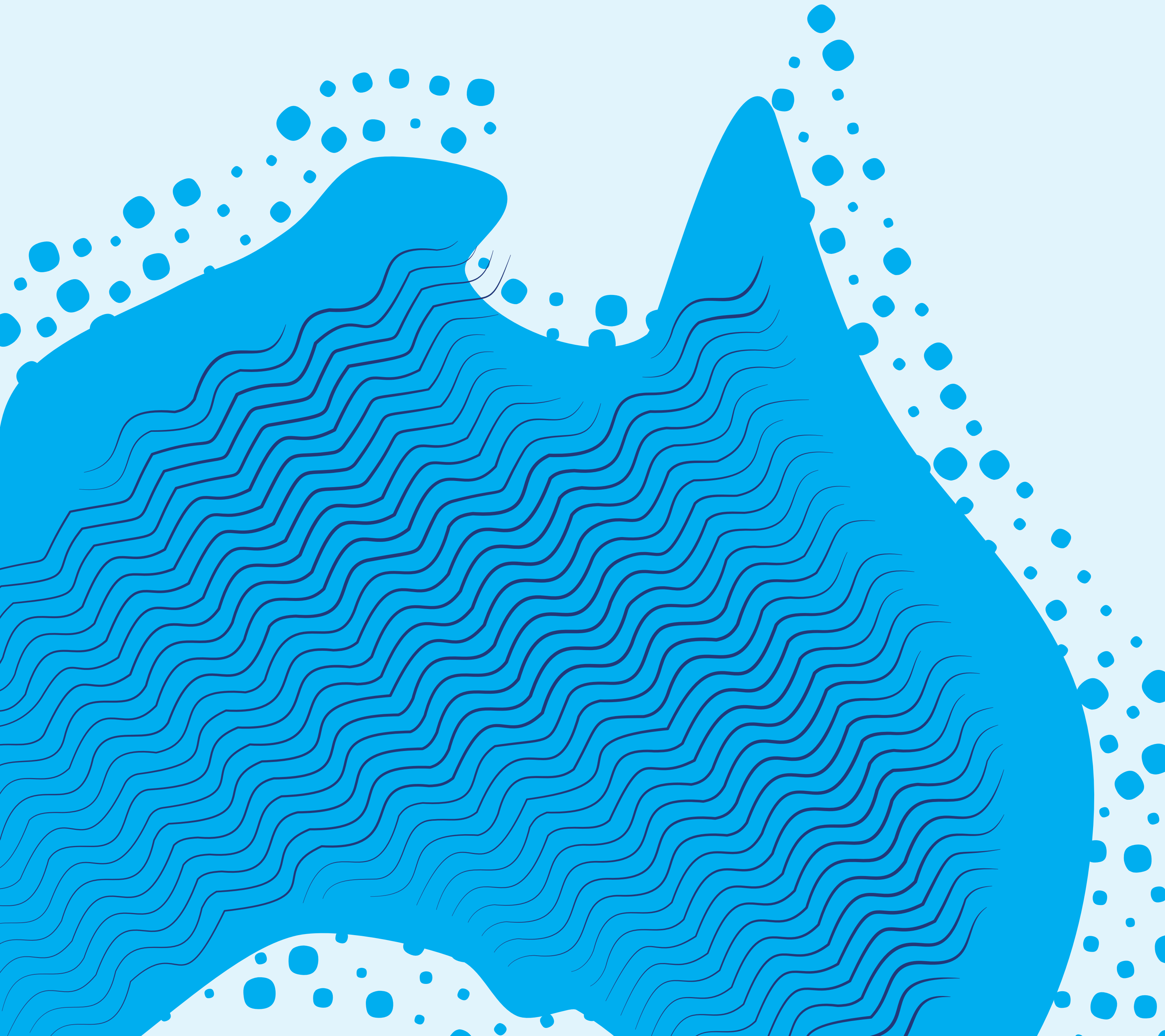
Australian Sustainable Finance Initiative

Developing an Australian Sustainable Finance Roadmap: Progress Report

Navigating risks and opportunities for Australia's future resilience, prosperity and wellbeing



Acknowledgement of Country

The Australian Sustainable Finance Initiative acknowledges the Traditional Custodians of Country throughout Australia and recognises their continuing connection to land, waters, species and culture. We pay our respects to their Elders past, present and emerging.

We recognise that for Aboriginal and Torres Strait Islander people, custodial responsibility is about caring for their kin and Country. At the heart of this responsibility is knowledge of the interconnectedness of land, water, species, culture and people. Taking care of kin and Country provides physical sustenance and spiritual nourishment for today and for future generations.

We take this spirit of custodial responsibility into this work and recognise that, as participants in the financial services sector, we have a custodial responsibility to ensure that the financial system prioritises human wellbeing, social equity, economic prosperity and protection of our environment for future generations. We recognise that these are interconnected and interdependent. We cannot have thriving communities without thriving Country.

This is the first Progress Report of the Australian Sustainable Finance Initiative (ASFI). ASFI is a collaborative initiative supported by banks, insurers, superannuation funds and investment managers. Informed by work done in other jurisdictions around the world, ASFI has been established to set out a roadmap for realigning the financial services sector to support greater social, environmental and economic outcomes for the country.

Australia in the 21st century is facing a new set of challenges. Together with the rapid acceleration of changes in our climate, Australia is grappling with shifting demographics, slowing economic growth and productivity, urban congestion, technological disruption, changes to the way we work, declining housing affordability and rising inequality.

ASFI participants understand the urgency and the role they need to play to set out – in concrete, practical terms – how they can contribute more systematically to Australia's transition to a more resilient, sustainable and prosperous economy, society and environment. They also recognise that this will require strong ethical leadership and conduct.

As the World Economic Forum's *Global Risk Report*[1] has demonstrated, there are strong interconnections between the challenges we face. For example, increasing urbanisation places pressure on our environment, housing, infrastructure and congestion. The interconnected nature of risks also provides opportunities to improve productivity, create jobs, reduce emissions and enhance our quality of life.

The financial services sector plays an important role in Australia's economy, society and environment. Fundamentally, the role of finance is to facilitate the efficient and effective use of capital to support the needs of the Australian community to be met, reflecting the fact that, for the most part, the sector is dealing with other people's money.

With more than 400,000 Australians working in financial services, the sector has the people with the passion, skills and ideas to build new and better products and services that respond to community needs and challenges. Increasingly, the opportunity is to not only deliver solutions locally, but also globally.

For the financial services sector to maximise its contribution to these challenges, ASFI has brought together over 130 individuals from more than 80 organisations in a collaboration across all parts of financial services, as well as academia, civil society and government. It is this diversity of opinion, skills and experience that provides the foundation for our work.

ASFI members have identified six critical challenges that an Australian financial services sector response must address. These challenges are now the focus of detailed work to develop recommendations that will form the roadmap for the financial services sector to navigate risks and opportunities for Australia's future resilience, prosperity and wellbeing:

1. Leadership, culture and institutional structures

The importance of financial services sector leadership – both through leaders within the industry and the industry as a whole – is key to ensuring that there is appropriate valuing of, and accountability for, sustainability performance and the broader impact of the financial services sector activities across Australian society, the environment and the economy.

2. Community and consumer interests and expectations

All Australians engage with – or are impacted by – the financial services sector, whether through banking, insurance or investment. However, their level of understanding of the sector and involvement with it varies widely. Consumers have differing levels of access to financial services, financial capability, confidence and education, as well as variable expectations in the sustainability performance and ethics of their financial services products. The sheer reach of the financial services sector requires a proactive approach to ensuring products and services serve Australians well and adequately meet their needs, interests and expectations.

3. Frameworks, tools and standards

The challenges in decision-making and valuation (discussed below) are closely linked to the frameworks, tools and standards used across the financial services sector to inform investment, lending and insurance decisions. As the sector grapples with evolving challenges, risks and opportunities, new sets of frameworks, tools and standards are rapidly emerging to fill gaps. To ensure long-term financial stability and that social needs are met, it is essential that we align tools, frameworks and standards to manage all risks and embrace opportunities.

