Sustainable Finance Strategy

Aware Super Submission

1 December 2023

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2 Executive Summary

Aware Super welcomes the opportunity to respond to Treasury's *Sustainable Finance Strategy* Consultation Paper.

Australia plays a big role in cutting global emissions and the Federal *Government's Sustainable Finance Strategy* is an important step towards creating the policy architecture and principles aimed at reaching that goal by 2050. The implementation of this *Strategy* will help bring Australia into alignment with global developments, channel capital consistent with net zero and broader sustainability objectives as well as support access to international capital, address climate and sustainability related risks and opportunities, and position Australia to take a leadership role to help shape global frameworks in line with our interests.

Aware Super, Australia's third largest superannuation fund in Australia, with more than $161 billion in funds under management and custodian to more than 1.1+ million members' retirement savings, supports the ambition of the *Sustainable Finance Strategy*; the principles set out in the paper; and the proposed approach focussed on climate-related reforms in the near term. Other sustainability-related issues including social, nature and biodiversity as well as First Nations perspectives and outcomes are also key considerations that this platform can use to address.

We note that sustainable finance policy and reform, whilst critical, is not a silver bullet: real economic targets, incentives and policies are critical drivers of private capital. In particular, we note the importance of ensuring the Government's 2035 target is 1.5 degree aligned, and that the Government's sector decarbonisation plans are clear, credible and of practical value to industry.

This will require Government to have an ongoing dialogue with industry to determine the best path forward. Consultation should occur early and at every step of the process. Therefore, we encourage the establishment of a formal advisory group for this purpose.

We also encourage the establishment of cost effective and fit for purpose reporting as part of the Strategy. As an asset owner, we are an aggregator of data of our investee companies. Therefore, the reporting requirements and timing of activities the Strategy is looking to deliver is paramount. Clearly addressing the different timeframes and ways of reporting of 'large companies' vs 'financial institutions' would be welcome, ensuring that not only are they fit for purpose for those entities, asset owners and members best financial interests and outcomes.

Specific to the *Strategy* and its three pillars, we would recommend that the following be prioritised.

3 Recommendations

1. **Pillar 1 – Priority 1: Establish a framework for sustainability-related financial disclosures**
    a. A key barrier for Australia in positioning itself as a global leader and achieving this ambition is the required green finance skills, capabilities and knowledge to achieve such an ambition, to understand and accurately assess climate risk. This strategy needs to consider how government will factor in the need for a sustainable finance learning ecosystem to support it's implementation and propose that the Australian reporting standards body would be best placed to provide education on the new sustainability reporting standards, and the resources required to support the Strategy's implementation.
    b. The climate reporting standards, as drafted, were designed for issuers of capital, not asset owners or investors. 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 skills and expertise in issues beyond accounting. It is also crucial that any climate reporting standards for investors and in particular asset owners are fit for purpose and aligned to our members' best financial interests.

2. **Pillar 1 – Priority 2: Develop a Sustainable Finance Taxonomy**
    We support 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 products, markets and capabilities.

3. **Pillar 1 – Priority 3: Support credible net zero transition planning**
    Staging the policy priorities appropriately will be crucial. Consultation with industry and investors needs to be early, detailed and ongoing. Investors, like Aware Super, have been considering these issues for many years, and it would be helpful for their insights to be leveraged and we would therefore recommend that a formal advisory group be established to support fit for purpose implementation of the Sustainable Finance Strategy.

4. **Pillar 1 – Priority 4: Develop a labelling system for investment products marketed as sustainable**
    Aware Super supports product labelling as a critical step in improving transparency and providing consistency of information across the sustainable finance industry. We would caution government against starting from scratch in developing a regime. We recommend the Government:
    - endorse the well-established, industry-accepted and rigorous framework within RIAA's Certification Program as the basis for a product labelling regime for sustainable investment products;
    - resource RIAA to expand its Certification Program and develop the labelling regime with the oversight of relevant government bodies (including Council of Financial Regulators) and consultation with industry; and
    - appoint RIAA as the service provider of the finalised product labelling regime.

5. **Pillar 2 – Priority 7: Addressing data and analytical challenges**
    As investors, we require data to make investment decisions; to be able to undertake any level of reporting of our investment portfolio or have a way to be able to meet product labelling requirements. Therefore, we would recommend that data be an area that is prioritised.

