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Sustainable Finance Unit
Climate and Energy Division
Treasury

Submitted electronically

To whom it may concern,

Climateworks Centre submission on the Sustainable Finance Strategy

Climateworks Centre welcomes the opportunity to respond to the Sustainable Finance Strategy (the Strategy). Climateworks Centre bridges the gap between research and climate action, operating as an independent not-for-profit within Monash University. Climateworks develops specialist knowledge to accelerate emissions reduction, in line with the global 1.5°C temperature goal, across Australia, Southeast Asia and the Pacific.

Climateworks supports the development of the Strategy, with the aim of providing an ambitious and comprehensive framework for reducing barriers to investment in Australia's pathway to net zero. The development of the Strategy provides a crucial opportunity to help mobilise private investment for corporations to finance their transition to net zero, through improving transparency, building the capabilities of financial systems, and developing climate-related disclosure regimes and a sustainable finance taxonomy.

This is especially urgent, given the window to keep global warming within 1.5°C degrees is still open but narrowing. Climateworks' scenario analysis shows that Australia can still achieve least-cost trajectories compatible with Paris Agreement climate goals, however those trajectories involve very strong emissions reductions this decade:

- 68% reduction below 2005 levels for the 1.5°C degree scenario; and
- 48% reduction below 2005 levels by 2030 for the well-below-2 degree scenarios (Climateworks Centre 2023a).

Submission summary

Climateworks recommends that Treasury should:

- Design the implementation plan so that it is explicitly linked to the Strategy's objective of mobilising private and public investment to transform Australia's economy in line with reaching net zero emissions, Australia becoming a renewable energy superpower and other sustainability goals. Treasury should also set the commitment for the net zero emissions goal to be clearly linked to the action required by Australia to be in line with the Paris Agreement's goal of limiting global warming to 1.5°C.
- Establish in the implementation plan how the government will support the development of a coherent sustainable finance system architecture - including but not limited to mandatory disclosure on addressing climate-risk, credible transition plans and the sustainable finance taxonomy. This will require the development of clearly defined and effective data tools and

regulatory frameworks, which are interoperable and standardised across platforms, solutions and interfaces.

- Set out in the implementation plan a timetable for mandatory disclosure and reporting requirements in line with ambitious, best-practice approaches internationally. This should include how criteria beyond climate and financial disclosures will be integrated
- Commit to review corporate and financial sector regulation to ensure these are coherent with the Sustainable Finance Strategy - in particular that tests for these sectors are consistent with Paris-aligned net zero commitments and credible transition plans such as the benchmarks used in Your Super Your Future performance tests.
- Commit to issue guidance on transition plan requirements in line with international best practice and set out the timetable for when Treasury will issue this guidance. This should include guidance on how to assess the alignment of transition plans with a credible, 1.5C-aligned pathway.
- Ensure there are agreed Paris-Agreement aligned sectoral pathways established for Australia. Agreement on these pathways should include support by a range of stakeholders across industry, banks, investors bodies, researchers and civil society.
- Develop an Australian sustainable finance taxonomy based on agreed 1.5C-aligned sectoral pathways. Ensure the taxonomy is consistent with corporate disclosure and reporting requirements to ensure alignment with the agreed sectoral pathways.
- For those seeking government funding, extend the application of disclosure requirements to include credible transition plans and evidence-based decarbonisation targets, for priority industrial areas. And explore how Australia's sustainable finance taxonomy could prioritise transition in these key industrial areas to support Australia to become a renewable energy superpower that unlocks economic opportunity in the global transition to a net zero economy.
- Set out in the implementation plan how government will support the development of scientifically-credible public datasets to measure natural capital in a structured, accessible and consistent manner that will allow businesses, investors and regulators to address emerging requirements in relation to TNFD.

Climateworks would welcome the opportunity to brief Treasury on these recommendations as well as the evidence underpinning them, in particular on our work on corporate disclosure requirements, credible transition plans, and the development and use of sectoral pathways.

