

08/12/2023

Submission to the consultation on the Sustainable Finance Strategy

The Australian Conservation Foundation (ACF) welcomes the opportunity to provide a submission to The Treasury's consultation on the proposed Sustainable Finance Strategy for Australia.

ACF is Australia's national environment organisation. We are over half a million people who speak out for the air we breathe, the water we drink, and the places and wildlife we love. We are proudly independent, non-partisan and funded by donations from our community.

With our abundant sun, wind, and mineral resources, Australia is uniquely positioned to seize the opportunities of the global energy and nature transition. However, Australia risks being left behind if it does not create the economic conditions to attract international investment and provide investors with confidence to redirect capital flows towards sustainable activities. Australian investors are already beginning to look elsewhere for investment opportunities, committing billions of dollars to renewable investments abroad, that could be used to kick start Australia's domestic renewable industry.¹

ACF supports the priorities outlined in the strategy which will enable capital to flow towards activities needed to support the achievement of the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework. Our response focuses on the need to rapidly expand coverage of the strategy to address the nature crisis in all its dimensions and on the opportunities to harness private capital and resources to meet critical global sustainability goals.

Summary of Key Recommendations

Recommendation 1: The Government should commit to the introduction and phased implementation of nature-related financial disclosures in the coming year and ensure that sustainability-related disclosures require a best practice, double-materiality approach so that risks are completely identified and reported.

¹ Murphy, K, (2023), 'Australian Super fund puts billions into backing Britain's energy transition', The Guardian, at: <https://www.theguardian.com/australia-news/2023/nov/27/australian-super-fund-puts-billions-into-backing-britains-energy-transition>



Recommendation 2: The Government should exclude activities involving the combustion of natural gas and nuclear energy from the Taxonomy to avoid diminishing credibility and usefulness of the Taxonomy.

Recommendation 3: The Government should adopt entity-level screening criteria in addition to activity-level criteria for companies receiving transition finance to ensure that those entities have a transition plan that is in line with a 1.5°C pathway.

Recommendation 4: The Government should review the membership of the Taxonomy Technical Expert Group in order to ensure that there is balanced representation between independent academics and civil society experts, industry representatives and government or regulatory agencies.

Recommendation 5: The Taxonomy should address both mitigation and adaptation activities, as well as activities that address Australia's nature crisis in a timely manner.

Recommendation 6: The Government should align its guidance on transition plans with the guidance of the Transition Plan Taskforce in order to ensure that transition plans are holistic and consider alignment with a 1.5°C pathway, implementation strategy including capital allocation, and governance including capacity and capabilities.

Recommendation 7: ACF supports the Government's commitment to publish country-specific and sector-based transition pathways. Pathways should be designed in close consultation with the Climate Change Authority and be aligned with pursuing efforts of limiting warming to 1.5°C and Australia's fair share of the global carbon budget under the Paris Agreement.

Recommendation 8: Building upon the implementation of nature-related financial disclosures outlined in Recommendation 1, transition plans should be required to detail corporate strategy to address biodiversity risks, reduce adverse impacts and enhance positive impacts on biodiversity in alignment with relevant global and national goals.

Recommendation 9: The Government should assist ASIC in defining greenwashing that relates to net zero commitments by establishing standards that build on international best practice, including as defined by the UN High-Level Expert Group on Net Zero Commitments by Non-State Actors (HLEG).

Recommendation 10: Treasury should work with the Council of Financial Regulators and the Network for Greening the Financial System to strengthen regulation of credit rating agencies in order to require them to incorporate climate and nature-related risks into credit risk assessments.

Recommendation 11: APRA should work with the Reserve Bank to enhance the rigour of climate risk assessments. This could include the use of a wider variety of stress-tests and sensitivity analyses, and the disclosure of model limitations including any inabilities to account for compounding, coincident or cascading risks.



Recommendation 12: The Government should publish a Nature Dependency Statement on a regular basis quantifying the economic dependency of the economy and specified industry sectors on ecosystem services, and the projected availability of ecosystem services under specified scenarios.

Recommendation 13: The Environmental Information Agency should be resourced to publish a national land-use register that is based on and improves on Queensland's SLATS and develop a strategy to publish comprehensive ecosystem accounts using the System of Environmental-Economic Accounting framework.

Recommendation 14: The Government should initiate a review of the Corporations Act to ensure that it is fit for purpose, aligns private interests with public interests, and meets the needs of all company stakeholders, including universal owners' need to address systemic environmental risks, communities, and environmental and civil society organisations.

Recommendation 15: The Government's review of the Your Future, Your Super performance test benchmarks should ensure that the performance test incentivises rather than deters investment in Australia's energy transition and assists in meeting renewable energy targets.

Recommendation 16: ASIC should update RG 128 to clarify the role of publicly facing stewardship activities that are aligned with achieving ESG outcomes, to align this with expectations from APRA's CGP 530.

Recommendation 17: APRA should update regulatory guidance to encourage transparent stewardship reporting, and ASIC should issue guidance on fair, reasonable and balanced stewardship reporting.

