Australian Sustainable Finance Institute

Australian Treasury's Sustainable Finance Strategy Consultation
ASFI Submission – December 2023

About ASFI

ASFI welcomes the opportunity to provide feedback in relation to the Australian Government's Sustainable Finance Strategy consultation paper. ASFI is a not-for-profit organisation committed to aligning the Australian financial system with a sustainable, resilient and inclusive Australia. Our members are 44 of Australia's leading financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms. ASFI members collectively hold over AU$18 trillion in assets under management and are committed to allocating capital in a way that creates positive social and environmental outcomes.

Over-arching comments

ASFI welcomes the Government's Sustainable Finance Strategy Paper as an important step towards creating an Australian sustainable finance policy architecture to address climate and sustainability related risk and opportunities, and channel capital consistent with Australia's net zero and broader sustainability objectives. Rapid implementation of this Strategy will help bring Australia into alignment with global developments, supporting access to international capital. It will also position Australia to take a leadership role in key areas to shape global frameworks in line with our interests.

ASFI welcomes the recognition in the Paper that sustainable finance goes beyond climate to include environmental and social considerations. We support the Government's proposed approach to focus on climate-related reforms in the near term, while providing a platform to address other sustainability-related issues over time in particular nature and biodiversity, and First Nations perspectives and outcomes. We would however urge the consideration and elevation of First Nations' perspectives and outcomes through all policy reforms – including climate. ASFI would be happy to discuss practical options for doing this, drawing on the work we are undertaking to elevate First Nations in Finance,[1] including through our First Nations Reference Group and the development of an Australian sustainable finance taxonomy.

ASFI strongly supports the 'key principles' identified in the Paper which prioritise inter-operability; ambition; alignment with Australia's net zero transition; sensible staging of reforms; simplicity and useability; and cross-sector collaboration and shared responsibility. The Strategy should also recognise inter-connections across sustainability issues and seek to ensure that efforts to address climate change do not unintentionally cause harm in other areas (such as First Nations outcomes, environmental outcomes, or modern slavery).

We also note that sustainable finance policy and reform, while important, is not a silver bullet: real economy targets and policies are critical drivers of private capital. In particular, we note the importance of ensuring the Government's 2035 target is 1.5 degree aligned, and that the Government's proposed sector decarbonisation plans are clear and credible.

[1] ASFI First Nations in Finance work program: https://www.asfi.org.au/first-nations-and-finance

The Strategy Paper is broad in scope and many of the questions it poses are complex. In some cases the best path forward may not yet be certain and may depend on developments in related policy areas or on work that is already underway but not yet complete. We consider that ongoing dialogue with industry should occur through the development of the Government's sustainable finance roadmap, and that execution of that roadmap should occur in partnership where appropriate. To aid consultation and support effective sharing and exchange of views and ideas, Government should consider providing periodic opportunities for group discussions between government, regulators and relevant industry organisations on the sustainable finance agenda as it evolves.

Summary of ASFI's recommendations

Over-arching comments
- We support the proposed approach to focus on climate-related reforms in the near term while providing a platform to address other sustainability-related issues over time, but urge consideration and elevation of First Nations' perspectives and outcomes from the outset across all reforms. - Strategy should also recognise inter-connections across sustainability issues and seek to avoid unintended harm. - Real economy policies – including Australia's national emissions targets, and the Government's proposed sector plans – are also critical to support finance and investment. - Government should continue to consult with industry through the development of its sustainable finance roadmap, and partner with industry on its execution where appropriate.
Further opportunities to support sustainable finance
Competition law: - Clarify the operation of existing law and streamline the exemption process, particularly for climate-related collaborations. - Consider creating a class exemption for climate and broader sustainability related collaboration, in line with developments in the UK, EU and NZ. Capability: - Invest in training of government officials to understand the basics in finance and investment (why private capital is important to public policy), and sustainable finance. - Support industry initiatives to build an enabling ecosystem for sustainable finance training and professional development to enable faster, more effective implementation of the proposed reforms. Social aspects of sustainable finance - Over time, incorporate social issues into sustainable finance frameworks including the taxonomy, disclosures, and the mandates of special investment vehicles. Commonwealth agencies and vehicles - Ensure Government activities (operations and spending) exemplify best practice transition planning and implementation and incorporate scope 3 emissions into the APS Net Zero framework. - Reform budget processes to ensure climate impacts are properly taken into account in cost benefit analysis.
Pillar 1 – Improve transparency on climate and sustainability
Priority 1: Establish a framework for sustainability-related financial disclosures
- Support capability building of technical climate expertise as well as climate and sustainability fundamentals, working with established industry bodies where appropriate. - Support the broader ecosystem development including of assurance providers. - Adequately resource and fund public bodies including AASB, ASIC and APRA. - Develop additional guidance where required in a range of areas to support disclosures . - ASFI supports the proposal to adopt global sustainability reporting standards as they are developed. - Adopt IFRS S1 Sustainability Reporting Standard as soon as practicable. - Australia should engage actively in the development of global standards. - Ensure the Australian sustainability standards body has the mandate, resources and expertise to develop fit for purpose sustainability reporting standards.

Priority 2: Develop a sustainable finance taxonomy
- Use of the taxonomy should initially be voluntary, shifting to mandatory application over time in certain areas, in particular where entities make claims related to sustainability objectives covered by the taxonomy, those entities should be required to substantiate those claims by reference to the taxonomy (see use cases in Table 1, above). - Use cases for the taxonomy should be guided by the taxonomy's core purposes. - The Australian taxonomy should ultimately include technical criteria for key activities that promote all the sustainability objectives of mitigation, climate adaptation and resilience, environmental management, and the transition to a circular economy; and embed key social objectives - The immediate priority should be to develop criterial covering all six priority economic sectors for climate mitigation and adaptation. - ASFI sees the existing taxonomy governance arrangements as fit for purpose until the taxonomy development phase is complete. - Long-term governance arrangements should reflect decisions made by Government regarding the status of the taxonomy. The Taxonomy Technical Expert Group will consider this issue in detail once the initial draft criteria have been developed in early 2024.
Priority 3: Support credible net zero transition planning
- There will likely be a need for more detailed requirements and guidance to support Australian businesses to develop and disclose high quality transition plans. - The taxonomy could also be a useful tool to assess the credibility of transition plans by tracking entities' capital expenditure towards implementing them (for example, through reporting on capital expenditure alignment with the taxonomy). - The global targets set out under the Kunming-Montreal Global Biodiversity Framework (GBF) should be translated and embedded into domestic legislation and policies. - Australia should adopt nature and biodiversity reporting standards as they are developed internationally, and extend the taxonomy to include nature and biodiversity outcomes. - Government should invest in the management and dissemination of robust and credible environmental data. - Finally, Government should define what 'sensitive locations' or 'areas deemed to be ecologically sensitive' are for Australia to support better understanding of Australian businesses' interactions with nature.
Priority 4: Develop a labelling system for investment products marketed as sustainable
- ASFI supports the Strategy Paper's proposal to develop a sustainability labelling scheme as way to validate sustainability related claims and promote consumer trust and confidence. - Key considerations for the design of the scheme include: alignment and harmonisation with major international labelling schemes; credibility and integrity; broad application; and consideration of complementary measures to promote better understanding of sustainability credentials by consumers and potentially other investors.
Pillar 2: Financial system capabilities
Priority 5: Enhancing market supervision and enforcement
- Continue to monitor developments in other markets related to regulating ESG ratings and consider options to ensure Australia is aligned with emerging global practice.
Priority 6: Identifying and responding to potential systemic financial risks
- Expand the CFR's Climate Vulnerability Assessments beyond the largest banks and the insurance sector to other financial institutions including superannuation funds, and fit-for-purpose assessments for small and medium sized financial institutions.