Sustainable Finance System Architecture

This section relates to Priority 1: Establish a framework for sustainability-related financial disclosures, and Priority 2: Develop a Sustainable Finance Taxonomy, Priority 3: Support credible net zero transition planning, Priority 7: Addressing data and analytical challenges, and Priority 8: Ensuring fit for purpose regulatory frameworks.

Recommendation 1: The implementation plan is explicitly linked to the Strategy's objective of mobilising private and public investment to transform Australia's economy in line with reaching net zero emissions, Australia becoming a renewable energy superpower and other sustainability goals. And set the commitment for the net zero emissions goal to be clearly linked to the action required by Australia to be in line with the Paris Agreement's goal of limiting global warming to 1.5°C.

Recommendation 2: Establish in the implementation plan how the government will support the development of a coherent sustainable finance system architecture - including but not limited to mandatory disclosure on addressing climate-risk, credible transition plans and the sustainable finance taxonomy. This will require the development of clearly defined and effective data tools and regulatory frameworks, which are interoperable and standardised across platforms, solutions and interfaces.

Recommendation 3: Set out in the implementation plan a timetable for mandatory disclosure and reporting requirements in line with ambitious, best-practice approaches internationally. This should include how criteria beyond climate and financial disclosures will be integrated.

Recommendation 4: Commit to review corporate and financial sector regulation to ensure these are

coherent with the Sustainable Finance Strategy - in particular that tests for these sectors are consistent with Paris-aligned net zero commitments and credible transition plans such as the benchmarks used in Your Super Your Future performance tests.

Climateworks supports a Sustainable Finance Strategy that will mobilise private and public investment to transform Australia's economy in line with 'net zero, Australia becoming a renewable energy superpower and other sustainability goals', as described in the consultation paper. Climateworks' view is that it is essential this sustainable finance system drives economic transformation - globally and domestically - to reach net zero emissions aligned with limiting warming to 1.5°C. The recommendations and information in this submission aim to ensure that the finalised Strategy and the implementation roadmap create a finance architecture and governance system that is not only transparent about whether investment is in line with the necessary transformation, but also catalyses that change. To that end, the Strategy should be explicit in how its pillars ensure private and public investment moves to create the transition pathways needed for the different sectors of the economy,

Climateworks supports the work of the Australian Treasury on the development of a comprehensive sustainable finance framework, centred around climate risk disclosure, credible transition plans and the sustainable finance taxonomy. This will be most effective if underpinned by clearly defined and effective data tools and regulatory frameworks, which are interoperable and standardised across platforms, solutions and interfaces. They must also be based on a credible pathway against which targets and intentions can be compared. It will be important to ensure that tools drive consistent change across the economy, as well as increase transparency.

Mandating climate-related financial disclosures is an important step to drive corporate climate action and send a clear message to the markets that Australia is strongly committed to meeting the Paris Agreement. This signal will be clearest if there is an holistic approach where the framework and guidance for mandatory disclosure a) provides sufficient transparency, and b) supports and is reinforced by a broader system architecture.

Climateworks recommends the introduction of mandatory disclosure in line with the most ambitious approach internationally, to ensure that reporting and compliance requirements for Australian companies are coherent and future-proofed - especially important given the extent of international finance in the Australian system. Explicitly stating the intention to keep with international best practice during Australia's phased introduction of mandatory disclosure and the finance taxonomy would help avoid uneven reporting and compliance requirements for Australian companies with external finance. It would also help provide clearer direction to support early movers and more ambitious companies.

International best practice has moved beyond climate-related risk and is now developing how to include nature and social aspects such as just transition. There is also best practice on how to ensure there is appropriate guidance on credible transition plans, such as that developed by the Transition Plan Taskforce (2023). Best practice is also available on how disclosure of climate-related risk and plans can be assessed for credibility such as through comparison with transition pathways. The Sustainable Finance Strategy is Australia's opportunity to ensure that finance flows to sectoral action that allows transition which is consistent with sectoral pathways to net zero, in line with Australia's commitments under the Paris Agreement.