Recommendation 18: Maintain the renewable energy focus of the Clean Energy Finance Corporation (CEFC) and the Australian Renewable Energy Agency (ARENA), doubling the pool of investment capital for the CEFC and increasing ARENA's funding by at least \$2 billion.

Recommendation 19: The Government should commit a time-bound 10-year \$100 billion in public investment in an Australian Renewable Industry Plan in order to be able to competitively compete with value-adding industries in the US, the EU, and Japan, and to reduce emissions and create co-benefits such as increased employment and revenue.



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

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

ACF encourages the Government to commit to the introduction and phased implementation of mandatory nature-related financial disclosures in the coming year. The Taskforce on Nature-related Financial Disclosures (TNFD) recommendations were released in September 2023, the Science-based Targets initiative released science based targets for nature in May 2023, the Global Sustainability Standards Board is expected to approve the Global Reporting Initiative Biodiversity Standard in Q4 2023, and the International Financial Reporting Standards has indicated that it plans to incorporate TNFD recommendations into future iterations of the International Sustainability Standards Board standards.

In addition to the development of the above standards, the Kunming-Montreal Global Biodiversity Framework requires signatories to “align public and private activities, and fiscal and financial flows with the goals and targets of [the] framework” (Target 14) and require large businesses and financial institutions to “transparently disclose their risks, dependencies and impacts on biodiversity... along their... supply and value chains, and portfolios” (Target 15, emphasis added).²

While ACF recognises that international standards have only recently been finalised for nature, the scale and gravity of the global nature crisis creates an imperative for action – Australia and the world cannot afford to take action to end nature destruction at the same painstakingly slow pace and scale that action on climate has taken over recent decades. The Australian Government has a critical role to play in encouraging, and soon after, mandating the adoption of nature related disclosures and targets across the economy.

ACF believes that the Australian Government can, and should, become an early adopter of mandatory nature-related disclosures and, in doing so, can position Australia as a global leader in taking action to protect and restore nature. ACF recommends that the Government act now to commit to a phased implementation of nature-related risk reporting. This would begin with a voluntary reporting scheme supported by the Australian government through education and resourcing, followed by the gradual implementation of mandatory reporting as frameworks and data become more available and understood.

It is anticipated that the timeline for nature-related disclosures will be considerably faster given that the basis has been established by the climate-related financial disclosure and international frameworks have been developed. The

² Convention on biological diversity, (2022), Kunming-Montreal Global Biodiversity Framework, at: <https://www.cbd.int/gbf/targets/>



Government should adopt the lessons learnt from the TCFD and move quickly to begin implementation of the TNFD, through a phased approach, including by committing to a course of action within the next calendar year.

Further, when it comes to nature-related financial disclosures, a double materiality approach is essential for the appropriate identification and management of impacts, dependencies, risks and opportunities. Each company will have unique impacts on the environment and society in which it operates. Prolonged and unmitigated impacts on nature, if not financially material already, are expected to become financially material over time. Therefore, ACF agrees with Treasury's statement that disclosure standards should enable consumers, investors, and regulators 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."

ACF strongly recommends that the Treasury adopt a double materiality approach for subsequent nature-related disclosures. ACF notes that global environmental frameworks have always tended to converge towards best practice over time. With this in mind, adopting a double materiality approach early would avoid the need for companies to change their reporting practices multiple times. ACF recommends that the Treasury promotes the application of a double materiality method in climate-related disclosures to encourage entities to take a long-term view of their business' impacts. Promotion of a double materiality approach now, will also ensure that the method is well accepted and understood in advance of the implementation of nature-related disclosures.

Recommendation 1: The Government should commit to the introduction and phased implementation of nature-related financial disclosures in the coming year and ensure that sustainability-related disclosures require a best practice, double-materiality approach so that risks are completely identified and reported.



Priority 2: Develop a Sustainable Finance Taxonomy

1. *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?*

ACF welcomes Treasury's desire to learn from the experiences of other jurisdictions. International experience demonstrates that Australia's sustainable finance taxonomy will only help to attract the finance needed for the climate transition and the nature transition insofar that the taxonomy is credible and retains high integrity. For example, the EU sustainable finance taxonomy is currently the subject of litigation by both environmental groups and a state party due to its inclusion of activities including the combustion of natural gas, an emissions-intensive fuel, and nuclear activities, that have severe negative environmental impacts throughout the full lifecycle. Such activities have other forms of capital available to them and do not require sustainable-labelled finance.

Moreover, the Australian Sustainable Finance Institute has indicated that it is prioritising the development of science-based transition criteria for the minerals, mining and metals sector. ACF supports the adoption of entity-level screen criteria in addition to activity-level criteria to ensure that transition finance flows towards companies genuinely pursuing transformation in line with a 1.5°C aligned transition plan which does not rely on offsets to meet interim targets.

Lastly, the Treasury must ensure that there is sufficient rigour within the Taxonomy Technical Expert Group (TTEG) to safeguard the credibility and industry acceptance of the Taxonomy. Without balanced representation from independent experts, the Taxonomy risks the ability to ensure that capital flows towards genuinely Paris-aligned and Kunming-Montreal-aligned activities. Therefore, it is imperative that members of the TTEG reflect even representation from academia, civil society, industry, government, and regulatory agencies.

