We believe the best is yet to come

Sustainable Finance Strategy

BLUNOMY'S RESPONSE TO CONSULTATIVE DOCUMENT
AUSTRALIAN GOVERNEMENT – THE TREASURY

DECEMBER 2023

blunomy®
We believe the best is yet to come

Introducing Blunomy

We believe the best is yet to come if we put everything we have into inventing new rules for a new economy, more decarbonised, circular and inclusive.

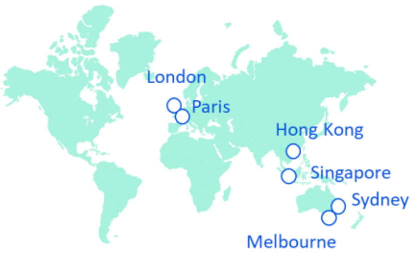
- Decarbonisation & business transition strategies
- Sustainable business models development & scale-up
- Financial advisory & Due diligence
- Modelling & Data science for energy systems and impact measurement
- Supply chain & Coalitions engagement

120 Blunomists
As a core-staff and a growing community of external experts, partners and talents

360 Degrees
Unlocking systemic transition bottlenecks across value chains

300+ Projects per year

6 Offices



Energy production and resources
- Renewable & distributed power
- Biogas & hydrogen
- Bioenergies, waste & resources
- Circular economy

Infrastructure
- Storage, microgrids & smart networks
- Power, gas, heating, cooling networks
- Energy access & off-grid systems
- Access to essential infrastructure

Energy usage and GHG emissions
- Energy efficiency & industrial ecology
- Low carbon transport
- Carbon Capture Usage and Storage (CCUS)

Agri-industry and Land Use
- Food industry transition
- Agriculture transition & adaptation
- Nature-based solutions
- Balance of land uses

Sustainable finance and impact
- Impact & ESG frameworks and metrics
- Green & sustainable investment thesis
- Sustainable finance instruments & products

We do “with”
We’re action-oriented and offer much more than merely advisory services, acting as your long-term partner.
We help you design robust transition roadmaps, engage your clients and your value chain, build business coalitions, develop new business models, prove your impact, structure financing, and attract capital to reach scale.

We do “whatever it takes”
We find solutions to transition bottlenecks without shying away from complexity. We help channel money to players transitioning faster and connect funding to promising and impactful models to reach scale.
Our own business model will also allow us to share risks when relevant. We want to get change done.

We do things “differently”…
… when helping social entrepreneurs access essential infrastructure.
Our pro-bono work in developing countries is about making sure the transition does not leave anyone behind and in order to create a more decarbonized, more circular but also more inclusive economy.

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PILLAR 1: IMPROVE TRANSPARENCY ON CLIMATE AND SUSTAINABILITY

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

The Government should communicate regularly on its policy development. To allow for anticipation of mandatory disclosures, the Government can provide clear and timely updates on future disclosure requirements (for example regarding the sustainable finance taxonomy development). Corporate and financial institutions will need some time to embed such environmental and social disclosure requirements in their organisation and operations – particularly on less standardised topics such as biodiversity that are linked to climate disclosures.

The Government is well placed to act as a source of information to share knowledge on international initiatives launched by standard setters and market coalitions on sustainability disclosure and sustainable. The Government is a position to help market participants understand these international disclosure frameworks, and their relevance to the Australian economy. International players might well be already aware of such initiatives, but smaller companies or financial institutions might not be. The Government could focus its support to these players in priority to bridge a potential knowledge gap and help them develop new sustainability reporting/monitoring capabilities. Furthermore, the Government could consider having a dedicated entity to follow global developments in existing frameworks/standards, who can also take part in multilateral engagements for their development (Priority 11).

The Government should provide precise guidance and access to support. There are many ways to do so, including: publicly available guidance materials (e.g., examples of "model answers" for climate disclosures) for businesses and financial institutions; training webinars for corporate and financial institutions (incl. accounting and auditing firms that would be involved); creating an organisation to answer questions and guide the companies in their first reporting exercise (e.g., first reporting against the Australian taxonomy, first reporting against the TNFD).

Priority 2: Develop a Sustainable Finance Taxonomy

The Sustainable Finance Taxonomy should be the backbone of the Australian Sustainable Finance Strategy and steer consistency between the different sustainability disclosure requirements/frameworks and foster the development of sustainable finance markets. By bringing common definitions on what can be considered as a "sustainable activity" for both corporate and financial market players, it aligns real asset and real economy players with financial institutions. Such alignment and consistency are critical to channel faster capital to bridge the climate funding gap.

