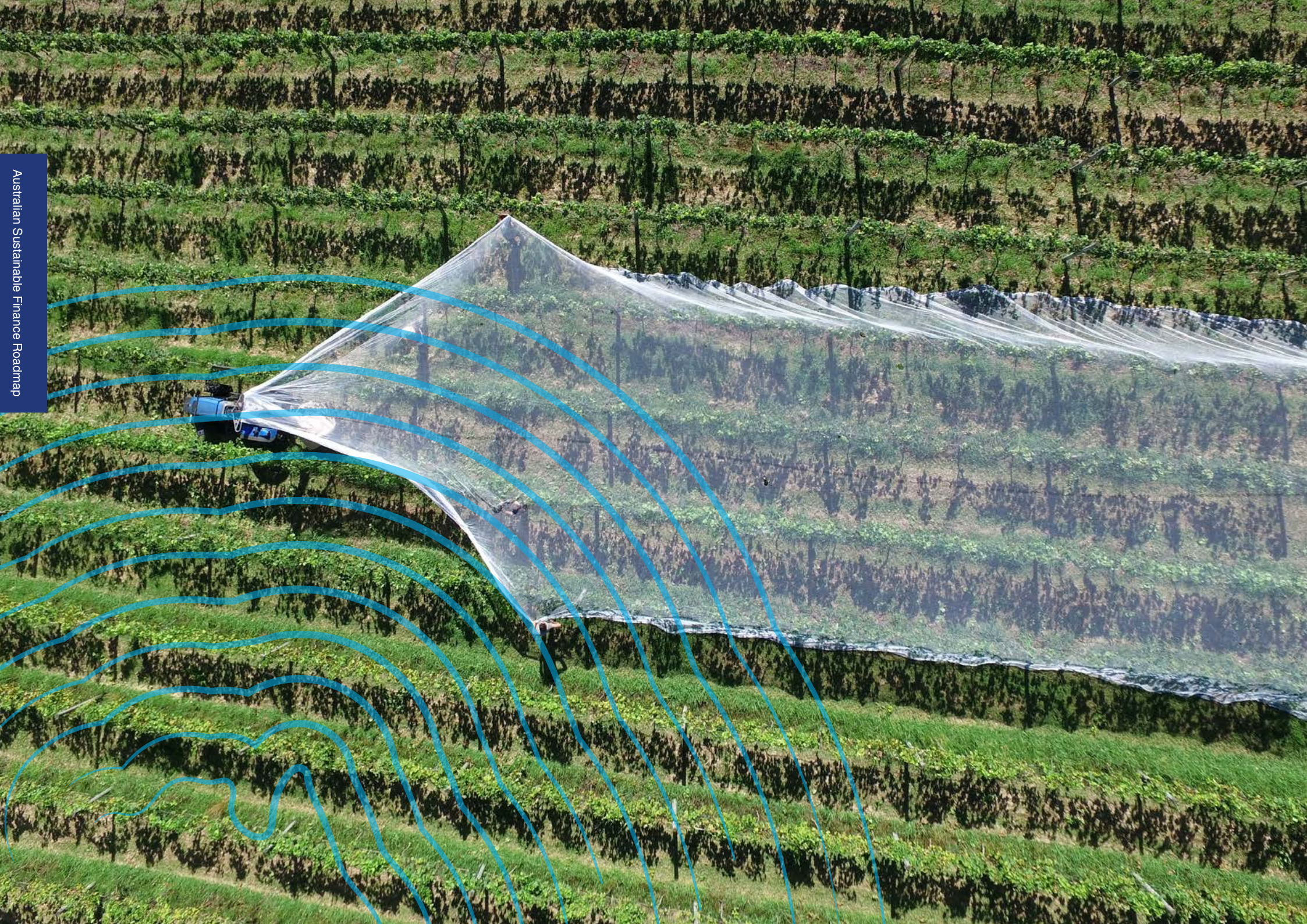


Australian Sustainable Finance Roadmap:

A plan for aligning Australia's financial system with a sustainable, resilient and prosperous future for all Australians

EXECUTIVE SUMMARY





Executive summary

The Australian Sustainable Finance Roadmap (Roadmap) is a plan for aligning Australia's financial system with a sustainable, resilient and prosperous future for all Australians.

Australians need financial security, a resilient environment in which to live, and a system that is fair and provides the opportunity for everyone to thrive and prosper. At the heart of this Roadmap is a recognition of the important role that the financial system can play in building this future. The financial system can be a force for good and prosperity that serves everyone.

The importance of having a resilient environment for all Australians to live in has never been more apparent than now.

Australia suffered from a summer of catastrophic bushfires in 2019/2020, which were followed in quick succession by the onset of the Covid-19 pandemic in early 2020. These back-to-back crises have had significant social, environmental and economic impacts and are a reminder of the interdependency of society with the natural world. For Australia to prosper and be more resilient, there is a need to support each other, to support communities and to support the ecosystem with all of its life forms.

