ACSI
Level 23, 150 Lonsdale St, Melbourne VIC 3000 | **T** +61 3 8677 3890 | **E** info@acsi.org.au | **W** www.acsi.org.au

1 December 2023

Sustainable Finance Unit
Climate and Energy Division
Treasury
Langton Cres
Parkes ACT 2600

Consultation on Sustainable Finance Strategy

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members are Australian and international asset owners and institutional investors with over $1trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in managing ESG investment risk and exercising active ownership to strengthen investment outcomes. Active ownership, including the management of climate related risk, allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage.

Summary of ACSI's position

ACSI welcomes this initial consultation on the Australian Sustainable Finance Strategy. We support the ambition of the Strategy to encourage the transition to net zero by reducing barriers to investment in sustainable activities.

We also support the Strategy's Pillars and, in particular, the recognition of the need to connect financial sector policy settings and Australia's wider climate, economic and environmental policy to ensure consistency. The finance industry can make a significant contribution to driving the net zero transition, however, real world policy driving emissions reductions, appropriate incentives, effective policy to encourage investment and alignment across the policy landscape of investor duties and performance testing, will also be necessary.

Many areas of the Strategy envisage the involvement of industry participants in shaping, and supporting, the transition. Dialogue with industry and investors needs to be early, detailed and ongoing. Investors, and others, have been considering these issues for many years, and it would be helpful for their insights to be leveraged. ACSI recommends that a formal advisory group be established to support fit for purpose implementation of the Sustainable Finance Strategy. Such advisory groups have been successfully established in other jurisdictions and would provide ongoing and timely advice and allow the government to access the expertise of those that have been working in sustainable finance for a long period of time, such as finance industry and business associations. It would not replace broad consultation. It will be important to stage the various policy proposals set out in the Strategy appropriately. For example, for financial institutions to be able to effectively use the taxonomy, they will need data about the underlying alignment of activity. Accordingly, disclosure from investee companies will be a helpful first step.

Australia's transition to a clean economy and towards a robust sustainable finance architecture will have a significant impact on, and present significant opportunities for, First Nations people. We encourage consideration on how First Nations perspectives can be embedded into the Strategy.

ACSI supports the introduction of mandatory climate reporting, on a fit for purpose basis. The climate reporting standards, as drafted, were designed for issuers of capital. Guidance to support preparers will be required, and as the scope of the reporting framework expands, it will be necessary to ensure that those setting the standards have appropriate resources, skills and expertise in issues beyond accounting.

ACSI has been supportive of the work undertaken in Australia and internationally to develop further guidance around sustainability-related disclosures, development of credible net-zero transition planning and product labelling. ACSI encourages Treasury to consider the applicability of these existing frameworks to Asset Owners, and to consider how these approaches can best reflect the Australian context.

ACSI supports the ongoing development of the Australian Sustainable Finance Taxonomy and encourages Treasury to work with industry participants to aid in broader understanding of material sustainability-related risks beyond climate. We encourage the establishment of policies to aid further access to critical information and data relating to the circular economy and nature and biodiversity, as each is central to our achievement of net zero goals. We would also welcome further regulatory recognition of stewardship activities and the role of directors and boards in managing sustainability-related risks.

Overall, we welcome the ambition of the Sustainable Finance Strategy and support the objectives to promote international alignment and position Australia as a sustainability leader. Our more detailed responses to the consultation questions are set out in Appendix A: Response to Consultation questions.

I trust our comments are of assistance. Please contact me or Kate Griffiths, Executive Manager – Policy and Research (kgriffiths@acsi.org.au), should you require any further information.

Yours faithfully

Louise Davidson AM
Chief Executive Officer
Australian Council of Superannuation Investors

APPENDIX A: RESPONSES TO CONSULTATION QUESTIONS

The following are ACSI's responses to the questions featured the consultation paper.

