Insurance Council of Australia

November 2023

To whom it may concern,

Sustainable Finance Strategy Consultation Paper - November 2023

The Insurance Council of Australia (**Insurance Council**) thanks the Federal Government for the opportunity to provide input into the Sustainable Finance Strategy Consultation Paper. We appreciate the collaborative approach the Federal Government has taken to welcome submissions from interested stakeholders.

The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy, the general insurance industry employs approximately 60,000 people, generates gross written premium of $64.5 billion per annum and on average pays out $147 million in claims each working day ($36.5 billion paid out per year).[1]

The Insurance Council and its members are supportive of mandatory climate and sustainability disclosures, aligned with the International Sustainability Standards Board (ISSB), and are supportive of an Australian sustainable taxonomy, aligned with the sustainable taxonomies of our key trading partners to enable cross-border flows of sustainable finance. We understand that many of the specifics of implementation will be subject to further consultations, including by the Australian Accounting Standards Board (AASB) and the Australian Sustainable Finance Institute's (ASFI) forthcoming sustainable taxonomy consultation. We look forward to making further comments under those processes.

Our submission makes the following key points:

- **International alignment**: The Insurance Council welcomes the alignment and harmonisation of existing and future sustainable finance policies across jurisdictions globally. Clear and comparable disclosure of sustainability and climate related information is one of the foundational building blocks of a well-functioning global financial system. It is essential that Australia's sustainable finance framework also aligns.
- **Data and methodology**: The Insurance Council recommends Federal Government, regulators and industry work together to address the considerable methodology and data gaps which prevent the accurate disclosure of sustainability and climate related information, including Scope 3 and nature-related risks.
- **Inclusion of adaptation:** The Insurance Council and its members, along with the Resilient Building Council and IGCC propose the Federal Government supports the inclusion of adaptation in the Australian sustainable taxonomy for the property sector specifically; in Net-Zero Transition and Sovereign Green Bonds definitions; and in the mandates of the CEFC and ARENA.
- **Modified Liability**: The Insurance Council and its members welcome the modified approach to liability under the proposed mandatory climate disclosure standards. As detailed in Attachment A, more detail regarding how the regulator only component will work in practice is required for reporting entities.

Our submission draws on the consolidated feedback from Insurance Council members. These are set out below, with specific responses to the consultation questions raised by the Federal Government included within **Attachment A**.

[1] APRA Statistics February 2023

Insurance Council of Australia

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact Ange Nichols, Advisor Climate Action, ange.nichols@insurancecouncil.com.au

Yours sincerely

Andrew Hall

Executive Director and CEO

ATTACHMENT A: RESPONSE TO SUSTAINABLE FINANCE STRATEGY CONSULTATION PAPER

	Question	Insurance Council response
Pillar 1: Improve transparency on climate and sustainability		
Priority 1: Establish a framework for sustainability-related financial disclosures	**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?**	There are currently considerable methodology and data gaps which prevent the accurate measurement and reporting of some Scope 3 emissions across underwriting portfolios, supply chains and some investment asset classes (i.e., sovereign bonds, exchange traded funds, derivatives etc.). While some of these gaps are set to be addressed over the next few years through the Science-Based Target Initiative (SBTI), the Partnership for Carbon Accounting Financials (PCAF) and Net Zero Asset Owner Alliance (NZAOA), there is currently no global process to establish a measurement methodology for emissions in supply chains, including insurers' claims supply chains. In the absence of an agreed international methodology, the Insurance Council and its members would welcome guidance from Government and regulators to support insurers to report and disclose supply chain emissions clearly and consistently. In other jurisdictions this approach has not been taken and as a result companies are utilising different approaches to measure and report emissions - this has hampered the comparability of disclosures and led to a fragmented rather than standardised approach. In addition, to accurately disclose scope 3 emissions, insurers are reliant on emissions data from third parties. The Insurance Council and its members would welcome a comprehensive program to uplift data capability and availability across the economy given the extent of interdependencies for Scope 3 reporting. This could include: • Developing common Australia specific scenarios for Company Climate Scenario Analysis (CCSA). • Fostering the development and adoption of digital technologies that enable efficient data collection, processing, and reporting of emissions-related information • Developing standardised data formats to facilitate data exchange between organizations and regulators.

