Deloitte.

The Treasury - Sustainable Finance Strategy

Submission to Consultation Paper

8 December 2023

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Quay Quarter Tower
Level 46, 50 Bridge Street
Sydney NSW 2000

Tel: +61 2 9322 7000
Fax: +61 2 9322 7001

8 December 2023

By email

Sustainable Finance Unit
Climate and Energy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir / Madam,

Request for feedback and comments: Sustainable Finance Strategy Consultation Paper

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to Treasury's Sustainable Finance Strategy Consultation Paper (Strategy CP).

Deloitte commends Treasury for its work on the development of the Strategy CP, the ongoing work on climate-related financial disclosures and developing a sustainable finance taxonomy, and its recognition of the opportunities available to support the development of sustainable finance markets locally and globally.

Climate change is an urgent existential issue that is material to corporations, government and investors in all sectors and across all jurisdictions. A clear and comprehensive strategy aligned with emerging international developments is a critical step in the mobilisation of capital to deliver Australia's sustainability objectives.

We support each of the key principles set out in the Strategy CP and the development of a sustainable finance strategy tailored to Australia's economy, acknowledging that Australia can and should leverage experience from its international counterparts.

In Deloitte's view, the factors critical to the success of the Sustainable Finance Strategy include:

- **Clearly defined and measurable objectives** aligned with the allocation of capital towards Australia's orderly transition to a net-zero economy. These include regulatory mandates, transparency of sustainability performance, resilience of the financial sector to the impacts of climate change (both transition and physical risk impacts), support for commercial opportunities in a sustainable global economy, and regional leadership in the implementation of an integrated policy approach to sustainability
- **Capability** across government, the financial sector and the wider economy to deliver the initiatives and assess their impact over time
- **Certainty** as to timing, sequencing, applicability, requirements, governance and enforcement of the strategy and its initiatives
- **Alignment** with global frameworks to support equivalence determinations, enhance consistency and understanding, promote cross-border capital flows and minimise compliance costs
- **Efficiency** of initiatives and policy settings to achieve the objectives at the minimum cost
- **Adaptability** of initiatives and policy settings to respond to emerging local and global developments.

We acknowledge that the Strategy CP covers a broad range of topics and we are supportive of the Government's ambitious approach. A successful sustainable finance strategy should leverage lessons learnt from international experience, while focusing government efforts on Australia's differentiated economy and climate goals. Australia can and should learn from the implementation of the European Union's Sustainable Finance Disclosure Regulation (SFDR) (noting the European Commission has recently launched a consultation for feedback on the implementation of SFDR) and Taxonomy, as well as more recent considerations by the United Kingdom in finalising their Sustainability Disclosure Requirements.

Individual sectors within Australia will likely need support from the Government to address data challenges through the development and execution of a comprehensive data strategy, practical guidance on new regulation, and clarity on national and sectoral transition strategies.

We support the Government's objective of being a leader in sustainability and advancing the issuance of sovereign green bonds to support market maturity and demonstrate Australia's commitment to transition to net zero.

A summary of Deloitte's key feedback to the Strategy CP is provided below.

Pillar 1: Improve transparency on climate and sustainability

Each of the priorities set out in Pillar 1 are essential to drive increased transparency, comparability and accountability for sustainability performance throughout the economy, uplift capability on sustainability risks and opportunities, and to align with emerging international practice to support the flow of capital across corporate, government and not-for-profit entities. These priorities are closely related and should be considered as an integrated package of reforms, recognising the cross-dependencies and importance of sequencing in development and implementation. As these priorities are individually complex, each should be subject to separate, detailed consultation processes at each stage of development to inform their design and implementation.

The Pillar 1 priorities are substantial reforms with potentially significant costs to implement (particularly for smaller firms) and impacts on business strategy and performance. Accordingly, the reforms need to:

- Complement the achievement of published national industry/sector decarbonisation pathways and targets
- Be introduced with a clear implementation roadmap, supported with market guidance
- Consider the required uplift in skills and capability to implement, embed and enforce the initiatives, and the role of government to build capacity
- Support equivalence determinations with similar international regimes
- Provide flexibility to adapt to changes in local and global practices and developments in technology
- Apply to corporate, government and not-for-profit entities (subject to appropriate thresholds for disclosure and net zero transition plans)
- Be subject to appropriate governance arrangements with sufficient independence from government and industry
- Be enforced by regulatory bodies in a proportionate manner.