Consultation question	ACSI response
Priority 1 What are the opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations? How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?	ACSI welcomes the proposed introduction of mandatory climate-related financial disclosures. This disclosure framework is one of several legislative and regulatory levers required to provide a policy environment that supports and encourages decarbonisation. The Government will need to ensure sufficient resourcing for the consideration of standards and guidance within an Australian context. We note the proposed alignment and integration of the accounting and auditing bodies and recommend that the Australian reporting standards body which results have a mandate and resources to consult, implement sustainability reporting standards that are fit for purpose, and provide resources and education to support the market. In addition, membership of this body must reflect the expanding focus on areas beyond traditional accounting standards. While we welcome the introduction of these requirements, we note that IFRS S2 was designed for the issuers of capital and its reporting requirements reflect this focus. Consequently, in its current form, this standard is not fit for purpose for unlisted asset owner reporting. We recognise that consultation on the Australian reporting standard is ongoing, and should reflect differences in market participants. More broadly, ACSI supports the work of the ISSB and implementation of the reporting standards into the Australian market over time. A key principle for implementation should be that reporting requirements are appropriate to the particular market participants. A clear purpose should be articulated and consultation undertaken to develop reporting standards that are fit for the Australian context. A roadmap for implementation of the ISSB Standards to issuers of capital should be provided as part of the Strategy. Overall, a collaborative approach between the standards body, regulators and industry is essential to help companies – including auditing and assurance bodies – develop the skills, resources and capabilities needed to support high-quality climate disclosures. ACSI supports regulators taking a facilitative approach with industry during the initial years of mandatory climate disclosures, with many areas requiring guidance from the regulator.

Priority 2 What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy? What are the key insights from international experience to date? What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors? What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?	ACSI supports the Sustainable Finance Strategy's focus on the taxonomy. ACSI supports the principle set out in the Consultation Paper that the taxonomy should not be incorporated into the regulatory architecture for financial reporting or product labelling until it is established as credible, internationally aligned, readily usable by financial market participants and materially supports the development of Australia's sustainable finance, markets and capabilities. Given the current stage of development it is too early to form a view on if, and how the taxonomy should be incorporated into regulatory frameworks. From a principles perspective, any regulatory framework needs to be harmonised, for example any product labelling regime should consider how it interacts with the taxonomy. How these regulatory initiatives come together and build a sustainable finance architecture that enables Australia to be a sustainability leader will need to be the subject of ongoing consultation with investors and others. Long-term governance should be appropriately resourced, to reflect that the taxonomy will require regular review and update. Industry consultation should be similarly ongoing (for example through the formal advisory group contemplated above).
Priority 3 What are key gaps in Australian capability and practice, including relative to 'gold standard' approaches to transition planning developed through the TPT and other frameworks? To what extent will ISSB-aligned corporate disclosure requirements improve the transparency and credibility of corporate transition planning? What additional transition disclosure requirements or guidance would be most useful in the medium-term? Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?	ACSI supports the adoption of ISSB-aligned corporate disclosure requirements for transition planning for issuers of capital. Such requirements should be incorporated in the proposed climate reporting regime and adopt principles of materiality and proportionality regarding the baseline information disclosed. The Government should progress with Australian sector-specific transition plan guidance to support the development of credible transition plans. Guidance should reflect challenges particular to sectors, and be fit for purpose, recognising that different approaches (and different disclosure obligations) will be required for differing sectors. Any transition plan guidance should be consistent with the upcoming work on sector pathways. The effectiveness of transition plans in Australia will depend on the implementation of complementary whole of economy decarbonisation policies, such as the Safeguard Mechanism and others, to incentivise emissions reduction. Contradictory policies that limit the available pathways to address exposure to carbon risk or to increase investment in new and emerging technology may affect the capacity of entities to adopt a better practice approach to transition plans. For example, the Your Future, Your Super performance test assesses investment performance against a benchmark that reflects the Australian economy (including high emitting sectors) and may restrict available transition paths for superannuation funds. ACSI considers that the development of better practice sectoral guidance for the Australian context, would be beneficial, particularly for entities that have not previously disclosed a transition plan. ACSI research has found that while an increasing number of listed entities are setting short-, medium- and long-term emissions reduction targets, few are disclosing how these targets will be achieved and measure progress towards meeting these targets. 2023 ACSI research,

