

# **Building a Sustainable Finance System in Europe – what can Australia learn?**

**Lunch with Dr Paul Fisher**

**The Australian Process and developments thus far and next steps**

**Hosted by Citi**

**Responsible Investment  
Association Australasia**



# Developments and process thus far



## 1. Briefing paper

- In advance of the UNEP FI conference, RIAA prepared a briefing paper – *Sustainable Finance Roadmaps: Aligning finance with a resilient and sustainable economy*
- Provided delegates with background information including the building blocks of a SFRM, and examples of relevant ongoing Australia and New Zealand-specific activities

# Developments and process thus far

## 2. UNEP FI Conference

The two-day long 2018 UNEP FI Conference provided an important platform for establishing the case and need for a SFRM for our region, supported by the views of leading experts, information exchange and networking

The agenda-setting event helped to inform recommendations around the development of SFRMs for Australia and New Zealand.

It explored how banking, insurance and investment practice and policy and regulatory frameworks can support the transition to a resilient and sustainable economy.



# Developments and process thus far

Signed by:

**Emma Herd**  
Chief Executive Officer  
Investor Group on Climate Change



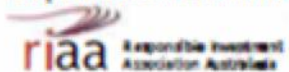
**Matthew McAdam**  
Head of Australasia  
Principles for Responsible Investment



**Butch Bacani**  
Programme Leader  
UN Environment's Principles for Sustainable Insurance Initiative



**Simon O'Connor**  
Chief Executive Officer  
Responsible Investment Association Australasia



**Eric Usher**  
Head  
United Nations Environment Programme Finance Initiative



## 3. Joint Statement



- At the conclusion of the conference there was the release of a Joint Statement in Support of a Sustainable Financial System for Australia and New Zealand signed by organisations from the banking, insurance and investment industries comprising approximately 300 financial institutions responsible for assets valued over \$10 trillion
- The Joint Statement calls on the groups and others to come together in support of the development of Sustainable Finance Roadmaps for Australia and New Zealand.

## Developments and process thus far

### 4. Communication to stakeholders

- Interested parties invited to pledge their participation in developing an inclusive process
- Pledges of support sought from organisations who want to help deliver the sustainable finance Roadmap in Australia and seek out specific expressions of interest from individuals who can contribute expertise to the working groups
- Register your interest by email to: [sustainablefinance@responsibleinvestment.org](mailto:sustainablefinance@responsibleinvestment.org)

# Developments and process thus far

## 5. UNEP FI Conference Summary Report

- The Report provides a summary of the industry inputs and outcomes arising from the conference and provides a starting point for the development of Sustainable Finance Roadmaps in Australia and New Zealand
- Specifically, the report starts the process in Australia to develop a Sustainable Finance Roadmap: primarily a bottom up, industry-led approach



