



Investor
Group on
Climate
Change

Submission – Treasury Consultation Paper on Australian Sustainable Finance Strategy

December 2023

About IGCC

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 \$3 trillion in Australia and New Zealand and \$30 trillion around the world.

As the long-term custodians of trillions of dollars in retirement funds, investors have a fiduciary duty to deliver long-term returns for their beneficiaries that are commensurate with the level of risk taken. Due to the systemic nature of climate change, unless it is addressed in an orderly and just way, the long-term retirement savings of millions of Australians are under threat.

About the consultation

IGCC welcomes the release of the proposed Australian Sustainable Finance Strategy and the opportunity to provide feedback on the [consultation paper](#). The Strategy covers 12 priorities under 3 key pillars: (1) improving transparency on climate and sustainability, (2) financial system capabilities, and (3) Australian government leadership and engagement (see full summary of priorities in consultation paper Figure 1).

IGCC has not sought to cover all areas, but rather has focused its comments on several key and overarching areas to inform Treasury's next steps. This recognises many elements of the Strategy will require further detailed consultation. We also acknowledge and support the Australian Sustainable Finance Institute's (ASFI) substantial work towards this Strategy and detailed submission, as well as ACSI, Responsible Investment Association Australasia (RIAA) and the Principles for Responsible Investment (PRI). We look forward to continued engagement on the Strategy.

Overarching comments on the Strategy

Institutional investors support an Australian sustainable finance strategy to support unlocking capital into the economy and to address systemic risk.

IGCC welcomes the release of the Strategy and supports its objectives and key principles centred on:

- mobilising private sector investment needed to support the economy and transition to net zero,
- ensuring Australian entities can access capital and pursue net zero and sustainability-aligned business opportunities, and
- ensuring climate and sustainability related opportunities and risks are well understood and managed at the entity and systemic level.

The Strategy provides a strong framework for delivering these objectives in parallel to wider policy settings.

Institutional investors overwhelmingly welcome international and domestic developments in sustainable finance to promote transparency, address greenwashing, manage risk and facilitate the global economic transformation to net zero emissions. They are also conscious of the resources required and challenges in developing and navigating emerging international requirements. This includes the need to achieve globally consistent approaches and learn from international experiences.

The Strategy focuses on leadership and engagement (pillar 3) and promoting international alignment, guided by overarching principles. Deep consultation will be essential to maximising the benefits and minimising the costs of sustainable finance regulations.

IGCC acknowledges the critical role the Council of Financial Regulators (CFR) has played and will continue to play in support of these objectives and priorities, including to manage systemic risk and promote financial stability.

Climate-related and suitability-related disclosures and sustainable finance taxonomy set strong foundations for more efficient and sustainable financial markets

Effective climate risk disclosure is important to both accurately price assets and identify risks and opportunities associated with climate change, and to support the efficient allocation of capital towards a climate-resilient, net zero emissions economy. Investors welcome the government's commitment and progress on implementing internationally aligned climate risk disclosure requirements in Australia (see recent submission [here](#)). We are engaging closely on the Australian Accounting Standards Board (AASB) standard exposure draft consultation to ensure standards both meet investor needs as users and are fit for purpose for disclosures by investors. The AASB will play an important role in delivering standards for climate and future sustainability-related financial disclosures (pillar 1).

We encourage Treasury to reflect this in the final Strategy and implementation plan, and to ensure AASB is equipped with the resources and expertise needed to carry out its function. This will also be important to improve Australian representation in the ISSB.

The sustainable finance taxonomy is an important priority to mobilise capital and improve the quality of market information. IGCC has been engaged in the taxonomy development process led by ASFI and supports the recommendations outlined in ASFI's submission. This includes an immediate

priority on developing taxonomy criteria for all six priority sectors and to address adaptation as well as mitigation.

Skills, resources and capabilities and immediate priority

IGCC supports this consultation's focus on opportunities to support companies to develop required skills, resources and capabilities to make disclosures under the proposed climate disclosure obligations (priority 1); and addressing data and analytical challenges, with a particular focus on supporting effective corporate risk disclosure, informed financial decision making and effective transition planning (priority 7).

The Strategy implementation plan should aim to provide clarity on the process, timing and responsible entity for providing support and guidance to reporting entities.

The Strategy should consider the role of the AASB in this context, and how the Government and regulators will collaborate with the AASB for effective implementation of climate related and future sustainability-related disclosure standards. Targeted guidance for a wider range of entities captured by the Australian disclosure scheme compared to ISSB's focus, such as superannuation funds, will be particularly important to ensure requirements are practical and meet end user needs.

Efforts are also needed to support the broader disclosure ecosystem including upskilling and accreditation of assurance providers.