	[Promises, Pathways, Performance. Climate Change Disclosure in the ASX 200](), has found that at present ASX transition plans and emissions targets lack detail, depth, comparability and credibility. Guidance could refer to established international guidance, such as the UK Transition Plan Taskforce, in supporting Australian entities to fill the current gaps in transition plan disclosures identified including: • Unclear offset usage. • Minimal public disclosure around a just transition. • Limited information on the management of transition and physical risks. • Not accounting for scopes 1, 2 and 3 in targets. ACSI supports circular economy principles being integrated into guidance on sector-based transition plans, as circular approaches will be an important aspect of meeting net zero targets. In relation to nature, ACSI has welcomed the TNFD framework, and the Government's involvement in advancing the framework. The Government should continue its work to support uptake of the TNFD. Companies and investors should be considering their material nature-related risk and developing plans to address it. The Government can play an instrumental role in supporting industry to manage nature-related risk effectively, for example through guidance and by improving publicly available data (see Priority 8). We support law reform to strengthen environmental laws, to support a high standard of protection and restoration of nature. We also encourage the Government to move towards developing mandatory reporting requirements on nature over time, once capabilities mature across the market. We understand the 'climate-first' approach of the Strategy is proposed for is pragmatic reasons. Given that other environmental and social issues are deeply interlinked with climate and have an important impact on financial risk, we encourage the Government to broaden the focus of the Strategy to other sustainability issues as soon as is feasible. Further consultation with industry will be needed as policy proposals under the Strategy are expanded to encompass environmental and social issues.
Priority 4 What should be the key considerations for the design of a sustainable investment product labelling regime? How can an Australian model build off existing domestic approaches and reflect key developments in other markets?	ACSI supports the Government's proposal to introduce a product labelling system. We strongly support retail investors being informed about the products in which they are investing. Appropriate disclosure of the different sustainability characteristics of each product – including whether or not sustainability is incorporated at all – will be key to supporting retail investors to make an informed choice. We support an approach that incorporates disclosure for all products, with the capacity to affix labels where relevant. The labels should be consistent with the Australian taxonomy, once finalised. Noting that the taxonomy's focus is predominantly on classifying what constitutes a sustainable economic activity in Australia, this will be useful to guide investment in our region. However, it should be simple for investors to link investments aligned with the taxonomy through to sustainability products offered to investors. Not only is this helpful to retail investors, the common understanding of what qualifies as sustainable, including in labels, helps guard against greenwashing. We encourage consideration of the aims of, and approach to, product labelling adopted in the United Kingdom, which is strongly focused on behavioural insights, seeking to ensure labels are easily understood by retail investors and builds off the approach to green classifications.

