFD Forum](#).
- 79 G20, [G20 Sustainable Finance Roadmap, 2022](#)
- 80 TNFD, [The TNFD Forum](#).
- 81 TNFD, [The TNFD Forum](#).

- 82 APRA, *Information paper - Climate risk self-assessment survey*, 2022.
- 83 Ibid.
- 84 APRA, *APRA publishes findings of latest climate risk self-assessment survey*, 2022.
- 85 TCFD, *Final Report – Recommendations of the Task Force on Climate-related Financial Disclosures*, 2017.
- 86 CMSI, *Home*.
- 87 NGFS, *Origin and Purpose*, 2019.
- 88 NGFS, *Statement on Nature Related Financial Risks*, 2022.
- 89 DNB, *Indebted to nature – Exploring biodiversity risks for the Dutch financial sector*, 2020.
- 90 APRA, *Climate Vulnerability Assessment*, 2021.
- 91 NGFS, *Membership*, 2022.
- 92 APRA, *Climate Vulnerability Assessment*, 2021.
- 93 Ibid.
- 94 APRA, <https://www.apra.gov.au/information-paper-climate-risk-self-assessment-survey>
- 95 ASIC, *21-349MR ASIC welcomes new International Sustainability Standards Board and updated climate-related disclosure guidance*, 2021.
- 96 RBA, *Climate Risks and the Australian Financial System*, 2021.
- 97 ACCC, *Green Marketing and the ACCC*, 2022.
- 98 *World Bank Document (un.org)*
- 99 *National Strategy and Action Plan | EEA (environment.gov.au)*
- 100 For example NAB, Westpac, ANZ, CBA, IAG and QBE all have sustainable procurement or responsible sourcing policies
- 101 ANZ, *ANZ Reconciliation Action Plan, October 2021 – October 2024, 2021*.
- 102 Australian Banking Association, *Typologies and Indicators of Modern Slavery: Working Paper*, 2022.
- 103 Responsible-Investment-Benchmark-Report-Australia-2022-1.pdf (responsibleinvestment.org)
- 104 RIAA, *Responsible Investment Benchmark Report*. 2022.
- 105 *ibid.* p.18
- 106 *ibid.* p.13
- 107 ACSI, *Australian Asset Owner Stewardship Code*, 2018.
- 108 Financial Services Council (FSC), 2017, FSC Standard 23: Principles of Internal Governance and Asset Ownership
- 109 Financial Reporting Council, *UK Stewardship Code*, 2022.
- 110 Stewardship Code, *Stewardship Code Aotearoa New Zealand*, 2022.
- 111 FIAP, “National Action Plans”, Financial Inclusion Action Plan.
- 112 FIAP, *Why FIAP*.
- 113 Australian Government, *National Financial Capability Strategy 2022*, 2022.
- 114 *Ibid.*
- 115 *From-Values-to-Riches-2022_RIAA.pdf* (responsibleinvestment.org)
- 116 ResponsibleReturns
- 117 Australia lagging on uptake of ‘green finance’ solutions, however 60% of consumers want their bank to become more sustainable – FinTech Australia
- 118 RIAA-Annual-Report-FY21.pdf (responsibleinvestment.org)
- 119 ASIC, *How to Avoid Greenwashing for Superannuation & Managed Funds*, 2022.
- 120 FSC, *Climate Risk Guidance Note No. 44- Financial Services Council (FSC)*, 2022.
- 121 FCA, *Sustainability disclosure requirements investment labels - FCA*, 2022.
- 122 UK Government, *Greening Finance: A Roadmap to Sustainable Investing*, 2021.
- 123 GSI Alliance, *Global Sustainable Investment Review 2020*, 2020.
- 124 RIAA, *From Values to Riches: Charting consumer demand for responsible investing in Australia*, 2022.
- 125 RIAA, *What is responsible returns?*, 2022.
- 126 Shane Wright, *‘Not about ashrams and yoga retreats’: Nation’s wellbeing a focus of October budget*, 2022.
- 127 DCCEE, *“National Environmental Economic Accounting Strategy and Action Plan”*, 2020.
- 128 IGCC, *Making the Transition Happen*, 2022.
- 129 APRA, *Climate Risk Self-Assessment Survey*, 2022.
- 130 GFANZ, *Glasgow Financial Alliance for Net Zero*.
- 131 UNEPFI, *Net Zero Banking Members*, 2022.
- 132 *Net Zero Asset Managers*, 2022.