Pillar 2: Financial System Capabilities

The data challenge is fundamental to the credibility and effectiveness of each of the priorities outlined in the Strategy CP. The success of the reforms set out in the Strategy CP will depend on developing a comprehensive data strategy to improve and expand access to national and industry/sector datasets, and provide certainty for firms to invest in data improvement to support performance measurement and transition planning. We agree with the proposal in the Strategy CP for the Council of Financial Regulators (CFR) to conduct a detailed assessment of options to address key sustainability-related data challenges faced by financial system participants.

Existing and well-understood legal mechanisms provide a sound basis for the integration of sustainability-related issues in financial decision-making including the general prohibition on misleading and deceptive conduct, false or misleading statements, and consideration of foreseeable climate-related financial risks as part of a director's duty of due care and diligence. These foundational elements provide a strong foundation on which to base increased transparency from the prescriptive disclosure requirements (Pillar 1 of this Strategy CP), comprehensive supporting regulatory standards, and enforcement through diligent regulatory supervision.

The regulatory focus on climate-related financial risks and disclosure, and direct consideration of the impacts of regulatory actions on the transition to net zero, could be enhanced through direct inclusion of support for an orderly and just transition in the mandates for key regulators (including ASIC, APRA and the ACCC), whether through legislation or other means (for example, the government's statement of expectations).

Pillar 3: Australian Government leadership and engagement

The Commonwealth should consider the design and development of a broader Sustainability Bond Program that offers a source of capital for direct federal investment in assets that support transition to net zero and other measurable ESG goals.

We note that Treasury is seeking comments on each of the Priority areas within the Sustainable Finance Strategy Consultation Paper. Our detailed responses to the questions can be found in Appendix A-1 to Appendix A-3, noting that certain priorities have not been responded to.

Thank you again for the opportunity to provide our views. Should you wish to discuss our responses in our submission, please contact my colleague Sam King-Jayawardana at sking-jayawardana@deloitte.com.au or +61 2 8260 4973.

Yours sincerely,

David McCarthy

David McCarthy

Partner, Executive Sponsor, Deloitte Climate and Sustainability
Deloitte Touche Tohmatsu

APPENDIX A-1

DETAILED RESPONSES TO THE TREASURY SUSTAINABLE FINANCE STRATEGY CONSULTATION PAPER – PILLAR ONE

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

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?

Opportunities for Government, regulators and industry to support public and private entities in the implementation of new climate disclosures include:

- **Collaboration:** Collaborate with industry bodies and standard setters (i.e., AASB, or their successor) in the design and implementation of practical guidance. This will be particularly important for smaller, less resourced companies that will be subject to the new climate disclosure regime, and is a direct opportunity to enhance skills/capabilities of affected companies
- **Alignment:** Align the disclosures with global frameworks to support equivalence determinations, enhance consistency and understanding, promote cross-border capital and migration flows, and minimise compliance costs. The IFRS sustainability structure should be the starting point for any sustainability-related financial disclosure framework to deliver international alignment and reduces the burden on affected companies with respect to skills uplift providing fewer unique frameworks for compliance
- **Roadmap:** Provide a clear and transparent roadmap of future disclosures, data initiatives and associated regimes (e.g., a labelling system for investment products). This would enable the market to take decisive action to plan required investment and rollout targeted capability uplift initiatives, as governments in regions such as the UK and EU have done
- **Peer regulator learnings:** The Government should engage with overseas regulators to understand the costs, challenges and resources necessary for the implementation of their sustainable finance regimes. The learnings from these reviews could inform the Government's efforts and avoid potential challenges in implementation
- **Data:** Government and industry need to collaborate to address the data availability and quality challenges as this is a key resource and input necessary to meet climate disclosures. A comprehensive, centralised data strategy across all initiatives that recognises the data connectivity and dependencies between initiatives could help to accelerate the rollout and adoption of the sustainable finance strategy
- **Global measurement methodologies:** Align technical disclosure standards on financed emissions with the release of, and updates to, emerging global methodologies and data practices
- **Learning support:** Work with industry bodies and standard setters to establish common capability standards and learning pathways (for example, Australian capability standards), and to uplift the education level across corporate Australia in technical sustainability areas (e.g., scenario analysis, financed emissions calculation, financial effects from climate).

