

---

# **AIGN Submission to Sustainable Finance Strategy Consultation Paper (November 2023)**

---



AUSTRALIAN  
INDUSTRY  
GREENHOUSE  
NETWORK

## TABLE OF CONTENTS

<b>AIGN SUBMISSION TO SUSTAINABLE FINANCE STRATEGY CONSULTATION PAPER (NOVEMBER 2023)</b>	<b>1</b>
<b>1 SUMMARY</b>	<b>3</b>
<b>2 INTRODUCTION</b>	<b>5</b>
2.1 INTERNATIONAL CONTEXT	5
<b>3 DEVELOPMENT TIMEFRAME</b>	<b>5</b>
3.1 VOLUME OF POLICY REVIEW	5
3.2 CONSTRUCTIVE INDUSTRY ENGAGEMENT	6
3.3 DEFERRAL AND STAGED ONGOING ENGAGEMENT REQUIRED	6
3.4 AVOID THE RISK OF COMPROMISED POLICY OUTCOMES	7
3.5 ADMINISTRATIVE ARRANGEMENTS	7
<b>4 ADDITIONAL FEEDBACK ON CONSULTATION PAPER</b>	<b>7</b>
4.1 PURPOSE OF SUSTAINABLE FINANCE STRATEGY	7
4.2 SCOPE OF SUSTAINABLE FINANCE STRATEGY	8
4.2.1 <i>Objectives, structure, and principles</i>	8
4.3 CLIMATE-RELATED FINANCIAL DISCLOSURE FRAMEWORK	8
4.4 SUSTAINABLE FINANCE TAXONOMY	9
4.5 NET-ZERO TRANSITION PLANNING	10
4.6 LABELLING SYSTEM FOR SUSTAINABLE INVESTMENT PRODUCTS	10
4.7 TREASURY MODELLING	10
<b>5 CONCLUSION</b>	<b>11</b>

# 1 SUMMARY

The Australian Industry Greenhouse Network Limited (AIGN) appreciates the opportunity to engage with the Treasury on the *Sustainable Finance Strategy* consultation paper (November 2023).

- AIGN supports the Government's commitment to the Paris Agreement and to meeting its goals, recognising the need for increasing ambition to keep the 1.5°C warming goal within reach and to achieve net-zero emissions by mid-century.

## Timing and volume of work concerns

- AIGN has concerns about the overwhelming amount of policy development and subsequent policy implementation the Government has planned for 2023/24. This concern extends beyond the work of Treasury, although the Sustainable Finance Strategy is certainly included.
- The rapid and voluminous schedule of work creates a higher risk of policy misalignment and unintended consequences.
- AIGN members need sufficient time to give due consideration to impacts and interactions with other policies, and provide thorough feedback to the Treasury.
- AIGN recommends deferring the implementation of elements of the strategy by at least one year to allow for sensible sequencing of the workload, adequate consultation to be conducted, and necessary outstanding matters to be resolved.

## Purpose and scope of Sustainable Finance Strategy

- Policy interventions should be substantiated by a clearly defined market failure and designed to specifically address this gap. The consultation paper does not demonstrate this analysis.
- In fact, the consultation paper describes Australia's financial system as strong, stable, and with significant relevant capabilities (p 31).
- It is not clear whether the observed lack of investment in economic transformation activity is the result of failures in the financial system or the need for stronger incentives to facilitate the required investment.

## Specific recommendations in consultation paper

- AIGN supports **climate-related financial disclosures**; the development of this framework should be guided by a clearly defined objective - to ensure businesses and financial institutions provide information on their climate-related plans, financial risks, and opportunities. This objective should not be diluted with unrelated matters.
- AIGN has provided previous feedback on the climate disclosure framework, including a submission in July 2023 in response to the second consultation paper. Please refer to this submission for our detailed feedback, including the need to examine the use of NGRS data, materiality in financial risk reporting, scope 3 emissions reporting, and timing of assurance and assurance requirements. (Please see attachment included in this submission.)
- The framework should be finalised *after* publication of the relevant standards.
- AIGN conditionally supports the development of a **sustainable finance taxonomy** that seeks to improve the flow and clarity of information. AIGN notes that corporate climate ambition and transparent reporting

has been increasing without government intervention and reflects the private sector's evolving priorities. The taxonomy must be facilitative rather than prescriptive – promoting common understanding while recognising inherent differences across sectors and entities. It should help investors and other stakeholders understand how assets, activities or industries align with the transition to net-zero while enabling independent investment decisions.