Recommendation 2: The Government should exclude activities involving the combustion of natural gas and nuclear energy from the Taxonomy to avoid diminishing credibility and usefulness of the Taxonomy.

Recommendation 3: The Government should adopt entity-level screening criteria in addition to activity-level criteria for companies receiving transition finance to ensure that those entities have a transition plan that is in line with a 1.5°C pathway.

Recommendation 4: The Government should review the membership of the Taxonomy Technical Expert Group in order to ensure that there is balanced representation between independent academics and civil society experts, industry representatives and government or regulatory agencies.



2. *What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?*

As indicated, the Australian sustainable finance taxonomy will initially focus on climate mitigation objectives in key sectors. According to the latest assessment report by the Intergovernmental Panel on Climate Change (IPCC), current levels of investment in climate change mitigation need to increase between three and six times to meet average annual needs between 2020 and 2030, if we are to limit warming to 1.5°C.³ Once the technical screening criteria are developed for activities meeting this primary objective, it is recommended that the taxonomy be expanded to cover climate adaptation measures and broader environmental objectives. Examples of these objectives and a rationale for their inclusion are detailed below.

1. Urgently address the nature crisis in all its dimensions

Beyond climate mitigation or adaptation activities, the sustainable finance taxonomy should cover broader environmental objectives, noting that climate change is just one of nine planetary boundaries, six of which have been transgressed.⁴ The sustainable finance strategy and taxonomy should urgently be expanded to cover other nature-related matters starting with those transgressed boundaries, including biosphere integrity (biodiversity and its interplay with earth systems), land system change, fresh water, biogeochemical flows (nitrogen and phosphorus pollution), and novel entities (including harmful chemicals and plastic pollution).

Expanding the scope of sustainable finance to cover broader environmental objectives is important because biodiversity loss, resource depletion and pollution create their own risks to the economy through degradation of natural capital and the availability of ecosystem services and are all interconnected with climate change. Addressing these issues holistically can lead to more comprehensive environmental solutions and foster innovation. Currently nature related impacts are proposed to be dealt with in the taxonomy under the heading of 'do no significant harm' however nature related risks and their management warrant independent treatment within the 'technical screening criteria' sooner rather than later.

2. Inclusion of Climate Adaptation Measures

Following the initial focus on climate mitigation, it is crucial to incorporate eligibility criteria for climate adaptation activities. Currently, 90 per cent of climate finance is directed towards mitigation actions, despite the strong economic

³ UNDP, 'What is climate finance and why do we need more of it?', (2023), at: <https://climatepromise.undp.org/news-and-stories/what-climate-finance-and-why-do-we-need-more-it#:~:text=According%20to%20the%20latest%20assessment,2%C2%B0C%20or%20below>.

⁴ Stockholm Resilience Centre, 'Planetary Boundaries', (2023), at: <https://www.stockholmresilience.org/research/planetary-boundaries.html>



rationale and need to invest in adaptation. Mitigation activities, while crucial, are only one part of the response needed.⁵ Climate change impacts are already occurring and are expected to intensify. Therefore, adaptation measures are essential to reduce the vulnerability of communities and ecosystems to climate change impacts caused by sea level rise, extreme weather events or biodiversity loss. Financing adaptation projects is not just about resilience; it's a necessary investment in the continued functionality of societies and economies in the face of inevitable environmental changes.

Recommendation 5: The Taxonomy should address both mitigation and adaptation activities, as well as activities that address Australia's nature crisis in a timely manner.

⁵ UNDP, 'What is climate finance and why do we need more of it?', (2023), at: <https://climatepromise.undp.org/news-and-stories/what-climate-finance-and-why-do-we-need-more-it#:~:text=According%20to%20the%20latest%20assessment,2%C2%B0C%20or%20below.>



Priority 3: Support credible net zero transition planning

1. *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?*

Transition planning frameworks need to be holistic and able to assess alignment with a 1.5°C pathway, the strategy for implementation including capital allocation, and governance including capacity and capabilities. ACF recommends that the Government should seek to align transition plans as closely as possible to the Transition Planning Taskforce recommendations. In our experience, ASX-listed companies in need of transition plans aligned to the Paris and Kunming-Montreal Agreements have historically struggled to do so due to poor governance and insufficient diversity of skills at a board and executive level. Additionally, many companies with high Scope 3 emissions incentivise management to pursue business strategies that increase greenhouse-gas emissions, which challenges their ability to transition. Therefore, it is important that public guidance on transition plans be aligned with best practice, such as the TPT which has explicit ambition, action and accountability requirements.⁶

Moreover, it is not yet well understood that the Paris Agreement requires parties to adopt the principle of “common but differentiated responsibilities and respective capabilities”, which means that countries with high historic cumulative emissions, greater wealth and greater renewable energy opportunities have a smaller relative share of the global carbon budget and can and should decarbonise faster than emerging economies, in order to achieve the global goal. Likewise, some sectors like electricity and transport will be able to decarbonise faster than the rest of the economy. It is important that any guidance on sector-based targets recognise Australia’s unique opportunities and responsibilities.

