

Sustainable Finance Strategy

Consultation Submission

The Australian Government The Treasury (Treasury)

24 November 2023

I. About Altius Asset Management

Altius Asset Management (Altius) is a leading financial institution committed to sustainable and responsible investing in the area of Australian cash and bonds, launching Australia's first green bond fund in 2020. With a focus on delivering long-term value to our clients, we recognize the crucial role of sustainable finance in mitigating climate and sustainability-related risks while unlocking opportunities for a more resilient future. Altius aligns its investment strategies with environmental, social, and governance (ESG) considerations, aiming to contribute positively to the global transition toward a sustainable economy.

II. Introduction

Altius commends the Australian Government Treasury for its efforts in formulating the Sustainable Finance Strategy, recognizing it as a critical step toward establishing a robust policy architecture to address climate and sustainability-related risks and opportunities. This submission aims to express Altius's endorsement of the Australian Sustainable Finance Institute's (ASFI) position and provide additional insights and recommendations to further strengthen the proposed strategy.

III. Endorsement of ASFI Position

Altius wholeheartedly endorses ASFI's submission, emphasizing the significance of the draft Strategy in aligning Australia with global sustainable finance developments. Rapid implementation of this Strategy is essential not only to bringing Australia in line with international standards but also to facilitating access to global capital. Altius believes that this proactive stance will enable Australia to play a leading role in shaping global frameworks that align with our national interests.

IV. Agreement with ASFI's Key Recommendations

Altius aligns itself with ASFI's support for the Government's proposed approach to focus on climate-related reforms initially, while providing a platform to address broader sustainability issues over time, including nature and biodiversity, and First Nations perspectives and outcomes. This phased approach demonstrates a commitment to addressing immediate climate concerns while laying the foundation for comprehensive sustainability initiatives.

V. Key Principles

Altius concurs with ASFI on the identification of key principles outlined in the draft Strategy:

Inter-operability: Emphasizing the need for seamless collaboration and information exchange among various stakeholders to enhance the effectiveness of sustainable finance initiatives, including appropriate alignment with relevant developments in the EU, the UK, New Zealand and elsewhere.

Ambition: Encouraging ambitious targets and strategies that go beyond mere compliance, and fostering innovation and sustainable development.

Alignment with Australia's Net Zero Transition: Recognizing the importance of sustainable finance in supporting Australia's commitment to a net-zero future and ensuring that financial activities contribute to a low-carbon economy.

Sensible Staging of Reforms: Advocating for a phased and strategic implementation of reforms to ensure a smooth transition for all stakeholders and to minimize disruptions.

Simplicity and Useability: Emphasizing the need for clear and user-friendly frameworks that encourage widespread adoption and participation across the financial sector.

Cross-Sector Collaboration and Shared Responsibility: Acknowledging that achieving sustainability goals requires collaboration across sectors, with shared responsibility among government, businesses, and the community.

Proposed Priorities

Pillar 1 – Improve transparency on climate and sustainability

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

Altius agrees that the introduction of mandatory climate-related disclosure requirements for large Australian businesses is a vital element of informed markets and welcomes the following disclosures made via the consultation paper:

The foundations upon which the Strategy is based, specifically:

To ensure “markets have access to high-quality, credible and comparable information that will enable them to assess both the financial risks that climate change and other sustainability issues present to firms, and the impact of firms on the climate and environment”; and

“Improving the transparency and consistency of sustainability and climate-related information is the foundational priority for this Strategy. The Government’s ambition is to support a marketplace where sustainability-related risks, opportunities, impacts and plans can be identified clearly, communicated confidently, and readily compared and understood”.

The overarching objective of the Strategy, specifically:

“Ensuring climate and sustainability-related opportunities and risks are well-understood and managed at the entity and systemic level”.

Altius also agrees with ASFI that “there is an important role for Government to help build capability and support implementation for climate-related disclosures. Capability needs to be

deepened in sustainable finance and climate professionals in financial institutions and other businesses, including in technical areas such as climate risk assessment, scenario analysis and carbon accounting. To support climate disclosures to be implemented meaningfully, it is also important to raise the level of basic understanding of climate and sustainability across organisations” as well as “the Strategy’s proposal to adopt global sustainability reporting standards as they are developed. This will ensure Australia keeps pace with global developments and support Australian businesses to manage sustainability related risks and opportunities”.

Priority 2: Develop a sustainable finance taxonomy

Altius also endorses the ASFI position that during the initial development phase of the Australian taxonomy, the taxonomy will have no formal regulatory status but that “over time, it would be appropriate to shift to a mandatory use of the taxonomy in certain areas. In particular: where entities (financial and other corporate) make claims related to sustainability objectives covered by the taxonomy, those entities should be required to substantiate those claims by reference to the taxonomy”.