- AIGN supports the Treasury's view that the transition to net-zero will require some ongoing investment in all activities that provide credible pathways to reduce emissions, and that the taxonomy should not mandate investment approaches and capital flows.
- AIGN supports, in principle, the incorporation of **net-zero transition planning requirements** into the climate-related financial disclosure framework. Since several key elements supporting credible transition planning are still being designed and yet to be implemented, AIGN suggests it would make sense to reschedule the work on net-zero transition planning until the policies which will inform them are finalised. The approach taken should not risk undermining Australia's ability to undertake the transition to net-zero efficiently and at least cost.
- A **labelling system for investment products** could be useful in standardising terminology and enhancing investor confidence and general understanding of the sustainability characteristics of investment products. The proposed implementation timeframe in 2024 cannot be commented upon until a clear proposal for consultation on this reform is released.
- AIGN welcomes the reestablishment of **Treasury modelling capability** to examine climate opportunities and risks, and requests sufficient opportunities to engage with the Treasury on this work. A useful opening exercise would be to examine the macroeconomic financial implications of the reforms proposed to comprise the Sustainable Finance Strategy.

## 2 INTRODUCTION

AIGN members represent a substantial portion of entities with obligations under current climate change policies and have a strong record of compliance, voluntary reporting, and incorporating climate and sustainability elements in their processes.

AIGN members are engaging with Treasury on the development of the climate-related financial disclosure framework, as well as a wide range of climate-related issues (including implementation of Safeguard Mechanism reforms and development of international best practice guidelines).

This submission should be considered alongside targeted input from AIGN members.

### 2.1 International context

AIGN supports the Government's commitment to the Paris Agreement and to meeting its goals, recognising the need for increasing ambition to keep the 1.5°C warming goal within reach and to achieve carbon neutrality by 2050.

AIGN members are committed to playing their part in this transition, as attested by the climate statements, goals, and, most importantly, actions of our association and corporate members. These send a clear signal that Australia's private sector supports the implementation of the Paris Agreement.

It is proper for the Government to establish a suitable policy architecture to support all sectors to transition at the least cost, in line with Paris goals.

## 3 DEVELOPMENT TIMEFRAME

To meet its 2030 and 2050 targets, the Government is moving rapidly on climate change policy development and reform of existing policies to align with the Climate Change Act 2022.

AIGN acknowledges the action being taken to put in place, or build on existing, policy frameworks to meet these commitments in what is a 'critical decade,' and the effect of economic transformation.

However, AIGN is increasingly concerned that the quality of elements of the strategy will be compromised if the timeframe is rushed.

This concern extends beyond the strategy, as there are ambitious deadlines across a wide range of policy development and implementation processes.

### 3.1 Volume of policy review

Proposals in the paper contain a significant amount of policy development and implementation in 2024, including:

- Commencing reporting periods for Group 1 entities under the climate-related financial disclosure framework (1 July 2024) – this is a substantive change that requires careful consideration and implementation to effectively achieve its objectives for Government, and users.
- Consultation on broader priorities and options for strengthening transition planning and disclosure of transition-related targets and claims (which will occur while entities will need to devote time to implementation of the climate disclosure framework in 2024).
- Consultation on the development of the sustainable finance taxonomy (March – October 2024) Members of the committees under the Taxonomy Technical Expert Group (TTEG) and taxonomy advisory groups (which AIGN understands may already be established) will have additional commitments.
- Consultation on work to create a labelling regime for investment products labelled as 'sustainable' or similar (2024).
- Feedback on sustainability data challenges and priorities for financial sector participants (recommendations to be published by end 2024).

In addition to these and other priorities enumerated in the consultation paper, AIGN members can provide constructive input, to other important consultation processes. These include:

- The Government's Carbon Leakage Review led by Professor Frank Jotzo
- Implementation of Safeguard Mechanism reforms, requiring extensive engagement with the Clean Energy Regulator (CER)
- Consultation on the development of international best practice benchmarks for the Safeguard Mechanism
- Consultation (led by the Australian Accounting Standards Board) on the development of the relevant standards for the climate disclosure framework
- Consultation and/or applications to the Powering the Regions Fund
- Consultation on the Climate Change Authority's wide-ranging work program, including legislated reviews and advice
- Some members are involved in other, related processes specific to their sector, such as the development of the Guarantee of Origin scheme and the Future Gas Strategy

This work will progress throughout 2024. In the new year, other priority work processes outside the Sustainable Finance Strategy are also anticipated to pick up pace, including:

- The Net-Zero Plan
- The six sectoral decarbonisation plans designed to inform the Net-Zero Plan – each of which represents a significant amount of work.