There are three important use cases for the Taxonomy:

- Corporate disclosure of the **share of taxonomy alignment of business activities and operations**, starting with large corporates and preparing smaller companies for future reporting
- Financial market participant disclosure of the share of taxonomy-aligned of **investment products** and **portfolio labelled** as "sustainable"
- Requirements for **financial instruments** (e.g., green or transition-aligned bonds / loans and investment products)

International experience has shown that mandatory disclosure is more suited to address systemic greenwashing risks than voluntary standards (although some *soft law* instruments like the TCFD have become *hard law* instruments). In terms of implementation, partial disclosure requirements can be introduced to ease the burden of relevant entities; for example, the EU Taxonomy regulation requires large corporates' disclosure on eligibility in the first year, followed by alignment in the next. In terms of taxonomy design, the applicability to the Australian context should be considered; for example, the minimum safeguards component, which considers social issues (e.g., human rights), can be adapted to include the protection of Indigenous communities.

In terms of Taxonomy objectives, climate adaptation should be the next priority given Australia's exposure to physical climate risks – it is a common objective seen in other taxonomies (e.g., EU, ASEAN, Singapore). The Government should base Taxonomy development on the ongoing work for its *National Climate Risk Assessment and National Adaptation Plan*. Second, nature and biodiversity protection shall be prioritised, given Australia's unique biodiversity, the significance of agricultural and extractive industries to the Australian economy and the growing demands from investors (as stated in the consultation paper). Third, transition to circular economy is a transversal topic that can support climate mitigation and management of other natural resources (particularly mining). Its inclusion will also align with the Government's Net Zero 2050 plan, as circular economy is a stated focus for the 6 sectoral decarbonisation plans (to be developed by the Climate Change Authority).

To ensure the Taxonomy is effectively embedded in Australia's financial and regulatory architecture, it is important that federal regulations and their governance should be centralised at the federal level. A clear governance structure should be established to ensure alignment with the current and proposed tools and policies by other relevant government bodies or agencies.

Priority 3: Support credible net zero transition planning

Sectoral decarbonisation plans and corporate disclosure on transition plans are two connected key gaps in Australia's transition planning landscape. ISSB's IFRS S2 mainly focuses on the identification and management of climate-related risks and opportunities from an industry-specific perspective. Pending the completion of the six sectoral decarbonisation plans, reference to the respective sectoral pathways will also be a requirement in corporate disclosure. Furthermore, the Government should go beyond the ISSB frameworks given their limitations in addressing transition planning, namely the disclosure on transition plans or mitigating strategies. Whilst the frameworks touch on the disclosure of climate-related transition plans under its *Strategy* pillar, there is no detailed guidance provided beyond climate-related targets (e.g., GHG reductions).

Such limitations of ISSB calls for the incorporation of other frameworks.

- The Government is encouraged to continue to follow the developments of the **TPT framework** and the results of the currently open public consultations on the **sector deep-dive guidance** published in November 2023 (7 sectors covered). Beyond target ambition assessment, TPT expects corporate / financial institutions to provide an analysis of the evolution of their performance in terms of carbon footprint but not only. Referring to frameworks that try to capture the topic of "speed of evolution" is instrumental when looking at net zero transition planning, because transition is about motion.
- The Government should also follow the upcoming communication of the **GFANZ** on the results of its recent **public consultation "Transition Finance Strategies and Measuring the Impact on Emissions"** (expected to be communicated during COP28 in Dubai). The GFANZ has the capacity to set common definition(s) of transition and provide a "compass" to financial market players. Transition should be carefully and consistently defined at the asset, business, and company level, to accurately distinguish between companies according to their ambition, readiness and transition performance, and inform on different types of investment/financing strategies. The Australian Government can refer to the initiatives trying to set international definitions.
- The Government can leverage **TNFD's guidance on the disclosures of nature-related issues**, to be included in corporate disclosure (Priority 1). Simultaneously, it can also follow the developments of **SBTN**, who has published **technical guidance on target-setting for nature-related issues** such as land and freshwater; detailed guidance for the last two steps, Act (action plan to

support biodiversity and nature protection and enhancement) and Track (measurement, reporting and verification) are currently under development.

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

Consistent with other considerations of this public consultation, the Australian labelling system for sustainable investment products should rely on the Australian Taxonomy. It should be consistent with the Australian Taxonomy, including entity-level vs activity-level considerations and disclosure requirements.

It should also have clear requirements for compliance including third party verification, disclosures of investment strategies and data collection methodology to avoid misinterpretation and confusion (as seen in the EU's SFDR with some asset managers who requalified most of their Article 9 funds to Article 8).

