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Sustainable Finance Unit
Climate and Energy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: SustainableFinanceConsultation@treasury.gov.au

Dear Sir / Madam

Submission to the Treasury Consultation on Sustainable Finance Strategy

The Australasian Investor Relations Association (AIRA) is pleased to submit this response to the Department of Treasury's consultation paper on Sustainable Finance Strategy issued in early November 2023.

AIRA is the peak body representing investor relations practitioners in Australia and New Zealand. The Association's 160 corporate members now represent over A$1.2 trillion of market capitalisation, over 80% of the total market capitalisation of companies listed on ASX.

We exist to provide listed entities with a single voice in the public debate on corporate disclosure and to improve the skills and professionalism of members. Our vision and purpose are that investor relations enables and creates sustainable value for all capital market stakeholders by building and strengthening market confidence in listed and unlisted entities.

In line with our previous public submission on the Treasury consultation regarding the introduction of mandatory climate risk disclosures in Australia, AIRA wishes to place on record its strong support for the underlying goals underpinning the Sustainable Finance consultation paper. Our comments in this submission largely relate to issues around:

- the practicalities and costs of implementation of the proposed strategy,
- the challenges facing reporting entities (including many AIRA members) that operate in multiple regulatory jurisdictions, and
- the risks of unintended consequences should an undue emphasis be placed on disclosures to the providers of financial capital and regulators, compared to those still required for broader stakeholder constituencies such as customers, suppliers, communities and employees.

With careful implementation and ongoing consultation with reporting entities, we are confident that none of these challenges will be insurmountable. We do, however, offer our perspectives to assist the Government to achieve its goal of propelling Australia to a leadership position in the adoption of sustainable finance public policy and regulation globally.

Our feedback on specific consultation questions is detailed in tabular form in the following pages.

AIRA would be delighted to expand on this submission in discussion with Treasury, and to make available expert resources from our newly established ESG Chapter to provide individual case studies and experiences from our membership.

Please do not hesitate to contact me on 0419 444 731 if you would like to take up such a discussion or require any further information.

Yours sincerely

Ian Matheson
Chief Executive Officer

Overall Comments on Consultation Paper Proposals and Objective

Priority	Consultations Questions and AIRA Responses
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?* Refer to AIRA's response of 21 July 2023 to the Department of Treasury's Second consultation paper on Climate-Related Financial Disclosure, issued on 27 June 2023.[1] As noted in that submission, a significant issue in the introduction of mandatory climate disclosure requirements is the exponential increase in the number of reporting entities that will be caught by these requirements – estimated to number some 13,000 entities once all three reporting cohorts are covered by FY2027/28. We recognise that the requirements are being introduced in stages to manage this transition, and that there will be a significant uplift in skills development and resources in the audit and assurance profession to accommodate it. The main question, however, is whether these changes will keep pace with the level of demand in practice, and how regulators should respond if they don't. On this point, one issue for Government and regulators to monitor is the potential slippage in typical audit and assurance quality that may stem from this situation. An additional concern is the significant cost impacts on reporting entities, including AIRA members, stemming from the emergence of a growing captive market of reporting entities having to compete for increasingly scarce high-quality assurance and advisory services. As investor relations and ESG professionals in major listed companies, AIRA's members have had significant experience in the practicalities of expanding the scope of corporate reporting beyond its traditional scope of financial accounts reporting to broader sustainability and ESG reporting, and in many cases to very detailed reporting against existing climate disclosure frameworks such as the TCFD and CDP. For these companies, the transition to this more comprehensive disclosure suite has generally been a progressive, multi-year project, even in cases where there was a strong Board and Executive conviction and substantial resources allocated to expediting the process as much as possible. Against this background, feedback we have received from AIRA members who are the most advanced in their climate disclosure has been along the lines of "This is going to be hard enough for us to do. But it's hard to imagine how anyone who was just starting out now could possibly get there by 2024/25." The main concern our members are expressing is not around any lack of conviction around the urgency of improved climate risk reporting or the willingness of companies to provide it. Instead, the concern was squarely focused on the availability, long lead times, scope and costs of engaging external assurance providers to review disclosure material.

[1] See AIRA Submission to Treasury Consultation on Climate-Related Financial Disclosure – July 2023

Recommendations:

Some tools that AIRA suggests the Government consider in seeking to mitigate the above concerns include:

- Development of education programs and consultation with industry over accreditation standards for sustainability assurance providers, to broaden the pool of available expertise and its accessibility/ affordability for issuers
- A flexible approach to enforcement and remediation of disclosure shortfalls, especially in the early implementation phases of the new disclosure framework.
- Flexibility to relax disclosure deadlines or scope coverage if needed, where reporting entities have shown good faith in their intention to comply but have encountered genuine practical barriers.

How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?

As noted in the consultation paper, there are a number of significant disclosure initiatives in the pipeline following on closely from the mandatory climate disclosure rules. These include:

- expected new global standards to be developed by the TNFD in the areas of biodiversity and nature-related risks, and potentially other material sustainability risk issues such as human rights, labour standards etc.
- more granular reporting and accountability requirements following the recent review of the Australian Modern Slavery Act,
- heightened focus by ASIC and other regulators on cyber risks, greenwashing, and other ESG/corporate governance issues

Moreover, even within the confines of climate risk reporting alone, many Australian entities including AIRA members which have offshore operations will be required to navigate the emerging disclosure frameworks being developed in other jurisdictions, such as the CSRD in Europe and the proposed SEC requirements in the US.

