

Consultation into the Sustainable Finance Strategy, The Treasury, Government of Australia

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Deadline for submission 1st December 2023

Aviva Investors consultation response (Nov 2023)

Consultation responses to be submitted via email to SustainableFinanceConsultation@treasury.gov.au

YOUR DETAILS:

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A cover note from Aviva Investors in response to the Australian Sustainable Finance Strategy, 2023

At Aviva Investors, we are supportive of the direction of travel and believe that this consultation is a positive step forwards by the Australian Government on their transition to net zero and wider sustainability goals. It is positive to see the Government engaging the financial community as a partner in this way.

We are proud of the work we have done in sustainable finance already, in Australia and internationally.

We are standing by to support an ambitious reform agenda and can draw on our experiences as an asset manager in other markets where similar sustainable finance policy has been developed, and now implemented. We will be happy to do this with Australian stakeholders bilaterally, and also through our active participation in membership bodies such as the RIAA and through the UN PRI's Collaborative Sovereign Engagement workstream (we are an Advisory Committee member and Lead Investor, for the National Government Investor Working Group).

However, there is a need to now scale this up and move quickly for Australia to be able to hit ambitious targets and position itself as a leader, learning from others' experiences to potentially "leap frog".

The financial services sector is an important part of any market's transition plans.

At this stage, there is a need to bring everyone "inside the tent" – for example it is particularly important that regulators recognise they have a role in the national transition targets in supporting the firms they supervise to be part of a solution.

On this transition planning, we would suggest the government takes a whole economy, holistic approach, incorporating the public and private sector, the real economy as well as finance, the

regulatory and legal frameworks and address the capacity challenges in delivering sustainability targets.

Having a presence across other markets who have developed taxonomies, disclosure regimes, labelling etc as part of sustainable finance strategies, we would urge the Australian Government to draw on these global examples of best practice, and ideally not reinvent the wheel. There is an advantage to coming at this after others, and looking for regional and international alignment will be important for Australia, in order to leapfrog and take a leadership role going forwards. For example,

- the ISSB is now public and full implementation of this with all the building blocks of (Mandatory) TCFD could set Australia on the ambitious path the Government is striving towards.
- there are already 80+ taxonomies, we need alignment of these across markets.
- on transition plans, be ambitious as they are the “real economy” tool to support net zero journeys for any sector – and government. The TPT from the UK has some very helpful recommendations which could be used in an Australian context.
- On labelling, the EU and others have been working on this to avoid greenwashing for some time.
- On regulatory frameworks, many global networks like the NGFS, IOSCO, IAIS have worked across jurisdictions to build robust systems to support sustainable finance ambitions of governments, and to support the firms that they supervise to contribute. Engaging these bodies will support the domestic supervisory regime in Australia to move at some speed with confidence.

The Australian financial community and wider economy need long term planning and policy stability to make this transition a just and inclusive one – including a long-term strategy on skills, transition plans, new investment vehicles, renewables and regulatory reform which will support a transition across Australia, including beyond urban centres. This sustainable finance policy needs to support a whole economy transition, not just away from fossil fuels, but also looking at other hard to abate sectors such as transport, mining, agriculture and to do so again in a just way to support and empower those communities, and to mobilise the domestic and international finance needed to help Australia meet its ambitious targets.

Consultation response from Aviva Investors

Q4 - Of the 12 priorities outlined in the consultation paper, which do you consider to be the top 3?

Please select 3 options.

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

Priority 2: Develop a Sustainable Finance Taxonomy

Priority 3: Support credible net zero transition planning

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

Priority 5: Enhancing market supervision and enforcement

Priority 6: Identifying and responding to potential systemic financial risks

Priority 7: Addressing data and analytical challenges

Priority 8: Ensuring fit for purpose regulatory frameworks

Priority 9: Issuing Australian sovereign green bonds

Priority 10: Catalysing sustainable finance flows and markets

Priority 11: Promoting international alignment

Priority 12: Position Australia as a global sustainability leader

At Aviva Investors, we believe that transition plans take net zero targets out of the future and into the boardroom – of financial or real economy players – with short and medium term targets and deliver helpful annual progress updates. They are a tangible way for the private and public sectors to demonstrate a path to 2030 targets. Transition plans should include the policy dependencies that financial and real economy institutions have for the delivery of their own Net Zero ambitions, and therefore provide a feedback mechanism to government for consideration in the development and implementation of their own transition plan to achieve their NDC.

