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## MOODY'S RESPONSE TO AUSTRALIAN TREASURY'S CONSULTATION ON AUSTRALIA'S SUSTAINABLE FINANCE STRATEGY

Moody's Corporation ("Moody's") is a global integrated risk assessment firm, providing data, analytical solutions and insights to help decision-makers identify opportunities and manage the risks of doing business with others.

We offer a range of products and solutions that incorporate sustainability and climate considerations, including environmental, social and governance (ESG) measures, climate solutions and sustainable finance solutions, catastrophe models and credit risk tools. Additionally, Moody's Investors Service (MIS), the credit rating agency within Moody's, incorporates sustainability and climate into its analysis where material to credit.

We would like to thank the Australian Treasury for the opportunity to provide comments in respect of its Sustainable Finance Strategy Consultation Paper and provide responses to specific questions in our comments below. At a high level, we wish to encourage alignment with international standards and initiatives as much as possible.

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

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

We support the development of globally consistent and comparable frameworks and standards for sustainability-related financial disclosures. We encourage the Australian government to seek as much international alignment with these as possible in the work it is doing within the space, including the standards proposed by the International Sustainability Standards Board (ISSB) as well as the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD). We also encourage the government to support the production of sustainability-related financial information through digital reporting.

We believe that regulatory efforts for the sustainable finance market would be most effective and efficient if there are comparable standards across markets. If standards are too fragmented globally, it will be challenging for a wide range of stakeholders to execute their work properly, and it would be counter-productive with regards to the ambition of increasing transparency and efficiency of global capital markets.

As examples, we commend the work done by the ISSB to establish a global baseline for sustainability-related disclosure requirements through IFRS S1 and S2. Further, Moody's is represented on the TNFD and would welcome the Australian government's support in encouraging disclosures in line with the TNFD's recommendations. As the market starts to make these disclosures, we expect there will be a need for guidance and clarifications from the regulatory community and would equally encourage the Australian authorities to contribute to this process.

In addition to comparable standards across markets, we would encourage sustainability-related financial information to be prepared digitally so as to drive efficient and more rapid use of any data mandated to be disclosed.

#### **Priority 5: Enhancing market supervision and enforcement**

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

To the extent that Australia wishes to introduce regulatory expectations for ESG ratings, we would encourage it to align with the Good Sustainable Finance Practices developed by the International Organization of Securities Commissions (IOSCO)<sup>1</sup>. This framework sets expectations in respect of providers' integrity, transparency, good governance, conflicts of interest, and systems and controls.

The market for ESG ratings is heterogenous and evolving rapidly, spanning both established financial players and relatively new startups, all seeking to develop decision-useful data, analytics and insights for a broad stakeholder base. This diversity is demonstrated by IOSCO's Report on ESG Ratings and Data Providers<sup>2</sup>.

Therefore, currently, we see merit in voluntary codes of conduct that align with the IOSCO Good Practices. In addition, we would encourage global regulators to review the implementation of these Good Practices across jurisdictions so as to encourage convergence of application and definitions.

In contrast, a framework that is overly prescriptive and inflexible could inadvertently stifle innovation in products and services or might impose solutions that do not respond adequately to complex and diverse customer needs. For example, an approach that applies the level of oversight and control as typically required by many major jurisdictions' CRA regulations would be too onerous.

At present, Moody's credit rating business and other CRAs in Australia are regulated as a provider of "general advice" under the financial product advice framework which resides within the Australian Financial Services License regime (AFSL).

Should the Australian authorities determine that formal regulation is preferable to a code of conduct, we do not think that the financial product advice framework is the appropriate regime from which to regulate

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<sup>1</sup> IOSCO Good Sustainable Finance Practices for Financial Markets Voluntary Standard Setting Bodies and Industry Associations, 7 November 2022: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD717.pdf>

<sup>2</sup> IOSCO Final Report on Environmental, Social and Governance (ESG) Ratings and Data Providers, FR 09/21, November 2021: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>

ESG rating providers. We hold a similar view in the respect of the regulation of credit rating agencies. We think the regulatory regime applied to CRAs would be more appropriately designed if CRAs were removed from the financial product advice framework, enabling ASIC to continue to apply the IOSCO Code and existing CRA specific conditions in CRA AFSL licenses.

**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?

We believe that international alignment across markets for frameworks and standards of sustainability-related financial disclosures will best contribute towards a better understanding of sustainability-related risks. Please refer to our response in Priority 1 for more details.

**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?

We support the development of globally consistent and comparable frameworks and standards for sustainability-related financial disclosures, like those of the ISSB and TNFD. We encourage the Australian government to seek as much international alignment with these as possible.

**Priority 11: Promoting international alignment**

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

We encourage the Australian government to seek as much alignment with globally consistent and comparable frameworks and standards as possible. We view the ISSB sustainability-related disclosure requirements and IOSCO Good Sustainable Finance Practices for ESG Rating and Data Providers as two important initiatives for sustainable finance.

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We thank you for your consideration and remain at your disposal to discuss our response.

Yours sincerely,

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Moody's Corporation

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