



1 December 2023

Mr Warren Tease
Chief Adviser, Climate and Energy
Division
Sustainable Finance Unit, Treasury
Langton Crescent
PARKES ACT 2600
By email: sustainablefinanceconsultation@treasury.gov.au

Dear Mr Tease

Sustainable Finance Strategy – Consultation paper (November 2023)

The Australian Finance Industry Association (AFIA)¹ appreciates the opportunity to respond to Treasury's consultation paper on the Sustainable Finance Strategy ('the consultation paper').²

AFIA is the only peak body representing the entire finance industry in Australia.

We represent over 150 providers of consumer, commercial and wholesale finance in Australia, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

¹ www.afia.asn.au.

² Treasury (November 2023), [Sustainable Finance Strategy](#) consultation paper.

SUBMISSION

Sustainability is a key priority for AFIA, and we strive to champion a sustainable and timely transition to net-zero through green finance solutions and Environmental, Social and Governance (ESG) initiatives, including:

- working with our members on campaigns to support ESG.
- developing new tools and industry level policies to support members implement policies, action plans on transition pathways, and reporting frameworks.
- supporting the decarbonisation of transportation and expansion of low-emissions mobility.
- contributing to the development of a taxonomy for reporting, encouraging members to use climate-related financial disclosures and supporting them in preparations for changes to financial reporting to build upon climate-related risks and opportunities.
- promoting green finance solutions that address the needs of consumers, businesses, and the environment.³

The finance industry plays a critical role in supporting consumers and businesses and we recognise that climate change poses a material risk to the financial system.⁴

AFIA members have actively engaged with the development of the Government's National Electric Vehicle (EV) Strategy working to expand EV uptake in Australia.⁵ Between January and October 2023, our members have financed almost \$2 billion (\$1.96 billion) in total EVs, amounting to over 25 thousand (25,005) EVs.⁶ In September this year, AFIA released a report entitled 'EV Finance: Driving Down Australia's Emissions'.⁷

Financing EVs is essential to reducing Australia's emissions, 16 per cent of which come from the transport sector and 10 per cent from light vehicles alone. AFIA was pleased to see that the percentage of new cars sold which are EVs has increased from 2 per cent to 8.4 per cent between March 2022 and June 2023.⁸

AFIA is proud to represent nine providers working in the Buy now pay later (BNPL) sector in Australia, who provide BNPL into the solar market for principal products such as funding solar panels.⁹ These providers financed more than \$138 million in solar related transactions between April and June 2023 alone.¹⁰ These products play a significant role in Australia's efforts to achieve climate goals by generating renewable energy, reducing emissions and encouraging innovation and investment.

³ See [AFIA Annual Review FY23](#), page 20.

⁴ Australian Government, The Treasury (December 2022), [Climate-related financial disclosure - Consultation paper, page 5](#).

⁵ [AFIA \(September 2023\), EV Finance: Driving Down Australia's Emissions](#).

⁶ Data provided to AFIA for membership purposes.

⁷ [AFIA \(September 2023\), EV Finance: Driving Down Australia's Emissions](#).

⁸ *ibid*.

⁹ See AFIA (January 2023), [The Economic impact of Buy now pay later in Australia](#).

¹⁰ Data provided to AFIA for membership purposes.

AFIA supports the Government developing an overarching Sustainable Finance Strategy, identifying the risks and significant opportunities for the finance industry, and bringing together the vast range of activities underway in Australia to facilitate the transition to net-zero by 2050. In order to meet Australia's climate goals, a step-change is required to recognise the levels of investment required for the transition. AFIA notes these similar themes in international comparisons such as the United Kingdom's (UK) updated 2023 Green Finance Strategy and New Zealand's International Climate Finance Strategy.¹¹

AFIA recognises that the transition will require a significant amount of private and public investment, with the regulatory burden on reporting entities increasing and the Government requiring to have a clear strategy and commitment in place.¹² A comprehensive strategy will help to ensure that Australia keeps pace with international developments and looks forward to Australia positioning itself in a leadership role to support net zero.

We note that the consultation paper structures the strategy into three pillars:

1. improve transparency on climate and sustainability.
2. financial system capabilities.
3. Government leadership and engagement.

AFIA supports the consultation paper's emphasis on international interoperability and transition periods for reforms. Due to the short timeframe to respond to the consultation paper and the broad nature of the questions for feedback, AFIA has provided comments on some of the specific priorities:

Pillar 1: Improve Transparency on Climate and Sustainability

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

AFIA has welcomed the Government's development of consistent standards which recognise the importance of managing climate-related financial risks. For further detail on AFIA's position on climate-related financial disclosures, please refer to previous submissions.¹³

This will be a major reform, increasing the regulatory burden on reporting entities and increased compliance and audit related costs, and administrative burdens. The Government must play a key role in providing enhanced support for companies, recognising the widely acknowledged data challenges and outlining expectations around best practices for disclosures.

¹¹ See the United Kingdom HM Government (March 2023), [Mobilising Green Investment - 2023 Green Finance Strategy](#) and New Zealand Foreign Affairs & Trade (August 2022), [International Climate Finance Strategy](#).