Climateworks notes the EU's Corporate Sustainability Reporting Directive (CSRD) is using the EU's sustainable finance taxonomy to underpin disclosure; it goes beyond just climate-related financial disclosures, and it will apply to Australian companies operating within or exporting to the EU.

In Australia, it will be important to ensure the integration of a broader range of criteria in addition to climate-related criteria and requirements beyond financial disclosures. These should also align with requirements for other aspects of corporate regulation such as those governed by the Corporate Act and ASIC. [Section 297 of the Corporation Act](#) mandates the exercise of due care and diligence by Directors. This includes the extent to which climate change and environmental factors can have a material impact on a company's financial position. [ASIC also requires](#) that listed companies include a discussion on the ESG risks within the Director's Report, where those risks could affect the entity's financial position or performance. We note that in some areas, companies and investors are already commenting that some requirements on financial duties are preventing investments in the transition to

a net zero economy.

Treasury can assist with transparency, comparability and rigour for the sustainability disclosures by ensuring consistency across data standards and the development of appropriate data platforms. This will allow relevant bodies to demonstrate the value of proposed actions and the resilience of their organisations. The implementation of the Sustainable Finance Strategy will also be more effective if the implementation plan clarifies the enforcement regime to be put in place, guidance for this enforcement, and which institution will be performing which roles.

The [IMF and the World Bank](#) recently highlighted gaps in the creation of global, aligned, interoperable sustainable finance system architecture. In our view Australia is well-positioned to demonstrate global leadership and address this gap as it creates and implements the Sustainable Finance Strategy. Treasury can learn from jurisdictions already taking action and integrate with other government initiatives currently being developed, including sectoral decarbonisation plans, and initiatives to increase coherence between Australia's regulators. Australia can be one of the first countries to have all the constituent elements recommended by the IMF and World Bank. However, challenges remain in ensuring all relevant levers are acting in the same direction. This particularly relates to those levers which sit beyond the elements of the Sustainable Finance Strategy, such as specific requirements for returns on investment in some sectors. Ensuring that Australian finance system architecture is coherent with the wider domestic and global context will future proof the finance system, and ensure alignment with global markets. It will also improve consistency and alignment for those interacting with systems in multiple jurisdictions.

Directing Finance To Credible Climate Solutions

This section relates to Priority 1: Establish a framework for sustainability-related financial disclosures, and Priority 2: Develop a Sustainable Finance Taxonomy, Priority 3: Support credible net zero transition planning, Priority 7: Addressing data and analytical challenges, and Priority 8: Ensuring fit for purpose regulatory frameworks.

Recommendation 5: Commit to issue guidance on transition plan requirements in line with international best practice and set out the timetable for when Treasury will issue this guidance. This should include guidance on how to assess the alignment of transition plans with a credible, 1.5C-aligned pathway.

Recommendation 6: Treasury should ensure there are agreed Paris-Agreement aligned sectoral pathways established for Australia. Agreement on these pathways should include support by a range of stakeholders across industry, banks, investors bodies, researchers and civil society.

Recommendation 7: Develop an Australian sustainable finance taxonomy based on agreed 1.5C-aligned sectoral pathways. Ensure the taxonomy is consistent with corporate disclosure and reporting requirements to ensure alignment with the agreed sectoral pathways.

Climateworks is highly supportive of Treasury's proposals for companies to publicly disclose the climate risks they are exposed to, and how they intend to address those climate risks and make the most of economic opportunities through a publicly available transition plan. Climateworks also supports that these requirements will align with the ISSB's requirements.

There are a number of expansions which Climateworks would recommend, to ensure that companies take the actions required of them to decarbonise in line with the Paris Agreement, and that finance is directed to where it is needed most. As mentioned, these requirements are already being explored in other jurisdictions.

