FUTURE
GROUP

Sustainable Finance Unit
Climate and Energy Division
The Treasury
Langton Crescent
PARKES ACT 2600
(via email: SustainableFinanceConsultation@treasury.gov.au)

Sustainable Finance Strategy Consultation

Dear Treasury

Future Group strongly supports the objectives of the proposed Sustainable Finance Strategy (SFS). Ensuring the three pillars outlined in the SFS are fully aligned will be necessary to achieve the SFS's objectives. Our submission, which is contained in the appendix to this letter, outlines a number of key levers that do not currently align and if left unaddressed, will undermine the effectiveness of the SFS. We therefore recommend the Government adopt our proposed solutions to these issues.

We stand ready to assist the Government with this critically important initiative. Please contact Fahmi Hosain - Chief Risk Officer and Head of Government Relations - at fahmi@futuregroup.com.au or 0402 849 221 if you have any questions on our submission.

About Future Group

Future Group is a superannuation and sustainable investment firm serving over 280k members and $10.8bn in funds under management and administration. Our mission is to help create a prosperous future for both our members and the wider community that is free of human-induced climate change and inequality. Core to our investment philosophy is the belief that we have a responsibility to invest sustainably. This helps protect our members' future - both financially and physically. We have built expertise on how to manage climate risks and opportunities with a focus on the economic transformation required for the world to achieve a just transition to a safer climate future. This suits the long-term, multi-decade investment horizon of our members, enables them to use the power of their money to be part of the collective divestment movement against major climate change contributors such as fossil fuel companies, as well as invest in initiatives that produce positive environmental and social outcomes, many of which overlap with national economic priorities.

Your sincerely

Simon Sheikh
Chief Executive Officer
Future Group

Appendix - Future Group's submission

<table>
<tr><th>Requested Feedback</th><th>Comment</th></tr>
<tr><td colspan="2">Pillar 1, Priority 1: Improve transparency on climate and sustainability</td></tr>
<tr><td>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?</td><td>For companies and institutions to make meaningful climate disclosures, a common level of understanding is required among market participants. Opportunities to achieve a baseline of knowledge and capability include government-coordinated and sponsored:
Accessible training & education programs
Templates and best-in-class examples
Certification regime for training providers, to promote shared understanding and minimum skills & knowledge requirements.
The maturity of Australia's marketplace creates an opportunity to demonstrate leadership by extending minimum ISSB disclosures to include reference points to real-world planetary boundaries. Examples for additional disclosure requirements for financial institutions could include: testing of portfolios against 1.5°C and 2.0°C carbon budgets, or Implied Temperature Ratings of investments.</td></tr>
<tr><td>How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?</td><td>As the disclosure landscape evolves in Australia over the coming years, industry and financial institutions will need guidance and medium-long term leadership signals from the Government in the form of:
A Roadmap of likely disclosure building blocks and approximate timing e.g. mandated IFRS S2, AASB, Industry specific mandates, AU taxonomy, S1
Working groups and pilot programs with sustainability leaders to prepare for upcoming developments by developing guidance, training and best-practice examples.
Australian regulators can recommend that Australian listed companies adopt the TNFD recommendations, with a view to mandate them in the future. To standardise climate-related reporting requirements for certain 'large, listed entities' and 'large financial institutions', the Government could establish a reporting framework that aligns with international standards and introduce climate reporting standards for large businesses and financial institutions, in line with international reporting requirements.