We would also support the Australian Government in using best practise from other markets at this stage and aligning where possible with those markets who are leading in the topics above. The UK's TPT (Transition Plan Taskforce has some excellent examples to follow).

Q5. Are there any areas which are missing from this Strategy that should be included?

We believe that this work needs to be seen as part of the strategic, holistic approach from the top down, including in Australia's revised NDC, sectoral pathways and other policies such as on nature and critical minerals.

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

Q6. What are the major capability gaps ahead of the introduction of mandatory climate reporting?

There are challenges around data availability, reliability, and timeliness which need resolving.

Q7. Are there any quick fixes for these gaps that government could easily implement? How would this work?

Adopting ISSB would enable the government to implement this, and this is in the public domain already.

PRIORITY 2: Develop a Sustainable Finance Taxonomy

Q8. Do you have specific insights from your experience with navigating a sustainable finance taxonomy in other jurisdictions? From an operational perspective, what should Australia do differently as it seeks to integrate taxonomy into the market and regulation?

There is a great deal of excellent work done in other jurisdictions on taxonomies, of which there are now many. Alignment across borders would be helpful. In particular, interoperability with the EU's taxonomy would enable us to more easily allocate our SF DR regulated capital to Australian assets.

Transition finance should be included within any new taxonomy, and sectoral pathways will help the investor community.

Jurisdictions with a taxonomy in place or in progress can be found at climatebonds.net/taxonomy

Q9. Which governance arrangement should be used (legislation, guidance for regulation or voluntary)? Which government agency or department should have ongoing oversight of the taxonomy? Please explain.

We have seen this work well when developed from the top policy level inside the Commonwealth Treasury, and then with active engagement and activation by regulators and supervisors, and across states.

PRIORITY 3: Support credible net zero transition planning

Q10. What are your top 3 concerns for transition planning?

We would like to see the Australian Government produce and regularly update an economy-wide net zero transition plan. This sets the context for the private sector.

Ambition should be ratcheted up over time in line with the science, with a clear commitment to update and revisit the plan biannually. The plan should include sections on key real economy policy areas and financial sector.

This would send a powerful and clear signal to the market, helping to support investment in Australian businesses aligning their strategy to the net zero transition and those businesses providing the solutions that the transition will require – in turn helping Australia to secure the economic benefits that the net zero transition will offer.

Fragmentation undermines comparability. We would urge the Australian government to support the UK's TPT which is seen as global best practise in this area and "docks into" ISSB requirements.

Transition plans set the direction of travel from the top, so we urge policy continuity and ambition, even if they are a reflection of the journey – and rightly so. "Don't let perfect be the enemy of good" as getting started on that journey is important, sending the right signals to the market and the real economy.

Q11. Do the ISSB standards and taxonomy provide appropriate foundations for credible transition planning and target setting? What are the gaps in the ISSB's coverage of transition planning? What additional disclosures or guidance would be useful?

Currently, more detail is needed to help corporate and financial firms to prepare, some of which can be drawn from entities like GFANZ and OECD.

Q12. Should transition plans be introduced for nature and/or other sustainability issues?

Together, yes. Transition plans which combine these issues will be more meaningful and holistic.

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

Q13. Do you have any specific experience or examples vis a vis labelling in other jurisdictions? Are there any pitfalls Australia needs to avoid?

There are challenges for companies operating across different jurisdictions with differing expectations. There is a risk of disclosure regimes being used as a labelling proxy.

Entity level requirements for issuers of ESG labelled debt are important to ensure issuance is part of a credible transition plan. Entity level (fundamental) views are what drives most investment decisions (and taxonomies can inform this outside of labelled issuance too, for example with alignment of a company's capex.)

Q14. What model should be used for a legislated product labelling regime?

PRIORITY 5: Enhancing market supervision and enforcement

Q15. Which would be preferable: specific laws covering sustainable finance and greenwashing, or general disclosure obligations combined with laws related to misleading and deceptive conduct?