Despite all the progress that has been made in harmonising disclosure frameworks across jurisdictions over recent years, the global reporting landscape is still quite fragmented, and we are some way off having mutual recognition or interoperability between all these different reporting frameworks.

This situation poses significant practical challenges to Australian reporting that have international presence, no matter how strong their conviction to be leaders in this area.

Recommendations:

- The Government and regulators should focus their efforts on international harmonisation of regulatory requirements to the maximum extent practicable, using the baseline of the ISSB framework (i.e., confining mandatory disclosures scope to the providers of financial capital, single materiality focus etc.)

- To the extent that literal harmonisation of reporting requirements cannot be achieved, the focus should be on negotiation of mutual recognition and/or inter-operability of Australian disclosures with those of other leading jurisdictions.

Priority 2: Develop a Sustainable Finance Taxonomy	What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy? In line with our comments above, the most important priority should be alignment of the Australian taxonomy with those of other major jurisdictions such as Europe, the US, UK and key APAC markets. If full alignment is not practicable, the focus should be on ensuring that companies that comply with the Australian taxonomy, are able to access sustainable finance ensuring that companies that comply with the Australian Sustainable Finance taxonomy, are able to access sustainable finance capital in offshore markets (i.e., through mutual recognition arrangements, inter-operability rules). What are the key insights from international experience to date? No comment. What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors? AIRA suggests that an extension of the taxonomy into impact reporting would be helpful for issuers who prioritise reporting to stakeholders other than providers of financial capital. Additionally, future consideration should be given to sector-specific guidance as the market works through and develops best practice methodologies globally. What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture? It would make sense for the taxonomy to be referenced and/or incorporated into existing widely- recognised best practice instruments such as the ASX Corporate Governance Council Principles & Recommendations, and in guidance notes from ASIC and APRA.
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 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? AIRA has no comments in relation to these questions.

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? In line with our previous comments, AIRA believes that the priority should be to ensure that the product labelling is globally recognised given the mobility of capital and funding sources. How can an Australian model build off existing domestic approaches and reflect key developments in other markets? No comment.
Priority 5: Enhancing market supervision and enforcement	Are Australia's existing corporations and financial services laws sufficiently flexible to address greenwashing? Broadly, yes, based on recent experience of the priority given to this topic by Australian regulators, in particular ASIC and the ACCC. Any suggestions to embed more prescriptive rules into the Corporations Law or other statutory instruments would need to be carefully considered and consulted upon, especially with listed companies, to ensure there was no undue compliance overhead or inconsistency with existing obligations such as continuous disclosure rules, consumer protection laws etc. What are the priorities for addressing greenwashing? The main priority of course is to protect consumers from misleading or deceptive representations of sustainability attributes of a company's products/services etc. However, a countervailing point is that regulation should not be so heavy-handed or prescriptive as to reduce reporting entities' willingness to showcase genuine sustainability progress, or to engage in 'greenhushing'. The priority of regulation should be to strike a suitable balance between these competing considerations. Is there a case for regulating ESG ratings as financial services? This question is definitely worthy of further exploration. As a general observation, we suggest that the most productive form of regulatory review would be in the areas of transparency of disclosure and adherence to an agreed set of best practice industry standards – for example, relating to frequency of updates and changes to ratings methodologies, adoption of codes of practice, commitment to incorporate feedback from research subjects, and procedures for handling complaints and rectification of errors. More prescriptive measures such as imposition of uniform ratings criteria or heavy financial sanctions might prove to be a bridge too far, at least initially (as was recently experienced both in Australia and overseas with attempts to regulate the activities of proxy advisers). But at least initially, 'softer' regulatory measures focusing on basic competency, accountability and transparency of ratings processes may well be warranted given the significant (and increasing) influence these organisations have on the investment community and consequently on the flow of capital across markets.

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? The Government and regulators should play a key role in educating and highlighting the materiality of climate risks in sectors of the economy that are not traditionally identified as high-exposure sectors, and which may struggle with their new reporting obligations - for example, not-for-profit and community organisations, public sector bodies, local governments. There should be more awareness on systemic insurance risks associated with climate change and sustainability, as these risks are effectively embedded in the entire economy and are not widely understood (especially regarding physical risks).
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 Australia should be prioritised by the CFR? AIRA has no comments in relation to these questions.
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 of the superannuation system and managed investment schemes What steps could the Government or regulators take to support effective investor stewardship? AIRA has no specific comments on these questions but looks forward to hearing the views of the institutional investor community who are the main proponents of the investment stewardship ecosystem.
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? AIRA has no comments in relation to these questions.
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 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? AIRA has no comments in relation to these questions.

Priority 11: Promoting international alignment	What are the key priorities for Australia when considering international alignment in sustainable finance? Please refer to our responses above on Priorities 1 and 2 of the Consultation Paper. In a nutshell, AIRA's belief is that despite all the progress that has been made in harmonising disclosure frameworks across jurisdictions through initiative such as the TCFD, ISSB and IFRS over recent years, the global reporting landscape is still quite fragmented, and we are some way off having mutual recognition or interoperability between all these different reporting frameworks. This situation poses significant additional practical challenges to reporting entities, no matter how strong their conviction to be leaders in this area. Accordingly achieving the maximum possible international alignment should be a key objective for Australia's government and regulators. To put it directly, as an example, it is foreseeable in the near term that European debt markets will require that all corporate debt issued is considered sustainable finance. As such, AIRA considers that any Australian taxonomy or ratings system must be recognised globally.
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 is the key market, regulatory and institutional barriers to increasing private sector engagement in blended financing opportunities? AIRA has no comments in relation to these questions.