It should also incorporate elements of domestic voluntary certifications and standards (for example, the Australian Government Guide to Regulatory Impact Analysis) and engage with relevant organisations (for example, ASIC).

Pillar 2: Financial system capabilities

Priority 5: Enhancing market supervision and enforcement

Blunomy is unable to answer these questions because it does not have in-depth knowledge of existing greenwashing laws, and financial services regulations.

Priority 6: Identifying and responding to potential systemic financial risks

In early 2023 APRA released the results of the first climate vulnerability assessment of Australia's five largest banks. It indicated that it would consider expanding this climate risk assessment to the insurance and superannuation sectors, and the broader banking sector. Given the systemic nature of climate risks, such climate stress test should be expanded to all types of financial institutions, particularly asset managers. The regulators have the responsibility to help financial institutions doing such exercises – for example, by providing them with specific guidance and ready-to-use methodologies/materials on climate scenarios (e.g., the NGFS publications and datasets) and sharing catalogue of useful databases (e.g., the IMF has a Climate Change Dashboard that provides data on various climate-related indicators).

However, it should not be forgotten that most of the climate risks to which financial institutions are exposed are strictly related to the climate risks to which their clients/investors (companies and underlying assets) are exposed. Although it has not been tested in other jurisdictions (as far as Blunomy is aware), the development of climate stress testing exercises on corporate and real assets/infrastructure would be an innovative and effective way of assessing and addressing systemic climate-related financial risks.

Priority 7: Addressing data and analytical challenges

The data challenges faced by financial institutions in Australia are also commonly seen in other jurisdictions. While direct emissions reporting is now market practice, other sustainability topics are not well captured yet:

- **Indirect GHG emissions** (scope 3) particularly across complex value chains such as in the agriculture/agri-food sector, and for financial institutions (financed emissions)

- **Water** because both the volumes (consumption) and the quality (pollution) should be captured, but there is no standardised metric such as tons of carbon equivalent for GHG emissions
- **Nature-related** topics such as biodiversity (although initiatives such as the TNFD and the SBTN will help)

Furthermore, private markets, in general, still lack disclosure standards for sustainable performance, whereas private companies and assets, as well as private investment and debt funds, will play a key role in accelerating the climate transition.

Priority 8: Ensuring fit for purpose regulatory frameworks

Blunomy is unable to answer these questions from an Australian perspective because it does not have in-depth knowledge of existing and evolving governance frameworks and practices.

Pillar 3: Australian Government leadership and engagement

Priority 9: Issuing Australian sovereign green bonds

The ICMA Green Bond Principles are widely used, but they remain vague and non-prescriptive, especially regarding the Use of Proceeds. Many national frameworks for sovereign green bond have also shown limitations; for example, high-level and qualitative descriptions of the countries' transition challenges, listing dozens, or even hundreds, of project types in a very summary manner, and describing their contributions to the UN-SDGs without concrete quantitative evidence.

However, investors (especially in Europe) are becoming more demanding regarding Sovereign Green Bond frameworks and their Use of Proceeds. There is a real opportunity for differentiation. This poses an opportunity for Australia to go beyond current practices and demonstrate leadership, which also aligns with the demands of investors (especially in Europe).

Also, in the last months, the first set of countries – like Chile and Uruguay – have issued the first sovereign sustainability-linked bonds addressing both environmental (e.g., preservation of native forest area) and social (e.g., gender equality) topics. Australia could be inspired from such issuances to have a broader sustainable sovereign bond framework.

Essentially, a sovereign green / sustainable bond program shall be governed by a robust framework that contains the following elements:

- **Clear ambition**: Quantification of country-specific challenges (e.g., X% of the country's GHG emissions associated with the transport sector), which then informs capital allocation (e.g., X% of the green bond financing will be dedicated to green mobility). Additionally, the Government can consider a "double additionality" approach, where green projects are expected to bring social co-benefits
- **Granular project selection criteria**: Detailed criteria and examples of eligible projects, along with the respective monitored KPIs. For themes or projects whose known risks may raise questions from investors, a list of risk mitigation criteria can be defined (e.g., requesting origin guarantees for bioenergy production, to avoid upstream deforestation). Additionally, portfolio alignment with widely accepted scenarios can be embedded (e.g., only selecting projects that are compatible with the Paris Agreement's 1.5°C trajectory)

- **Precise monitoring mechanism with quantitative metrics**: Tracking and annual disclosure of both project-level KPIs (e.g., installed capacity for low-carbon mobility projects) and project-specific KPIs (e.g., avoided GHG emissions for EV use)
- **Transparent governance model**: Disclosure of the decision-making mechanisms with clear roles & responsibilities (e.g., various committees to be established within the framework).