Government could open a consultation period in relation to draft legislation that would amend the ASIC Act 2001 (Cth), to develop non-binding sustainability standards and empower the Auditing and Assurance Standards Board (AUASB) to develop auditing and assurance standards for sustainability purposes.</td></tr>
<tr><td colspan="2">Pillar 1, Priority 2: Develop a Sustainable Finance Taxonomy</td></tr>
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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 credibility of the taxonomy is integral to encourage widespread adoption by the financial system. To have credibility, it needs to be backed by science and be dynamic and forward looking. The taxonomy needs to have a strong ambition, vision, and to set the pace needed to transition the economy to a 1.5°C future. It needs to address both mitigation and adaptation. **Gas and other fossil fuels can not credibly be part of the taxonomy.** There have been issues with the EU Taxonomy including unsustainable activities related to nuclear and gas, which has damaged its credibility and led to the threat of legal action against the European Commission. In the Canadian and UK contexts, both have faced significant delays due to vested interests involved in the process of creating their taxonomies. In the Canadian context, uptake of the taxonomy has been very low and they are in the process of reviewing the criteria. Australia can avoid this by ensuring the taxonomy is credible and based in science. The IPCC 6th Assessment Report (IPCC 6AR) has indicated that credible climate action requires both mitigation and adaptation strategies, and that both public and private capital needs to support each of these. A credible taxonomy must support and enable these actions. Several key focus areas that are relevant for a taxonomy from the 6AR include: ● A.4.2, pp.10-11 - "*Several mitigation options, notably solar energy, wind energy, electrification of urban systems, urban green infrastructure, energy efficiency, demand-side management, improved forest and crop/grassland management, and reduced food waste and loss, are technically viable, are becoming increasingly cost effective and are generally supported by the public.*" ● A.3.2., p.8 - "*Examples of effective adaptation options include: cultivar improvements, on-farm water management and storage, soil moisture conservation, irrigation, agroforestry, community-based adaptation, farm and landscape level diversification in agriculture, sustainable land management approaches, use of agroecological principles and practices and other approaches that work with natural processes (high confidence). Ecosystem-based adaptation approaches such as urban greening, restoration of wetlands and upstream forest ecosystems have been effective in reducing flood risks and urban heat (high confidence). Combinations of non-structural measures like early warning systems and structural measures like levees have reduced loss of lives in case of inland flooding (medium confidence). Adaptation options such as disaster risk management, early warning systems, climate services and social safety nets have broad applicability across multiple sectors.*"

Requested Feedback	Comment
	According to the World Resources Institute, across five sectors (strengthening early warning systems, making new infrastructure resilient, improving dryland agriculture and crop production, protecting mangroves, and making water resources management more resilient), every $1 invested in adaptation generates a return between $2 and $10. Despite this, there has been a lack of adaptation funding. The UNEP recently released a report highlighting the gap in adaptation financing, with the financing gap currently standing at between US$194 billion and US$366 billion per year, or currently 10–18 times as much as current international public adaptation finance flows. Private sector finance is identified as a key area that can be used to fund these essential activities. Adaptation activities being included in the taxonomy will allow Australia to allocate capital to needed areas. The Climate Bonds Initiative has Climate Resilience Principles that we believe should inform this criteria. Consideration should be given to networks such as PFAN, or looking to create a similarly structured program for domestic use that investors can utilise.

What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?	According to ASFI, the first three priority sectors for taxonomy development are: Electricity generation and supply (Energy); Minerals, mining and metals; and Construction and the built environment. The next three priorities are Manufacturing/ industry; Transport; and Agriculture. The following should also be key considerations for coverage under the taxonomy: **Just Transition + First Nations Engagement** Defining and integrating just transition principles into the taxonomy will enable the social dimensions of climate change to be managed effectively. The allocation of capital along just transition principles will ensure that the benefits of a net zero economy will be shared more equitably across Australia. This could be achieved by ensuring Aboriginal and Torres Strait Islander and regional and rural voices are part of the stakeholders that contribute to the development of the taxonomy. This should be a key component of the 'Do No Significant Harm' principle underpinning the taxonomy. Adopting transparency practices in the development of the taxonomy is key to this, such as publishing meeting agendas, minutes, and responses to consultation drafts. An open and transparent process will result in a taxonomy that is more widely accepted, legitimate, and enabling a just transition. **Circular Economy** Australia needs to transition to a more circular economy. Including activities related to the circular economy principles, focused on ensuring materials never become waste and nature is regenerated. Their inclusion in the taxonomy will enable capital allocation to technologies and innovations in materials, recycling, and resource recovery. This area is still in its infancy regarding data, metrics, and reporting, so offers an opportunity for Australia to position itself as a leader in this space. **Nature/Biodiversity Protection** Government leaders of G20 countries in 2022 acknowledged "*the need to strengthen policies and mobilise financing, from all sources in a predictable, adequate and timely manner to address biodiversity loss and environmental degradation including significantly increasing support for developing countries*". Almost 50% of Australia's GDP is either moderately or heavily reliant on nature. Developing a taxonomy that addresses nature loss will put Australia ahead of many other taxonomies and will help deliver on the government's Nature Positive Plan.

