7 December 2022

Dr Philip Lowe
Governor
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

Dear Governor

I am writing to you in your role as Chair of the Council of Financial Regulators (CFR) regarding Australia’s response to the financial and economic implications of climate change.

The risks and opportunities associated with climate change have significant financial implications. Physical and transition risks must be managed by financial institutions, and the investment required to reduce our emissions needs to be funded through the financial system.

Consistent with their mandates, CFR agencies have proactively sought to understand and communicate the significance of climate-related risks in Australia’s financial system. I wish to thank the CFR for its principled leadership on this issue over recent years, including through the work of the CFR’s Climate Working Group and the significant steps taken by individual agencies.

The Australian Government has now stepped up and prioritised significant action on climate change. As this takes place, the CFR will continue to play a key role in monitoring risks, coordinating regulatory responses and ensuring Australia’s financial system is well positioned to support the transitions ahead.

I will soon announce that the Government will develop an ambitious sustainable finance agenda which builds on, and incorporates, the Government’s commitment to implement climate disclosure reforms. A coordinated strategy will aim to improve transparency, deepen Australia’s green and sustainable finance markets, and seize the opportunities presented by global momentum in sustainable finance. Treasury will lead the development of the strategy, providing recommendations to the Government next year.

Consistent with the CFR’s objective to support effective and efficient regulation and to promote financial stability, I seek the Council’s support as we develop and implement the Government’s sustainable finance agenda. In particular, I seek the support of CFR agencies to:

- Implement standardised, internationally-aligned climate-related financial disclosure requirements for large businesses and financial institutions, and encourage capability development by Australian entities to respond to these requirements;

- Develop an Australian sustainable finance taxonomy in which the Government takes a leading role, in collaboration with industry;

- Develop coordinated strategies to prevent greenwashing in the corporate sector and financial markets; and

- Strengthen Australia’s international engagement on matters related to climate finance.
Treasury’s initial recommendations will be informed by consultation across the public service, financial regulators and industry, before a wider period of consultation on a draft strategy, once it has been considered by Government. I note that other CFR agencies are already engaging with Treasury as this agenda takes shape and ask for continued input and support in this work.

Yours sincerely

The Hon Jim Chalmers MP

CC:  John Lonsdale, Chair, Australian Prudential Regulation Authority
     Joseph Longo, Chair, Australian Securities and Investments Commission
     Steven Kennedy, Secretary, Department of the Treasury