Commonwealth Bank

Sustainable Finance Strategy

Response to Consultation Paper

1 December 2023

1. Executive Summary

Key recommendations:

- **Priority 2: Development of a Sustainable Finance Taxonomy**
  - We support the development of an internationally interoperable, Australian sustainable finance taxonomy to provide greater investor certainty, and recommend that clarity be provided on its intended use cases.
  - Following the initial three economic sectors, we recommend expanding the taxonomy to address all six priority economic sectors identified in the Australian Sustainable Finance Institute (ASFI) and the Australian Council of Financial Regulators' (CFR) Climate Working Group Terms of Reference.
- **Priority 3: Support credible net zero transition planning**
  - A sectoral and structured approach to net zero planning will provide industry with greater confidence and certainty. We recommend Government define a consistent approach across sectors, having regard to international examples, in determining what is required for a credible transition plan.
  - We welcome the introduction of mandatory climate-related financial disclosures aligned with the International Sustainability Standards Board (ISSB) standards. As transition plan expectations are established, we see an opportunity to align disclosure requirements with those expectations.
  - We encourage the progression of the Government's Nature Positive Plan and support a government-led and Australia-specific implementation of the Global Biodiversity Framework goals (agreed as part of COP15) as an important step to support the development of target-setting frameworks for nature.
- **Priority 7: Addressing data and analytical challenges**
  - To support sustainable finance and meet the needs of firms and investors, we recommend the delivery of incentives, training, and resources to enable smaller corporates subject to disclosure requirements to accurately report emissions data.
  - We recommend that Government develop centralised national datasets and standardised language, metrics and minimum requirements for scenario analysis.
- **Priority 10: Catalysing sustainable finance flows and markets**
  - We see an opportunity for the Clean Energy Finance Corporation (CEFC) to further support sustainable investment in Australia by focusing on innovative financing solutions to enable the deployment of private capital to fund the transition.
- **Priority 11: Promoting international alignment**
  - We encourage international and cross-sectoral harmonisation in determining agreed standards and taxonomies across jurisdictions and industries.

2. Introduction

The Commonwealth Bank of Australia (CBA) welcomes the opportunity to contribute to the consultation on the Australian Government's proposed *Sustainable Finance Strategy* (the Strategy).

Addressing climate change requires a collaborative approach between government, business and the community. A purposeful, coordinated and pragmatic approach is required across key sectors in the Australian economy to meet near-term decarbonisation goals.

CBA remains committed to playing our part and supporting Australia's transition to a net zero economy by 2050. We acknowledge we have a role to play in supporting our customers, communities and stakeholders to limit the impacts of climate change and support an inclusive transition.

The transition to net zero presents significant opportunities and risks for Australia. We welcome the legislative and policy initiatives the Australian Government has taken over the past 12 months to advance the transition. The development of Australia's sustainable finance markets is a vital component of a successful transition, in light of significant capital needs and increasing global competition for capital investment.

This submission outlines CBA's position in relation to five key priorities raised in the consultation paper, providing our perspective in response to the paper's focus questions.

Further commentary on additional priorities is set out in Appendix 1 to this submission.

3. Key priorities

3.1 Priority 2: Develop a Sustainable Finance Taxonomy

Focus questions:

- *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?*
- *What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?*
- *What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?*

Establishing agreed standards and taxonomies across jurisdictions and industries will provide greater investor certainty. We support the development of an Australian sustainable finance taxonomy which is internationally interoperable while also reflecting the Australian economy and context. We believe that initial priority use cases should include financial institutions and companies making sustainable finance-related claims.

As the sustainable finance taxonomy is developed, we believe a key policy priority should be to provide clarity on its intended use case, in particular whether it will be mandatory or voluntary and how widely it will be applied.

We support the development of a more expansive taxonomy outside of the initial three economic sectors, ultimately addressing all six priority economic sectors that were identified in the ASFI-CFR Terms of

Reference. Adaptation is also part of the climate solution and we support its consideration in the development of the taxonomy.

We support the current development phase of the taxonomy that leverages private sector involvement. Governance of the taxonomy will be an important consideration in the implementation phase. We support the integration of this governance into current financial and regulatory architecture, rather than standalone separate entities.

