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To whom it may concern

## **DIGITAL FINANCE COOPERATIVE RESEARCH CENTRE'S SUBMISSION ON TREASURY'S SUSTAINABLE FINANCE STRATEGY CONSULTATION PAPER**

The Digital Finance Cooperative Research Centre (DFCRC) welcomes the opportunity to provide feedback to Treasury on Australia's Sustainable Finance Strategy Consultation Paper.

### **About the DFCRC**

The DFCRC is a 10-year, \$180 million research program funded by industry partners, universities, and the Australian Government, through the Cooperative Research Centres Program. The DFCRC's mission is to bring together stakeholders in the finance industry, academia, and regulators to develop and harness the opportunities arising from the next transformation of financial markets – the digitisation of 'real world assets' that can be traded and exchanged directly and in real-time on digital platforms.

Fundamental to the DFCRC's work is the belief that markets are the most powerful mechanisms in modern economies and their continued evolution through the application of new technologies will improve the efficiency of existing markets, enable new markets, and create market mechanisms to drive specific outcomes – including environmental and social outcomes.

The DFCRC and its partners are currently exploring opportunities to apply digital finance techniques and tools to facilitate investment into activities that will accelerate Australia's transition towards a more resilient, decarbonised, and regenerative economy. Digital finance can assist in:

- Providing transparent and real-time (or as close as is available to real-time) data on the environmental and social performance of investments.
- Ensuring an immutable record of provenance and impact tracking, to enhance transparency.
- Driving capital into a wider range of assets and activities, by creating market infrastructure that is cheaper and more efficient to build and operate.
- Providing incentives for the achievement of sustainability-related outcomes through mechanisms like smart contracts and programmable securities.

In this way, digital finance can help to catalyse financial flows into activities that contribute to positive environmental and social outcomes.

## Considerations for Treasury

The DFCRC offers the following high-level observations on the Sustainable Finance Strategy.

### Priority 12: Position Australia as a global sustainability leader

The DFCRC supports Treasury's ambition to position Australia as a global sustainability leader; this will be necessary for Australia to remain an attractive market for domestic and offshore investors.

There are two areas in which the DFCRC encourages Treasury to consider the level of ambition of the Sustainable Finance Strategy:

1. *Going beyond a 'decarbonisation first' approach.* Through its engagement with many organisations across the public sector, private sector, and academia, the DFCRC has come to appreciate the increasingly urgent need to take a more holistic approach that drives capital and finance flows towards activities that contribute to 'nature positive' not just 'net zero'. This is critical to maintaining economic activity and living standards and will play a vital role in building climate resilience. The DFCRC understands the Sustainable Finance Strategy will expand over time but encourages Treasury to consider starting with a more expansive and ambitious objective from the outset, particularly given the global leadership aspiration.
2. *Seeking to support new market-driven approaches.* The activities outlined in the Sustainable Finance Strategy are necessary to improve current practices and ensure Australia responds to the ongoing evolution of global markets. However, this is unlikely to be sufficient to achieve the trillions of dollars in financial flows required annually to address climate change and nature loss.

The DFCRC believes that new market-driven approaches are urgently needed to support the required level of investment in Australia. Significant innovation is required to improve existing approaches as well as develop new marketplaces and products that help us transition to a regenerative economy. This is a critical innovation space for a market-based economic transition.

For these reasons, the DFCRC encourages Treasury to consider the level of ambition articulated in the strategy and to consider more broadly the role that innovation can play in accelerating Australia's sustainable finance agenda.

### Priority 10: Catalysing sustainable finance flows and markets

The DFCRC supports Treasury's ambition to catalyse sustainable finance flows and markets. The Consultation Paper focuses on the role of the Clean Energy Finance Corporation (CEFC) in doing so. While the DFCRC recognises and values the CEFC's critical role, it believes that the scale of the challenge requires a broader range of mechanisms to develop new markets and drive financial flows, as set out above.

Treasury has a key role to play in designing the financial market architecture that will enable this, and in ensuring enabling economic policy. While this is beyond the scope of the Sustainable Finance Strategy as it is currently drafted, the DFCRC believes it is an important consideration for Treasury as it continues to develop the Sustainable Finance Strategy.

The DFCRC would welcome the opportunity to speak to Treasury about these observations and to discuss the potential role that digital finance can play in its sustainable finance agenda.