Australian-specific guidance for transition plans would ensure comparability and rigour. Treasury should define and issue guidance on transition plan requirements in line with international best practice and set out when this guidance will be issued, as part of the implementation plan for the Strategy. Climatework notes that the Transition Plan Taskforce is generally regarded as the 'gold standard' for what a transition plan disclosure should look like and contain. The latest guidance from the Transition Plan Taskforce supports companies to consider nature and just transition in their

planning, and provides additional guidance tailored to companies from particular sectors (Transition Plan Taskforce 2023). Climateworks has studied the difficulties that corporations are now facing through the proliferation of frameworks internationally and their differences, and has assisted individual companies with high quality disclosure and transition planning as well as the development of a guide on transition planning for businesses. We would welcome the opportunity to discuss the insights and findings from our work with business in this area.

Another key element to ensure comparability and rigour is to provide guidance on how to assess whether emissions reduction targets and other transition plan elements, like implementation strategies, asset management and capital allocation, are aligned with a credible, 1.5°C-aligned pathway.

The *Paris-consistent climate change mitigation scenarios* report, recently published by the OECD, provides guidance on what global pathways and scenarios can be considered credible and should form the basis of climate transition planning (Pouille et al. 2023). We note the importance of scenarios and pathways for the Australian economy - such as Climateworks' Australia-specific modelling (Climateworks Centre 2023b) or similar.

Climateworks strongly recommends that Treasury ensures there are agreed Paris-consistent sectoral pathways for Australia. Support for these pathways should include a range of stakeholders across business, banks, investors, researchers and civil society. These pathways would underpin the ability of all actors in the system to set and support net-zero targets and actions consistent with the mitigation ambition of 1.5°C in line with the Paris Agreement, the Climate Change Act (2022), and in line with the latest climate science.

As indicated in the OECD report (Pouille et al. 2023), such a framework could be applied by different stakeholders:

- to identify and select scenarios that can help to navigate complexity and plan for rapid change
- to assess if the current normative benchmark is consistent with the country's decarbonisation ambition. At the public level, this will help to measure the ambition gap between collective emissions implied by the NDCs as well as the current governmental policies. At the private and financial sector level, this will support the assessment of investment plans and corporate transition plans' alignment with climate goals.

GFANZ and others recommend that region specific pathways are used when available, and Climateworks supports this view because it enables greater consideration of:

- Geographic dependencies. The economic system and resources available to support decarbonisation vary region by region, e.g. availability of renewable energy resources, carbon sequestration or hydrogen storage potential, or existing energy infrastructure.
- System dependencies. The finance, policy, regulatory or stakeholder landscape within a country may determine a company's best path to net zero and how they should engage within that system to achieve it in terms of partnerships, collaboration and lobbying.
- Just and equitable transition principles - noting the principle of common but differentiated responsibilities of the Paris Agreement.

Climateworks therefore welcomes Treasury's support for an Australian sustainable finance taxonomy based on 1.5°C-aligned sectoral pathways. Climateworks' Australia-specific climate scenarios modelling work (Climateworks Centre 2023b) or comparable scenarios could be used for this purpose.

Establishing agreed sectoral pathways will create greater confidence in how to guide investment, corporate transition plan development, and the assessment of these plans by others (aligning with [GFANZ's](#) and the [IGCC's](#) position). As previously discussed, all elements of the Strategy must be coherent with one another. The taxonomy should therefore be consistent with and strengthen corporate disclosure and reporting requirements (including credible transition plans). To enable this and to promote transparency and comparability, we recommend that Treasury seeks the inclusion of taxonomy-alignment disclosures in financial statements. This will help demonstrate how the business' economic activity has a positive impact on climate mitigation or reduces a negative impact based on

pre-established thresholds.