Priority 10: Catalysing sustainable finance flows and markets

The CEFC has potential to significantly contribute to the advancement of sustainable financial in Australia. The CEFC already invest in multiple sectors and infrastructure type that support Australia's sustainable agenda. CEFC has progressively expanded its activities and investment beyond pure energy-related opportunities – as an example, "Nature Capital" is one of its strategic investment areas along with decarbonized energy and "efficient use of energy and materials".

CEFC's purpose is to be Australia's "green bank", it will naturally be a critical stakeholder to push sustainable investment and sustainable finance agenda – primarily focusing on climate mitigation and adaptation as defined in its mandate. It can channel capital in taxonomy-aligned infrastructure projects, mid- to large corporate, and start-ups.

CEFC investment/financing mandates covers the priority sectors for development under the Australian Taxonomy (decision made in September 2023). With taxonomy-aligned eligibility criteria being set up across its different investment / financing vehicles, CEFC could play a pivotal role in the implementation of Australia's future sustainable finance taxonomy, and to foster sustainable funding into the transition of Australia's real economy.

Through special investment programs such as "Advancing Hydrogen Fund" ($300mn), CEFC can effectively accelerate funding of innovative decarbonization solutions and business models "de-risking" different types of hydrogen projects (production, distribution) – particularly in projects included in the ARENA Renewable Hydrogen Deployment Funding Round (a $70 million grant program). CEFC could develop such new dedicated thematic funds to support Australia's sustainability agenda including beyond decarbonization – potentially a fund related to regenerative agriculture that will create positive impacts on biodiversity.

Collaboration between the CEFC, public institutions and 'commercial' financial institutions can increase funding towards targeted areas, ensuring alignment with the sustainable finance agenda for the benefit of Australia. This involves facilitating opportunities for projects that secure initial financing to qualify for additional funding, or awarding additional finance for projects that qualify for 'sustainable' projects that do no harm.

CEFC already finance small-scale assets and projects that other investors might not consider because they can be too small. CEFC has delivered more than $2 bn in tailored asset finance to an estimated 53,000 smaller scale clean energy projects. This agility and financial innovation enable the mobilization of other financiers and ease the access to funding for borrowers – and can further support the Australia's sustainable finance agenda – all the more so if replicated in other sectors (e.g., circular economy, regenerative agriculture).

Priority 11: Promoting international alignment

AAAB has recently published a draft *Sustainability Reporting Standards* based on the ISSB standards. The Government shall continue similar efforts to ensure such international alignment.

It is essential to ensure that the Australian taxonomy aligns with international standards and draws on work in other jurisdictions to strengthen Australia's position in global sustainable finance markets, and not to add very different sustainability reporting requirements for companies and financial institutions that are already subject to reporting requirements against other taxonomies (for example, an Australian company with significant operations in the EU will need to report against the EU taxonomy under the CSRD). The interoperability of the Australian taxonomy with other taxonomies shall be a primary objective of its development.

Given Australia's extraordinary wealth of biodiversity and its exposure to multiple physical climate risks, Australia should actively contribute to existing related initiatives (e.g., TNFD, SBTN) and push Australian corporate and financial institutions to further work on biodiversity protection (and regeneration)

Priority 12: Position Australia as a global sustainability leader

The completion of the Australia sustainable finance taxonomy – at least the finalization of the technical screening criteria on climate mitigation for the first prioritized sector – will be a critical milestone to position Australia among the global leaders in sustainable finance. Being able to accelerate the development of the taxonomy (other sectors, other sustainable criteria) by leveraging the work done by other jurisdictions and international organizations will be instrumental.

Accelerating the development of the six sectoral decarbonization plans will also indirectly support the development of robust and credible sustainable finance markets beyond 'pure green' assets.

Accelerating managed coal phaseout in the near-term can also position Australia as a credible global leader in climate mitigation and sustainable finance - particularly on the needed innovation to develop suitable financial solutions to fund the progressive phase out of thermal coal assets including all the different environmental and social externalities.

At the same time, Australia has a unique renewable energy potential (renewable power, bioenergy, low-carbon hydrogen) potential, and its critical transition minerals reserves also position the country at the forefront of the global climate transition. Australia can strengthen its global leader position in climate mitigation in the near-term by scaling-up faster its renewable energy production capacity for both domestic and export markets.

As mentioned earlier in this paper, Australia has unique natural ecosystems and could lead the development of innovative financial solutions (probably blended finance solutions) to increase the financing of nature capital, in Australia and more broadly in the Indo-Pacific region.