

Australian Sustainable Finance Roadmap:

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

RECOMMENDATIONS





7. Recommendations

The recommendations that follow represent the Roadmap (or plan) for aligning Australia's financial system with a sustainable, resilient and prosperous future for all Australians. The Roadmap represents the collective output of more than 140 participants from over 80 organisations across Australia's financial system, including financial institutions, civil society, academia, regulators and government, who came together to form ASFI.

The Roadmap provides a suite of practical and implementable recommendations for creating a sustainable financial system: one that meets the needs of the present without compromising the ability of future generations to meet their needs, and that can deliver improved social and environmental outcomes for Australia, including supporting job creation, more resilient communities, a cleaner, healthier environment, and climate risk mitigation and adaptation.

Facilitating the transition to a resilient and sustainable economy and society will require action by various parts of the financial system and by others who interact with the system. ASFI's focus in developing the Roadmap has primarily been on identifying actions required across the whole of the financial system in a manner consistent with legal obligations (including competition law). ASFI recognises that different financial system participants will be at various stages of alignment with the proposed recommendations.

The Roadmap's recommendations are categorised under the following four domains:



1. Embedding sustainability into leadership



2. Integrating sustainability into practice



3. Enabling resilience for all Australians



4. Building sustainable finance markets

The recommendations are followed by an Action Plan, which indicates who is best placed to implement each recommendation and the timeframe within which implementation is recommended. Implementation of many of the recommendations can and should begin in 2021.

Implementation of some recommendations will require other recommendations to be in train or completed. All should be implemented or embedded as an ongoing or regular activity by 2030 to:

- support Australia in meeting its commitments under the SDGs; and
- to address the urgency with which action needs to be taken to maintain an average global temperature rise below 2°C this century, and to pursue efforts to limit rises to 1.5°C.

Aligning the financial system to support a more resilient, sustainable and prosperous future for all Australians will require commitment by financial system participants to:

- support Australia to deliver the SDGs and its commitments to the Paris Agreement, Sendai Framework and Convention on Biological Diversity;
- support the transition of the Australian economy to net zero emissions by 2050;
- embed sustainability into leadership, purpose, strategy, risk management and practice of financial institutions; and
- enable the financial system to facilitate change by developing and implementing collaborative practices across the whole of the financial system.

The 'institutionalisation' of collaboration consistently with legal obligations (including competition law) will be a key enabler to successful implementation of the Roadmap, with collaboration required across Australia's financial system, including between financial institutions, regulators, government and other stakeholders.

7.1 Embedding sustainability into leadership



7.1.1 Leadership of financial institutions – governance, purpose and strategy

The Board of Directors of an organisation has ultimate responsibility for the corporate strategy and culture of the organisation, and ensuring it monitors and reports on the organisation's performance in accordance with its goals and strategy. In addition, the board is accountable for the organisation's purpose and overseeing the entity's risk management framework and capital allocation.

Therefore, boards have a critical role in determining the long-term success of an organisation¹⁵³ and the creation of long-term value for the organisation, and for society. Sustainability is “central to corporate competitiveness” and an organisation's “continued ability to operate.”¹⁵⁴ For organisations to create long-term value, it is necessary that they take into account their impact on others and their dependency on environmental, social and economic systems, and “embrace the risks and opportunities of sustainable development.”¹⁵⁵ For this to occur, sustainability should be properly embedded within corporate purpose and strategy. The board is in the best position to do this.¹⁵⁶

While several financial institutions are approaching sustainability in this way, for others it is an opportunity to move from thinking of sustainability as being about risk mitigation to “both risk mitigation and opportunity maximization.”¹⁵⁷ Boards can formulate goals and make strategic decisions with a view to long-term value creation for their organisations (and its owners, shareholders and providers of finance) and for society and the environment by using a clear framework for managing long-term value creation, considering the needs of all primary stakeholders, and curbing excessive short-termism.

For a board to do this, it must have clear accountability for sustainability and, collectively, board members must have skills and experience in sustainable development and sustainability risks.

The assumptions that an organisation makes in its corporate strategy shape its behaviour, policies and practices and drive its subsequent decisions and results.¹⁵⁸ Embedding sustainability within corporate strategy has the capacity to drive employee behaviour, culture, remuneration practices and risk management, resulting in better long-term outcomes for the organisation and its stakeholders, including consumers, employees, suppliers, communities and shareholders.

Australia's financial system impacts the whole of the Australian economy and society. Australia's financial system needs a shared language and uniform way of measuring, managing and reporting the economic, social and environmental impacts it has on others, to promote impact integrity, comparability, trust and confidence, and to contribute towards achieving the SDGs, including reducing negative impacts.

Directing more capital to where it is needed most requires parameters for measuring, managing and consistently and transparently communicating the contributions institutions and investments make to the SDGs, and their other positive and negative impacts on society and the planet.

Frameworks are being developed that are freely available and competitively neutral, which can be used with existing tools and data sources. Examples include the Impact Management Project that is being developed through consensus with more than 2,000 organisations globally. The Impact Management Project focuses on front-end reliable and consistent impact measurement and management practices from which high-quality comparable impact reporting can flow. The Impact-Weighted Accounts Project is seeking to create accounting statements that transparently capture external impacts in a way that drives investor and managerial decision-making.¹⁵⁹

Measuring and managing impact has the potential to improve impact integrity. Impact evidence creates value, helps companies stay true to their purpose, and allows them to articulate the effect of their operations, which is valuable to all stakeholders, supports attracting capital and investment, and improves efficiency.

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.

7.1.2 Human capital

Aligning Australia's financial system with a sustainable, resilient, and prosperous future for all Australians will require a fundamental commitment to investing in human capital. Financial institutions directly employ 450,000 people, with many more engaged in activities that are core to the operational functionality of Australia's financial system. Implementation of the Roadmap will ultimately come down to strengthening the skills, capabilities and values of individuals.

Australia's financial institutions have a long history of developing professional capabilities of employees through in-house and industry training. The industry also has close working relationships with Australian universities that provide the education foundations for the sector's employees across a range of professional disciplines. By continuing to partner with existing industry training organisations and universities, Australia's financial system participants can keep developing the new skills and capabilities that will be required to support transition. This training will be required across the breadth of roles and at all levels of an organisation, including at board and executive levels.

Recognising that the delivery of change involves collaboration with many partners, including governments and civil society, partnerships need to be a 'two-way street' that build the skills of governments and stakeholders to understand the financial system. The magnitude and scope of transition means that there are areas where financial institutions are not likely to develop a depth of skills and capabilities. This will be the case particularly in areas such as biodiversity, where deep pools of expertise exist across government, academia and communities. In order to capitalise on this expertise, Australia's financial institutions can build strategic skills partnerships with experts to build mutual understanding and improve impact.

Resilient Australian landscapes and cultural awareness are areas that have been identified where there is a need for formal skill exchanges. For Australian landscapes to support a prosperous, sustainable and culturally rich society, new knowledge regarding adaptation and resilience needs to be embedded into financial institutions' practices. A two-way skill exchange would have the objective of supporting new finance and investment innovations to unlock a flow of capital as well as embedding biodiversity, marine diversity, water and natural capital into financial institutions' decisions. Areas of focus of collaboration could include natural capital, biodiversity and landscape resilience, risk management and mitigation, impact mitigation, large-scale planning, forecasting, natural capital accounting and cultural awareness training with a focus on Indigenous culture, metrics and reporting.

Several countries have supported the development of sustainable finance institutes as a key mechanism to enable skill and capability development. Examples include the UK's Green Finance Institute¹⁶⁰ and Canada's Institute for Sustainable Finance.¹⁶¹ The UK has also developed a UK Green Finance Education Charter, which commits relevant financial professional bodies in the UK and internationally to integrating green and sustainable finance into their educational and professional development programs.¹⁶² Support from financial system participants for the establishment of university-hosted centres for sustainable finance has the potential to build skills and capabilities in specific areas, including climate modelling, scenario analysis, stress testing, carbon markets, valuation of externalities, and impact measurement and management practices.

There is an opportunity to harmonise and partner with international initiatives, including the UN Sustainable Development Solutions Network, which has developed an Online Master's Program in Sustainable Development, and the Principles for Responsible Management Education (PRME). Working in partnership with the Australian university sector would ensure that core curriculum for all finance and related discipline degrees includes sustainability. As new employees enter the workforce in a raft of different professional disciplines and organisations, the building of foundational skills would support financial system participants to transition.

There is a need to focus on building organisations' internal cultures as well as building cultural practices across financial institutions that ensure a purpose- and values-driven approach. This should ensure all primary stakeholders are at the centre of decision-making.

The Banking and Finance Oath is recognised as an initiative that supports individuals to reflect on what it means to behave ethically, and with integrity.¹⁶³ Recognition and commitment to a higher purpose for a financial institution is important to support sustainability goals and the responsible consideration of multiple stakeholders. The Banking and Finance Oath provides a model for individuals to take personal responsibility for ethical conduct and building a sustainable future, however, adoption has been low, with accountability and funding both limited. Other relevant codes include the CFA Institute's code of ethics, which charter holders must meet.

There is a need for financial institutions to resource the development of codes for employees. These should be broad in their coverage and extend beyond just senior executives, who are covered by the existing Banking Executive Accountability Regime, which is to be extended by the Australian Government's Financial Accountability Regime.

To support an inclusive corporate culture, there is a need for financial institutions to move beyond statutory whistleblowing requirements to establish a culture that facilitates and promotes employees to speak up. This would build on reforms that now protect whistleblowers who call out misconduct and harm to consumers and the community.¹⁶⁴

Remuneration is a key driver of behaviour. Remuneration structures are often heavily biased towards near-term financial performance with environmental and social considerations still often seen as non-financial, even when financial implications of mismanaging these risks are identified as material. The lack of alignment of remuneration structures with sustainable long-term value creation puts at risk the long-term financial performance and stability of the broader economy and the sector.

In order to achieve long-term sustainable outcomes for society and the environment, remuneration for senior executives and employees needs to take into account medium- to long-term social and environmental performance targets. It is noted that calls for enhancing remuneration practices with sustainability-focused targets can apply both to remuneration practices within corporations and to remuneration practices for financial service providers, including fund managers. There is the potential for quantitative and qualitative social and environmental targets to be introduced with remuneration aligned to the achievement of the target, and for this to be coupled with rebalancing of scorecards, which currently tend to emphasise short-term financial key performance indicators.

Embedding sustainability into strategy will require organisations to design incentive packages for senior executives and employees that are aligned with the expected time horizon of the organisation's activities. Questions continue to exist as to the role that bonuses should play in remuneration. Where bonus structures exist, a larger portion of the overall incentive needs to be escrowed to align with the conclusion of the expected time horizon.

Recommendation 2

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

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

Recommendation 3

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

Recommendation 4

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

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

7.1.3 Leadership to implement Roadmap

Integrating sustainability into the leadership and practices of Australia's financial system cannot be achieved overnight. It requires leadership from all financial system participants to build the skills, capabilities, tools, frameworks and market architecture that will support the long-term transition of the Australian economy and society.

