

'Equipping the RBA for a Dynamic Climate Risk and Transition Response'

AT A GLANCE

WHAT IS THIS PAPER ABOUT?

'Equipping the RBA for a dynamic climate risk and transition response' is a submission to the RBA Review from the Centre for Policy Development's (CPD) Sustainable Economy Program.

The issues paper addresses:

- » **What changes, if any, should be made to the objectives set out in the Reserve Bank Act (1959): stability of the currency, maintenance of full employment, and economic prosperity and welfare of the Australian people - or do these remain the right objectives?**
- » **What improvements could be made to the set of inputs the RBA draws on to support monetary policy decision making?**
- » **What monetary policy tools should the RBA use in pursuit of its monetary policy objectives, and how can it use them most effectively in the future?**

CPD recommends that the Reserve Bank be empowered to protect the Australian economy.

The RBA operates under a 63-year-old legislative mandate to contribute to economic prosperity and welfare. CPD recommends that the RBA Review update this to consider sustainability, climate risks and opportunities, and the maintenance of net zero carbon emissions, as they will directly affect the economic prosperity and welfare of Australians.

The authors of the issues paper are Toby Phillips, Tom Arup, and Mara Hammerle.

The submission draws on CPD's history of work on the economic and legal frameworks needed to navigate climate change.

The full submission can be read at cpd.org.

RECOMMENDATIONS:

- A. The RBA issue annual climate risk disclosure consistent with international frameworks and standards
- B. The Treasurer should issue a ministerial direction clarifying the Federal Government's expectations of climate risk disclosure by public authorities
- C. The RBA Governor and Federal Treasurer should set out how the RBA will address climate-related issues and support the net zero transition in the next Statement on the Conduct of Monetary Policy
- D. Climate change should be included in an RBA Board skills matrix
- E. Adequate staff time, resources and in-house skills on climate change to fully address the complexity of the issues
- F. Advocate for the further market development of green sovereign debt offerings by Australian and international issuers, with reference to appropriate standards and taxonomies
- G. Reinforce the importance of optimal responses to address climate-related financial instability to avoid an over-reliance on monetary interventions
- H. Adjust collateral eligibility rules so that only corporate bonds created by issuers who are disclosing climate-related risks with reference to best practice global standards and frameworks are accepted as collateral from counterparties
 - I. Review all collateral eligibility rules and haircuts, including through engagement with credit rating agencies, with a view to integrating climate risk considerations
- J. J1. Section 10 of the Reserve Bank Act 1959 is amended to add the following objective - "d) an orderly transition to, and maintenance of, net zero greenhouse gas emissions, and management of climate-related risks and opportunities"; or

J2. Objective (c) of Section 10 of the Reserve Bank Act 1959 is amended to: "the economic prosperity, sustainability and welfare of the people of Australia"; or

J3. The Treasurer issues a ministerial direction to the RBA Board clarifying the government's view of how existing objectives relate to climate-related issues