Resilience requires a balance of stability and flexibility. A resilient economy is prepared for systemic shocks and can weather strains. An economy becomes resilient through meeting the needs of society first, through meaningful employment, quality healthcare, vibrant cultures and education for all, and by protecting and acting to restore the natural systems that sustain life.

The financial system has an important role to play in building resilience. The Roadmap sets out a pathway on how to align the financial system with meeting the needs of all Australians, now and into the future.

The Roadmap's vision for Australia is a financial system:

- that is sustainable, resilient and stable, and can manage systemic risks and other shocks and strains;
- that meets both the present and long-term needs of all Australians, the environment and the economy;
- where financial decisions are informed and consider sustainability risks, impacts and opportunities;
- that enhances financial inclusion and well-being, and informed choice; and
- where capital flows support Australia in delivering on sustainable development goals, including facilitating an orderly transition to a net zero emissions, resource-efficient and socially inclusive economy.

Australia's financial system relies on the efforts of many constituents, including governments, regulators, financial institutions, households and businesses.

Australia's financial system is integrated into the global financial system. Australia plays a leading role, contributing to global regulatory bodies that are focused on ensuring the stability of the global financial system. Many financial institutions operate both domestically and globally.

The challenges and threats Australia's financial system is facing, including a warming climate, increasing extreme weather events, biodiversity loss, and a society under economic pressure with rising inequality, mean there is an urgency with which action needs to be taken. The decade to 2030 will be a critical one and therefore the recommendations in the Roadmap contemplate a series of actions for implementation within short (2021–2022), medium (2023–2025) and long-term (2026–2030) timeframes, with all to be implemented by 2030. The Roadmap includes actions that will need to be undertaken to establish or embed the necessary change; some of these actions will need to be undertaken on an ongoing or regular basis. In many cases, steps to enable implementation can and should begin immediately.

Aligning the financial system to support a more resilient, sustainable and prosperous future for all Australians will require commitment by financial system participants to:

1. support Australia to deliver the Sustainable Development Goals (SDGs) and its commitments to the Paris Agreement, Sendai Framework for Disaster Risk Reduction (Sendai Framework) and Convention on Biological Diversity;
2. support the transition of the Australian economy to net zero emissions by 2050;
3. embed sustainability into leadership, purpose, strategy, risk management and practice of financial institutions; and
4. enable the financial system to facilitate change by developing and implementing collaborative practices across the whole of the financial system, including government, regulators, financial institutions, households and communities.

At the heart of transitioning to a sustainable financial system is the need for collaboration by financial system participants.

To effectively drive systemic change, structures are needed to embed collaboration across the financial system. There is a need for deep, constructive, and ongoing partnerships between government (federal, state and local), community and other financial system participants. It is intended that the Australian Sustainable Finance Initiative (ASFI) be established as a permanent body to provide an ongoing mechanism to monitor and report on progress of the implementation of the Roadmap. Acknowledging competition law obligations, ASFI will support financial institutions to deliver on the Roadmap recommendations by bringing together financial system participants and act as a clearing house for the exchange of ideas, knowledge and practices, developing guidance and undertaking special projects.

The Roadmap sets out a suite of practical recommendations, which financial system participants can start to implement immediately.

The recommendations are focused on the whole of the financial system and need to be seen from a holistic perspective. In this context, the whole is greater than the sum of the parts. The 'institutionalisation' of collaboration consistently with legal obligations (including competition law) will be a key enabler to successful implementation of the Roadmap, with collaboration required by all financial system participants, including financial institutions, regulators, government and other stakeholders.

The transition to a sustainable financial system has already begun and will continue over coming decades.

Financial system participants, including state, territory and local governments, have made commitments to achieving net zero emissions by 2050,¹ and financial institutions have made commitments to support the delivery of net zero emissions in their own areas of investing and finance. These commitments have the collective impact of establishing a long-term investment signal on the structural reform of the Australian economy that enables financial system participants to anticipate and plan their own allocation of resources and reinforce their approaches to risk management.

Over the course of the next decade and beyond, hundreds of thousands of employees working within the financial system will play a role in supporting the transition to a sustainable financial system. Driving transition will require Australia's financial system to establish new structures and adapt existing ones. There is an opportunity to deliver improved social, environmental and economic outcomes for Australia, including supporting job creation, more resilient communities, a cleaner, healthier environment, and climate risk mitigation and adaptation.

Aboriginal and Torres Strait Islander peoples

Aboriginal and Torres Strait Islander peoples have cared for Country for thousands of years.