To assist with this process, it is recommended that ASFI is established as a permanent body overseeing the implementation of the Australian Sustainable Finance Roadmap, noting it already has an established network of committed financial system professionals who have worked on the Roadmap's development. Recommendation 5 (see overleaf) details ASFI's proposed work program and governance structure.

ASFI would provide guidance to financial system participants through special projects and forums, consistently with legal obligations of all participants (including competition laws). Four proposed forums would provide the structure for permanent cross-sector engagement on issues and guidance to industry on implementation of ASFI's recommendations:

Financial Risk and Sustainable Practices Forum

This forum would provide a mechanism for discussion on the development and implementation of practices in the following areas:

- stewardship;
- reporting according to the TCFD recommendations;
- implementation of a sustainable finance taxonomy in Australia;
- vulnerability assessments, scenario testing and climate modelling;
- regulatory mechanisms that incentivise Australian financial institutions to allocate capital towards green and other sustainability-linked assets; and
- nature-related financial disclosures aligned to Australia's biodiversity challenges.

Sustainable Finance Markets Forum

This forum would provide a mechanism for discussion and collaboration on market-based mechanisms to mobilise finance, investment and insurance that support the delivery of a sustainable and resilient Australian economy and society. Areas of focus would include:

- transition of energy markets to net zero emissions, with a focus on balancing of new supply;

- transition of industries and communities impacted by the transition of Australia's energy system and anticipated closure of existing carbon-intensive assets;
- development of sustainable bond markets, including resilience bonds;
- development of scalable impact investment social enterprise finance;
- support for the development of partnerships to aggregate small social enterprise loans;
- support for the development of place-based recovery strategies, which engage local communities while being aggregated across a regional scale to maximise the investment footholds required by private and institutional investors; and
- support for the development of investment initiatives to strengthen the recovery from Covid-19.

Leadership Forum

This forum would provide a mechanism for discussion and collaboration on a range of areas where leadership has the potential to deliver meaningful contributions to building a resilient and sustainable economy and society as follows:

- development of structural collaborative mechanisms to work with experts, including the potential to establish university-hosted centres for sustainable finance, with the objective of addressing skills and capability gaps of financial institutions and their employees. Such mechanisms could provide an opportunity for two-way exchange enabling a deeper understanding of strengths and weaknesses of Australia's financial system;
- discussion on collaboration with industry training organisations;
- discussion on implications of international treaties and conventions on Australia's financial system;
- the opportunity to support countries across the Asia-Pacific region to build resilient and sustainable economies and societies;
- collaboration to support financial institutions to establish Financial Inclusions Action Plans and review current practices and design of products and services to embed financial inclusion;
- collaboration to build societal resilience to acute shocks as well as chronic threats to climate and health, which amplify the impact of acute shocks on the most vulnerable, by developing income and revenue contingent loans as a mechanism to support individual and community resilience;
- collaboration around mitigation initiatives for communities; and
- sharing best practice on initiatives that build personal professionalism of employees.

Australian Sustainable Financial System Forum

This forum would provide a mechanism for financial institutions to report on their progress in supporting the delivery of a resilient and sustainable Australian economy and society. The forum would provide a mechanism for policy discussion, including on relevant international sustainable finance initiatives such as the Principles for Responsible Investment and UNEP FI, which includes the Principles for Responsible Banking and the Principles for Sustainable Insurance.

Participation would include representatives from industry and stakeholder bodies.

Recommendation 5

The Australian Sustainable Finance Initiative (ASFI) is established as a permanent body that supports Australia's financial system to deliver a sustainable, resilient and prosperous future for all Australians. ASFI would be governed by a Board composed of representatives of financial institutions, with an Advisory Council composed of government, regulators, industry bodies and civil society representatives contributing perspectives and providing advice to the Board on workplan priorities.

Based on the model of the Australian Government's Council of Financial Regulators, the ASFI Advisory Council would convene on a regular basis with state and federal government departments, with the objective of ensuring the work of ASFI is informed by government and societal priorities.

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

As a mechanism to provide guidance on implementation, ASFI would establish special projects and forums consistently with legal obligations of all participants (including competition laws). It is recommended that four forums are established:

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

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

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

Priority special projects would:

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

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

7.1.4 Aboriginal and Torres Strait Islander peoples

From the perspective of Australia's financial system, Indigenous people are individual consumers of financial services and investors in the system. Indigenous people may be dealing with their monies as individuals and also investing funds on behalf of groups of Traditional Owners whose interests in land and water have been converted into investable funds, often as the result of acquisition, mining and development. The conversion of interests is provided for by Commonwealth, state and territory legislation recognising Indigenous rights over their land and waters, but the absence of a right of veto over acquisition, mining and development in most legislation means that the important human right to free, prior and informed consent is absent. Since the introduction of these laws, Indigenous communities and their leaders have exercised rights to protect their heritage where possible and endeavoured to optimise the financial benefits derived from these rights and interests, addressing the needs and aspirations of each community to build a sustainable economic future underpinned by recognition of Indigenous Australians' cultural values.¹⁶⁵

ASFI would establish an Indigenous-led First Peoples Financial Services Office to facilitate financial system engagement with Indigenous 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. The Office's activities, which would be Indigenous-led and designed in collaboration with Indigenous organisations, would aim to support the self-determination of Indigenous peoples. The Office would educate and support financial institutions to effectively engage with Indigenous communities, including on specific issues or projects. It is recommended that the Office:

- focus on coordinated collaborative solutions that deliver more than individual actions;
- be a single point of enquiry for engaging with Indigenous peoples including providing guidance on the operation of the principle of free, prior and informed consent (see further below) and methodology for due diligence on implementation of the principle by companies and on particular projects;
- capacitate building Reconciliation Actions Plans by financial institutions, including by providing frameworks and tools, and benchmarking industry performance; and
- coordinate, in practice, the application of Indigenous Investment Principles so that financial institutions can rely on this resource to provide the appropriate advice, information and other resources.

It is recommended that, operationally, the Office:

- have a close relationship with the Australian Human Rights Commission, with high-level meetings to be held at regular intervals;
- liaise with the Productivity Commission and the Indigenous Productivity Commissioner;
- liaise with Indigenous Business Australia and other relevant Indigenous bodies; and
- advise on practical and meaningful engagement with the appropriate representatives and bodies.

Recommendation 6

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

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

Recommendation 7

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

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

7.1.5 Leadership partnerships

Financial institutions operate as part of a financial system that involves many participants, including governments, regulators, households and businesses. The success of an individual financial institution derives from the system within which it operates. There are many benefits of financial system participants working in partnership. Through collaboration there is an opportunity to open up new, and to better manage existing, products, services and markets that can serve households and businesses. The interconnectedness of the financial system means that there is also an opportunity to deliver improved environmental, social and economic outcomes. A key theme of ASFI's work is the need to establish formal structures that institutionalise collaborative practices across the financial system in a manner consistent with legal obligations (including competition law).

COP26:

With the UN Climate Change Conference (UNFCCC COP 26) rescheduled to take place from 1 to 12 November 2021, in Glasgow, UK, coupled with current discussions between the Australian and UK governments, there is an opportunity to explore the development of a sustainable finance partnership with the UK.

New Zealand's Sustainable Finance Forum (The Aotearoa Circle):

ASFI has established a practical working relationship with New Zealand's Sustainable Finance Forum (The Aotearoa Circle) that could form the basis of a partnership. There is an opportunity for Australia to demonstrate leadership across the Asia-Pacific region around sustainable finance. Supporting the development of sustainable finance practices amongst Pacific Island countries is specifically noted.

Asia-Pacific region:

Impact Investing Australia considers that Australia's financial system participants are well positioned to support the achievement of the SDGs across the Asia-Pacific, despite numerous challenges facing the region:¹⁶⁶

- Seven million people die each year due to outdoor and indoor air pollution.
- Stunting due to malnutrition affects more than 96 million children.
- More than 18 million children were not enrolled in primary school in the past few years.
- Incidences of child marriage and early and forced marriage persist, with 20–25% of women in some countries married before they were 18.
- Eighty to ninety per cent of the wastewater generated in the region's developing countries was discharged directly into water bodies without any treatment (as of 2015).
- A total 1.5 billion people do not have access to improved sanitation and 417 million people are without access to electricity.

The Australian Government's Department of Foreign Affairs and Trade (DFAT) *Partnerships for Recovery — Australia's COVID-19 Development Response*¹⁶⁷

acknowledges that the private sector will be an essential partner in economic recovery across the region, and that facilitating responsible business models, low-carbon development and greater value chain diversification will boost economic resilience in Australia and partner countries, and help protect against future economic shocks.

The Australian Government's Business Partnerships Platform¹⁶⁸ is a notable example of public–private collaboration. The partnership, run by DFAT, supports businesses to create sustainable change in the region by creating and adapting products and services that improve lives, helping to create more inclusive and productive value chains, and expanding inclusive business practices.

Recommendation 8

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

7.2 Integrating sustainability into practice



7.2.1 Sustainable finance taxonomy

A core purpose of the financial system is to allocate capital to productive purposes for the benefit of all. There is an urgent need to shift new and existing capital into investments that create and better support sustainable and equitable outcomes for Australian people, our economy, the environment and investment and trade in the region.

A sustainable finance taxonomy – a body of common definitions for sustainable investment – which is aligned with the Paris Agreement and SDGs – is needed to: accelerate and scale up the flow of capital to sustainable outcomes; provide investors with confidence and assurance; and to enable comparability and reduce transaction costs.¹⁶⁹

Many financial markets are moving towards establishing taxonomies for sustainable finance, or have already done so, including markets in the EU, Canada and China. In late 2019, the EU launched the International Platform for Sustainable Finance (IPSF) together with relevant public authorities of Argentina, Canada, Chile, China, India, Kenya and Morocco. Since its launch, Indonesia, New Zealand, Norway, Senegal, Singapore and Switzerland have also joined the IPSF. Together, the 14 members represent 50% of GHG emissions, 50% of the world population and 45% of global GDP.¹⁷³ The IPSF has established a working group on taxonomies, which will work towards a 'Common Ground Taxonomy' highlighting commonalities between taxonomies that have already been developed.¹⁷⁴

The objective of developing, or adopting, a sustainable finance taxonomy should be to align and harmonise with emerging international sustainable finance taxonomies and to build on existing frameworks, while also reflecting the unique characteristics of the Australian market. A sustainable finance taxonomy would support the measurement of financial flows towards sustainable outcomes. Examples of financial system activities that would benefit from a sustainable finance taxonomy include:

- business lending decisions of banks;
- issuance of sustainability bonds by banks;
- assessment by ADIs of exposure of loan portfolios to sustainable investments;
- labelling of sustainable products;
- classifying sustainable activities for investment products subject to product disclosure requirements and for discrete investment mandates;
- development of concessional risk weightings for qualifying green and sustainable assets as part of capital treatment for ADIs;

- alignment of lending and investment portfolios to a trajectory of net zero emissions by 2050 through development of appropriate benchmarks that are aligned with a net zero emissions Australian economy. This could include joint work between the ASX and the ASFI Financial Risk and Sustainable Practices Forum to establish guidance for an evidence-based, Paris-aligned All Ordinaries ASX index that is informed by a 2050 net-zero-emissions trajectory; and
- investor engagement with investees in relation to their transition plans.¹⁷⁵

CASE STUDY

Finance against slavery and trafficking

An example of a multi-party partnership is the Finance Against Slavery and Trafficking 'FAST' Initiative, backed by DFAT, the governments of Liechtenstein and the Netherlands, United Nations University and private sector partners. The FAST initiative seeks to mobilise financial institutions to tackle modern slavery.