## Developments and process thus far

6. Sustainable Finance Roadmap initiative is launched

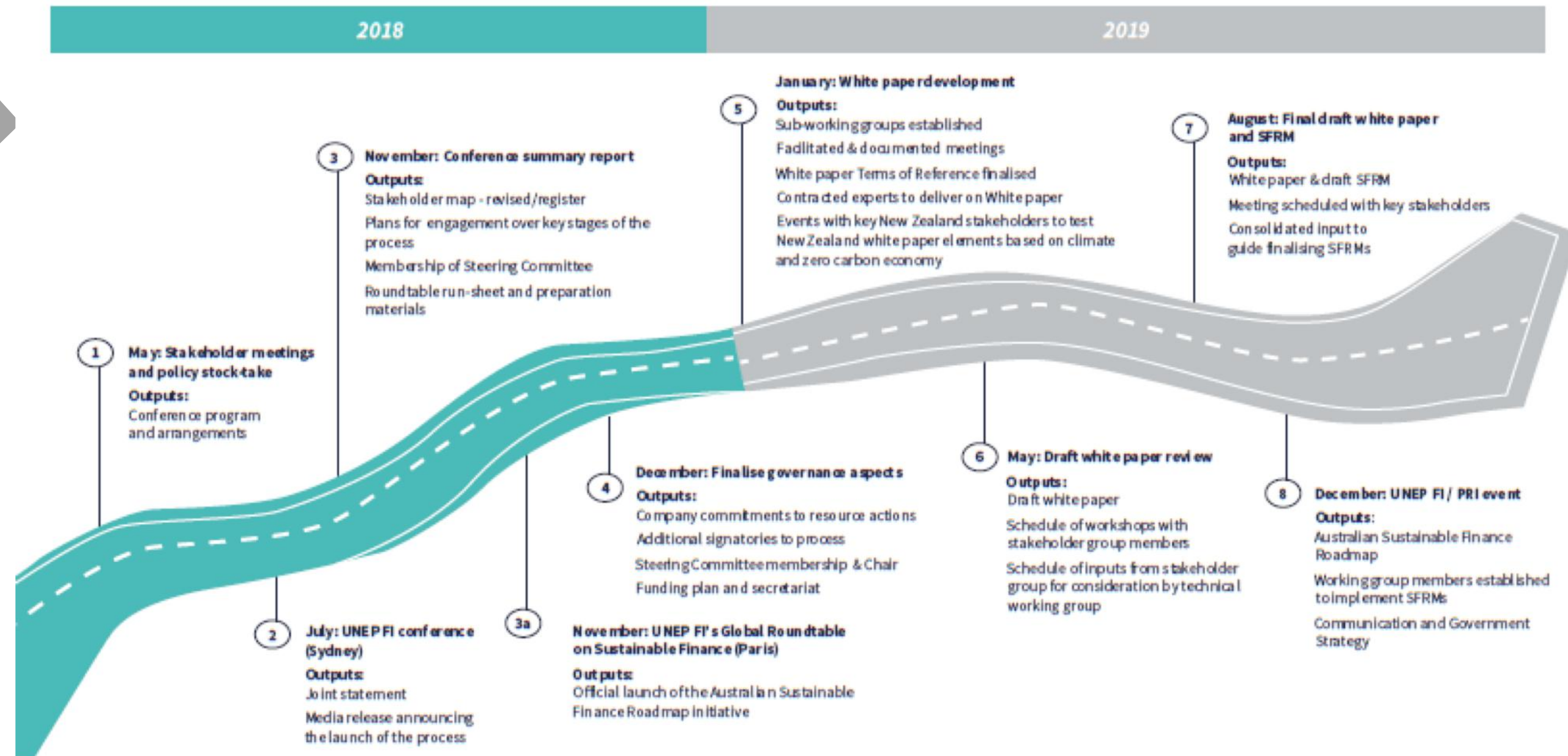


- RI 2018, November 1 in Melbourne

# Developments and process thus far

## 7. Sustainable Finance Roadmap initiative process is drafted

- A plan has been developed that sets out the process for engaging stakeholders, building the evidence-base and delivering the Roadmap recommendations