		• Developing a platform for entities to share supply chain emissions data to streamline the collection of emissions data from supply chain providers. Climate scenarios under the proposed climate disclosure framework should align with existing climate scenarios that entities are already required to report against. For example, many insurers are already disclosing under the Task Force on Climate-Related Financial Disclosures (TCFD), Australian-based insurers with an EU parent are required to report under the Corporate Sustainability Reporting Directive (CSRD) CSRD, and several insurers will be assessing climate risk against climate scenarios under APRA's Insurance Climate Vulnerability Assessment. To avoid complexity and minimise the administrative burden on entities, it's important to ensure alignment between existing climate scenarios and those under the proposed climate disclosure framework. Additional consideration of how to build capacity across industry is recommended, as existing labour and skillset shortages will impact the ability of Australian entities to make climate disclosures. The phased implementation approach proposed by the Treasury will be useful in allowing smaller reporting entities to develop skills and capabilities ahead of mandatory implementation dates, however additional support for companies to develop detailed data and resources to identify and measure their own emissions will be required.
	How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?	Insurers have an important role in identifying and managing nature-related risks and opportunities, with their underwriting, investments, and claims' supply chain all linked with nature. Many of Australia's general insurers are underwriting and investing in sectors that either impact or are dependent upon nature, from underwriting nature restoration initiatives, to driving capital towards investments that generate nature-positive and resilient outcomes. The Insurance Council and its members have engaged with the TNFD Taskforce on the design of the framework and are preparing for the role of the insurance industry in enabling a nature-positive future. However, there are currently considerable methodology and data gaps which prevent the accurate measurement and reporting of nature-related financial disclosures. The Insurance Council and its members would welcome Government and regulators to work in collaboration with industry to: • Develop sector-specific guidance for nature-related financial disclosures aligned to Australia's biodiversity challenges. • Strengthen data frameworks and resources for assessing nature-related risks and measuring natural capital.

Insurance Council of Australia

		• Develop a centralised repository of learning, education, and resources to support stakeholders, including best practice guidance and reporting, nationally consistent definitions and metrics and potentially agreed status of regional natural capital and ecosystems flows, and main risks identified in those regions. • Climate and nature outcomes are deeply interconnected, both in terms of risk and opportunities. Additional work could be undertaken to understand how and where these dependencies exist. • Develop regulatory guidance to encourage collaboration between industry to share best practices and promote data sharing to improve the quality and reliability of nature-related data. • Support work towards a consistent global baseline for nature reporting through the International Sustainability Standards Board (ISSB).
Priority 2: Develop a Sustainable Finance Taxonomy	**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?**	The Insurance Council and its members welcome government funding and support for the development of an Australian sustainable finance taxonomy. A taxonomy is needed to accelerate and scale up the flow of capital to capital into investments that support Australia's transition to net zero. Many financial markets are moving towards establishing taxonomies for sustainable finance, or have already done so, including markets in the EU, Canada, China and New Zealand. Key insights from international experience include: • A key priority for an Australian sustainable taxonomy should be to align and harmonise with key international sustainable finance taxonomies, while also reflecting the unique characteristics of the Australian market. It will be important to maximise consistency between the Australian taxonomy and that of our key trading partners to enable cross-border flows of sustainable finance for companies and investors operating in multiple jurisdictions. • Australia's taxonomy should be reviewed regularly as the sustainable finance taxonomies of our key trading partners mature, to support ongoing consistency and interoperability across different markets and jurisdictions. • The EU sustainable finance taxonomy was developed based on EU's regulatory frameworks. Likewise, an Australian sustainable taxonomy should align with Australian legal and regulatory frameworks.