Requested Feedback	Comment
What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?	APRA's regulatory returns should be updated to include taxonomy coverage. Currently these returns contain primarily financial information in accordance with Financial Sector (Collection of Data) Reporting Standards, which do not include reference to sustainable finance taxonomy. Updating these standards to incorporate this taxonomy would enable such data to be subject to the same regulatory penalties as financial information where that information is found to be incorrect or delayed. Such a structure will support regulated financial institutions to prioritise the correct and timely reporting of taxonomy related information in the same manner in which they report financial information.
Pillar 1, 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?	A key gap in transition planning capability is clear expectations on sectoral decarbonisation pathways, with reference to remaining carbon budgets. Companies and financial institutions may have credible transition plans in place, but if their decarbonisation rates are insufficient to limit emissions within the carbon budget for a 1.5°C warming scenario, that planetary threshold will be crossed this decade. A decarbonisation plan of a specific percentage reduction by a specific timeframe is still insufficient if it fails to stay under the required sectoral carbon budget each year. Per the IPCC 6AR, effective transition planning needs to consider the interplay of sectors and requires the retirement of fossil fuel activity as fast as possible, including natural gas. Furthermore, carbon credits and CCUS being relied on heavily in any decarbonisation model is not a credible, science-backed approach. These technologies and interventions are yet to prove their scalability, and might undermine pathways we know can work today, such as phasing out fossil fuel usage and wide scale decarbonisation.

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<tr><td>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?</td><td>ISSB-aligned standards that require specific decarbonisation targets and metrics will be a welcome step forward in the Australian climate reporting landscape. They will be even more impactful and relevant if they are required to reference and be compared against related sectoral decarbonisation pathways and remaining carbon budgets.

Specifically for financial institutions, the alignment and incorporation of PCAF emissions metrics will provide for a welcome level of standardisation in reporting.

A number of disclosure requirements should be considered:

● Companies to report on the impact of corporate activities on the environment and society, including the auditing (assurance) of reported information.
● Companies to report on the environmental and social impact of their business activities, and on the business impact of their environmental, social and governance related activities.
● A transparent social responsibility policy involves openly communicating a company's strategies, decisions, performance, governance, and other business activities. This open communication provides stakeholders a clear understanding of a company's operations and its impact on society and the environment.
● Sustainability reporting that has no set format, but broadly involves disclosure of a company's environmental, social, and governance goals and communicating the company's progress and efforts to reach those goals.</td></tr>
<tr><td>Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?</td><td>Other sustainability and nature-based priorities could be addressed in a subsequent iteration, as learnings from climate disclosures become apparent.</td></tr>
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Requested Feedback	**Comment**
Pillar 1, 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?	Product labels that imply a product has ethical investment considerations should rely on defined terms that have clear meaning to consumers. Where a product calls itself "socially conscious", "ethical", "green" or similar, the term should have a clear and displayed definition available to the consumer prior to acquiring the product. Ideally, these definitions would be enforced by the regulator to ensure standardisation across the industry. However, given the range of terms that may be used, funds may be required to provide their own definitions. This would ensure all funds offering a "green" option would be required to define what green means to them. Consumers can then decide whether the fund's definition of green meets their own ethical ideals. In addition to this, other regulatory and legislative actions should support the implementation of agreed approaches to different sustainably-labelled activities (e.g., a sustainable superannuation product should not be held to a Your Future, Your Super performance test benchmark that does not consider sustainability risks, given the implications of the tracking error inherent in this approach).
How can an Australian model build off existing domestic approaches and reflect key developments in other markets?	To be meaningful to consumers, a labelling framework must be underpinned by unambiguous enforcement. A key learning from international experience is that many funds are not in compliance with new labelling requirements in the UK, EU and US.
Pillar 2, Priority 5: Enhancing market supervision and enforcement	
Are Australia's existing corporations and financial services laws sufficiently flexible to address greenwashing? What are the priorities for addressing greenwashing?	Greenwashing laws should help prevent investors and consumers being misled on the social and environmental impacts, or the social and environmental credentials, of their investment decisions. ASIC had provided a number of regulatory resources and regulatory guidelines for reference, including Information Sheet 271 (INFO 271). More education and industry seminars could be helpful as it is important that issuers comply with existing requirements when promoting or offering sustainability-related products.