- Produce a set of Australian climate scenarios for industry use in scenario analysis including for the purpose of meeting the incoming disclosure requirements.

Priority 7: Addressing data and analytical challenges

- Actively seek to ensure the integrity, availability and appropriate management and use of sustainability-related data.
- The CFR should work closely with industry in conducting its assessment of options to address sustainability-related data challenges in the financial system.
- Move to digital reporting of (financial and) sustainability-related information as soon as possible to promote efficient, technology-enabled management of growing data and information flows.
- Ensure the development phase of the taxonomy considers data related issues that arise from the development and use of the taxonomy.
- Review and amend the current NGERS framework to align with the corporate disclosure framework.

Priority 8: Ensuring fit for purpose regulatory frameworks

- Review and amend the Your Future Your Super performance framework to bring it into line with Australia's climate transition and broader sustainability objectives.
- Explore the potential for adjustments to the bank capital requirements to recognise the lower risk of green or sustainable assets and encourage green and sustainable finance.
- In the medium term, consider introducing requirements for financial advisors (and potentially a broader set of actors) to solicit the sustainability preferences of clients.
- Conduct a review of directors duties to assess whether there should be positive requirements in relation to sustainability.

Pillar 3: Australian Government leadership and engagement

Priority 9: Issuing Australian sovereign green bonds

- Recognise that investors will assess the credibility of Australia's green bond issuances by reference to Australia's broader climate and environmental credentials.
- In the medium term, look to issue sovereign transition bonds show-casing the credible approach to defining transition activities which is being developed in the taxonomy.

Priority 10: Catalysing sustainable finance flows and markets

- Expand the Clean Energy Finance Corporations to include climate adaptation and resilience.
- Consider expanding the CEFC's mandate to support nature and biodiversity outcomes, in conjunction with enabling policy and regulatory reform.
- Consider applying or extending the CEFC model to Australia's international development financing.
- In any extension of the CEFC's mandate, ensure that CEFC is able to adopt a level of risk tolerance appropriate to the stage of the markets it is looking to build/grow.

Priority 11: Promoting international alignment

- Deepen and increase international engagement to support development of robust, inter-operable sustainable finance frameworks in the Asia-Pacific, drawing on industry expertise as appropriate.

Priority 12: Position Australia as a global sustainability leader

- Leverage Australia's progress in domestic sustainable finance policy to deepen Australia's international engagement including on taxonomy development and transition finance.
- Look to increase the ambition and effectiveness of Australia's international climate finance for the 2026-30 period.
- Expand Australia's development financing capabilities by establishing a dedicated development finance facility or institution.

Further opportunities to support sustainable finance

Supporting climate-related collaboration in the public interest

Currently, uncertainty regarding the application of Australian competition law to industry collaborations on sustainability is creating challenges for a range of collaborative initiatives. These include efforts to develop consistent climate reporting methodologies across industries and sectors; support the co-design of public-private partnerships to accelerate the flow of capital towards sustainability objectives; and others essential to accelerate progress towards climate and sustainability goals.

The Government's recently announced Competition Policy Review is an opportunity to address existing barriers to sustainability-related collaboration between industry competitors. It can draw from the approaches being taken in the EU, the UK and New Zealand where competition regulators are clarifying the application of law to sustainability-related collaboration; streamlining exemption processes where collaboration is in the public interest to meet sustainability-related policy goals; and in some cases establishing a more permissive regime for climate-related collaboration between competitors.[2]

ASFI recommends that Treasury's Competition Policy Review task the Australian Competition and Consumer Commission (ACCC) to clarify the operation of existing law and streamline the exemption process, particularly for climate-related collaborations as other jurisdictions have done. Treasury should consider creating a class exemption for climate and broader sustainability related collaboration, in line with developments in the UK, EU and NZ.

Capability and skills

Capability is a key barrier to accelerating Government's ambition on sustainable finance. This includes a shortage of sustainable finance professionals, as well as a lack of basic understanding of climate and sustainability across businesses and government.[3]

Government should invest in training of government officials to understand the basics in finance and investment (why and how private capital is important to public policy), and sustainable finance. Government should also support industry initiatives to build an enabling ecosystem for sustainable finance training and professional development to enable faster, more effective implementation of the proposed reforms. Industry-wide capability initiatives also include the development of skills and capability frameworks and accreditation of sustainable finance courses and professionals, as are being developed by ASFI.

Social aspects of sustainable finance

ASFI welcomes the Paper's recognition of the importance of incorporating other critical sustainability-related issues into the Government's sustainable finance policy and regulation over time. We were pleased that incorporating First Nations perspectives and supporting positive social and economic outcomes for First Nations people was specifically included as a key area of future focus. ASFI welcomes ASIC's Indigenous Financial Services Framework as a positive development in this area. We also note the work underway by a range of organisations including ASFI to integrate

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[2] Corrs Chambers Westgarth, 2023. An unsustainable approach? Overcoming competition law obstacles to sustainability collaboration https://www.corrs.com.au/insights/an-unsustainable-approach-overcoming-competition-law-obstacles-to-sustainability-collaboration.

[3] See eg Atherton, A., Noble, G., Nagrath, K., Cunningham, R., Gooley G., 2022. Advancing climate skills in the Australian financial system. Sydney: University of Technology Sydney; Australian Sustainable Finance Institute, Sustainable Finance Progress Tracker 2023.

First Nations risks, impacts and outcomes into finance that can be built on or adopted by the Government in the medium term.

More broadly, incorporating social issues into sustainable finance frameworks will be important to enable financial institutions and other businesses to properly identify and take into account social risks and opportunities. Ultimately, this will require development of key policies including consistent social disclosures, frameworks that help to identify positive social outcomes as well as looking at blended finance models that can effectively crowd-in private capital to promote positive social outcomes.

