Sustainable Finance Strategy

The Treasury

—

Westpac Banking Corporation
December 2023

WE ARE GROUP

Overview

Westpac Group (**Westpac**) welcomes the opportunity to provide comments on the Government's consultation paper on an Australian sustainable finance strategy (**Strategy**). Westpac supports the Government's intention to develop a Strategy that will support Australia's pathway to net zero, by providing a comprehensive framework for reducing barriers to investment into sustainable activities.

To achieve its intended outcome, the Strategy will need to focus on the following:

Embedding the foundations of an integrated framework to advance and scale sustainable finance. This includes:

- Government working with industry to establish mandatory disclosure and guidance, net-zero transition planning and a sustainable finance taxonomy. Activities should be appropriately phased, provide clarity of scope and guide implementation.
- Prioritising the development of standards for climate-related data, methodologies and definitions. This includes the development and making available standardised data sets that support different use cases, ranging from scenario analysis to calculation of scope 3 emissions.
- The development of natural capital and biodiversity data to support incoming Taskforce on Nature-related Financial Disclosure (TNFD) requirements and nature-based and biodiversity sustainable finance solutions.

Complement broader climate policy developments

- The Strategy should complement and be aligned with other policies such as the Safeguard Mechanism, the six sectoral emission reduction pathways being developed and the Australian Carbon Credit Units Scheme.
- The Strategy should provide guidance on how it supports meeting Australia's emissions reductions targets and interacts with the net-zero commitments of financial institutions, who have committed to aligning their portfolios to net-zero by 2050 consistent with a 1.5°C pathway.

Providing clearer guidance and direction on transition plans

- There needs to be clarity on the development of a transition plan framework and consistency with disclosure requirements. This framework should be developed by taking the learnings from the Transition Plan Taskforce and other international frameworks.
- Transition plans can be complex and take time for companies to fully develop. Guidance on priority areas would be useful especially if these are needed to supplement other requirements, for example, company strategies on emissions reduction activities may be needed when applying the sustainable finance taxonomy.

Building skills and capabilities

- The sustainable finance landscape is fast evolving and there is a need to develop and build the skills and capability to identify, assess and manage opportunities and risks. This could be achieved through the development of educational materials and by running workshops in collaboration with industry to build capability.

We note and support the positions outlined in the Australian Banking Association's submission to this consultation. Outlined below is our response to the questions in the consultation paper.

Thank you for the opportunity to provide comments on this consultation.

Pillar 1: Improve transparency on climate and sustainability

Establish a framework for sustainability-related finance disclosures

<u>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?</u>

We acknowledge a framework for sustainability-related finance disclosures is central to the Strategy and is a critical foundation for delivering sustainable finance in Australia.

The Government has the opportunity to provide a clear framework and guidance for common standardised disclosures. This will help reduce the risks of greenwashing from more extensive disclosure, and uncertainty on expectations from regulators. It will enable stakeholders to compare information and performance objectively. As part of establishing this framework, consideration should be given to its development in stages to allow implementation pathways that do not overburden participants.

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

In preparing for global developments in sustainability-related financial disclosure frameworks and standards, the Government, in the first instance, should provide a clear framework for sustainability reporting within the annual reports and financial statements, with a focus on integration and inclusion instead of duplication with existing requirements (e.g. with sustainability governance related requirements under the ASX rules).

The accounting of sustainability-related information in financial statements is currently not clear and this should be an area of clarification before considering adding additional disclosures requirements.

We would recommend that companies have the time to develop maturity in implementing the TNFD disclosures before considering further expansion for mandatory sustainability reporting.

Developing an Australian sustainable finance taxonomy

<u>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?</u>

We support the Australian Government and financial regulators taking a leading role to work with the industry to develop the Australian Sustainable Finance Taxonomy.

Currently, there is no standardisation across the banking industry to define, classify and report sustainable finance across the various financial instruments used to fund sustainable activities. Having a common set of definitions and standards to classify and report across both labelled and unlabelled sustainable finance transactions is an important use case for the banking industry that would promote product integrity, support consistent classification and reporting, and allow comparability.

Another use case is for large companies and financial institutions to disclose the alignment of their activities with the taxonomy. These disclosures can support and influence capital allocation to the right sustainability outcomes.

We support the inclusion of transition activities as part of the taxonomy and the acknowledgement that defining transition activities can involve complex scientific assessments and judgements. Consultation with a wide range of stakeholders including industry and research organisations will be required. The Government should also ensure that elements from mandatory disclosures and credible net zero transition planning are able to provide the information to classify transition activities.

What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?