Recommendation 6: The Government should align its guidance on transition plans with the guidance of the Transition Plan Taskforce in order to ensure that transition plans are holistic and consider alignment with a 1.5°C pathway, implementation strategy including capital allocation, and governance including capacity and capabilities.

Recommendation 7: ACF supports the Government’s commitment to publish country-specific and sector-based transition pathways. Pathways should be designed in close consultation with the Climate Change Authority and be aligned with pursuing efforts of limiting warming to 1.5 degrees and Australia’s fair share of the global carbon budget under the Paris Agreement.

⁶ Transition Plan Taskforce, The TPT Recommendations, (2023), at: <https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT-Summary-Recommendations.pdf>



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2. *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?*

While most large companies are already close to alignment with ISSB or GRI disclosure requirements, clear expectations from mandatory disclosure will assist in promoting transparency, credibility, and comparability of corporate transition plans, especially if alignment is assessed in relation to country-specific, sector-based scenarios that build on credible pathways such as the IPCC S1, IPCC S2 or the IEA NZ2050 scenario.

The disclosure of scope 1, 2 and 3 emissions through the mandatory ISSB-aligned corporate disclosure requirements will improve transparency of the total climate impact of companies. However, beyond the mandatory disclosure requirements, it is recommended that the government develop supplementary country-specific sector-based transition pathways, against which emissions can be compared to. The publication of such pathways will ensure that companies who are not reducing their emissions in line with the required pathway can be held accountable.

So far, ISSB is yet to address the needs of all the users of corporate disclosures and primarily focuses on the needs of investors rather than the needs of consumers and consumer advocates, environmental and civil society organisations, and society more broadly. Additionally, ISSB is not yet mature in relation to nature-related risks. Nature-related disclosures will need to be location-specific, and more transparent and comprehensive environmental data reporting will assist companies, investors, and the general public in disclosing and managing nature-related risks and opportunities.

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

The Network for Greening the Financial System acknowledges that damage to nature and conversely actions to protect and restore nature, will affect human wellbeing and financial stability.⁷ And because of Australia's fragile ecosystems and highly exposed industry sectors, aligning all public and private financial flows with the goals and targets of the Kunming-Montreal Global Biodiversity Framework, is arguably more urgent for Australia than for most countries, from a risk and opportunity perspective.

As mentioned above, the government should commit to the implementation and phased introduction of nature-related financial disclosures in the coming year. The implementation of nature-related disclosures will support the

⁷ Network for Greening the Financial System, 'Nature-related Financial Risks: a Conceptual Framework to guide Action by Central Banks and Supervisors', (2023), at: https://www.ngfs.net/sites/default/files/medias/documents/ngfs_conceptual-framework-on-nature-related-risks.pdf



integration of nature and biodiversity risks into transition planning and target setting for nature. Climate and nature-related risks are interconnected and must be considered together within company's transition plans. Transition plans should also be required to detail corporate strategy to address biodiversity risks, reduce adverse impacts and enhance positive impacts on biodiversity in alignment with relevant global and national goals.

Recommendation 8: Building upon the implementation of nature-related financial disclosures outlined in Recommendation 1, transition plans should be required to detail corporate strategy to address biodiversity risks, reduce adverse impacts and enhance positive impacts on biodiversity in alignment with relevant global and national goals.



Priority 5: Enhancing market supervision and enforcement.

1. *Are Australia's existing corporations and financial services laws sufficiently flexible to address greenwashing? What are the priorities for addressing greenwashing?*

Currently, nearly 75 per cent of the ASX 200 by market capitalisation is now covered by firm-level net zero commitments.⁸ Despite the genuine commitment by some, there are too many examples of net-zero commitments which lack integrity. This form of greenwashing undermines the level of climate action needed in this crucial decade by creating a false impression of environmental responsibility, thereby misleading consumers, investors, the public and regulators on the actions taken by companies to reduce emissions. This has a broader impact on society as emissions are not being reduced at the pace needed to ensure a safe operating space for humanity.

The UN High Level Expert Group on Net-zero Commitments (HLEG) has set out ten recommendations for robust net-zero commitments. This includes, for example, that commitments must cover their full value chain (scope 1, 2 and 3) emissions and that carbon credits cannot be used to offset emissions to achieve short-term emissions targets on a net-zero pathway.⁹ It also includes a requirement for companies making net zero commitments to adopt a no deforestation target, and to ensure all new energy sector expenditure is aligned with climate outcomes.

ACF recommends that the Federal Government to prioritise the establishment of standards for net-zero comments which build upon existing international best practice (UN HLEG) and are. This will create a framework for net zero pledges can be assessed and provide a basis for increased regulatory scrutiny from ASIC. This will be supported by the Government's commitment to publish credible sectoral pathways to support net-zero commitments.

ACF is also encouraged by ASIC's recent comments about the problems caused by green-hushing and the risk that companies will lower their ambition or reduce transparency due to a desire to avoid adverse greenwashing enforcement outcomes. This is particularly a problem in relation to stewardship claims by institutional investors, since the academic research suggests that stewardship is most effective when it is bold, visible and occurs ahead of Annual General Meetings. It also impairs the rights that beneficiaries are legally entitled to in understanding whether funds are being properly managed to address systemic risks caused by climate change and nature loss.

