Australian **Sustainable Finance Institute**

Submission to 2025 Climate Change Authority Issues Paper

August 2025

The Australian Sustainable Finance Institute (ASFI) welcomes the opportunity to comment on the Climate Change Authority's 2025 Issues Paper. ASFI is a not-for-profit organisation committed to realigning the Australian financial system to be sustainable, resilient, and inclusive. ASFI's members are large Australian financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms – that collectively hold over AU$37 trillion in assets under management, and support ASFI's mission.

ASFI notes the CCA's wide-ranging issues paper and wishes to provide comment on several areas that require ongoing work to ensure Australia's suite of policies adequately supports capital allocation towards decarbonisation and resilience. ASFI supports these matters being canvassed in the CCA's next advice to the Minister and Parliament.

1 The relationship between climate change and productivity

Climate change is expected to have a significant impact on capital, labour and multifactor productivity. The European Central Bank notes several potential productivity impacts:

- The physical impacts of climate change are expected to have an ***overwhelmingly negative*** impact on productivity.
- A disorderly transition to net zero is expected to negatively impact productivity in the long run, making an orderly transition preferable from the point of view of productivity.
- Measures to address climate change can have either a short term positive or negative effect on productivity.[1]

The Institute and Faculty of Actuaries in the United Kingdom notes that credible estimates of GDP damages from climate change vary considerably, but could be expected to create a global 50% GDP loss somewhere between 2070 and 2090 in a 3ºC warming scenario.[2]

[1] European Central Bank (2024), The impact of climate change and policies on productivity.
[2] Institute and Faculty of Actuaries (2025), *Planetary Solvency–finding our balance with nature*

These impacts support the case for taking early and effective steps to address climate change. There is a compelling argument to prefer decarbonisation approaches that reduce emissions more quickly, as this will have the greater chance of avoiding more significant climate impacts.[3] Measures to increase investment can also counter slowdowns in productivity that climate change could bring, particularly where those efforts are directed to align Australia's capital stock with a net zero future.

Strong action to address climate change is essential to future productivity growth and prosperity, and avoid significant climate-related damage to the economy.

2 *Unlocking investment in climate mitigation*

2.1 The importance of strong policy signals

The transition to net zero will require substantial private sector investment. The capital stock of existing high-emitting infrastructure must be replaced with a capital stock of zero-emissions infrastructure over the next 2-3 decades. This is not a task that governments can achieve on their own, and investors require clear signals to provide them with confidence to invest. Without clear policy signals and ambition, finance and investment will not be deployed at the scale or pace required to support Australia's ambitions to transition to net zero and capture the benefits from a timely transition. Clear policy signals would include:

- A strong 2035 national emissions reduction target
- More effective and comprehensive carbon pricing, through an expansion to the scope and ambition of the Safeguard Mechanism (or another effective carbon pricing policy)
- Clear progress towards comprehensive policies that will address economic sectors that are partially covered by policies, including transport and agriculture, as well as plans to help small business respond to the challenges of climate change
- Clear economy wide and sectoral decarbonisation plans

Clear, ambitious and consistent policy signals are crucial to provide confidence to financial institutions, enabling finance to flow towards low-emissions economic activity.

2.2 Further enhancing the Safeguard Mechanism

The enhanced safeguard mechanism has the policy architecture in place to be an effective vehicle to encourage the Australian economy to decarbonise. However, in its first year of operation, it achieved relatively little internal decarbonisation. Total covered emissions decreased from 138.7 Mt CO_2-e in 2022-23 to 136 Mt CO_2-e in 2023-24, and compliance with Safeguard Mechanism obligations was met predominantly through the surrender of Australian Carbon Credit units (7.1 Mt CO_2-e) and a smaller amount of Safeguard Mechanism Credits (1.4 Mt CO_2-e). While compliance through these pathways technically meet the requirements of the safeguard mechanism, they do not position Australian industry and economic activity on a trajectory to prosper in a future low emissions economy.

Under current settings, signals to invest in genuine decarbonisation of economic activity remain relatively weak. ASFI considers there is scope to further enhance the Safeguard Mechanism to support investment in decarbonisation measures. The upcoming review of the Mechanism is also

[3] Dietz, S, Venmans, F, (2019), 'Cumulative carbon emissions and economic policy: In search of general principles', *Journal of Environmental Economics and Management.*

an opportunity to revisit coverage of the policy so that a price signal is in place for a greater share of economic activity. Bringing a broader range of industry sectors and size segments into scope could create an emissions trading scheme with a greater volume, opening up opportunities for more widespread investment in decarbonisation across the economy. ASFI would also welcome consideration of other models of carbon pricing, as part of the Government's broader consideration of reform to Australia's taxation system.

The Government's planned 2026 review of the Safeguard Mechanism should consider options to introduce a meaningful carbon price over a greater share of economic activity.