However, the process of colonisation resulted in denial of their human rights to life, self-determination, economic development, territory, natural resources, governance, culture, language and family. Over the years, legislative and policy changes have increased compliance with human rights standards for Indigenous peoples. Australia is a signatory to international human rights covenants, which include obligations in regard to Indigenous peoples. In 2007, Australia also recognised the United Nations (UN) Declaration on the Rights of Indigenous Peoples (UNDRIP).² Indigenous Australians have a particular status as First Peoples, distinct from other minorities or special interest groups.

Human rights, such as self-determination³, free prior and informed consent in matters affecting people, rights to family, language and culture, are particularly important to Indigenous peoples and are specifically recognised in the UNDRIP.

The rights of Indigenous peoples to self-determination and free, prior and informed consent in relation to the control of territories and natural resources, economic development and the practice of culture, are critical to achieving Indigenous peoples' autonomy, economic prosperity, cultural integrity and well-being as First Peoples of Country.

The *2020 Closing the Gap Report* highlighted that, while progress has been made in some areas, there are still significant gaps in targets between Indigenous and non-Indigenous peoples in relation to child mortality rates, school attendance and education outcomes, participation in employment and life expectancy.⁴ The 2020 report highlighted the importance of shared decision-making, working in genuine partnership with Indigenous peoples, and the need for investment in Indigenous-led data to inform solutions to address the current inequalities.⁵

Indigenous Australians are over-represented among financially vulnerable Australians.

Research conducted in partnership between the Centre for Social Impact, First Nations Foundation and National Australia bank showed that, in 2018, nearly 50% of Indigenous Australians were experiencing severe or high financial stress and Indigenous Australians had significantly lower levels of access to financial products and services than non-Indigenous Australians, with higher levels of reliance on high-cost and unregulated forms of credit.⁶ A study by the Australian Council of Social Service (ACOSS) considering

poverty in Australia showed Indigenous people are between two and three times worse off than non-Indigenous people in Australia, with around 30% of Indigenous households in income poverty.⁷

The Australian Sustainable Finance Roadmap focuses specifically on recommendations that aim to: support meaningful engagement between financial system participants and Indigenous peoples; support First Peoples self-determination; and improve financial outcomes for First Peoples.

Developing the Roadmap

The Roadmap represents the collective output of a collaborative effort with ASFI's vision as its goal.

More than 140 participants from over 80 organisations across Australia's financial system, including financial institutions from banking, superannuation, asset management and insurance, regulators and government, together with civil society and academia, came together through ASFI.

The Roadmap was developed through an inclusive and collaborative process, which included contributions from, and consultation with, academia, government, financial institutions, industry bodies, regulators and civil society.

The process was governed by ASFI's Steering Committee, whose 18 members hold senior executive positions in banks, insurance and investment organisations, universities and civil society organisations. UN Environment Programme Finance Initiative (UNEP FI), Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC) executives are observers to the ASFI Steering Committee.

ASFI established four technical working groups and a coordinating working group that were focused on different elements of the financial system: mobilising capital; resilience and stability; informed decision-making; and community and consumer expectations. Each working group had up to 20 members who were selected using an expression of interest process. Nineteen individuals from civil society were selected to form a Civil Society Advisory Group and were allocated to a technical working group or the coordinating working group as a member or observer. Members and observers were selected based on their skills and experience with the objective of ensuring that

each working group had a balance of sector, gender, age and professional skill sets. The Roadmap represents the collective output of ASFI participants.

ASFI's first phase of work focused on identifying the critical challenges the Roadmap needed to address.

The six critical challenges identified were detailed in ASFI's progress report,⁸ published in December 2019, and related to the following six areas (see also Developing an Australian Sustainable Finance Roadmap, page 22):

- Leadership, culture and institutional structures
- Community and consumer interests and expectations
- Frameworks, tools and standards
- Decision-making and valuation
- Unlocking sustainable finance and allocating capital to where it needs to go
- Policy, regulation and supervision.

