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Department of Climate Change, Energy, the Environment and Water
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2026-27 Safeguard Mechanism Review

The Australian Financial Markets Association (AFMA) is responding to the Department of Climate Change, Energy, the Environment and Water (DCCEEW) 2026-27 Safeguard Mechanism Review consultation paper.

AFMA is the leading industry association representing Australia's financial markets - including the capital, credit, derivatives, foreign exchange, energy and other specialist markets including carbon. We have more than 140 members, from Australian and international banks, leading brokers, securities companies, and government treasury corporations to fund managers, energy firms, and industry service providers. Many AFMA members are key participants in both the ACCU and SMC markets, and Safeguard Mechanism liable entities.

Key Points

- **The Safeguard Mechanism is functioning well**
 - **There is no need for major change at this stage and priority should be given to improving the operation of the scheme**
 - **The role of offsets should remain unchanged**
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The Safeguard Mechanism is working to reduce industrial emissions and support the economy-wide net-zero transition. The Safeguard Mechanism as we know it today has only been in place since 2023 when reforms, including the introduction of declining baselines and creation of Safeguard Mechanism Certificates (SMCs) occurred. We therefore think it would be more appropriate to consider foundational reform decisions in a later review once government and participants have had sufficient time to allow the scheme to develop and consider its appropriate settings from a better-informed position. We therefore think it would be more appropriate for this review to focus on technical scheme enhancements to aid efficiency and compliance.

This review should seek to preserve the schemes' markets-based, technology-neutral approach and that every tonne of emissions reductions, when standardised to CO₂-e, is equal. Notably, this position was recently reaffirmed by the Climate Change Authority in their 2026 ACCU Scheme Review report which noted the importance of ACCUs to support compliance with the Safeguard Mechanism, as well as the interchangeability of abatement and offsets under this standardised framework.¹ Regulatory certainty is important for the development of any new scheme to support investor and market confidence; particularly in compliance and environmental based markets to

¹ <https://www.climatechangeauthority.gov.au/sites/default/files/documents/2026-08/2026%20ACCU%20Scheme%20review.pdf>

protect forward looking investment and activity planning that often have long dated lead times. AFMA therefore encourages DCCEEW to limit changes to the scheme at this time.

Section 3: Review of current settings

3.1. Flexible compliance

Flexible compliance options are a founding design element of the scheme and have been integral to the scheme's initial success. Allowing each facility to manage their most efficient pathway to net zero has been further compounded by government policy. For example, increasing flexibility to enable firms to align abatement with efficient long-term investment and operational decisions was a key focus of the 2023 reforms. Likewise, the introduction of climate related financial disclosures further encouraged firms to integrate abatement into their standard business practices and activities. As the Productivity Commission identified in its December 2025 final report 'Investing in cheaper, cleaner energy and the net zero transformation':²

The ability for facilities to comply with their obligations by buying ACCUs is a strength of the Safeguard Mechanism. It enables emissions reduction elsewhere in the economy if that is less costly than on-site emissions reduction.

AFMA considers that providing flexibility in how firms meet their targets remains important, particularly as onsite abatement activities often require significant capital investment with long lead times or in some cases are impractical or uneconomical to implement. For these facilities, allowing the use of ACCUs gives liable entities flexibility about how they meet their targets and enables the scheme to achieve more ambitious emissions reductions more quickly and at a lower cost. At this stage, and to maintain a level playing field across sectors, we believe liable entities remain best placed to determine the fastest, most economical and low-cost pathways to reducing their emissions; and that increasingly onsite abatement activities are being integrated into business-as-usual operations, including through the introduction of climate related financial disclosures.

If some sectors are able to decarbonise at a faster rate than others, then AFMA sees this as a signal that the market is functioning well to provide least cost emissions reductions. The introduction of SMCs was intended to incentivise such action whilst also allow facilities with harder to abate emissions to support investment in these least cost opportunities to support efficient outcomes for all facilities. It is also the case that as the scheme continues on and decline rates steepen, this will naturally drive the need to increase opportunities for onsite abatement. As the Productivity Commission likewise noted, the more above-baseline facilities there are, the more demand these facilities will have for SMCs and ACCUs, pushing up the cost of these credits and giving facilities a greater incentive to reduce emissions on site. Similarly, as the CCA recently said in its 2026 review of the ACCU scheme:

A proportion of emissions will be met through onsite emissions reductions. The rest will be achieved through ACCU surrender. If ACCU availability is low, the price will increase and more abatement is likely to occur onsite. Where ACCU availability is high, a greater proportion of safeguard compliance is likely to be met with ACCUs. Either way, the overall abatement outcome does not change.