2.3 The need for supportive regulatory settings

There are a range of regulatory settings that should be optimised to remove regulatory barriers to investment and better facilitate finance flows towards net zero-compatible economic activity. These include:

- Reforming the *Your Future, Your* Super performance test to ensure that superannuation funds are not discouraged from investing in newer, low-emissions economic activities. ASFI welcomes the Government's decision to revisit reform options for the performance test. This exercise should consider all aspects of the test (not just additional or different indices) and consider the option of moving towards a qualitative approach to regulating superannuation fund performance.[4]
- Adjusting prudential standards for authorised deposit-taking institutions to properly reflect the risk that climate change poses to the financial system, and preference finance flows towards green assets that are safer in the long term.
- Reform competition law and enable the Australian Competition and Consumer Commission to better facilitate collaboration between companies on sustainability and climate change.[5]

Aligning financial regulation with climate goals and removing regulatory barriers to investment in decarbonisation and resilience would support allocation of private capital consistent with national climate goals.

2.4 Sustainable finance policy and regulation is a key enabler

Climate-related Financial Disclosures

The introduction of climate-related financial disclosure (CRFD) is a step-change in directing the efforts of organisations towards responding to the risks posed by climate change. Disclosures serve multiple purposes, including:

- Creating a driver for reporting entities to analyse their sources of emissions;
- Supporting entities to assess, evaluate and manage the physical, transition and liability risks that climate change presents to their business;

[4] See further, ASFI Submission to Treasury's Consultation on the Annual Superannuation Performance Test: https://www.asfi.org.au/publications/your-future-your-super-yfys-performance-test?rq=future

[5] See further, ASFI Submission to the Australian Government's Revitalising National Competition Policy Consultation: https://www.asfi.org.au/publications/your-future-your-super-yfys-performance-test?rq=future; and ASFI Submission to the ACCC's draft guide on sustainability collaborations and Australian Competition Law: https://www.asfi.org.au/publications/your-future-your-super-yfys-performance-test?rq=future

- Providing better information to investors and other market participants about the degree of exposure of entities to the risks of climate change;
- Providing corporate regulators, governments and other stakeholders visibility of the level of maturity entities have in responding to climate change.

Australia's introduction of mandatory, internationally aligned CRFD from 1 January 2025 is an important step. Ongoing support for CRFD implementation – including through market capacity building, and development of further guidance – is important to promote high quality reporting.

The value of CRFD to investors and other stakeholders would be greatly enhanced by digitisation of financial reporting in Australia. Digital reporting – while incurring an initial cost in system transition – would have significant productivity benefits by streamlining reporting activity, and enabling the market to more effectively access and use information provided in CRFD reports.[6]

Australia should support high quality corporate disclosure of climate-related risk and opportunity (including transition plans), and shift to digital reporting as soon as possible

The Australian Sustainable Finance Taxonomy
ASFI in partnership with the Australian Treasury has developed Australia's initial sustainable finance taxonomy for climate change mitigation. A taxonomy is a classification system identifying economic activities that deliver on key climate and/or other sustainability objectives by reference to specific performance metrics. It is designed to guide investment towards economic activities that are consistent with a future net zero economy.

Taxonomies create a common language between corporations and financial institutions. They can enhance productivity by reducing the transaction costs associated with case-by-case assessments of mitigation credentials, supporting transparency, lowering transaction costs, and enabling objective verification of green claims (mitigating greenwashing).

The Australian taxonomy was released on 17 June 2025. Ongoing partnership between industry and government to support market capacity building and uptake of the taxonomy will be important to realise the productivity benefits of a common industry standard. There is also a strong case for expanding coverage of the taxonomy to further mitigation activities, and to other objectives including adaptation and resilience, to mobilise capital to these areas.

ASFI looks forward to the Government finalising institutional and governance arrangements that will enable the taxonomy to become embedded in market practice and be regularly updated to reflect changes in technology, markets, and policy. Australia should also deepen its international engagement to ensure that emerging global standards – particularly for 'transition finance' – support access to international investment for Australia's businesses and financial institutions including in emerging sectors such as green mining and metals.

The Australian Sustainable Finance Taxonomy is an important tool to support financial institutions and other businesses to efficiently and effectively allocate capital to low emissions (and climate resilient) activities.

2.5 Prioritise environmental planning reform

[6] See ASFI's Submission to the Treasury's second consultation on mandatory climate-related disclosure framework, 2023, available at https://www.asfi.org.au/publications/climate-related-disclosures-second-consultation-paper-asfi-submission

Australia's current environmental regulation system does not adequately serve the environment, the economy, or society at large. Reform is required in order to improve outcomes for nature, and accelerate deployment of low-emissions technologies across Australia.

