

Friday, 1 December 2023

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

Via email: [sustainablefinanceconsultation@treasury.gov.au](mailto:sustainablefinanceconsultation@treasury.gov.au)

## **Sustainable Finance Strategy**

As the representatives of over 300,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide feedback to Treasury's proposed Sustainable Finance Strategy.

We congratulate and support Treasury's ambition to develop Australia's sustainable finance markets. Through this strategy we believe that the initial focus on the most critical issues for sustainability related transparency, governance and credibility in financial markets focusing on climate-related issues is a logical start with future expansion into areas such as nature and social matters. Consistency and clarity across the policy and regulatory frameworks that shape investment decisions across the economy will be pivotal to provide certainty and encourage business investment.

### *First nations*

We encourage Government to consider the experience and expertise of first nations people at this initial stage and embed learnings into the fundamentals of Australia's sustainable finance strategy. We recognise that as a part of the key principles outlined on page 7 'incorporating First Nations perspectives and supporting positive social and economic outcomes for First Nations people' has been noted to be *another* critical sustainability-related issue which will be incorporated over time, with climate being the first priority. However, we consider it important for these perspectives to be integrated as part of key thematic areas such as climate, natural capital and biodiversity. The Government could consider the Sustainable Development Goals (SDGs) as a basis when considering the fundamentals of Australia's sustainable finance strategy.

### *Capability and skills*

We are concerned with the lack of focus on the development and investment in human capital skills to build capability in Australia. We note the paper raises a skills question directly related to climate disclosures, but the paper does not address skills needed for other elements such as skills to support business transition. We suggest this is considered as a part of this strategy as it will be pivotal for success.

### *The Accounting Profession*

The accounting profession will be pivotal to the delivery of high-quality, credible, and comparable information that would be critical to the success of Treasury's strategy. We also recognise the role the profession would play in the identification, assessment and planning around climate-related risks, opportunities and building capacity. However, the accounting profession will need to build on their current skills and develop capabilities in these new areas which will require an investment in time and resources.

It is our belief that the three-pronged approach that is being adopted by Treasury will provide the necessary support for sustainability-related considerations. In responding to the questions posed in the paper, we provide comments which, in our view, reflect our experience and expertise as a membership body and representative of our members, finance professionals in business and practice.

The comments outlined in the Appendix to this submission are a combination of direct responses to questions and general comments relating to a pillar or priority raised and outlined in the paper. Due to the limited consultation period allowed, we were unable to undertake extensive member feedback outreach and as such some of our comments are overarching.

If you have any questions about our submission, please contact Karen McWilliams (CA ANZ) at [karen.mcwilliams@charteredaccountantsanz.com](mailto:karen.mcwilliams@charteredaccountantsanz.com) or Patrick Viljoen (CPA Australia) at [patrick.viljoen@cpaaustralia.com.au](mailto:patrick.viljoen@cpaaustralia.com.au).

Sincerely,



**Simon Grant FCA**

Group Executive – Advocacy and International  
Chartered Accountants Australia and New Zealand



**Elinor Kasapidis**

Head of Policy and Advocacy  
CPA Australia

# Appendix

## Pillar 1: Improve transparency on climate and sustainability

- 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?

A significant shift in skills, resources and capabilities will be required for many entities, particularly those entities that will be captured within group 2 and 3 under the proposed climate disclosure obligations. Government and regulators have a leading role to play to collaborate with industry in Australia and abroad to provide a streamlined approach which leverages existing education, content, resources and knowledge. This will avoid duplication of effort, reduce the time to market of dedicated support, and leverage from the existing knowledge held by both professional bodies.

For many years, we have pro-actively supported our members, and the wider business community, with sustainability-related education, content, knowledge and resources which aim to build capability. We welcome the opportunity to contribute to any proposed approach that Government decides to undertake to develop skills, resources and capabilities.

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

### *Strategic direction*

As noted in our recent feedback to [the International Sustainability Standards Board \(ISSB\) on its proposed future agenda](#), we urged the ISSB to share their strategic direction, including a roadmap and timeline going beyond two years. We highlighted that a roadmap will assist jurisdictions to adequately prepare and resource expected future activities and support new standard development.

In addition to an implementation roadmap, we encourage the Government to also publish their strategic immediate, medium and long-term direction for sustainability-related financial disclosure frameworks which are internationally aligned to global standards and illustrate how they fit into Australia's broader corporate reporting framework reform in the longer term.