	What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?	The Insurance Council and its members, along with the Resilient Building Council and IGCC has previously recommend property sector mitigation and adaptation as a key priority for expanding taxonomy coverage. Property sector mitigation and adaptation is proposed as a key priority due to the readiness of the property sector to match capital with existing solutions and the interconnection between emissions reduction and disaster resilience for buildings and construction. The benefits of this approach include: • Expands eligible economic activities for financial institutions to include adaptation. • Enables adaptation to be included in Green Bonds/Residential Backed Mortgage Securities. • The larger the pool of eligible investments, the larger the funding savings to financial institutions, which have been demonstrated to lead to household incentives such as lower interest green mortgages and loans.
	What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?	Embedding a sustainability taxonomy in Australia's financial and regulatory architecture will be important to integrate taxonomy criteria into financial decision-making. The Insurance Council and its members recommend the long-term governance arrangements to support this: • The EU sustainable finance taxonomy was developed based on EU's regulatory frameworks. Likewise, an Australian sustainable taxonomy should align with Australian legal and regulatory frameworks. • Invest in capacity building and training programs for financial institutions, regulators, and market participants to enhance their understanding of the taxonomy and how to integrate it into their operations. • Develop data infrastructure and reporting standards that enable consistent collection, disclosure, and verification of sustainability-related data by companies. Regulatory bodies should specify reporting requirements. • Integrate the sustainability taxonomy into risk assessment and stress testing processes conducted by financial regulators to assess the impact of environmental and social risks on financial stability.

Insurance Council of Australia

		• Establish a mechanism for regular reviews and updates of the taxonomy to ensure that it remains relevant and aligned with emerging sustainability challenges and international standards. • Establish an independent body or organization responsible for verifying compliance with the sustainability taxonomy and conducting audits to ensure transparency and accountability. • Establish a framework for tracking and reporting on the progress of taxonomy integration, with clear accountability mechanisms for government agencies and regulators.
Priority 3: Support credible net zero transition planning	**What are key gaps in Australian capability and practice, including relative to 'gold standard' approaches to transition planning developed through the TPT and other frameworks?**	The Insurance Council and its members recommend consideration be given to inter-jurisdictional transition planning requirements, to ensure that entities are not subject to multiple different transition planning requirements of the same or slightly different information. For example, given the proposed Australian climate disclosure framework is solely emissions focused whereas New Zealand also covers adaptation/transition planning on both a low carbon and climate resilient future, entities reporting in both Australia and New Zealand will be required to produce multiple transition plans in FY25. This could also lead to inconsistency and increased complexity. Consideration should also be given to how to develop the capabilities, skillsets, tools, and capacities that will be required for transition planning that is appropriate for organisations of various sizes and compositions.
	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?	The Insurance Council and its members welcome the modified approach to liability for transition planning contained in the proposed requirements for mandatory climate disclosure. However, there are many aspects of transition planning that require estimation of impacts of risks and opportunities which are inherently uncertain and may be deemed misleading or deceptive under the existing regulatory framework, specifically the misleading and deceptive conduct regime, for example s.769C of the Australian Corporations Act, s12BB of the ASIC Act 2001 and s.4 of the Australian Consumer Law. Unlike certain other jurisdictions, reporting entities in Australia (as well as directors and officers) are exposed to the liability relating to forward-looking statements, such as transition planning, because there is no safe harbour exemption which allows for the exclusion of liability by identifying a statement as a forward-looking statement and including a proximate cautionary statement. While regulator-only actions for a fixed period will assist in mitigating

		this challenge, transparent disclosure could be encouraged on a best endeavour basis during this time. Guidance on what constitutes 'best endeavours' in this context would be useful. Additional clarity is required for reporting entities, including: • More detail regarding how the regulator only component will work in practice. For example, further clarity on whether the three year stay on private litigants provides protection from all misleading or deceptive conduct or only "elements of mandatory disclosure including scope 3 reporting, scenario analysis and transition planning" • Whether the transitional three-year period refers to three full years of reporting as opposed to three fiscal years. It may be effective to clarify that the three-year period commences from the first year of an entity disclosing. The ICA and its members recommend that three reporting years would be more appropriate, particularly considering the data, methodology, capability and assurance gaps in the market. • What will occur at the conclusion of the three-year period. • Whether it would be more effective to align the regulator-only enforcement period with the development of standardised scenario analysis and methodologies to give entities a framework for including uncertainties and data gaps before the full penalty period.
	Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?	See Priority 1 above.
Priority 4: Develop a labelling system for investment products marketed as sustainable	**What should be the key considerations for the design of a sustainable investment product labelling regime?**	The Insurance Council and its members welcome the Government's intention to standardise the use of sustainability terminology in investment product marketing to provide a clearer prescriptive framework for sustainable investment product development. Clearer guidelines for asset managers on requirements to label investment products as sustainable or ESG-focused would help facilitate product development and provide consumers with access to consistent labelling of sustainable financial services products. This would help provide clarity to consumers on how sustainability is measured and managed within products. Additional clarity is required on whether sustainable investment product labelling is applicable for funds only or extends to labelled sustainable financial instruments such as