Furthermore, AIGN corporate members are developing and implementing decarbonisation projects across their operations.

### 3.2 Constructive industry engagement

The Government's workload in the climate policy space is demonstrably and necessarily vast. However, this inevitably puts our members' resources under considerable strain as these same resources are

intended to focus on the remit of climate change policy changes and review and their implementation, including the important work of emissions reductions.

Generally, climate-related areas of work are the responsibility of a very small team, or sometimes of only one person with the necessary knowledge and expertise in each company.

The sheer volume of engagement is giving rise to concerns that it will simply not be possible to participate effectively in each process, despite their importance.

### 3.3 Deferral and staged ongoing engagement required

The climate disclosure framework is an excellent illustration of these concerns. It requires much more work before it is operational, including the development and publication of the necessary standard by the AASB.

This standard needs to be published before reporting entities can engage effectively on the rest of the framework. Then, reporting entities and other stakeholders will require time to assess the proposed framework and provide feedback on how it is expected to function on the ground.

This time is simply not available under the current proposal.

After the release of the second consultation paper on the framework, the Treasury has not been engaging with stakeholders, claiming there is nothing at present to discuss. In a sense this is understandable; yet a huge amount of work remains to be done and implementation is only seven months away. AIGN fears the Treasury will simply proceed to the exposure draft stage without any further opportunities for stakeholders to impact the development of the framework. If this occurs, it is highly unlikely that significant changes to the framework will be entertained, regardless of any legitimate concerns stakeholders may have with it.

### 3.4 Avoid the risk of compromised policy outcomes

Implementing policy without sufficient time to adequately canvass and respond to often complex and interrelated issues can lead to poorer policy outcomes and increased cost and confusion for business.

These consequences can include creating confusion where data is misaligned with other publicly available reports, overly complex information that cannot be readily interpreted or compared by end users and directing resources away from decarbonisation projects and planning.

This issue goes beyond the development of the Sustainable Finance Strategy, though its relevance is undeniable.

A whole-of-government approach is needed to evaluate the feasibility of the volume and timeframe of current climate-related policy development and implementation plans.

It is crucial to take the time to develop policies that will operate as intended, that stakeholders are given sufficient opportunity to engage in their development, and that the tools and infrastructure for orderly implementation are available.

### 3.5 Administrative arrangements

As a result of the crowded climate policy agenda, an additional complication is the consequent proliferation of Departmental stakeholders, and the confusion this creates in terms of the focus of responsibility for climate change policy.

Relevant Government agencies include not only the Department of Climate Change, Energy, the Environment and Water (DCCEEW), but each department involved in the sectoral plans (e.g., agriculture, industry, transport).

Additionally, the Treasury is leading with revived climate modelling capability, as well as the Sustainable Finance Strategy including the climate disclosure framework, and the Prime Minister's department is involved via the Net-Zero Economy Agency. The Climate Change Authority has several

responsibilities, as will the Net Zero Authority, once established.

It is unclear which of these agencies has the responsibility for drawing all this work together, ensuring consistency, orderly workflows, and sufficient capacity to develop good policy.

A streamlined administrative approach to policy development, with a central point of responsibility will make it easier for industry to engage.

## 4 ADDITIONAL FEEDBACK ON CONSULTATION PAPER

All feedback in this section is subordinate to the timing concerns expressed in Section 3. AIGN notes that many of the issues outlined below are related to these concerns, as time is needed to address them and enable the development of good policy.

### 4.1 Purpose of Sustainable Finance Strategy

AIGN has long advocated for considered and sensible policy interventions; the specific market failure being solved must be clearly defined, and the policy must be designed to specifically address this gap.

The consultation paper notes that Australia's financial system is 'strong and stable,' with 'significant sustainability-related capabilities' (p 31). What is missing from the paper is the Government's case for believing the current financial system is failing to allocate or incentivise sufficient levels of investment in economic transformation activity.

Given this oversight, it is precipitous to be planning complex and intersecting policy interventions. We should first identify the distinct failures to be addressed, and if significant interventions in the financial system are the right response. Analysis may show, for example, that the financial system is essentially sound, or requires only slight adjustments, and that the solution may be as simple as ensuring sufficient incentives and policy settings to facilitate and channel the volume of investment the Government seeks to attract.