How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?

Deloitte agrees with the Government's intention to align Australia's arrangements with global frameworks. In doing so, the Government should align Australian standards closely to the IFRS sustainability structure to enable a consistent, incremental roll-out of new obligations across other sustainability themes (e.g. nature).

Practically, this means:

- Minimising revisions to IFRS S1 and retaining its broad application beyond climate to provide flexibility for application to other topic areas given that future topical standards from the ISSB will follow the same structure as that outlined in IFRS S1
- Continue to participate in the development of new international standards (as Australia has done in the development of TNFD) to ensure that any resulting framework or standard considers Australia's context. Early engagement allows for the Government to show leadership and influence global outcomes that support Australia's sustainability ambitions, including supporting equivalence determinations

- Working to introduce equivalent Australian standards as and when the ISSB publish future topical standards (such as with respect to biodiversity, ecosystems and ecosystem services), with minimal revisions to support global alignment.

In acknowledging the unique features of Australia's economy and natural environment and to avoid implementation hurdles, the Government should engage early with the relevant industry bodies, NGOs, professional associations and technical experts about the potential application of future topical areas both for input as well as understanding of impact. The Government could also prioritise engagement with ISSB technical working groups on those topics deemed of most relevant to the unique features of the Australian economy.

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 most important policy priorities of the Australian taxonomy are:

- **Australian considerations:** Continue to develop the Australian taxonomy with a focus on alignment with global developments, while balancing this with Australia's unique climate transition pathway, economic composition, and financial system. Specifically, Australia's economy is reliant on high-emissions activities (including, but not limited to, natural resources and agriculture) and therefore an Australian taxonomy must be one that recognises this, providing credible alignment thresholds (potentially escalating over time) to ensure that both Australia and its international trade counterparts can meet their net zero emissions commitments
- **Integration and application:** Incorporate the taxonomy into the local mandatory climate disclosure regime, product labelling regime and transition planning initiatives, to support their credibility in application and avoid the Taxonomy being a stand-alone regulation without public accountability. The taxonomy should apply broadly to entity- and product-level disclosures and publications (including marketing materials) across corporate, government and not-for-profit entities
- **Transition:** The taxonomy needs to support the development and growth of the market for transition finance, while acknowledging the practical challenges associated with any 'do no significant harm' criteria
- **International equivalence:** The taxonomy should be designed to support equivalence determinations with similar international regimes, to enhance consistency and understanding, promote cross-border flows of capital in sustainability-related financial products, and minimise compliance costs. This may be partly achieved by providing an economic classification reconciliation such that ANZSIC denoted activities can be compared easily to similar NACE, GICS and ISIC systems reducing the burden for entities subject to the regime, as well as providing greater comparability for stakeholders
- **Enforcement:** The taxonomy should be supported by a proportionate regulatory enforcement regime aligned with the specific regulator mandates
- **Specificity balanced with principles:** Australia's taxonomy must have sufficient specificity in areas that are potentially subject to wide interpretation and with high levels of ambiguity (e.g., activities where taxonomy alignment is demonstrated exclusively by an internal assessment of an environmental topical area, such as water protection, are too broad to ensure consistent application by regulated entities). This must be balanced with the need to develop a taxonomy that contains principles in areas of judgement where thresholds are either not known or agreed-upon by stakeholders, while providing sufficient guidance for consistent application by regulated entities (e.g., in considering Do No Significant Harm criteria for an environmental topical area, such as water, the taxonomy should provide for minimum considerations regarding environmental protection and potentially a range of demonstrable environmental performance).

Deloitte.