Following the establishment of a taxonomy on climate mitigation objectives in key sectors, Westpac supports further expansion of the taxonomy to other sustainability objectives such as sustainable land use, natural resources and biodiversity, and circular economy. Increasingly, as investors are also interested in social objectives, we recommend the taxonomy be expanded to support these objectives including for indigenous people, and other vulnerable and at-risk groups.

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?

Westpac supports a harmonised approach to transition plan disclosure, that is accommodating of Australian specific factors. In developing a transition plan disclosure framework for Australia, consideration should be given to the learnings from other existing frameworks internationally, including the UK's Transition Plan Taskforce (TPT) framework.

Broad stakeholder engagement and consultation across academia, non-government organisations, financial institutions, and impacted companies across a range of sectors, will be critical to the development of a transition planning capabilities and disclosure requirements.

In developing the transition plan disclosure framework for Australia, the Government should consider:

- The 'gold standard' approach developed by the UK TPT is comprehensive and may be too complex for the stage that Australia is currently at. For example, in Australia many non-listed companies do not report information related to climate.
- As a starting point, we need to focus on creating consistency across those entities in Australia that report. This consistency should apply in particular to:
    - the boundary of GHG emissions
    - the use of carbon credits
    - actions that address both emissions reduction and adaptation to physical risks to enhance resilience.
- Organisations find the collection of Scope 3 data as a significant barrier to setting targets and developing a transition plan. Further sector specific guidelines and standards on the reporting and collection of scope 1, 2 and 3 data would enable organisations to consistently address data requirements as it relates to their transition plan.
- Establishing the minimum standard is a starting point but important to note that transition planning is often a multi-year process to implement within organisations and to demonstrate progress against plans.

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?

This priority appears to be targeted at sustainable investment products and labelling for funds. It is unclear whether this priority extends to labelled sustainable financial instruments such as bonds and deposits. The labelling of these financial instruments is equally as important as they are key investment products for sustainable funds and should be considered in the design of the product labelling regime.

As noted above (see *Developing an Australian sustainable finance taxonomy*), consistent application of the taxonomy criteria across sustainable finance instruments can promote product integrity and manage greenwashing.

Pillar 2: Financial system capabilities

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?

We consider Australia's existing laws are sufficiently flexible to address greenwashing. However, we would welcome additional clarity in the form of guidance from regulators as to their expectations, particularly regarding what constitutes 'reasonable grounds' for forward-looking statements, given the known scientific, data, methodological and other limitations in this space. Also, in light of these challenges, we would encourage regulators to take a proportionate approach.

Further, we would encourage and welcome greater consistency of approach across the guidance from Australian regulators, noting that climate disclosures often do not fall squarely or solely under the remit of just one regulator.

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?

Sustainability risks, including climate-related risks, will materialise in the Australian and the global economy through numerous transmission channels. Westpac welcomes Treasury and the Council of Financial Regulators' (CFR) acknowledgement of the need for a coordinated, whole-of-government approach to assessing systemic financial and macroeconomic risks.

To support this outcome, Treasury and the CFR may wish to consider providing greater guidance to support the development of common foundational capability by market participants. This could improve economies of scale in areas like modelling and data sourcing and would help set out the expectations of regulators for market participants.

Further, Treasury and the CFR should continue to develop a set of common approaches and methodologies that would have economy wide application, thus ensuring consistency. This includes the sectoral decarbonisation pathways under development by the Australian Government, insurability assumptions, and standardised data sets (see *Addressing data and analytical challenges*).

It may be appropriate to consider greater flexibility to allow businesses within a sector to engage on the development of sector methodologies to address sustainability risks, especially climate change. In the interest of addressing climate risk at pace, similar flexibility has been considered and supported by competition regulators in other countries.

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 availability of standardised and reliable data is critical in the sustainable finance ecosystem. To support the development of data and analytical tools for financial decision-making, the Government and CFR should prioritise:

- The establishment or expansion of a government agency (e.g. Australian Bureau of Statictics) to source, develop and make publicly available credible, standardised data sets.
- The development of industry standards relating to data definitions particularly in respect to company disclosures to ensure consistency across the ecosystem.
- The development of shorter term, internationally compatible, climate scenarios "downscaled" for use in Australia. This would assist with the assessment of sustainability risks within existing strategic planning processes.
- Improving linkages between climate scenarios and macroeconomic impacts to support modelling approaches.

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?

Westpac agrees that the existing regulatory and governance frameworks and practices, as it relates to banking, have adapted well to support better integration of sustainability-related issues in financial decision making.

However, the sustainability landscape is evolving and there is a need to develop new capability to identify, assess and mange opportunities and risks. There is an opportunity for Treasury and CFR to support ongoing development of the new capabilities needed by market participants. As mentioned in our response above, this could include greater guidance in frameworks and supporting publications, providing opportunity for the efficient development of methodology, modelling, and data for the benefit of market participants.