## 4.2 Scope of Sustainable Finance Strategy

In recent years, climate change has begun to be integrated across a wide range of other portfolios, in recognition of its far-reaching effects. The Sustainable Finance strategy can usefully summarise the objectives and reforms actuated by climate change in the financial system.

AIGN supports a well-reasoned strategy as a structure for rolling out orderly and coordinated reforms to help align investment and economic growth with the transition to net-zero by 2050.

We note that the coordination described in section 4.1 is needed to underpin such a strategy.

### 4.2.1 Objectives, structure, and principles

AIGN supports the focus of the strategy on transparency, governance, and credibility in financial markets.

To complement Australia's wider climate, economic, and environmental policy, AIGN supports enhancing efforts to coordinate policy development processes across government. This will assist the Government in better understanding industry's concerns around the timeframe for the development of so many climate-related policy instruments.

AIGN is in general agreement with the key principles set out on page 7 of the consultation paper.

AIGN members strongly support the Government's intention to minimise compliance burdens and costs while pursuing alignment and comparability with global markets to support capital flow.

Investment in transition activities will be crucial to ensure the Australian economy can successfully reach low and zero emissions goals.

We look forward to engaging in a genuinely collaborative and consultative approach to support the net-zero transition.

## 4.3 Climate-related financial disclosure framework

AIGN supports climate-related financial disclosure. This will be a first for Australia; the development of this framework should be guided by a clearly defined objective.

AIGN agrees the framework should provide financial market participants with comprehensive and comparable information on financially material sustainability-related opportunities and risks – noting that comparability does not equal homogeneity. Reporting guidelines must recognise that inherent differences between entities will be reflected in the way information is reported.

Clarification is also sought on the scope of the word 'sustainability' (particularly as the information required to support the definition will change over time), as well as the process by which new international developments would be reviewed and phased in to the Australian framework. The process should allow for consistency across year-on-year comparisons and support appropriate resourcing by companies to maintain the quality of reporting.

Given the complex nature of this work, the in-progress status of the dependant standards, the need to develop assurance guidelines, and the pressure on corporate resources in this space, AIGN has concerns that the short timeframe allocated to developing the reporting framework risks compromising its quality.

AIGN notes that Treasury intends to work with regulators, industry, and other stakeholders to ensure readiness among covered entities to implement the new requirements (p 11). This will call for a time commitment with the regulatory body, while Treasury will be simultaneously moving on to consult on other areas of the strategy (transition planning, sustainable finance taxonomy). Within most corporations, the same small team will be responsible for all this work, in addition to many other consultation and implementation processes (see section 3.1).

AIGN has provided feedback on the climate disclosure framework in previous submissions, including a submission in July 2023 in response to



the second consultation paper. Please refer to this (included as a separate attachment to this submission) for detailed feedback on other priorities, including:

- Supporting the objective of the framework – to ensure businesses and financial institutions provide Australians and investors with greater transparency and accountability on their climate-related plans, financial risks, and opportunities – which should not be diluted with unrelated objectives such as providing information on emissions and offsets, driving investor demand and standardising information.
- Holding a Treasury-convened workshop/workshop series to examine the use of NGERS data.
- Finalising the framework after the publication of the relevant standard by the Australian Accounting Standards Board (AASB).
- Further consultation on the assessment of materiality in financial risk reporting.
- Further consultation on the details of scope 3 emissions reporting.
- Discussions around assurance and third-party capability, including government-provided training on disclosures for both reporting entities and assurance providers (particularly as/if requirements change over time).
- Clarification of expectations for entities with a parent company located outside Australia.

## 4.4 Sustainable finance taxonomy

As noted in the consultation paper, the private sector has increased its focus on sustainability considerations in recent years:

“Corporate climate and sustainability policies and targets are more ambitious; the financial opportunities and risks associated with sustainability trends are more material; and appetite for climate and sustainability-aligned investments and business practices is significant and growing.” (p 9)

This has happened without government intervention and reflects the private sector’s evolving priorities.

AIGN supports the development of clear policy, including some mandatory elements, to promote transparency and alignment with international markets.

As the consultation paper points out, providing information needed by market participants to make informed investment choices has been challenging – and with good reason. This is not simply due to a multiplicity of metrics, data, and standards used to substantiate sustainability impacts; although, this is certainly a factor. In some cases, it is a reflection of a more fundamental diversity in the nature of business and industries. Metrics and standards that are suitable in one sector may make no sense in another.