- 133 UNEPFI, *The Second Progress Report of the Net Zero Asset Owner Alliance Advancing Delivery on Decarbonisation Targets*, 2022.
- 134 UNEPFI, *Net Zero Insurance*, 2022.
- 135 *Climateworks Centre, Decarbonisation Futures 2020*.
- 136 CSIRO, *Climateworks report to AEMO Multi-Sector energy modelling*, 2021.
- 137 AEMO, *2021 Inputs, Assumptions and Scenarios Report*, 2021.
- 138 AEITI, *Supporting Australian Industry in working towards net-zero carbon supply chains*.
- 139 RIAA, *Responsible Investment Benchmark Report Australia*, 2022.
- 140
- 141 EBA, *EBA launches discussion on the role of environmental risks in the prudential framework*, 2022.
- 142 Pillar 1 is the dimension of banking regulation that establishes capital requirements based on market, credit and operational risk and a minimum leverage ratio
- 143 “ Pillar 2 addresses firm-wide governance and risk management, among other matters.
- 144 Climate Salad, *Climate Tech Industry Report*, 2022.
- 145 See overview: *Mercer-Sustainable-Investing-June-2022-v2.pdf*
- 146 CEFC, *Australian Climate Transition Index*, 2022.
- 147 European Commission, *EU transition climate benchmarks - Regulation (EU) 2019/2089*, 2019.
- 148 ICA, *Insurance Catastrophe Resilience Report 2021-2022*, 2022.
- 149 *Ibid.*
- 150 ICA, *Building a more resilient Australia: Policy proposals for the Australian Government*, 2022.
- 151 ICA, *Insurance Catastrophe Resilience Report 2021-2022*, 2022.
- 152 Australian Government Department of Home Affairs, *Disaster Ready Fund to deliver long-term resilience*, 2022.
- 153 ICA, *Insurance Council Welcomes Disaster Ready Fund*, 2022.
- 154 ICA, *Building a more resilient Australia: Policy proposals for the next Australian Government*, 2022.
- 155 Queensland Government, *Resilient Homes Fund*.
- 156 Prime Minister of Australia, *Biodiversity certificates to increase native habitat and support Australian landholders*, 2022.
- 157 DCCEE, *Independent Review ACCUs*, 2022
- 158 Office of Social Impact Investment, *Initiatives*.
- 159 QBE, *Pemiums4good*.
- 160 IIX, *Orange Bond Initiative*.
- 161 EMII, *Emerging Markets Impact Investment Fund*, 2022.
- 162 EMII, *About EMII*
- 163 Australian Government Department of Prime Minister and Cabinet, *Social Impact Investing Interim Report*, 2019.
- 164 Impact Investing Australia, *Scaling Impact: Blueprint for collective action to scale impact investment in and from Australia*, 2018.
- 165 Big Society Capital, *Impact Report 2020*, 2020.
- 166 James Eyers, *Government sits on social impact report for a year, Australian Financial Review*, 2022.
- 167 ASFI progress tracker survey results
- 168 James Eyers, *Government sits on social impact report for a year, Australian Financial Review*, 2022.
- 169 Department of Prime Minister and Cabinet, *Social Impact Investing Taskforce*, 2020.
- 170 James Eyers, *Government sits on social impact report for a year, Australian Financial Review*, 2022.
- 171 NHFIC, *Learn More About AHBA Loans*, 2021.
- 172 Australian Energy Market Operator, *2022 Integrated System Plan for the National Electricity Market*, 2022.
- 173 *Ibid.*
- 174 DCCEE, *Ratings change to cut energy use in new homes*, 2022.
- 175 NatHERS, *About NatHERS*
- 176 DCCEE, *Joint media release: Govt kicks off work to develop a National Energy Performance Strategy*, 2022.
- 177 CBD, *Building Energy Efficiency Disclosure Act 2010, Home | Commercial Building Disclosure (cbd.gov.au)*
- 178 [https://www.energy.gov.au/sites/default/files/2022-02/Draft National Framework for Disclosure of Residential Energy Efficiency Information.PDF](https://www.energy.gov.au/sites/default/files/2022-02/Draft%20National%20Framework%20for%20Disclosure%20of%20Residential%20Energy%20Efficiency%20Information.PDF)
- 179 Commonwealth Bank, *CommBank Green Loan; Home buyers to benefit from NAB’s energy efficient incentive | National Australia Bank; Good Energy Home Loan | Home loans | ANZ*.