6. **Pillar 2 – Priority 8: Ensuring fit for purpose regulatory frameworks**
   a. 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.
   b. We would also welcome further regulatory recognition of stewardship activities including a mandatory Stewardship Code for all investors that is principles based and noting that stewardship practices can be different and should reflect an entity's practices and is overseen by an independent body. Given the relative 'newness' of this concept to the Australian marketplace and guidance required.

As members of the Australian Sustainable Finance Initiative (ASFI), the Australian Council of Superannuation Investors (ACSI), the Investor Group on Climate Change (IGCC) and the Responsible Investment Association Australasia, Aware Super supports the submissions made by those organisations on the Consultation and in particular their responses to the consultation questions. Our more detailed responses to some of the consultation questions are set out in the Appendix.

4 About Aware Super

We're Aware Super – Money Magazine's Best and a Canstar Outstanding Value Super Fund for 2023.[1] As one of Australia's largest profit-for-members superannuation funds, we always remember whose money it is and whose future we're looking after. Along with super returns of 9.3% p.a.* (over 10 years, for our High Growth option), and expert super advice and guidance for right now, it's what makes up super helpful.

As a fund with over A$161 billion under management, we know the impact we can make for our members and for the communities in which they live, work and retire – that's a responsibility we don't take lightly, not ever.

We are committed to successful climate transition

We believe climate change is one of the most significant long-term risks to our portfolio and therefore our members' retirement outcomes. As a result, we have undertaken significant research and work to establish a plan to help us manage this risk in our investment portfolios. Our Climate Transition Plan is a framework of recommendations and targets that we will focus our efforts on and includes:

- Decarbonisation: developing a decarbonisation pathway for our investment portfolio
- Portfolio transition & resilience: transitioning our portfolio to lower climate change risk in our investments and, where required, helping those investments adapt to a changing climate, e.g. working with our agricultural investments to help them adapt their practices to a warming and changing climate
- Investing in climate solutions: investing in low carbon assets, as well as contributing to the economy-wide transition by investing in companies that need financial support to transition their operations and products to be lower emitting
- Being a leader in company climate engagement: lowering risk by actively managing and engaging with portfolio investments on their climate change transition pathway, and
- Having an influential voice in climate policy and advocacy

Aware Super supports an orderly and equitable transition to net zero GHG emissions through its investment activities, stewardship and advocacy. Our overarching targets to support that commitment are to:

- strive to achieve net zero GHG emissions in our portfolio by 2050
- support an economy-wide reduction in GHG emissions of 45% by 2030
- achieve a 45% reduction in Scope 1 and 2 emissions intensity of our investment portfolio by 2030.

To date, Aware Super has more than A$2.5 billion committed to renewables and climate change solutions, including the recent interest acquired in the Stockyard Hill Wind Farm, Intera Renewables platform, and Rumin8 – a start-up climate agritech company. We have also over the last few years built up a $450 million green and sustainability linked bond portfolio.

We are committed to improved transparency on climate and sustainability, financial systems capability and international alignment to position Australia as a global sustainability leader, and the measures that underpin these objectives. To this end, we have voluntarily reported under the Taskforce for Finance Related Disclosures (TCFD) for the last three years.

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* Source: SuperRatings Fund Crediting Rate Survey 30 June 2023 SR50 Growth (77-90) Index. Returns are after investment fees and costs, transaction costs, tax on investment income and any implicit admin fees. Past performance is not an indicator of future performance.

5 Appendix: Responses to Consultation Questions

Priority	Comments	Recommendation
PILLAR 1: Improve transparency on climate and sustainability		
Priority 1: Establish a framework for sustainability-related financial disclosures 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?	The strategy focuses on the approach and framework however it will require green finance skills, capabilities and knowledge to achieve such an ambition to understand and accurately assess climate risk. LinkedIn's recent *Green Skills Report*[1] showed that, globally, the finance sector is lagging behind other sectors in building green skills. And Australia ranks only 30th in a list of countries on its share of talent for green finance. The Institute of Sustainable Futures (UTS) in partnership with CSIRO Climate Science Centre also undertook a national Climate Skills Survey of finance professionals to understand the level of skills across Australia's financial system, in 2022. The results of the survey were published in the report, *Advancing climate skills in the Australian Finance System*[2]. The report identified that a sustainable finance learning ecosystem is required with a proposal put forward for two key mechanisms: • Sustainable finance skills partnership; and • The need for an annual Australian Sustainable Finance Skills Report to understand the current state of play and track the strategic development of sustainable finance skills and competencies over time, benchmarked against the performance internationally.	The Strategy needs to consider this impediment to change, and how Government will factor in the need for a sustainable finance learning ecosystem to support the implementation of key initiatives. 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.