An unprecedented funding requirement is in prospect for Australia to transform its economy to net zero. As such, Altius as a sustainable debt manager and investor agrees the taxonomy should:

- “mobilise capital to those activities that will decarbonise the economy at the speed and scale required to reach our global climate goals; and present the highest value investment opportunities in a net zero emissions world; and
- improve the quality of market information to ensure sustainability definitions are credible, comparable and easy for investors, lenders, and regulators to use to counter the rise of greenwashing, ensure transparency and promote trust in the sustainable finance market”.

Altius also agrees with ASFI that “green asset, green lending, and green investment ratio assessments are an effective way for regulators to assess whether a financial entities’ interim and long-term climate and other sustainability targets, and sustainability claims are aligned with its broader strategy and that the taxonomy could be used as key input to a labelling system for sustainable investment products”.

Altius also commends the recommendation that the Australian Sovereign Green Bond Framework and use of proceeds from the issuance of the first Sovereign Green Bond be aligned with the taxonomy. In addition, should a future voluntary Green Bond Standard be developed, the taxonomy could be used to inform the framework for use of proceeds of bonds and potentially sustainability linked bonds. Sub-sovereign green bond frameworks potentially may be likewise aligned with the taxonomy. We also agree further leadership from the government would be demonstrated by “public investment vehicles including the Clean Energy Finance Corporation (CEFC) and National Reconstruction Fund, the Housing Australia Future Fund could use the taxonomy as a screen in its investment decisions, to help classify sustainable investments”.

We also support a phased approach to expanding the taxonomy to ultimately include “technical criteria for key activities that promote all the sustainability objectives of mitigation, climate

adaptation and resilience, environmental management, and the transition to a circular economy; and embed key social objectives”.

Priority 3: Support credible net zero transition planning

Altius also supports the suggestion that ASIC release its expectations and priorities regarding disclosure of transition related targets, plans and claims, and for the government to conduct consultation in 2024 with industry and other stakeholders to consider options for strengthening transition planning. We note the role that the taxonomy could play in providing useful information to entities as they set their climate targets and develop their transition plans.

In addition to the ASFI recommendations, Altius would recommend consideration of the incorporation of guidance from the United Nations High-Level Expert Group², which notes certain disqualifications from making net zero emissions commitments and claims.

These include:

- Non-state actors cannot claim to be net zero while continuing to build or invest in new fossil fuel supply. Similarly, deforestation and other environmentally destructive activities are disqualifying.
- Non-state actors cannot buy cheap credits that often lack integrity instead of immediately cutting their own emissions across their value chain.
- Non-state actors cannot focus on reducing the intensity of their emissions rather than their absolute emissions or tackling only a part of their emissions rather than their full value chain (scopes 1, 2 and 3).
- A net zero pledge must be a commitment by the entire entity, made in public by the leadership, and be reflective of the city, region, or corporation’s fair share of the needed global climate mitigation.
- A net zero pledge must contain steppingstone targets for every five years, and set out concrete ways to reach net zero in line with the Intergovernmental Panel on Climate Change (IPCC) or International Energy Agency (IEA) net zero greenhouse gas (GHG) emissions modelled pathways that limit warming to 1.5°C with no or limited overshoot.
- Non-state actors must publicly share their comprehensive net zero transition plans detailing what they will do to meet all targets, align governance and incentivise structures, capital expenditures, research and development, skills and human resource development, and public advocacy, while also supporting a just transition.

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

Altius welcomes the ASFI position in supporting the Strategy Paper’s proposal to “develop a sustainability labelling scheme as way to validate sustainability related claims and promote consumer trust and confidence. A robust labelling scheme will help address and deter greenwashing and build consumer trust in sustainable investment products, ultimately supporting the growth of sustainable markets”.

Alignment and harmonisation with major international labelling schemes is also a sensible approach given the globally integrated finance sector. We strongly agree that “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”.

Other key ASFI recommendations endorse by Altius

ASFI note that “the primary barrier to increasing private sector engagement in blended finance opportunities is the lack of blended finance opportunities that are appropriately structured to reflect the strategic and risk/return requirements of Australian institutional capital.”

This is very much the Altius experience – sustainable or green debt holdings need to be a core component of a balanced superannuation fund, SMSF or other savings product; not a specialised or satellite “impact” allocation.

Therefore, to provide sustainable finance at scale, debt funding needs to be transformed at volume (initially or subsequently) into liquid, investment grade publicly traded securities.

ASFI notes this can be done via:

- 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).

VII. Conclusion

In conclusion, Altius supports the rapid implementation of the Sustainable Finance Strategy, as it not only aligns Australia with global developments but also positions the nation as a leader in shaping international frameworks. By endorsing ASFI’s recommendations and aligning with key principles, Altius emphasizes the importance of inter-operability, ambition, alignment with net zero goals, sensible staging, simplicity, and cross-sector collaboration. Altius is committed to actively contributing to the success of the Sustainable Finance Strategy and stands ready to collaborate with the government, industry stakeholders, and the broader community to foster a resilient and sustainable future for Australia.