The primary use cases for a sustainability taxonomy in Australia are: • **Disclosure:** A taxonomy supports an associated disclosure regime that can be used to aid stakeholders in their assessment of company performance with respect to sustainability, enhance the level of sustainability data in the market (including to track national progress on decarbonisation), and improve the flow of capital from investors to more closely align with the increasing appetite towards sustainable investments • **Product Labelling:** A taxonomy supports the use of a sustainability-related product labelling regime, with in-scope products better able to be compared through clearly defined eligible activities and minimum standards on performance measures and application criteria • **Transition Planning:** As the taxonomy is likely to determine which activities are sustainable from a reporting perspective, it is an important reference point when deciding and evidencing a transition plan • **Greenwashing:** Given the anti-greenwashing focus of ASIC and the ACCC, a sustainability taxonomy would provide a clear basis to assess the credibility of sustainability-related communications, promotions and disclosures. <u>International experience:</u> An Australian sustainable finance taxonomy should be clearly designed as a 'living' document that will change over time to reflect progress on the transition to net zero, technological advancements, environmental events, and advances in science. With this in mind, international experience in the development and introduction of a sustainable finance taxonomy has highlighted the challenge in developing consensus activities which support the transition to a net-zero economy (for example, achieving agreement on whether certain energy activities, such as gas, are aligned with the transition). As this is a key aim of the initiative, governance structures supporting the taxonomy must allow for early input from broad industry and expert groups, with clearly defined objectives and rationale for decisions and revisions to the taxonomy.
What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?
Deloitte supports the Government's initial focus on climate mitigation in key sectors. Following this, Australia should prioritise its participation in international forums to align its approach with international developments. This would likely mean that climate change adaptation is the second area of focus followed potentially by water, circular economy, pollution, and biodiversity. In addition, Deloitte supports future consideration of expanding taxonomy coverage to include other items such as social aspects acknowledging the difficulties associated with developing consensus and international alignment on such matters.
What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?
Deloitte supports the proposed high-level approach to permanent governance arrangements set out in the Strategy CP, noting that the details of the governance structure should be subject to more comprehensive consultation. In our view, the government body or agency with oversight and maintenance responsibility should be supported by an independent advisory board with representatives from government, industry and academic backgrounds. To adequately embed and enforce the taxonomy within Australia's financial and regulatory architecture, the taxonomy should be consistently cross-referenced across relevant regulations and standards, and enforced by the relevant supervisory agency, including: • Prudential standards/guidance (e.g., CPG229 or its successor) • Regulatory guidance on financial product disclosure (e.g., ASIC RG168) • Product labelling guidelines and the Australian Consumer Law.

The Government should also consider updating the supervisory and enforcement mandates of ASIC, APRA and the ACCC, whether through legislation or other means (for example, the government's statement of expectations) to support Australia's just transition to net zero. Supervision and compliance with the taxonomy should be reinforced by complementary assurance regimes across the existing financial services architecture and future sustainability disclosure standards.

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 key gaps in Australian capability and practice with respect to transition planning include: • **Standards:** Transition plans remain an emerging practice for corporations, with limited and inconsistent adoption to date, largely driven through global voluntary frameworks under the sector-specific Glasgow Financial Alliance for Net Zero (GFANZ) initiatives. International developments, including proposed sector guidance issued by the UK Transition Plan Taskforce (TPT), are expected to drive additional consistency and development of leading market practice. A similar framework in Australia, aligned with the mandatory disclosure regime, should assist to enhance the quality, comparability and adoption of transition plans across industry and government entities • **Data:** Restricted use and availability of granular-level data across sectors and differences in emissions calculation methodologies continues to limit the credibility and utility of transition plans to influence decision-making both for the entity itself and its investors/financiers. Reliable, granular data enables decision-makers to directly assess the emissions consequences of their business/investment strategy independent of the broader decarbonisation of the economy over time • **Industry-level pathways:** The creation of national industry-level decarbonisation pathways will assist as a tool to benchmark transition plan ambition and performance, highlighting key areas of divergence for further scrutiny/stewardship activities • **Phase-in Period:** Implementation of a 'gold standard' consistent with the TPT will need to be subject to a phase-in period and focus initially on the largest companies (proportionate), with suitable industry-specific support and guidance including default emissions reduction pathways. Smaller companies should be encouraged to prepare transition plans on a voluntary basis during the phase-in period, noting the dependencies of financial services firms on the transition plans of their customers. Deloitte notes that overall consideration and alignment of a transition plan framework with the Australian sustainability taxonomy and mandatory sustainability disclosure standards is necessary to create a single, cohesive framework.
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?
ISSB-aligned corporate disclosures will improve transparency and credibility of transition planning as the connectivity to financial statements required by these standards will demand granular, assured data to support performance on net-zero transition pathways. Additional disclosures and standards in the medium term that are focused on minimum data quality standards and traceable data inputs will reduce greenwashing risks, enhance accountability and support credibility. Further, the publication of national industry-level decarbonisation pathways will support evaluation of company-level transition plan ambitions and performance, highlighting areas of divergence.

Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?
To meet the goals of both the Paris Climate Agreement and the Kunming-Montreal GBF (Australia is a signatory), transition plans will ultimately need to cover nature as well as climate, however we note that guidance on how to incorporate nature in transition planning is still being developed by the Taskforce on Nature-related Financial Disclosures (TNFD) and Science Based Targets Network (SBTN). As part of the alignment to international standards, Australia's continued support for the TNFD and its potential incorporation into the ISSB work program via biodiversity, ecosystems and ecosystem services would support target setting and transition planning for nature.

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?
Deloitte supports the introduction of a sustainable investment product labelling regime. Key considerations in implementing such a regime include: • **International alignment:** Australia should learn from global experience, in particular the implementation of EU's Sustainable Finance Disclosure Regime (SFDR) and the UK Sustainability Disclosure Regulation (SDR). Australia should seek, where possible, to align to international regimes to further support harmonisation and ease the flow of capital across different markets • **Clarity in labels:** Labels should be defined, with clear distinction between categories corresponding to the level of sustainability integration. The government should consider application of labels for products that have no sustainability objectives or investments to clearly differentiate from ESG-oriented funds • **Scope:** A labelling regime should apply to both retail and wholesale financial products as this promotes consistent disclosure across the market, and supports the flow of capital from global investors seeking sustainability-aligned investment opportunities • **Disclosure regime:** A labelling regime should be developed alongside Australia's sustainable finance taxonomy and associated disclosure requirements to facilitate the disclosure of information that aligns with a product's ESG objectives and marketing materials • **Transition Investment:** The regime should include a distinct label for funds which invest in credible transition strategies, and denote the level of sustainability ambition of the fund (similar to approaches in the UK SDR) • **Third Party verification:** Treasury should consider the need for third party verification of alignment with the defined product labels, with consideration of potential cost impacts, investor demands and greenwashing risks.
How can an Australian model build off existing domestic approaches and reflect key developments in other markets?
Treasury should reflect on the European Commission's review of the SFDR with respect to requirements, interactions with other regulations, disclosure obligations and product categories. It should also consider the challenges, costs, and benefits associated with the development and implementation of the SFDR, and how it may have influenced the design of the UK FCA's SDR regime. It is critical that the market has sufficient clarity on the types of investment products covered by the regime, clear definitions of each of the investment strategies/labels (including 'transition investments' and 'sustainable investments'), and any requirements for third party verification. A post-implementation review to assess the impact and effectiveness of the regime over time will be important to ensure the domestic approach is achieving its objective(s).

APPENDIX A-2

DETAILED RESPONSES TO THE TREASURY SUSTAINABLE FINANCE STRATEGY CONSULTATION PAPER – PILLAR TWO

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?
Australia has well-established and long-standing legal mechanisms to address examples of greenwashing across existing product and entity-level disclosures and promotions. The sustainable finance taxonomy could enhance these mechanisms by providing clear definitions and/or minimum validation criteria for the use of generic sustainability-related terminology or imagery in product labels or advertising. The introduction of a new reporting mandate; supported by a reasonable assurance regime, developments in relation to the sustainable finance taxonomy and minimum standards for transition plans, should continue to improve levels of transparency in the market, subject to active enforcement from the corporate and consumer regulators. The introduction of minimum sustainability data quality and model governance standards over time may provide further support to address greenwashing and improve the credibility of sustainability-related representations in the market.
Is there a case for regulating ESG ratings as financial services?
No response