There is a clear need for an overarching sustainability reporting framework, and we caution against a piecemeal approach of mandating thematic areas. Reporting entities should be reporting their most material sustainability areas rather than reporting separately against mandatory thematic areas.

A range of domestic and international stakeholders have indicated the importance of nature and nature-related financial reporting as the next potential focus area in Australia. We also note businesses are currently required to report under a range of different requirements to different Government agencies for example, gender pay gap reporting to the Workplace Gender Equality Agency, corporate tax transparency to the Australian Tax Office, payment times reporting to the Payment Times Reporting Regulator and modern slavery to the Australian Attorney-General's Department. Further, we suggest Government considers bringing together business reporting, and consider appropriate adjustments, under one framework to streamline the regulatory reporting process for business. The consolidation of the myriad of these reporting requirements into the single

overarching reporting framework should be incorporated into the roadmap, with appropriate timelines. This will provide certainty and clarity for stakeholders to understand reporting required and also allow for adequate preparation and resources to support future activities and reporting.

#### International alignment

Considering the proposed interpretation of IFRS S1 and IFRS S2 for the Australian environment (ASRS1 and ASRS2) by the Australian Accounting Standards Board, it is our view that the government should proactively engage with the ISSB and closely follow their work of the ISSB as it sets out its future agenda. This would ensure that Australia stays in lockstep with global sustainability-related developments.

The AASB's proposal in its draft ASRS1, departs from IFRS S1 in as much as limiting the scope of the standard to initially support climate-related reporting. We recommend IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is issued domestically to align with global frameworks and in preparation for broader sustainability reporting in Australia as signalled in the strategy.

### **Priority 2: Develop a sustainable finance taxonomy**

We acknowledge the importance of a sustainable finance taxonomy to provide a robust baseline to assess and guide the alignment between business and sustainability-related outcomes. We support the joint industry-government initiative being led by the Australian Sustainable Finance Institute (ASFI) to develop an Australian sustainable finance taxonomy (taxonomy). We stress the importance of ensuring good governance, transparency and accountability in the development of the taxonomy to ensure it is credible and in line with the proposed approach in the paper.

We recommend that Government continues to support the ongoing development of the taxonomy, post initial development stage, to also include social, nature and biodiversity.

A phased approach should be applied to the sustainable finance taxonomy. Initially, we suggest the taxonomy be issued to guide as voluntary best practice, with an expectation that as practice matures overtime for it to transition to regulator application with the potential to be legislated and mandatory in the medium to long term.

### **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?
- 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?

We note the requirement envisaged by Treasury's roadmap on sustainability-related disclosures, for net zero transition plans and pathways to be disclosed and assured. It is important to distinguish that the TPT is a disclosure framework and is not guidance on transition plan development. To support credible net zero transition planning, guidance and support will be required for entities to develop the 'action' plan to transition to net zero. Disclosure, through TPT and other frameworks, should not be

driving practice when it comes to credible net zero transition planning but a vehicle for entities to communicate their plan to the market and stakeholders.

We note that although the ISSB sets out the baseline requirements for considerations around transition planning, there would be a need for broader Australian guidance and support. This particularly in the absence of an overarching benchmark.

We support the use of the Transition Plan Taskforce (TPT) disclosure framework as reference point given its comprehensive nature. Further, to speed up delivering support and guidance to organisations and aligning expectations with the users of sustainability-related information leveraging from international examples would be key.

There are a range of connected considerations to transition planning. Firstly, transition plans should consider social impact (just transitions), consider impacts up and down the value chain and should also look to potential impacts on nature (not just metrics). As we mentioned previously, the interconnected nature of various sustainability-related considerations should be front of mind.

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

We believe that a labelling system for investment products, if determined to be appropriate, will need to be regulated and maintained to ensure integrity of labelling. We encourage Government to engage with industry bodies such as the Responsible Investment Association Australasia, a member of the Global Sustainable Investment Alliance, to understand existing leading local and global practices in labelling and certification. The sustainable finance taxonomy should also be considered as it relates to a labelling system for investment products.

### **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?

ASIC's current role to enforce financial disclosures and business conduct more broadly should ideally be officially extended to encompass sustainability-related disclosures.

We note both the phased nature of disclosures and the increasing level of scrutiny that will be rolled out across sustainability-related disclosures. As reporting grows more mature, it can be expected that the depth and scope of regulatory review would also increase. Given these dynamics, we do not consider there to be a need (at this stage) to make any changes to existing corporations or financial services laws. The current approach for regulator focus on deceptive and misleading behaviour and disclosures of egregious instances of greenwashing is appropriate.