4. Decision-making and valuation

The financial services sector relies heavily on valuation of risk to underpin the investment, lending and insurance decisions being made on a daily basis. Yet limitations with existing valuation tools, mainstream practices and a lack of quality data on environmental and social risks challenge the sector in being able to respond to the new sets of risks and opportunities. These challenges need to be addressed so that the sector can properly value risk and make better informed decisions.

5. Unlocking sustainable finance and allocating capital to where it is needed

The financial services sector plays a key role in supporting a strong and resilient economy and in generating long-term prosperity for Australians through the allocation of capital. There is an urgent need to shift new and existing capital into investments that create and better support sustainable and equitable outcomes for Australian people, our economy, the environment and investment and trade in the region. Aligned and globally agreed definitions, labels and standards of what constitutes a sustainable investment or product would help facilitate capital flowing to sustainable outcomes, enable assurance and enhance comparability.

6. Policy, regulation and supervision

There is an important role for policy settings and regulator guidance and supervision to reinforce factors for sustainable finance. This will assist in setting clear direction for the financial services sector. While much progress has been made in Australia already, further consistency and harmonisation of guidance in regulatory settings would enhance the financial services sector's ability to align with and support a prosperous and sustainable Australian economy, environment and society. Further, Australia's financial system is part of an interconnected and interdependent global financial system and needs to remain relevant and maintain access to the global financial system.

The next step of ASFI's work will be to produce an interim report. ASFI will continue to work collaboratively, including with government, to map out the solutions to these challenges, which will form the Sustainable Finance Roadmap for Australia, to be delivered in 2020.

Since the 1800s, finance has played an important role in Australia's development.

In the very first days of British settlement, the need to pay merchants for the commodities that ensured the survival of the colony led to the practice of trading with rum, ultimately leading to the overthrow of Governor Bligh through the Rum Rebellion.

The construction of Sydney's first hospital by Governor Macquarie was in fact paid through a barter system. It took a shipment of 40,000 Spanish reales in 1812 and some creative thinking by Governor Macquarie to create Australia's own currency for circulation in New South Wales, with the now famous 'holey dollar' created by cutting out the centres and over-stamping the old Spanish coins.

The early development of finance in Australia notably excluded our Indigenous population; an issue which remains relevant today.

In the late 20th century, the financial services sector adapted to a series of challenges, including floating of currency, deregulation of the banking sector and the introduction of compulsory superannuation.

It is fair to say that finance in Australia was borne out of necessity and has continually adapted to circumstances.

Today, Australia faces a new set of challenges to which Australia's financial services sector must adapt.

Australia is increasingly subject to extreme weather events, with severe drought and the catastrophic bushfire conditions affecting New South Wales and Queensland this year highlighting the risks of these events to people, agriculture, biodiversity and property. The Australian Business Roundtable for Disaster Resilience's research report in 2017 highlighted that nine million Australians have been significantly impacted by weather events over a ten-year period.

Australia is also facing a rapid demographic shift towards an ageing population, resulting in greater costs to the public through health services and infrastructure. Meanwhile, trust in institutions remains low[2] and housing affordability is a concern for many Australians. Cities are continuing to grow, putting strain on services and infrastructure. Social exclusion and inequality continue to be a problem, and nowhere is this more notable than in the gap between Aboriginal and Torres Strait Islander peoples and non-Indigenous Australians.

We are now well and truly within an era of technological disruption[3] impacting our workplaces and the very nature of work. Economic growth is uncertain,[4] with low and in some cases variable productivity growth,[5] and negative interest rates in some developed economies are impacting investment returns for those relying on retirement income.

As the *Australia National Outlook 2019*[6] report outlined, Australia faces two scenarios.

In the first scenario, Australia faces a slow decline in economic prosperity, wellbeing and our natural environment if it takes no action on our most significant economic, social and environmental challenges.[7]

In the second scenario, Australia can look forward to a positive outlook which could mean 'net zero' greenhouse gas emissions by 2050, inclusive and enabling communities, sustainable enjoyment of natural endowments, strong economic growth and energy affordability, and more livable major cities.[8] This could position Australia as a sustainable finance hub for the Asia-Pacific region and attract international investment and trade partners.

It is the conviction of ASFI that, by realigning the financial services sector to support greater social, environmental and economic outcomes for the country, we can navigate the risks and opportunities presented by these challenges to deliver resilience, prosperity and wellbeing for all Australians, now and in the future.

We recognise that this is not a simple task. Finance in Australia was born in adverse circumstances and, from the earliest days, was able to adapt when needed.

The risks and challenges before us require the financial system to continually adapt and evolve. Australians have successfully navigated risks and opportunities in our past, and we are now called upon to do so again.

The financial system plays a central role in the Australian economy.

Every day, approximately $222 billion of non-cash payments are made, equivalent to around 12% of annual Gross Domestic Product (GDP).[9] Every year, each Australian on average makes around 375 transactions using credit or debit cards.[10]

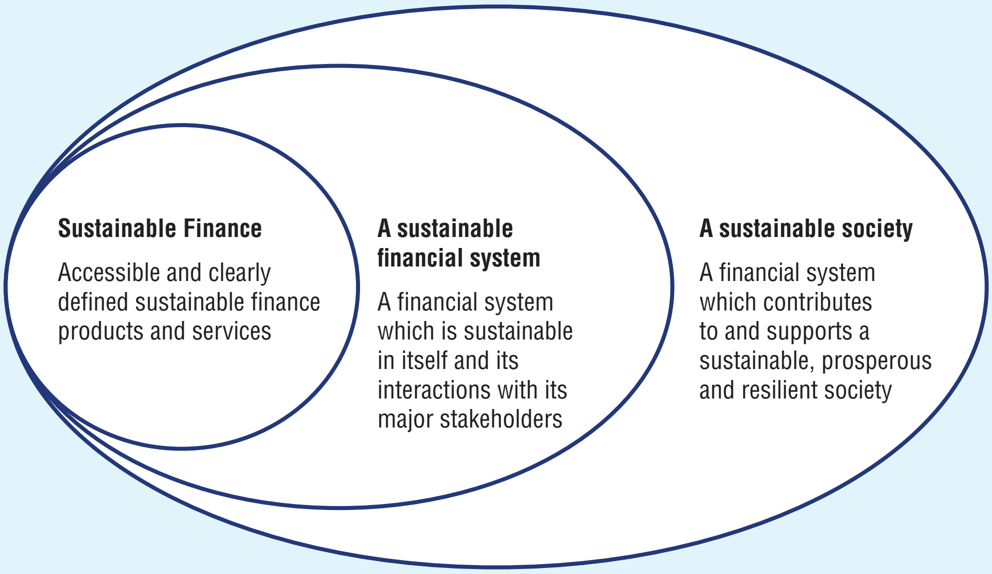
With superannuation assets of $2.9 trillion,[11] a banking sector managing $4.2 trillion in assets, more than eight million buildings across Australia with a replacement value of $5.7 trillion needing to be insured, and health insurers providing coverage for just over half of the population,[12] the financial services sector is the largest contributor to the national economy, adding around $140 billion to GDP and employing 450,000 people.[13]

Australia's financial system also performs well globally in terms of stability, reliability and returns. Our four major banks all rank in the top 25 globally for safest banks and we have the fourth-largest pool of investment fund assets in the world.[14] By 2035, superannuation assets alone are predicted to increase to $9.5 trillion, reaching over 200% of GDP,[15] creating the potential to position Australia as a net exporter of finance to global capital markets.

It is not the numbers that matter, but the contribution that finance makes to our lives through everyday transactions, the peace of mind and security afforded by health and life insurance and insurance coverage for homes, cars, businesses and other assets, and the ability to enjoy retirement through superannuation. As communities, consumers and businesses make decisions, where prudent, the financial services sector supports these decisions by lending, investing and insuring.

By its nature, finance is integrated into nearly every part of our daily lives. Each element of the financial system must remain connected and effective so that the Australian economy and society can operate in a resilient, sustainable and fair manner.

Figure 1: **The different scopes of sustainable finance**



Sustainable finance can be considered at a number of levels (Figure 1). First, sustainable finance most broadly is about the financial services sector acknowledging a responsibility to contribute to a sustainable future for Australia. This includes supporting the delivery of key national objectives and supporting Australia to meet its international commitments to the United Nations (UN) Sustainable Development Goals, the Paris Agreement and the Sendai Framework for Disaster Risk Reduction. In this respect, sustainable finance refers to the financial services sector's ability to support the sustainable development of the Australian economy as a whole.