There are certain challenges regarding the legal and regulatory regime, as mentioned in our response above (see *Enhancing market supervision and enforcement*). Those challenges and uncertainties can flow through to corporate governance issues in particular the exercise of directors' duties. Therefore, greater clarity and guidance is needed to support corporate governance. As mentioned in our response above (see *Identifying and responding to potential systemic financial risks*), increasing the level of guidance would support investment and implementation by market participants in capability that is aligned with industry direction and ambition.

Pillar 3: Australian Government leadership and engagement

Develop Australian sovereign green bonds program

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?

Westpac welcomes the Government's announcement to issue green bonds to finance climate-aligned activities. Our key observations from our own market experience and other international jurisdictions are:

- The market expects sovereign green bond issuers to set economy wide strategies and actions to address climate change holistically. This goes beyond the sole use of proceeds of green bonds and is increasingly requiring additional information such as revenues from fossil fuel exports.
- Coherence of spending that are aligned to Paris Agreement objectives is key. Therefore, allocation and impact reports are important requirements for investors.
- Sovereign "Transition finance" remains an emerging concept with more insights to be gained from 2024 Japan Transition issuance program. Some environmental, social

and corporate governance focused European Union investors may not participate in these “transition bonds” due to allocated projects locking in fossil fuels and emissions. Clear definitions and education on transition methodology and assets will assist investors’ understanding in the importance of supporting the economy to transition.

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

To support the continued development of green capital markets in Australia, the Government could consider:

- The creation of a grant scheme to help the market develop whilst ensuring integrity, given costs is often one of the hurdles for some organisations. The Monetary Authority of Singapore is offering a Sustainable Loan/Bond Grant Scheme to borrowers covering the cost of their external reviews (assurance or Second Party Opinion (SPO)).
- Bank balance sheets are very important participants to the domestic capital markets, whilst operating under strict capital requirements rules. Consideration of capital incentives for asset owners to invest in green and sustainable products may encourage increased funds and portfolios supporting green issuances.

Catalysing sustainable finance flows and markets

What role can the CEFC play to support scaling up of sustainable investment in Australia, as part of a more comprehensive and ambitious sustainable finance agenda?

The Clean Energy Finance Corporation (CEFC) has an important role to play in supporting the scaling up of sustainable investment in Australia. Further consideration is needed as to how the CEFC’s role of catalysing investment could interplay with supporting capital allocation to Australian sustainable finance taxonomy activities. This could help promote and scale the specific activities that are critical to Australia’s transition.

Promoting international alignment

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

Westpac supports the development of consistent global standards and interoperability between Australia and other jurisdictions that promote comparability and cross border investments. To ensure the effectiveness of the Australian standards, particular focus should be on:

- Frameworks and standards that are specific to our economy and region.
- Support for practical application and balance between ambition, implementation, and costs.
- Transition periods – consideration for sectors with a varying degree of maturity regarding sustainable finance, and foundational developments that will support advancement and scale of sustainable finance (i.e. taxonomy, disclosures, and transition planning).
- Knowledge sharing and capability to be developed domestically across sectors, community, and stakeholders.

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?

As we are a resource-intensive economy with major climate transition and adaptation opportunities and risks, several opportunities exist that will allow Australia to uniquely place itself as a global leader in sustainable finance. These include:

- Setting clear and credible transition finance definitions, aligned with decarbonisation sectoral pathways, that can be translated and implemented to scale transition finance. The sectoral pathways will need to consider an Australian specific baseline and Paris-aligned net-zero pathways.
- Incorporating indigenous engagement and Free, Prior and Informed Consent (FPIC).
- Providing support for the critical minerals industry to meet the rapidly increasing demand.
- Value-add manufacturing to lower embodied emissions by taking advantage of the Australian renewable energy capacity – for example, by creating green iron for export.
- Delivering social impact programs (gender and financial inclusion), climate adaption and resilience programs through blended finance solutions.

What are the key market, regulatory and institutional barriers to increasing private sector engagement in blended financing opportunities? How can these barriers be overcome?

With regards to blended finance solutions, there are currently some barriers that are impacting private sector engagement, these include:

- Limited awareness or understanding of blended finance and the potential for public/private collaboration for impact.
- Institutional and regulatory constraints such as some types of instruments being restructured and impact on credit risks/capital requirements.
- Limitations in capability and technical expertise to structure, manage and execute such transactions.

These barries could be overcome by focusing on capability and skills uplift combined with guidance and frameworks for starting or scaling up of activities. Increased collaboration with Government could also support scale and innovation.