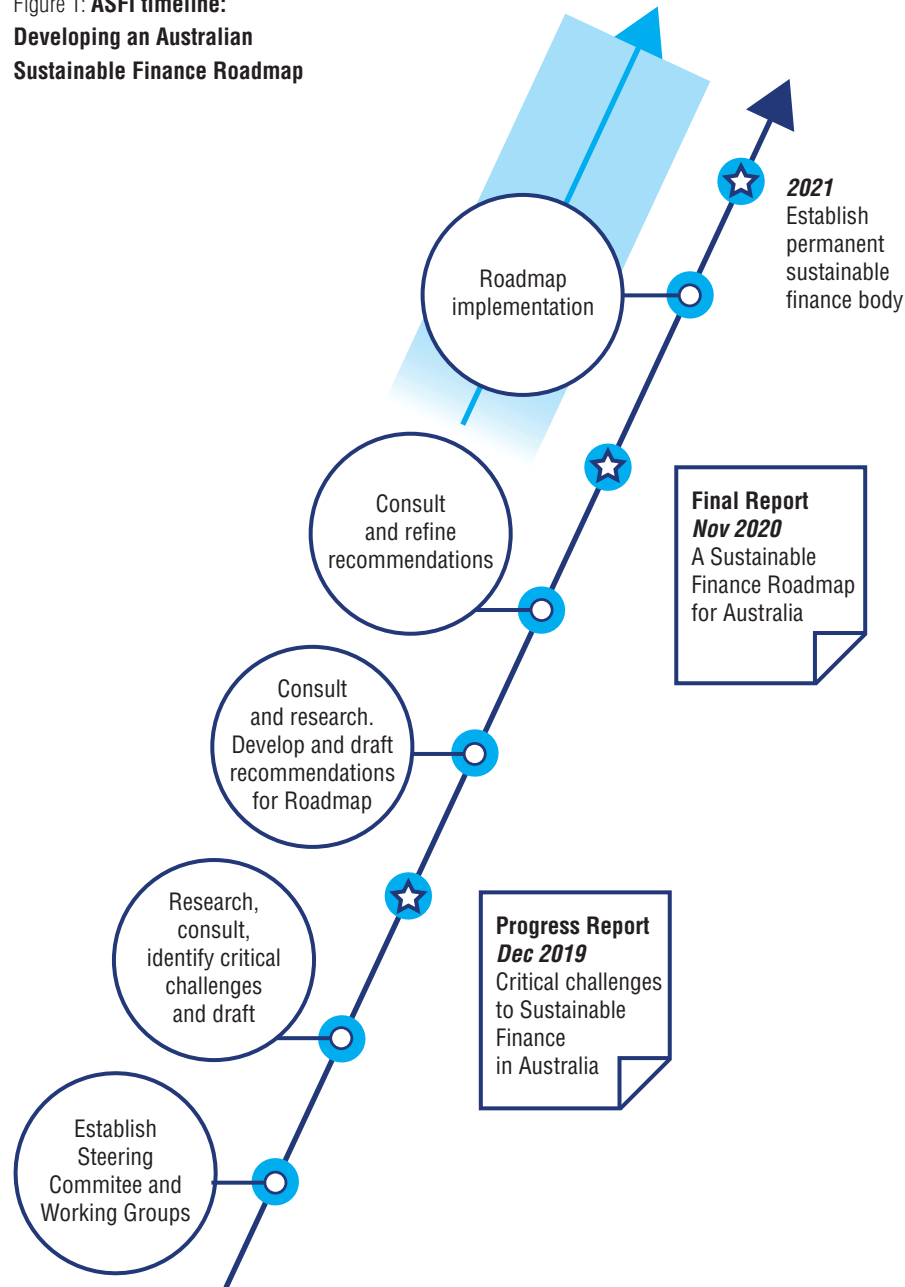
The second phase of work identified recommended solutions to overcome these challenges.

This work was undertaken through a tumultuous period that included bushfires and the Covid-19 pandemic. ASFI's Steering Committee and Working Group members responded dynamically as the impacts of Covid-19 became apparent. A decision was made to defer the release of the Roadmap until November 2020. This has allowed for an explicit consideration of the economic and social impacts of Covid-19, and the accommodation of virtual engagements with key stakeholders and participants.

ASFI's primary focus in developing the Roadmap was on identifying actions that can be taken by financial institutions.

Financial system participants will be at different stages of alignment with the proposed recommendations. The Roadmap does not represent the views of individual organisations, nor is the participation of their employees an organisational endorsement of the recommendations.




Figure 1: **ASFI timeline:**
Developing an Australian Sustainable Finance Roadmap



Recommendations

The Roadmap makes a total of 37 recommendations in relation to aligning Australia's financial system with a sustainable, resilient and prosperous future for all Australians.





The 37 recommendations are categorised under the following four domains:

-  **1. Embedding sustainability into leadership**
-  **2. Integrating sustainability into practice**
-  **3. Enabling resilience for all Australians**
-  **4. Building sustainable finance markets**

The Roadmap includes an Action Plan (page 74), which sets out which financial system participants are best placed to lead or enable implementation of these recommendations, and the recommended timeframes within which implementation should be completed: short (2021–2022), medium (2023–2025) and long-term (2026–2030). The Roadmap includes actions that will need to be undertaken once to establish or embed the necessary change, and actions that will need to be undertaken on an ongoing or regular basis. In most cases, steps to enable implementation can and should begin immediately, consistently with legal obligations (including competition law).

Figure 2 provides an overview of the suggested timeframes for implementation of the recommendations, noting several recommendations will require ongoing implementation beyond the timeframes indicated.