⁸ Australian Council of Superannuation Investors, 'Promises, pathways & performance – climate change disclosure in the ASX200', (2023), accessed 18 October 2023, at: <https://acsi.org.au/research-reports/promises-pathways-and-performance-climate-change-disclosure-in-the-asx200/>

⁹ United Nations, 'Integrity Matters: Net-zero commitments by businesses, financial institutions, cities and regions, (2022), at: https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf



ASIC may require additional powers beyond the false and misleading provisions in the Corporations Act to address the specific harms posed by greenhushing. While APRA has issued some guidance in relation to stewardship in CPG530, Treasury may wish to consider mandating an enhanced version of the Australian Stewardship Code.

Recommendation 9: The Government should assist ASIC in defining greenwashing that relates to net zero commitments by establishing standards that build on international best practice, including as defined by the UN High-Level Expert Group on Net Zero Commitments by Non-State Actors (HLEG).

2. *Is there a case for regulating ESG ratings as financial services?*

Given an increasing number of investors are factoring ESG ratings into their investment decisions, we agree in principle that there is a case for regulating ESG ratings as financial services. There is presently a lack of transparency around the methodologies used by ESG ratings agencies, and often companies with significant and growing environmental impacts receive favourable scores from ESG ratings agencies.

A greater concern is the insufficient incorporation of physical and transition risk assessments into credit ratings. This has led to capital being misallocated to companies that are ill-prepared for alignment with the Paris Agreement and are at high risk of owning stranded assets. We would encourage Treasury to work with the Council of Financial Regulators and the Network for Greening the Financial System to strengthen regulation of credit risk agencies in order to require them to incorporate assessment of climate and nature risks.

Recommendation 10: Treasury should work with the Council of Financial Regulators and the Network for Greening the Financial System to strengthen regulation of credit rating agencies in order to require them to incorporate climate and nature-related risks into credit risk assessments.



Priority 6: Identifying and responding to potential systemic financial risks.

1. *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?*

ACF is encouraged by the Government's and the Council of Financial Regulators' increasing focus on understanding systemic financial risks posed by the climate and nature crises. We believe it is important when communicating the assessment of these risks that limitations inherent in the models used are also identified and clearly spelt out to financial market participants.

At present, large discrepancies exist between the finding and outcomes of proprietary models such as those used by Australian banks, and the findings outlined in modelling by leading scientific consensus, such as is outlined in the recent joint IPCC-IPBES report.¹⁰ The gulf between the findings of proprietary models and leading science is a significant concern and indicates the need for more consistency and transparency around climate and nature scenario modelling practices.

For instance, APRA's recent Climate Vulnerability Assessment was based on a self-assessment by banks of a limited number of climate hazards on a subset of banking asset classes, and despite similarities between the geographic spread of exposures between the five major banks, some banks identified material financial risks whereas some identified none. This demonstrates that banks are using different methodological approaches to understanding physical climate-related risks and in doing so, coming to substantially different conclusions. Clarity around the assumptions and limitations of the models used are critical to the validity of the assessment. APRA should consider working with the Reserve Bank to create specific requirements for how the largest corporations should conduct and understand physical risk models, including how known unknowns and unknown unknowns should be treated.

Nature-related risks have the potential to be even more significant than climate-related risks, given the substantial dependence of Australia's economy on natural capital.¹¹ While the recent Memorandum of Opinion on nature-related risks and directors' duties by Sebastian Hartford-Davis and Zoe Bush¹² make it clear that understanding the materiality of nature-related risk already forms part of a director's obligations under s180(1) of the Corporations Act, it is evident that companies are only now starting to attempt to understand these risks.

¹⁰ IPBES-IPCC, 'ipbes-ipcc co-sponsored workshop biodiversity and climate change workshop report', (2021), at: https://files.ipbes.net/ipbes-web-prod-public-files/2021-06/20210609_workshop_report_embargo_3pm_CEST_10_june_0.pdf

¹¹ Australian Conservation Foundation, The nature-based economy: How Australia's prosperity depends on nature, (2022), at: <https://www.acf.org.au/nature-based-economy-report>

¹² Pollination, Australian company directors and nature-related risk: A new legal opinion, at: <https://pollinationgroup.com/global-perspectives/australian-company-directors-and-nature-related-risk-a-new-legal-opinion/>



While companies already have an abundance of data sources, they can use to conduct these risk assessments, it would be useful for governments to issue guidance on existing sources of environmental data in order to facilitate increased uptake and adoption of nature-related materiality and risk assessments and targets. Likewise, agencies such as Environmental Information Australia must be well-resourced to develop a single source of truth of key environmental datasets as quickly as possible.

Environmental data must be comprehensive in its measurement of the state of nature and organised in such a way as to allow for assessment of the relationship between the environment, the economy, and society. Datasets should be fully transparent in order to enhance their utility to companies, investors and the public, and this transparency will make it easier for academic and citizen researchers to help improve the datasets over time. Given changes to ecosystems due to human and natural influences, it will also be important that data is published and timestamped as soon as it is collected, regardless of whether the dataset is considered sufficient.