Globally, there were 40 million people in forced labour and forced marriage as of 2016.¹⁷⁰ Much modern slavery is a result of market failure: a failure to accurately price in the social costs of production. A recent IMF paper suggests child marriage costs countries around 1% of their GDP.¹⁷¹ The first phase of the FAST Initiative involved a year-long consultation by a Financial Sector Commission, comprising 25 experts from finance, the anti-slavery movement and the business and human rights field. The Commission's report, *Unlocking Potential: A Blueprint for Mobilizing Finance Against Slavery and Trafficking*, was released at the UN General Assembly in September 2019. The 'FAST Blueprint' – as the report is now known – proposes a collective action framework based on five goals and thirty actions. To aid in Blueprint implementation, the Commission also released a series of tools dealing with financial investigations, risk-mapping and good practice.¹⁷² The second phase of work by the FAST Initiative involves implementation of the Blueprint, through a range of sector-led projects and initiatives including engagement by the FAST Initiative with 49 countries and international organisations involved in the Bali Process on People Smuggling, Trafficking in Persons, and Related Transnational Crime, to promote Blueprint implementation in relation to specific high-risk sectors.

The intended uses of a sustainable finance taxonomy would have implications for Australia's financial regulators APRA, ASIC and RBA. APRA could integrate a sustainable finance taxonomy into Prudential Practice Standards, Guidance and climate vulnerability assessments. ASIC could establish principles-based guidance on labelling that would support intermediaries to label and rate investment products, while the RBA could incorporate the taxonomy into risk weightings for ADIs. A sustainable finance taxonomy would also provide a reference for Australia's policy makers in the development of targets and strategies for achieving Australia's sustainable development commitments.¹⁷⁶

To apply a sustainable finance taxonomy across Australia's financial system, it would be necessary to:

- determine the intended uses and users of a taxonomy in the Australian context;
- establish the objectives of a taxonomy and their goals, reviewing how the Paris Agreement and SDGs would be incorporated;
- establish the classification system to be used; and
- consider the consistency of a taxonomy with scenarios and pathways.

Significant work has been conducted to develop the EU sustainable finance taxonomy, which is based on EU's regulatory frameworks. Similarly, any taxonomy that is developed or adopted for Australia will need to align with Australian legal and regulatory frameworks, and be adaptable in order to respond to developments or innovations.

Given the depth of work that has been conducted globally on taxonomies, including the OECD's recent mapping of sustainable finance definitions and taxonomies across five jurisdictions,¹⁷⁷ the work required for Australia to implement a sustainable finance taxonomy could be achieved efficiently. The nature of prospective intended uses of a taxonomy means that it makes sense that a project focused on exploring the implementation of a taxonomy in a manner consistent with legal obligations (including competition law) should involve governments and financial regulators.

Recommendation 9

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

Recommendation 10

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

7.2.2 Climate-related financial disclosures

Australia's financial regulators (RBA, APRA and ASIC) have all highlighted the risk that climate change poses to Australia's financial system, with climate change considered a systemic or material risk that is "material, foreseeable and actionable now" and that will "rise over time, if not addressed".¹⁷⁸ As Mark Carney outlined in 2015 when he was Governor of the Bank of England, climate change poses three types of risk in relation to the financial system: physical, liability and transition.

- Physical risks arise from climate and weather-related events and impact asset valuations and insurance liabilities.
- Liability risks arise where those who have suffered loss or damage from the effects of climate change seek compensation from those they hold responsible. The Grantham Research Institute on Climate Change and the Environment (Grantham Institute) has identified around 1,500 climate change-related court cases globally.¹⁷⁹
- Transition risks are financial risks that relate to the transition to a lower-carbon economy and may include policy, legal, technology and market changes to address mitigation and adaptation requirements.

According to the Grantham Institute, there are more than 2,000 climate laws and policies globally and "[t]here is now no country in the world that does not have at least one policy dealing with climate change", with the median being eight.¹⁸⁰ In a speech delivered in early 2019, Deputy Governor of the RBA, Dr Guy Debelle, emphasised that an orderly transition to a lower carbon economy would create better outcomes for Australia's economy and financial stability than a disorderly and abrupt transition.¹⁸¹

The TCFD recommendations, published in 2017, provide a framework for disclosing "clear, comparable and consistent information about the risks and opportunities presented by climate change".¹⁸² They were developed to "promote more informed investment, credit, and insurance underwriting decisions" that, in turn, "would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks." The TCFD recommendations encourage disclosure of forward-looking information through scenario analysis to enable users to understand the potential impact of different scenarios on the company's businesses, strategy and financial planning.¹⁸³

Australian financial institutions worked with the UNEP FI on its TCFD pilot program, which considered the implementation of the TCFD recommendations for banks, and worked to develop "transition and physical assessment models and metrics to enable scenario-based, forward-looking assessment and disclosure of climate-related risks and opportunities".¹⁸⁴ Institutions have been working since inception of the TCFD on understanding what data is required and how to view investment portfolios through long-

term climate risk-related lenses, and have reported against TCFD recommendations for several years, with enhanced reporting each year. According to the Australian Council of Superannuation Investors, as at August 2019, 52 ASX200 companies had either adopted or had committed to adopt TCFD in 2019.¹⁸⁵

CMSI, an industry-led collaboration between insurers, banks, scientists, regulators, reporting standard professionals, service providers and supporting parties, has been established with the objective of (among other things) providing consistent and comparable financial disclosure guidelines under the TCFD recommendations for producers and users of such guidelines. CMSI has recently completed the first phase of its work, which involved publishing financial disclosure guidelines for Australian banks, general insurers and asset owners on scenario analysis of climate-related physical risk for buildings and infrastructure.¹⁸⁶

Adopting TCFD disclosures supports international comparability. As disclosures become mandatory in other jurisdictions, such as in the EU, UK and New Zealand, as called for by the NGFS and as required by the Principles for Responsible Investment, it is expected that more companies will report according to the TCFD recommendations. TCFD provides an effective tool for boards seeking to assess long-term risk and shape long-term strategy. If used effectively, TCFD-aligned disclosures have the potential to promote a reallocation of capital towards industries that will be critical to delivering on Australia's commitments under the Paris Agreement and the achievement of net zero emissions by 2050.

To ensure that TCFD-aligned disclosures are 'decision-useful', companies should:

- consider the potential impact of climate change and disclose material findings;
- include the potential financial impact of climate-related issues on the business; and
- consider disclosing the resilience of company strategies to climate change.

Climate-related issues should also be mainstreamed within organisations through executive management and the risk management and finance departments, not just sustainability or corporate responsibility functions.¹⁸⁷

Reporting aligned with TCFD recommendations by unlisted entities (with annual consolidated revenue of more than \$100 million) and government entities would enhance the ability to assess the scale of risk that climate change poses to the Australian economy, particularly if all TCFD reporting was to be made publicly available via a central repository. Of note, company disclosure on climate change is a precursor for key elements of climate-related investment analysis and therefore reporting by unlisted entities would better enable investors to report in accordance with TCFD recommendations. APRA is proposing to issue guidance on climate change financial risk and it would be beneficial for this to include guidance on reporting according to TCFD.

There will be challenges that need to be addressed in moving towards mainstream adoption of the TCFD recommendations. These include the potential for divergent scenario adoption, which would hinder comparability. The development of skills at all levels of financial institutions would be needed. To support TCFD-aligned disclosures, there is an opportunity to form partnerships to share underlying data sets with organisations such as CSIRO.

The Australian Accounting Standards Board and Auditing and Assurance Standards Board have produced guidance on climate-related and other emerging risks disclosures.¹⁸⁸ The guidance reinforces that report preparers, assurers and auditors must approach climate change-related issues with the same degree of rigour as any other financial variable. A failure to do so may leave corporations and their directors increasingly exposed to claims for breach of duty and/or misleading disclosure under the Corporations Act.

Recommendation 11

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

Recommendation 12

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

Recommendation 13

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

7.2.3 Nature-related financial disclosures

The Task Force on Nature-related Financial Disclosures (TNFD) launched in July 2020. The TNFD plans to develop a reporting framework over the next two years that will enable financial institutions to better understand their “risks, dependencies and impacts on nature.”¹⁸⁹ The intention is that the TNFD operate alongside the TCFD and that it takes a wider approach to nature-related risk than the TCFD, which focuses on carbon.

Recommendation 14

Recognising that between 7 and 10 per cent of all species on Earth occur in Australia,¹⁹⁰ and many of these are only found in Australia,¹⁹¹ Australia’s financial system participants collectively play a leadership role in the development of the Task Force on Nature-related Financial Disclosures (TNFD) by:

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

7.2.4 Sustainability disclosures

The purpose of sustainability reports and their assurance is that readers of reports can understand the organisation’s impact on others (society and the environment) and/or the impact of (financially material to the organisation) environmental and social factors on the value of the organisation.

Sustainability disclosure is an evolving field of practice. As the five major standard-setting Institutions, CDP, CDSB, GRI, IIRC and SASB, acknowledge,¹⁹² sustainability disclosure is necessarily more complex than financial reporting for several reasons:

- Some users of sustainability information, such as providers of financial capital, share the same primary objective as users of financial information – namely to make economic decisions. However, there is a variety of other users and therefore objectives of sustainability information. It is important that a company recognises this when determining which sustainability topics to disclose performance on, as well as in the choice of communication channels.
- The nature of sustainability topics, including their interest to different types of users of information and their influence on companies’ performance, can also change, sometimes slowly but sometimes rapidly – a concept referred to as ‘dynamic materiality’.
- There is a common misperception that conflates sustainability information with the expanding ecosystem of related ratings, indices and analytical tools, which rely on its disclosure.

The need for convergence of sustainability disclosure regimes is being recognised globally, with the five major standard setters stating:

*Reported information is most useful when it is consistent across time periods, comparable across companies and geographies, and reliable (i.e., it is prepared subject to strong systems of internal control, board governance and oversight, and is assurable). It is also most useful when it is fit for the purpose of both businesses and users of their information, as determined through independent, rigorous and ongoing stakeholder consultation and refinement.*¹⁹³

Assurance of sustainability reporting is particularly important. Evidence suggests that a high proportion of entities already assure their sustainability reports. Three-quarters of the 4,900 companies studied in KPMG’s 2017 global reporting survey issued sustainability reports, with assurance having increased.¹⁹⁴ The majority of reports listed on GRI’s Sustainability Disclosure Database indicate some form of external assurance.¹⁹⁵

National and international standards and frameworks exist for assuring non-financial/sustainability disclosures.¹⁹⁶ However, sustainability reporting and assurance on sustainability reports remains voluntary and companies retain the right to decide whether or not to employ independent third parties to provide assurance on their sustainability reports. Further, companies that do have their reports assured by an independent third party have flexibility in the choice of the assurer, scope and level of assurance. Variation in approaches to assurance can result in variability in the materiality, credibility and completeness of information disclosed and make comparison of the same company’s performance from year-to-year, or between companies, difficult, thereby reducing the overall value of such disclosures to inform investment, lending and insurance decisions.