	The UK approach also recognises the role stewardship can play in driving companies towards a transition. For investors, stewardship is part of a responsible investment approach that aims to preserve and enhance long-term financial returns across the portfolio. Stewardship can be undertaken at the company level, the investor level and at the broader economy level. Stewardship activity is likely to play a central role in many aspects of the Sustainable Finance Strategy's implementation as investors play their part in the transition to net zero. ACSI also supports the extension of the taxonomy, over time, to other areas such as nature and circular economy. Stewardship can play a key part in these areas in driving responsible, long-term thinking on issues such as nature and human rights. Labelling approaches and stewardship activities should be consistent. As the consideration of these issues, and how the stewardship, labelling and taxonomy architecture aligns, industry input will be key to ensuring labels are fit for purpose in an Australian context and properly reflect the range of investment approaches.
Priority 5 Are Australia's existing corporations and financial services laws sufficiently flexible to address greenwashing? What are the priorities for addressing greenwashing? Is there a case for regulating ESG ratings as financial services?	In ACSI's view, further guidance could be provided in respect of the regulatory approach to greenwashing, including enforcement. It is important that disclosures are not misleading or deceptive. It is also important that all market participants are held to the same standards. Further guidance could be helpful in balancing the relevant duties, for example balancing the 'best financial interests' duty and appropriate approaches to requests for information (for example under section 1017C of the Corporations Act). The regulation of ESG ratings may be beneficial in addressing the large discrepancy in the definitions, framings and results of ESG ratings. ACSI would support a review, similar to the UK, to investigate the matter in the Australian market, focusing on transparency and areas where further change may be needed. We also note the call for action from the International Organisation of Securities Commissions, which sets out its key priorities as: • Transparency (e.g. disclosure of methodologies, data and information sources). • Good governance (consistent use of methodology and adequate resources and expertise). • Management of conflicts of interests (where a ratings agency also advises an entity that is being rated). • Robust internal systems and controls. These priorities are useful areas of focus for many financial markets participants, but are also, at least in part, reflected within current Australian Financial Services licensees. While a review may be welcome, any proposals should seek to ensure there is no unnecessary overlap of regulation.

Priority 6 Are there specific areas where the Government or regulators could further contribute to market-wide understanding of systemic sustainability related risks, including climate-related financial risks?	There is an important role for the Government's Sustainable Finance Strategy to play in helping the Australian market to coalesce around some defined language, focus and policy aims. ACSI members have been engaging with companies on climate-related issues for many years, and there is also an opportunity to ensure that this systemic risk is truly understood economy wide. ACSI encourages Government and regulatory bodies to consult with market participants that have been identifying and responding to systemic financial and sustainability-related risks for some time, to leverage their work. Government and regulators can contribute to market-wide understanding of systemic sustainability-related risks by ensuring they are using sophisticated, up-to-date scenarios. These scenarios should capture the full, systemic impacts of climate change, including impacts to nature/biodiversity and social impacts, and an awareness of climate tipping points. ACSI also supports the consideration of broader sustainability-related risks beyond climate. Many companies and organisations are already considering such risks. ACSI encourages Government and regulatory bodies to engage with these entities to understand how they are managing and disclosing these risks and develop guidance to aid the market-wide consideration of these systemic risks. As contemplated above, a formally established industry advisory group would be helpful to assist with the development of further guidance and contribute to market-wide understanding. The Sustainable Finance Strategy should set out priorities that extend beyond climate risk (although noting that many of these priorities are interconnected with climate related risk). In particular, ACSI would support further recognition and understanding on the following sustainability related risks and considerations which have already received market recognition: • Human Rights (such as engagement with First Nations peoples[1]) • Human Capital (such as workforce conditions and safety[2]) • Circular Economy[3] • Nature and Biodiversity[4]
Priority 7 What are the priorities for ensuring that data-related initiatives already underway are tailored to meet the needs of firms and investors? What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?	ACSI strongly supports the proposal to have the Council of Financial Regulators conduct a detailed assessment of options to address key sustainability-related data to support issuers of capital in their provision of information to inform capital markets. We note that the CFR's recommendations are scheduled to be published at the end of 2024, six months after the proposed introduction of climate-related financial reporting requirements. This timing is sub-optimal. If timing is unable to be aligned, ACSI considers that there should be clear guidance to support appropriate disclosure while data challenges persist. Current data challenges that will impact the quality of climate disclosures include accurately identifying and measuring physical climate risk across Australia. Guidance on disclosures should be accompanied by a corresponding regulatory approach and statements. We welcome the data review also covering challenges in nature-related data, and the Government's work to establish Environment Information Australia. We support the Government working to centralise data on nature and make it more accessible for investors

[1] ACSI Research Report: Company Engagement with First Nations people December 2021

[2] International Labour Organisation Declaration on Fundamental Principles and Rights at Work updated in 2022

[3] Ellen MacArthur Foundation, Financing the Circular Economy- Capturing the opportunity 2021.

