

Helping customers transition to net zero

ABA member banks are developing a set of financing tools that will help build visibility, transparency, and comparability. This will allow better linkages between national policy objectives and financing activities, more consistent and rigorous criteria to assess the sustainability performance of loans, help prevent greenwashing, and enable harmonisation with international best practice.



Tool	What is it?	Why is this necessary for banks?	How will it benefit consumers and businesses?
Sustainable finance taxonomy	A sustainable finance taxonomy is “a set of criteria which can form the basis for an evaluation of whether and to what extent a financial asset can support given sustainability goals”. ²	Sustainable taxonomies are the basis for identifying financing and investment opportunities that support climate objectives.	Sustainable taxonomies provide businesses with clarity and transparency over which investments and activities are considered sustainable, giving confidence they are contributing to Australia’s decarbonisation efforts.

ABA Action

The ABA is committed to working with the Government to support the public-private partnership approach to the development of a sustainable finance taxonomy as per Treasurer Chalmers announcement in the 2023 Federal Budget.³

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Sectoral pathways	Science-based sectoral pathways provide information on the alignment of real-economy activities with net-zero objectives. ⁴ They are used to identify technology options that can help different industries decarbonise in line with specific climate-related goals. They enable entities to track progress and take a range of actions to decarbonise, including advocacy, collaboration and customer engagement.	Banks can use science-based sectoral pathways, in conjunction with overall government targets, to determine their net zero response and funding opportunities.	Science-based sectoral pathways will give businesses and individuals clarity about what is required of them in their sector to assist the national low carbon transition.

ABA Action

The ABA is committed to supporting the development of science-based sectoral pathways as a common national asset

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Industry guidance for calculating financed emissions	Global standards provide advice on how to calculate financed emissions. ⁵ Building on existing global standards, the ABA is developing common guidance over how to apply global standards within the Australian context and using Australian data sources.	In supporting their customers' transition to net zero, banks need visibility over the carbon footprint of the assets and activities they finance. Common guidance will drive greater comparability across financed emissions disclosures, fostering greater clarity and transparency.	Australian businesses and households will have a better understanding of their carbon footprint, allowing them to develop robust emission reduction plans.

ABA Action

The ABA will:

Develop industry guidance on financed emissions calculations for priority sectors across the Australian economy.

Identify the economy-wide data requirements to enable banks to calculate financed emissions and assess climate risk in their lending and investment activities more accurately.

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Climate-related financial disclosures	The International Standards Sustainability Board (ISSB) has finalised global standards for climate disclosures, ⁶ and the Australian Government is consulting on their implementation. ⁷ This will support a high-quality, comprehensive global baseline.	Mandatory standardised climate-related financial disclosures will improve the quality of financed emissions disclosures across the economy and allow banks to make more accurate disclosures.	Consumers will have better information on the carbon footprint of Australian companies that they can use to make financial decisions.

ABA action

The ABA will work with banks to:

Actively support the introduction of mandatory climate-related financial disclosures, with proportionate liability settings.

In conjunction with key partners, facilitate capability uplift sessions to help prepare for the introduction of ISSB standards into Australian accounting standards.

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Information about the peril risk of properties in Australia	As the incidence of serious perils (such as floods and bushfires) continues to rise due to climate change, banks are looking into ways to support their customers so they can better understand the impact of peril risk to their property.	A national database on peril risk will improve transparency and assist banks and consumers with their decision-making about property, allowing both parties to manage their risk and exposure to climate change.	Consumers will have access to better information on the peril risks associated with properties across Australia, which will help inform decision making.

ABA Action

Through the ABA, banks will:

Advocate for mandatory disclosure of peril risk in contracts of sale and residential tenancy agreements to support greater transparency for customers.

Support the development of a public database on natural hazard and peril risk of property in conjunction with key industry stakeholders and government.

Support government and key industry sectors' development of educative resources and tools to actively educate customers about the possible peril risks of properties, complementing the public database.

Tool	What is it?	Why is this necessary for banks?	How will it benefit consumers and businesses?
Insurability	Banks are monitoring changes to planning, building and resilience frameworks to promote access to affordable insurance for properties, and to drive better housing outcomes.	Measured and considered changes to planning, building and resilience frameworks will reduce the risk and exposure of banks and consumers to the impacts of climate change.	Consumers will have greater long-term certainty and transparency over their property, including through improvements to the minimum requirements for the design and construction of housing, and via access to more affordable insurance.

ABA Action

Through the ABA, banks will:

Support government and the insurance sector developing solutions for consumers who are unable to insure their property due to affordability or lack of availability of insurance.

Support government programs and changes to policy on land use planning, building and resilience that will lead to an uplift in housing outcomes for consumers.

Continuing to manage climate risk in banking

Banking is a complex industry with multiple layers of governance and prudential obligations. This section outlines some of the technical work that banks are undertaking to ensure they retain their strength and stability as Australia manages the economic transition to net zero and the physical impacts of climate change.



Tool	What is it?	Why is this necessary for banks?	How will it benefit consumers and businesses?
Climate scenarios - prudential risk	Climate scenarios are narratives outlining possible future states. They do not aim to forecast the future but are used to develop pathways to net zero, and as risk management tools to test how their portfolios would perform under different conditions.	Common climate scenarios will enable banks to run prudential exercises that provide a level of comparability between institutions and ensure that they retain their strength and stability.	Common scenarios will enable comparability amongst banks which will support the understanding of investors, analysts and other key stakeholders of the resilience and risk facing banks when results are published.

ABA commitment:
Through the ABA, banks will:
Support the development of climate scenarios aligned to the Australian context.
Identify the economy-wide data requirements to perform more rigorous and consistent climate scenario analysis.

Tool	What is it?	Why is this necessary for banks?	How will it benefit consumers and businesses?
Prudential risk management	Globally, there is an evolving discussion regarding the prudential treatment of climate change financial risk, ⁸ to ensure that banks are prepared for the physical and transition risks that will accompany the net zero transition.	Australian banks are starting from a strong capital position when compared with global peers. An industry perspective on climate and prudential risk, will help industry continue to manage climate and ensure that Australian banks retain international competitiveness.	This is critical for ensuring financial stability, allowing banks to finance Australia's transition, and helping to ensure that customers do not receive the burden of higher costs passed through the system.

ABA commitment
Through the ABA, banks will develop an industry perspective on climate and prudential risk management, which will be refined on an ongoing basis as the understanding of the risks evolve.

Moving bank operations to net zero

While supporting customers to decarbonise their operations, banks have also been decarbonising their own operations across Scope 1, 2 and 3 GHG emissions sources.⁹ The mitigation hierarchy¹⁰ outlines three steps to limit the impact of an action on the environment, in descending order:

1. Avoid
2. Mitigate
3. Offset



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