3.2 Priority 3: Support credible net zero transition planning

Focus questions:

- *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?*
- *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?*
- *Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?*

Similar to sustainable finance taxonomies, establishing standards for transition plans will provide greater certainty for business and the finance sectors. There is a significant opportunity to define a consistent approach relating to the requirements and disclosures required for a credible transition plan. As seen in recent bank reporting, financial institutions increasingly expect to use transition plans to inform lending decisions in certain sectors. While initiatives such as Climate Action 100+ and the UK's Transition Plan Taskforce provide parameters, there is not yet common agreement on what constitutes a transition plan.

We welcome the introduction of mandatory climate-related financial disclosures aligned with the ISSB standards to provide consistency and certainty for the private sector, and transparency for other stakeholders. There is an opportunity to closely align these disclosures with transition plan expectations, as those are established.

CBA supports the establishment of a national Net Zero Authority. This is a positive step to support employees and employers, communities and regions impacted by Australia's transition to net zero emissions by 2050. We also support taking a sectoral, structured approach to net zero planning and we support the Government's work in developing six sectoral decarbonisation plans. These plans will provide industry and investors with greater confidence and certainty.

As outlined in our Environmental & Social Framework, CBA supports the adoption of sustainable practices in the agriculture, fisheries, and forestry industries. We expect our clients to comply with the current legislative provisions of the jurisdictions in which they operate. We also note the developments of the United Nations Biodiversity Conference (COP15) and recognise the importance of taking action to maintain, enhance and restore biodiversity as highlighted in the Kunming-Montreal Global Biodiversity Framework.

We encourage the Government to progress its Nature Positive Plan and welcome its plan to consult with stakeholders on draft legislation to reform national environmental laws.

Target-setting and transition-planning frameworks for nature are nascent and still developing. A government-led and Australia-specific implementation of the Global Biodiversity Framework goals agreed as part of COP15 would be helpful for the development of such targets and frameworks. The convening power of government to undertake important stakeholder engagement on natural capital, the setting of national minimum standards and the acceleration of decision making could contribute to and enhance planning for nature and other sustainability issues.

3.3 Priority 7: Addressing data and analytical challenges

Focus questions:

- *What are the priorities for ensuring that data-related initiatives already underway are tailored to meet the needs of firms and investors?*
- *What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?*

To support sustainable finance and meet the needs of firms and investors, we consider the following initiatives should be of highest priority for Government:

- Providing incentives, training and resources for smaller corporates to report data (with simple metrics recorded in a register like the National Greenhouse and Energy Reporting Scheme). Financial institutions increasingly rely on this data for scope 3 emissions reporting.
- Government working across federal, state and local levels to develop centralised national datasets for companies to leverage in analysis and reporting e.g. physical climate risk/nature/Indigenous sites geo-mapping.
- Providing standardised language, metrics, minimum requirements for scenario analysis, for consistency of reporting and efficiency of capability and capacity build.

We also support the proposal for the CFR to conduct a detailed assessment and recommend that it work closely with industry during this process.

3.4 Priority 10: Catalysing sustainable finance flows and markets

Focus questions:

- *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?*
- *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?*

There is extensive private capital willing to invest in opportunities that are within private institutions' risk/reward parameters. While we see an opportunity for the CEFC to further support sustainable investment in Australia, we would encourage the CEFC to focus on innovative financing solutions to enable the deployment of private capital to fund the transition. CEFC funding should take a differentiated position to private capital, rather than lending on a *pari passu* basis, to help mitigate risks associated with earlier stage technologies and industries. This will necessitate an increased appetite for risk, including increased appetite for losses, and a mandate that recognises and supports this approach.

We see further opportunity for the CEFC to support financing and market development in nature and biodiversity. Similarly, in order to maximise the efficient allocation of capital, we recommend that the CEFC focus on activities that do not sit within the risk/reward parameters of private capital.

3.5 Priority 11: Promoting international alignment

Focus questions:

- *What are the key priorities for Australia when considering international alignment in sustainable finance?*

It is important to recognise the nature of capital flows in Australia – Australia's reliance on international capital and Australian entities increasingly playing a greater role in global markets.

CBA supports international and cross-sectoral harmonisation in determining agreed standards and taxonomies across jurisdictions and industries.

