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Consultation on Sustainable Finance Strategy

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators and the wider community. KPMG is pleased to provide a response to Treasury's Sustainable Finance Strategy Consultation Paper (the **Strategy**).

KPMG is generally supportive of the principles, policies and tools to support sustainable finance in Australia as outlined in the Strategy. We support an early focus on climate given the critical need for capital flows to support the transition to net zero and the maturity of standards. We consider, however, that there is an opportunity to recognise other emerging sustainability objectives from the outset in sustainable finance concepts, at first with 'minimum safeguards', with these being elaborated over time.

As Australia mobilises towards a greener future, financial institutions are facing increased pressure to support and accelerate the system-wide transition to a net zero economy. Australia will need to attract and invest close to $1.5 trillion by 2030 and $7 trillion by 2050[1] across high-emitting sectors such as energy, industrials, mobility, manufacturing and agriculture.

KPMG recognises the pressing objective of mobilising the required private investment to enable Australian organisations to access the capital needed to finance green and transition projects and take advantage of new opportunities that arise.

Sustainable finance taxonomy

KPMG supports Australia's financial system playing a greater role in the decarbonisation opportunity through continued investment in green and transition financing capabilities.

KPMG has previously highlighted that Australia is behind on its decarbonisation journey and called for rapid change to limit the impact of climate change[2]. Compared to global banking peers, Australian banks continue to lag in terms of acting on these financing opportunities. Their response to climate change is currently anchored in risk

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[1] Net Zero Australia (2023), Final Modelling Results – Charting Pathways to Net Zero
[2] Sustainable banking – climate transition opportunities - KPMG Australia

management, missing the commercial opportunity of transition. KPMG considers that should local financiers fail to act quickly on the emerging opportunities, they risk losing market share to global and other fast-moving competitors such as foreign ADIs and specialist finance providers.

Interestingly, Australia's low level of sustainable finance is in stark contrast with its relatively high need for change. High-emitting sectors are looking for specialist financiers or global banks that are better able to meet their transition financing needs and do so at a scale that is economically viable. The Strategy will provide local financers with the regulatory certainty and understanding to compete in both green and transition financing markets.

The Strategy appropriately recognises that the adoption of climate-related financial disclosures and standards provides an opportunity for the development of climate-focused sustainable finance in the immediate term. We welcome the commitment to incorporate nature-related and other sustainability objectives over time. To guard against unintended consequences and underpin the development of sustainable finance, KPMG encourages the Government to consider early inclusion of some additional consideration of sustainability objectives beyond climate.

Australia could for example look to the EU Taxonomy Regulation's 'Minimum Safeguards'[3], which provide performance criteria across human rights, bribery and corruption, taxation and fair competition when establishing our sustainable finance taxonomy. These Minimum Safeguards are drawn from internationally recognised, credible guidance and institutions[4] that is becoming increasingly mandated under domestic and foreign legislation – for example, Australia's own *Modern Slavery Act 2018* and the EU's *Corporate Sustainability Due Diligence Directive*. These safeguards would support meeting Treasury's stated ambition of ensuring that activities aligned with certain sustainability objectives, such as climate, do not undermine other sustainability goals.

KPMG ultimately welcomes the development of a sustainable finance taxonomy with an early focus on climate-related objectives but suggests that Australia also consider early inclusion of minimum safeguards for other sustainability objectives as part of the development of our sustainable finance taxonomy.

Greenwashing

Regulators have a clear mandate to build trust in financial markets. But more than this, trust is imperative to sustainability and the environmental, social and governance (ESG) agenda. Engaging in greenwashing can erode trust and make it difficult or impossible for consumers to take an organisation's ESG messages at face value. KPMG has previously noted that a lack of common definitions in relation to terms such

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[3] Final Report on Minimum Safeguards (europa.eu)
[4] Office of the United Nations High Commissioner for Human Rights, Guiding Principles on Business and Human Rights; OECD, Guidelines for Multinationals; ILO, Declaration on Fundamental Principles and Rights at Work; OHCRC, International Bill of Human Rights

as 'sustainability', 'green' and 'ESG' and a lack of reliable data, coupled with increased demand for sustainable products, has heightened the risk of greenwashing.[5] The introduction of a labelling regime for investment products marketed as 'sustainable' or similar is a welcomed move that will drive market confidence.

Climate-related disclosures

KPMG has a long history of advocating for the adoption of climate-related financial disclosures and standards and considers that globally consistent reporting standards are imperative. KPMG supports the phased adoption of mandatory climate disclosures as it will balance capacity building while ensuring that a sufficient level of emissions in Australia is covered. KPMG has previously said that large companies and financial institutions, among others, should be the first that are subject to the disclosure regime. We are pleased to see this principle reflected in the Strategy and support the early focus on detailed climate-related information in the sustainable finance framework.

For further information on KPMG's responses to policy development in this area, please see:

- KPMG's response to Treasury's consultation paper Climate-related financial disclosure
- KPMG's response to Treasury's consultation paper Climate-related financial disclosure: Second consultation
- KPMG's response to Australian Prudential Regulation Authority (APRA) consultation process in relation to the draft Prudential Practice Guide (PPG) CPG 229 Climate Change Financial Risks (CPG 229)

Nature-related disclosures

KPMG supports directional policy reforms around embedding the role of nature and biodiversity in the Strategy. KPMG considers that minimum safeguards around nature could be incorporated into sustainable finance definitions. This can be achieved by establishing nature accountability frameworks, principles and regulatory guidance for financial services, focused specifically on deforestation, land conversion and human rights in taxonomies from the outset.[6]

KPMG looks forward to continuing to contribute to the development of a Sustainable Finance Strategy. Should you wish to discuss this letter further, please do not hesitate to reach out.

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[5] See, for example, The crackdown on greenwashing (kpmg.com)
[6] See, for example, the Finance Sector Roadmap for eliminating commodity-driven deforestation, which defines the best practices for financial institutions linked to forest-risk commodity supply chains.

Yours sincerely

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