Commonwealth agencies and vehicles

The Government has an important role to play in driving sustainable finance through its own activities. ASFI notes the publication by the Department of Finance of the Net Zero in Government Operations Strategy on 28 November 2023. While we welcome efforts to reduce scope 1 and scope 2 emissions within government operations, we are disappointed that scope 3 emissions have been excluded for now. ASFI considers that the Net Zero by 2030 commitment should set an example of best practice in transition planning and implementation, and that this should include coverage of scope 3 emissions – i.e., emissions associated with government spending activities (including financing through special investment vehicles, grants, and infrastructure funding), which are the most significant source of APS emissions. Introducing emissions reduction targets and measures for scope 3 would provide a strong signal to accelerate demand (and therefore finance and investment) for zero emissions and sustainable products and services in the Australian economy. ASFI also supports reform to Commonwealth (and State) Government budget processes to ensure decision-making processes take into account climate considerations – including the long-term cost benefits of ensuring that infrastructure is resilient to climate impacts over its anticipated lifetime.

Pillar 1 – Improve transparency on climate and sustainability

Priority 1: Establish a framework for sustainability-related financial disclosures

ASFI supports the introduction of mandatory climate-related disclosure for large Australian businesses and is engaging directly in that process. Our submission to Treasury's second consultation earlier this year is available here.

Q. What are the opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations?

ASFI agrees that there is an important role for Government to help build capability and support implementation for climate-related disclosures. Capability needs to be deepened in sustainable finance and climate professionals in financial institutions and other businesses, including in technical areas such as climate risk assessment, scenario analysis and carbon accounting.

To support climate disclosures to be implemented meaningfully, it is also important to raise the level of basic understanding of climate and sustainability across organisations.[4] Smaller entities (i.e. Group 2 and Group 3) should be encouraged and supported to invest early in preparation for their requirements taking effect. Mandatory professional development should include competencies in climate and sustainability, and board skills matrices should include these skills as standard. There is

[4] See Australian Sustainable Finance Institute "Australian Sustainable Finance Progress Tracker 2023" https://static1.squarespace.com/static/6182172c8c1fdb1d7425fd0d/t/6531ded6aa646b79bafeea55/1697767146964/757ASFI_Progress-Tracker23_v6.pdf p 24.

also a need for support across the broader disclosure ecosystem, in particular for training and accreditation of assurance providers.

ASFI suggest that Government works with established industry bodies on capacity building where appropriate, such as Chartered Accountants ANZ and others, supporting them to develop and deliver high quality training. Government should also consider the need for targeted support in particular areas to assist with capability and compliance particularly for smaller entities. It is also important that public bodies are adequately resourced to support implementation and capability uplift – this includes the AASB (which requires funding to reflect its expanded scope of work), ASIC and APRA.

Additional guidance for disclosures

ASFI considers there is a need for additional guidance to support disclosures – in particular financial institutions – and that this should be prioritised in the near term. For example guidance for:

- asset owners (we note that the International Sustainability Standards Board has produced guidance for asset managers, banks and insurers but not for asset owners);
- a 'financed emissions' methodology. This guidance should be developed in consultation with industry stakeholders and aligned with international standards such as those developed through the Partnership for Carbon Accounting Financials;
- estimation and reporting of land use, land use change and forestry emissions;
- materiality, boundaries for estimation, and changes in methodologies and assumptions
- data – for example, expectations regarding assurance of third party data, and disclosure of data gaps.

Q. How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?

ASFI supports the Strategy's proposal to adopt global sustainability reporting standards as they are developed. This will ensure Australia keeps pace with global developments, and support Australian businesses to manage sustainability related risks and opportunities.

Consistent with this approach, ASFI recommends Australia move to adopt IFRS S1 Standard for General Sustainability Reporting as soon as practicable. This will support alignment with global frameworks and help prepare the market for future developments. We note that the AASB's exposure draft standards for climate disclosures only adopt IFRS S1 to the extent required to support the introduction of climate related disclosure (based on IFRS S2) in Australia.

The Australian Government – through relevant agencies including, where appropriate, financial regulators – should engage actively in international processes that are developing sustainability standards, such as the International Sustainability Standards Board (ISSB). This would be consistent with the Paper's commitment in Pillar 3 to deepen Australia's international engagement on sustainable finance, and would help ensure that emerging frameworks reflect and support Australia's interests.

Existing institutional arrangements may not be fit for purpose to support the development of Australian standards for broader sustainability reporting beyond climate. We note the proposed alignment and integration of the accounting and auditing bodies and recommend that the Australian reporting standards body which results (as well as those that continue to exist in the meantime) have the mandate, resources, and expertise to develop sustainability reporting standards that are fit for purpose, and provide resources and education to support the market. In addition, membership of this body should reflect the expanding focus on areas beyond traditional accounting standards. Ensuring sufficient specialist sustainability expertise will help ensure Australia has the skills and expertise necessary to support effective engagement in the development of international frameworks, as well as to develop domestic frameworks.

Priority 2: Develop a sustainable finance taxonomy

Q. What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy? What are the key insights from international experience to date?

Regulatory status

ASFI supports the Strategy Paper's proposal that during the initial development phase of the Australian taxonomy, the taxonomy will have no formal regulatory status. Once the taxonomy is developed, its use should initially be voluntary.

Over time, it would be appropriate to shift to mandatory use of the taxonomy in certain areas. In particular: where entities (financial and other corporate) make claims related to sustainability objectives covered by the taxonomy, those entities should be required to substantiate those claims by reference to the taxonomy. Requirements mandating the use of the taxonomy for disclosure purposes should be designed carefully to avoid unintended consequences, including to avoid disincentivising sustainable activities and approaches.

Mandatory use should be phased in over time, commencing once it is clearer how the taxonomy fits into the broader regulatory architecture and sustainable finance strategy of Government. Phasing in would help address existing data challenges and the need for significant capacity building to support mandatory disclosure of taxonomy alignment.

Use cases for the Australian taxonomy

The use cases for the Australian Taxonomy should be guided by the taxonomy's core purposes. This is articulated in the Terms of Reference between ASFI and the Council of Financial Regulators (CFR) Climate Working Group that govern the initial development phase of the Australian taxonomy. It states the taxonomy's purpose is to "support the mobilisation of private finance toward sustainable activities, provide a foundation for further regulatory measures to address greenwashing and promote transparency."

Taxonomies can help guide the flow of capital toward sustainability initiatives by providing clarity for financial institutions as to what constitutes 'sustainable', or taxonomy aligned. Given the significant funding that is required for Australian to transform its economy to net zero and the role that private capital will play in providing that funding, the Australian taxonomy should:

- mobilise capital to those activities that will decarbonise the economy at the speed and scale required to reach our global climate goals; and present the highest value investment opportunities in a net zero emissions world; and
- improve the quality of market information to ensure sustainability definitions are credible, comparable and easy for investors, lenders and regulators to use to counter the rise of greenwashing, ensure transparency and promote trust in the sustainable finance market.