² https://assets.pc.gov.au/2025-12/net-zero.pdf?VersionId=24kY9x7Ou_YqHvzl0z25kQO11I298byU&_gl=1*1yldh0z*_gcl_au*MTMxMDAyNTQ5Ny4xNzgZNTY5MzgW*_ga*MTIxMjE3MzAzNy4xNzQ2NDkzODcw*_ga_XNW84J8HF8*_czE3ODQ4NjkzNjckbzEzMiRnMCR0MTc4NDg2OTM2NyRqNjAkBDaKaDA

Onsite and sector specific abatement

AFMA supports delivering emissions reductions in the most economical manner, we are therefore concerned that preferencing onsite or sector specific abatement would be an economically inefficient reform and move away from the principle that every tonne of CO₂-e is equal. We consider that while there may be arguments for supporting particular types of emissions reductions these are best done using other policy tools outside the Safeguard Mechanism.

As the consultation paper notes, SMCs strengthen incentives for onsite abatement but with long lead times, may take several years to eventuate. The continued decline in baselines over these years will reduce the scale of SMCs credited to the activity.

Restricting use of offsets

AFMA wants to note that moving away from the use of offsets is a fundamental policy change for the Safeguard Mechanism, with potential to create significant market uncertainty for both liable entities and offset projects. We consider that government must be very clear with the market if their ultimate end goal is to move away from the use of offsets.

AFMA is concerned that restricting the use of offsets could result in different values being assigned to different types of emissions reductions and undermine the principle that every tonne of CO₂-e is equal. We also want to point out that restrictions could present a risk to the financing of carbon abatement activities created via the ACCU market, as Safeguard Mechanism compliance is the dominant demand driver for ACCUs. Restricting the use of ACCUs could reduce climate financing and related activities including agricultural, human-induced regeneration and landfill gas management. In the event DCCEEW proceeds with introducing restrictions we consider that discounting would be preferable to hard limits as it would increase aggregate ACCU demand rather than requiring parties to place a higher value on certain types of emissions reductions. We also consider that any restrictions should be applied evenly across all facilities rather than targeting particular subsets.

Similarly, AFMA considers that vintage requirements risk penalising valid existing projects and disincentives longer term projects; adding additional market complexity and increased stratification. Should DCCEEW move ahead with introducing some form of vintage limits, we consider that a fixed cut-off approach, that only excluded old unused ACCUs, would be preferable to a rolling cut-off.

We also note that many facilities report material non-price barriers, including through the mandatory reporting for facilities offsetting more than 30% of their emissions. This means that restricting access to ACCUs will not increase activity but simply increase the risk of non-compliance. Similarly, interventions to increase the price of ACCUs would just increase the cost of compliance without changing where the abatement activity is occurring. If ACCU use is restricted, emissions with no technically feasible or cost-effective abatement options should be exempt from discounting to avoid creating compliance obligations that cannot be met. If DCCEEW wished to introduce a five-year rolling limit we think vintage limits should remain unchanged during Nationally Determined Contributions (NDC) periods. Additionally, any introduction of vintage limits, irrespective of design approach, will require both grandfathering of pre-announcement vintages and a transition measured in years. In the event any reforms are pursued, all scheme changes must be gradual, predictable and aligned with future NDC or post-2030 policy settings, to maintain market confidence and investment certainty.

Carbon abatement plans

With regard to the proposal to require carbon abatement plans, we believe the existing mandatory climate related financial disclosure requirements and requirement for entities to disclose if more than 30% of abatement activity comes from the use of offsets, provide adequate transparency about firms' climate plans. We consider that introducing additional reporting requirements would be duplicative and impose an unnecessary regulatory burden.

3.2. Inter-temporal flexibility and the cost containment measure

Giving liable entities the necessary flexibility to determine the best way for them to approach their emissions reduction requirements and related requirements has been fundamental to the schemes' success. Unrestricted banking should continue beyond 2030, as the anticipated carry-over risk from the new baselines has not materialised.

AFMA has been consistent in its view that Government should be clear and transparent about its activity in the market, to protect market integrity.³ As part of this review, rather than 2031, we urge the Government to outline to participants how it intends to maintain the cost containment measure's capacity beyond 2030 and whether further government purchasing is being contemplated. Currently holdings inflow will be stopping on 31 December 2030, and as DCCEEW's own figures highlight, there will be a year of cover, with no replenishment mechanism currently in place after that point. We consider that government should provide greater clarity to the market about the future role of the cost containment measure.