		bonds, deposits and loans. The labelling of certain financial instruments such as green bonds is important as they are key investment products for sustainable funds. A key consideration should be linking the development of labelling standards to the implementation of the proposed Australian sustainable taxonomy. In addition, where possible, international labelling approaches should be leveraged rather than duplicated – noting the myriad of labelling schemes already published or under consultation in jurisdictions as diverse as the US, UK, EU, ASEAN, and so on. As capital is global and mobile, harmonisation will aid liquidity and mobilisation.
	How can an Australian model build off existing domestic approaches and reflect key developments in other markets?	The development of labelling standards should link to the implementation of the proposed Australian sustainable taxonomy.
Pillar 2: Financial system capabilities		
Priority 5: Enhancing market supervision and enforcement	**Are Australia's existing corporations and financial services laws sufficiently flexible to address greenwashing? What are the priorities for addressing greenwashing?**	The Insurance Council and its members welcomes ASIC's expanded supervisory and enforcement focus on greenwashing (including greenhushing) and wider sustainability-related expertise and capabilities. However, there will be many aspects of the proposed mandatory climate disclosure standards that require estimation of impacts of risks and opportunities which are inherently uncertain and may be deemed misleading or deceptive under the existing regulatory framework, specifically the misleading and deceptive conduct regime, for example s.769C of the Australian Corporations Act, s12BB of the ASIC Act 2001 and s.4 of the Australian Consumer Law. As outlined above, unlike certain other jurisdictions, reporting entities in Australia (as well as directors and officers) are exposed to the liability relating to forward-looking statements, such as transition planning, because there is no safe harbour exemption which allows for the exclusion of liability by identifying a statement as a forward-looking statement and including a proximate cautionary statement. While regulator-only actions for a fixed period will assist in mitigating this challenge, transparent disclosure could be encouraged on a best endeavour basis during this time. Guidance on what constitutes 'best endeavours' in this context would be useful. Additional clarity is required for reporting entities, including: • More detail regarding how the regulator only component will work in practice. For example, further clarity on whether the three year stay on private litigants provides

Insurance Council of Australia

		protection from all misleading or deceptive conduct or only "elements of mandatory disclosure including scope 3 reporting, scenario analysis and transition planning" • Whether the transitional three-year period refers to three full years of reporting as opposed to three fiscal years. It may be effective to clarify that the three-year period commences from the first year of an entity disclosing. The ICA and its members recommend that three reporting years would be more appropriate, particularly considering the data, methodology, capability and assurance gaps in the market. • What will occur at the conclusion of the three-year period. • Whether it would be more effective to align the regulator-only enforcement period with the development of standardised scenario analysis and methodologies to give entities a framework for including uncertainties and data gaps before the full penalty period. Australian companies could be better equipped to avoid market misconduct as it relates to sustainable finance, including greenwashing, if they could engage in industry collaborations and international alliances to share best practices, exchange knowledge, and collaborate on sustainability-related expertise and capabilities. However, these kinds of collaborative practices are increasingly at risk due to a lack of guidance on how businesses and industry associations can collaborate and cooperate in support of climate action in line with Australia's anti-competitive and cartel conduct laws. The ACCC should promptly consider providing guidance for businesses and relevant stakeholders to manage the application of competition law to support and facilitate the building and sharing of best practice on emissions reduction across industry in order to achieve climate and sustainability goals.
	Is there a case for regulating ESG ratings as financial services?	ESG ratings and products play an important role in the sustainable financial market by providing a valuable service as a starting point for data aggregation, benchmarking performance within sectors, assisting investors with their research and decision-making and supporting issuers in understanding and improving their own performance. Regulating ESG ratings as financial services could help reduce the potential for inconsistencies and greenwashing in ESG reporting by providing for standardised and transparent ratings. However, ESG criteria are continuously evolving and regulating a rapidly changing field may quickly lead to outdated ratings. In addition, consideration would need be given to cross-border alignment between Australia's regulated ESG ratings and that of our key trading partners to enable cross-border flows of sustainable finance for companies and investors operating in multiple jurisdictions.