1. Global Green Skills Report 2023, LinkedIn, pp 21-25
2. Advancing climate skills in the Australian Finance System, UTS and CSIRO Sep 2022 (Report)

Priority	Comments	Recommendation
Priority 2: Develop a Sustainable Finance Taxonomy 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?	We support 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 products, markets and capabilities. From a principles perspective, any regulatory framework needs to be harmonised, for example any product labelling regime should be integrated 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. Use cases include: • Address greenwashing and promote transparency by assessing alignment of investment and lending against climate and sustainability targets. • Support sustainability labelling scheme • Informing, and assessing credibility of transition plans • Sovereign Green Bond Framework and potential Green Bond Standard	Over time, it would be appropriate to shift to a mandatory use of the taxonomy in certain areas. In particular, where entities make claims related to sustainability objectives covered by the taxonomy, those entities should be required to substantiate those claims by reference to the taxonomy. We recommend there should be two distinct phases for the taxonomy: a) development; and b) implementation, which would include ongoing maintenance of the taxonomy. The below principles should be considered as part of the long-term governance arrangements of the taxonomy: • Independent • Credible and usable • Interoperable • Enduring
Priority 3: Support credible net zero transition planning 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	We support 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 better practice 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, to incentivise emissions reduction. Contradictory policies that do not support emissions reduction will 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), restricting possible transition paths for superannuation funds.	To catalyse private sector investment in Australia for nature restoration and protection, the global targets set out under the Kunming-Montreal Global Biodiversity Framework (GBF) should be translated and embedded into domestic legislation and policies. This includes: • Ensuring that the proposed reforms to Australia's environmental protection laws effectively deliver on the GBF targets and are considered in the development of National Environmental Standards under

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?	We consider 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 companies and financial 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* (*Promises*), 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 in ACSI research, *Promises*, 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 their targets. We support 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, we have 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 ensure 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 nature reporting capabilities mature across the market. We understand the 'climate-first' approach of the Strategy for feasibility 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 will be needed at that point. Nature related financial disclosures is another key mechanism to support financial institutions to make decisions that mitigate nature-related risks and contribute to nature positive outcomes. We support the proposal for Australia to adopt nature and biodiversity reporting standards as they are developed internationally.	the EPBC Act reforms. The GBF targets should be a key consideration in the decision-making framework for environmental approvals and embedded in Regional Plans, which should include crucial information including, identifying areas of high biodiversity importance, and areas earmarked for protection and restoration; and • Aligning the development of the proposed Nature Repair Market and any future environmental-related funding mechanisms with objectives and targets of the GBF. These targets will help markets align activities and investments with clear nature focused outcomes, inclusive of the role that Indigenous peoples have in the protection and restoration of nature. Additional capital could be channelled to economic activities that promote environmental priorities by extending the Australian sustainable finance taxonomy to include criteria for nature and biodiversity outcomes, where those priorities require private investment. Government should invest in the management and dissemination of robust and credible environmental information and data – integrated into one source from local and federal level data sets – that is consistently collected across all jurisdictions to inform sound policymaking, market comparability, climate and nature risk and opportunity disclosures.

<table>
<tr><td>Priority 4: Develop a labelling system for investment products marketed as sustainable

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?</td><td>Aware Super supports product labelling as a critical step in improving transparency and providing consistency of information across the sustainable finance industry. We would caution government against starting from scratch in developing a regime.