3.6. Technical and administrative matters

AFMA long advocated for the development of a new registry that can support the needs of the carbon market. We welcomed the launch of the new registry and the Clean Energy Regulator's (CER) efforts to continuously enhance capabilities and functionality. However, the CER has been unable to address a number of issues as a result of restrictions in the primary legislation. We consider that these barriers should be removed to give the CER flexibility to implement changes in market needs, including the following functionality challenges:⁴

- The CER should maintain rigorous processes for establishing new registry accounts but once accounts are established account holders should be able to self-manage new user setup, account access and management.
- We think it important to introduce a read-only functionality to support functional separation within businesses. This would enable support and risk areas within a business to access registry data without a danger of altering it.
- Allowing users and third-party platforms to connect to the registry via API and allowing transactions to be completed via API.
- Allow the CER to charge access fees to parties who want to integrate commercial offerings, such as trading platforms, with the register to cover the cost of providing these services.

AFMA also notes that the CCA's 2026 review of the ACCU scheme recommended (4) to give buyers clearer information about the carbon credits they are buying:

Build on CER register, data services and registry reforms by improving access to detailed, standardised and reusable project, unit and market information by:

³ <https://www.afma.com.au/policy/submissions/2026/r32-26-accu-integrity-and-transparency-bill.pdf?ext=.pdf>

⁴ <https://www.afma.com.au/policy/submissions/2024/r63-24-enabling-carbon-markets.pdf?ext=.pdf>

- a) *improving visibility of material ACCU attributes and project-level information relevant to due diligence and valuation across the Project Registry and the Unit and Certificate Registry*
- b) *improving the accessibility, comparability and reusability of project, unit, holdings and transaction information*
- c) *progressing any legislative, regulatory or system changes needed to support modern registry interoperability and secure system-to-system functionality*

An administrative matter that should be addressed in this review is ensuring that WA Environmental Protection Authority requirements are appropriately accommodated to provide emissions accounting and compliance consistency whilst avoiding duplication where a facility is captured under both regimes. We encourage DCCEEW to work with the WA Government on this.

To boost transparency and predictability, when concluding this review, DCCEEW should signal when the next Safeguard Mechanism review is scheduled for. The next review cycle could be aligned with the NDC process.

Section 4: Meeting the 2035 target

AFMA is concerned that by aiming for level of precision that does not reflect the uncertainty in the estimations, DCCEEW risk overcomplicating its sectoral analysis and making it difficult for the market to understand its results. AFMA encourages DCCEEW to adopt a more pragmatic approach to understand a sectors contribution based on the equity focused principles on which it was established, and to provide simplicity and clarity to the market mechanisms that support it. We caution against overcomplicating these issues, particularly as they are based on data inputs that will never be precise.

For example, looking at the proposed proportional share update question, AFMA agrees it logical that the reference point is updated to reflect higher quality data and that bringing the baseline starting point closer to the actual introduction of safeguard reforms also makes sense. However, the use of such precise numbers to the one decimal place implies a level of precision that is not realistic. Instead, as the accepted concept is to reflect the proportional share of the entities and that this appears from a range of estimation methods to be in the ballpark of $\approx 30\%$, it would be more logical to update to a more rounded number. Similarly, the numerical analysis around the 2035 commitments, having been expressed in a range, resulting in the dependencies for assessing required contributions also clouds the key principle. Again, it would be pragmatic to adopt the mid-point of the range to estimate the carbon budget target and determine the decline rate from the simplified reference point of 30%, as noted above.

A simple, pragmatic and predictable approach could be to use the decline rates underpinning the national targets in each NDC. This would avoid the need to create duplicative and potentially conflicting policy signals across frameworks.

AFMA Recommendations

- i. Maintain the existing flexible compliance approaches until a future review once the scheme and market have developed
- ii. Government must be clear with the market about the anticipated role of offsets in the scheme

- iii. Provide guidance about how the cost containment measure will operate post 2030 and consider alternate approaches that deliver better value for money
- iv. Remove operational registry requirements from the primary legislation to give the CER the flexibility to respond to the needs of the market
- v. Implement the CCA 2026 review recommendations regarding the register and data services
- vi. Adopt a more pragmatic and simplified approach to decline rates

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide additional information or clarity as required. Please contact Monica Young via myoung@afma.com.au or 02 9776 7917.

Yours sincerely,



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