AIGN conditionally supports the development of a sustainable finance taxonomy that seeks to improve the flow and clarity of information. The taxonomy should promote common understanding and clear definitions, while recognising inherent differences across sectors and entities, to help investors and other stakeholders understand how particular assets, activities, or industries align with the transition towards net-zero and other sustainability goals.

AIGN supports the Treasury’s view that the transition to net-zero will require some ongoing investment in activities that provide credible pathways to reduce emissions or critical inputs that can drive progress to net-zero. The taxonomy should not mandate investment approaches and capital flows; in short, ‘picking winners’ should be avoided.

Defining which activities are consistent with the transition involves complex scientific assessments and difficult judgements about the policy, sectoral, and technological mix that can drive progress to net-zero.

The transitional aspects of the taxonomy will need to be aligned with the broader Australian regulatory context and industry input. The Government should favour a technology-neutral approach focused on carbon intensity, to maximise the options on the table to drive progress towards net-zero.

Technical screening criteria that set emissions level thresholds should be determined on an

internationally consistent basis, with accepted methodologies that take into account the full life cycle of emissions.

This international levelling would also support other policies currently being considered by the Government (e.g., carbon leakage policies), as well as supporting the role Australia plays in transitioning the energy systems of Asia-Pacific countries.

AIGN notes the Australian Sustainable Finance Institute has released a detailed stakeholder engagement plan for the development of the taxonomy, and that the consultation window of March – October 2024 falls within the same period as many other important policy development and implementation processes.

## 4.5 Net-zero transition planning

Regarding transition planning, AIGN notes that the paper refers to:

“...setting firm-level emissions targets and developing approaches to manage the physical transition risks associated with climate change, forming part of effective corporate decision-making and management.” (p18).

This is to be reported within the transition plans as part of the disclosure of climate-related financial opportunities and risks. While multiple firms are voluntarily setting emissions targets, AIGN cautions against developing a rigid framework that mandates, rather than encourages or enables, such activity.

There is a role for the Government to develop and legislate national emissions reduction targets, leading to policies that require emissions reductions from covered entities and encourage abatement activity to meet its national targets and meeting its Paris Agreement goals.

AIGN supports, in principle, the priority to support net-zero transition planning, noting corporate transition plan disclosure requirements will be incorporated into the climate-related financial disclosure framework.

Australia needs a single, harmonised, internationally aligned set of policies, baselines, and targets to streamline company compliance and reporting

requirements, minimise compliance costs, and ultimately promote consistent and accurate reporting to provide better information for investors.

Enhanced target-setting and transition planning would be supported through clarity around reporting boundaries, and a better understanding of the use of forward-looking data and its associated uncertainty and variability.

The consultation paper points out that key policy frameworks to support credible transition planning include the climate disclosure framework, the sectoral emissions reduction pathways, and the sustainable finance taxonomy. These will all be at different stages of development and implementation in 2024.

AIGN suggests it would make sense to reschedule the work on transition pathways until the policies that will inform them are developed.

AIGN also notes that consultation will be required on what is meant by enhancing firm-level transition planning ‘beyond ISSB-aligned disclosure requirements’ before any recommendations and further steps on this work are considered.

## 4.6 Labelling system for sustainable investment products

A labelling system for investment products should align with international developments in this area.

Standardising the use of terminology in investment product marketing could enhance investor confidence and a general understanding of the sustainability characteristics of different investment products.

According to the consultation paper, implementation of these reforms is to commence in 2024; in addition to our concerns expressed around time constraints in section 3, AIGN would welcome a clear proposal for consultation of this reform, as this is not included in the consultation paper.

## 4.7 Treasury modelling

AIGN welcomes the re-establishment of Treasury’s capability to model climate opportunities and risks.

Past Treasury modelling exercises were useful and informative processes that built a deeper understanding across Government and other stakeholders of the economic impacts of climate change policies.

A more consistent and holistic assessment of climate risk (as well as adaptation priorities) will improve our work throughout the climate space.

AIGN looks forward to opportunities to engage with Treasury as its modelling capability is established and work commences.

A useful opening exercise would be to examine the macroeconomic financial implications of the reforms proposed in the Sustainable Finance Strategy.

## 5 CONCLUSION

Thank you for the opportunity to provide input to Treasury on the Sustainable Finance Strategy consultation paper.

AIGN's position on climate change and energy policy is underpinned by our principles, which have been the basis of AIGN's contributions to the climate change policy discussion for many years (available on our website: [www.aign.net.au](http://www.aign.net.au)).

AIGN welcomes future opportunities to engage with the Government. Please direct any queries on this submission to Susie Smith (Chief Executive, AIGN).