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?
Deloitte supports the prudential regulator's performance of regular, transparent, industry-wide mandatory climate vulnerability assessments using scenarios tailored to the Australian economy, noting the significant uplift in industry understanding and capability which has developed from the first such exercise in 2021-2022. We support extending scenario analysis to cover emerging areas of sustainability (including biodiversity), with published results to help further mature the market's understanding of sustainability risks more broadly. Government and regulators should collaborate with industry to understand the transmission mechanisms for market-wide and systemic impacts to firms and households. Deloitte also supports the encouragement of financial services firms to extend the time horizons over which their climate-related financial risk positions are forecast beyond the traditional two- to three-year capital planning horizon, to evaluate the resiliency of existing strategies and business models to structural changes in the economy, financial system or distribution of risks. This lengthening of perspective, proposed by the Basel Committee on Banking Supervision in its Principles for the effective management and supervision of climate-related financial risks, would give greater clarity to the actions that may be needed to de-risk the achievement of the Government's decarbonisation goals. Deloitte notes the recent release of the Consultative Document on Disclosure of Climate-related Financial Risks by the Basel Committee on Banking Supervision. It is important that Australia continues to contribute towards international proposals on climate-related financial regulation, supervision and disclosure – including consideration of incorporation of climate-related financial risk disclosures as part of the Pillar 3 framework.

Deloitte.

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 data challenge is fundamental to the design, credibility and effectiveness of each of the priorities outlined in the Strategy CP. The success of the reforms set out in the Strategy CP will depend on developing a comprehensive, centralised data strategy to improve and expand access to national and industry/sector datasets, and provide certainty for firms on whether and to what extent they must invest in data improvement to support performance measurement and transition planning. Deloitte supports the Government's proposed steps for data quality and availability enhancements, with a need to carefully consider the data requirements associated with each of the Strategy CP initiatives, the cost of obtaining the required data, and the value an investor and/or financial services institution might derive from having it. We agree with the proposal in the Strategy CP for the Council of Financial Regulators to conduct a detailed assessment of options to address key sustainability-related data challenges faced by financial system participants, which should be used to inform the development of a national sustainability data strategy and roadmap. Deloitte recognises the value that digital reporting can bring to Australia, particularly with sustainability standards being mandatory from FY2025 and the range of entities in the reporting value chain needing this information for their own disclosures. Advantages include reducing administrative costs and red tape, improving efficiency and reducing errors and duplication. Digital reporting has been widely adopted for financial reporting across the globe and was recently adopted by the EU for ESG reporting with the inception of the Corporate Sustainability Reporting Directive. The ISSB is also currently considering feedback on its proposed digital taxonomy to facilitate structured digital reporting of sustainability-related financial information to enable better access to data (potentially accessed through an exchange or smart reporting platform) for stakeholders and other reporting entities in the value chain.
What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?
In our experience, the most significant data gaps faced by banks, insurers and investment managers relates to the calculation of financed emissions. Specific challenges include: • **Data availability, quality and cost:** Data availability to support financial institutions reporting on emissions across their portfolio at a level that is granular, reliable, and cost effective remains a challenge. As sophistication of stakeholders improve, and expectations on data quality scores increase, Government may be required to play a role in the provision of information necessary for accurate reporting (as proposed via a centralised repository) that can address the availability/quality/cost challenge • **Methodologies:** Differences in the approach to emissions calculation methodologies and data quality scores can distort reporting of financed emissions performance and reduce comparability between organisations. The CFR should assess the costs, benefits, barriers and timeframes for the introduction of minimum data quality standards in certain priority sectors to improve the level and credibility of emissions reporting.

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 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***
Deloitte believes that existing, well-understood regulatory and governance frameworks provide an effective foundation to be supplemented by the implementation and enforcement of the initiatives proposed in Pillar 1 of this Strategy CP, along with comprehensive supporting regulatory guidance and standards. Regulatory and governance frameworks with respect to managing climate-related financial risks, enhanced disclosure obligations, and transitioning to net zero could be enhanced through the direct inclusion of support for an orderly and just transition in the mandates for key regulators (including ASIC, APRA and the ACCC), whether through legislation or other means (for example, the government's statement of expectations). As noted earlier, Australia should continue to contribute towards international proposals on climate-related financial regulation, supervision and disclosure – including the Pillar 3 framework.
What steps could the Government or regulators take to support effective investor stewardship?
The priority initiatives outlined in Pillar 1 of the Strategy CP, including product labelling standards and mandatory disclosures on investor stewardship supported by a reasonable assurance regime and regulatory supervision, should improve the ability to undertake effective stewardship activities and support the credibility of disclosures relating to investor stewardship.