Lessons from international markets suggest that the reporting entity perspective is important and often missing in guidance. While the Government itself may not be best placed to address this industry perspective, it can help to facilitate and support industry led capacity building and guidance.

Data and analytical challenges

The Government and CFR can play a unique role in addressing data and analytical challenges. As well as supporting larger entities, this will be important for supporting smaller entities and those either reporting voluntarily or who are captured within the value chain of larger companies. IGCC supports the CFR conducting an assessment and providing recommendations by the end of 2024.

However, we recommend the CFR not wait until after final recommendations are made to action identified opportunities. We encourage the CFR to engage closely with CSIRO, Clean Energy Regulator and relevant government departments, and to ensure physical risk and resilience is a priority. We support consideration of the priority areas outlined in the consultation paper, including:

- Methodologies for Scope 3 emissions, including financed emissions.

- Providing common emissions factors where needed in consultation with financial institutions.
- Tools and open-source data to support climate-related analysis, planning and disclosures.
- Domestic scenarios drawing down from international scenarios, which may be informed by sector pathways and plans underway by the Climate Change Authority and government.
- Providing resources to support smaller entities to utilise the data effectively.

Clear framework for credible corporate transition plans a critical next step

IGCC strongly supports Treasury's commitment to strengthening corporate transition planning under priority 3.

A clear framework for developing and disclosing an entity's climate transition plan (transition plan) is critical to meet investor needs and promote ongoing investment in Australian companies. Transition plans will support Australia's whole of economy transition. Australia's framework should build on standards developed by the International Sustainability Standards Board (ISSB), draw on international examples, and involve close consultation with finance sector representatives, industry experts and the wider community.

Sustainable finance must work with wider policy settings to drive outcomes

It is essential to keep focus on the wider policy environment, and the actions needed to realise opportunities and address risks of climate change to deliver a prosperous and resilient economy in a net zero world. The consultation paper recognises that the Strategy sits within a wider climate, economic and environment policy setting, which is critical to unlocking investment towards essential industries and regions.

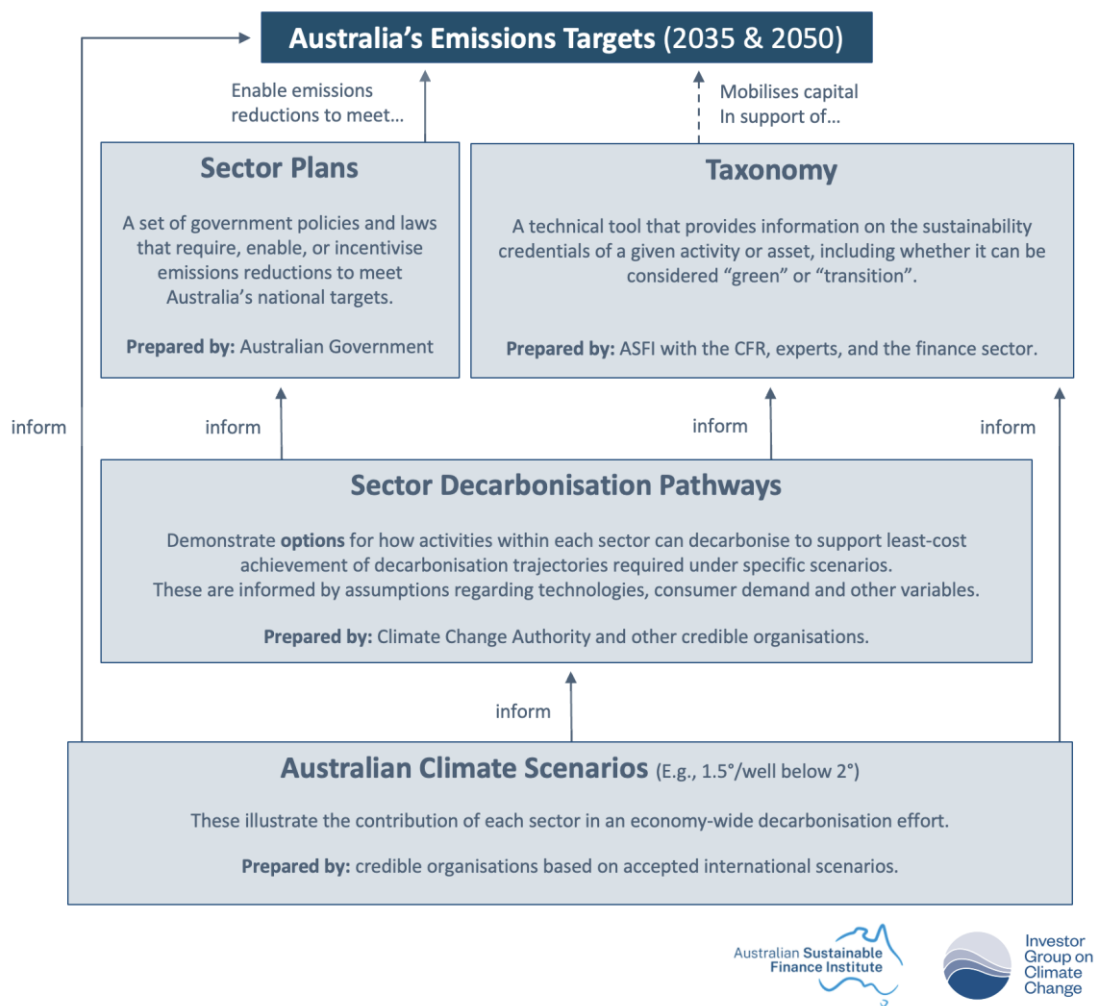
Key climate-related [policy priorities](#) identified by Australian institutional investors to deliver sustainable and long-term returns to beneficiaries and the broader economy include:

- **Aligning National Economic Strategy to 1.5 °C:** This includes emissions targets, just and orderly transition governance and sector-by-sector plans.
- **Aligning Finance to 1.5 °C:** This includes carbon pricing, climate disclosures and reporting, and the phase-out of fossil fuel subsidies.
- **Climate Adaptation and Resilience:** This includes funding mechanisms, coordinated planning.

Investors have identified investable sector plans as one of their highest policy priorities to attract capital to the transition in Australia. IGCC's [recent analysis](#) outlines investor needs from the

Government’s proposed sector-by sector plans, and aims to support a broader discussion on how sector plans can deliver investment into just and orderly transition to net zero emissions.

We welcome the consultation paper’s emphasis on the intersection between sector plans and key elements of the Strategy. We encourage Treasury to continue to examine the Strategy’s connection to wider policy to maximise its impact and support an orderly and just transition for the Australian economy and communities. The figure below illustrates relationships between decarbonisation plans, pathways, scenarios and the taxonomy.



Investing in vital regions should be central to Strategy

The Strategy should consider how it promotes financial flows into vital regions and industries undergoing structural economic change as a direct consequence of industrial decarbonisation and the growth of new green industries. IGCC’s [recent paper](#), *Investing in Australia’s Vital Regions*,

captures priorities for Government and investors to help unlock the necessary investment in regional climate transition.

Key actions to consider within the Strategy:

- How the Strategy interacts with the work of other government initiatives to provide targeted financial support from public institutions like the Clean Energy Finance Corporation (CEFC), the Australian Renewable Energy Agency (ARENA) and the National Reconstruction Fund. Priorities for government investment include taking on higher risk and earlier stage investments that support economic diversification and social infrastructure development in priority regions (priority 10) (see also IGCC's [April 2023 Paper](#) *Driving Australian Climate Innovation: Unlocking capital to support a clean industrial revolution*).
- Develop just transition bonds as part of or alongside the green bonds initiative (priority 9).
- Coordinate with the Net Zero Economy Agency (once legislated, the Net Zero Authority) to identify opportunities in relevant regions that could be aggregated into a fund of the size capable of attracting institutional investment.

Need for financial mechanisms to unlock capital into adaptation and resilience

Countries, communities and investors that invest in early and transformative climate adaptation will be more resilient and competitive in the future. Public-private partnerships will be essential to fund the magnitude of adaptation and resilience projects required in Australia.

Treasury should ensure adaptation and resilience measures are integrated into all pillars of the Strategy. This should include how the Strategy can support measures such as:

- Ensuring adaptation and resilience is integrated into green definitions and frameworks – for example green sovereign bonds (priority 9), sustainable finance taxonomy (priority 2) and product labelling (priority 4).
- Supporting entities to respond to physical risks in climate-related disclosures and transition planning (priorities 1 and 3) and engaging internationally on this (priority 12).
- Addressing data and analytical challenges related to understanding and managing physical impacts of climate change (priority 7).
- Working with Government to embed financial mechanisms to unlock capital within the forthcoming National Adaptation Plan (priority 10).
- Expanding the CEFC's mandate to include adaptation and resilience measures (priority 10).

[Innovative financial mechanisms](#) to help crowd in private investment may include insurance-linked loan packages, resilience impact bonds, resilience bonds and/or resilience service companies.

For further information and to discuss, please contact:

Amy Quinton
Senior Manager, Policy
amy.quinton@igcc.org.au

Erwin Jackson
Managing Director, Policy
erwin.jackson@igcc.org.au