Secondly, and more specifically, sustainable finance can be interpreted to mean a sustainable financial system. Such a system provides the financial goods and services critical to the Australian economy, supporting sustainable wellbeing for its customers or other stakeholders.

Finally, sustainable finance also refers specifically to products and services within finance which are targeted towards sustainability. These products and services provide for the needs of customers who wish to invest explicitly in sustainability outcomes or sustainability-focused products.

Sustainable finance aims to ensure that:

- the financial system meets community and consumer expectations around sustainability, including improved and informed choice, financial inclusion and enhanced life-long wellbeing;
- the sustainability, resilience and stability of the financial system is enhanced by embedding environmental and social considerations in financial markets, products and services to better account for and manage risk and impact;
- better disclosures and transparency inform financial decision-making resulting in enhanced valuation of environmental and social risks and opportunities in financial markets; and
- capital is mobilised to deliver on national and global sustainable development goals, commensurable with science-based targets and informed by international conventions, treaties and norms.

INSURANCE CASE STUDY

The interconnectivity of finance, society and environment is exemplified in the important role insurance plays in supporting society by reducing risk. If an insurance company declines to insure an asset because of the inability to secure reinsurance, capital or adequately price for risk, then banks will not lend, and investors will not invest.

Insurance coverage means that communities have a stronger chance of financial recovery after experiencing loss and damage, including that caused by devastating events. However, with increased risk from extreme weather, the price of insurance for some Australians has been increasingly rapidly.

A real example of where different parts of society are working together to solve the challenges facing communities is the impact of increased extreme weather events on communities, their homes and businesses.

Insurers need to accurately price for the risk in insurance policies to ensure they remain financially viable to pay the claims when needed. This is prudent financial management and is expected by the financial regulator. An emergent and consequential risk for Australian businesses and households is the likelihood that, under a changing climate, many Australian assets will become uninsurable or the insurance will become unaffordable. This in turn creates a cycle further eroding the capacity of insurers to pay out when policy holders claim.

Australia has not yet faced the same issues as other countries where reinsurance capital has not been available due to the risks being too high.

Australian insurers are working with investors and reinsurers to secure ongoing capital that ensures Australians can access property insurance. The Australian Government is working with insurers to identify the critical investment required for disaster risk reduction and adaptation, with progress including an additional $50 million per year in funding for mitigation activities targeted at reducing the impact of extreme weather to vulnerable communities.

Global commitments and the role of finance

Countries around the world, including Australia, have come together to set in train global agreements to address the complex, system-wide challenges highlighted in this report. These agreements include the UN Sustainable Development Goals, the Paris Agreement and the Sendai Framework for Disaster Risk Reduction.

These global agreements all explicitly acknowledge the importance of the financial services sector. This reflects the central role of finance in a nation's economy to meet the scale of the challenges it faces. Through these global agreements, nations acknowledge that provision of capital, lending to businesses and households and insuring assets are critical activities, and indeed an essential role for finance to play to enable these agreements to be delivered.

The Sustainable Development Goals, adopted by resolution (70/1) of the UN General Assembly on 25 September 2015, represent 17 goals with 169 targets that, in sum, frame the challenges countries including Australia must address to deliver on important social and environmental objectives. The Goals state "national development efforts need to be supported by an enabling international economic environment, including coherent and mutually supporting world trade, monetary and financial systems, and strengthened and enhanced global economic governance" (Clause 63).

The Paris Agreement, adopted at the 21st session of the Conference of the Parties of the United Nations Framework Convention on Climate Change on 12 December 2015, establishes a global response to climate change with the objective to maintain an average global temperature rise below 2 degrees Celsius this century, and to pursue efforts to limit rises to 1.5 degrees.

The Paris Agreement states, "[a]s part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions, including supporting country driven strategies, and taking into account the needs and priorities of developing country Parties" (Article 9).

The Sendai Framework for Disaster Risk Reduction 2015-2030, adopted at the Third UN World Conference in Sendai, Japan, on 18 March 2015, is an agreement to work towards the "*substantial reduction of disaster risk and losses in lives, livelihoods and health and in the economic, physical, social, cultural and environmental assets of persons, businesses, communities and countries*".[16] The Framework states that parties agree "to promote the development and strengthening of disaster risk transfer and sharing mechanisms and instruments in close cooperation with partners in the international community, business, international financial institutions and other relevant stakeholders", and further agree "to encourage the coordination between global and regional financial institutions with a view to assessing and anticipating the potential economic and social impacts of disasters" (Clause 31).

Globally, many parts of the financial services sector are positioning to play a much more proactive role in helping to ensure a sustainable, resilient and prosperous future, including active involvement by many Australian financial services participants.

Internationally, sustainable finance is now incorporated directly into the work of the G20 with the Green Finance Study Group established under China's G20 Presidency in 2016. This was expanded in 2018 under Argentina's G20 Presidency to become the Sustainable Finance Study Group.

A global collaboration of more than 45 central banks is working under the Central Banks and Supervisors Network for Greening the Financial System (NGFS). This is a collaboration to manage "*both the opportunities and vulnerabilities for financial institutions and the financial system as a whole*" in responding to environmental and climate change challenges.[17]

Globally, financial markets are responding to these issues, and this response is accelerating. Countries including China, Canada, the United Kingdom (UK), Hong Kong and New Zealand, as well as the European Union (EU), are taking measures to ensure that their economies and financial markets are resilient, stable and prosperous through this coming transition. Momentum is gaining to embed sustainability and climate risks into financial sector regulation and policies.

According to UN Environment's *Sustainable Finance Progress Report*[18] produced for the G20 Sustainable Finance Study Group, "there is growing evidence that demonstrates the sustainable finance policy over the last year has been characterized by strong growth, increased scope, and greater maturity". Globally, there are now 730 hard and soft law provisions in financial regulations that embed such sustainability considerations across some 500 policy instruments, with 97% of these laws having been enacted since 2000.[19]

Currently, many of the world's peak financial regulatory bodies are establishing new standards, requirements, guidance and protocols against which Australian-based regulators and peak bodies are monitoring and may start to, or already have started to, implement domestic regulatory guidance.

- The International Organization of Securities Commissions, the peak body for securities regulators (including the Australian Securities and Investments Commission – ASIC) published a statement in January 2019 highlighting the importance for issuing companies to consider disclosing environmental, social and governance (ESG) matters when disclosing information material to investors' decisions. It also emphasised the important role of the securities regulators "in protecting investors by facilitating transparency in capital markets".[20]

- The International Organisation of Pension Supervisors, the peak body of pension fund supervisors (including the Australian Prudential Regulation Authority – APRA), recently published supervisory guidelines for the explicit integration of ESG factors in the investment and risk management of pension funds.[21]
- Insurance supervisors and regulators have come together at a global level through the International Association of Insurance Supervisors and Sustainable Insurance Forum to release a joint issues paper on climate change risks to the insurance sector (APRA is involved in both organisations).[22]
- The Financial Stability Board (FSB), the peak international body to promote international financial stability, has led the development of the Task Force on Climate-related Financial Disclosures (TCFD) Framework, setting out voluntary disclosure guidance on climate-related financial risks. Australia's Reserve Bank and Treasury are represented on the FSB.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES FRAMEWORK

Published in 2017, the Task Force on Climate-related Financial Disclosures (TCFD) Framework sets out recommendations for "voluntary, consistent climate-related financial disclosures" for use by companies to support "investors, lenders and insurance underwriters in understanding material risks".[23] These recommendations are structured around four key thematic areas – governance, strategy, risk management, and metrics and targets – and are intended to facilitate "smarter, more efficient allocation of capital, and help smooth the transition to a more sustainable, low-carbon economy".[24]

The Framework has received significant support worldwide: nearly 800 public- and private-sector organisations have announced their support for TCFD and its work, including global firms responsible for assets exceeding US$118 trillion.[25]

The Framework has been referenced by various global industry bodies, regulators and governments, including the Australian Government.[26] In Australia, both ASIC and the ASX Corporate Governance Council Principles & Recommendations encourage listed companies with material exposure to climate change risk to consider making disclosures following the TCFD recommendations [27, 28]

The NGFS has also encouraged all equity and debt issuers, as well as financial sector institutions, to disclose in line with the TCFD recommendations.[29] The Principles for Responsible Investment (PRI) introduced TCFD-aligned indicators to its reporting framework in 2018, with reporting against relevant indicators to become mandatory from 2020.[30]

Australian finance sector contribution to global frameworks

Australia's finance sector has played an influential role in the development of global frameworks including the PRI, Principles for Sustainable Insurance (PSI) and Principles for Responsible Banking (PRB). Each of the frameworks promotes accountability and transparency, requiring signatories to report annually on their progress to implement the Principles.