The importance of narrative disclosures in an operating and financial review is noted. Financial reports are presented alongside narrative disclosures chiefly in the form of the directors’ report.¹⁹⁷ There is an opportunity for operating and financial reviews to more closely align with, or draw from, allied disclosure frameworks.¹⁹⁸

Recommendation 15

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

Australia’s financial system participants, including financial institutions, businesses, governments and regulators, work to align with international developments, noting the evolving discussions around convergence of global disclosure frameworks and, in particular, the commitment by CDP, CDSB, GRI, IIRC and SASB to work together towards Comprehensive Corporate Reporting.

7.2.5 Vulnerability and stress testing

Stress tests are a well understood and proven tool for assessing the vulnerability and resilience of the financial system and financial institutions to systemic, macro-economic shocks. They have been used regularly by financial regulators across the globe, including by APRA in Australia, for example its pandemic stress test on the insurance industry in 2006¹⁹⁹ and various stress tests on the banking industry in recent years.

It is widely recognised that the effects of a changing climate pose financial risks to financial institutions, and central banks and financial regulators around the world, including in Australia, have highlighted the importance of understanding and managing the financial risks of climate change.²⁰⁰

Recent research commissioned by CPA Australia²⁰¹ argues that “given the range and complexity of uncertainty of potential climate futures and market responses in the transition to net zero, including in the short term, it is foreseeable that assumptions relating to the impacts of climate change may have a significant risk of material adjustment to carrying values within the next financial year, in which case they must be disclosed under AASB 101 / IAS 1. High levels of uncertainty may warrant the disclosure of sensitivity analysis, such as scenario testing”

Modelling the full extent of climate-related financial risk is complex and challenging, in part due to the distinctive characteristics of climate change, which include its far-reaching impact across the economy, the foreseeable nature – that is, a high degree of certainty that physical and transition risks will materialise at some point, its irreversibility, and that short-term actions will ultimately determine the magnitude and nature of future impacts.²⁰²

There are several methods for implementing climate-related stress tests for financial institutions. The first is a regulated approach that is mandated and administered by the financial regulator, which would require all large banks, insurance firms and potentially superannuation funds to conduct a consistent stress test for the industry. This approach can be used to assess the resilience of different entities, different sectors (e.g. insurance, banking, investment) or the resilience of the sector as a whole, as all major institutions within the sector would be required to conduct the stress test. Under this approach, there may also be some standardisation of scenario parameters used by the respective regulated entity types. APRA has announced that it will be undertaking climate change financial risk vulnerability assessments beginning with the largest banks, with other industries to follow. These assessments will be designed to estimate the potential physical and transition risks of climate change on the relevant entity's balance sheet.

The second is a voluntary standard that the industry can use and adopt for its own reporting. This could be administered by a co-regulatory or peak body representing members from the financial sector. This type of standard would make sure that consistent methods and approaches are applied across the sector. The benefits of this approach are its flexibility and its ability to collect, consolidate and share data across the industry in a transparent way in a manner consistent with legal obligations (including competition law).

The third type of stress test involves individual entities producing their own stress tests based on their own internal research and processes. Materials and methods can be developed to support financial institution best practice. However, how an institution ultimately implements the stress test would be up to them. Publishing of these stress tests would be voluntary and the decision of each individual institution. A coherent assessment of resilience across the sector to climate-related risks would not be possible under this implementation strategy as the stress tests would not be consistent.

ASFI notes that the TCFD is forming an advisory group to assist in developing practical guidance on climate-related scenario analysis.²⁰³ TCFD guidance will target companies that are in the early stages of implementing scenario analysis, and will cover:

- scenario concepts and processes;
- how business-relevant scenarios can be constructed;
- how scenarios can help to identify company-relevant climate-related risks and opportunities;
- how scenarios can inform strategic planning regarding different potential impacts from climate change; and
- disclosure considerations to demonstrate strategy resilience across scenarios, including financial implications.

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. This would include information about what organisations are expected to report against and access to generic data and tools for stress testing, including from the Bureau of Meteorology and CSIRO, and environmental data held by government departments. This work should build on CMSI's current work to develop physical climate risk stress tests, which could potentially fall into this category.

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

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

Recommendation 17

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

7.2.6 Climate and sustainability services

Externalities are frequently excluded from financial decision-making and valuation. Financial and economic models undervalue natural and human capital such as air quality, river systems, soil quality, community volunteering, productive workforces, biodiversity, a healthy society, training and education. These externalities (or public goods) are frequently undervalued or not reflected in the balance sheets of businesses and governments despite the critical role they play in underpinning a prosperous and healthy economy. From a financial risk perspective, both the use of natural capital by an organisation in its operations, and the impact of an organisation on natural capital, is particularly important for Australia given its reliance on natural capital and vulnerability to climate change risks.

Financial institutions make decisions based on the ability to accurately assess and price risks, which is based on historical data. If past experience is no longer a reliable guide to the future, then there is a need to develop new models to support decision-making. Limitations with existing valuation tools, mainstream practices and lack of quality data challenge the sector in being able to respond to the new risks and opportunities presented by climate change and environmental and social issues.

In the context of the recent bushfires, there is a need for a broader, coherent and authoritative assessment of the nation's stock of assets, with the fires causing significant losses in natural capital, severe strains on social capital, challenges for human capital and clear economic losses. Australia's financial system requires accurate and timely information to properly price climate risk and reward climate innovation, and that information needs to be standardised to enable consistent valuation and more informed decision-making and choices.

Federal, state and local governments collectively have access to deep data sets that could better inform financial institution decision-making if made available. There is a need to progressively build trusted and accessible datasets in areas including soil, water, human capital and gender diversity. Building balance sheet and non-balance sheet indicators at investment level that are tied to jurisdiction and national balance sheets through the use of common data standards and concepts is a robust way to develop financial products including bonds and, most importantly, to assess their performance over time. The common data and standards, consistent with legal obligations (including competition laws), provide an independent and authoritative comparison point that can underpin the development of markets.

There is merit in establishing an industry agnostic repository of sustainability data that would include company sustainability reports. Submitted data that was publicly available prior to the establishment of the repository could remain publicly available on a repository for all users. Data not previously disclosed may be made publicly available by choice of the submitter. The rapid development of digital applications including big data and fintech provide opportunities to establish repositories of data that can be shared across the financial system, thus reducing the cost of implementation and extending reach.

Partnerships with government provide an opportunity for data to support delivery of economic, social and environmental outcomes. Private and public sector collaboration is required to progressively build commonly agreed, trusted and accessible data sets suitable for decision-making. These should be developed following discussion with decision-makers such that the choices are aligned with current areas of concern and that measurement can be designed with operational integration in mind. This action should be co-ordinated across public and private sectors to ensure alignment in the development of relevant standards and guidance. The involvement of organisations such as ASIC, APRA, the Australian Institute of Company Directors (AICD) and accounting standards bodies together with technical agencies such as ABS, CSIRO and relevant UN agencies, will be essential.

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.

Environmental economic accounting

As an example of an initiative to build information disclosure, the Australian Government's Department of Agriculture, Water and the Environment has developed an Environmental Economic Accounting Strategy and Action plan.²⁰⁴ The strategy recognises that "Australia's natural environment is fundamental to our economic prosperity and quality of life". Outcomes that are anticipated from the strategy include that the environmental, economic and social return on investments in the environment are demonstrated and the condition of environmental assets and their contribution to prosperity and wellbeing is fully integrated with measures of social and economic activity.

The System of Environmental Economic Accounting (SEEA) is an international framework for capturing and organising information on the environment, including its contribution to economic activity and the impact of economic activity on the environment. It is based on internationally agreed accounting concepts to gather and organise information in a consistent manner that enables integration with socioeconomic information such as National Accounts and employment data.

The Department of Agriculture, Water and the Environment's Environmental Economic Accounting strategy sets out a common national approach to environmental economic accounting that will consist of adopting the SEEA framework for environmental economic accounting with a focus on a nationally consistent implementation of the framework. A common national approach will provide agreed common principles for doing this in Australia rather than setting out prescriptive requirements for account development.

The strategy recommends a core set of national environmental economic accounts is established.

These will build on existing national-scale environmental accounts, including emissions and water accounts and the ABS experimental environmental economic account products.²⁰⁵

7.2.7 Working with financial services regulators

Critical to the success of the implementation of the Roadmap is the role of the financial services regulators. They need to balance their role as regulators while forming practical working relationships with financial institutions to secure change. Australia's Council of Financial Regulators, while not a formal statutory body, plays an important role in coordinating the activities of financial services regulators.

Australian financial services regulators have a strong track record working with financial institutions. This is reflected in the role that APRA and ASIC have played as Observers to the ASFI Steering Committee. Through the establishment of ASFI's Financial Risk and Sustainable Practices Forum, Sustainable Finance Markets Forum and Leadership Forum, there is an opportunity to establish a practical cross-sectoral structure that facilitates collaboration with Australia's financial services regulators.

Through ASFI's deliberations, the ASFI technical working group identified a range of issues that will require further engagement with financial services regulators. Many of the areas identified are already the subject of reviews by APRA and ASIC that have been delayed by Covid-19. Areas of engagement with APRA include:

- embedding sustainability into Draft Prudential Standard CPS 511 (Remuneration), specifically with regards to the matters to be incorporated into the design of variable remuneration arrangements (Remuneration);
- referencing sustainability risks in Prudential Standards CSP510 and SPS510 (Governance) in the sections detailing the skills, knowledge and experience that are required by the Board and senior management, collectively;
- incorporating sustainability risks in the list of material risks in Prudential Standards 220 and SPS 220 (Risk Management);
- as part of APRA's planned updates to Prudential Guidance SPG530 (Investment Governance):
 - recognising that a registrable superannuation entity (RSE) licensee may incorporate into investment strategies: members' views on environmental and social issues, and ethical, themed or impact investments;
 - stating that it would be expected that material sustainability factors would be systematically and explicitly integrated into an RSE licensee's investment strategy, analysis and decision-making;
 - recognising that the process and criteria for selecting an investment may continue to include the investment's impact, provided the investment is consistent with the fund's investment strategy where the investment is made for a retirement purpose;
 - removing the reference in clause 35 to quantification of ESG considerations and removing clause 36;

- referencing sustainability risk as a potential risk factor to be considered in the assessment of risk exposures for an investment when conducting due diligence; and
- referencing consideration of an investment manager's approach to identifying and managing sustainability risk factors as part of the due diligence assessment prior to selecting an investment manager;
- continuing to recognise that 'incidental advantages' of investments remain permitted, and updating and broadening the list of incidental advantages in clause 35 of Superannuation Circular No.III.A.4 (Sole Purpose Test Guidance) to include investments that deliver positive environmental and/or social impacts;
- including sustainability risks within capital requirements for regulated institutions (Prudential Standards APS110 and GPS110 – Capital Adequacy) and working with industry to develop a practical approach to measurement of sustainability risk; and
- including guidance on reporting according to TCFD in APRA's proposed guidance on climate change.