A government-agreed sustainable finance taxonomy combined with credible sectoral pathways would improve its effectiveness if used to underpin guidance for implementation and assessment. Otherwise even if a company has disclosed an apparently thorough and comprehensive transition plan, there needs to be a way to test if the actions it sets out will result in sufficient emissions reduction. For example, some technologies are less certain than others, and may result in no overall reduction of emissions, and instead divert finance away from more effective solutions. Implementing a government-agreed sustainable finance taxonomy and credible sectoral pathways would also help prevent greenwashing. Greenwashing is now acknowledged as a serious risk by [ASIC](#) and other regulatory agencies. Climateworks has produced its own guidance on company net zero plans, and has been involved in different initiatives to establish high ambition definitions of credibility. We are available to discuss any aspects of this work, noting:

- We have provided support to the [Australian Climate Leaders coalitions guide](#) which consolidates and summarises what credible transition is, bringing together important and authoritative recommendations on the matter by UN HLEG and others.
- We are part of an NGO coalition known as [ATP-CoI](#) which comprises many of the most prominent global standard setters, and is seeking to generate consensus on what counts as credible, releasing a report for public consultation in January 2024.

Demonstrating how credibility can be tested and infused into all aspects of Treasury's Sustainable Finance Strategy will form an important component of the development of the implementation plan and other government initiatives aimed at ensuring that finance flows to the right climate solutions. Climateworks would support Treasury convening a group to determine further steps to enhance firm level transition planning. This could also support the work of the Council of Financial Regulators on sustainable-finance related matters.

Lastly, Treasury and other parts of government can play an important role in supporting the development of capacity and capabilities in the sustainable finance system. The implementation plan could outline how Treasury will support Jobs and Skills Australia to ensure the right skills and training pathways are in place. Climateworks is supportive of the efforts of ASFI and others to explore standardisation, harmonisation, and acceleration of sustainable finance skills development through capability frameworks and cross-system collaboration. Climateworks has relevant experience in capability building with Australian corporates, including in [training bankers](#) at scale, and providing [guidance to the assessors of transition plans](#) about what data to seek to determine credibility. We can share insights from this work with Treasury or other parts of government, if this would be helpful to the development and implementation of the Sustainable Finance Strategy.

Place-based approaches and the role of government

This section relates to Priority 1: Establish a framework for sustainability-related financial disclosures, and Priority 10: Catalysing sustainable finance flows and markets.

Recommendation 8: For those seeking government funding, extend the application of disclosure requirements to include credible transition plans and evidence-based decarbonisation targets, for priority industrial areas. And explore how Australia's sustainable finance taxonomy could prioritise transition in these key industrial areas to support Australia to become a renewable energy superpower that unlocks economic opportunity in the global transition to a net zero economy.

Climateworks welcomes the clear indication in the consultation paper that disclosure requirements will be introduced for Commonwealth entities commensurate with the government's expectations for the private sector.

This action will enable government-owned entities and funders to require the disclosure of emissions and credible transition plans for projects funded by the Australian government. Not only will this

increase transparency on the emissions reduction of government funding, it will also flow through to those entities which government funds.

The requirement for a credible transition plan for government-funded projects ensures those projects and their proponents are both financially sustainable and have a plan for climate change risks and opportunities. This limits government risk and enhances climate action opportunities across the economy.

The example given in the consultation paper in relation to the Clean Energy Finance Corporation is particularly relevant when contemplating how disclosure might be leveraged to accelerate decarbonisation and reduce risk.

Further acceleration of decarbonisation could be achieved by disclosure requirements to prioritise Australian industrial areas by using disclosures and plans that both validate the success of such programs, and drive funding by government-owned entities to these regions based on compliance with global mandatory reporting. Anchoring the plans to regions with a defined target will facilitate both reporting and action in these key areas for Australia's future prosperity.

Climateworks sees the disclosure of Credible Transition Plans as part of government funding as an opportunity for value creation. It supports an overarching ambition of decarbonisation with a long term perspective, bringing the benefits of efficient and strategic planning and avoiding more costly actions in the future.

Nature and biodiversity

This section relates to Priority 1: Establish a framework for sustainability-related financial disclosures, Priority 7: Addressing data and analytical challenges, Priority 11: Promoting international alignment, and Priority 12: Position Australia as a global sustainability leader.