[4] ACSI Biodiversity Research Report 2021.

	and companies. The issue is not always that data is unavailable – sometimes data exists but is not easily accessible and is housed in various locations. We encourage Government to work with industry on improving data. Given the significant amount of data that companies already hold, and their interest in improving data and platforms, industry could play an important role in contributing to developing better data systems. A centralised repository on corporate sustainability data may be one solution. Currently there is a wide variety of ways that companies report on their sustainability outcomes, which can make it difficult for investors to find decision-useful information. A centralised repository for a set of core sustainability metrics would increase efficiency and comparability in the market. Investor involvement in the development would be critical to support usability. ACSI envisages that a formal industry group (as contemplated above) could provide insight and advice on approaches to address these data challenges. We encourage the CFR's assessment to also include data challenges related to the circular economy. Transitioning to a more circular economy will be a key aspect of addressing climate risk, however quality of data is currently lacking across the market. It will be important to address barriers to data in order to monitor and scale circular solutions.
Priority 8 Do you agree that existing regulatory and governance frameworks and practices have adapted well to support better integration of sustainability-related issues in financial decision making? Are there barriers or challenges that require further consideration? This may include: – Corporate governance obligations, including directors' duties – Prudential frameworks and oversight, including in relation to banks and insurers – Regulation of the superannuation system and managed investment schemes What steps could the Government or regulators take to support effective investor stewardship?	ACSI welcomes the consultation on mainstreaming sustainability considerations. Regulation should aim to be consistent, targeted, proportionate and effective. Sustainability risks should be integrated into existing frameworks and sufficient resources provided to upskill regulatory approaches. Listed entities Over time companies have been improving their integration of ESG-related considerations. However, there are options to further embed such approaches. ACSI supports a review of directors' duties to assess whether there should be a more directed approach, for example that directors be required to take certain sustainability matters into account (rather than the current articulation, under which directors are permitted to take them into account. An example of this approach can be found in the UK's Companies Act (s172). The introduction of such a duty and reporting requirement could reinforce that a wider set of stakeholders and factors are of importance to a company's long-term success. A clearer articulation would also reduce any market uncertainty. Consideration should also be given to a requirement for every listed company director to submit themselves for election on an annual basis. Annual elections have become the norm in a number of other jurisdictions, with no obvious ill effects. Accountability promotes ongoing effectiveness, encourages performance and instils confidence and trust with a company's stakeholders. Annual director elections drive better accountability and support good decision making. Investors Both the sustainable finance strategy and ACSI's members are interested in investors playing a role in supporting the transition to net zero, consistent with the best financial interests of their members. Despite the extension of the performance test lookback, aspects of the Your Future, Your Super performance test will remain challenging while the formulation of the benchmark continues to limit investors'

