



Institute for
Sustainable
Futures

Submission on climate-related financial disclosure: second consultation

Prepared by
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About the Institute for Sustainable Futures

The Institute for Sustainable Futures (ISF) is an interdisciplinary research and consulting organisation at the University of Technology Sydney with over 100 research staff and students. ISF has been working collaboratively since 1997 with governments, businesses, organisations and communities to create change towards sustainable futures. Our work in Australia and around the world aims to protect and enhance the environment, human wellbeing and social equity. We work with financial system participants to advance sustainability, prosperity and wellbeing through sustainable finance and investment. We deliver bespoke research and capacity building services with a focus on partnering to establish a sustainable finance learning ecosystem.

Thank you for the opportunity to make a submission on the second consultation phase on work to progress climate-related financial disclosure in Australia.

Overall, we support the proposed approach outlined in the second consultation paper and we reiterate the importance of measures to support capacity-building.

Our 2022 report, *Advancing climate skills in the Australian financial system*¹, detailed the results of a survey of sustainable finance professionals. A key conclusion from the report was that currently the demand for climate skills is greater than supply. We reiterate that this is not a secondary issue, rather it is critical to the successful implementation of disclosure with the ultimate goal of supporting an orderly transition to a net zero economy. We proposed that Australia can establish an Australian sustainable financial system learning ecosystem through the establishment of a Sustainable Finance Skills Partnership.

To support the implementation of climate-related financial disclosure it is important to develop mechanisms to understand the sustainable finance competence of financial institutions and specifically whether financial system participants, including banks, investors, corporates, government and regulators, are all building the systems and processes for long term capability. Whilst developing individual skills will be important, with tailored training courses providing a means to prepare financial institutions to implement climate related financial disclosure obligations, the risk of approaches that are solely based on individual skills is the mobility of individuals in a market where there is increasing anecdotal evidence that there is demand for highly skilled sustainable finance employees. Without initiatives focused on building the depth and breadth of sustainable finance skills the risk is that in a market economy some financial institutions may struggle to attract necessary skills in a timely fashion. This would then have an impact on transition to net zero of the whole financial system. If the objective is for Australia's financial system to transition to net zero there is a need for a system based focus on sustainable finance skills.

For climate-related financial disclosure to be implemented effectively, we identify appropriate institutional and organisational skills and competencies are needed in specific areas including:

- Knowledge of disclosure requirements
- Climate risk assessment
- Climate scenario analysis
- Ability to interpret and analyse climate data
- Ability to translate physical and transition risk data into financial impacts
- Understanding of mitigation and adaptation options to de-risk and capitalise on opportunities
- Assurance against appropriate standards

An example of an area where skills and competency have the potential to impact transition to net zero is the capacity to undertake and interpret climate scenario analysis. A recent research report² which identifies the importance of model users being climate literate to understand the context of climate scenario modelling used in financial services identifies that:

- Climate-scenario models, including models used widely in financial services and by policymakers, are significantly underestimating climate risk and therefore the economic impact of climate change
- Regulatory scenarios provide consistency but can result in groupthink and outcomes being taken out of context

There are real dangers associated with disclosure of climate scenarios that significantly underestimate risk. The task of building capacity in this area needs to be undertaken concurrently with development of disclosure requirements. The Government's forthcoming Sustainable Finance Strategy offers an opportunity to clearly address the issue of climate-related financial skills and competencies.

We acknowledge the focus in the consultation paper on transparency of disclosure of transition plans, rather than prescription of activities or ambition. Nonetheless, we note the urgent need to lift the credibility and ambition of current transition planning. We look forward to the Government's consideration of arrangements

¹ <https://www.uts.edu.au/isf/explore-research/projects/advancing-climate-skills-australian-financial-system>

² <https://actuaries.org.uk/media/qeydewmk/the-emperor-s-new-climate-scenarios.pdf>

that could strengthen the development and implementation of company transition plans in the Sustainable Finance Strategy. We strongly endorse the approach of the UK's Transition Plan Taskforce and recommend adoption of the TPT's recommendations for gold standard transition plans.³

³ <https://transitiontaskforce.net/publications-2/>