While there may be several use cases of the taxonomy that help achieve outcomes beyond the core purposes outlined above, it is important to ensure that these use cases do not distort or detract from the core purposes. Accordingly, ASFI have identified the policy priorities and use cases that would best promote the core purpose of the taxonomy as stated above and some additional use cases that would support the achievement of the core purpose – see Table 1, below.

<table>
<tr><th>Table 1: Use case that promote or support the core purpose of the taxonomy</th></tr>
<tr><td>Primary use cases:</td></tr>
<tr><td>Address greenwashing and promote transparency by assessing alignment of investment and lending against climate and sustainability targets.

Green asset, green lending, and green investment ratio assessments are an effective way for regulators to assess whether a financial entities' interim and long-term climate and other sustainability targets, and sustainability claims are aligned with its broader strategy.

In applying this use case, lessons can be drawn from other jurisdictions regarding usability challenges including excluding activities or investments from the ratio calculation that cannot be assessed under the taxonomy due to lack of coverage.</td></tr>
<tr><td>Support sustainability labelling scheme:

The taxonomy could be used as key input to a labelling system for sustainable investment products including as a transparency tool, with taxonomy-linked metrics being used to demonstrate meeting a credible standard of sustainability, but not necessarily as a label requirement, given that the taxonomy will, at least initially, not cover all sustainable activities and assets. This will assist with coherence of information and help counter greenwashing.</td></tr>
<tr><td>Informing, and assessing credibility of transition plans

The taxonomy could provide useful information to entities developing transition plans. It could also be used for assessing the credibility of transition plans, by tracking information about entities' alignment of their transition plans against the taxonomy— assessing whether an entity's interim and long-term climate and other sustainability targets are aligned with its broader strategy, including evidence that capital expenditure will be deployed towards assets and technologies necessary for the company to meet their targets.</td></tr>
<tr><td>Sovereign Green Bond Framework and potential Green Bond Standard

The Australian Sovereign Green Bond Framework and use of proceeds from the issuance of the first Sovereign Green Bond could be aligned with the taxonomy once developed (noting that the taxonomy will not be finalised in time for the initial green bond issuance(s)).

In addition, should a future voluntary Green Bond Standard be developed, the taxonomy could be used to inform the framework for use of proceeds of bonds and potentially sustainability linked bonds.

Sub-sovereign green bond frameworks could likewise align with the taxonomy.</td></tr>
<tr><td>Additional use cases</td></tr>
<tr><td>Public investment vehicles

Australian public investment vehicles including the Clean Energy Finance Corporation (CEFC) and National Reconstruction Fund, the Housing Australia Future Fund could use the taxonomy as a screen in its investment decisions, to help classify sustainable investments.</td></tr>
<tr><td>Public procurement

As part of the Government's commitment to a net zero public service by 2030, Government procurement processes and contracts could incentivise or require that procured activities and products are taxonomy-aligned.</td></tr>
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Tracking green financial flows
Use the definitions of "green and transition" in the taxonomy to help track financial flows to climate and sustainability outcomes aligned to the government's net zero plans and other sustainability goals and objectives.

Q. What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?

The Australian taxonomy should ultimately include technical criteria for key activities that promote all the sustainability objectives of mitigation, climate adaptation and resilience, environmental management, and the transition to a circular economy; and embed key social objectives.

The immediate priority should be to develop criteria in the taxonomy that covers all six priority economic sectors identified in the ASFI-CFR Terms of Reference for both climate mitigation and adaptation. These six sectors align with the six economic sector decarbonisation plans that the Government is developing. This climate first approach, covering both mitigation and adaptation and resilience is consistent with the approach being taken by most taxonomies internationally and has strong support from the finance sector.

The following considerations should be taken into account when considering expanding the taxonomy criteria to other sustainability goals (water, circular economy, pollution, biodiversity, social):

- Whether the taxonomy is the best tool for mobilising capital and addressing greenwashing associated with the sustainability goals
- How important sustainability goals are to achieving Australia's national priorities, and whether achieving those priorities will require private capital to flow into those sustainability goals; and
- Whether developing an area of the taxonomy could support Australia's competitive advantage or support Government ambitions for Australia to be a global sustainability lead.

Through our work developing the Australian Sustainable Finance Taxonomy ASFI will be publishing advice from the Taxonomy Technical Expert Group (TTEG) on expanding taxonomy coverage to other sustainability goals, which will be based on the above considerations.

Q. What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?

ASFI recommends there should be two distinct phases for the taxonomy: a) development; and b) implementation, which would include ongoing maintenance of the taxonomy.

Consistent with the approach followed by most international jurisdictions, it is critical that the development phase has strong input from the finance sector and independent technical experts to ensure credibility and alignment to the expectations of global capital markets, usability and broad support and stakeholder input. Accordingly, ASFI sees the existing governance arrangements as fit for purpose until the taxonomy development phase is complete.

Long-term governance arrangements should reflect decisions made by Government regarding the status of the taxonomy. As use of the taxonomy shifts from voluntary to mandatory, it will be appropriate to establish permanent governance arrangements that are more closely connected to Government, but with sufficient independence to ensure that taxonomy updates and revisions are not politicised and remain science-based and market focused.

The nature of these long-term governance arrangements will depend in part on decisions made by Government about how the taxonomy is incorporated into the Australian regulatory framework.

ASFI notes that the issue of ultimate governance is critical to the long-term success and utility of the Australian taxonomy and will be considered in more detail by the Taxonomy Technical Expert group as part of the initial development phase. This consideration will include robust analysis based on potential future use case scenarios and will be provided once initial draft criteria has been developed early in 2024. This is consistent with other jurisdictions, where governments have formally tasked the taxonomy development bodies with providing advice on regulatory use cases and long-term governance arrangements.

However, as a starting point ASFI considers the below principles to be important when considering the long-term governance arrangements of the taxonomy:[5]

- **Independent:** Oversight and decision-making that is independent from politicisation of criteria or undue market influence.
- **Credible and usable:** Build an agile model where experts—with technical, scientific and financial market knowledge—support revisions, updates and expansion of technical screening criteria in a transparent and accountable way.
- **Interoperable:** Ensure mechanisms for ongoing international engagement and knowledge exchange to facilitate international interoperability.
- **Enduring:** ensure long-term source of funding that aligns with the expectation the taxonomy will be revised and expanded to ensure usefulness to the market.

[5] The principles have been drawn from the advice from the Green Technical Advisory Group to HM Treasury in the United Kingdom, which are applicable and relevant in the Australian context. REPORT (greenfinanceinstitute.com)

Priority 3: Support credible net zero transition planning

Q. What are key gaps in Australian capability and practice, including relative to 'gold standard' approaches to transition planning developed through TPT and other frameworks?

Q. To what extent will ISSB-aligned corporate disclosure requirements improve the transparency and credibility of corporate transition planning? What additional transition disclosure requirements or guidance would be most useful in the medium-term?