	ability to deviate from it in search of longer-term outcomes. As noted in Conexus' November 2022 research into Constraints on ESG, Sustainability and Carbon Transition Activities, under current regulations, 'Trustees are faced with a difficult decision between living with a heightened likelihood of failing the YFYS performance test at some point or having to pare back the degree to which these activities are implemented, which may be inconsistent with investing in accordance with the long-term financial interests of members, and/or with members' sustainability preferences.' Policy levers that encourage transition, rather than creating barriers to decarbonisation, must be implemented, and benchmarks must be investable in light of the transition. ACSI supports the ongoing review into the Your Future, Your Super performance test and supports consideration of improvements such as adopting high-integrity benchmarks that include an ESG component. To enhance the ability of investors to support the transition to net zero, there is an opportunity better to support investor stewardship as a tool to promote long-term corporate performance. Stewardship is increasingly recognised as a core fiduciary duty to maximise overall long-term investment value. Effective stewardship, focused on the long term, links stewardship to sustainable benefits for the environment, society and the economy, and consequently improves beneficiaries' financial outcomes. Consistent with a transition category in the taxonomy, stewardship should be recognised as contributing to the transition and incorporated into product labelling. Stewardship barriers in the Australian market include limited recognition, the 'free rider' issues and the lack of a coordinated approach to disclosure. To overcome these, and assist in communication to beneficiaries, consideration should be given to the introduction of a requirement for investors across the market to disclose their approach to stewardship on a consistent basis. At present, there are different approaches across the Australian investment community and flexibility to pursue different approaches should be maintained. Over the medium-term, ACSI suggests that policymakers and regulators work with investors to develop an industry-wide Code for broad adoption by asset owners and asset managers. In time, such an industry developed Code could form the basis for a 'if not, why not' disclosure regime. This would allow investors to choose the most appropriate approach for their investment approach, while driving disclosure and accountability. Such an obligation could improve the standard of stewardship practices and reporting, ultimately supporting long-term financial outcomes. Research by the UK's Financial Reporting Council found that stewardship codes that are underpinned by regulatory requirements have resulted in a substantial improvement in stewardship practices. Supervision by APRA should be coordinated with any new provisions. Such an approach may allow for a clear definition of the full range of investor stewardship activities. A shared understanding of the role of stewardship is also likely to assist in promoting fit for purpose disclosure. Despite the lack of a universal Australian stewardship code, there is a very high level of stewardship activity in the market. Ultimately, investors are seeking to continue this work, and accurately communicate it, with the confidence that comes from regulatory recognition and a recognised framework to support good practice disclosure.

Priority 9 What are the key expectations of the market around issuance of, and reporting against, sovereign green bonds? What lessons can be learned from comparable schemes in other jurisdictions? What other measures can the Government take to support the continued development of green capital markets in Australia?	ACSI supports the government taking a role to support the continued development of green capital markets in Australia but notes that much of what underpins a successful market of this type lies outside the financial architecture. Investors are drawn to stable, broad long-term regulatory settings and policy. Outside of the finance sector, real-world emissions reductions, energy market settings, fossil fuel phasedown and other climate-related activity is central to a successful green capital market and good financial and environmental outcomes.
Priority 10 What role can the CEFC play to support scaling up of sustainable investment in Australia, as part of a more comprehensive and ambitious sustainable finance agenda? What are the key barriers and opportunities for the CEFC to support financing and market development in areas with significant climate co-benefits, including nature and biodiversity?	No comment.
Priority 11 What are the key priorities for Australia when considering international alignment in sustainable finance?	To the extent that Australia can align with leading standards internationally, we support the Government seeking to do so. It is important that Australia keeps up with sustainability regulations in other advanced markets, to ensure that Australia is an attractive market for overseas capital. Adoption of reporting standards should be on a fit for purpose basis and reflect the intent of the ISSB to provide information to capital markets.
Priority 12 What are other key near-term opportunities for Australia to position itself as a global leader in sustainable finance and global climate mitigation and adaptation? What are some longer-term international sustainability goals for Australia where sustainable finance can play a role? What are the key market, regulatory and institutional barriers to increasing private sector engagement in blended financing opportunities? How can these barriers be overcome? What are other means to mobilise private sector finance toward sustainability solutions in the Indo-Pacific region?	ACSI supports the Government's ambition for Australia to be a global leader on sustainable finance. Australia's transition to a clean energy economy will require an immense investment of capital to meet climate targets but also ensure that the transition is just for all. It will be fundamental for Australia to attract overseas financing. We welcome the establishment of the Net Zero Authority and recommend that the Authority be appropriately funded, and its work integrated with the Sustainable Finance Strategy. Australia should learn from the experiences of other countries that are more advanced on the climate transition - for example there is much that Australia can learn from other jurisdictions on planning a just transition. ACSI also encourages consistency of standards as global norms and reporting standards develop. Finance is fundamentally important to a smooth transition, and the Strategy also needs to be integrated into Australia's broader climate, social, economic and environmental policy. Finance must be complemented by regulation that mandates and incentivises specific action (such as emissions reduction targets, clear policy signals around the phase down of emissions intensive industries that are unable to transition and clarity around director duties).