Key considerations for the design of an Australian sustainable investment product labelling regime should include:
Alignment and harmonisation with major international labelling schemes: Given Australia’s relatively small market size, our globally integrated finance sector, and the fact that labelling schemes are already in place or under development in major jurisdictions such as the EU and the UK, Australia should seek to take an approach consistent with those jurisdictions. Failing to align with major markets would create friction for sustainable finance flows into Australia, inhibiting the flow of capital to support climate and broader sustainability outcomes.
Credibility and integrity of sustainability labels, the labelling scheme and its administration: Australia’s labelling scheme should provide consumers confidence that sustainable investment products contribute to positive environmental or social outcomes and that those products are also not causing any significant harm. We support the Strategy Paper’s proposal that funds that integrate sustainability into investment processes without an explicit sustainability objective would not qualify for a label.
Broad application: the labelling scheme should be broad enough to accommodate a range of financial products.
As outlined above under Priority 2 above, the Australian sustainable finance taxonomy could be used as a key input to a labelling scheme including as a transparency tool, with taxonomy-linked metrics being used to demonstrate meeting a credible standard of sustainability, but not necessarily as a label requirement, given that the taxonomy may not, at least initially, have coverage across all sustainability areas.</td><td>We recommend the Government:
Endorse the well-established, industry-accepted and rigorous framework within RIAA’s Certification Program as the basis for a product labelling regime for sustainable investment products;
Resource RIAA to expand its Certification Program and develop the labelling regime with the oversight of relevant government bodies (including Council of Financial Regulators) and consultation with industry; and
Appoint RIAA as the service provider of the finalised product labelling regime.</td></tr>
<tr><td colspan="3">PILLAR 2: Financial system capabilities</td></tr>
<tr><td>Priority 5: Enhancing market supervision and enforcement

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?</td><td>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. We 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 Commission, 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.</td><td>Further guidance could be provided in respect of the regulatory approach to greenwashing, including enforcement.</td></tr>
</table>

	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: Identifying and responding to potential systemic financial risks 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. We 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. WE encourage 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. We also support the consideration of broader sustainability-related risks beyond climate. Many companies and organisations are already considering such risks and encourage 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 to develop 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, further recognition and understanding on the following sustainability related risks and considerations which have already received market recognition should be considered: • Circular Economy[2] • Nature and Biodiversity[3] • Human Rights (such as engagement with First Nations peoples[4]) • Human Capital (such as workforce conditions and safety[5])	Coordinate with APRA on the requirements of CPS 229 and SPG 530.
Priority 7: Addressing data and analytical challenges 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	We strongly support 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, we consider that there should be clear guidance to support appropriate disclosure while data challenges persist. This 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	Have the CFR conduct a detailed assessment of options. Establish a centralised repository on corporate sustainability (free of charge or minimal expense for investors).

[2] Ellen MacArthur Foundation, Financing the Circular Economy- Capturing the opportunity 2021.
[3] ACSI Biodiversity Research Report 2021.
[4] ACSI Research Report: Company Engagement with First Nations people December 2021
[5] International Labour Organisation Declaration on Fundamental Principles and Rights at Work updated in 2022

Australia should be prioritised by the CFR?	nature and make it more accessible for investors 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. We would support the establishment of a formal industry group to 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. Core metrics (as developed by IAST-APAC) on Modern Slavery and supply chains should also be included.	
Priority 8: Ensuring fit for purpose regulatory frameworks 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 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. We support 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, without overriding the directors' responsibility for taking account of these factors within their promotion of the success of the company. A clearer articulation would also reduce any market uncertainty. Consideration should also be given to a requirement for every 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. We acknowledge that investors play a role in supporting the transition to net zero, consistent with the best financial interests of our 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	• A review of directors' duties and any regulatory updates that are more directive. • Annual director elections for ASX listed companies . • Policy levers that encourage transition, rather than creating barriers to decarbonisation, must be implemented, and benchmarks must be investable in light of the transition. Policymakers and regulators should 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