In order to assist Australian businesses in understanding their economic dependence on nature, and therefore the risk posed to the business through continued environmental degradation and biodiversity loss, Australia should publish a regular nature dependency statement calculating the dependence of the economy and specific industry sectors on ecosystem services. The statement should estimate the contribution of specific ecosystem services to the economy in dollar terms, and the projected availability of ecosystem services under predictable scenarios.

The World Bank has proposed a way of modelling the potential contribution of ecosystem services to national economies under various scenarios of protection, restoration, and degradation. For example, the World Bank has demonstrated how the economic costs of protecting 30% of the land as part of the 30x30 target of the GBF might be offset by the increased availability of natural capital and ecosystem services to the economy. In an Australian context, such modelling could, for example, quantify the social and economic costs of allowing the Murray Darling ecosystem to be further damaged through unsustainable activity.

ACF has contributed to the identification of systemic nature risks through its own assessment of Australia's economic dependency on nature via The nature based economy: how Australia's prosperity depends on nature report, which found that roughly half Australia's GDP (49% or \$896 billion) has a moderate to very high direct dependence on nature.¹³ While this report establishes an important baseline, the Australian Government could contribute to further market wide understanding of systemic nature risks by undertaking its own assessment, published on a regular basis. In the absence of comprehensive environmental accounting by companies using the System of Environmental-Economic Accounting (SEEA), regular government assessments measuring the dependency of our economy on nature would go some way toward joining the dots between environmental indicators and other wellbeing indicators, especially economic.

¹³ Australian Conservation Foundation, The nature-based economy: How Australia's prosperity depends on nature, (2022), at: <https://www.acf.org.au/nature-based-economy-report>



Recommendation 11: APRA should work with the Reserve Bank to enhance the rigour of climate risk assessments. This could include the use of a wider variety of stress-tests and sensitivity analyses, and the disclosure of model limitations including any inabilities to account for compounding, coincident or cascading risks.

Recommendation 12: The Government should publish an annual Nature Dependency Statement quantifying the economic dependency of the economy and specified industry sectors on ecosystem services, and the projected availability of ecosystem services under specified scenarios.



Priority 7: Addressing Data and Analytical challenges.

1. *What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?*

As the review of the Environmental Protection and Biodiversity Conservation (EPBC) Act by Professor Graham Samuel noted, Australian environmental “data and information is fragmented, disparate, and there are fundamental information gaps” meaning there is no authoritative source of data related to the state of nature or risk to biodiversity at specific locations.¹⁴ Financial institutions need sufficient, accessible, and reliable data to assess, prioritise, monitor, or report their nature-related impacts, dependencies, risks and opportunities or to manage business transitions.

Australia has cleared more than half of its forest and woodland since colonisation. Currently only Queensland, and to a lesser extent NSW, collect high quality data on tree cover via their respective Statewide Land Cover and Tree Studies (SLATS). This means we don’t have an accurate snapshot of vegetation extent or change across the country.

According to the federal government’s threatened species scientific committee “land clearance has been the most significant threatening process in Australia since European settlement.” It not only drives extinction through habitat removal, but it can also affect local rainfall, temperature, increase sediment in fresh waterways and pollution in the ocean, harm pollinators, and exacerbate the impacts of invasive predators like cats and foxes. Land use change is a key factor in assessing nature related risks for businesses and for the wider economy. Vegetation mapping is necessary for an accurate assessment of exposure to deforestation, forest degradation and conversion which is a key component of non-state actors’ net zero and ‘nature positive’ commitments. Developing national vegetation mapping will also enable monitoring of Australia’s performance in relation to the Glasgow Declaration on Forests.

The same Sentinel-2 satellite imagery used for the QLD and NSW SLATS are available nationwide. Australia should urgently implement a national assessment of vegetation extent, land clearing and ecosystem conversion activity, a ‘national SLATS’.

Over time we should develop comprehensive ecosystem accounts using the (SEAA) framework – this would allow us to expand land accounts (like SLATS) to go beyond ecosystem extent, to include ecosystem condition, and the flow of ecosystem services that ecosystems are providing to society and the economy.

Data that should be incorporated into the accounts should ultimately include a range of atmospheric, habitat, soil and sediment properties, species, ecosystem health and drivers of ecosystem change, ground and surface water, and chemical and nutrient load information.

¹⁴ DCCEE, “Independent review of the EPBC Act”, (2020), at:
<https://epbcreview.environment.gov.au/resources/final-report/chapter-10>



Recommendation 13: The Environmental Information Agency should be resourced to publish a national land-use register that is based on and improves on Queensland's SLATS and develop a strategy to publish comprehensive ecosystem accounts using the System of Environmental-Economic Accounting framework.



Priority 8: Ensuring fit for purpose regulatory frameworks.

1. *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?*

Corporate governance obligations

The requirement in s180(1) of the Corporations Act for company directors to act in the best interests of the company has been well defined by the judiciary. However, it is often misperceived as an obligation to consider shareholder primacy to the exclusion of other interests relevant to the company. These include the company's reputation, concerns of the community and impacts on the environment in which a company operates within, as well as the interests of a company's customers and employees. This misperception has led to a number of recent high-profile examples of companies behaving in ways that are ultimately self-harming or contrary to the public interest.