As outlined in our submission to the second Climate Disclosures consultation, ASFI considers there will likely be a need for more detailed requirements and guidance to support Australian businesses to develop and disclose high quality transition plans.[6] Guidance should be provided on the form of transition plan disclosures (as well as the content) to promote communication of transition plans in a way that is consistent across businesses, and easy to understand.

We support the approach proposed in the Strategy Paper for ASIC to release its expectations and priorities regarding disclosure of transition-related targets, plans and claims, and for the government to conduct consultation in 2024 with industry and other stakeholders to consider options for strengthening transition planning. We note the role that the taxonomy could play in providing useful information to entities as they set their climate targets and develop their transition plans. The taxonomy could also be a useful tool to assess the credibility of transition plans by tracking entities' capital expenditure towards implementing them (for example, through reporting on capital expenditure alignment with the taxonomy).

Q. Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?

To catalyse private sector investment in Australia for nature restoration and protection, the global targets set out under the Kunming-Montreal Global Biodiversity Framework (GBF) should be translated and embedded into domestic legislation and policies. This includes:

- Ensuring that the proposed reforms to Australia's environmental protection laws effectively deliver on the GBF targets and are considered in the development of National Environmental Standards under the EPBC Act reforms. The GBF targets should be a key consideration in the decision-making framework for environmental approvals and embedded in Regional Plans, which should include crucial information including, identifying areas of high biodiversity importance, and areas earmarked for protection and restoration; and
- Aligning the development of the proposed Nature Repair Market and any future environmental-related funding mechanisms with objectives and targets of the GBF. These targets will help markets align activities and investments with clear nature focused outcomes, inclusive of the role that Indigenous peoples have in the protection and restoration of nature.

Nature related financial disclosures is another key mechanism to support financial institutions to make decisions that mitigate nature-related risks and contribute to nature positive outcomes. As outlined above, ASFI supports the proposal for Australia to adopt nature and biodiversity reporting standards as they are developed internationally.

Consistent with our comments on Priority 2 above, additional capital could be channelled to economic activities that promote environmental priorities by extending the Australian sustainable finance taxonomy to include criteria for nature and biodiversity outcomes, where those priorities require private investment.

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[6] See ASFI's submission to the second climate-related disclosures consultation.

Government should invest in the management and dissemination of robust and credible environmental information and data – integrated into one source from local and federal level data sets – that is consistently collected across all jurisdictions to inform sound policymaking, market comparability, climate and nature risk and opportunity disclosures.

Finally, Government should define what ‘sensitive locations’ or ‘areas deemed to be ecologically sensitive’ are for Australia. Including the development and management of robust and credible tools and data sets that make these locations, and related information, available for consultation and use by financial institutions, industry and the wider public to aid in understanding Australian businesses’ interactions with nature.

Priority 4: Develop a labelling system for investment products marketed as sustainable

Q. What should be the key considerations for the design of a sustainable investment product labelling regime?

Q. How can an Australian model build off existing domestic approaches and reflect key developments in other markets?

ASFI supports the Strategy Paper's proposal to develop a sustainability labelling scheme as way to validate sustainability related claims and promote consumer trust and confidence. A robust labelling scheme will help address and deter greenwashing and build consumer trust in sustainable investment products, ultimately supporting the growth of sustainable markets.

Key considerations for the design of an Australian sustainable investment product labelling regime should include:

- *Alignment and harmonisation with major international labelling schemes*: Given Australia's relatively small market size, our globally integrated finance sector, and the fact that labelling schemes are already in place or under development in major jurisdictions such as the EU and the UK, Australia should to the extent possible seek to take an approach consistent with one or more of those jurisdictions. Failing to align with major markets would create friction for sustainable finance flows into Australia, inhibiting the flow of capital to support climate and broader sustainability outcomes.
- *Credibility and integrity of sustainability labels, the labelling scheme and its administration:* Consumers reasonably expect sustainable investment products to contribute to positive environmental or social outcomes.[7] Australia's labelling scheme should provide consumers confidence that sustainable investment products contribute to positive environmental or social outcomes and that those products are also not causing any significant harm. ASFI notes the Strategy Paper's proposal that funds that integrate sustainability into investment processes without an explicit sustainability objective would not qualify for a label. We understand this to mean that mere integration of ESG considerations into investment processes, in the absence of further action, would not qualify for a label. ASFI supports this approach given consumer expectations and that integration of ESG has now become standard practice for high quality products and financial institutions.
- *Broad application:* the labelling scheme should be broad enough to accommodate a range of financial products.
- *Complementary measures:* we encourage Government to consider introducing measures that sit alongside the sustainability labels to promote better understanding by consumers (and potentially other investors) of the sustainability credentials of financial products. For example, the UK is introducing a package of measures with their labels including: naming and marketing rules for *all* investment products to ensure the use of sustainability-related terms is accurate; consumer facing information requirements; detailed information requirements (targeted at institutional investors and consumers seeking more information) and requirements for distributors to make this information available to consumers.

[7] See e.g., Investment Trends Survey 2023 https://www.afr.com/wealth/investing/savers-worried-large-investors-are-failing-to-act-on-climate-20231109-p5eitb; Banhalmi-Zakar, Z & Parker, E. 2022 *From Values to Riches 2022: Charting consumer demand for responsible investing in Australia*, Responsible Investment Association of Australasia, Melbourne p. 10; PS23/16: Sustainability Disclosure Requirements (SDR) and investment labels, UK Financial Conduct Authority, November 2023.

As outlined above under Priority 2 above, the Australian sustainable finance taxonomy could be used as a key input to a labelling scheme including as a transparency tool, with taxonomy-linked metrics being used to demonstrate meeting a credible standard of sustainability. The taxonomy should not necessarily be mandated as a label requirement, given that the taxonomy may not, at least initially, have coverage across all sustainability areas.

Pillar 2: Financial system capabilities

Priority 5: Enhancing market supervision and enforcement

Q. Are Australia's existing corporations and financial services laws sufficiently flexible to address greenwashing? What are the priorities for addressing greenwashing?

ASFI is not addressing this question in our submission.

Q. Is there a case for regulating ESG ratings as financial services?

ASFI notes developments taking place in other jurisdictions including the EU, UK, Singapore and Japan on frameworks to support credibility and useability of ESG ratings. We recommend the Australian Government continue to monitor these developments and consider options to ensure Australia is aligned with developments in these markets.

Priority 6: Identifying and responding to potential systemic financial risks

Q. Are there specific areas where the Government or regulators could further contribute to market-wide understanding of systemic sustainability related risks, including climate-related financial risks?

Regulatory frameworks should encourage longer term, multi-year thinking, and recognition of systemic inter-connections, with metrics beyond GDP. ASFI welcomes the release of the Government's Wellbeing Framework and encourages the integration and use of wellbeing metrics across government policy and decision making.

