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Dear National Climate Resilience and Adaptation Strategy Taskforce,

Thank you for the opportunity to provide feedback on the development of Australia's next National Climate Resilience and Adaptation Strategy (Strategy). This letter addresses question seven of the online survey established to receive feedback on the proposed Strategy, which asks:

*Considering the roles and responsibilities factsheet, how do you think the Commonwealth Government could improve delivery of its roles and responsibilities for climate adaptation and resilience in Australia?*

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over \$2 trillion in Australia and New Zealand and \$20 trillion around the world. IGCC members cover over 7.5 million people in Australia and New Zealand.

As universal owners, institutional investors face systemic exposure to climate change risks. Climate change and its impacts directly impact the finance system through the consequences of extreme weather on property, infrastructure, agricultural production and other climate dependent industries. It is also having indirect impacts on sovereign credits risks, supply chains, the property market, insurance pricing and wider economic conditions. Alongside rapid and sustained mitigation of greenhouse gases, adapting and building resilience to those changes occurring because of historic, as well as future, emissions is critical.

Ultimately, investment in adaptation and building resilience is far more cost effective than funding disaster recovery.

In this light, IGCC welcomes many of the recent commitments from the Australian Government on adapting and building resilience to the worsening impacts of climate change, including its participation in the Coalition for Climate Resilient Investment initiative, establishment of the Australian Climate Service, establishment of the National Recovery and Resilience Agency, and commitment to develop the Strategy.

IGCC recognises the varying responsibilities on national resilience and adaptation policy that sit with different levels of government as outlined in the 2012 [COAG Roles and Responsibilities for Climate Change Adaptation in Australia](#) (Responsibilities) and associated [factsheet](#). Within these Responsibilities, IGCC believes the Commonwealth can take a more expansive role to help drive a nationally consistent approach to physical climate risk that brings together government, industry and financial organisations, and helps the market better price and respond to the systemic threats that are posed by human-caused global warming.

In response to the above question about the role of the Australian Government, IGCC would suggest the following non-exclusive areas and actions that the Commonwealth could pursue as part of the National Climate Adaptation and Resilience Strategy or elsewhere. Further information about many of the below recommendations can be found in IGCC's April 2020 [Submission to the Royal Commission into National Natural Disaster Arrangements](#).

### **Provision of consistent physical risk data and information sharing**

There is currently a proliferation of data, portals and proprietary tools to assess climate change risk. Governments should serve a role in the provision of this core information and provide greater funding to the science that underpins it. The Federal Government has taken a significant step in this regard with the establishment and funding of the Australian Climate Service.

IGCC supports the Service working in partnership with relevant departments, financial regulators and academic institutions, to conduct regular national risk assessments of physical climate risk, including economic assessments, similar to what has been [conducted in New Zealand](#) and in other jurisdictions. This should include an up-to-date national assessment of infrastructure at risk to the effects of climate change, and an indicative quantification of the investment required into adaptation, to help facilitate private sector capital flows.

### **Implementation of mandatory reporting of climate-related financial disclosures**

While existing emissions and financial reporting frameworks, such as the Task Force on Climate-related Financial Disclosures (TCFD), have proven to be useful building blocks in climate risk disclosure, they no longer comprehensively serve the needs of investors who are seeking to understand and price the financial implications and effective management of systemic climate risks. There is an important role for financial and corporate regulators, and the government, to provide guidance on appropriate standards to support the TCFD in the Australian context. Without other layers of guidance, it is likely that companies will continue to under-report climate-related risks such as asset impairments due to the physical impacts of climate change.

Further information about adopting a mandatory climate risk disclosure regime in Australia can be found in the joint CDP, IGCC and Principles for Responsible Investment (PRI) paper [Confusion to Clarity: A plan for mandatory TCFD-aligned disclosure in Australia](#).

### **Unlocking private sector investment**

Australia needs to do more work to understand its systemic vulnerability to climate change, determining adaptation pathways, the timing of actions required and the level of investment needed. Much of this investment will need to be financed by private capital. In addition to the data provision and national risk assessments recommended above, the Commonwealth can do more to help markets properly price physical climate risk and resilience into asset valuing considerations or initial investment decisions. Properly pricing climate risk and the value of resilience in financial decision-making will align investment flows towards infrastructure capable of withstanding a changing climate and drive a shift toward a more climate resilient economy.

In this light, IGCC welcomes the Australian Government's participation in the Coalition for Climate Resilient Investment (CCRI). To aid the work of the CCRI and to help better price physical climate risks and resilience in the Australian market, IGCC encourages the Commonwealth to help shape and pilot the National Investment Prioritisation Tool being developed by the initiative's Systemic Resilience Forum. IGCC also encourages the Commonwealth to support the uptake of other key outputs of the CCRI including a Cash Flow Modelling Framework for Physical Climate Risks and innovative financial instruments for resilience investment.

The Commonwealth is also well positioned to help unlock private capital by developing a range of financial products and co-investment opportunities for resilience investment. The Clean Energy Finance Corporation (CEFC) has been a significant investor in emissions reduction projects across Australia. As previously recommended in the IGCC [Submission to the Royal Commission into National Natural Disaster Arrangements](#), the CEFC could draw on this experience of mitigation finance and help facilitate public-private investment in adaptation and resilience by extending its mandate. A separate arm of the CEFC, or similar such body, could also be developed with the specific aim of applying pooled approaches to aggregate smaller scale adaptation projects, to deliver sufficient scale to attract private sector co-investment.

Other financing models that could be drawn on for aggregation of adaptation projects and to facilitate the most efficient deployment of capital could include resilience bonds, the adoption of Social Impact Investment frameworks; or the development of a co-investment resilient fund or facility for upgrading critical infrastructure. By taking the lead on the development of such products, the Commonwealth could also assist by building templates for the development of solutions such as State Government resilience bonds or funds for community-level resilience.

### **Better government and private sector coordination**

While noting the Responsibilities, a clearer and better coordinated approach to the cross-government ownership of adaptation funding and implementation would further help address the lack of clarity that has proved to be a barrier for private sector involvement, but where there is a public good. The Commonwealth could establish a standing reference/advisory group with representatives from all three levels of government and the investment and finance community to drive investment in adaptation outcomes. Better integration of adaptation and physical climate risk considerations across the Federal Government, particularly in activities of the central economic and finance departments, would also aid with ensuring a resilient financial system to the physical risks of climate change.

### **Revision of the National Construction Code**

The National Construction Code is the nation's compulsory minimum standard for the safety and health, amenity, accessibility and sustainability in the design, construction, performance and liveability of new buildings. With the National Construction Code due to be updated in 2022, there is a significant opportunity to ensure it better accounts for climate change and helps drive the resilience of Australia's commercial and residential property sector.

Again, IGCC thanks the Taskforce for the opportunity to provide feedback on the development of the Strategy and stands ready to assist.

Regards,

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