¹² Treasury (November 2023), [Sustainable Finance Strategy](#) consultation paper, page 4.

¹³ [AFIA Submission \(February 2023\), Climate-related financial disclosure - consultation](#) and [AFIA Submission \(August 2023\), Second consultation on climate-related disclosures](#).

Such as providing:

- guidance on what information companies should include on each element of the reporting requirements.
- guidance on audit requirements for the climate-related financial reporting regime.
- the Government’s expectations around the data challenges, including around the reporting of scope 3 emissions and scenario analysis. It is vital that clear guidance is provided to ensure that disclosures are fulfilling the requirements and providing sufficient information to display comprehensive reporting.¹⁴ ASIC's review of the climate change-related disclosures by larger listed companies reveals ongoing advancements in governance and disclosure practices related to sustainability. Despite these improvements, issues with consistency, comparability, and structured reporting in the disclosures persist.¹⁵
- examples of guidance include:
 - the Task Force on Climate-related Financial Disclosures (TCFD) guidance on metrics, targets and transition plans; and
 - the International Sustainability Standards Board (ISSB) industry-specific information provided in IFRS S2 Appendix B – ‘industry-based disclosure requirements’.¹⁶

As part of the proposed changes to Australian accounting standards around the disclosure of ESG related matters, this will further increase compliance, accounting, reporting, and audit costs for regulated entities.¹⁷

AFIA notes that although the Government has committed to introducing climate-related financial disclosure requirements for Commonwealth entities commensurate with the commitment for the private sector, further information on the detail of those requirements and timing have not been confirmed.¹⁸

- **Priority 2: Develop a Sustainable Finance Taxonomy**

AFIA supports the development of a sustainable finance taxonomy pathway for the development and labelling of green financial products and sustainability standards, and to assist financial institutions assess the credibility of transition plans. We agree that climate change mitigation is an immediate priority, and that the Australian market urgently needs ‘credible and usable guidance on the types of activities aligned with an Australian net zero transition pathway’.¹⁹

¹⁴ See findings from the UK Prudential Regulation Authority (PRA)(21 October 2022), [Thematic feedback on the PRA's supervision of climate-related financial risk and the Bank of England's Climate Biennial Exploratory Scenario exercise](#) and the UK Financial Conduct Authority (FCA)(29 July 2022) [Review of TCFD-aligned disclosures by premium listed commercial companies](#).

¹⁵ ASIC (7 December 2022), [ASIC's current focus: What are the regulator's expectations on sustainability-related disclosures?](#)

¹⁶ See [Task Force on Climate-related Financial Disclosures](#) – Guidance on Metrics, Targets and Transition Plans and ISSB, IFRS S2 [IFRS - Appendix B – Industry-based disclosure requirements](#).

¹⁷ AASB Sustainability Reporting Exposure Draft (ED SR1) (October 2023) [Australian Sustainability Reporting Standard - Disclosure of Climate-related Financial Information](#).

¹⁸ Treasury (November 2023), [Sustainable Finance Strategy](#) consultation paper, page 11.

¹⁹ AFIA Submission (February 2023), [Designing Australia's Sustainable Finance Taxonomy](#).

AFIA previously provided technical input into the Australian Sustainable Finance Institute (ASFI) taxonomy project as part of the Technical Advisory Group to develop a green finance reporting taxonomy as a tool to foster efficient financing of the low carbon transition.²⁰

AFIA believes a sustainable finance taxonomy must be consistent with international comparisons and incorporate the flexibility needed for entities to determine the needs of their business. Furthermore, it is crucial to incorporate strategies to influence customer behaviour towards sustainable choices, such as the use of Green Residential Mortgage-Backed Securities (RMBS), where consumer decisions have significant environmental impacts.²¹

- **Priority 3: Support credible net zero transition planning**

The disclosure of transition plans within the climate disclosures framework is in line with the ISSB and can be a key tool for the finance sector. There is a role for the Government to play in developing capability around transition planning and supporting industry. Entities expected to disclose transition plans should be provided with clear guidance and support from the Government to ensure they provide transparent information on how they are managing climate related risks. The UK Transition Plan Taskforce is a helpful example of a consistent framework and guidance for private sector companies developing climate transition plans.²²

AFIA advocates for government support in aiding reporting entities with the development and disclosure of transition plans, incorporating insights from successful international examples.

Pillar 2: Financial System Capabilities

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

AFIA agrees that the Sustainable Finance Strategy proposed will strengthen the Australian Securities and Investments Commission's (ASIC) ability to set clear regulatory expectations.

We note the importance of sustainability ratings to allow investors to make informed decisions. These ratings require to be transparent and accurate. AFIA supports the Government considering the appropriateness of the regulation of ESG ratings providers given the reliance placed upon them and the need for accuracy.

²⁰ [ASFI Australian Taxonomy](#)

²¹ NAB, 'Building the market: How NAB developed Australia's first green mortgage-backed bond' ([9 March 2018](#))

²² [United Kingdom \(UK\) Transition Taskforce](#).