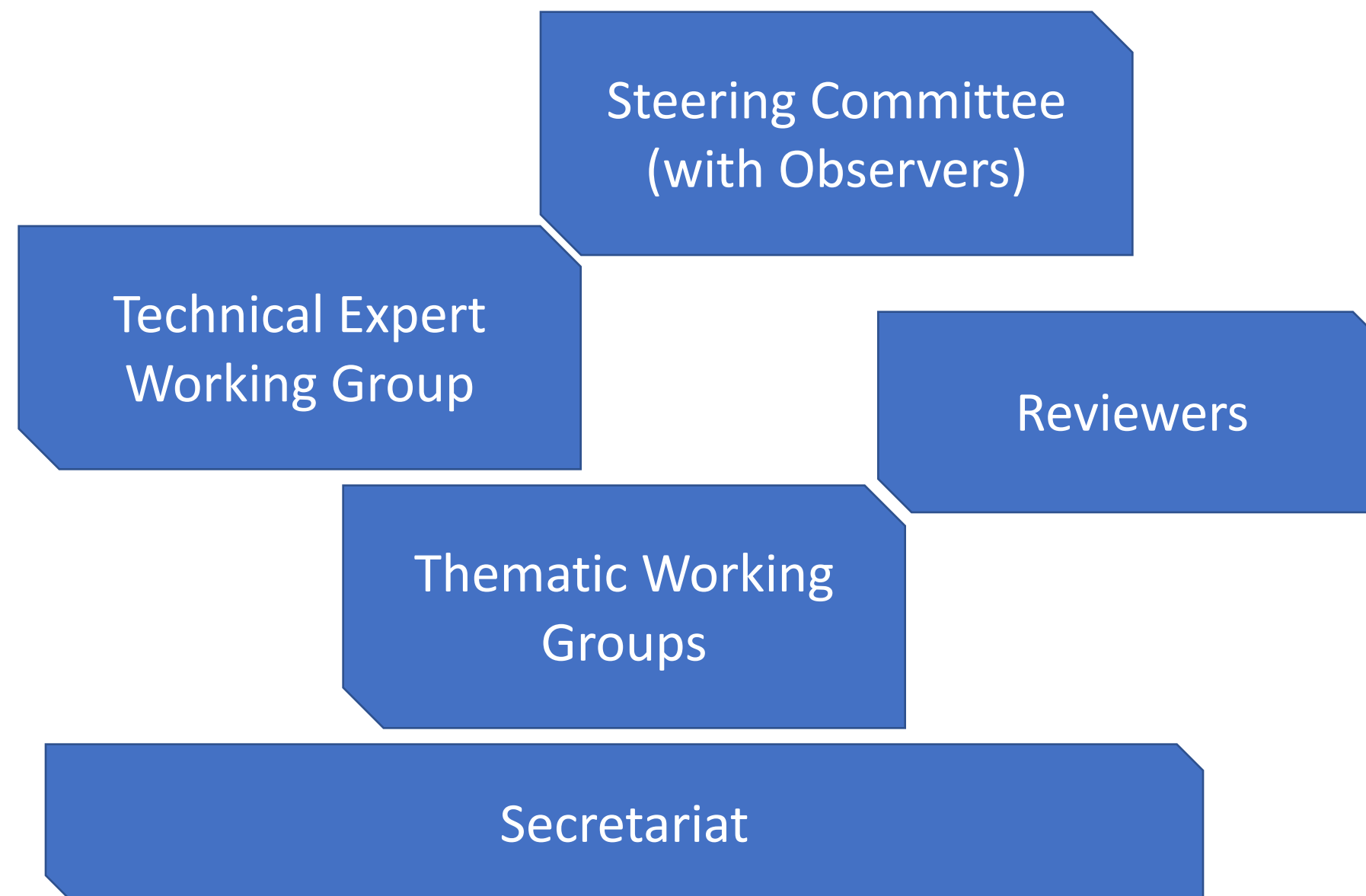




## Developments and process thus far

7. Sustainable Finance Roadmap initiative process is drafted

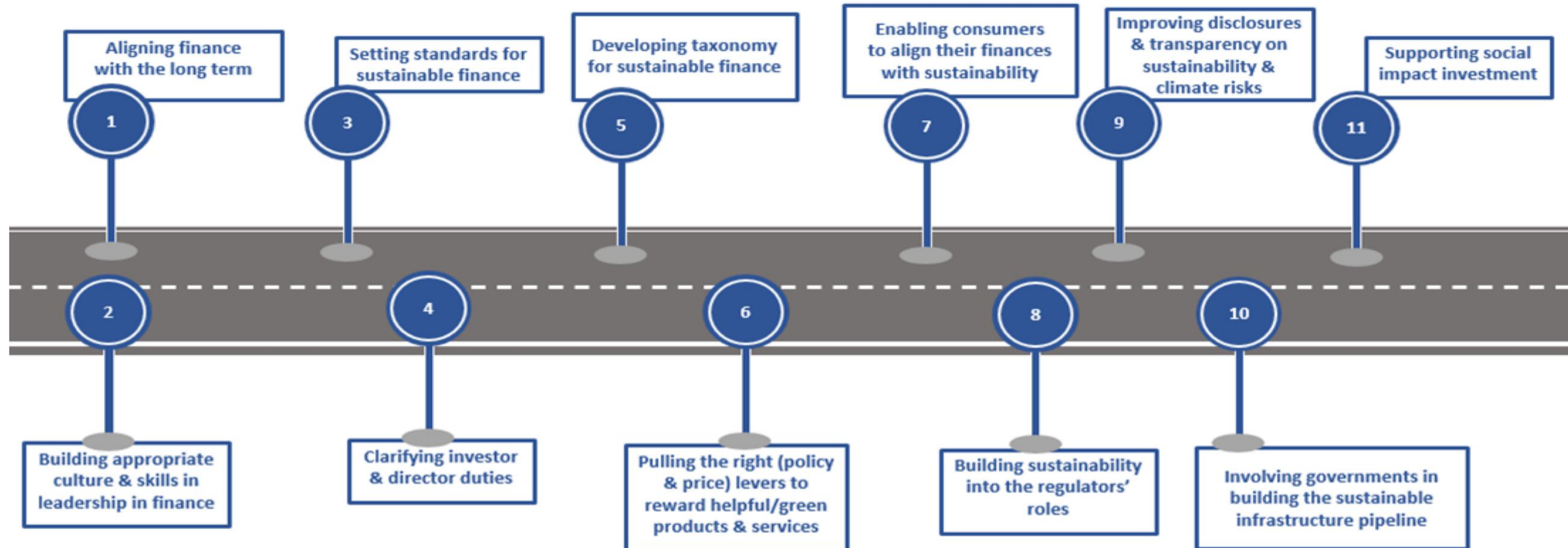
- Groups have been identified for the successful functioning of the SFRM process as well as their key roles, tasks and outputs



# Developments and process thus far

## 8. Sustainable Finance Roadmap key components

• In developing the pre-conference Briefing Paper - RIAA undertook an analysis of other country Roadmaps and found that although models are designed specific for their respective jurisdictions, there are common components of each.