Figure 2: Australian Sustainable Finance Roadmap – Suggested timeframes for implementation of the recommendations*

	2022	2025	2030	
1. Embedding sustainability into leadership 	1. Accountability for sustainability led from top 3. Support employee codes 5. Establish permanent ASFI	6. Establish a First Peoples Financial Services Office 7. Work to codify free, prior and informed consent	1. Manage and measure impact on others 2. Build skills and capabilities 3. Build inclusive cultures 4. Align remuneration structures with sustainable long-term value creation and consider embedding sustainability targets	5. Establish special projects and forums to provide guidance on Roadmap implementation 8. Establish International partnerships to support Roadmap implementation
2. Integrating sustainability into practice 	10. Join International Platform on Sustainable Finance 12 & 13. Develop TCFD reporting guidance 14. Play leadership role in development of TNFD	16. Create stress-testing framework and develop guidance 19. Embed sustainability into regulatory guidance and standards 20. Embed sustainability into outsourcing and procurement	9. Establish Taxonomy project 11. Financial institutions report according to TCFD on 'if not, why not' basis 12. ASX 300 report according to TCFD on 'if not, why not' basis 14. Fund research and develop TNFD guidance 15. Mandate sustainability reporting and align with international developments	16. Undertake scenario analysis and stress testing for climate risk 17. Expand vulnerability assessments 18. Value environmental and social externalities 19. Embed sustainability information into products and services 20. Develop stewardship codes
3. Enabling resilience for all Australians 	24. Establish FIAPs, review current practices and design of products and services 26. Build financial capability	28. Enable financial decisions based on values and sustainability preferences 29. Develop product design principles	22. Support establishment of community finance 23. Develop income and revenue contingent loans 25. Measure and report on: financial distress for households; financial outcomes for Aboriginal and Torres Strait Islander peoples	27. Develop labelling standards 30. Develop Australian-focused well-being framework
4. Building sustainable finance markets 	31. Establish targets and trajectories to support net-zero-aligned decisions	34. Promote climate risk mitigation efforts and ensure buildings are disaster resilient 35. Support development of sustainability impact and resilience markets 37. Finance development and regeneration of real assets (infrastructure and property)	32. Support development of a sustainable capital market 33. Report on functioning of sustainable finance markets 36. Support the formation of Social Impact Investment wholesaler	

Key for timeframes

Short-term 2021–2022


Medium-term 2023–2025


Long-term 2026–2030


*The numbers within the table refer to the Roadmap recommendation number

The Australian Sustainable Finance Roadmap recommends:

Embedding sustainability into leadership

Recommendation 1

Accountability for sustainability is led from the top of financial institutions. This will be most successful when sustainability is integrated into purpose, corporate strategy, risk management frameworks, remuneration structures and organisational culture.

Financial institutions manage and measure the impact of their activities on others.

Recommendation 2

Australia's financial system participants collectively build the skills and capabilities that will be necessary for Australia's financial system to support a sustainable, resilient and prosperous future for all Australians by:

- working with existing industry training organisations to deliver new skills and training in sustainable finance across all levels of an organisation;
- supporting the establishment of university-hosted centres for sustainable finance;
- working with the Australian university sector to ensure that core curriculum for all finance and related discipline degrees includes sustainability; and
- developing strategic skills partnerships with experts outside of financial institutions to build mutual understanding.

Recommendation 3

Financial institutions build inclusive corporate cultures that facilitate and promote the ability of employees to speak up, and strengthen personal professionalism through proactive support of industry-funded employee codes.

Recommendation 4

Recognising the strong link between strategy, remuneration, risk and performance, financial institutions:

- align remuneration structures with sustainable long-term value creation; and
- consider embedding sustainability targets into remuneration and incentive practices, and rewarding for sustainability performance and leadership, for example through promotion decisions.

Recommendation 5

The Australian Sustainable Finance Initiative (ASFI) is established as a permanent body that supports Australia's financial system to deliver a sustainable, resilient and prosperous future for all Australians. ASFI would be governed by a Board composed of representatives of financial institutions, with an Advisory Council composed of government, regulators, industry bodies and civil society representatives contributing perspectives and providing advice to the Board on workplan priorities.

Based on the model of the Australian Government's Council of Financial Regulators, the ASFI Advisory Council would convene on a regular basis with state and federal government departments, with the objective of ensuring the work of ASFI is informed by government and societal priorities.

ASFI would undertake a phased program of work to coordinate and facilitate collaboration on implementation of the Roadmap. This would include delivery of an annual statement on the financial system's collective progress in implementing the Roadmap's recommendations, and reporting on the development of partnerships with federal, state and local governments.

As a mechanism to provide guidance on implementation, ASFI would establish special projects and forums consistently with legal obligations of all participants (including competition laws). It is recommended that four forums are established:

1. Financial Risk and Sustainable Practices Forum
2. Sustainable Finance Markets Forum
3. Leadership Forum
4. Australian Sustainable Financial System Forum

All ASFI forums would specifically consider Australia's role in the Asia-Pacific region with respect to sustainable finance.