Nevertheless, a growing body of legal opinion has recognised that part of this duty imposed by s180(1) includes an obligation to have regard to systemic risks like climate change¹⁵ and biodiversity loss.¹⁶ It is an opportune time to review whether the duties as defined in the Corporations Act give sufficient clarity to directors on whether they have the latitude or obligation to fully consider and act on such risks.

Given that a growing share of capital markets are represented by long-term diversified asset owners who cannot escape climate or nature-related risks, it is timely to ensure this ambiguity is clarified.

To this end, ACF and Jubilee Australia have commissioned Monash University Green Lab to explore options to achieve these aims¹⁷ and refer you to the submission made by Monash University.

Regulation of the superannuation system

ACF welcomes the Treasury's recent commitment to review the Your Future, Your Super (YFYS) performance test benchmark to avoid underinvestment in asset classes that can strengthen the economy, such as in housing and the

¹⁵ Centre for Policy Development, '2021 Hutley opinion on directors duties and climate change', (2021), at: <https://cpd.org.au/work/2021-hutley-opinion-greenwashing-repor/>

¹⁶ Pollination, 'Nature risk: Five key considerations for directors', (2023), at: <https://pollinationgroup.com/global-perspectives/nature-risk-five-key-considerations-for-directors/>

¹⁷ Monash University, 'Net-zero, nature positive and socially responsible? Exploring corporate law reform opportunities in Australia, (2023), at: https://issuu.com/monashbusinessschool/docs/mbus_corporate_law_reform_report_v2?fr=sODFjOTY2MDEwMzk



net zero transformation. To date, the constraints of the YFYS performance test imply a tracking error of 1% for funds who are invested in climate solutions such as renewable energy, storage, refining of critical minerals and advanced manufacturing. This tracking error is equivalent to the appropriate tracking error that funds should manage for if they are to pass the performance test.¹⁸ Evidently, the current constraints of the YFYS performance test must be urgently reformed to avoid capital misallocation that would make it more difficult for the Government to meet and exceed its renewable electricity and broader climate change targets.

Recommendation 14: The Government should initiate a review of the Corporations Act to ensure that it is fit for purpose, aligns private interests with public interests, and meets the needs of all company stakeholders, including universal owners' need to address systemic environmental risks, communities, and environmental and civil society organisations.

Recommendation 15: The Government's review of the Your Future, Your Super performance test benchmarks should ensure that the performance test incentivises rather than deters investment in Australia's energy transition and assists in meeting renewable energy targets.

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

Effective investor stewardship is essential if Australian investors (and especially long-term universal investors such as regulated superannuation funds) are to meet their imperative to manage systemic risks to their portfolios, such as climate change and nature loss. This is especially the case for physical risks that cannot be avoided merely through portfolio construction strategies.

ACF believes that stewardship is starting to be effective, yet both recent case studies and the available academic research into the elements of effective stewardship strongly suggests that the conditions for effectiveness include its visibility, timing (i.e. whether visible shareholders tools are used with sufficient notice ahead of a decision-making point to generate support from other investors) and the strength of the case for alternative business strategies that lead to positive outcomes for climate or nature. It is also clear that investors who are conscious of the social and ecological dimensions of the energy transition have had more success in achieving outcomes through investor stewardship.

We are aware that ACSI is updating its Australian Stewardship Code to incorporate emergent lessons from effective stewardship, and we would hope that this would help inform regulatory guidance. APRA's recent CPG 530 guidance has been helpful in encouraging funds to be transparent in their use of stewardship. We agree with the principle

¹⁸ Conexus Institute, Your Future Your Super performance test constraints and sustainable tracking error, (2022), at: <https://theconexusinstitute.org.au/wp-content/uploads/2022/10/YFYS-Sustainable-tracking-error-re-visited-20221012-final.pdf>



enshrined in the UK Stewardship Code that beneficiaries have a right to stewardship reports that are “fair, balanced and reasonable” in relation to outcome reporting, given it is not possible to perfectly ascertain the link between an investor action and an outcome.

ACF believes that ASIC’s RG 128 has been interpreted too conservatively to mean that investors could not pre-declare their stewardship intentions or engage in collaborative initiatives without falling foul of this regulatory guidance, despite the well-recognised importance of both pre-declaration and collaborative initiatives in achieving positive outcomes through effective stewardship. Further guidance from ASIC to clarify the kinds of conduct the guidance is intended to discourage, as well as the kinds of conduct the guidance is not intended to discourage, would be helpful.

ACF also believes that many funds are avoiding providing useful stewardship reports or adopting and publishing ambitious climate strategies for the benefit of their beneficiaries in part due to the fear of overzealous compliance activity in relation to greenwashing. Some guidance from ASIC on how to publish fair, balanced and reasonable outcomes in stewardship reports in a way that does not amount to greenwashing would help to meet beneficiary needs and reduce this concern from funds. It would also be useful for compliance activity to prioritise action in relation to the most harmful forms of greenwashing, such as the adoption of targets without any significant effort being taken to achieve these.