The PRI, launched in 2006, currently has 176 signatories from Australasia, including asset owners, service providers and investment managers. PSI, launched in 2012, includes three major Australian insurers among current signatories while the PRB, launched in September 2019, includes four Australian financial institutions (including a number of the major banks) as signatories.[31]

In addition, Australian financial services sector organisations have played leadership roles in many other global initiatives including the Global Investor Coalition on Climate Change (GIC), International Corporate Governance Network (ICGN), Global Impact Investing Network (GIIN), Global Sustainable Investment Alliance (GSIA) and United Nations Environment Programme Finance Initiative (UNEP FI).

Moves towards a partnership approach to catalyse sustainable finance

In many major world markets, the financial services sector has set out a coordinated approach to catalyse sustainable finance and align the financial services sector to support the relevant nation's transition to a resilient and sustainable global economy. This work has been coordinated at a national level through the development of sustainable finance roadmaps.

To date, the development of these sustainable finance roadmaps has been led by governments collaborating closely with industry. Examples include:

- **EU**: The EU's Action Plan on Sustainable Finance, which was developed with input from an industry High Level Expert Group (HLEG) that reported in early 2018. In 2019, the EU's Technical Expert Group on Sustainable Finance issued a series of reports focused on a taxonomy to help determine whether economic activities are environmentally sustainable; Green Bond Standards and Low-Carbon Benchmarks. This Group also released guidance to improve corporate disclosure of climate-related information. The impact of measures contained in the EU HLEG's final report aims to grow the clean economy of the future and substantially improve the environmental performance of existing industries.
- **UK**: During 2019, the UK released its Green Finance Strategy, which laid down a clear ambition for London to become the global hub for green finance. The UK's Green Finance Institute was subsequently launched this year. The Institute is a public-private sector collaboration focused on mobilising capital to accelerate the transition to a zero-carbon and climate-resilient economy.[32]

- **Canada**: During 2019, the Canadian Expert Panel on Sustainable Finance produced a final report to government.
- **New Zealand**: The New Zealand Sustainable Finance Forum (through the Aotearoa Circle) has recently published an interim report that outlines its vision as it works to produce a roadmap to help shift New Zealand to a sustainable financial system.
- **China:** Following the release of its *Guidelines for Establishing a Green Financial System*, China will make it mandatory for listed companies to disclose environmental information by 2020.[33] In addition, the China Securities Regulatory Commission has established an ESG information disclosure framework for listed companies in its revised Corporate Governance Code for Listed Companies.[34]

Similar initiatives are being noted in Indonesia, Norway, France, Sri Lanka, Luxembourg, Singapore, Hong Kong and many other nations.[35]

Progress in Australia

In Australia, we are seeing a range of sustainable finance-focused initiatives and responses.

Domestically, financial regulators including APRA, ASIC, and the Reserve Bank of Australia (RBA), as well as the Australian Securities Exchange (ASX) and the Australian accounting and auditing standards boards, are already progressing with integrating climate-risk and ESG considerations into their supervisory frameworks, requirements and guidance.

For example:

APRA

APRA is setting out its supervision approach on how it expects banks, insurers and superannuation trustees to manage the financial risks of climate change within their businesses. In its climate change information paper published in March 2019, APRA presented a status report on the views and practices of Australia's largest regulated entities with respect to climate-related financial risks and stated that the economic risks of climate change are "material, foreseeable and actionable now".[36] These risks must be "assessed and addressed alongside more traditional balance sheet and operational risks".[37] APRA has highlighted that failure to act now will come at a cost due to factors such as "extreme weather, more frequent droughts and higher sea levels".[38]

More recently, APRA has highlighted the need for additional investment in natural disaster mitigation to ensure that insurance remains affordable for Australians who live in cyclone and flood-exposed parts of northern Australia.[39]

RBA

The RBA Deputy Governor delivered a speech in early 2019 setting out the first order economic effects of climate change, both through physical risks and through the transition to a lower carbon economy. He emphasised that an orderly transition would create better outcomes for the economy and financial stability than a disorderly and abrupt transition.[40]

ASIC

ASIC is continuing to monitor market practice in relation to climate-risk disclosure and in September 2018 released a report on climate risk disclosure by Australia's listed companies. ASIC set out several recommendations for listed companies regarding consideration and disclosure of climate risk, including adoption of a probative and proactive approach to climate risk, consideration of reporting under the TCFD Framework and ensuring compliance with the law where material risk disclosure is required.[41]

ASIC has stated that it agrees in principle with the legal opinion provided by Noel Hutley SC and Sebastian Hartford Davis that failure to consider climate change risks now could leave directors liable to being found in breach of their duty of care and diligence in the future.[42]

ASIC recently updated its guidance on climate-related disclosures in Regulatory Guide 228 (Prospectus: Effective disclosure for retail investors) and Regulatory Guide 247 (Effective disclosure in an operating and financial review), which included highlighting "climate change as a systemic risk that could impact an entity's financial prospects for future years".[43]

In addition, as part of its focus on impairment testing and asset values, ASIC has noted that, in some cases, climate change may affect asset values.[44]

Council of Financial Regulators

The Council of Financial Regulators, the coordinating body for Australia's main financial regulatory agencies, has established a climate risk working group to ensure a "coordinated response to climate risk and its impact on [Australia's] financial system and markets".[45]

Australian Accounting Standards Board and the Auditing and Assurance Standards Board

The Australian Accounting Standards Board and the Auditing and Assurance Standards Board jointly issued a bulletin presenting guidance around financial disclosures of climate change-related risks, noting that this guidance is consistent with International Accounting Standards Board best practice interpretation of materiality.

Future evolution of sustainable finance markets

Sustainable finance markets in Australia are experiencing rapid growth and are continuing to adapt and evolve. As of 2018, assets managed in accordance with responsible investment principles represented 44% or $980 billion of Australia's $2.24 trillion in professionally managed assets,[46] having grown from $178 billion invested in responsible funds at the end of 2013 which, at the time, represented just 17% of the total assets under management.[47]

Another example of growth of the sustainable finance market in Australia is the development of sustainability bond markets, which include green bonds, social bonds and sustainability bonds. Cumulative green bond issuance from Australian entities reached $15.6 billion as of the first half of calendar year 2019. This ranks Australia tenth in the global country rankings and third in Asia (2018 green bond issuance).[48] Issuers include financial institutions, non-financial corporates and state governments, with the latter issuing green bonds to finance projects aimed at delivering environmental and social benefits, including transport, renewable energy, water and low-carbon building projects.

The range of sustainability-related financial instruments has also expanded, with various financial institutions issuing green loans, sustainability-linked loans, sustainability bonds and green deposit schemes.[49, 50] Examples include the following:

- Treasury Corporation of Victoria issued its inaugural green bond in July 2016, raising $300 million.
- In late 2016, Monash University[51] became the first university globally to issue a climate bond, raising AUD218 million in the Unites States private placement market to fund further sustainable development projects across its campus network.
- Woolworths raised $400 million from 90 institutional investors in April 2019 in what was the first green bond issued by a supermarket operator in Australia.
- Sydney Airport issued Australia's first syndicated sustainability-performance-linked loan, raising $1.4 billion in May 2019.
- Treasury Corporation of New South Wales issued its first sustainability bond in November 2019, raising $1.8 billion.
- Victoria, New South Wales, Queensland and South Australia have issued Social Impact Bonds (SIB) or conducted SIB pilot programs, which are aimed at improving particular social outcomes.[52]
- The Australian Government established a Social Impact Investing Taskforce through the Department of Prime Minister and Cabinet with a view to developing a strategy for the Commonwealth in the social impact investing market, including identifying how social impact investing can provide "additional solutions to address entrenched disadvantage, achieve measurable impact and facilitate private capital investment".[53]

An area of future evolution of sustainable finance is expected to be fintech (financial technology). An example of development of new sustainable finance fintech platforms is the Alipay Ant Forest project launched by Alipay, one of the world's most popular online payment platforms. The platform rewards its users with "green energy points" each time they take a step to reduce their emissions, with points used to plant real trees or protect conservation areas, in partnership with local non-government organisations. The project has so far planted 100 million trees in north-west China and protected 12,000 hectares of conservation land.[54]

The concept of developing an Australian Sustainable Finance Roadmap was borne out of industry-led discussions which took place at the end of 2017 at the UN Environment Programme (UNEP) Regional Roundtable, and the 'Financing a Resilient and Sustainable Economy' conference hosted by UNEP FI, Responsible Investment Association Australasia (RIAA), the Investor Group on Climate Change (IGCC), National Australia Bank, Insurance Australia Group and University of Sydney in July 2018 in Sydney.