ASFI supports the continuation of the CFR's Climate Vulnerability Assessments and the expansion of this work beyond the largest banks and the insurance sector to other financial institutions including superannuation funds, and fit-for-purpose assessments for small and medium sized financial institutions. CVA should support greater focus on physical climate change risks, in parallel with consideration of transition risks. This will help support capability uplift across the finance sector and support appropriate identification, understanding and management of climate-related risks.

The Government should produce a set of Australian climate scenarios for industry use in scenario analysis including for the purpose of meeting the incoming disclosure requirements. This would especially support smaller businesses that lack the resources or expertise to develop their own scenarios. Entities could elect to use alternative scenarios for climate reporting purposes provided they meet minimum specified criteria (e.g. degrees of warming, based on credible international models, etc).

Priority 7: Addressing data and analytical challenges

Q. What are the priorities for ensuring that data-related initiatives already underway are tailored to meet the needs of firms and investors?

Q. What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?

It is important that information being provided through mandatory sustainability-related disclosures is credible, accessible and comparable – and therefore useful to the market. Government has an important role to play in helping to ensure the integrity, availability and appropriate management and use of sustainability-related data.[8] This will help promote the disclosure of high quality, decision-useful information – particularly by financial institutions as aggregators of information from a wide variety of sources.[9] Private entities (such as data and analytics firms) also have an important role to play in this area. Collaboration between the Government and private firms will be valuable to support appropriate sharing or allocation of responsibilities and benefits.

The respective roles for Government and private firms will be different at each step in the data chain, from the production of raw data, to generation of 'information' based on that data, to information collection and reporting, to management and access. Examples of where Government intervention may be required include: establishing frameworks for quality control, privacy, ownership, management and access; and establishing – in consultation with industry and other stakeholders – agreed methodologies for translating raw data into useful, standardised information. Key principles for data governance include that it should be useable, comparable and accessible.

ASFI supports the Strategy Paper's proposal for the CFR to conduct a detailed assessment of options to address sustainability-related data challenges in the financial system. We recommend that the CFR work closely with industry on this project – including data and analytics firms as well as the main users of the information – to identify what is needed to improve access to high quality information to support the anticipated climate and broader sustainability disclosure requirements.

Digital reporting

ASFI strongly recommends that Australia move to digital reporting of (financial and) sustainability-related information as soon as possible. This will promote efficient, technology-enabled management of what will be increasingly large bodies of data and information. This is particularly important for financial institutions as information aggregators. Internationally, many jurisdictions are moving towards digitisation of sustainability reporting and Australia should follow suit.

We recognise this will require initial investment and capability uplift, but it will also enhance the effectiveness of the disclosures framework and ultimately have a positive impact on efficiency of the market, creating significant cost savings in the longer term. Australian digital reporting could be adapted from the IFRS digital XBRL taxonomy, once complete. We also recommend the phasing in of mandatory digital lodgements, which will require appropriate levels of Government funding to support the upgrade of government/regulator IT systems and efforts to build capabilities of reporting

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[8] We note examples of initiatives in other jurisdictions to address data challenges, for example the Monetary Authority of Singapore's Project Greenprint that will develop a centralised disclosure portal; and Hong Kong Monetary Authority's GSF Data Source Repository that contains data relevant to the assessment of physical risks.

[9] For example, banks will need to disclose information related to the energy use and emissions of millions of residential homes, as well as from agricultural properties. Accessing this information from existing public or privately-held databases could be more efficient and reliable than seeking it directly from householders and farmers, respectively.

entities. More detailed comments on digitisation are set out in ASFI's submission to Treasury's second climate disclosures consultation.[10]

Data and the Taxonomy

There are also key data-related considerations in the development and use of the Australian sustainable finance taxonomy:

1. The ability of taxonomy users (ie financial institutions, other firms, regulators) to assess taxonomy alignment relies on the availability of supporting data, in particular scope 3 emissions data.

2. If entities report against the taxonomy, this creates a data stream which needs to be managed to ensure integrity, accessibility and comparability.

These issues should be considered as part of the development phase of the Australian sustainable finance taxonomy.

Data and NGERS

ASFI recommends the current National Greenhouse and Energy Reporting Scheme (NGERS) should be reviewed and adapted to align with the corporate disclosure framework and support alignment of Australian reporting with ISSB standard IFRS S2.[11]

[10] ASFI's submission to the second climate-related disclosures consultation.
[11] ASFI's views on NGERS are outlined in more detail in our submission to the Climate Change Authority Consultation on setting, measuring and achieving Australia's climate change targets.

Priority 8: Ensuring fit for purpose regulatory frameworks

Q. Do you agree that existing regulatory and governance frameworks and practices have adapted well to support better integration of sustainability-related issues in financial decision making? Are there barriers or challenges that require further consideration? This may include:

- Corporate governance obligations, including directors' duties
- Prudential frameworks and oversight, including in relation to banks and insurers
- Regulation of the superannuation system and managed investment schemes

Your Future Your Super

There remain areas of financial policy and regulation that are mis-aligned with the Government's climate and sustainability goals and policies. The Your Future Your Super performance test framework is a significant barrier to allocating more capital in line with Australia's climate and sustainability objectives and is in tension with the Government's sustainable finance agenda.

This tension creates a significant and growing challenge for superannuation funds who are increasingly expected to (and seeking to) align their portfolios with sustainability goals but doing so puts them at risk of failing to meet Your Future Your Super performance benchmarks that do not take account of sustainability considerations – with potentially existential consequences.[12] Allocating capital in line with performance test benchmarks may also be in conflict with trustees' duties to act in the long-term financial interests of members, and may limit superannuation funds' ability to invest in accordance with members' preferences.

ASFI recommends the Your Future Your Super performance framework be further reviewed and amended to address this tension and bring the superannuation regulatory framework into line with Australia's climate transition objectives.

Opportunities for the regulatory framework to further align with sustainable finance objectives –

1) Green Capital Weightings

   There is growing evidence to suggest that green lending is less risky than conventional lending. More broadly, firms with good environmental credentials are also better borrowers – less likely to default on their loans or be late on repayments.[13] The Basel III capital weighting regulations significantly influence capital allocation decisions by banks. Adjusting the weightings to recognise the lower risk of green or sustainable assets could therefore potentially unlock significant green finance while supporting the stability of the Australian finance system.[14] This approach is currently being considered in the EU.[15]

[12] David Bell and Trista Rose, Your Future Your Super Performance Test: Constraint on ESG, Sustainability, and Carbon Transition Activities, Conexus Institute; Mandala (2023), 'Superannuation and Climate Change: Better Returns for a Better Climate", Submission to Treasury Sustainable Finance Strategy consultation https://treasury.gov.au/consultation/c2023-456756.

