AustralianSuper

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Sustainable Finance Unit
Climate and Energy Division
The Treasury
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PARKES ACT 2600
Via email to: **sustainablefinanceconsultation@treasury.gov.au**

AustralianSuper submission to Treasury 'Sustainable Finance Strategy' Consultation

AustralianSuper welcomes the opportunity to provide an investor perspective on the consultation *'Sustainable Finance Strategy'* ('consultation paper') released by Treasury.

AustralianSuper is Australia's largest superannuation fund, with over 3.3 million members, and over $300bn in member assets under management.

Around half of the retirement savings we manage on our members' behalf is invested in Australia including more than $60 billion in Australian listed equities and more than $20 billion in domestic infrastructure assets.

Our approach to investment and asset management is anchored in our purpose to help members achieve their best financial position in retirement. The investment horizon of superannuation means that it represents a significant pool of patient capital focussed on value creation over the long term. Accordingly, we recognise the significant financial risks climate change and other sustainability risks present to economic systems globally, and to our members' retirement outcomes.

Investors require a stable regulatory environment that gives both businesses and investors the confidence to manage sustainability risks and commit capital to transition-enabling activity across the economy. We welcome the Government's ongoing body of work to deliver this, including through the Sustainable Finance Strategy initiatives.

AustralianSuper supports the initial focus of the Sustainable Finance Strategy on climate change mitigation, but encourages Treasury to develop and present a roadmap for broadening out the strategy to include other sustainability topics including, but not limited to, nature and biodiversity, circular economy and labour and human rights issues. This will also assist in achieving climate change goals.

While we welcome the proposed strategy, we emphasise that sustainable finance policy is just one component of the broader whole of government approach needed to facilitate the transition to a low-carbon economy. Importantly, the strategy must be supported by real economy targets, policies and incentives, coordinated across all levels of government, to support investment in transition and sustainability-enabling activity.

To ensure an orderly, just and lowest-economic cost energy transition to a low carbon economy, there is a need for industry and governments to provide coordinated support to reskill, upskill, and transition dislocated workers and communities, and to address skills shortages to capture opportunities in new technology industries. We support the creation of the Net Zero Economy Authority in Australia to help manage the transformation to a net zero economy and to support communities and workers affected by the transition. We also recognise the opportunities represented by the energy transition. For example, as a large and long-term investor, we are a preferred capital partner to many companies, including in the critical minerals industry, which will play an essential role in the energy transition.

As the Government moves forward with the implementation of the Strategy and the development of its Sustainable Finance Roadmap, we would encourage continued and close engagement with investors to ensure that practical barriers and disincentives limiting the ability of investors and financial institutions to support the economic transition can be identified and addressed.

AustralianSuper is committed to achieving net zero emissions in our portfolio by 2050. This is based on the understanding that limiting warming to well below 2°C and pursuing efforts to remain within 1.5°C, represents the most orderly and lowest economic cost transition. Near-term policy action to address these risks is in the best interests of our members.

The attachment outlines our approach to sustainable finance and responses to key pillars, priorities and questions relevant to Australian superannuation funds. Should you have any questions, please contact Nick Coates, Head of Government Relations & Public Policy via email at: **ncoates@australiansuper.com**.

Regards,

Paula Benson AM
Chief Officer, Strategy & Corporate Affairs

Attachment: Detailed comments and responses to Pillars

Pillar 1: Improve transparency on climate and sustainability

Priority 1: Establish a framework for sustainability-related financial disclosures

We welcome the Government's commitment to develop standardised, internationally aligned requirements for disclosure of sustainability-related information. A strategic framework will support companies by providing clearer expectations with regards to the extent companies integrate sustainability into their business strategy and forward plans.

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?

Significant opportunities exist for the Government, regulators and industry to support companies to develop the required skills, resources and capabilities. ASFI's Australian Sustainable Finance Roadmap identifies six critical areas[1].

The Roadmap also calls out the important role for policy settings and regulator guidance and supervision to reinforce factors for sustainable finance. This will assist in setting clear direction for Australia's financial system and financial institutions. While much progress has been made in Australia already, further consistency and harmonisation of guidance in regulatory settings would enhance the financial system's ability to align with and support a prosperous and sustainable Australian economy, environment and society.

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

AustralianSuper supports Treasury's approach of adopting global sustainability standards as they are developed by the ISSB and the prioritisation of climate change. However, there is widespread recognition that the risks and impacts of a variety of sustainability issues beyond climate change (including biodiversity loss, environmental degradation, labour and human rights) are material to investment outcomes. Treasury should develop a roadmap for broadening out the strategy to include other sustainability topics. This will also assist in achieving climate change goals.

We encourage Treasury to continue pursuing the mandating of broader sustainability disclosures for companies and assets, beyond climate change (S2). This should include introducing minimum sector specific sustainability reporting requirements, in step with global developments, as per the guidance provided in the IFRS S1 Standard for general sustainability reporting and the TNFD Standard for nature and biodiversity, as soon as practicable.