Recommendation 19

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

7.2.8 Encouraging sustainable practices

The size and scope of Australia's financial system means that the practices of financial institutions influence the behaviour and practices of individuals and organisations. There is an opportunity for financial institutions to benefit the whole of the Australian economy and society:

- through their outsourcing and procurement practices;
- by encouraging sustainable practices of clients;
- by raising awareness of ESG issues, including through longer-term research;
- by supporting clients to manage ESG risks and developing solutions; and
- by enabling activities that promote sustainable solutions and outcomes.

These actions are consistent with commitments being made by signatories to the Principles for Responsible Banking and Principles for Sustainable Insurance.

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.

7.2.9 Stewardship practices

The establishment of stewardship codes across the Australian financial system is recommended as a mechanism that can enable financial institutions to harmonise and enhance their stewardship practices across their respective sectors to support the:

- transition of the Australian economy to net zero emissions by 2050;
- delivery of the SDGs, including commitments to the Paris Agreement, Sendai Framework and Convention on Biological Diversity; and
- implementation of the UN Guiding Principles on Business and Human Rights.

Development of stewardship codes has most recently focused on specific sections of the financial system, such as the relationship between fiduciary investors and investment managers. Examples include the Australian Council of Superannuation Investors' asset owner stewardship code²⁰⁶ and the Financial Services Council's principles of internal governance and asset stewardship.²⁰⁷ A key objective of stewardship codes would be to institutionalise collaborative practices across the whole of the financial system and establish clear benchmarks for performance. Codes would recognise, and build on, the involvement of financial system participants in international collaborative initiatives, for example the Principles for Responsible Banking, Principles for Sustainable Insurance and Principles for Responsible Investment. A code would not seek to compete but harmonise with existing sector codes.

A key principle of stewardship codes across the Australian financial system would be the publication by financial institutions of an annual stewardship statement that would articulate how the institution implements sustainability.

Recommendation 21

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

7.3 Enabling resilience for all Australians



7.3.1 Financial resilience

Summer bushfires and Covid-19 have demonstrated how vulnerable Australians are to acute shocks. While Australia has well-established welfare arrangements for old age, unemployment and health, the same provisions do not exist to support individuals through traumatic events.

Domestic violence and refugees are examples of where there is a need to support individual financial resilience.

According to the ABS 2016 Personal Safety Survey, 2.2 million Australians have experienced physical and/or sexual violence from a partner and 3.6 million Australians have experienced emotional abuse from a partner. About 2.2 million Australians have experienced sexual violence since the age of 15.²⁰⁸ Mission Australia cites domestic and family violence as the main reason why 80,000 people asked for help from specialist homelessness services in 2018–19.²⁰⁹

According to Red Cross Australia, while in 2017, Australia assisted 23,111 refugees to settle, the majority of people seeking asylum living in the community do so with access to few resources and almost no possessions.²¹⁰

Australians living in poverty are also subject to a 'poverty premium', which refers to the cost of paying higher prices for products than middle-class consumers do.²¹¹ Examples across the financial system of the cost of a poverty premium include lower interest rates for small account balances on bank deposits, the cost of the inability to receive discounts for pre-payment of insurance premiums and higher investment management fees for small investments.

Income and revenue contingent loans

Income contingent loans (ICLs) are identified as a mechanism to support individual resilience. ICLs are typically used to alleviate credit constraints for those facing tuition costs. An example is the Higher Education Contributions Scheme (HECS). The salient advantage of ICL schemes over alternative funding sources is the absence of default events that can have lifetime impacts on individuals who are subsequently unable to access credit. ICL schemes can be designed to link repayments to level of income, which can be verified through the Australian Taxation Office (ATO). The benefit of ICL schemes for education has been to reduce the impact of risk aversion on the

participation decision. Proponents have argued that ICL schemes can be used in a variety of applications, including revenue contingent loans (RCL) for farmers and small businesses.

It is proposed that financial system participants introduce an ICL/RCL management system similar to HECS that would offer access to finance of up to \$3,000 for the purpose of financing basic items for individuals who are managing crisis events. ICLs could be made available to vulnerable groups, including victims of domestic violence and refugees. When loans are paid back, this would be formally acknowledged in an individual's credit score and thus bring them into mainstream finance. The establishment of ICL/RCL schemes has the potential to significantly reduce reliance on payday loans and fringe credit, and reduce negative consequences that arise from default.

RCL schemes could be developed to provide small loans to social enterprises. With support from a partner such as local government, larger size loans could be made to community projects, including to upgrade community facilities. These activities have broader benefits such as building and supporting community well-being and creating jobs.

Place-based resilience investments

The process of recovery from Covid-19, bushfires, floods and droughts needs to be rapid and have real impact at the national, regional and local level. This will require a horizontally and vertically distributed and deliberative model of economic recovery. Central to this model are place-based recovery strategies, which simultaneously respond to and engage the nuances of 'place' and local communities while being aggregated across a regional scale to maximise the investment footholds required by private and institutional investors.

A key component of a successful place-based recovery strategy is community participation. At the heart of all successful place-based partnerships are engaged and informed communities. Effective coalitions or partnerships between key stakeholders are vital if impact is to be successful. Place-based interventions require investment in community infrastructure from multiple sources, including private sector funding. Rigorous measurement and evaluation of outcomes/impact (both program and population data) need to be built into the business from the start.

This distributed deliberative recovery model has two macro indicators of success: firstly, short- to medium-term recovery that kick-starts key local and regional supply chains, and secondly, long-term resilience, which means that future shocks are substantially less capable of disempowering our social systems. Sitting at the heart of a distributed deliberative recovery model are place-based partnerships (SDG17). These are best

described as business undertakings that require a convergence of public, private and civil sector interests, expertise, resourcing and financing.

Arguably the most critical stakeholder in this is local government. As it stands, local government is a wholly untapped partner-resource in the creation of new aggregated and place-based SDG markets and the delivery of sustainable development outcomes at scale. The current crisis induced by Covid-19 only reinforces the vital role that local government must play in the recovery of society.

It is proposed that financial system participants design and establish finance facilities that can be accessed by place-based groups, including clubs and social enterprises, through local government partners. Examples of previous financial system innovations include the Municipal Association of Victoria's Local Government Funding Vehicle²¹² that was established in 2014 and enabled 33 councils to access cheaper sources of funding following the GFC.

As part of a partnership approach, local authorities would need to confirm clear local economic recovery priorities and investment opportunities, including social procurement, redesign service procurement processes to enable the identification and building of place-based partnerships, and design integrated business planning models that enable convergence and the establishment of social enterprises. Local authorities have the opportunity to become brokers and drive alliances between profit-for-purpose/not-for-profit /profit-only businesses and investors to ensure agency exists to deliver specific social and environment impact outcomes.

Recommendation 22

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

Recommendation 23

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

7.3.2 Financial inclusion

There is an urgent need to build societal resilience to acute shocks, as well as chronic threats to climate and health, which amplify the impact of acute shocks on the most vulnerable. It is not a question of 'if' or even 'when' but whether we are in a more resilient social and economic position to respond to and/or mitigate future threats. The leadership role of financial institutions cannot be overstated, nor can the urgency with which they now need to partner with government and civil society to re-build and shock-proof the social and economic system.

Financial institutions have long grappled with the challenge of how not to exclude people on the basis of insufficient income, creditworthiness, or inability to understand products and services. Financial exclusion places people and their families at risk of financial hardship. This can lead to poverty, vulnerability to predatory lending practices, and poor social, emotional and health outcomes. The Covid-19 crisis has further exacerbated this situation, with the number of financially vulnerable Australians significantly increasing as a result of job losses being felt across the economy. While financial institutions have made significant efforts to support customers through Covid-19, those without credit have found it difficult to access funds. There is a risk that a lack of access to financial services will, in the current environment, drive more consumers to high-cost and/or predatory financial products.

To better leverage innovation, there is a need to address existing barriers between for-profit and charity to be able to support blended and mission-driven organisations to scale. Revenue-generating not-for-profits may be refused access to some of the benefits traditionally available to charities, such as Deductible Gift Recipient status, which is essential for many philanthropic donations. In addition, not-for-profits are only able to access debt financing, not equity, due to their inability to distribute profits. Many not-for-profits are not comfortable with debt, and thus growth is confined to philanthropy and government funding.

Financial inclusion, defined as the access by individuals and businesses to "useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way,"²¹³ is a target in 8 of the 17 SDGs, namely: SDG1, on eradicating poverty; SDG 2, on ending hunger, achieving food security and promoting sustainable agriculture; SDG 3, on promoting health and well-being; SDG 5, on achieving gender equality and economic empowerment of women; SDG 8, on promoting economic growth and jobs; SDG 9, on supporting industry, innovation and infrastructure; and SDG 10, on reducing inequalities. Additionally, in SDG 17, on strengthening the means of implementation there is an implicit role for better financial inclusion through greater savings mobilisation for investment and consumption that can spur growth.²¹⁴

CASE STUDY

Reconciliation Action Plans

Australian financial institutions have made progress in working effectively with Aboriginal and Torres Strait Islander peoples through Reconciliation Action Plan commitments. A growing number of Australian financial institutions have developed Reconciliation Action Plans, with several having launched their first plan more than a decade ago. These plans, which are often developed in partnership with Indigenous peoples, set out targeted actions the organisations will take to work effectively with Indigenous peoples and communities, and recognise the need for continuous improvement. Reconciliation Action Plan commitments or actions by Australian financial institutions include:

- employment, education and economic participation for Indigenous peoples;
- cultural awareness, learning and appreciation opportunities for employees;
- financial solutions designed to meet the needs of Indigenous peoples (including inclusive design and marketing);
- partnerships with Indigenous communities and organisations;
- commitments to free, prior and informed consent for project finance impacting Indigenous customers and communities;
- supporting the Uluru statement and Constitutional recognition;
- financial capability and well-being programs; and
- accessible banking products.

Financial institutions are working to support Indigenous peoples to achieve better financial outcomes. Initiatives include:

- the ‘access to fee-free ATM services for remote communities’ program coordinated by the Australian Banking Association;
- the Indigenous Superannuation Working Group coordinated by the Australian Institute for Superannuation Trustees, which is focused on improving superannuation outcomes for Indigenous people; and
- the Insurance Council of Australia’s recently announced plan to establish an Indigenous liaison forum, which will advise the insurance industry on “Indigenous-related issues and customer outcomes, support reconciliation actions, increase industry understanding of vulnerable customers and increase knowledge of specific cultural and heritage concerns”.²¹⁵

A Financial Inclusion Action Plan (FIAP) is an agreed strategy of practical actions that an organisation will undertake to improve financial inclusion in Australia. A FIAP provides an opportunity for an organisation to take real action to enable financial inclusion and resilience. Several financial institutions have, or are, establishing FIAPs.

Financial institutions should review their own practices, including their hardship provisions and policies, and the design of their products and services, to ensure financial inclusion.