Requested Feedback	Comment
Is there a case for regulating ESG ratings as financial services?	Yes, there is a case for regulating ESG ratings. A recent survey showed 94% of investors use ESG ratings regularly. ESG funds have grown from niche to mainstream investment products and could account for a third of global AUM by 2025. These entities provide investors and consumers with information they use for decision making, such as for investment risk management and financial product design. ESG ratings therefore play an important role in the robustness of Australia's financial market. In order for investors and consumers to make informed decisions, it is important that ESG ratings methodologies are transparent and consistent. However, each rating agency uses its own proprietary ESG rating system that can vary quite considerably. ESG ratings have been accused of greenwashing from a human rights perspective, where serious human rights violations either do not appear to affect ratings or have very little impact on the outcome of company ratings. Scientific Beta has found that companies with high ESG ratings pollute as much as lower rated companies, demonstrating that emissions/environmental impact have little impact on a company's ESG score. Regulation could be useful in setting guardrails and standards for what these metrics are actually measuring and minimise greenwashing risks. ESG ratings companies have conflicts of interest that can compromise their integrity, for example, when providing ESG ratings services to a company while also advising that company on ways to improve its ESG rating. As suggested by the International Organization of Securities Commissions (IOSC), regulators could require entities providing ESG ratings to identify, disclose and, where possible, mitigate potential conflicts of interest.

Requested Feedback	**Comment**
Pillar 2, 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?	Yes. While we support the CFR's work on the Climate Vulnerability Assessment process, significantly more value from this analysis is possible if extended to macroeconomic impacts. Earlier this year, Future Group commissioned Mandala Partners to analyse climate-related financial risks on Australia's economy, and the implications for superannuation fund investment returns. Mandala utilised the results of APRA's 2022 climate vulnerability assessment on Australia's five largest banks in its analysis. APRA's published assessment went no further than the impacts on the banks, however Mandala extended the analysis to Australia's economy using the G-Cubed CGE model. The results of Mandala's analysis show that there will be a significant capital reallocation across our economy, which will have a direct financial impact on the financial services sector, as well as many others. An example for superannuation funds is the conclusion that investment returns could be 28% higher over 20 years if investment portfolios can be adjusted to reflect the capital reallocation. Such a conclusion has material ramifications for RSE licensees when contemplating how they discharge their best financial interest duties. Therefore, it is critical for the Government, via CFR or APRA, to regularly produce this type of information. The Mandala Partners' research has been submitted by Mandala into the Sustainable Finance Strategy consultation process.
Pillar 2, 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?	The priorities should be in expanding the collation and reporting of data, despite expected issues regarding data consistency or quality. Data quality can be improved over time and learnings can be incorporated on an ongoing basis. This is particularly true for asset classes like fixed interest, where climate related quantitative data is limited, not standardised, and can rarely be used to make credible investment decisions.
What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?	See response under Pillar 2, Priority 6 in relation to the macroeconomic data gap currently facing financial institutions.
Pillar 2, Priority 8: Ensuring fit for purpose regulatory frameworks	

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<td>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</td>
<td>No. There are significant barriers currently in place for super funds in particular to integrate sustainability-related issues in financial decision making. While these barriers are unintentional, it is critical they are addressed urgently in order to support the objectives of the Sustainable Finance Strategy.