Priority 6: Identifying and responding to potential systemic financial risks	**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?**	The Insurance Council and its members are currently working collaboratively with APRA to design its Climate Vulnerability Assessment of the insurance sector, which will measure the potential physical and transition climate risks of climate change faced by the major insurers and highlight the value of collaboration between financial institutions and regulators to identify and manage these risks. Integrated assessment of climate and broader nature-related risks Improving our understanding of systemic sustainability related risks needs to include an integrated assessment of climate and broader nature-related risks. From a practical perspective, climate-related financial risks are more established and will in many cases be the starting point for action on broader nature-related financial risks. Broader nature-related risks cannot be analysed or addressed in isolation. As outlined above (see Priority 2), there are currently considerable methodology and data gaps which prevent the accurate measurement and reporting of nature-related financial disclosures. The Insurance Council and its members would welcome Government and regulators to work in collaboration with industry to: • Develop sector-specific guidance for nature-related financial disclosures aligned to Australia's biodiversity challenges. • Strengthen data frameworks and resources for assessing nature-related risks and measuring natural capital. • Develop regulatory guidance to encourage collaboration between industry to share best practices and promote data sharing to improve the quality and reliability of nature-related data. • Support work towards a consistent global baseline for nature reporting through the International Sustainability Standards Board (ISSB). Economic effects of physical climate change impacts Understanding systemic sustainability related risks requires an assessment of the economic effects of physical climate change impacts. Australia is experiencing more severe and frequent extreme weather events that are projected to increasingly exceed historical norms

Insurance Council of Australia

		and occur concurrently, with the mounting direct costs of extreme weather projected to reach $35.24 billion per year by 2050.[2] The insurance industry is uniquely placed to understand the physical impacts of extreme weather. Since the Black Summer of 2019/20 the Insurance Council has declared 12 catastrophes, and this has resulted in insurers recording over $12 billion in claims costs over the last two years alone.[3] In 2022 alone, there were more than 302,000 disaster related claims lodged from four declared insurance events across the country, costing $7.28 billion in insured losses.8 Six billion dollars of these losses were from the northern New South Wales and south-east Queensland floods in early 2022, the second costliest insured event in the world last year and the costliest insured event recorded in Australia.[4] Including an assessment of the effects of physical climate change impacts in climate-related financial risks would provide a more accurate representation of the potential future climate-related financial risks that businesses may face and would help to identify vulnerabilities and potential hotspots, allowing government to develop more effective strategies for risk mitigation and adaptation. The Insurance Council and its members recommend Government implement the following actions to help increase understanding of the effects of physical climate change impacts in climate-related financial risks: • Prioritise establishment of a consistent and accessible national database for climate projections and modelling for the key extreme weather perils for use by agencies involved in determining the spatial planning arrangements for future settlements, and other regulators and standards writing bodies with responsibilities for improving the resilience of the built environment. • Define at a property level whether the flood risk, bushfire, cyclone and coastal hazards is extreme, high or low requires consistent, reliable and accessible data. • Work alongside state and territory governments and industry via the Hazard Insurance Partnership, to update, standardise and make publicly available climate hazard data that considers long-term time horizons and prioritises the high impact extreme weather perils.