• Regulation of the superannuation system and managed investment schemes What steps could the Government or regulators take to support effective investor stewardship?	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.' 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. Despite the lack of a universal Australian stewardship code, there is a very high level of stewardship activity in the market. Ultimately, investors, like Aware Super, 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.	disclosure and accountability. Compliance with the code should be monitored by an independent body/association.
PILLAR 3: Australian Government leadership and engagement		
Priority 9: Issuing Australian sovereign green bonds 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?	Investors will assess the credibility (and therefore value) of Australia's green bond issuances against the broader context of Australian Government commitment to the climate transition as evidenced by its climate targets and policies, not just the bonds' use of proceeds. We support the green bond framework adopting a broad scope including mitigation, adaptation, and nature – recognising the inter-connectedness of these issues.	In the medium term, Australia should also look to issue sovereign *transition* bonds, adopting and showcasing the credible approach to defining transition activities which is being developed in the taxonomy. There is also an opportunity to adopt the taxonomy transition methodology for the development of the Indo-Pacific Net Zero Transition Bond series announced by President Biden and Prime Minister Albanese in the recent joint leaders statement.
Priority 10: Catalysing sustainable finance flows and markets What role can the CEFC play to support scaling up of sustainable investment in Australia, as part of a more	The CEFC is a strong example of how Government funds can be used to build and catalyse markets to achieve public interest objectives, as well as strong financial returns. In expanding the CEFC's mandate, the Government should ensure the CEFC's activities are appropriately funded and resourced, and that the mandate is appropriately calibrated to the characteristics of the target markets. In more nascent markets, a higher risk tolerance may be required including a willingness for some transactions to fail. International and domestic experience has illustrated that it can be challenging for special investment vehicles to adopt a higher than commercial risk tolerance.	We would support expanding the CEFC's mandate to include climate adaptation and resilience. The CEFC could also play a key role in supporting markets for nature and biodiversity restoration, in conjunction with enabling policies

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?	This should be taken into account in setting the CEFC's expanded mandate. A lower return target; explicit instructions regarding the market-building mandate and expectations around risk; ensuring a mix of commercial skills and impact/development skills; and ring-fencing parts of the portfolio to take higher risk are some ways to help calibrate the mandate appropriately.	that implement the Global Biodiversity Framework goals. The CEFC model could be usefully applied (or simply extended) to Australia's international development financing. This would be consistent with the DFAT Development Finance Review's recognition that blended finance has an increasing role to play, and the Southeast Asia Economic Strategy's recommendations that Australia scale up our blended finance to support greater integration with partner countries in the region.
Priority 11: Promoting international alignment What are the key priorities for Australia when considering international alignment in sustainable finance?	As a relatively small market with significant global integration, international alignment of sustainable finance policy and regulation is critical for enabling capital to flow into Australia and to ensure Australian financial institutions, many of whom have global portfolios can operate effectively across jurisdictions. There is strong support from Australian financial institutions for more active Government engagement to support regional and global inter-operability of sustainable finance policy and frameworks.	Government and regulator engagement in international sustainable finance fora should continue to draw on industry expertise through bodies such as ASFI where appropriate. 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 (rather than the provision of information by unlisted asset owners, which is covered by other regulation, or the product labelling proposals in the Strategy).

Priority 12: Position Australia as a global sustainability leader 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?	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. 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 ad we encourage 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. As Australia moves rapidly from 'laggard' to 'early follower' on sustainable finance there is an opportunity to take a leadership role on the international stage through bilateral, regional and multi-lateral engagement in sustainable finance policy, as well as through Australia's international financing activities – such as blended finance. Ultimately, moving to a global landscape where there is mutual recognition between governments of domestic sustainable finance policies and frameworks – such as taxonomies – would vastly accelerate sustainable finance and investment flows. To support this, Australia's focus should be on promoting inter-operability and credibility.	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 industry that is unable to transition and clarity around duties. The opportunities for the Australian Government to help overcome these barriers include: • Blended finance – i.e. expanding Australia's development financing capabilities to build markets and de-risk transactions to crowd in private capital; • Transaction support and pipeline identification – note this would require specialist investment, finance and sectoral expertise which typically is not held directly by the Australian Government; • Support for policy development (i.e. country targets and policies to meet those targets, as well as robust, inter-operable sustainable finance frameworks such as disclosures and taxonomies), as discussed above; • Australian regulatory reforms, in particular to Your Future Your Super which constrains investment in emerging markets (as well as in sustainability themes). Currently, Australia's ability to deliver on the first two opportunities above is constrained by our lack of dedicated development finance

		mechanism. We support the establishment of a fit for purpose, dedicated, development finance capability. This would reinforce Australia's position as a key partner on climate, and support Australia's bid to host the United Nations Climate conference COP31.