# Developments and process thus far

## 9. Establishment of SteerCo

The SteerCo is a group of high-level industry representatives that advises and provide the overarching governance for the Roadmap development process in Australia.

Its role is to provide high level direction to working groups and to ensure outcomes of the Roadmap development process are informed, appropriate and implementable.

- The Convening Parties are seeking Expressions of Interest to nominate to join the SteerCo which will comprise of members with appropriate expertise, influence, capability and commitment.
- The convening parties will assess the nominations received against the selection criteria that has been established and ensure a balance across banking, insurance, investment and other interested parties

**Relevant experience**

**Demonstrable commitment**

**Personal acumen**

**Appropriate position/role**

**Strong constituency**

Criteria

## Next Steps

Formal establishment of Steering Committee

Establishment of Working groups

Whitepaper & Roadmap development

Secretariat administers the process and involves Stakeholder / Reviewer groups at strategic milestones throughout the process

# **Building a Sustainable Finance System in Europe – what can Australia learn?**

**Lunch with Dr Paul Fisher**

**The Australian Process and developments thus far and next steps**

**Hosted by Citi**

**Responsible Investment  
Association Australasia**



PAUL FISHER  
economist

# FINANCIAL POLICY AND CLIMATE CHANGE

What should Australia do?

PAUL FISHER

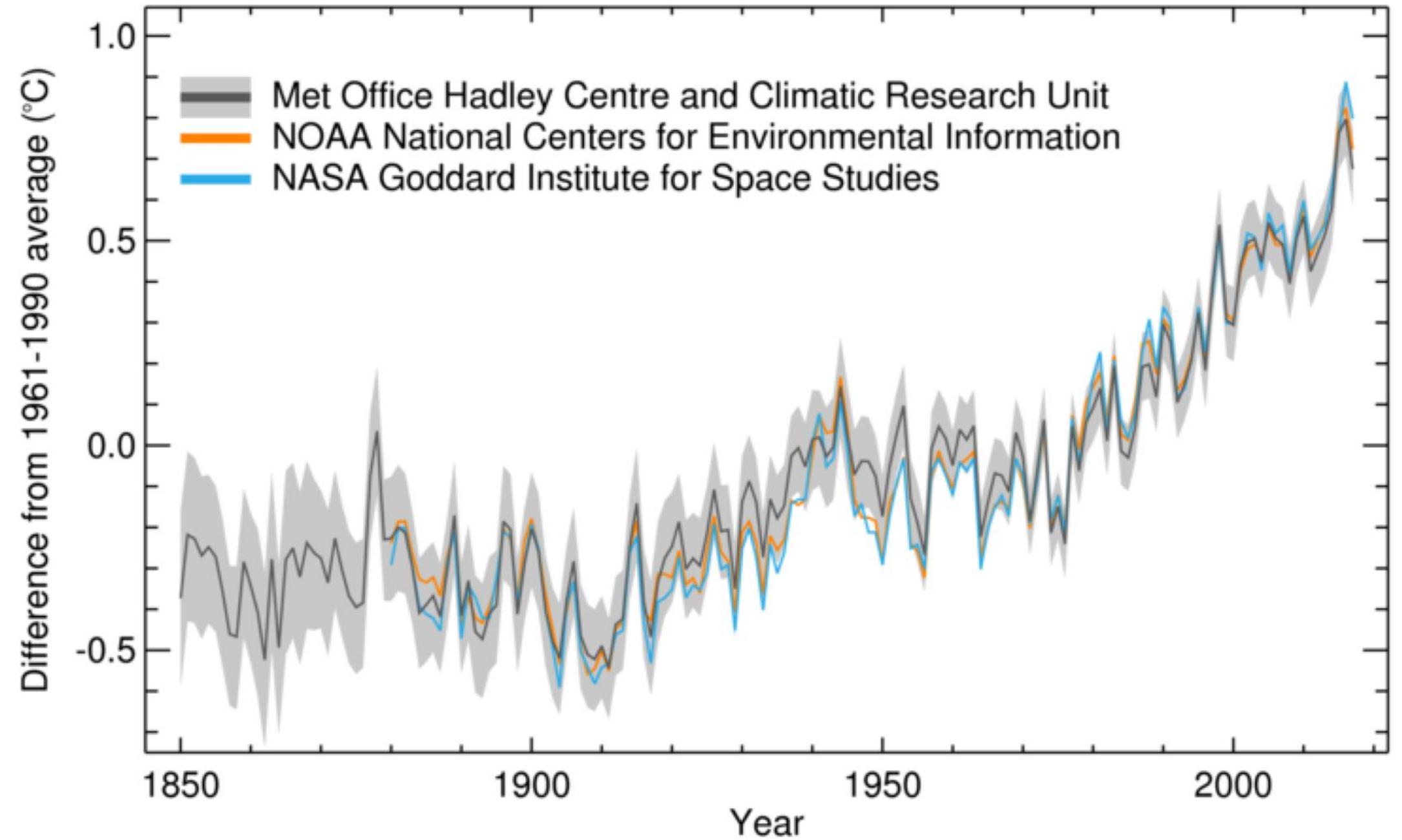
# AGENDA

1. Setting the scene
2. Financial Risks and Regulators
3. FSB Task Force
4. EU High-Level Expert Group
5. UK Green Finance Task Force
6. What should Australia do?