The key barrier is the calibration of the annual performance test under the Your Future, Your Super (YFYS) regime. The performance test settings disincentivise super funds to invest in renewable energy and decarbonation projects, while at the same time incentivising them to continue to invest in fossil fuels and carbon intensive infrastructure. We note that the Sustainable Finance Strategy consultation paper indicates that key benchmarks will be calibrated to ensure funds are not unintentionally discouraged from investing in certain assets. In the absence of any proposals from the Government, we have outlined some key areas requiring recalibration:

The Australian equities benchmark used in the performance test is the S&P ASX 300, which includes some of the largest fossil fuel mining companies in the world. In order to not risk underperforming this benchmark, super funds will target to match the underlying investments. In other words, super funds are incentivised to invest in fossil fuel mining companies (and any other high emissions companies in the benchmark). Climate conscious funds like Future Super are effectively penalised for adopting a low carbon emission and ethical investment portfolio as we face much greater tracking error to the benchmark by not investing in such companies.
Another example is the Australian unlisted infrastructure benchmark used in the performance test, which is the MSCI Australia Quarterly Private Infrastructure Fund Index. It has minimal weight to the renewable energy sector (between 3-9%) and an overweight position in one company (Transurban represents 43% of the index). While the index has moved to a median-fund approach, the use of this benchmark represents a disincentive for super funds to invest in renewable energy and decarbonisation infrastructure investments.

For context, the total super sector investment allocation to the infrastructure asset class is currently $195bn (September 2023), and is forecast to grow to $320bn by 2030 and to over $500bn by 2040 if asset allocations remain the same. Very little of this capital is currently invested in renewable energy and decarbonisation infrastructure.
Without any changes to current investment allocations, the super sector is very well placed to invest in infrastructure but needs relevant benchmarks in the performance test to properly represent performance comparisons.

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Requested Feedback	Comment
	The performance test also represents an existential threat for climate conscious funds due to the combination of its calibration and consequences. Failing the performance test for two years results in a super fund's investment option being closed to new members, which climate conscious funds are at greater risk of due to the higher levels of tracking error they face. Despite being well positioned to provide strong long-term returns by managing effectively the financial risks of climate change and being well aligned to key national economic priorities, the performance test settings result in such funds being particularly prone to short term fluctuations in the performance of fossil fuel companies. Without addressing the YFYS problem, Australia could miss out on the substantial funding available from the super sector to help transition to a low carbon economy while also removing climate conscious funds from the market. Further, recent analysis by Mandala Partners (report submitted by Mandala Partners separately) shows the substantial macroeconomic benefits that could be realised if YFYS performance test calibration issues can be addressed such that the super sector can participate in Australia's transition. Key highlights include: ● Reducing carbon emissions by 36m tonnes over 30 years ● Increasing real GDP by $170bn in 10 years ● Adding 620,000 new green jobs over 10 years ● Reducing inflation by 7% over 10 years ● Increasing superannuation investment returns by 28% over 20 years ● Avoiding the Government increasing net debt by 13% To fundamentally address the performance test calibration issue, the Government must introduce a new clean energy unlisted domestic infrastructure benchmark into the performance test regime. Work is required to collate relevant underlying assets and construct a robust index however initial work undertaken by a variety of stakeholders including index providers, asset managers and fund managers indicates that a new benchmark is able to be constructed for the purposes of the performance test. The Government must also include alternative equities benchmarks (both domestic and global) that have alignment to emissions reduction targets, many examples of which already exist. The implementation of such benchmarks need not replace existing ones but simply be available to those funds who choose to invest in such ways, which would remove current barriers for super funds to not only integrate sustainability-related issues in their financial decision making, but also to contribute to Australia's efforts to transition to a low carbon economy.