We note that the Government provided ASIC with an additional \$4.3 million to enhance its sustainable finance related surveillance and enforcement action. However, as ASIC is a cost recovery agency, there is no clarity in relation to how ASIC's enhanced activities will be funded or who the regulated population will be that will may be subject to additional costs. We recommend Government provide transparent detailed cost recovery information to the market.

- Is there a case for regulating ESG ratings as financial services?

It is our understanding that there are currently no guiding principles or regulation used for ESG ratings in the Australian market. Rating agencies use different rating methodologies and materiality considerations depending on the rating agencies operating jurisdiction (for example, a ratings agency based in the EU will be driven by local requirements and use double materiality). ESG rating services may also carry different purposes which will make it difficult to carry out comparisons in ratings across the space without a proper understanding of the different purposes of individual rating agencies.

Some of our members have expressed their frustration at engaging with ESG rating agencies, in particular in relation to the lack of transparency of the evaluation process used by ESG rating agencies and no option to correct factual errors (entities either meet a criteria or they do not and there is no clarity or opportunity to amend) that contribute to an entity's rating and the lack of timeliness.

We believe that the Government will need to further consult on ESG ratings regulation due to its influence on investment decisions. Government should engage with industry (rating agencies, entities that are rated and those that use the ratings) to understand the fundamental issues, including jurisdictional impacts and limitations, from a holistic perspective. This detailed understanding will be fundamental to provide confidence and create a fit-for-purpose operating environment for ESG ratings used by the Australian market. [Link to taxonomy](#)

#### **Priority 6: Identifying and responding to potential systemic financial risks.**

To better support organisations in testing the resilience of their own business models to the impact of sustainability-related considerations providing a benchmark at a higher level would be useful.

We note the New Zealand External Reporting Board's [guidance to sector level scenario analysis](#).

- 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?

As noted in our opening to this submission, we note there is no reference in the paper to building the human capital skills that will be needed in Australia to deliver the transformation required. We recommend Government considers collaboration with business and industry bodies to incentivise investment in building human capital skills through education and training.

We note the consultation paper (the paper), outlines some of the cross- Government work and associated agencies as it relates to the sustainable finance strategy such as the Clean Energy Finance Corporation (CEFC), The Council of Financial Regulators (CFR) and the Climate Change Authority (CCA). However, our expectation would be that work currently being undertaken by agencies such as the Australian Renewable Energy Agency (ARENA) and the Clean Energy Regulator would also be included within this strategy. Further, other specific plans and projects which have already commenced which have not been considered in the strategy, for example the Hazards Insurance Partnership and the National Climate Risk Assessment and national adaptation plan.

We recommend that Government outlines or provides a clear map to illustrate the connectivity of work being carried out across agencies and how it fits into the national strategy to provide clarity to the market and to encourage confidence that would in this space is not being carried out in silos.

## 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?
- What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?

Robust, verifiable data that can stand up to independent assurance will be critical to support the intent of sustainability-related disclosures. In determining a baseline for data requirements, consideration should be given to both scalability and integration into existing reporting systems.

We are aware that currently there are a plethora of data platforms in the market, which is adding to the existing confusion around best practice. For entities, particularly small to medium sized ones, it is expected that there will be an increasing burden as they are asked to provide data directly (which may come in many different request types) to other entities within their supply chain. There is currently no consideration of the impact on these entities and potential solutions (such as a central portal for entities to provide and access public information) to assist in streamlining this process.

We believe that Government has a leading role to play to provide a freely assessable, centralised point for baseline data (with limited third-party interventions), which can be used by business, to provide consistency and comparability to inform disclosures. As noted in the paper, there are important gaps in data and capability, particularly around scope 3 greenhouse gas emissions reporting and scenario analysis, it is a priority that Government formulates an action plan to address these important gaps by the end of 2024.

In 2023, [the Climate Data Steering Committee](#) recommended that the [Net-Zero Data Public Utility \(NZDPU\)](#) be created to provide an open, free and centralised climate transition-related data repository. We understand that the NZDPU proof of concept will be released at COP28 and we encourage Government to engage with the Climate Data Steering Committee, the NZDPU and other global developments in the centralisation of data.

In addition, Government should also coordinate a whole-of-economy gap analysis to identify and adequately assess existing publicly available Australian sustainability data sources for areas such as nature, biodiversity and human rights where the gaps are not as well-known and determine if they would be appropriate for incoming and existing regulatory requirements. Where there are clear gaps in data, Government should either lead or collaborate with industry to fill the gap.

