Australian Banking Association

11 May 2020

Mr Gordon Noble

ASFI Secretariat

by email: gnoble@sustainablefinance.org.au

Dear Gordon

ASFI Progress Report

The Australian Banking Association (**ABA**) is pleased to make this submission in response to the *Australian Sustainable Finance Initiative's* (**ASFI**'s) consultation on its *'Developing and Australian Sustainable Finance Roadmap: Progress Report'* (**the Report**) which was released on 11 December 2019.

It is encouraging to see the financial services industry, along with regulators and other key stakeholders, come together to work towards an Australian sustainable finance roadmap. The finance sector has a key role to play in securing and enhancing the prosperity and resilience of the Australian economy and the Report provides a good frame by identifying the six challenges to ensure Australia is 'future fit'.

Noting the many and varied initiatives on both a local and global scale, it will be important to ensure clarity around how ASFI fits with and contributes to other global sustainability frameworks and initiatives to which organisations are signatories. These include the SDGs, Paris Agreement, Sendai Framework, UNGC, UNEP FI PRB, PSI, PRI. Throughout the process, it will be important to align and integrate with existing frameworks, tools, and standards and therefore to avoid duplication of work and effort.

A sequencing of the goals is recommended

The ABA recommends sequencing the challenges into 'lead' priorities and 'consequential' priorities. Although the challenges highlighted in the report are interlinked, the agenda envisaged by the Report is expansive and will prove challenging to scope and implement.

Imminent challenges should be a first order of priority. The regulatory requirements for climate risk management and the aligning of disclosures to the TCFD framework will be a priority for the banking sector in 2021. Another area of focus for the industry will be the implementation of modern slavery. Further detail in respect to this recommendation is provided in the annexure.

About the ABA

The Australian Banking Association advocates for a strong, competitive, and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

The ABA thanks ASFI for the opportunity to make this submission. Please call or email me if you would like to discuss any aspect of this submission. The ABA looks forward to supporting ASFI in the development of the sustainable road map for Australian finance sector.

Kind regards

Emma Penzo
Policy Director

Australian Banking Association

Annexure: ABA recommendations on progress report

1. Lead priorities

The following challenges have been identified as 'lead priorities' (in order of priority) for the banking industry as they represent barriers to 'moving the dial' on sustainable investment and climate risk management in banking.

1.1 Challenge 3 - Frameworks, tools, and standards

The alignment and standardisation of reportable measures under the TCFD is important to ensure comparability across the banking industry. The ABA supports the work of the CMSI in the development of open source auditable measurement standards.

In order to achieve standardisation, additional tools and frameworks will be required, including:

- Scientifically validated data sets to support the assessment of first order physical risks. The 'data deficit' for the Australian context makes this a high priority consideration.
- Modelling of the macroeconomic impacts of climate change in order to understand the transition and liability risks within sectors of the economy.

• The ABA recommends an aligned approach to measurement standards and for the development of Australian datasets. It is important for flexibility of approach so that where required industry specific (eg: banking, insurance, superannuation etc) approaches can be developed.

1.2 Challenge 6 - Policy, regulation and supervision

Government policy: The ABA supports the advocacy of ASFI with government in setting policy for the creation of opportunities for sustainable business lending and investing.

Regulator-Industry collaboration: The ABA supports working with regulators to create frameworks to deliver:

- a clear picture of how the Australian economy is exposed to climate change (which will also answer some of the regulators need for banks to act on climate risk) and
- clear transition pathways, demonstrating where opportunities exist at a sector level and defining how each sector can transition and what their financial needs are.

The ABA recommends continued and open consultation by regulators in the development of regulatory policy and the ABA welcomes the continued involvement of APRA and ASIC as observers in the ASFI and CMSI initiatives.

1.3 Challenge 5 - Unlocking sustainable finance and allocating capital to where it is needed

The efficient allocation of capital to real sectors of the economy which can drive the economy forward sustainably is an important area of focus for the industry. However, there are multiple, and in part overlapping, frameworks such as the SDGs, Paris, Sendai Framework and others.

A structured approach to addressing these frameworks will ensure that the areas needing the most pressing attention and with the potential to make the greatest impact towards a sustainable finance sector be prioritised first. Given the significance of climate change, as expressed by the IPCC, the ABA is of the view that urgent climate action (SDG13) is going to underpin the successful achievement of sustainability outcomes.

The ABA recommends that the Road Map consider a prioritisation process of the sustainability frameworks and the individual elements of those frameworks considering the priorities of the stakeholders of ASFI.

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2. Consequential or supporting priorities

2.1 Challenge 4 - Decision-making and valuation

With reporting standards and data-sets in place, the data can be used and applied in the context of business decisions. This will include the use of the data for the purposes of undertaking risk-assessment in bank activities (for example, the lending models). Risk assessment will become the domain of the individual banks or entities and will form part of that bank's unique selling proposition to market. It is not the role of industry bodies or initiatives to determine the riskiness or risk appetite of given business deals or decisions.

2.2 Challenge 1 - Leadership and Challenge 2 Community expectations

Challenge 1 (leadership, culture, and institutional structures) and Challenge 2 (community and consumer interests and expectations) will be overcome through articulating and embedding the lead priorities. This process will communicate to internal and external stakeholders, and as a result will educate, inform, and introduce cultural change. As expressed in the Report, challenges 1 and 2 are ambiguous and bigger than the ASFI remit/capacity to action meaningful change. A premature focus on these challenges may detract efforts for the more actionable issues.