There is a need to develop mechanisms for financial institutions to collaborate, share knowledge and build industry best practice including:

- reviewing impact of hardship provisions and policies across the financial system;
- integrating human rights considerations into practice through the adoption of common language incorporating the broader concept of human well-being;
- integrating consideration of an Australian-centric well-being framework into best practice (see Recommendation 30);
- incorporating the principle of free, prior and informed consent into decisions made by financial institutions (see Recommendation 7); and
- developing blended finance/risk-sharing solutions that increase accessibility/inclusion and reduce poverty premium.

Recommendation 24

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

Recommendation 25

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

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

7.3.3 Financial capability

An increasingly complex financial system makes financial decision-making a challenge for many Australians. Many Australians may not have the financial capability to interact meaningfully with their financial products and services.

With variable levels of financial capability across Australia, many people may find it difficult to articulate their expectations and interests. This transcends generations, ethnicity, gender and socio-economic backgrounds and can evolve over time as a person's circumstances change. There is a lack of understanding about what services are available to support financial decision-making and what to expect from service delivery, both from interacting with financial institutions and with other support services, including financial counselling.

While financial institutions have a role to play in developing financial capability for both customers and the community, it is a shared priority across government and the not-for-profit sector. As such, supporting national initiatives to coordinate this work is imperative. The 2018 National Financial Capability Strategy is an initiative of ASIC. It aims to support Australians to better manage money day-to-day, make informed money decisions, and plan for the future, to ultimately achieve the vision for all Australians to be in control of their financial lives. The strategy is delivered in partnership with government, business/industry, not-for-profit organisations and education providers. On 6 October 2020, the Australian Government announced that Treasury will lead a refocused national approach to financial capability.²¹⁶

It is recommended that financial institutions collaborate with regulators and the Australian Government to build individual and community financial capability. Financial institutions can leverage the existing networks within the finance system to ensure that existing arrangements are delivering on-the-ground improvements and assisting those in the community that need it the most. Given the considerable investment by a range of disparate individual organisations developing and delivering financial education, literacy and resilience programs, there is an opportunity to consolidate these activities to reduce duplication and potentially enhance effectiveness through the creation of a single independently constituted program. This has the potential to expand coverage (both of topics covered and people reached), create capacity to measure the effectiveness of its activities, continually improve its approach, and research other areas that will contribute to behavioural change. Current research demonstrates that financial knowledge does not necessarily translate to changed or improved financial behaviours, suggesting that further work is needed to understand how to make it more effective and how it may work in concert with other levers, as relying on education alone is likely to be insufficient.

Recommendation 26

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

7.3.4 Financial decision-making

Recent research by Responsible Investment Association Australasia has confirmed that consumer sentiment in support of investments that are consistent with people's own values is rising.²¹⁷ There has been a shift towards assessing financial providers on the outcomes they are responsible for, with four in five Australians wanting their super fund and their bank(s) to communicate the impacts their money is having on people and the planet. RIAA's research found that 86% of Australians expect their super or other investments, and 87% of Australians expect the money in their bank accounts, to be invested responsibly and ethically. In relation to financial advisers, RIAA's research found that 86% of Australians believe that it is important that their financial adviser asks them about their interests and values in relation to their investments.

In light of this demonstrated consumer interest in where savings and investments are being directed, it has become more critical that consumers can access good quality, reliable and comparable information on the approaches superannuation funds and managed investment products in particular are taking to considering sustainability and ethical issues, and that information provided meets the long-term needs of consumers, as well as the ability to 'look through' to the portfolio holdings of these investment products. Globally, efforts are underway to standardise disclosures around these sustainability issues via mandatory reporting or labelling schemes. In Australia, the Responsible Investment Association Australasia has developed a responsible investment labelling program that embeds high-level standards, transparency requirements and an assessment of the appropriateness of product names and descriptions to ensure products are true to label and delivering in a manner that is aligned with consumer expectations.

Rules requiring trustees of most superannuation entities to publicly disclose their portfolio holdings were legislated in Australia in 2012, however, there has been continued deferral of the first reporting date due to regulations regarding the content and format of disclosure not having been made. ASIC has indicated it will be deferring the first reporting date of 31 December 2020 again.

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).

Recommendation 28

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

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

7.3.5 Product design principles

To drive more ambitious sustainable and community-focused outcomes, financial institutions need to develop best practice principles, in a manner consistent with legal obligations (including competition law), to guide product design, delivery and disclosure. The principles should use inclusive and universal design movements and behavioural research as the foundation, and make sure there is a focus on the outcomes to be achieved, being greater financial well-being, resilience and inclusion, sustainability and improved community outcomes. The principles should be consistent with, and build on, the new design and distribution obligations for financial products that will come into effect in October 2021, and ASIC's proposed principles-based guidance.²¹⁸

There is a lack of guidance on what good and great product design, delivery and disclosure looks like for both financial institutions and consumers. Being able to articulate what these are in a concise and inclusive manner will enable greater discretion by consumers and provide a standard for the industry. Having a financial well-being/resilience/inclusion lens as well as a sustainability lens would ensure that there was consideration of the environmental and social impacts of products and services. Consumers should be able to identify products and services that are good for their financial well-being and for people and the planet.

By using inclusive and universal design, principles would aim to deliver the best possible outcomes for all consumers. Universal design aims to make sure all products and services can serve as broad a population as possible; inclusive design aims to make sure that products and services consider the uniqueness and diversity through 'one-size-fit-one' approaches. The product design principles could include insights from behavioural economics, including how to use nudges towards improving financial health/well-being and remove friction that prevents consumers reaching desired outcomes. A practical example is that design principles could encourage credit card providers to make it easy for consumers to automatically pay off their credit card each month, encourage financial organisations to automatically roll customers' term deposits into the best available rate for the equivalent term, and automatically notify customers of various financial products if a better option becomes available. The opposite should apply for undesirable behaviour, for example, by encouraging product providers to avoid defaulting consumers into high-cost accounts.

The adoption of design and distribution principles by financial institutions can support the establishment of new practices across the financial system, including:

- reviewing credit criteria/algorithms to assess impact on financial inclusion;
- supporting employers to provide real-time information on payment of superannuation to their employees;
- reviewing basic products to ensure they meet the needs of vulnerable people;
- reporting by financial institutions on the number of people adversely affected/impacted by circumstances;
- supporting automatic referral of vulnerable clients to financial counsellors, and victims of domestic violence to financial support and crisis payments services; and
- designing products and services that do not hard wire a poverty premium.

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.

7.3.6 Well-being framework

It is critical for the financial system to shift focus from human rights to broader human well-being, including the influence the broad reach of the sector has across the domestic and global economies.

The social issues that a sustainable financial system can impact both positively and negatively include equity, inclusion, casualisation of the workforce, fair and decent work, living wages, physical and mental health, and the social impacts of climate change. There is therefore a need to adopt a common lens through which to view the multitude of factors that influence human well-being and to consider how the operation of the financial system may impact those factors. A common, well-founded well-being framework would establish a foundation on which to address these issues.

Improved customer well-being is likely to result in better economic outcomes (including, for example fewer insurance claims) and associated financial benefits for both customers and their service providers. Conversely, where well-being is deficient, this can have serious implications for the ability of customers to access financial products and services, maintain their financial well-being and continue to service their obligations.

There is a disconnect between delivering investment returns and the broader social costs that individuals, families, communities, the government and universal owners bear. This is largely because the costs of the associated adverse impacts of corporate operations are externalised and are therefore not directly borne by those pursuing the profit. The pursuit of profit, if not executed responsibly and in a fair manner, impacts all levels of society and has the potential to impact the long-term sustainability of businesses. A prosperous society with high levels of well-being is good for business.

Business and investors are not incentivised to measure broader social costs. Examples include the social issues arising from gambling, and the casualisation of the workforce. In the investment or lending decision-making process, consideration is typically not given to the broader society-wide implications. The concern is that business tends to take an overly narrow view of its role in society when it comes to culture, ethics, accountability and purpose, because it does not directly bear the cost of the externalities of its operations and struggles to measure them (see further Recommendation 18 in relation to the valuation of externalities).

Ensuring that, at a national level, there is a focus on well-being, including mental health, living wage, equality and security of work, is particularly important given the risks posed by technology and automation.

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.

7.4 Building sustainable finance markets



7.4.1 Transition to net zero by 2050

Analysis by the Energy and Climate Intelligence Unit demonstrates that half of the world's economic output is now being generated in areas where there are now moves to cut carbon emissions to net zero by 2050.²¹⁹ As momentum towards net zero carbon emissions has built, meeting the Paris Agreement is now linked to the competitive position of sovereign nations. Where previously transition to a low-carbon economy may not have had the urgency it deserved, there is now a real Race to Zero.²²⁰ In Australia, all states and territories are aiming to achieve net zero emissions by or before 2050. In addition, an increasing number of local governments and large businesses and investors in Australia are setting net zero emissions targets. The National Farmers' Federation recently announced its climate change policy stating it supports an economy-wide aspiration of net zero emissions by 2050.²²¹

An example of the recognition of the role that governments can play in both leading transition and managing consequences of dislocation is the initiatives by the NSW Government to support clean energy through the placement of Renewable Energy Zones. NSW and Commonwealth governments are jointly funding more than \$2 billion in energy and emissions reduction initiatives.²²² To capture these opportunities, the NSW Government has established an Electricity Strategy that sets out a plan to deliver three Renewable Energy Zones in the state's Central-West, New England and South-West regions²²³ that are supported through AEMO's Integrated System Plan.

Recent modelling by ClimateWorks²²⁴ demonstrates that there are multiple pathways by which Australia can achieve the Paris Agreement goal of limiting global warming to well below 2°C and as close as possible to 1.5°C. These are largely due to technological progress over the past five years that makes it possible to achieve net zero emissions in many sectors: electricity, buildings, transport, industry and agriculture/land.

The Australian Government's Technology Investment Roadmap²²⁵ proposes a Technology Investment Framework that outlines the respective roles of the private sector and government, defining the role of the private sector as driving deployment of commercially mature technologies and the government to remove roadblocks, enable consumer choice and support the emergence of the best enabling environment. The Technology Investment Roadmap articulates that achieving large-scale deployment of technologies will also require a range of enabling technologies and activities including:

- smart meters, smart appliances, energy management systems and better sensors that allow consumers to make wiser choices about how they use energy and other carbon-intensive products;
- inverters, power conversion and demand management systems that allow every device that is connected to the electricity system to operate efficiently as part of an integrated system; and
- micro grids and stand-alone power systems that allow the long-distance transmission of renewable energy and provide remote and regional industries and communities with reliable, competitively priced energy.

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.

→ See also recommendations 32, 33 and 37 below.

7.4.2 Sustainability capital markets

Incentivising sustainability bonds

Bond and loan markets are an important element of Australia's financial system. In order for financial institutions to increase capital allocation towards sustainability-linked assets, it is necessary to harmonise with international financial system regulations.