A key principle in determining whether ASFI would take on a specific project would be whether it has implications across the whole of Australia's financial system. Priority special projects would:

- explore the implementation of a sustainable finance taxonomy in Australia;
- establish interim science-based targets and trajectories that would support individual financial institutions to make net-zero-aligned decisions on lending, insurance and investment;
- develop best practice principles to guide product design, delivery and disclosure to drive sustainable and community-focused outcomes;

- work with the Climate Measurement Standards Initiative (CMSI) and other stakeholders to develop guidance for financial institutions to support reporting according to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations; and
- develop guidance for nature-related financial disclosures aligned to Australia's biodiversity challenges.

ASFI would also establish a First Peoples Financial Services Office led by an Aboriginal or Torres Strait Islander person (see Recommendation 6 below).

Recommendation 6

Australia's financial system participants establish, through ASFI, a First Peoples Financial Services Office. This Office would be led by an Aboriginal or Torres Strait Islander person to:

- facilitate financial system participants' engagement with their communities and organisations on a range of issues related to the inclusive design and delivery of financial services;
- build genuine partnerships;
- encourage more accessible banking and superannuation services, suitable insurance products and disclosure processes; and
- demonstrate respect for the rights of Indigenous peoples in the due diligence processes by investors.

Recommendation 7

In recognition of Aboriginal and Torres Strait Islander peoples' rights to self-determination, financial institutions work to codify the principle of free, prior and informed consent in decisions made by financial institutions. This would include:

- providing finance where there has been consultation and cooperation in good faith with any Indigenous peoples concerned through their own representatives and representative institutions in order to apply the principle of free, prior and informed consent, and reconsidering projects or activities where that standard cannot be achieved; and
- when providing finance to Indigenous groups, ensuring decisions align with the principle of free, prior and informed consent.

Recommendation 8

Australia's financial system participants establish international partnerships to support the implementation of the Australian Sustainable Finance Roadmap.

Integrating sustainability into practice

Recommendation 9

Australia's financial system participants establish a key project to explore the implementation of a sustainable finance taxonomy in Australia. The project should involve a broad group of key stakeholders, including civil society, asset owners, asset managers, banks, insurers, financial regulators, legal experts, industry experts, technology experts, sustainability experts, state governments, and the Australian Government.

Recommendation 10

Australia, through a relevant public authority, joins the International Platform on Sustainable Finance (IPSF) to enhance coordination and alignment with international sustainable finance initiatives, and to promote best practice in sustainable finance.

Recommendation 11

Financial institutions with annual consolidated revenue of more than \$100 million report according to the TCFD recommendations by 2023 on an 'if not, why not' basis.

Recommendation 12

All Australian Securities Exchange (ASX) listed companies, beginning with the ASX 300, report according to the TCFD recommendations by 2023 on an 'if not, why not' basis, and guidance is developed for ASX-listed entities to support TCFD-aligned reporting.

Recommendation 13

ASFI, together with CMSI and other stakeholders, develops guidance to support TCFD-aligned reporting by financial institutions and facilitates discussion on how these reporting practices can be developed and implemented.

Recommendation 14

Recognising that between 7 and 10 per cent of all species on Earth occur in Australia,⁹ and many of these are only found in Australia,¹⁰ Australia's financial system participants collectively play a leadership role in the development of the Task Force on Nature-related Financial Disclosures (TNFD) by:

- funding research that supports TNFD's working groups;
- engaging in the process to develop the TNFD reporting framework; and
- establishing, through ASFI, an Australian project to develop guidance for nature-related financial disclosures aligned to Australia's biodiversity challenges.

Recommendation 15

Sustainability reporting and assurance is mandated for listed entities and for unlisted assets wholly owned by financial institutions.

Australia's financial system participants, including financial institutions, businesses, governments and regulators, work to align with international developments, noting the evolving discussions around convergence of global disclosure frameworks, and in particular the commitment by CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) to work together towards Comprehensive Corporate Reporting.

Recommendation 16

Financial institutions undertake scenario analysis and stress test the resilience of their organisation to physical and transition risks from climate change.

To support this, the industry creates a bottom up, industry-led stress-testing framework that includes processes, frameworks, data and tools sufficient for an organisation to stress test its business. This would include information about what organisations are expected to report against and access to generic data and tools for stress testing, including from the Bureau of Meteorology and CSIRO, and environmental data held by government departments. This work should build on CMSI's current work to develop physical climate risk stress tests, which could fall into this category.

Over time, scenario analysis and stress tests are expanded to include other sustainability-related impacts, for example, biodiversity loss.

Guidance should be developed on best practice approaches to conducting stress tests that is relevant for financial institutions of different sizes. Once established, ASFI's Financial Risk and Sustainable Practices Forum would provide a mechanism for discussion on the development and implementation of stress-testing practices as well as scenario analysis and climate modelling.