The planet is  
warming, over  
 $+1^{\circ}$  already

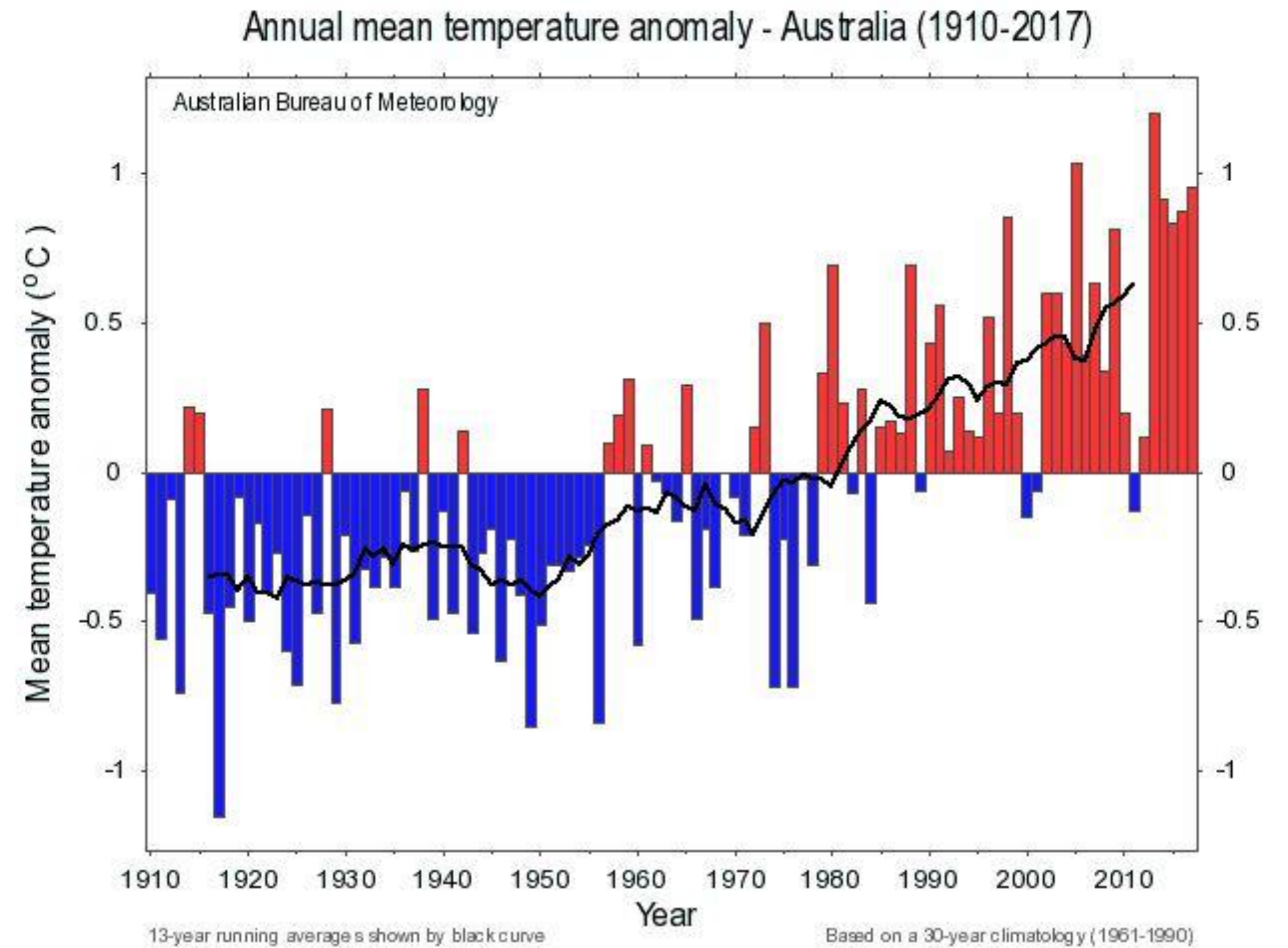