2 McKell Institute for the Insurance Council of Australia (2022) Insurance Catastrophe Resilience Report 2021-22

3 ICA CAT Data

4 ICA CAT Data

		• Establish a nationally consistent asset register of buildings containing important risk and resilience characteristics, prioritising high hazard zones in Australia. This may include information such as the following: housing construction type, wall construction, roof type, year of construction, floor height, BAL rating, renovations and retrofitting works. This is essential for current and future homeowners and renters as well as emergency services, insurers and banks to better understand climate-related impacts on the infrastructure.
Priority 7: Addressing data and analytical challenges	**What are the priorities for ensuring that data-related initiatives already underway are tailored to meet the needs of firms and investors?**	The Insurance Council and its members recommend Government engage with firms and investors to support data-related initiatives that address the data challenges highlighted by stakeholders regarding mandatory climate disclosure. As outlined in Priority 1 above, this includes: • The estimation of scope 3 emissions in supply chains, sectors or portfolios and assessing nature-related risks and measuring natural capital. • Addressing data challenges that exist in relation to the reliable estimation of climate scenarios and decarbonisation pathways across economies, sectors and industries, and how they affect individual sectors or firms. • Continuing to develop and share methodologies for required cross-industry and industry-specific metrics to ensure uniformity. As well as aligning to known, global methodologies where available. • Continued encouragement around disclosing calculation estimations and uncertainties to drive investment in improving data collection and completeness over time.
	What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?	See Priority 1 above.
Priority 8: Ensuring fit for purpose regulatory frameworks	**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**	Australian companies could be better equipped to integrate sustainability-related issues in financial decision making if more detail is provided regarding how the modified approach to liability under the proposed mandatory climate disclosure standards. While the Insurance Council and its members welcome the modified approach to liability in the proposed standards, there are many aspects of climate disclosure that require estimation of impacts of risks and opportunities which are inherently uncertain. These estimations may be

	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**	deemed misleading or deceptive under the existing regulatory framework, specifically the misleading and deceptive conduct regime, for example s.769C of the Australian Corporations Act, s12BB of the ASIC Act 2001 and s.4 of the Australian Consumer Law. As outlined above, unlike certain other jurisdictions, reporting entities in Australia (as well as directors and officers) are exposed to the liability relating to forward-looking statements, such as transition planning, because there is no safe harbour exemption which allows for the exclusion of liability by identifying a statement as a forward-looking statement and including a proximate cautionary statement. While regulator-only actions for a fixed period will assist in mitigating this challenge, transparent disclosure could be encouraged on a best endeavour basis during this time. Guidance on what constitutes 'best endeavours' in this context would be useful. Additional clarity is required for reporting entities, including: • More detail regarding how the regulator only component will work in practice. For example, further clarity on whether the three year stay on private litigants provides protection from all misleading or deceptive conduct or only "elements of mandatory disclosure including scope 3 reporting, scenario analysis and transition planning" • Whether the transitional three-year period refers to three full years of reporting as opposed to three fiscal years. It may be effective to clarify that the three-year period commences from the first year of an entity disclosing. The ICA and its members recommend that three reporting years would be more appropriate, particularly considering the data, methodology, capability and assurance gaps in the market. • What will occur at the conclusion of the three-year period. • Whether it would be more effective to align the regulator-only enforcement period with the development of standardised scenario analysis and methodologies to give entities a framework for including uncertainties and data gaps before the full penalty period. Additionally, Australian companies could be better supported to integrate sustainability-related issues in financial decision making if they could engage in industry collaborations and international alliances to share best practices, exchange knowledge, and collaborate on sustainability-related expertise and capabilities. However, these kinds of collaborative practices are increasingly at risk due to a lack of guidance on how businesses and industry associations can collaborate and cooperate in support of climate action in line with Australia's anti-competitive and cartel conduct laws.