Recommendation 9: Set out in the implementation plan how government will support the development of scientifically-credible public datasets to measure natural capital in a structured, accessible and consistent manner that will allow businesses, investors and regulators to address emerging requirements in relation to TNFD.

Climateworks supports the recognition of the critical role of nature and biodiversity across the three strategic pillars. This reflects rapidly growing expectations of investors regarding greater transparency on nature risks and Australia's interest in protecting natural landscapes, ecosystems and biodiversity.

Measurement and Transparency

Expanding the scope of climate financing to intentionally co-design instruments to achieve nature-positive outcomes is recognised as an essential step to escalate the demand for climate and nature action (CISL 2023). It also offers significant economic and social co-benefits. Effective financial mechanisms based on common natural capital measures are essential to drive investment in nature-based solutions. Development of these data sets in a manner that serves the broader system is a public good. Government investment in public data sets will be required to form a foundation of accurate, scalable natural capital measurement. This would create the foundation for effective financial mechanisms based on common natural capital measures. It would allow proper regulation and verification of outcomes from new and existing mechanisms designed to increase private capital flows into nature.

Capability – Addressing data and analytical challenges and priorities

With increasing attention on nature from businesses and governments, credible, reliable and verifiable measurement of the condition of nature is required to ensure outcomes are being realised. There is a need to equip land managers, investors, governments and businesses with scientifically credible data that is fit for purpose to inform decision-making at all levels.

Climateworks is delivering the [Natural Capital Investment Initiative](#) (NCII), which seeks to create a

demand for, and provide structure and consistency, to strengthen the measurement of natural capital. To support this, Climateworks and partners have developed a [Natural Capital Measurement Catalogue](#); an evidence-based open resource that presents metrics and methods for the measurement of natural capital assets, flows of services or benefits, and organisational impacts or dependencies on nature. The catalogue is designed to help facilitate the integration of natural capital considerations into business, financial and government decision-making by addressing the need for convergence around a common language and a core set of natural capital metrics. The catalogue presents natural capital accounting and assessment metrics that are consistent with national and international standards and frameworks such as the United Nations System of Economic-Environmental Accounting (SEEA), The Natural Capital Protocol and the Task Force for Nature-related Financial Disclosures (TNFD).

The NCII also recognises that government, financial institutions and corporations will need to measure nature for various purposes (e.g. corporate disclosure and reporting, environmental markets) and is currently exploring, with a number of [pilot partners](#), how they can financially incentivise the measurement of natural capital on the ground, to ensure the cost and burden of measurement is not left to farmers and land managers.

Strengthening the measurement of natural capital or environmental information is a necessary precondition for quality TNFD reporting and to ensure that increasing private investment in natural capital is targeted and delivers verified outcomes. The availability of high quality, accessible, scientifically credible and comparable measures and data that are fit for purpose will need to be available to enable the formation of environmental markets and determine the return on investment associated with an investment in natural capital.

Climateworks welcomes the opportunity to work with the government to build sufficiently granular and extensive measurement systems and datasets in support of public and private sector action. We particularly note the importance of the work of Environment Information Australia and interested parties to deliver on the ambition of the Nature Positive Plan.

Leadership and Engagement

We believe that the Task Force for Nature-related Financial Disclosures (TNFD) has the potential to produce a catalytic effect and that Australia is primed to be a global leader in this area. Whilst the TNFD is still nascent, the emerging biodiversity and nature data market in Australia is growing at a rapid pace. We believe that it is possible to establish a clear pathway for mandatory TNFD reporting. Additionally, the Global Nature Positive Summit to be held in Sydney in October 2024, provides a unique opportunity to position Australia as a regional and global leader in sustainability and sustainable finance delivering nature-positive outcomes.

Thank you for taking the time to consider our submission. We would welcome an opportunity to brief your team if you would like to explore our responses in further detail.

Yours sincerely,

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