## Global average temperature anomaly (1850-2017)

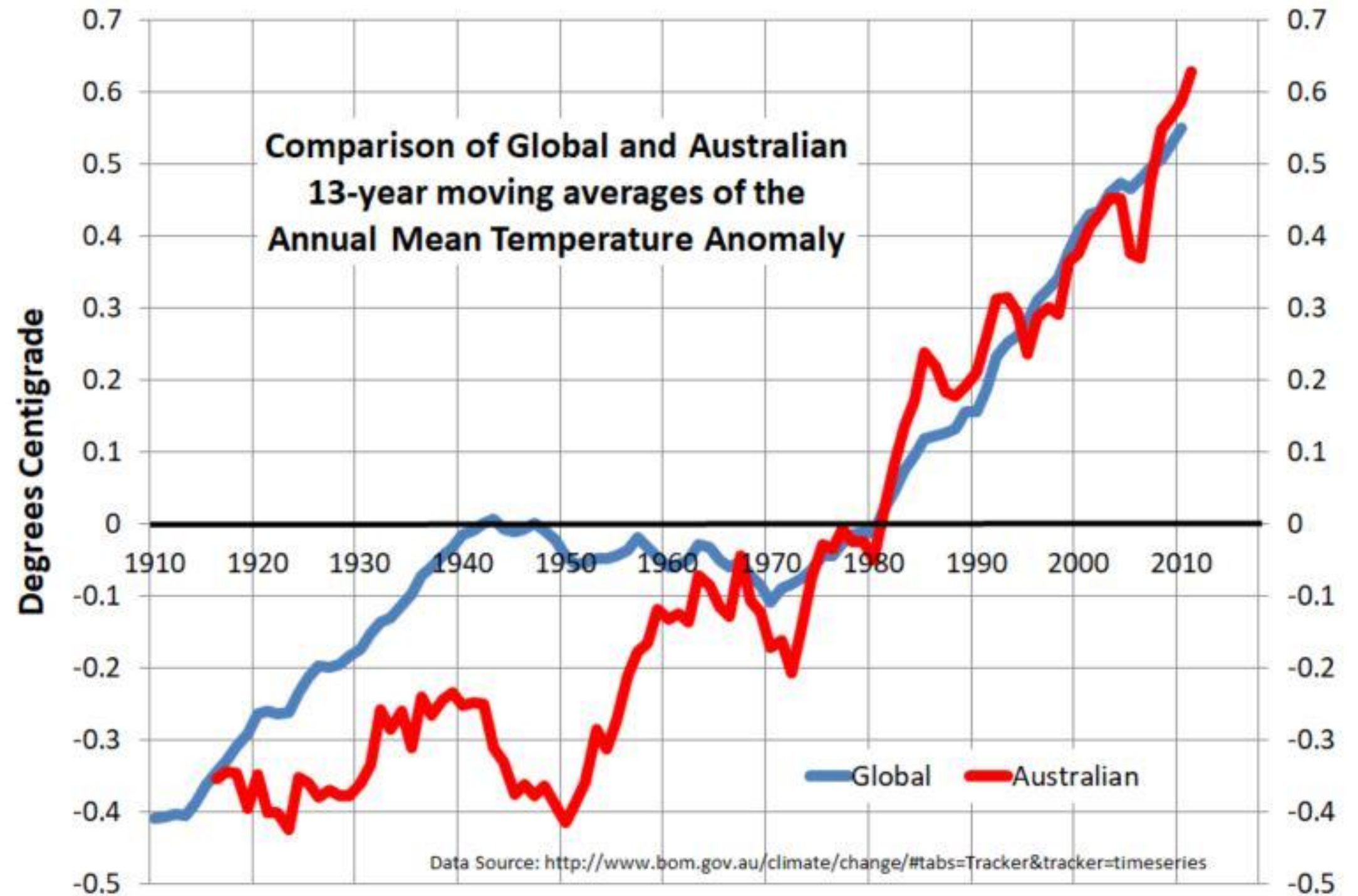




That includes  
Australia ...