What steps could the Government or regulators take to support effective investor stewardship?	Our policy recommendations are guided by UNPRI's research into Strengthening Effective Stewardship in Australia, which aligns with our experience and views of investor stewardship regulation. **Unclear regulatory guidance on investor stewardship** There is unclear regulatory guidance on investor duties and limited regulation on effective stewardship activities. For example, due to the lack of guidance on fiduciary responsibilities and the role of the investor to shape sustainability outcomes, the expectation for investors to incorporate ESG considerations into their stewardship duties is not always clear. The lack of clarity of expectations for investors to exercise stewardship in Australia's current regulatory framework can disincentivise stewardship actions. The Government and regulators should update legislation and regulatory standards to clarify that investor duties require them to address sustainability-related risks when considering how to deliver financial outcomes. This could include requirements to embed sustainability-related system-level risks within governance, strategy, risk management and remuneration structures. Additionally, regulators should clarify expectations for investor stewardship as well as review and update the current network of legislation and regulatory guidance to streamline the stewardship policy framework, enhance effectiveness and accountability of investor stewardship, and guide stewardship practices towards driving positive sustainability outcomes. This could include communicating expectations for effective stewardship and introducing a cross-industry stewardship code that builds off of international best practice. By clarifying investor expectations, this could signal support for investors to use the full range of stewardship measures at their disposal, including escalatory measures such as shareholder resolutions, when appropriate, as well as providing clarity on activities that are permitted within the scope of investor stewardship, including investor collaboration on stewardship activities. **Barriers to filing shareholder resolutions/proposals** While shareholder proposals are a powerful mechanism for investors to create significant and timely change in the management and direction of a company, they are also one of the least commonly used stewardship tools used by Australian investors due to the cumbersome processes required to file a shareholder resolution. In principle shareholders are permitted, under section 249N of the Corporations Act 2001, to "give notice of a resolution they propose to move at a general meeting" if the ownership threshold is met. This ownership threshold is a shareholding of 5% of the votes in a company or at least 100 shareholders who can demonstrate direct ownership of shares. However, Australian law does not permit shareholders to propose a non-binding advisory resolution. While the accepted work-around to this is to use a double-barrel approach to initially file a special binding resolution seeking an amendment to a company's constitution followed by ordinary advisory resolution on the issue (a 'conditional resolution'), investors are first required to pass an amendment to the company constitution before permitting conditional resolutions. Constitutional amendments are contentious and historically in Australia, have not seen the same level of support as related advisory resolutions.

	The Australian resolution framework is particularly restrictive when compared to similar jurisdictions such as Canada, the UK, the US and South Africa where non-binding advisory votes and resolutions are accepted and shareholders have clearer rights to submit proposals to a company board. This legal position makes it difficult for shareholders to hold public companies to account and use resolutions as an effective way to request companies to increase transparency in how they are managing key risks such as those relating to ESG matters. The Government and financial regulators should investigate opportunities to simplify and remove barriers to participation in the shareholder resolutions process, to support greater opportunities for investors to engage in dialogue with portfolio companies. These changes could include removing the burdens of current legislation around filing a shareholder proposal and ensuring shareholder rights to propose resolutions are stronger and more clearly defined. **Stewardship reporting challenges** Investors face significant challenges on the reporting of the effectiveness of their stewardship activities due to increased scrutiny of regulators on greenwashing. While we acknowledge that the issues that investors advocate for and their affected changes are influenced by a number of factors (both internal and external) and there is difficulty in attributing each change to specific stewardship efforts, there can often be a reluctance to report on the results of these efforts due to fears of overstating influence on sustainability outcomes. This is exacerbated by limited data (i.e. company disclosure) availability, the lengthy amount of time taken for stewardship to affect change in the companies they target, as well as the repetitive nature of stewardship activities e.g. we may engage companies on the same issues over several years, during which time there may be no tangible outcomes to report or the sensitivity of the engagements may not allow for the detailed disclosure of activities to stakeholders before an official outcome can be reported. Additionally, while ASIC expects investors to demonstrate how they use their influence and how this influence was effective, the Federal Government and financial regulators have not set minimum expectations or provided guidance on best practice for disclosing and reporting these outcomes. Regulators should provide guidance for tracking and disclosing stewardship outcomes, by setting out expectations that investors are required to disclose the processes, practice, and results of effective stewardship, and best practice for how these results and outcomes should be reported. **Inadequate company disclosures of ESG performance** Investors rely on disclosures by companies on their sustainability performance and there is a reliance on these disclosures to be comprehensive and accurate in order to inform our stewardship activities as well as reduce the resourcing and cost to carry them out. However, given there is currently no mandatory requirement for companies to publicly disclose their sustainability outcomes and performance, there is an information gap for investors who must either use the limited voluntary disclosures they have available to inform their stewardship actions, or separately request this information from companies, particularly in areas that are less mature than climate (e.g. broader social justice issues). This increases the cost of stewardship for resource-constrained teams and decreases its effectiveness.