Prior to the introduction of general sustainability disclosure standards, ASIC and APRA should provide guidance to companies on the appropriate use of voluntary frameworks to assist them in meeting their existing legal obligations, as they have done in relation to climate change. This will help Australian companies keep pace with other regions, moving ahead rapidly with the introduction of a broad suite of sustainability reporting standards beyond climate change.

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[1] ASFI, Australian Sustainable Finance Roadmap, 2020, section 7.1, page 46.

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?

The Australian taxonomy's core objective must be to support the Australian delivery of the global sustainability goals of the Paris Agreement, the Global Biodiversity Framework and Sustainable Development Goals while also having regard to the social imperatives of decent work, quality jobs and safeguarding against modern slavery and human rights concerns in renewable energy supply chains.

The taxonomy has the potential to materially increase the speed of Australia's transition to a net zero economy by accelerating the flow of capital toward companies and activities that deliver environmental and social outcomes. The taxonomy should provide confidence and assurance to investors and the public on a company's sustainability claims, enable comparability and reduce transaction costs.

The taxonomy should maintain consistency with and utilise the same standards as international taxonomies as far as practicable, while recognising the unique characteristics and dependencies of the current Australian economy, such as our existing industry capability and limitations, and areas of competitive advantage. What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?

The taxonomy should maintain consistency with the EU Taxonomy which includes coverage beyond climate change mitigation to cover climate change adaptation, the protection and restoration of biodiversity and ecosystems, water and marine resources, the circular economy and pollution prevention.

Expanding the taxonomy to cover nature-related risks and opportunities is particularly important in Australia given our unique ecosystems, and the cultural significance they represent to First Nations people. Incorporating nature in the taxonomy will assist investors to identify nature-related risks and opportunities.

Social objectives and first nations rights and perspectives should be embedded in the taxonomy by ensuring well-defined objectives and standards are outlined through the Do No Significant Harm criteria and Minimum Social Safeguards.

What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?

To ensure the task of continuously developing and reviewing/refreshing the taxonomy is managed effectively, Treasury should consider maintaining the Australian Sustainable Finance Initiative (ASFI) as a permanent institution. ASFI would also be well placed to work with regulators to ensure the taxonomy is appropriately supported by the broader regulatory framework.

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?

To align with best practice net zero transition planning, Treasury should continue the work underway to develop credible, science-based sector decarbonisation plans and enhancing the capability and standardisation of scenario planning.

Treasury should prioritise the development of detailed entity transition plan guidance, as opposed to this being a medium-term objective. While some Australian companies are producing standalone transition plans or incorporating relevant elements in their reporting, much of the disclosure of company transition plans is inconsistent, lacking adequate detail and therefore not meeting investor needs.

To address these gaps, we recommend that Treasury issue detailed guidance outlining the expectations for a credible entity transition plan, including minimum requirements for elements of the plan as well as disclosure of the plan. The UK Transition Plan Taskforce sector pathways provide a 'gold standard' example. Alternatively, the IFRS S2 Climate-related Disclosures baseline requirements for transition plans, provides valuable guidance near term.

Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?

The ISSB climate disclosure standards (S2) should be considered with the complementary sustainability framework (S1). Treating either standard in isolation fails to appreciate the interconnected nature of climate and sustainability. Protecting nature and maintaining ecosystem services is necessary for meeting climate change goals.

Ecology and biodiversity, water dependence and availability, natural resource protection and the circular economy will all play a role in climate mitigation and adaptation and should all be factored into a company's transition planning. Workforce planning, community engagement and 'social license' considerations, which are key enablers for the transition, should also be considered.

In addition to climate change, we note that the Government is progressing reforms in the closely interrelated areas of nature and circular economy, through the Nature Positive Plan and Circular Economy Ministerial Advisory Group. We recommend that developments in the broader regulatory environment are considered when developing guidance on transition planning.

Priority 4: Develop a labelling system for investment products marketed as sustainable

AustralianSuper supports the Government's intention to develop an investment product labelling and disclosure regime for Australia, as it will provide investors and consumers with more consistent information about the product's sustainability characteristics and assist with product selection and alignment. To avoid confusion, the labelling system should be consistent with the taxonomy.

The labelling system requirements should include clear naming guidelines, descriptions, sustainability objectives, minimum thresholds, transparent methodology, KPIs and progress to objectives. We also agree with our investor collaborative bodies that a labelling system should consider the role of stewardship in driving a company's transition.

Pillar 2: Financial system capabilities

Priority 7: Addressing data and analytical challenges

AustralianSuper is pleased to see Treasury acknowledge many of the challenges associated with climate and sustainability data and we support the need for a detailed assessment by the Council of Financial Regulators (CFR). However, we note that the proposed timeline for recommendations (end 2024) is not ideal for companies and/or investors who will need to commence preparation for the Treasury's proposed Group 1 reporting deadline of FY25.