Where the long-term trend is even clearer .....



# WHAT ARE THE FINANCIAL RISKS?

Bank of England:

*“The impact of climate change on the insurance sector” (PRA 2015)*

*”The Bank of England’s response to climate change” (QB2017)*

*“Transition in Thinking: The impact of climate change on the UK banking sector” ( PRA 2018)*

- Physical
- Transition
- Legal (Liability)

<http://www.bankofengland.co.uk/prd/Documents/supervision/activities/pradefra0915.pdf>

<https://www.bankofengland.co.uk/prudential-regulation/publication/2018/transition-in-thinking-the-impact-of-climate-change-on-the-uk-banking-sector>

<http://www.bankofengland.co.uk/Pages/reader/index.aspx?pub=qb17q2article2&page=1>

# WHAT DOES IT MEAN FOR FINANCIAL REGULATORS?

- Monetary policy (RBA)
- Financial stability (RBA/APRA/ASIC)
- Supervision and regulation (APRA)
- Conduct/consumer protection (ASIC)
- Balance Sheets (RBA)



# FSB TASKFORCE

## On climate related financial disclosures (TCFD)

- Chaired by Michael Bloomberg, Private sector membership
- Asked to “... consider the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures in this area. It will seek to develop a set of recommendations for consistent, comparable, reliable, clear and efficient climate-related disclosures,..”
- ‘Voluntary’ recommendations
- Final report published July 2017

Full Report available here: <https://www.fsb-tcfd.org/publications/recommendations-report/>

# CORE ELEMENTS

## of recommended climate-related financial disclosures



### Governance

The organisation's governance around climate-related risks and opportunities

### Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning

### Risk Management

The process used by the organisation to identify, assess and manage climate-related risks

### Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Governance	Strategy	Risk Management	Metrics and Targets
<p>Disclose the organization’s governance around climate-related risks and opportunities.</p>	<p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material.</p>	<p>Disclose how the organization identifies, assesses, and manages climate-related risks.</p>	<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>
<p><b>Recommended Disclosures</b></p>	<p><b>Recommended Disclosures</b></p>	<p><b>Recommended Disclosures</b></p>	<p><b>Recommended Disclosures</b></p>
<p>a) Describe the board’s oversight of climate-related risks and opportunities.</p>	<p>a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.</p>	<p>a) Describe the organization’s processes for identifying and assessing climate-related risks.</p>	<p>a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.</p>
<p>b) Describe management’s role in assessing and managing climate-related risks and opportunities.</p>	<p>b) Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.</p>	<p>b) Describe the organization’s processes for managing climate-related risks.</p>	<p>b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.</p>
	<p>c) Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.</p>	<p>c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.</p>



# TCFD STATUS REPORT SEPT 2018: KEY TAKEAWAYS

“The Task Force reviewed disclosures of several companies and found disclosing information in alignment with its recommendations is possible for preparers and helpful to users. It also found climate-related disclosures are still in early stages and further work is still needed for disclosures to contain more decision-useful climate-related information.

- **The majority disclose some climate-related information.** The majority of companies disclosed information aligned with at least one recommended disclosure, usually in sustainability reports.
- **Financial implications are often not disclosed.** While many companies disclose climate-related financial information, few disclose the financial impact of climate change on the company.
- **Information on strategy resilience under climate-related scenarios is limited.** Few companies describe the resilience of their strategies under different climate-related scenarios, including a 2°C or lower scenario, which is a key area of focus for the Task Force.
- **Disclosures vary across industries and regions.** Companies’ areas of focus in terms of climate-related financial disclosures vary significantly. For example a higher percentage of non-financial companies reported information on their climate related metrics and targets compared to financial companies, but a higher percentage of financial companies indicated their enterprise risk management process included climate-related risk.
- **Disclosures are often made in multiple reports.** Companies are often provided information aligned with the TCFD recommendations in multiple reports– financial filings, annual reports, and sustainability reports. “

<https://www.fsb-tcf.org/publications/tcf-2018-status-report/>

# EU HI-LEVEL EXPERTS GROUP

The objective was for the Expert Group to provide

- ‘recommendations for a comprehensive EU strategy on sustainable finance as part of the Capital Markets Union’.