APPENDIX A-3

DETAILED RESPONSES TO THE TREASURY SUSTAINABLE FINANCE STRATEGY CONSULTATION PAPER – PILLAR THREE

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?
The Australian Government has committed to introducing a green bond program to 'boost the scale and credibility of Australia's green finance market and attract more green capital to Australia by increasing transparency around climate outcomes and the volume of green investments available', subject to the new Green Bond Framework[1]. This positive development will attract expectations of gold standard performance with respect to (i) invested assets, (ii), disclosure (including taxonomy) and (iii) high if not complete, taxonomy alignment. In addition, there will be an expectation from the market that sovereign green bonds will support liquidity for funds and investment managers with environment-related investment mandates. There is also an opportunity for the Australian Government to design and develop a broader Sustainability Bond Program that offers a source of capital for direct federal investment in assets that support transition to net zero and other measurable ESG goals.
What other measures can the Government take to support the continued development of green capital markets in Australia?
Adoption of an Australian sustainability taxonomy together with improvements in sustainability data and analysis (refer to response to Priority 7 above) is key to underpin investor confidence in the market for both sovereign and corporate-issued green and sustainability-linked bonds. We note that the EU has introduced a voluntary Green Bond Standard, linked to the EU taxonomy, to support the development of green capital markets in Europe.

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?
No response
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?
No response

Priority 11: Promoting international alignment
What are the key priorities for Australia when considering international alignment in sustainable finance?
Australia should prioritise alignment of each of the priorities in Pillar 1 of the Strategy CP, where appropriate, with pre-existing / emerging international regimes to support equivalence (in particular, alignment should be prioritised with (i) UK and EU regimes given their market-leading position, and (ii) markets in the Asia-Pacific region, given Australia's close economic ties. This will support the flow of foreign capital and migration, reduce the costs of compliance, and minimise confusion amongst investors.

[1] https://treasury.gov.au/policy-topics/banking-and-finance/green-bond-program

The Government should focus on the identification and resolution of local sectoral differences, addressing such differences as necessary (e.g., via new taxonomy activities, credible green metrics or transition requirements aligned with sector decarbonisation plans).

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?
Near-term opportunities for Australia to position itself as a global leader in sustainable finance largely centre around the Government fulfilling its objectives in Pillar 1 of the Strategy CP. In doing so, including developing a labelling regime and a taxonomy, Australia would position itself as a leader in sustainable finance alongside important economies including the UK and EU. Emerging areas across Environmental, Social, and Governance aspects will continue to bring focus to new areas (such as TNFD), and it's important that Australia is ready and able to contribute to those discussions and frameworks as they arise.
What are some longer-term international sustainability goals for Australia where sustainable finance can play a role?
Australia's 'climate-first' approach to its sustainability objectives is appropriate, while acknowledging and addressing the impacts and dependency of climate mitigation and adaptation initiatives on other critical environmental, social and economic concerns. Sustainable finance is a key enabler to import and allocate capital to support Australia's prosperity, reinforce Australia's regional and global leadership, and to take advantage of the opportunities in a sustainable world.
What are the key market, regulatory and institutional barriers to increasing private sector engagement in blended financing opportunities? How can these barriers be overcome?
Deloitte's perspectives on the mobilisation of finance towards sustainability solutions, including challenges in public/private financing and improving bankability of green projects, is reflected in our global report: 'Financing the Green Energy Transition – a US$50 trillion catch'. Importantly, the report reflects on the important role of government in reducing risks that threaten the bankability of green investments.
What are other means to mobilise private sector finance toward sustainability solutions in the Indo-Pacific region?
Deloitte's perspective on the mobilisation of finance towards sustainability solutions is reflected in the Deloitte Global Report: 'Financing the Green Energy Transition – a US$50 trillion catch'.