At present, there are many concurrent initiatives across jurisdictions, including ISSB, Global Reporting Initiative (GRI), different mandatory disclosure regimes developing in the UK, US, Europe, Australia, NZ etc., the European Union (EU) taxonomy and Australian Sustainable Finance Institute (ASFI) work in Australia.

As such, international interoperability is a key component of the development of an Australian sustainable finance taxonomy.

Appendix 1. Additional observations

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

Focus questions:

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

We welcome and broadly support the proposed approach set out in the Strategy.

There is an important role for Government to play in supporting companies to develop capabilities, particularly in relation to addressing data challenges and assisting with the disclosure rollout to Group 2 & 3 reporting entities.

In order to attract international capital, Australia's disclosure regime will need to be aligned with our international peers. Where possible, we recommend working with both international bodies and local organisations to better understand the requirements with respect to financial disclosures, frameworks and the TNFD.

New frameworks will require new skills in accounting and advisory professions. We recommend the Government look to develop capacity-building programs (leveraging the work of the ISSB), consider opportunities for secondments, and partnerships with universities.

CBA's view is that AASB could take a broader sustainability approach in its development of ASRS1 and ASRS2, rather than focusing narrowly on climate-related disclosures. Given the signalling of nature, biodiversity and TNFD in the consultation paper as impending voluntary disclosure topics, in its current form, the AASB proposal does not lend itself to the efficient incorporation of new standards. A proposed alternative could be the adoption of ISSB S1 and S2 requirements – whereby S1 would be voluntary, and any additional Australian requirements could be added to S2. A more streamlined approach to company requirements would reduce the risk of reporting entities missing mandatory requirements.

We note that other overseas reporting regimes use double materiality principles. We also note that this is not an area of focus for the AASB at this time given the importance of alignment with ISSB. However, we would continue to encourage the Government and/or the AASB to review the ongoing merits of using only financial materiality and consider whether introducing double materiality would also help Australia to achieve international alignment with overseas regulators (such as the EU).

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

Focus questions:

- *What should be the key considerations for the design of a sustainable investment product labelling regime?*
- *How can an Australian model build off existing domestic approaches and reflect key developments in other markets?*

As addressed in Priority 2.

Priority 5: Enhancing market supervision and enforcement

Focus questions:

- *Are Australia's existing corporations and financial services laws sufficiently flexible to address greenwashing? What are the priorities for addressing greenwashing?*
- *Is there a case for regulating ESG ratings as financial services?*

Current corporations and financial services laws are sufficiently flexible to address greenwashing, in dealing with the issue as a form of misleading and deceptive conduct or considering various forms of environmental and social risk as material risks that should be disclosed as part of continuous disclosure obligations.

The product design and distribution obligations in the *Corporations Act 2001* (Cth) are also sufficiently broad to address greenwashing risk in the design and distribution of green or sustainability labelled products and services. The development of more prescriptive disclosure regimes and taxonomies will make a significant contribution in addressing greenwashing risk and provide greater consistency in disclosures.

ESG ratings providers play an important role in distilling data and ratings to primarily institutional investors.

- We believe there is a case for regulating ESG ratings as financial services in line with proposals currently being developed by the EU and the United Kingdom. The European Commission has published a draft text for the regulation of ESG rating activities, and a voluntary code of conduct has been introduced in the UK (and there is discussion about extending the regulatory perimeter to ratings providers). We would encourage this in Australia to ensure integrity and transparency in the market, provide confidence in the ratings process, and to align Australia with other jurisdictions.
- CBA's experience is similar to the findings of Berg, Kolbel and Rigoban (2022), that ESG ratings can be highly divergent for common measures. The authors explain three drivers for the divergence: scope divergence (i.e. ratings are based on different sets of attributes), measurement divergence (i.e. measure same attribute using different indicators) and weight divergence (i.e. ratings take different views on relative importance). Measurement divergence is shown to be the biggest driver of divergence.
- Unlike credit ratings agencies, we have found that 'national' context may not be taken into consideration in their ratings of individual corporates. This may be due to how the information is able to be inputted and collected for analysis, as well as the scoring system.

Given the important role of ratings providers, we would welcome any policy initiatives that improve measurement. We believe the adoption of mandatory sustainability reporting would be a positive step in ensuring corporations have a consistent framework for reporting on material issues. This would enable greater focus on producing accurate, auditable, and consistent data that can be readily available for ESG ratings houses and other stakeholders to use. We also believe that the work on common taxonomies, tailored to the national context, will help in reducing divergence in scores.