Aviva Investors believes that regulation in the absence of effective enforcement will achieve little, supported by research by the Australian National University. Responsive Regulation, Smart Regulation and Meta-regulation strategies can be used to support enforcements. There is a great deal of work by regulators to stamp out greenwashing in other jurisdictions which Australia could draw from, including the EU and UK.

Q16. What kind of regulatory regime should ESG rating agencies sit under? Would registration of rating agencies and/or requirements for their operation assist industry?

There are examples to be drawn from other countries for Australia on this. For example, the FCA in the UK have said they plan to bring rating agencies within the regulatory perimeter to ensure transparency of methodology. The EU is also reviewing this.

PRIORITY 6: Identifying and responding to potential systemic financial risks

Q17. What are the gaps in the information required to understand non-climate-related ESG risks?

The financial impact of biodiversity loss is a current gap which the NGFS, TNFD and others are looking to resolve.

PRIORITY 7: Addressing data and analytical challenges

Q18. Which data gaps must be addressed as a priority?

The issues around good quality, consistent and verified data are well known.

Standardising ESG disclosure obligations may help with some of this, plus more robust verification of data collectors and providers' outputs. A lack of reporting standardisation often results in agencies awarding corporates very different ESG ratings and financial institutions don't have the means to verify the accuracy of the data). ESG data is patchy and often out of date (quality and quantity of ESG reporting varies enormously by jurisdiction, by asset class, and by size of the company. It also is always backwards looking).

There is no single source of the truth (financial institutions cannot find all the ESG data they require from any one provider. This requires them to confront the inconsistencies of the ESG data industry, as well as the technical difficulties of compiling multiple data sources.)

Issues around data are not unique to Australia, but if the Sustainable Finance Strategy could look to address these, it will be beneficial for financial institutions and the country.

PRIORITY 8: Ensuring fit for purpose regulatory frameworks

Q19. What kind of regulatory frameworks would support the integration of sustainability-related issues in financial decision-making?

We would recommend that nature and climate are embedded within all Australian regulatory and legislative architecture.

Q20. What is vital for a successful stewardship framework?

We would like to see a Stewardship Code developed formally in Australia, and again drawing on experience from and connection with other jurisdictions. We would especially encourage interoperability with the UK code.

Q21. Should Australia develop a formal Stewardship Code? If yes, what should the governance arrangements be and who should oversee the Code?

Q22. Would you like to be consulted on which option to improve YFYS would be viable? YES OR NO

Solutions could include widening the tracking error for sustainable funds; carveouts for certain assets; and separate benchmarks for sustainable funds.

PRIORITY 9: Issuing Australian sovereign green bonds

Q23. What is your experience of green bonds and green capital markets in other jurisdictions? What are the benefits, challenges, risks, unintended consequences?

Australia's first green bond should be tailored to the specific needs of the market and support of the domestic transition agenda.

There are global standards which can support Australia in this regard, for eg CBI's Green Bond Methodology.

Industry groups such as the UN PRI's Collaborative Sovereign Engagement working group, of which Aviva Investors is a member, can support the government on this, and bring best practise from other markets.

PRIORITY 10: Catalysing sustainable finance flows and markets

Q24. How important is catalytic government financing for supporting biodiversity objectives? Is this feasible?

PRIORITY 11: Promoting international alignment

Q25. Do you have any general views on this priority?

Australia has an opportunity to draw on leading sustainable finance strategies from other markets and align as far as possible. Fragmentation is a significant barrier and will slow down progress.

PRIORITY 12: Position Australia as a global sustainability leader

Q26. Do you have any general views on this priority?

Would the Australian Government be willing to step in and support the COP29 process at this stage? Regionally across Asia-Pacific there is more than an ambitious Australian leadership could do in particular to support emerging markets and small island states. Australia's transition to net zero must be a just one, shared by communities and stakeholders across the country. Setting the right domestic ambitions for whole economy transition will help Australia to take a stand on a global platform.

Other Comments

Q27. Do you have any other comments you'd like to provide as part of this process?

Aviva Investors looks forward to further engagement on the Sustainable Finance Strategy in 2024.