Effective stewardship requires significant resourcing from funds, and it would be helpful for APRA to review whether funds are allocating sufficient capacity to meet their imperative to reduce real-world emissions. This would mitigate the risk that funds might meet their interim climate targets merely by reducing portfolio emissions, while avoiding the need to reduce real-world emissions.

Recommendation 16: ASIC should update RG 128 to clarify the role of publicly-facing stewardship activities that are aligned with achieving ESG outcomes, to align this with expectations from APRA’s CGP 530.

Recommendation 17: APRA should update regulatory guidance to encourage transparent stewardship reporting, and ASIC should issue guidance on fair, reasonable and balanced stewardship reporting.



Priority 10: Catalysing sustainable finance flows and markets.

1. *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?*
2. *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?*

The Australian Conservation Foundation was instrumental in the foundation of the CEFC, an idea that was first proposed in an ACF report supporting a “smart energy infrastructure fund” in 2009, and later worked with the finance sector and published a report in 2011 outlining the case for a Clean Energy Finance Corporation”. Since its inception in 2012, the CEFC has been an enduring and remarkably successful investment vehicle. By investing in renewable energy projects, the CEFC thereby supports projects’ ability to attract additional finance despite not meeting commercial bank investment horizons in the absence of ambitious and stable government climate policy. It has also delivered impressive financial returns at nearly double the Australian Government bond yield which are reinvested to support the growth of renewable energy projects.

The CEFC remains critical in supporting investment in innovative renewable energy and storage projects on both the demand and supply side and should be allocated additional finance so that it may increase its investment in renewable energy and drive Australian leadership in the global transition. The CEFC should also fund research into nature and biodiversity-related issues that will encourage the development of projects that deliver benefits for both climate and nature.

Recommendation 18: Maintain the renewable energy focus of the Clean Energy Finance Corporation (CEFC) and the Australian Renewable Energy Agency (ARENA), doubling the pool of investment capital for the CEFC and increasing ARENA’s funding by at least \$2 billion.



Priority 12: Position Australia as a global sustainability leader

1. *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?*
2. *What are some longer-term international sustainability goals for Australia where sustainable finance can play a role?*

The confirmation of Australia's ambition to be a global sustainability leader is welcome and overdue. Australia is one of only two developed megadiverse countries and is a major global supplier of high nature impact and dependency commodities. It is in our economic interest to establish Australia as a sustainability leader. However, the current level of action and ambition with regard to sustainability reporting and value chain transformation falls short of international best practice. For example, the European Union's Corporate Sustainability Reporting Directive already incorporates reporting on a range on biodiversity-related impact and dependency information that would be useful to a range of stakeholders as well as alignment with the Kunming-Montreal Global Biodiversity Framework. Australia also has no equivalent to the EU's green new deal which outlines plans for the required transformation of production and consumption, including of key industry sectors, to contribute to nature positive outcomes as required by the GBF. Despite agriculture being the dominant land use in Australia and being a major producer of agricultural exports, unlike the United Kingdom, Australia has no national food strategy that recognises our role in a global food system or that considers what sustainable production and consumption risks and opportunities our agricultural sector faces.

Australia's reliance on fossil fuel and high embodied carbon exports leaves us vulnerable in the context of global decarbonisation. But we are in a unique position where we can replace those exports with renewable exports in the form of green manufacturing and industry. Developing capabilities across green hydrogen and ammonia, green alumina and aluminium, batteries, green iron & steel, critical minerals mining & refining could deliver over 395,000 jobs¹⁹ and \$314b per annum revenue by 2040²⁰ but significant public investment will be required to catalyse the private investment necessary to realise the opportunity. In order to remain globally competitive in the face of the US Inflation Reduction Act, Canada's 'Made in Canada' plan, the EU's Green New Deal and others, our government will have to act swiftly and ensure investment is delivered with effective, targeted policy alongside the rapid build out of renewable energy that can power both household electricity needs and these green industries of the future.

There remains a significant deficiency of renewable energy in Australia and the Government has not committed investment to address this gap. The Australian Conservation Foundation is calling on the Government to commit

¹⁹ Accenture, 'Sunshot: Achieving global leadership in clean exports, (2023), at: https://assets.nationbuilder.com/auscon/pages/22780/attachments/original/1698704413/Sunshot_-_Achieving_Global_Leadership_in_Clean_Exports_Final_Report.pdf?1698704413

²⁰ Ibid.



AUD \$100 billion of investment over 10 years for decarbonisation and renewable energy.²¹ At least \$38 Billion of this should be invested across five key areas: (i) green hydrogen and ammonia, (ii) green alumina and aluminium, (iii) batteries, (iv) green iron and steel, and (v) critical minerals mining and refining. This would catalyse at least \$314 billion per annum in revenue by 2040.

Recommendation 19: The Government should commit a time-bound 10-year \$100 billion in public investment in an Australian Renewable Industry Plan in order to be able to competitively compete with value-adding industries in the US, the EU, and Japan, and to reduce emissions and create co-benefits such as increased employment and revenue.

²¹ Australia's Renewable Industry Plan