Recommendation 17

Vulnerability assessments to be undertaken or planned by APRA are expanded to include fit-for-purpose assessments for small and medium financial institutions across Australia, as well as the superannuation and insurance sectors.

Recommendation 18

Environmental and social externalities are valued by financial institutions. To support this, Australia's financial system participants help to compile national- and state-level data sets by developing general principles and guidance to allow financial system participants

to measure and assess multiple capitals including soil, water, education levels and gender diversity. Guidance would address how common metrics can be integrated into investment decisions and risk analysis, including, for example, determining impacts and dependencies, and materiality.

Recommendation 19

Financial institutions work with Australia's financial system regulators on an ongoing basis to embed sustainability into regulatory guidance and standards to drive system-wide practice. ASFI's Financial Risk and Sustainable Practices Forum provides a mechanism for collaboration between financial regulators, financial institutions and stakeholders.

Recommendation 20

Australia's financial system participants positively drive best practice for the benefit of the whole of the Australian economy and society, including by:

- embedding sustainability into outsourcing and procurement practices; and
- embedding sustainability information into products and services for households and businesses.

Recommendation 21

Australia's financial system participants develop stewardship codes to harmonise and enhance stewardship practices.

Enabling resilience for all Australians**Recommendation 22**

Australia's financial system participants support the establishment of community finance that can be accessed by place-based groups, including clubs and social enterprises, as part of a place-based community resilience strategy. This should include collaborative initiatives with local government partners, development of standardised documentation that can reduce the costs for social enterprises to access finance, and support for credit guarantees and other measures that reduce the risk of financing and investing.

Recommendation 23

Australia's financial system participants develop income and revenue contingent loans as a mechanism to support individual and community resilience to acute shocks as well as chronic threats to climate and health, which amplify the impact of acute shocks on the most vulnerable.

Recommendation 24

Financial institutions establish Financial Inclusions Action Plans and review current practices and design of products and services to ensure financial inclusion.

Recommendation 25

Consistent with applicable laws and regulations, financial institutions measure and report on:

- financial distress for households to bring greater focus on individual impact and measures being taken by the institution to address financial vulnerability; and
- financial outcomes for Aboriginal and Torres Strait Islander customers. This would involve working in partnership with Indigenous peoples on the approach to measurement and evaluation of outcomes for Indigenous customers. The tools used to collect relevant data should be culturally appropriate.

Recommendation 26

Financial institutions collaborate with regulators and the Australian Government to support networks, programs and initiatives that build individual and community financial capability.

Recommendation 27

Australia's financial system participants support the development of labelling standards that provide consumers with access to consistent labelling and disclosure of the sustainability of financial services products to provide clarity to consumers on the quality of products, and how sustainability is considered and managed within these products. The development of labelling standards should link to the implementation of a sustainability classification system (taxonomy).

Recommendation 28

Australia's financial system participants enable Australians to make financial decisions based on their values and sustainability preferences. This includes:

- ensuring financial advisers (human and robot), superannuation funds, accountants and platforms consider the sustainability preferences of consumers. The client fact-find process should be conducted in a way that is simple for consumers to understand and include a standard set of sustainability preference questions;
- for ASIC to consider strengthening its Regulatory Guide 65 to facilitate meaningful disclosures on the extent to which product issuers disclose whether and how labour standards, environmental, social or ethical considerations are taken into account for investment products;
- for trustees of registrable superannuation entities and responsible entities of other publicly available funds to voluntarily disclose their portfolio holdings within 90 days of each half year;

- for financial institutions to collaborate and develop best practice guidelines for the disclosure of portfolio holdings by superannuation entities and other publicly available funds (in the absence of regulations being passed by the Australian Parliament); and
- for the Australian Parliament to pass regulations to prescribe the content and format of disclosure of portfolio holdings by superannuation entities.

Recommendation 29

Australia's financial system participants collaborate, through ASFI, to develop best practice principles to guide product design, delivery and disclosure to drive sustainable and community-focused outcomes.

Recommendation 30

Australia's financial system participants support the development and implementation of an Australian-focused well-being framework, informed by global thinking and based on New Zealand's 12 domains of well-being in its Living Standards Framework.

Building sustainable finance markets

Recommendation 31

Australia's financial institutions collaborate, through ASFI, to establish interim science-based targets and trajectories to align and facilitate the transition to net zero emissions by 2050. This will support individual financial institutions to make net-zero-aligned decisions on lending, insurance and investment.

