



## JURISDICTION: AUSTRALIA

### AUTHORITY: AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA)

#### Background

The *Australian Prudential Regulation Authority* (APRA) is an independent statutory authority that supervises institutions across banking, insurance, and superannuation, and promotes financial system stability in Australia. Its mandate is to protect the Australian community by establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions it supervises are met within a stable, efficient and competitive financial system.

#### Sustainability objectives

APRA outlined its planned initiatives relating to climate change financial risk in a *letter to industry* on 24 February 2020.

- **Developing climate change financial risk guidance:** APRA will develop and consult on a climate change financial risk prudential practice guide (PPG). The PPG will cover areas relevant to the prudent management of climate change financial risks, aligned with the recommendations of the TCFD, including aspects of governance, strategy, risk management, metrics and disclosure. The guidance will be informed by APRA's engagement with other regulators domestically and internationally, as well as its ongoing engagement with industry participants.
- **A climate change financial risk vulnerability assessment, working with APRA's peer regulators:** In collaboration with international and local stakeholders, APRA will be undertaking a climate change financial risk vulnerability assessment. The vulnerability assessment will involve entities estimating the potential physical impacts of a changing climate, including extreme weather events, on their balance sheet, as well as the risks that may arise from the global transition to a low-carbon economy. APRA will coordinate this work with the Australian Securities and Investment Commission (ASIC) and the Reserve Bank of Australia (RBA) via the Council of Financial Regulators to ensure consistency in the application of scenario analysis, disclosure recommendations, and to analyse the macroeconomic impacts of climate change. APRA will also seek input from the Commonwealth Scientific and Industrial Research Organisation and the Bureau of Meteorology. The scenarios that will form the basis of the vulnerability assessment will be consistent with practices being developed and utilised by peer regulatory authorities internationally.
- **Updating environmental, social and governance investment prudential guidance:** APRA will update Prudential Practice Guide SPG 530 Investment Governance (SPG 530). SPG 530 aims to assist a registrable superannuation entity licensee in complying with requirements in relation to the formulation and implementation of an investment strategy, including in relation to environmental, social and governance (ESG) considerations. APRA will consult on specific changes to Prudential Standard SPS 530 Investment Governance and SPG 530, in conjunction with other changes to the superannuation prudential framework as part of APRA's response to the post implementation review.
- **A deep-dive supervisory review of regulated entities that participated in APRA's 2018 climate change survey:** APRA continues to encourage the adoption of voluntary



frameworks to assist entities with assessing, managing and disclosing their financial risks associated with climate change, such as the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Looking ahead, the financial risks of climate change will continue to be a focus of APRA's efforts to increase industry resilience, and more supervisory attention is being given to understanding these risks. This includes deeper supervisory assessments of each entity that participated in APRA's 2018 climate change survey.

### Membership of any other initiatives/networks working on sustainability

- IAIS
- UNEP FI PSI (supporting institution)
- NGFS
- Basel Committee Task Force on Climate-related Financial Risks (TCFR)
- Council of Financial Regulators Climate Change Working Group
- Australian Sustainable Finance Initiative (ASFI)

### Recent engagement with SIF

APRA has contributed to both SIF virtual meetings in 2020, helping to develop the SIF's future plan of work 2021-2023 and providing insight into the regulatory landscape in Australia.

APRA contributed to the *SIF/IAIS Issues Paper on the Implementation of the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)* published in February 2020. It also shared an update on its sustainability related work in the SIF half yearly update 2020.

APRA is also co-leading the development of the *SIF/IAIS Application Paper on the Supervision of Climate-related Risks in the Insurance Sector*, which recently included co-hosting the stakeholder *webinar* on climate-related risks in the insurance sector. Previously, APRA has also contributed to the *SIF/IAIS Issues Paper on Climate Change Risks to the Insurance Sector*.

APRA Executive Board Member Geoff Summerhayes has been the SIF Chair since February 2018, and will continue in his current role until early December 2020, with William Harding, Senior Analyst, APRA, supporting the SIF Secretariat.