The July conference brought together representatives from academia, government, the finance sector, industry bodies, regulators and civil society to discuss the importance of aligning the Australian and New Zealand financial sector with delivery of resilient and sustainable economies. The conference reinforced strong support for the financial sector to lead the development of sustainable finance roadmap initiatives in Australia and New Zealand, issuing a *Joint Statement in Support of a Sustainable Financial System for Australia and New Zealand*.[55]

The Australian Sustainable Finance Initiative (ASFI) was subsequently launched on 27 March 2019 with the objective of creating a sustainable finance roadmap for Australia. This roadmap will include pathways, policy signals, frameworks, initiatives and recommendations regarding changes in practices that will better enable the financial services sector to contribute to delivering on Australia's international commitments and building a resilient and prosperous economy. The ASFI Steering Committee intends to deliver an Australian Sustainable Finance Roadmap in 2020, with recommendations that will help the financial services sector to:

- operate the financial system in a manner that meets community and consumer expectations related to sustainability and norms, while enhancing financial inclusion and financial wellbeing;
- enhance risk management practices through consideration of ESG risk;
- ensure better informed financial decision-making by enhancing disclosures and transparency about environmental and social risks and opportunities, to better account for and manage risk and impact;
- enhance the sustainability, resilience and stability of the financial system by embedding sustainability, climate and human rights and other social and environmental considerations into financial markets, products and services; and
- mobilise capital to deliver on national and global sustainable development and climate goals, commensurable with science-based targets and informed by international conventions, treaties and norms.

To achieve the stated objective of delivering an Australian Sustainable Finance Roadmap for Australia by 2020, ASFI has adopted a collaborative development process overseen by the ASFI Steering Committee consisting of senior financial services, academic and civil society representatives.

The financial services sector itself has funded the establishment of a secretariat, with initial funding provided by ANZ, Australian Ethical Investments, Bank Australia, Commonwealth Bank of Australia, Cbus, Insurance Australia Group, National Australia Bank, QBE and Westpac.

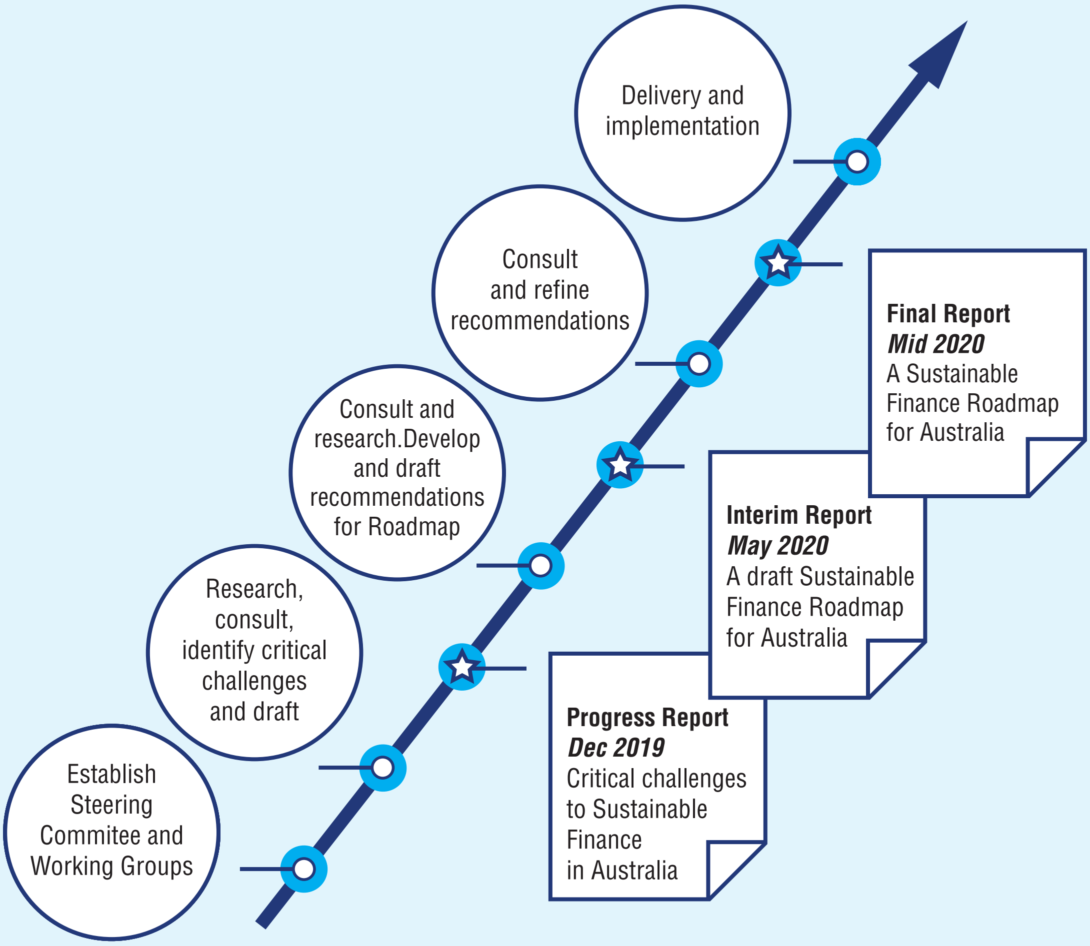
The process to develop an Australian Sustainable Finance Roadmap is designed to be inclusive of stakeholders to ensure a breadth of views and maximise the likelihood of the recommendations being adopted. As such it includes government, regulators, academia and civil society as observers, advisers and/or participants. The process is also informed by a wide base of expert knowledge both domestically and internationally.

Four ASFI technical working groups and a coordinating working group have been established:

1. **Technical Working Group 1:** Mobilising capital to deliver on our sustainability challenges and opportunities.
2. **Technical Working Group 2:** Creating a more sustainable, resilient and stable financial system by embedding sustainability into systems, markets, products and services to better account for risk and impact.
3. **Technical Working Group 3:** Making better informed financial decisions by enhancing disclosures and transparency.
4. **Technical Working Group 4:** Meeting community and consumer expectations, and putting people at the centre of finance's purpose.
5. **Coordinating Working Group:** Delivering practical recommendations on over-arching and cross-cutting issues not captured in the technical working groups, including short-termism, valuation, taxation, accounting standards, culture and education.

Each technical working group has up to 20 members who were selected using an expression of interest process. Members were selected based on their skills and experience with the objective of ensuring that each working group has a balance of sector, gender, age and professional skill sets. Overall, more than 130 individuals and over 80 organisations are involved in a process focused on delivering practical and implementable recommendations.