ASFI supports the Government's commitment to progress reform of Australia's environmental legal framework as a priority for this term. This should include:

- Reforming the Environment Protection and Biodiversity Conservation Act to provide better outcomes for nature and faster outcomes for project proponents
- Creating regional planning frameworks that provide quick 'go or no' assessments for some development types
- Creating a strong, independent regulator and a rules-based order that gives confidence in the process to both proponents and interested parties
- Ensure that governments, proponents and the wider public have access to high-quality environmental information and data to support evidence-based decisions.

Reform to environmental regulation and approvals is essential to deliver improved outcomes for nature, and facilitate faster investment for the net zero transition

2.6 The transition should progress First Nations economic self-determination

First Nations communities, including traditional owners, are significant stakeholders in Australia's net zero transition. Significant amounts of clean energy development will need to occur on land which is subject to First Nations interests. Appropriate engagement and upholding of the right to Free Prior and Informed Consent between project developers and First Nations groups is important to support a timely roll out of renewable energy and other green infrastructure, and supporting risk management for financiers and investors.

Furthermore, the transition to a clean energy economy provides an unprecedented opportunity to restore enduring economic self-determination to Indigenous people. The ability to partner in major projects, as seen in jurisdictions such as Canada, could be catalytic for First Nations self-determination. This requires significant capacity building for both First Nations peoples and other market participants, as well as improved access to capital for First Nations groups.

ASFI recommends the CCA report and track opportunities for increased economic empowerment associated with the clean energy transition in its advice to the Minister and Parliament.

3 Unlocking investment in adaptation

Climate impacts are having significant (and increasing) consequences for the Australian economy, with insured losses from insurance catastrophes increasing from 0.2% of GDP in 1995-2000, to 0.7% in 2019-2024.[7]. As the Centre for Policy Development points out, the Commonwealth is already spending an average of $1.6 billion per year on responding to natural disasters – or more than $6 billion over the forward estimates.[8] This amount dwarfs the Commonwealth's current commitment to adaptation ($354 million in adaptation over the forward estimates, or $632 million in the medium term). This points to the need for Australia to urgently increase its focus and investments in adaptation.

[7] Insurance Council of Australia (2024), *Catastrophe report 2023-24*
[8] Centre for Policy Development (2025), *Budgeting for natural disasters*

3.1 Consider adaptation as an Australia-wide priority

As noted above, the physical impacts of climate change present a serious risk to Australia's economic productivity and will increasingly inhibit Australia's ability to capture gains from investing in the net zero transformation.

Adaptation requires strong and committed participation from all levels of government – Commonwealth, state and territory, and local governments. Facilitating investment towards adaptation requires a clear set of policies, and effective frameworks for inter-governmental cooperation. This necessitates an immediate upshift in adaptation policy development. The completion of Australia's National Adaptation Plan should be prioritised, without which there is no framework for orderly, efficient adaptation. State and local frameworks for adaptation should then be integrated into the National Adaptation Plan, providing clear areas of responsibility and clear avenues for collaboration.

While governments are practiced at working together in times of disaster, focusing only on disaster response is a more expensive and disorderly approach to responding to climate change. Working together to prevent and mitigate disasters through adaptation and resilience building would be a far more effective and efficient use of resources and promote significantly better outcomes for the community.

Government should create a clear framework for building resilience in the community as climate change impacts continue to become more frequent and severe

3.2 Provide supportive policies and tools to guide private capital for adaptation

Ongoing public funding – along with better planning frameworks and other supportive policies – will be required in a range of areas to support adaptation and resilience. However, with the right policy settings there are opportunities for private capital to finance and invest in adaptation. This is particularly the case in the built environment, capital investment by businesses, and agriculture and land management.

Sustainable finance taxonomies can be used as important tools to support capital allocation for adaptation and resilience (as well as climate mitigation). The Australian Sustainable Finance Taxonomy so far covers mitigation only. Expanding coverage to include adaptation should be a high priority to assist financiers and investors to identify suitable opportunities for adaptation investment at scale.

Another important tool for enabling private finance and investment into adaptation is blended finance. Blended finance mechanisms utilise public funds to crowd-in private capital by reducing the risk and/or increasing the returns associated with a particular investment opportunity. They allow limited government funds to catalyse a far wider range of projects than if government was the sole funder (especially in infrastructure), and they allow better allocation of expertise and skills. The Clean Energy Finance Corporation is a strong example of blended finance for climate mitigation, and with the right risk settings could play a similar role in adaptation and resilience.

Governments should consider policies and tools, including taxonomies and blended finance, to increase private capital allocation adaptation, enabling greater adaptive capacity in Australia in advance of more severe climate change impacts. [9]

[9] See further ASFI's submission to the National Adaptation Plan Issues Paper, 2024, available at https://www.asfi.org.au/publications/submission-to-the-national-adaptation-plan-issues-paper

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