We also encourage further consultation with the financial and corporate sector on data challenges and gaps, including scope 3 emissions, climate scenarios, physical climate change, nature related risks and the standardisation and widespread disclosure and availability of the full range of sustainability metrics.[2] We share the concerns raised by the Australian Council of Superannuation Investors (ACSI) that even when data does exist, it is not easily accessible and is housed in various locations. We encourage Treasury to work with third party data providers to build a centralised data system to centralise core sustainability metrics.

In order to sufficiently address data and analytical challenges, we encourage Treasury and the CFR to consider a dedicated request for feedback from companies and investors, focused purely on data as part of the sustainability data consultation and review scheduled for 2024.

With regards to work already underway:

- The Australian Government has supported the development of the TNFD framework. We recommend Treasury encourage and support its adoption by corporates, so that financial institutions will over time have access to the information that will underpin the assessment of their portfolio nature related risks and opportunities.
- Investment in high quality climate information and services, including physical risks to support climate adaptation should continue. We note this information will need to be suitable for companies to conduct risk assessments and develop risk mitigation and adaptation plans, as well as support investors to conduct portfolio risk assessments spanning large numbers of companies, sectors and regions.

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?

Regulatory requirements should be consistent across all relevant bodies – and sustainability risks should be integrated into existing frameworks, with sufficient resources provided to upskill regulator and financial market participants. While existing regulatory and governance frameworks are adequate to support the integration of sustainability-related issues in financial decision-making, revisions or additions would help remove areas of misalignment and confusion, and take better account of systemic factors which effect the overall health, stability and sustainability of the wider economy.

What steps could the Government or regulators take to support effective investor stewardship?

The transition to net zero will require investors to:

[2] The Sustainability Accounting Standards Boards lists material sustainability issues and metrics for 77 industry sectors.

1. Allocate capital to sectors, industries and companies that are developing new products and services aimed at meeting decarbonisation and sustainability challenges,
2. Engage existing companies in their portfolios and support them through the decarbonisation.

Stewardship has become increasingly recognised as the core strategy investors must use to transition the vast majority of the existing portfolio, to maintain and protect long term value, in members' best financial interests. Consistent with the transition category in the taxonomy, stewardship should be recognised as contributing to the transition. It should be formally incorporated into the Sustainable Finance Strategy, and proposed investment product labelling standards.

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?

AustralianSuper supports the Federal Government issuing Green Bonds as part of the commitment to accelerating sustainable finance and the net zero transition. A Commonwealth Green Bond could potentially be a primary financing mechanism for attracting Australian and global investor funding to support Australia's domestic transition. As such 'use of proceeds' should target sectors and activities that present systemic risks and opportunities for Australia as it transitions and be clearly defined in and linked to taxonomy-eligible activities.

Where green bond proceeds are permitted to support transition activities, i.e., mining and power generation sectors, we echo the PRI's comments that appropriate safeguards be included to deliver real world emissions reductions and avoid the 'lock in' of fossil fuels. Existing Green Bond standards, principles and methodologies[3] can provide a reference in the near term.

Priority 11: Promoting international alignment

What are the key priorities for Australia when considering international alignment in sustainable finance?

It is important that Australia maintains pace with sustainability regulations in other advanced markets, to ensure that Australia remains an attractive market for overseas capital.

International adoption and alignment should be on a fit for purpose basis and reflect the intent of the ISSB Standards to provide information to capital markets. ISSB has stated very clearly that the framework has not been designed to be applicable to asset owners (who are deemed users of information, not preparers).

[3] See Climate Bond Initiative's Green Bond Methodology

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?

Currently, a key challenge is not a lack of capital, but rather a shortage of good quality investment opportunities. We support the Government's ambition for Australia to be a global leader on renewables. Australia has multiple comparative advantages when it comes to the transition, ranging from its landmass to reserves of critical minerals. The Inflation Reduction Act in the US and other world-leading climate industry packages, such as those in Canada and the Republic of Korea, are drawing transition investment away from Australia. Australia needs to match these policies on ambition while ensuring our response is proportionate and Australia-specific, based on our sector plans.

We recognise recent developments, such as the expansion of the Capacity Investment Scheme which will provide greater revenue predictability for investors in renewable generation and battery projects. Further investment opportunities exist in the needed transformation of our electricity system, including greater investment in transmission, batteries, and generation; and transport, including the development of electrical vehicle charging infrastructure. Superannuation funds should also focus on their existing portfolios and the opportunities that may sit within their portfolio companies or assets as they achieve their own net zero targets.

We welcome the Government’s recently established Net Zero Economy Authority, and its role in investment facilitation, including coordinating relevant policy settings, and aggregating investment opportunities to a sufficient scale to channel support to regional Australia. To ensure a just transition, the Net Zero Economy Authority should assist workers transitioning out of carbon-intensive industries.