Figure 2: ASFI timeline: Developing an Australian Sustainable Finance Roadmap



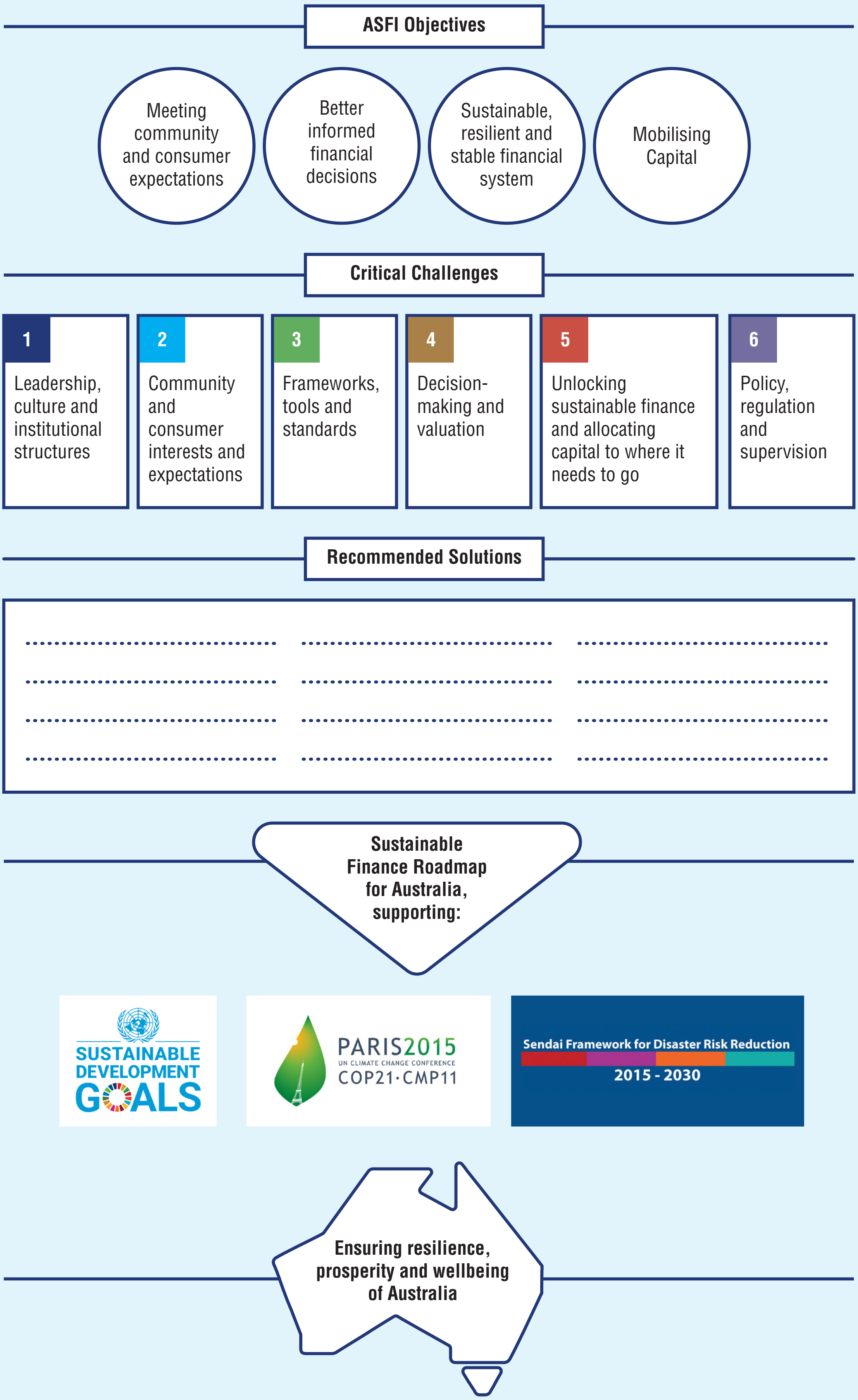
ASFI working groups were formally established in July 2019 with co-chairs accountable for leading each group and contributing to the coordinating working group.

In the five months to December 2019, co-chairs have convened the working groups, bringing together a cross-section of industry participants from the financial services sector together with representatives from civil society, academia and government.

The working groups have identified six over-arching critical challenges that are now the focus of detailed work to develop recommendations that, when completed, will form a roadmap for the financial services sector to navigate risks and opportunities for Australia's future resilience, prosperity and wellbeing.

What follows is an overview of the critical challenges that form the basis of this work.

Figure 3: **ASFI objectives and critical challenges to be addressed**



Critical challenges for the financial services sector

As the financial services sector, we must act now to mitigate future risks and instability to our sector, the economy and – more broadly – society that are occurring as a consequence of global shifts such as a changing climate.

1 Leadership, culture and institutional structures

The importance of financial services sector leadership – both through leaders within the industry and the industry as a whole – has been identified as key to ensuring that there is appropriate valuing of, and accountability for, sustainability performance and the broader impact of the financial services sector activities across Australian society, the environment and the economy.

To enable this leadership, the roles and responsibilities of key agents must be clarified. Trustees, fiduciaries, directors, executives and regulators all play significant roles in how our financial system works. All have pressures on them to act in certain ways that are not necessarily aligned with long-term sustainable outcomes. The factors shaping how those roles are executed need to be revisited.

Key challenges include:

LEADERSHIP AND CAPABILITY

- Greater levels of knowledge, skills and expertise in sustainability, climate change, human rights and other ESG issues are needed at the highest levels of financial services organisations, including at board and executive levels.
- Greater importance needs to be placed on sustainability, climate change and ESG issues at all levels of governance to align values and create organisational cultures that authorise commitment to these issues among leaders.
- The public and consumers need to be better informed on the critical role climate change risk will play in pricing and availability of financial products and returns, informed by the current science. There remains an opportunity for the industry to take a leadership role in providing this information.

REMUNERATION AND CULTURE

- Remuneration structures are heavily biased towards near-term financial performance with environmental and social considerations still often seen as non-financial, even when financial implications of mismanaging these risks are identified as material. Further, the lack of alignment of remuneration structures with sustainable long-term performance puts at risk the long-term financial performance and stability of the broader economy and the sector.
- Industry culture and behavioural biases such as short-termism, herding and narrow framing undermine efforts to align financial decision-making with sustainable outcomes.

FIDUCIARY DUTIES

- There remains a narrow interpretation of a director's or fiduciary's duty to act in the best interests of an entity, which focuses on short-term maximisation of shareholder returns rather than the entity's long-term sustainability and broader stakeholder responsibility. To ensure long-term sustainability, that underpins long-term returns, a broader range of stakeholders and factors need to be considered. These include climate risk, corporate conduct, and a range of social risks, impacts and opportunities.
- Across the investment value chain, there remains a misalignment between long-term investment horizons, particularly those of superannuation trustees, and the short-term timeframes over which entities' performance are measured and rewarded.

2 Community and consumer interests and expectations

All Australians engage with – or are impacted by – the financial services sector, whether through banking, insurance or investment. However, their level of understanding of the financial services sector and involvement with it varies widely. Consumers have differing levels of financial capability, confidence and education, as well as variable expectations in the sustainability performance and ethics of their financial services products.

The sheer reach of the financial services sector requires a proactive approach to ensuring products, services and behaviour serve Australians well and adequately meet their needs, interests and expectations. This includes a wide range of issues, including financial inclusion, access to financial services, financial wellbeing, reflecting the sustainability and ethical preferences of consumers, ensuring all communities are well served, and ensuring products and services are appropriate to individual circumstances. From the perspective of a sustainable finance roadmap, there are numerous challenges to delivering adequately and successfully on these expectations and interests.

Key challenges include:

CONSUMER EXPECTATIONS

- There is often a disconnect between consumer expectations and the financial services sector's response, particularly with regards to sustainability. There is an expectation among consumers that the sector should avoid harm, provide benefit and contribute positively to the wellbeing of all Australians, but this is not built into the financial system in Australia as it stands today.

SKILLS AND CAPABILITY OF THE SECTOR

- Across the financial services sector, there is a lack of appropriate skills, awareness and operational understanding of localised economic, environmental and social factors, civil society entities and Sustainable Development Goals-related investment opportunities. There is also a lack of informed understanding of sustainable products by financial services salespeople.
- Availability of consumer-focused information on the role of the financial system in addressing sustainability issues is not keeping pace with consumer needs.