The RBA is a member of the BIS, an organisation based in Basel, Switzerland, that was established by central banks in 1930. BIS's main function is to support and promote financial stability.²²⁶ BIS recently outlined its thinking in respect to the role central banks may play supporting climate change transition.²²⁷ It stated that "[i]f being exposed to climate-related risks is seen as part of financial risks, then it might be appropriate to consider capital requirements to reflect such risks. In this respect, proposals have emerged in favour of either a 'green supporting factor' (which would reduce capital requirements for banks with lower exposure to climate-related risks) or a 'brown penalising factor', which would increase capital requirements for banks with higher exposure to exposed sectors." BIS argues "it is not obvious why being exposed to 'green' sectors would necessarily reduce non-climate-related financial risks, and thereby justify lower capital requirements."²²⁸

Considering mechanisms that could have the impact of incentivising financial institutions to allocate capital towards green and other sustainability-linked assets in a way that is consistent with international financial regulations, it is acknowledged that a Pillar 1 approach, whereby concessional risk weights are applied to qualifying green and other sustainability-linked assets, is likely to be challenging to implement. This is due to several identified roadblocks, including the current lack of quantifiable performance history demonstrating a reduction in credit risk for green or sustainable assets.

There is value in exploring an incentive model under a Pillar 2 approach as part of APRA's supervisory review process. Potentially, this incentive model could comprise an extension of APRA's proposed climate change financial risk vulnerability assessment. In this regard, it is acknowledged that APRA has expressed expectations that regulated entities consider climate change financial risks within pricing and risk management decisions where appropriate, and that regulated entities evaluate the impact of climate risks on their business operations and, where material, develop adequate policies, procedures and systems.

A key principle of an incentive model in the near term would be that, for so long as quantifiable performance history demonstrating a reduction in credit risk for green or sustainable assets is lacking, Level 2 (Consolidated Group) Risk Weighted Assets (RWA) and Total Capital are maintained at an overall neutral level. As one potential approach, pursuant to an ADI's Internal Capital Adequacy Assessment Process (ICAAP) under

Pillar 2, the ADI could classify its assets into three pools, being 'sustainable', 'neutral', and 'brown' (or some other nomenclature). The 'brown' asset pool would be attributed a scaling factor that would lead to an increase in calculated RWAs for the entire pool and the 'sustainable' asset pool would be eligible for a corresponding decrease in calculated RWAs for the entire pool.

In time, as quantifiable performance history demonstrating a reduction in credit risk for green or sustainable assets emerges, APRA could consider a further downward adjustment to Pillar 2 capital requirements and associated RWAs, such that Level 2 (Consolidated Group) RWAs and Total Capital are reduced reflective of the reduction in credit risk. This would further encourage the allocation of capital. Importantly, this incentive model would not necessitate material changes to the existing regulatory standards (i.e. Pillar 1) but could be incorporated into an ADI's existing ICAAP.

To incentivise financial institutions to increase capital allocation towards sustainability-linked assets it is proposed to build on the example implemented by the RBA during the GFC where, to enhance liquidity in the financial markets, the RBA expanded the range of eligible securities it would hold under repo agreements to include both residential mortgage-backed securities and asset-backed commercial paper issued by securitisers.

Some regulators have already broadened their universe of eligible collateral. The European Central Bank announced in September 2020 that Bonds with coupons linked to sustainability performance targets would become eligible as central bank collateral. The coupons must be linked to a performance target referring to one or more of the environmental objectives set out in the EU Taxonomy Regulation and/or to one or more of the SDGs relating to climate change or environmental degradation.²²⁹ The People's Bank of China announced in 2018 that it would expand the range of eligible collateral for medium-term lending it accepts to include commercial banks' green bonds, green loans and asset-backed securities with a credit rating of AA and above.

In the Australian context, options identified include:

1. applying a reduced haircut to both high-quality liquid assets (HQLA) and Committed Liquidity Facility eligible securities that are issued in labelled green/sustainable debt format (or even applying an increased haircut to fossil fuel intensive asset securities). This could provide a forward signal that the RBA is keen to purchase green/sustainable assets to stimulate the development of the local market for green/sustainable debt securities and incentivise borrowers looking to raise debt in this format; and
2. expanding the RBA Committed Liquidity Facility eligible collateral criteria to include green/sustainable debt from a broader universe of issuers beyond AA-rated banks and sub-sovereign and agencies. Examples include highly rated corporates,

universities and securitisation issuers who have, to date, had somewhat limited appetite to issue in green/sustainable format due to perceptions around illiquidity, additional costs and investor demand.

Should non-conventional monetary policy through Quantitative Easing be considered as a response to Covid-19, an option of including green/sustainability focused Quantitative Easing, notwithstanding or impacting on any credit quality requirements for such purchases, may also provide additional signaling and incentives for issuers and investors in such securities. This would address concerns raised by some investors around perceived illiquidity concerns with sustainability-themed (labelled green/social/sustainability) bonds, though this has been gradually addressed as more liquid and benchmark issues come to market, as shown by the recent semi issuance of \$1.8 billion green and \$1.8 billion sustainability bonds by NSW TCorp and \$1.25 billion green bond by Queensland Treasury Corporation.

The Australia dollar HQLA universe of sustainability-themed securities is small (totalling less than \$6 billion as of April 2020) relative to the limited universe of HQLA assets available to ADIs. Several ADI balance sheets are looking to build their holdings of green/sustainability-themed debt securities in support of strategic agendas to invest in such securities and create a more liquid market for sustainable debt. Incentivising increased HQLA issuance in this format, especially with the large and increasing infrastructure spending programs of the states, along with stimulus packages announced through the Covid-19 period, should see a significant increase from the current universe attracting more investors and improving liquidity significantly.

Sustainability innovation investment

Sustainability-focused businesses, including those focused on transformative technologies, have a critical role to play in building a resilient and sustainable Australian economy and society over coming decades.

The challenge of building an ecosystem that supports investment in innovative companies has been the subject of several government inquiries going back to the Campbell Report in 1981.²³⁰ The growth of superannuation capital has the potential to create a pool of equity capital that is available to invest in growing companies. However, to maximise investment, it is necessary to understand and address challenges that investors face, including the need for superannuation funds to manage the short-term liquidity of their investment portfolios.²³¹

There is a need for financial system participants, including governments, banks and investors, to work together to support the development of impactful technologies by helping to remove roadblocks to their commercialisation at various stages. There are

clear benefits of government interventions, including technology validation schemes, commercialisation grants and demonstration projects, to support market confidence in new technologies. For maximum effectiveness, such initiatives should be aligned with existing plans, such as the Commonwealth's Technology Investment Roadmap and international efforts like the Leadership Group for Industry Transition, of which Australia is a member.²³² It is argued that the key challenge that must be addressed is not a lack of innovative ideas; instead, it is the insufficient amounts of capital currently allocated to commercialising innovative solutions.

At present, the two major sources of capital for smaller growth companies are venture capital and listing on the ASX. In respect to venture capital, while there is a lack of market data, evidence suggests the total market is around US\$3 billion,²³³ with KMPG estimating that venture capital funding rose from US\$1.033 billion in 2018 to US\$1.145 billion in 2019.²³⁴ In respect to ASX listings, the ASX Small Cap index has 197 participants with a total value of around \$5 billion.²³⁵ In regards to two main areas of focus for transition, information and communications technology and clean technology, the S&P/ASX All Technology Index (XTX) currently has 46 participants across a range of sectors with an overall value of more than \$100 billion,²³⁶ while the Deloitte Australia Clean Tech Index²³⁷ consists of 92 stocks listed with a market capitalisation of \$54 billion.

The need for Australian superannuation funds to be able to regularly price and trade assets means that establishing pathways between venture capital, private equity and listed markets is identified as a key challenge and opportunity. There is a need to develop investment models that align with liquidity requirements of superannuation funds and to ensure social and environmental solutions that have longer innovation and business cycles and/or high capital requirements have access to the start-up and growth capital they need to thrive.

Access to financing is essential to drive innovation and commercialisation of solutions to pressing social and environmental challenges. A suite of fit-for-purpose financing options is required to enable a broad spectrum of social and environmental solutions. There is a need for support for sustainability-focused start-up businesses through blended finance mechanisms, including credit guarantees supported by the philanthropic sector and government to address lack of securable assets and regular cash-flows. Guarantees and credit enhancement (including first loss capital) could be used to reduce the inherent risk of early stage investment.

Australia as a sustainable finance market hub

There is the potential for Australia to become a sustainable finance market hub for raising capital and finance. Collectively, the recommendations contained in the Roadmap, if fully implemented, would position Australia's financial system to support the needs of Australian financial system participants and to compete globally. Several nations have already publicly indicated ambitions to develop their financial systems as sustainable finance hubs. In particular, the UK has established a Green Finance Institute²³⁸ as a mechanism to harness global finance for local solutions, the German Federal Government's Sustainable Finance Committee has identified an ambition for Germany to become a leading centre for sustainable finance, and Singapore's Government, through the Monetary Authority of Singapore, has identified the opportunity for Singapore to be a leading centre for green finance in Asia and globally.²³⁹

ASFI recognises that the development and transition of Australia's financial markets to deliver sustainability outcomes is an evolutionary process. While the Roadmap's recommendations provide guidance for individual participants in Australia's financial system, as part of assessing implementation of the Roadmap, there is a need to develop structures that assess whether sustainable finance markets are functioning efficiently.

Recommendation 32

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

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

Recommendation 33

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

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

7.4.3 Sustainability impact and resilience markets

ASFI recognises that events, including Covid-19 and an increase in the frequency and severity of climate change-induced extreme weather events, are placing individuals and communities under extreme pressure. Financial system participants can play a role in supporting individuals and communities through traumatic events by working in partnership.

Mitigation

The increase in frequency and extremity of weather events is putting pressure on insurance companies to provide universal insurance coverage across Australia. The scale of changes in the climate means the issue of access to mitigation and insurance that supports resilience is no longer just impacting minority pockets of the population but is being felt across larger cohorts. This requires a more active consideration of issues of accessibility and inclusion.

Taking into account the findings of the Northern Australia Insurance Premiums Taskforce in 2015 and the Australian Business Roundtable for Disaster Resilience and Safer Communities, which concluded that mitigation is the most effective adaption to climate risks, a multi-stakeholder approach for developing mitigation activities is required. This would involve communities/civic society, planning bodies, engineering and building industry, financial services companies (insurers, banks that provide loans for projects and investments) and government agencies working collaboratively and innovatively to achieve the intended outcomes.

Risk reduction and mitigation strategies provide sustainable options for communities in the long run. The Productivity Commission's view²⁴⁰ is that paying for mitigation (pre-event) is far cheaper than paying for remediation (post-event) and natural disaster costs have become a growing, unfunded liability for governments. An example of mitigation (though post an event but mitigating future events) is flood levees in Western Queensland, which allowed insurer Suncorp to reduce insurance premiums.