A library of data, which is already owned by Government, would be an ideal starting point for Government analysis, for example National greenhouse and energy data.

### *Digital reporting*

We believe that digital reporting has the ability to overcome some of the sustainability data challenges that are currently faced. The ability for users to access sustainability related information from an entity's annual reports will be important, particularly for reporting of scope 3 Greenhouse Gas (GHG) emissions which will impact on participants along the value chain of reporting entities. We continue to advocate for the adoption of mandatory financial digital reporting and recommend the same digital approach is taken for sustainability reporting in Australia.

### *Council of Financial Regulators (CFR) assessment*

We are concerned with the timing (by the end of 2024) of recommendations from the proposed detailed assessment of options to address key sustainability related data challenges faced by financial system participants by the Council of Financial Regulators (CFR). Group 1, which we anticipate will include large financial institutions, under Treasury's proposed reporting roadmap will be well into their first-year reporting and as such we believe that the CFR assessment should be expedited with an iterative approach that prioritises addressing gaps as they are identified rather than waiting until final recommendations are presented. We suggest that the CFR assessment takes a dual approach which separates and prioritises climate while in parallel considers other sustainability data.

### **Priority 8: Ensuring fit for purpose regulatory frameworks**

We note in the paper that Australia's regulatory and governance frameworks are well-positioned to manage sustainability issues and trends, supported by the Government's actions to enhance transparency, capabilities and policy frameworks. As members of the ASX Corporate Governance Council, we are involved in the current drafting of the 5<sup>th</sup> edition of the Corporate Governance Principles and Recommendations. We would be open to working with Government to assist in identifying policy priorities for mainstreaming sustainability considerations.

#### *The superannuation system*

As noted in our [joint submission to Treasury's consultation paper on the Review of Your Future Your Super Measures](#) (Your Future Your Super), we expressed our belief that significant uncertainty still exists in relation to the operation of the performance test measure. A primary concern that we have is in relation to the short-term nature of the measure.

The short-term nature of the measures inadvertently impedes those funds that focus on medium- or longer-term investments including those in line with the Government's policy and legislation commitment to net zero carbon emissions by 2050.

The paper notes that the Government will extend the performance test lookback period from eight to ten years, however as noted in our response to Your Future Your Super, we consider a twelve-year time period may be better for such assessments. We also recommend the inclusion of appropriate benchmarks to align with Paris Agreement targets, inline with Australia's legislation climate targets.

In addition, we note that there is inconsistency between the backward-looking performance tests required and APRA's guidance on managing climate change risks (CPG 229) which stress the importance of managing for short and long term climate changes risks.

### **Priority 9: Issuing Australian sovereign green bonds**

As noted in the report, [Investing in Australia's vital regions](#) published by the Investor Group on Climate Change (IGCC) there is an opportunity for Australia's future green bond program to adopt a broad remit to target critical investments in regional areas to enable a just and accelerated process for decarbonising Australia's economy<sup>1</sup>. We suggest Government considers this opportunity as Australia's future green bond program develops.

<sup>1</sup> [Investing in Australia's vital regions: Investor perspectives on how to leverage private capital to transform Australia's emissions-intensive regional economies and deliver a just transition](#)

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

Australia's has a key role to play not only in the ASEAN region, but also across its pacific neighbours. It is important the Australia is represented at the international level, such as the ISSB Board and committees.

We acknowledge the [Streamlining financial reporting architecture](#) announcement published on 21 November 2023, which outlines the Government's intent to combine the Australian Accounting Standards Board (AASB), the Auditing and Assurance Standards Board (AuASB) and the Financial Reporting Council (FRC) into an integrated single body which will also better support the ongoing implementation of climate-related financial disclosures standards in Australia. We are concerned by the lack of detail around important issues such as adequate funding and ensuring Australia's alignment to international accounting, audit and sustainability standards setters.

In light of the recent announcement, we are still of the view that Australian Sustainability Reporting Standards will need to be supported through adequate resourcing and expertise. Building this expertise and capacity will establish a strong pipeline to position Australia to provide technical regional expertise for international representation and engagement.

- 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?

Australia has the opportunity to proactively learn from activities being carried out internationally. For example, the pillars, principles, criteria and operational guidance noted in the consultation document could be adopted by the Australian Securities Exchange (ASX) to position Australia's capital market as a sustainability leader.