Priority 6: Identifying and responding to potential systemic financial risks

Focus questions:

- *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?*

CBA has worked closely with the CFR on analysis to date and we look forward to continuing the engagement as market practices and reporting requirements develop.

Priority 8: Ensuring fit for purpose regulatory frameworks

Focus questions:

- *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*
- *What steps could the Government or regulators take to support effective investor stewardship?*

We welcome action to promote and accelerate the uptake of sustainable finance. We would encourage the CFR to consider opportunities to review capital frameworks to support growth in sustainable finance. For example, as in Europe and other international jurisdictions, apply a renewable infrastructure supporting factor that reduces risk weights for eligible exposures by 25%. This impacts the competitiveness of Australian banks seeking to lend to such projects.

To date, our experience has been that investors actively engage on a broad range of ESG issues - including but not limited to, climate change, natural capital, fair treatment of customers, human capital and human rights - sharing their expectations and providing feedback on our disclosed approach. This engagement comes from active managers, beneficial owners, index managers, as well as retail shareholders. We are not aware of any shortcomings in voluntary investor stewardship principles or practices.

Priority 9: Issuing Australian sovereign green bonds

Focus questions:

- *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?*
- *What other measures can the Government take to support the continued development of green capital markets in Australia?*

We welcome the Government's announcement in relation to the issuance of sovereign green bonds, which is eagerly anticipated by the market both domestically and globally. The issuance signals Australia's commitment to the development of green capital markets by aligning strategy, targets and policy with a sustainable financing programme. This is essential to attract private capital at the scale and speed required to meet emission reduction targets. Key expectations which the Government could consider include:

- Future issuance strategy: Articulating intentions regarding follow-on benchmark issuance, tender taps to existing lines and target outstanding for labelled lines will reassure investors that sovereign green bonds are sufficiently liquid.
- Best in class disclosures and impact reporting: The amount and detail of information provided will expedite investment decisions and reduce the time/cost associated with post-issuance monitoring. The completeness and consistency of information has also posed challenges. The Australian Government has an opportunity to act as a role model, lead by example and set a benchmark for corporate Australia.

Measures the Government could consider to support the continued development of green capital markets in Australia include:

- Evolving regulation with an eye to alignment and interoperability. Regulation plays an important role in ensuring integrity and credibility of sustainable finance markets. Alignment and interoperability with global regulation will also make it easier for issuers and investors to navigate regulation across multiple jurisdictions.
- Complementing capital markets development with fiscal policy and incentives. The US Inflation Reduction Act (IRA) has "turbocharged" investment in clean energy, accelerated emission reductions and created jobs. The IRA is also designed to develop domestic supply chains which increases security of supply and reduces the risk of economic shocks due to supply chain issues.
- Implementing a sustainable finance grant scheme. The Monetary Authority of Singapore will set aside S$15m to enhance and extend the sustainable bond and loan grant schemes to support transition instruments by covering S$125,000 of expenses incurred for external reviews (Sustainable Loan Grant Scheme, Sustainable Bond Grant Scheme).

Priority 12: Position Australia as a global sustainability leader

Focus questions:

- *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?*
- *What are some longer-term international sustainability goals for Australia where sustainable finance can play a role?*
- *What are the key market, regulatory and institutional barriers to increasing private sector engagement in blended financing opportunities? How can these barriers be overcome?*
- *What are other means to mobilise private sector finance toward sustainability solutions in the Indo-Pacific region?*

Given the resources export-based nature of Australia's economy, there is an opportunity to position Australia as a leader in transition finance to support and accelerate the resources that will be required for the transition.

As Australia already experiences the impacts of climate change, and its governments and corporates have started to build and develop resilience and adaptation, there is an opportunity for Australia to play a role in sharing that experience and expertise in directing sustainable finance capital toward these risks.

At present, public funding of sustainability solutions is provided by different government bodies at federal and state levels with varying objectives, guidance, and levels of requirements for qualification. Government has an opportunity to coordinate the deployment of public funding and leverage the extensive private capital willing to invest in opportunities that are within institutions' risk/reward parameters.