PRODUCTS AND SERVICES

- Product design, access and distribution do not prioritise sustainability as a key consideration and advisers (human and robot), superannuation funds, accountants and platforms do not always adequately take into account the changing sustainability preferences of consumers. Communities and consumers are not empowered or rewarded to make decisions based on sustainability considerations and their own values.
- Sustainability credentials of most financial products and providers are not readily available to consumers, meaning it is difficult for consumers to know the impact of financial products and to exercise an informed choice.
- With variable levels of financial capability across Australia, many people may not easily be able to articulate their expectations and interests. This transcends generations, ethnicity, gender and socio-economic backgrounds and can evolve over time as people's circumstances change.
- Financial services language and communication can be overly complex, further fueling the financial capability challenge. This is compounded by the fact that those lacking confidence are unlikely to get involved in the financial system or ask for help, which can be seen as discriminatory and confusing.
- There are uneven capacity and capability sets that lead to often inadequate product disclosures and confusion around disclosures and data.

- Australia is experiencing a significant 'trust deficit' in the public's perception of the financial services industry. The financial services sector is complex, and challenges along the value chain have not made it easy for consumers to engage with their finances in an informed way. One example of this is in regard to choice – in some instances, extensive choice may be regarded as a positive for consumers, but there are circumstances where more choice can be detrimental to a consumer's ability to make a good decision that will meet their individual needs.

FINANCIAL INCLUSION AND ACCESS

- There is a lack of understanding about what services are available to support financial decision-making and what to expect from service delivery (both from interacting with the financial services sector and with other support services, including financial counselling).
- Some forms of financial products have been criticised for being structured in such a way that access to credit for marginalised consumers comes at a far higher cost than for mainstream borrowers – the so-called 'poverty premium'.
- As the definition of 'work' changes in our society, this has implications for a financial system established in a paradigm where 9 to 5, full-time employment has traditionally been the norm. This can be one factor that limits financial inclusion and access to the financial system. In particular, the rise of the gig economy finds many workers struggling to access bank lending. Financial inclusion and access can also be impacted by an individual's socio-economic background, domestic situation, and language or technological skills.
- Physical access can be an exclusion issue for regional and remote communities as well as those that are house-bound. In 2017, 28% of people lived in regional or remote communities[56] with access problems exacerbated by bank branch closures, ATM fees and comparatively low access to internet and other digital services.

3 Frameworks, tools and standards

The challenges in decision-making and valuation (discussed below) are closely linked to the frameworks and tools used across the financial services sector to inform investment, lending and insurance decisions. As the financial services sector grapples with evolving challenges, risks and opportunities, new sets of frameworks, tools and standards are rapidly emerging. However, to date these have been inadequate or have not been uniformly used across the sector, inhibiting comparability. Aligned frameworks, tools and standards are essential to the functioning of a resilient and well-managed risk profile of the financial services sector if the sector is to align with global agreements such as the Sustainable Development Goals, the Paris Agreement and the Sendai Framework. Linking data sets across the financial services sector and civil society is increasingly important in this regard.

Key challenges include:

FRAMEWORKS, TOOLS AND STANDARDS

- Frameworks and tools that aid investing in environmental and social outcomes are lacking, which in turn limits consumers' ability to contribute to a sustainable financial system. Issues include:
  - a lack of tools to assess sustainability risks and impacts;
  - poor or inconsistent implementation of existing sustainability standards and standards that are not comprehensive (leading to cherry-picking, poor quality and challenges with comparability); and
  - multiple and competing frameworks that make it difficult to integrate social and environmental considerations into decisions.

REPORTING AND ASSURANCE

- Corporate sustainability reporting is often not comprehensive or consistent and frequently inadequately describes the strategic response of a company to environmental and social risks. Reporting is too often disconnected to value at risk and does not consider the short, medium and longer term. By consequence, reporting fails to appropriately flow through the investment chain consistently to meet the needs of the final beneficiary or consistently drive decisions and outcomes that harness the ability of Australian companies to deliver stronger long-term environmental and social outcomes for Australia. Integrated reporting provides an example for more comprehensive and relevant sustainability reporting, yet it is not widely adopted and is not a requirement for listing on the ASX.

- Difficulties in measuring social impacts from an activity or operation of a business and attributing these impacts to specific operations present a risk of overstating or not valuing impact.
- Reporting requirements for climate-related performance and risks remain optional resulting in inconsistent levels of disclosure and data availability.
- A lack of assurance of reporting of sustainability risk issues or selective/low level assurance of reporting, as well as frequent avoidance of reporting on negative impacts, limits the veracity of such reporting and/or user confidence in reported data.

4 Decision-making and valuation

The financial services sector relies heavily on valuation of risk to underpin the investment, lending and insurance decisions being made on a daily basis. Yet limitations with existing valuation tools, mainstream practices and a lack of quality data challenge the sector in being able to respond to the new risks and opportunities presented by climate change, environmental and social issues. To properly value risk and to better inform decision-making, several challenges remain.

Key challenges include:

DECISION-MAKING – CONSISTENCY, COMPLETENESS AND COMPARABILITY

- Incorporating environmental and social considerations into decision-making across the financial services sector in a consistent, transparent, reliable, comparable and efficient manner remains challenging.
- There remain significant gaps in availability of data, inconsistent frameworks, a lack of common scenario analysis methodologies for climate change risk assessments and measurement of social and environmental impacts, and limitations with existing tools for valuation and pricing of risk. The sector requires accurate and timely information to properly price climate risk and reward climate innovation and that information needs to be standardised to allow comparability.
- A broader set of social challenges and risks need to be considered by the financial services sector to avoid future risks to the sector and the broader economy. Examples of the social issues requiring increased consideration include equity, equality, inclusion, casualisation of work, fair and decent work and living wages, many of which are not currently well understood, or their broad, long-term implications not well assessed, and all of which have implications for consumer spending and lending.

- A shift in focus from human rights to broader human wellbeing will be critical for consideration by the financial services sector, including the influence the broad reach of our sector has across the domestic and global economies.

VALUATION CHALLENGES

- Externalities are frequently excluded from financial decision-making and valuation. Financial and economic models undervalue natural and human capital such as air quality, river systems, soil quality, community volunteering, productive workforces, biodiversity, a healthy society, training and education. These externalities (or public goods) are frequently undervalued or not reflected in the balance sheets of businesses and governments despite the critical role they play in underpinning a prosperous and healthy economy. From a financial risk perspective, both the use of natural capital by an organisation in its operations and the impact of an organisation on natural capital is particularly important for Australia given its reliance on natural capital and vulnerability to climate change risks.

UNCERTAINTY AND UNPREDICTABILITY

- Effective decision-making and valuation are challenged by the uncertainty that exists around the timing and magnitude of climate impacts, and the nature of transition pathways, policy interventions and technological and social responses. These factors are beyond the direct control of financial sector actors – although not beyond their influence. A carbon-neutral, climate-resilient financial system can only exist in the wider context of sustainable industries, economies and societies.
- On current trends, global emissions are on a trajectory that implies catastrophic environmental and economic changes within the lifespan of assets and products being invested in today, which greatly challenge decision-making and current valuation tools and practices. If those trends continue – or even if emissions reductions are not sufficiently fast – accelerating physical impacts from climate change and commensurate policy responses to them are likely to fundamentally impact financial services through great and unpredictable shifts in valuations. This unpredictability requires more sophisticated decision-making.

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

It is recognised that the financial services sector plays a key role in generating long-term prosperity for Australians. Finance supports jobs in a strong economy and helps Australian businesses to grow. A core purpose of the financial system is to allocate capital to productive purposes for the benefit of all. There is an urgent need to shift new and existing capital into investments that create and better support sustainable and equitable outcomes for Australian people, our economy, the environment and investment and trade in the region.

Key challenges include:

DEFINITIONS, PRODUCTS AND TOOLS

- Lack of aligned and globally agreed definitions, labels and standards of what constitutes a sustainable investment or product across asset classes (including debt, equity, fixed income, infrastructure, property, venture capital and private equity) inhibits capital flowing to sustainable outcomes, prevents assurance, and makes comparability challenging. This also limits the ability to measure the positive outcomes of an investment or determine negative impacts in the absence of 'do no harm' criteria.
- The financial system does not always facilitate the investments that are needed to create and support sustainable outcomes. For example, allocating capital towards the social dimension of sustainability has been limited. Significant work is required to scale and direct capital flow towards areas such as social and affordable housing, Indigenous communities, education and 'for purpose' business. The recent success with the Affordable Housing Bond Aggregator Model highlights the potential for collaborative solutions to help address these challenges.
- While voluntary market tools such as Green Star and NABERS ratings have successfully supported development of new commercial green buildings and increased water and energy efficiency, opportunities to decarbonise other property assets (for example, existing commercial, residential, retail and industrial) are hindered by market fragmentation, lack of incentives for individual owners, lack of tenant demand, difficulty in aggregating enough product for investment and lack of standardised tools for measuring outcomes.