- **Priority 7: Addressing data and analytical challenges**

AFIA supports and encourages the consultation paper recognising that the sustainability data landscape is evolving and complex.²³ We agree the challenges around data include the proliferation of tools, leading to fragmentation, and costs pressures on smaller entities to access reliable data and expertise.

Emissions reporting involves complexities due to the dependency on external data from vendors, which can often be lacking in both accuracy and availability. For example, the absence of mandatory disclosure requirements for vehicle manufacturers on emissions generated during production and transportation exacerbates the challenge, leading to reliance on assumptions rather than evidence-based reporting.

We note the full array of data challenges, gaps and opportunities is beyond the scope of this consultation and that AFIA has provided comment on the data challenges required for the climate-related financial disclosures in previous submissions.²⁴ The Sustainable Finance Strategy should acknowledge the inherent uncertainties often associated with climate disclosures in particular. The shortfall in both data availability and analytical expertise presents a substantial barrier to effective emissions reporting and disclosures.

The implementation of ISSB standards for example incurs significant costs for companies, including recruiting expertise, modifying systems, and adapting data collection and reporting processes.²⁵

The mandatory reporting requirements will create flow-on affects within industry supply chains, however many organisations will need to receive these disclosures before they can improve their own data collection and analysis. This will require a transition period as more intermediary organisations rely on external stakeholders.

AFIA has previously commented on the challenges with assurance in relation to ESG reporting, particularly in relation to scenario models and Scope 3 emissions in climate-related financial reporting.²⁶ This is due to the levels of estimation and variability in assumptions while assurance is maturing. There will be increased demand and capacity issues for independent assurers and auditors, who may struggle to make demand.

The prioritisation and design of data-related initiatives are at risk of being hindered by unclear market guidance from the Government. AFIA strongly supports the Government playing a key role in supporting reporting entities by providing guidance on the data and analytical expectations. We note that the Council of Financial Regulators will consider how to address this challenge in more detail in 2024.²⁷

²³ Treasury (November 2023), [Sustainable Finance Strategy](#) consultation paper, page 26.

²⁴ [AFIA Submission \(February 2023\), Climate-related financial disclosure - consultation](#) and [AFIA Submission \(August 2023\), Second consultation on climate-related disclosures](#).

²⁵ IFRS Sustainability Disclosure Standards, 'Effects Analysis', on IFRS S1 and IFRS S2 (n 8), page 7.

²⁶ [AFIA Submission \(February 2023\), Climate-related financial disclosure - consultation](#).

²⁷ [Council of Financial Regulators webpage](#).

- **Priority 8: Ensuring fit for purpose regulatory frameworks**

AFIA agrees that the regulatory frameworks must 'enable and ensure proper consideration of climate change and other sustainability-related issues'.²⁸ In order to do this, they must be clear and consistent. Utilising existing requirements will help to minimise additional costs, enhance consistency and avoid duplication which can lead to regulatory arbitrage.²⁹

We support the Government working closely with regulators and industry when mainstreaming sustainability considerations into corporate governance and decision-making, in line with the above consideration.

Pillar 3: Government Leadership and Engagement

- **Priority 10: Catalysing Sustainable Finance Flows and Markets**

AFIA is supportive of the work of the Clean Energy Finance Corporation (CEFC) which has worked with the finance industry to provide discounted loans and finance for clean energy projects. In particular, we support the proposal for the CEFC to expand its discounted financing, as well as continue to contribute to the development of the sustainable finance taxonomy.³⁰

In order to increase the efficiency of the work of the CEFC, it would be beneficial for the CEFC to provide additional information of its programs for industry and for the understanding of end-consumers. The CEFC could also consider alternative discount methods such as a direct subsidy for consumers.

- **Priority 11: Promoting international alignment**

It is essential that Australia remains aligned with other major international markets and ensuring disclosure requirements and the sustainable finance taxonomy is credible and comparable to other jurisdictions. AFIA members are affected by the development of sustainability-related standards in other jurisdictions, and it is crucial for entities to be able to report in a way that avoids duplication.³¹ AFIA therefore endorses global alignment and supports the Government continuing to promote international comparability.

CLOSING COMMENTS

Thank you once again for the opportunity to comment on the Government's consultation paper for the Sustainable Finance Strategy. Our members look forward to playing their part in financing Australia's transition to net zero.

²⁸ Treasury (November 2023), [Sustainable Finance Strategy](#) consultation paper, page 28.

²⁹ [AFIA Submission \(February 2023\), Climate-related financial disclosure - consultation](#), page 10 and [Treasury, Climate-related financial disclosure - Consultation paper \(n 5\)](#).

³⁰ Treasury (November 2023), [Sustainable Finance Strategy](#) consultation paper, page 33.

³¹ Other jurisdictions such as New Zealand, the United States, United Kingdom, and Europe. Please see a list of AFIA membership on our website: www.afia.asn.au.

Should you wish to discuss our submission or require additional information, please feel free to contact me.

Yours sincerely

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