It comprised

- ‘20 policy leaders from civil society, the finance sector and academia’

It should:

- ‘Steer the flow of public and private capital towards sustainable investments.
- Explore effective and operational steps that financial institutions and supervisors should take to protect the stability of the financial system from risks related to the environment;
- Deploy these policies on a pan-European scale’.

Final Report published 31<sup>st</sup> January 2018.

# HLEG KEY RECOMMENDATIONS (TO THE EC)

1. Establish and maintain a common sustainability **taxonomy** at the EU level
2. Clarify **investor duties** to better embrace long-term horizon and sustainability preferences
3. Upgrade **disclosure rules** to make sustainability risks fully transparent, starting with climate change - link to taxonomy
4. Key elements of a **retail strategy** on sustainable finance: investment advice, ecolabel and SRI minimum standards – link to taxonomy
5. Develop and implement official European **sustainability standards and labels**, starting with green bonds – link to taxonomy
6. Establish ‘Sustainable **Infrastructure Europe**’ (advisory capabilities)
7. **Governance and leadership** – boards must have relevant knowledge
8. Include sustainability in the **supervisory mandate** of the European Supervisory Agencies and extend the horizon of risk monitoring

# HLEG: EC LEGISLATIVE PROPOSALS

- Establishing a unified EU classification system of sustainable economic activities ('**taxonomy**'). And developing **labels and standards** to match.
- Improving **disclosure requirements** eg on how institutional investors integrate environmental, social and governance (ESG) factors in their risk processes.
- Creating a new category of **benchmarks** which will help investors compare the carbon footprint of their investments.
- In addition, following public consultation, the Commission is proposing amendments to delegated acts under the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive to include ESG considerations into the **advice** that investment firms and insurance distributors offer to individual clients.
- Changed **mandates** for the supervisory agencies : EBA, ESMA, EIOPA

# UK GREEN FINANCE TASK FORCE

Chaired by Roger Gifford (SEB)

Set up September 2017, Reported March 2018

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/703816/green-finance-taskforce-accelerating-green-finance-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/703816/green-finance-taskforce-accelerating-green-finance-report.pdf)

16 members, mostly from finance; 2 academics.

ToR:

“UK Government is setting up a Green Finance Task Force to:

help deliver the investment needed to meet the UK’s Industrial Strategy and Clean Growth strategy;

further consolidate the UK’s leadership in financing international clean investment;

and maximise the opportunities to be had for UK businesses in this rapidly growing area. “

# GREEN FINANCE TASK FORCE

## 30 RECOMMENDATIONS IN 10 THEMES

1. A new unified brand (3) UK Green Finance Institute, Green Fintech Hub, diplomatic strategy
2. A new university-based Centre for Climate Analytics (and data) (1)
3. Actively implement TCFD recommendations (3)
4. Demand and supply for green lending products (5) energy efficient mortgages, green passports for commercial property, green loans, financial advice, sustainability impact of savings vehicles etc
5. Investment into clean tech (3) Green Investor Accelerator, a VCF, public procurement
6. Clarify investor roles and responsibilities (7) fiduciary duty, Expertise, client preferences etc,
7. Issue a UK sovereign green bond (1)
8. Green and resilient infrastructure pipeline (1) National Capital Raising Plan
9. Supporting local/regional green finance (4) Development Funds, Assist Local Government Pension Funds, Clean Growth Zones
10. Resilience in the green finance agenda (2) National Resilience Unit

# WHAT SHOULD AUSTRALIA(N FIRMS) DO?

- Every medium and large corporate should commit to TCFD recommendations.
- Every industry sector should form a 2 degree transition plan for the sector, which is monitored, and each firm produce its own plans accordingly.
- Look at HLEG proposals for financial policy: what is missing for Australia? Anything not relevant?

PAUL FISHER  
economist

THANK YOU

PAUL FISHER



# **Building a Sustainable Finance System in Europe – what can Australia learn?**

**Lunch with Dr Paul Fisher**

**The Australian Process and developments thus far and next steps**

[sustainablefinance@responsibleinvestment.org](mailto:sustainablefinance@responsibleinvestment.org)

**Hosted by Citi**

**Responsible Investment  
Association Australasia**