POLICY AND REGULATORY CHALLENGES

- The importance of policy certainty is a key enabler of capital being deployed in the right areas. Conversely, the uncertainty of future policy direction can act as a disincentive to allocating capital, especially for longer-term investment decisions such as to new technologies, social services and infrastructure, mass transit, agriculture, energy, grid resilience and property. Lack of policy certainty can also exacerbate stranded asset risk and create a disorderly transition of the energy market as it decentralises and decarbonises.

- Complexity in federal, state and local regulatory frameworks and market considerations for infrastructure can incentivise investors to allocate capital offshore and act as a disincentive to offshore investors considering investing capital in Australia. Investment in renewable infrastructure is further impeded by grid stability, connection issues, wholesale energy price risk and the opaque nature of marginal loss factors.
- Upfront systematic assessment and implementation of environmental and social sustainability considerations into infrastructure projects is lacking. There is a role for government and market participants to make sustainability mandatory in concession-holder bidding to help drive consortia members, such as debt and equity investors, to embed sustainability into their bid and execution processes.
- There is a lack of regulatory guidance for the finance sector on treatment of green or sustainable assets related to risk weightings and capital treatment of such assets. In the absence of guidance to signal to the key actors in the financial system how capital should be allocated according to green or other sustainability-related factors, such allocation may not occur at scale or at the necessary pace.

MARKET CHALLENGES

- Some asset owners facilitate short-termism along the investment chain, which is at odds with their long-term investment horizon and ultimate end beneficiaries. The structure of mandates including performance fees, incentive structures and market and peer benchmarking of investment managers over short time horizons drives a focus on short-term performance and value extraction.
- Across the spectrum of financial intermediaries there is inadequate recognition of risks or investment opportunities associated with addressing sustainability issues. When ESG issues are considered, they often do not reflect issues beyond a short-term foreseeable horizon and there is a lack of transparency in the process. The tools used to consider ESG risks or opportunities may not be fully integrated into the broader investment decision.
- A typical index is weighted by market capitalisation and only takes ESG risks into account in limited circumstances. Indices and benchmarks are important pillars of global capital markets. Institutional investors are benchmarked against indices and passive funds are structured to track the index. They also serve an important function in portfolio performance and feed into decisions on sector and geographical allocations. Portfolio manager and other executive remuneration is often tied to the measurement of portfolio performance against the index.

- There is insufficient innovation to provide commercial solutions to solve these pressing social and environmental challenges. Areas such as venture capital play an important role in bringing these ideas to market. There are ongoing challenges in scaling these projects to make them accessible for institutional investors.
- Some projects or investments may become un-insurable due to increased risks, such as physical impacts of climate change. Insurance plays a vital role in de-risking investments and finance and needs to assess future sustainability risk of projects to provide confidence for investors over the long term.
- For assurance of the social and environmental outcomes, enhanced practices and techniques in measuring, accounting and tracking for sustainability will be necessary for sustainability performance-linked instruments, for example, sustainability-linked loans.

REGIONAL IMPORTANCE

- Australia's financial services sector has traditionally played an important role providing financial services and investment into the region, in particular the Pacific. Challenges remain in allocating capital to economic activity, such as infrastructure. There is an opportunity to explore structures and partnerships that can scale and deploy finance in this region.

6 Policy, regulation and supervision

There is an important role for policy settings and regulator guidance and supervision to reinforce factors for sustainable finance. This will assist in setting clear direction for the financial services sector. While much progress has been made in Australia already, further consistency and harmonisation of guidance in regulatory settings would enhance the financial services sector's ability to align with and support a prosperous and sustainable Australian economy, environment and society.
Further, Australia's financial system is part of an interconnected and interdependent global financial system and needs to remain relevant and maintain access to the global financial system.

Key challenges include the following:

- Strong progress has been made in terms of guidance by financial sector regulators on when or how climate-related considerations can or should be prioritised. However, there is a lack of regulatory guidance on how social and environmental risks, including systemic risks, and societal norms more broadly, can or should be prioritised in decision-making.

- There is a lack of supportive policy and guidance around approaches to how natural capital (for example, clean water, productive soil, clean air) and resource efficiency (reuse and recycling versus use of non-renewable resources) should be valued and considered, that will become more important and pose ever greater financial risks as the depletion of the natural capital asset base of our economy continues.
- There also remain key gaps in the detail of National Action Plans to set clear pathways for our nation on international commitments such as the Sustainable Development Goals, human rights and the Paris Agreement. These Plans are critical for establishing national trajectories under which the financial services sector can plan and operate.
- There are limitations in legal and regulatory settings around issues of human wellbeing and the human impact of financial services. Despite the strong positive step with the introduction of the Modern Slavery Acts (Commonwealth and New South Wales) in 2018, with rising social issues such as inequality (of income and wealth), work insecurity and mental health, a heightened focus on human rights and wellbeing (beyond modern slavery) will be required to underpin a strong, prosperous and equitable economy and society.
- There is sometimes a narrow and rigid focus on strict adherence to the letter of the law, rather than the spirit of the law. This focus is increasingly inadequate to meet the broader societal expectations of large institutions, such as financial services businesses.

ASFI's next stage of work will involve identifying the recommended solutions to overcome these challenges. These will then be mapped against a timeline of activity resulting in a recommended Australian Sustainable Finance Roadmap. ASFI intends to produce its interim report in May 2020.

ASFI will be engaging and consulting with stakeholders between December 2019 and April 2020. This will include a series of roundtables and one-on-one meetings to inform the recommendations and implementation of the Roadmap.

As part of this engagement, ASFI will be exploring the critical challenges identified by the working groups as set out in this report and other issues raised by stakeholders that are relevant to the objectives and vision of ASFI.

ASFI invites interested parties to make a submission to ASFI that is focused on one or more of the roadmap objectives. Submissions will be provided to the most relevant working groups for their consideration. Submissions should be sent to info@sustainablefinance.org.au by Friday 21 February 2020.

ASFI working groups will continue their deliberations during the remainder of 2019 and into 2020 and will provide input into the recommendations for the roadmap, which will ultimately be approved by the ASFI Steering Committee. The roadmap will set out a practical and implementable plan for the financial services sector, looking at a full suite of levers to achieve ASFI's objectives. Recommendations in the roadmap are expected to look at options within codes of practice, industry practices and culture, regulation and guidance, and legislation.

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Acronyms and abbreviations

APRA	Australian Prudential Regulation Authority
ASFI	Australian Sustainable Finance Initiative
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
DFAT	Department of Foreign Affairs and Trade
ESG	Environmental, Social and Governance
fintech	Financial Technology
FSB	Financial Stability Board
GDP	Gross Domestic Product
GIC	Global Investor Coalition on Climate Change
GIIN	Global Impact Investing Network
GSIA	Global Sustainable Investment Alliance
HLEG	High Level Expert Group
ICGN	International Corporate Governance Network
IGCC	Investor Group on Climate Change
NABERS	National Australian Built Environment Rating System
NGFS	Network for Greening the Financial System
Paris Agreement	The Paris Agreement adopted by the 21st session of the Conference of the Parties of the United Nations Framework Convention on Climate Change on 12 December 2015
PRB	Principles for Responsible Banking
PRI	Principles for Responsible Investment
PSI	Principles for Sustainable Insurance
RIAA	Responsible Investment Association Australasia
RBA	Reserve Bank of Australia
Sendai Framework	The Sendai Framework for Disaster Risk Reduction 2015-2030, adopted at the Third UN World Conference in Sendai, Japan, on 18 March 2015
SIB	Social Impact Bond
Sustainable Development Goals	The Sustainable Development Goals adopted by resolution (70/1) of the United Nations General Assembly on 25 September 2015
TCFD	Task Force on Climate-related Financial Disclosures
UN	United Nations
UNEP	United National Environment Programme
UNEP FI	United Nations Environment Programme Finance Initiative

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