		The ACCC should promptly consider providing guidance for businesses and relevant stakeholders to manage the application of competition law to support and facilitate the building and sharing of best practice on emissions reduction across industry in order to achieve climate and sustainability goals. In relation to prudential frameworks and oversight, the Insurance Council recommends that the current CPG 229 Climate Change Financial Risks Practice Guide be developed further to consider the Sustainable Finance Strategy. APRA should also provide clearer guidance in relation to expectations and alignment linkages to the CPS 220 Risk Management Standard and the new CPS 230 Operational Risk Standard. This will help Australian financial services businesses and their material outsource suppliers better understand and manage the specific climate related risk management strategies required to combat sustainability-related issues.
	What steps could the Government or regulators take to support effective investor stewardship?	The Insurance Council and its members would welcome further consultation on how Government and regulators expect stewardship to be undertaken and disclosed. While implementing a Stewardship Code similar to the UK Stewardship Code 2020 could be an option, it will be important for this to leverage existing stewardship codes, including the Australian Asset Owner Stewardship Code and the General Insurance Code of Practice, to avoid adding to the compliance burden and increasing regulatory complexity.
Pillar 3: Australian Government leadership and engagement		
Priority 9: Issuing Australian sovereign green bonds	**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?**	Sovereign green bonds should be an ongoing issuance program rather than a one-off issuance. Furthermore, green bond issuance should be across multiple maturities and maintain a decent issuance size, as smaller green bond issuance tends to lead to reduced liquidity. This is important for investors to be confident of liquidity and be able to match different duration needs of the investors and Asset and liability management (ALM) requirements. The Insurance Council and its members, along with the Resilient Building Council and IGCC recommend that the criteria for Sovereign Green Bonds include mitigation and adaptation for the property sector. Property sector mitigation and adaptation is proposed as a key priority due to the readiness of the property sector to match capital with existing solutions and the interconnection between emissions reduction and disaster resilience for buildings and construction. The benefits of this approach include:

Insurance Council of Australia

		• Demonstrates increased sustainability impacts of Australian Sovereign Green Bonds to global investors. • The larger the pool of eligible investments, the larger the funding savings to the Commonwealth. In other sovereign bond markets, there is a notable “greenium” which represents a cheaper cost of funding for the sovereign issuing the bonds. • Existing investments such as the $741M QLD Home Resilience Fund, $700M NSW Home Resilience Fund and components of the $2B Disaster Ready Fund, as well as future programs, would be eligible for Sovereign Green Bonds, providing further funding savings to the Commonwealth. • Reduce economic shocks and sovereign risk by reducing Australia’s climate vulnerability. • Increases contributions to Commonwealth objectives and commitments, such as the Paris Agreement, Australia’s Long-Term Emissions Reduction Plan and Net Zero by 2050 target, Sendai Framework, Sustainable Development Goals, National Climate Resilience and Adaptation Strategy, Recommendations from the 2020 National Natural Disasters Royal Commission, National Housing Accord, National Housing and Homelessness Agreement, National Agreement on Closing the Gap, Australia's international Climate Change Action Strategy, and as a member of the global Adaptation Action Coalition. Other expectations for the market may include: • A sovereign green bond framework should be credible, reflect market best practice and endure through time. • The framework should demonstrate alignment with the Sustainable Finance Strategy including frameworks for sustainability and climate reporting, while highlighting the desire to drive the development of Australian sustainable debt markets and attract additional investor capital. • Government green bond issuance will increase as the government's eligible green projects grows and green bond maturity will be rolled into future green bond issuance.
	What other measures can the Government take to support the continued development of green capital markets in Australia?	Government can support the continued development of green capital markets in Australia by providing strong leadership on climate change, demonstrated through the setting of strong national emissions reduction targets that are underpinned by policies to support communities, businesses and industry to mitigate and adapt to the risk of climate change.

Insurance Council of Australia

		Providing clear and consistent policy signals on climate change and the transition to a low-carbon economy creates a stable and predictable investment environment which enables businesses and investors to make long-term plans and allocate capital towards green and climate-friendly initiatives. The Australian government should set a science-based emissions reduction target for 2035, that is Paris aligned and consistent with IPCC timeframes. The Paris agreement calls for holding the increase in temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C. This target needs to be supported by a comprehensive set of policies that accelerate Australia's transition to net-zero, and the Insurance Council and its members look forward to continuing to collaborate on the Australian Government's energy and climate policies, including the roll out of the Powering Australia Plan, the National Energy Performance Strategy and the Sustainable Finance Strategy. The development of green capital markets also requires continued green bond issuance from both government and the corporate sector. The continued issuance of green bonds by corporations is important for investors, as it facilitates investor confidence that there will be continued liquidity in these bonds. The size of issuance is also very important, as smaller green bond issuance tends to lead to reduced liquidity. There has also been a shift from the corporate sector from issuing green bonds to sustainability-linked bonds (SLB), which do not have exclusive use of fund clauses and are linked to enterprise-wide ESG objectives. While the SLBs are positive, policies to encourage corporate green bond issuance are important, as they can be linked to a particular project and can qualify as an impact investment. Clarity of the rules of classifying these green bonds for corporates are crucial.
Priority 10: Catalysing sustainable finance flows and markets	**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?**	The Insurance Council and its members, along with the Resilient Building Council and IGCC, recommend that the remit of CEFC and ARENA be expanded to include adaptation, including funding to enhance CEFC and ARENA resilience and adaptation technical expertise. The benefits of this approach include: • Enables increased sustainability impacts of CEFC and ARENA investments. • Stimulates innovation for integrated mitigation and adaptation solutions in the property sector, addressing significant global market gaps with Australian innovation. • Enable CEFC's $1bn Household Energy Upgrades Fund to include adaptation, maximising benefits and reducing risks of adverse outcomes.