[13] Jun, M., & Yu, S., 2014. Green Finance Policies and their application in China. China Finance Review, 2; Aslan, A., Poppe, L., and Posch, P., 2021. Are Sustainable Companies More Likely to Default? Evidence from the Dynamics between Credit and ESG Ratings. Sustainability, 13(15). Doi: 10.3390/ su13158568; Scatigna, M., Xia, D., Zabai, A., & Zulaica, O., 2021. Achievements and Challenges in ESG Markets. BIS Quarterly Review. https://www.bis.org/publ/qtrpdf/r_qt2112f. pdf; Albuquerque, R., Koskinen, Y., Yang, S., & Zhang, C., 2018. Corporate Social Responsibility and Firm Risk: Theory and Empirical Evidence. Management Science, 65, 4451–949. Doi: 10.2139/ssrn.1961971.

[14] See eg Triggs, A., 2023. Promoting Sustainable investment through financial architecture reform. *Oxford Review of Economic Policy*,*39*(2), 267-282. https://doi.org/10.1093/oxrep/grad009.

[15] The role of environmental risks in the prudential framework, Discussion Paper, EBA/DP/2022/02 2 May 2022

ASFI recommends the Government work with APRA to explore the potential for adjustments to the Basel framework in the form of 'green capital weightings'. This could include in the first instance analysis by APRA to determine the relative risk of significant classes of green assets. The Government and APRA could also seek to engage with the Basel Committee on Banking Supervision and key countries that have adopted the Basel framework, to encourage efforts to adjust global capital weighting requirements.

2) Soliciting sustainability preferences from investors

In 2022, the EU passed regulation requiring financial advisors to ask existing and new clients about their sustainability preference and ensure that the products offered match those preferences.[16] Advisors must help clients understand the concept of sustainability preferences and explain the difference between products through clear language and keep records of these client preferences. There is emerging evidence from the EU that requiring financial advisors to actively seek clients' preferences and providing a clear way for them to articulate those preferences has led to an increase in demand for sustainability aligned investments.[17]

In the medium term, Government should consider introducing requirements for financial advisors (and potentially a broader set of actors, including super funds) to solicit the sustainability preferences of clients and invest according to those preferences.

3) Directors duties

ASFI supports a review of directors' duties to assess whether there should be positive requirements in relation to sustainability, for example that directors be required to take certain sustainability matters into account (rather than the current articulation, under which directors are permitted to take them into account). An example of this approach can be found in the UK's Companies Act (s172). The introduction of such a duty and reporting requirement could reduce market uncertainty about the relationship between directors duties and sustainability, and reinforce that a wider set of stakeholders and factors are of importance to a company's long-term success.

Q. What steps could the Government or regulators take to support effective investor stewardship?

ASFI is not addressing this this question in our submission.

[16] ESMA, 2023. Guidelines on certain aspects of the MiFID II suitability requirements, European Securities and Markets Authority.
[17] Bloomberg BI SFDR Barometer.

Pillar 3: Australian Government leadership and engagement

Priority 9: Issuing Australian sovereign green bonds

Q. What are the key expectations of the market around issuance of, and reporting against, sovereign green bonds? What lessons can be learned from comparable schemes in other jurisdictions?

ASFI supports the green bond framework adopting a broad scope including mitigation, adaptation, and nature – recognising the inter-connectedness of these issues. In the medium term, Australia should issue also look to issue sovereign *transition* bonds, adopting and show-casing the credible approach to defining transition activities which is being developed in the taxonomy. This would channel much needed capital for transition activities and help to demonstrate that Australia is effectively managing transition-related risk. There is also an opportunity to adopt the taxonomy transition methodology for the development of the Indo-Pacific Net Zero Transition Bond series announced by President Biden and Prime Minister Albanese in the recent joint leaders statement.[18]

Investors will assess the credibility (and therefore value) of Australia's green bond issuances against the broader context of Australian Government commitment to the climate transition as evidenced by its climate targets and policies, not just the green bonds' use of proceeds. The proceeds from, or targets embedded within, labelled bonds should link to broader governmental climate objectives.[19]

Q. What other measures can the Government take to support the continued development of green capital markets in Australia?

ASFI is not addressing this question in our submission.

[18] United States – Australia Joint Leaders' Statement: Building an innovation alliance https://au.usembassy.gov/united-states-australia-joint-leaders-statement-building-an-innovation-alliance/
[19] See eg, Cox, J and Wescombe, N, *Considering Climate Change in Sovereign Debt*, Principles for Responsible Investment, 9 November 2023 https://www.unpri.org/sovereign-debt/considering-climate-change-in-sovereign-debt/11894.article

Priority 10: Catalysing sustainable finance flows and markets

Q. What role can the CEFC play to support scaling up of sustainable investment in Australia, as part of a more comprehensive and ambitious sustainable finance agenda?

Q. What are the key barriers and opportunities for the CEFC to support financing and market development in areas with significant climate co-benefits, including nature and biodiversity?

The CEFC is a strong example of how Government funds can be used to build and catalyse markets to achieve public interest objectives, as well as strong financial returns. ASFI supports expanding the CEFC's mandate to include climate adaptation and resilience. The CEFC could also play a key role in supporting markets for nature and biodiversity restoration, in conjunction with enabling policies that implement the Global Biodiversity Framework goals.

ASFI also considers the CEFC model could be usefully applied (or simply extended) to Australia's international development financing. This would be consistent with the DFAT Development Finance Review's recognition that blended finance has an increasing role to play, and the Southeast Asia Economic Strategy's recommendations that Australia scale up our blended finance to support greater integration with partner countries in the region.

In expanding the CEFC's mandate, the Government should ensure the CEFC's activities are appropriately funded and resourced, and that the mandate is appropriately calibrated to the characteristics of the target markets. In more nascent markets, a higher risk tolerance may be required including a willingness for some transactions to fail. International and domestic experience has illustrated that it can be challenging for special investment vehicles to adopt a higher than commercial risk tolerance. This should be taken into account in setting the CEFC's expanded mandate. A lower return target; explicit instructions regarding the market-building mandate and expectations around risk; ensuring a mix of commercial skills and impact/development skills; and ring-fencing parts of the portfolio to take higher risk are some ways to help calibrate the mandate appropriately.

Priority 11: Promoting international alignment

Q. What are the key priorities for Australia when considering international alignment in sustainable finance?

As a relatively small market with significant global integration, international alignment of sustainable finance policy and regulation is critical for enabling capital to flow into Australia and to ensure Australian financial institutions, many of whom have global portfolios can operate effectively across jurisdictions.

There is strong support from Australian financial institutions for more active Government engagement to support regional and global inter-operability of sustainable finance policy and frameworks. Government and regulator engagement in international sustainable finance fora should continue to draw on industry expertise through bodies such as ASFI where appropriate.

Where there are differences between Australia's approach to specific sustainable finance policies and that of other key markets, Australia should consider how best to identify those difference to support financial institutions to navigate variations in different markets, while governments also work towards greater harmonisation of frameworks over time.