Funding of mitigation makes sure insured properties are capable of withstanding natural perils, thereby reducing losses when natural catastrophes occur. The reduction in residual losses, post mitigation, is likely to be factored into premium pricing by insurers. This should lead to a reduction in the insurance premiums (consistently over the long term) and increasing insurance affordability and availability across the community. Importantly, the ability to access affordable insurance unlocks the capacity of banks to lend against an asset and the capacity of households, businesses and institutional investors to invest. An example of an effective mitigation program is the Queensland Government's Household Resilience Program that provided funding to help eligible home-owners in coastal parts of Queensland improve the resilience of their homes against cyclones.²⁴¹

Sustainability impact and resilience market architecture

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

The Australian Competition and Consumer Commission's (ACCC) recent work on water markets for the Murray–Darling Basin²⁴² provides a valuable template that can be applied across other markets. ACCC's preliminary view is that the market architecture for water markets is showing signs of strain as the market has outgrown its original design, frameworks and governance arrangements. The ACCC argues that, while market trading of water rights across the Murray–Darling Basin is estimated to be more than \$1.5 billion per year, “the governance, regulatory and operational frameworks supporting water markets have not developed to accommodate a market of this scale, and are no longer adequate.”²⁴³ The core conclusions of ACCC's interim report is the need for reform of market architecture to build more robust frameworks for trade and improve arrangements for addressing impacts on other water users and the environment.

ACCC's arguments around the importance of market architecture have broader implications across the development of all sustainability impact and resilience markets including natural capital, carbon, social enterprise, social and affordable housing and social impact investment.

ASFI notes the independent review of the *Environment Protection and Biodiversity Conservation Act 1999* (Cth) (EPBC Act) by Professor Graeme Samuel AC. The review's interim report, published in June 2020,²⁴⁴ proposes the establishment of National Environmental Standards that would be legally enforceable with transparent accreditation and strong assurance, monitoring and compliance. The establishment

of Standards, coupled with assurance, monitoring, compliance and enforcement, has the capacity to support the development of natural capital markets. The Australian Government has announced that it will establish an environmental markets expert advisory group. This engagement will provide an opportunity for financial system participants to work collaboratively to support the development of appropriate market structures. There is an opportunity for financial system participants, including state and federal governments, to work together to develop all sustainability impact and resilience markets. While many of the elements of sustainability impact and resilience markets exist, there is a need to build the design, frameworks and governance arrangements. In this regard, it is worth highlighting that development of markets does not need to be seen as a siloed activity for a particular area of focus. There is an opportunity to create market structures that brings together all sustainability impact and resilience capital market activities. A single market platform could play a role in bringing together all market participants. This would also create an enabling environment that would support information disclosure, assurance and integrity standards that are critical elements of an efficient market.

ASFI specifically notes and recommends that financial system participants support the establishment of an independent Social Impact Investment (SII) wholesaler for Australia. The concept of a wholesaler is based on international precedent for national wholesalers from the *Global Steering Group for Impact Investment Report* and examples such as Big Society Capital in the UK. A common issue that has played out both in Australia and globally and has limited the take up of social-focused sustainable investment is a lack of SII opportunities. A significant challenge is the need for more SII intermediaries, specifically both fund managers and originators of transactions. Experience from other countries in addressing this issue shows that catalytic institutions, such as national SII wholesalers, have provided 'go-to places' to help co-ordinate fragmented efforts and support the development of intermediation and related investible products. Big Society Capital in the UK is a leading example. In the Australian context, the CEFC is a similar environmentally focused example supporting energy efficiency and renewable transactions.

Recommendation 34

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

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

Recommendation 35

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

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

Recommendation 36

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

7.4.4 Real asset markets

Infrastructure

The OECD estimates that, globally, investment of US\$6.9 trillion a year in infrastructure is required up to 2030 to meet climate and development objectives. With current energy, transport, building and water infrastructure making up more than 60% of global carbon emissions,²⁴⁵ the OECD, World Bank and UN Environment argue there is a need for a transformation of the existing infrastructure system to achieve the world's climate and development objectives.

To transform Australia's infrastructure system, there is a need to acknowledge the long economic life of infrastructure assets, which is reflected in examples of governments negotiating 99-year leases with private operators. Carbon lock-in is particularly important for infrastructure. Researchers from Yale University and the University of California²⁴⁶ have argued that carbon lock-in arises when the infrastructural and technological lock-in is reinforced by institutional lock-in and behavioural lock-in.

Australia's financial system has a long track record of financing and investing in infrastructure. There is clear appetite for banks and superannuation funds to develop and regenerate infrastructure. There is a need for Australia's infrastructure decision-makers to ensure that decisions made today do not lock Australia into a high-carbon emissions future. In this regard, given the importance that infrastructure plays in carbon emissions,

it is recommended that Australia's Infrastructure Priority List produced by Infrastructure Australia explicitly align infrastructure priorities with the objective of achieving net zero emissions by 2050.

Complexity in federal, state and local regulatory frameworks and market considerations for infrastructure can act as a disincentive to investment. A recent AEMO study has argued that, if actions are taken to address network congestion, system curtailment and participant spill, the National Electricity Market (NEM) could be operated securely with up to 75% instantaneous penetration of wind and solar.²⁴⁷ The potential for the NEM to operate at 75% instantaneous penetration of wind and solar should be seen in the context that, according to the *World Energy Outlook 2020*, Solar PV is now consistently cheaper than new coal- or gas-fired power plants in most countries, and solar projects now offer some of the lowest-cost electricity ever seen.²⁴⁸

ASFI recommends that financial institutions work with the Productivity Commission and Infrastructure Australia to streamline regulatory requirements for investment into essential assets including energy network, transport concessions and social infrastructure, with the aim of substantially reducing the time/cost/effort involved. This recommendation applies across all infrastructure: energy networks, transport concessions and others such as social housing and private–public partnerships. ASFI recommends that AEMO, AEMC, AER, ESB and the COAG Energy Council expedite an actionable Integrated System Plan.

Built environment

Australians' financial wealth includes substantial amounts invested in their own homes. As climate change continues to increase climate and disaster risk, homes are increasingly coming under threat. For the financial industry that invests, lends to, and provides insurance for housing, the quality of homes and their resilience to climate and disaster risk is important.

It is expected that institutional investment in residential property in Australia, and particularly the Build-to-Rent market, will develop over coming decades. This has the potential to support development of high-quality, sustainable housing, evidenced by the evolution of the office sector in Australia. Institutional investment in residential housing can also provide housing security for tenants. With the likelihood that some Australians will remain renters for the rest of their lives, having an institutional investor as a landlord can provide housing stability and ongoing maintenance spend to ensure quality is maintained. There is the potential that increased institutional investment in housing can also support increased supply of social and affordable housing and improved community inclusion through a mixed tenancy approach, with a portion of the housing in the Build-to-Rent developments provided to social or affordable housing.

There are several challenges in transitioning the built environment to be sustainable. Aside from the commercial office sector, where mandatory disclosure through NABERS exists and Green Star is used, and key major developments where Green Star can be found, there is a lack of consistent benchmarks available to compare the performance of the diverse spread of building types in Australia. There is no requirement to measure or disclose energy and carbon in a systematic manner across the breadth of the built environment.

These problems are exacerbated in the residential sector where it is not mandatory to measure the performance of individual homes. While the Council of Australian Government's (COAG) commitment to deliver a building code that will drive net zero buildings by 2030 is welcome, there remain significant challenges to ensure the residential construction sector is equipped to deliver, and incentivised to meet, consumer expectations. Challenges relate not just to environmental indicators (energy, carbon, and water), but also to aspects of resilience, health and social sustainability. In the case of housing, for example, there is no simple resilience assessment tool or standard available for volume home builders to test against, with the best option being the Insurance Council of Australia's concept Building Resilience Rating Tool.

In addition to the importance of changes to the National Construction Code focused on enhancing over time the energy efficiency of buildings to reduce emissions and reduce energy bills for home-owners, future changes need to be considered on the basis of the expected lifetime of the home, including allowance for increased frequency and severity of natural disasters due to climate change over time.

Recommendation 37

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

- aligning Australia's Infrastructure Priority List produced by Infrastructure Australia with the objective of achieving net zero emissions by 2050;
- efficient and streamlined regulatory requirements for investment into essential assets, including energy network, transport concessions and social infrastructure, with the aim of substantially reducing the time/cost/effort involved to invest and finance critical infrastructure;
- working with AEMO, AEMC, AER, ESB and the COAG Energy Council to expedite an actionable Integrated System Plan with the objective of unlocking critical investment into transmission, interconnection, renewables and distribution;
- developing infrastructure investment across the Asia-Pacific region that is focused on delivering social and environmental outcomes;

- integrating environmental, social and governance (ESG) factors into the investment decision-making process for new infrastructure projects, and for expansions to existing assets, using broadly accepted standards and frameworks relevant to the specific category of infrastructure assets, such as GRESB's Infrastructure Asset Assessment, Infrastructure Sustainability Council of Australia's (ISCA) Infrastructure Sustainability rating and the Green Building Council of Australia's Green Star Rating System;
- using a national rating scheme for the energy performance of homes, such as NatHERS, and establishing mandatory disclosure of performance at the point of sale and lease;
- supporting an industry approach to adopt the three major rating tools (NABERS, Green Star and ISCA's Infrastructure Sustainability rating scheme) as measurement benchmarks, provided they implement a net zero emissions pathway consistent with a 1.5°C trajectory across operational and embodied carbon, and minimum standards for new and existing assets to become more climate change resilient and socially responsible;
- integrating built environment ratings into consumer and business lending and investment valuations, including infrastructure projects; and
- working with stakeholders, including the construction sector, to update the National Construction Code so that future residential properties are built to be resilient to climate change and broader climate and geological risks, and ensure energy efficiency as well as use of sustainable materials.

Water infrastructure

Water is a commodity that has different uses: household, industrial, agriculture and biodiversity. The variability of rainfall which can be expected to increase due to climate change is already impacting on Australia's biodiversity. According to the Murray–Darling Basin Authority, the deaths of up to three million fish in the Lower Darling between December 2018 and January 2019 were due to the lack of water flowing into the northern rivers and the impact of many years of over-allocation of precious water resources throughout the entire Basin.²⁴⁹

Over the last century, supply of water has required large-scale capital investments. Factors including changes in technology and impact of water restrictions are supporting distributed water infrastructure. An example of this is the preparedness of households to invest in water conservation through the purchase of rainwater tanks. ABS data following the Millennium drought revealed that, in March 2013, 34% of Australian households living in a dwelling suitable for a rainwater tank had a rainwater tank compared with 32% in 2010 and 24% in 2007.²⁵⁰

The evolution of technology is creating opportunities to combine desalination plants with renewable energy. An example is Sundrop Farms located in Port Augusta, which grows tomatoes hydroponically using solar energy to heat and cool greenhouses and produce desalinated water from the Spencer Gulf.²⁵¹ Sydney's Desalination Plant is itself powered by 100% renewable energy.²⁵²

In addition to innovation around renewable energy, there are positive examples of infrastructure assets integrating water into their operations. Adelaide Airport has developed a project to grow lucerne adjacent to its runways using recycled water to reduce the urban heat effect.²⁵³ Recognising that severe storms result in sediment runoff that flows into Moreton Bay, the Port of Brisbane has invested in rehabilitating the Lockyer Valley upstream by planting and maintaining 9,000 native plants.²⁵⁴ Investor tools, such as the GRESB Infrastructure Asset Assessment, incorporate consideration of water into assessment.²⁵⁵



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