	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?	See Priority 1 above.
Priority 11: Promoting international alignment	**What are the key priorities for Australia when considering international alignment in sustainable finance?**	To support the alignment of Australia's proposed mandatory climate-related financial disclosure framework, the AASB, in partnership with ISSB, could also form agreements with key independent data and indices organisations such as the Carbon Disclosure Project (CDP), Dow Jones Sustainability Index (DJSI), Sustainalytics and Morgan Stanley Capital International (MSCI), to streamline citation and digital tagging of climate disclosures, reducing the reporting burden while delivering better disclosures and sustainability outcomes. If the framework will be relying on ISSB industry metrics that often involve complex modelling and a high degree of uncertainty, there needs to be oversight as to the relevance, achievability and uncertainty associated with these metrics. There needs to be sufficient monitoring of, and discussion with international standard setters to ensure industry metrics are not out of reach for reporting entities, and that there is a standardised approach to disclosing quantitative uncertainty associated with these metrics. The framework should make clear that Australian entities should be required to apply the Greenhouse Gas Corporate (GHGC) Standard given it is the leading international standard for GHG emissions disclosures and assists in harmonisation across jurisdictions. When considering alignment of the proposed Australian sustainable taxonomy with taxonomies being developed internationally, it will be important to maximise consistency between the Australian taxonomy and that of our key trading partners to enable cross-border flows of sustainable finance for companies and investors operating in multiple jurisdictions. Given the number of organisations operating Trans-Tasman, it's particularly important to ensure alignment across Australia and New Zealand to avoid complexity and minimise compliance costs when navigating new rules. • Australia's taxonomy should be reviewed regularly as the sustainable finance taxonomies of our key trading partners mature, to support ongoing consistency and interoperability across different markets and jurisdictions.

Priority 12: Position Australia as a global sustainability leader	**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?**	See Priority 9 above.
	What are some longer-term international sustainability goals for Australia where sustainable finance can play a role?	N/A
	What are the key market, regulatory and institutional barriers to increasing private sector engagement in blended financing opportunities? How can these barriers be overcome?	The Insurance Council and its members welcome the Government's intention to scale up the overall quantum of Australia's blended finance aimed at climate solutions in the Indo-Pacific. The insurance sector can play a key role with blended finance, as both investors and underwriters, however there are significant challenges involved. These include: • Late involvement in contractual arrangements: Insurers are usually approached late in blended finance transactions, after key financial arrangements are finalised. This limits the sector's capacity to assess project risks and offer risk management tools. • Data and analytical capability: A lack of readily available and standardised data - at project level, country level, at risk level - can leads to heightened risk perceptions and deter investment decisions. Making quality data available will support more comprehensive risk assessments and enhance the role of insurers as risk advisors.
	What are other means to mobilise private sector finance toward sustainability solutions in the Indo-Pacific region?	The limited size and supply of projects that can be financed through blended finance transactions could impede private sector investment and underwriting toward sustainability solutions in the Indo-Pacific region. Aggregation of projects would help enhance the supply of these projects, increase the funding opportunities for otherwise smaller projects and enhance access to risk advisory and risk management services from insurers. Platforms facilitating aggregation of projects could help strengthen the supply of investable projects and support the accumulation and consolidation of data for analytics and risk assessments.