Priority 12: Position Australia as a global sustainability leader

Q. What are other key near-term opportunities for Australia to position itself as a global leader in sustainable finance and global climate mitigation and adaptation?

As Australia moves rapidly from 'laggard' to 'early follower' on sustainable finance there is an opportunity to take a leadership role on the international stage through bilateral, regional and multi-lateral engagement in sustainable finance policy, as well as through Australia's international financing activities – such as blended finance. ASFI support the Strategy Paper's ambition under this Priority 12 and looks forward to working with the Government to support delivery of that ambition.

Promoting credible and inter-operable sustainable finance frameworks

Australia has a lot to gain from strong and effective engagement in international sustainable finance frameworks, particularly in the Asia-Pacific region. Deeper engagement can:

- support Australia's foreign policy ambitions by strengthening government to government relationships with key partners, many of whom are grappling with the challenges of attracting capital for their domestic net zero transition and recognise that Australia has significant capability and expertise;
- help build markets for Australia's green exports by promoting credible an effective climate and sustainable finance policy that accelerates demand in key economies for Australia's green energy and products;
- promote inter-operability of sustainable finance frameworks, particularly in the Asia-Pacific region which will help remove barriers to sustainable finance flows;
- ensure that emerging global sustainable finance frameworks appropriately reflect Australia's unique circumstances and interests; and
- support regional and global progress towards decarbonisation, nature restoration and social goals (such as gender equality and recognition of First Nations rights) and in doing so enhance Australia's reputation and influence.

With our sustainable finance agenda now well underway Australia also has a lot to offer, particularly to countries in our region. The structural similarities between Australia's economy and many countries in Southeast Asia – in particular our strong mining industry, and our historical dependence on fossil fuels for electricity generation and exports – means the Australian sustainable finance taxonomy will be highly relevant for many partner countries. Australia is also leading the world in developing a credible, workable approach to defining 'transition finance' for the Australian taxonomy. Lack of agreed definitions for transition activities (ie activities that are currently high emitting and need to decarbonise to meet the Paris goals) is a significant barrier to finance and investment and an area with significant interest for technical capacity building.

There are various channels through which Australia can deepen support sustainable finance policy development in the region. These include the Indo-Pacific Economic Forum, Australia's engagement in ASEAN and APEC, through the Singapore-Australia Green Economy Agreement and other bilateral agreements, as well as bilateral development cooperation. ASFI has existing relationships with our counterparts in ASEAN and Singapore (as well as New Zealand, Canada, the EU and the UK). Australia should look to draw on the expertise of its regulators and institutions (including, for example, the Clean Energy Finance Corporation) as well as non-government bodies such as ASFI to support this 'team Australia' engagement.

Australia's international climate finance commitments

Australia's ambitions to play a leadership role on climate mitigation and adaptation will also be influenced by our domestic climate policies beyond sustainable finance – including the ambition of our 2035 NDC, the range of policies we have in place to decarbonise and build resilience across the economy, and our approach to transitioning away from high emitting activities include for export.

Just as important to our international credibility – particularly as Australia looks to host COP31 in 2026, are Australia's international climate finance commitments. Australia's climate finance target to provide $2 billion in support for climate action in developing countries from 2020-25 is low by developed country standards. In developing a target for the 2026-30 period, Australia should look to increase both the ambition and effectiveness of our international climate finance. This should include scaling up development finance capabilities (see below) and creating a dedicated climate finance portfolio (rather than primarily achieving our target through contributions to multi-lateral development banks and 'mainstreaming' of climate into the development program).

Q. What are some longer-term international sustainability goals for Australia where sustainable finance can play a role?

Ultimately, moving to a global landscape where there is mutual recognition between governments of domestic sustainable finance policies and frameworks – such as taxonomies – would vastly accelerate sustainable finance and investment flows. To support this, Australia's focus should be on promoting inter-operability and credibility.

Q. What are the key market, regulatory and institutional barriers to increasing private sector engagement in blended financing opportunities? How can these barriers be overcome?

Q. What are other means to mobilise private sector finance toward sustainability solutions in the Indo-Pacific region?

The primary barrier to increasing private sector engagement in blended finance opportunities is the lack of blended finance opportunities that are appropriately structured to reflect the strategic and risk/return requirements of Australian institutional capital.

There are multiple barriers to private finance and investment in climate and sustainable activities in South and Southeast Asia. ASFI has conducted detailed market assessment work with DFAT on this topic and would be happy to further engage with Treasury regarding the findings. We also note the findings of Sir Nicholas Moore's Southeast Asia Economic Engagement Strategy to 2040 in this regard.

The opportunities for the Australian Government to help overcome these barriers include:

- blended finance – i.e. expanding Australia's development financing capabilities to build markets and de-risk transactions to crowd in private capital;
- transaction support and pipeline identification – note this would require specialist investment, finance and sectoral expertise which typically is not held directly by the Australian Government;
- support for policy development (i.e. country targets and policies to meet those targets, as well as robust, inter-operable sustainable finance frameworks such as disclosures and taxonomies), as discussed above;
- Australian regulatory reforms, in particular to Your Future Your Super which constrains investment in emerging markets (as well as in sustainability themes).

Currently, Australia's ability to deliver on the first two opportunities is constrained by our lack of dedicated development finance mechanism. ASFI supports the establishment of a fit for purpose, dedicated, development finance capability. This would reinforce Australia's position as a key partner on climate, and support Australia's bid to host the United Nations Climate conference COP31.

More detailed views on this are outlined in our submission to DFAT's Development Finance Review.[20]

[20] ASFI's submission to the Development Finance Review.

In particular, we note that experience in Australia and overseas has shown that using public sector funding mechanisms to de-risk transactions for private capital can work, but the design and resourcing of these mechanisms matters. They require fit for purpose institutional and governance arrangements, carefully considered mandates, and a mix of expertise that combines commercial finance and investment skills with development and impact management skills.

Existing Australian international financing vehicles such as Export Finance Australia and the Australian Infrastructure Financing Facility for the Pacific are not in their current form appropriately constituted or resourced to carry out Blended Finance functions. Likewise, the Department of Foreign Affairs and Trade – as a primarily foreign policy and diplomatic agency – does not generally have the institutional structure or independence, culture or the deep and widespread expertise to design and manage an Australian Blended Finance capability of significant scale.

EFA is primarily a provider of debt and has limited flexibility under its existing mandate to de-risk commercial transactions. This means it is more likely to crowd-out private finance than crowd it in. In contrast, the Clean Energy Finance Corporation has demonstrated an ability – in a domestic context – to work with financial institutions and deploy a range of financial instruments to catalyse further private capital. CEFC is a good model for Australia's international finance. It has deep expertise that is valued by the private sector and could – with appropriate mandate amendments and level of resourcing – be an appropriate vehicle to implement these recommendations.