Recommendation 32

Australia's financial system participants work collaboratively to support development of a sustainable capital market by:

- working with financial system regulators to develop guidance for financial institutions on treatment of green and resilience or sustainable assets related to risk weightings and capital treatment of such assets;
- removing roadblocks to commercialising impactful technologies and developing investment models that align with liquidity requirements of financial system participants;
- working with financial system regulators to develop guidance on sustainable benchmarks and indices;
- supporting sustainability-focused businesses across the Asia-Pacific region to raise capital and issue bonds through Australia's capital markets; and
- supporting sustainability-focused businesses in the Asia-Pacific to list on ASX or other Australian stock exchanges, including clean technology businesses that deliver products and services throughout this region.

Recommendation 33

Australia's financial system participants produce a regular report that considers whether Australia's sustainable finance markets are functioning efficiently to support the delivery of net zero emissions by 2050, consistent with science-based targets.

The report would provide advice to regulators, government and financial market participants on measures that could be introduced to enhance the efficient functioning of capital markets. A key area for consideration would be whether intermediaries are supplying, and financial system participants are demanding, services that support implementation. Areas of focus of a report would include the availability and appropriateness of market benchmarks and indices that align with net zero targets, impediments to investment such as market liquidity, and diversity of investment opportunities.

Recommendation 34

Australia's financial system participants work collaboratively to promote climate risk mitigation efforts and to ensure buildings are disaster resilient by:

- implementing a framework for assessing the cost of mitigation investment that factors in the broader social costs and benefits;
- supporting, through credit guarantees and other measures, banks/lenders to lend for mitigation retrofits through issuance of resilience bonds; and
- supporting household-level risk mitigation for owners and renters through education and incentives for those who cannot afford to implement retrofitting.

Recommendation 35

Australia's financial system participants work collaboratively to support development of sustainability impact and resilience markets including natural capital, carbon, impact investment, and climate mitigation and adaptation, with a focus on:

- building market architecture through the establishment of common platforms for information disclosure, trading and intermediary services, with strong governance rules and enforcement;
- development of standardised documentation to reduce transaction costs, and support for credit guarantees and other measures that reduce the risk of financing and investing; and
- developing social enterprises and impact investments that focus on Asia-Pacific countries.

Recommendation 36

Australia's financial system participants back initiatives to catalyse the establishment of sustainability impact and resilience markets by supporting the formation of an independent Social Impact Investment wholesaler for Australia.

Recommendation 37

Australia's financial system participants finance the development and regeneration of real assets, including infrastructure and property (housing, industrial and commercial), through:

- aligning Australia's Infrastructure Priority List produced by Infrastructure Australia with the objective of achieving net zero emissions by 2050;
- efficient and streamlined regulatory requirements for investment into essential assets, including energy network, transport concessions and social infrastructure, with the aim of substantially reducing the time/cost/effort involved to invest and finance critical infrastructure;
- working with the Australian Energy Market Operator (AEMO), Australian Energy Market Commission (AEMC), Australian Energy Regulator (AER), Energy Security Board (ESB) and COAG Energy Council to expedite an actionable Integrated System Plan with the objective of unlocking critical investment into transmission, interconnection, renewables and distribution;
- developing infrastructure investment across the Asia-Pacific region that is focused on delivering social and environmental outcomes;
- integrating environmental, social and governance (ESG) factors into the investment decision-making process for new infrastructure projects, and for expansions to existing assets, using broadly accepted standards and frameworks relevant to the specific category of infrastructure assets, such as GRESB's Infrastructure Asset Assessment, Infrastructure Sustainability Council of Australia's (ISCA) Infrastructure Sustainability rating and the Green Building Council of Australia's Green Star Rating System;
- using a national rating scheme for the energy performance of homes such as the Nationwide House Energy Rating Scheme (NatHERS) and establishing mandatory disclosure of performance at the point of sale and lease;
- supporting an industry approach to adopt the three major rating tools (National Australian Built Environment Rating System (NABERS), Green Star and ISCA's Infrastructure Sustainability rating scheme) as measurement benchmarks, provided they implement a net zero emissions pathway consistent with a 1.5°C trajectory across operational and embodied carbon, and minimum standards for new and existing assets to become more climate change resilient and socially responsible;
- integrating built environment ratings into consumer and business lending and investment valuations, including infrastructure projects; and
- working with stakeholders, including the construction sector, to update the National Construction Code so that future residential properties are built to be resilient to climate change and broader climate and geological risks, and ensure energy efficiency as well as use of sustainable materials.

Disclaimer

This report reflects the collective output of the Australian Sustainable Finance Initiative (ASFI) and its participants and does not reflect the views of any one participant or the organisation they represent or are employed by. Participation by these individuals should not be taken as endorsement of the recommendations or report by individual organisations.

ASFI and its participants have at all times been mindful of their obligations under Australian competition law. Further, ASFI, its participants and the organisations they represent or are employed by understand the need to comply with competition law in considering or implementing any recommendations or actions arising out of this report.

Individual ASFI participants may have views different to those represented in this report.

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