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	Government should introduce legislation requiring comprehensive and mandatory corporate disclosure of wider sustainability-related risks and sustainability performance through the adoption of a comprehensive corporate sustainability reporting framework, such as the ISSB.
Pillar 3, 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?	The issuances of sovereign green bonds should have clear Use of Proceeds statements attached to them. Sovereign green bonds should only be used to fund activities that are supporting a transition to a net zero world that have a clear positive benefit to the environment. They should align to credible, sustainable green bond taxonomies that are aligned to a 1.5°C world, such as the Climate Bonds Initiative (CBI). Issuance of green bonds should also come with strict criteria on social impacts and outcomes, incorporating a minimum standard of 'Do No Significant Harm'. There's an opportunity to incorporate just transition elements into the green bond framework. Doing so could help to accelerate decarbonisation and investments in regional areas of Australia who have traditionally been reliant on unsustainable industries for their local economy. This will ensure that the benefits of transitioning the economy are shared equitably between all people in Australia. Investors should have confidence that appropriate ring fencing of Green Bond Use of Proceeds is in place. Investor confidence will be shaken if these assurances aren't in place, leading to perceptions within the market and more broadly of government greenwashing that may have ripple effects with loss of confidence in other government initiatives. The process for project selection that will receive funding should be made clear to investors and there should be clear transparency around the allocation of funds. An annual impact/environmental report should be issued that discloses the projects funded, the amount allocated to each project, and what impact on the environment and social co-benefits the projects have had during the reporting period. Furthermore, the green bond program should be verified by an independent third party to ensure that its allocation is aligned with the above reporting to minimise greenwashing risks. This will set a good example of best practice within the Australian green bond market. Proceeds of green bonds should not be exclusively used to refinance past expenditures - the climate crisis requires funding to be allocated to building up new projects and capability to enact the energy transition that we need. According to CBI's Sovereign Green, Social and Sustainability Bond Survey, a number of countries have discussed forward looking financing, which the Government should review.
What other measures can the Government take to support the continued development of green capital markets in Australia?	The Government should develop policies that encourage the consideration of green capital markets as an essential part of broader capital markets, rather than as a specialised sub-set. This will encourage greater liquidity in the market via a wider variety of investors being attracted to it. One practical example would be to encourage regulated asset owners to adopt bond investment benchmarks that include both green and regular bonds.

Requested Feedback	Comment
Pillar 3, Priority 10: Catalysing sustainable finance flows and markets	
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 opportunity for the CEFC is that they are not shackled by the best financial interest duty or liability obligations that many other asset owners like super funds may be required to adhere to. In that sense, the CEFC can assess opportunities that could have substantial climate co-benefits but may not offer competitive financial returns within a relatively short time frame, such as the ten year period required by the Your Future, Your Super performance test. Super funds will (and should) only ever invest where there is a clear financial benefit to the members we serve that is commensurate with the risk involved in investing in a certain asset or asset class.
Pillar 3: Priority 11: Promoting international alignment	
What are the key priorities for Australia when considering international alignment in sustainable finance?	Australia is well placed to embrace the newly released ISSB climate and sustainability reporting standards, on the back of strong uptake and prevalence of TCFD reporting domestically. To promote regional and international interoperability of disclosure frameworks, the Government should prioritise alignment to the ISSB standards. Developing supplementary guidance and components in the Australian context should occur only when global frameworks have gaps, such as aligning investments to carbon budgets and sectoral decarbonisation pathways. Another priority should be international collaboration on technological solutions to enable systematic and standardised capture and sharing of climate and sustainability information. In a local context, this priority will encourage better information flow and accessibility of sustainability disclosures. Internationally, cross-border interoperability of Australian information creates opportunities for Australian tech to engage in the early stages and take a leading role in what is likely to be a budding new information ecosystem, focused on the ISSB's digital taxonomy.
Pillar 3, 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?	**Harnessing Superannuation Capital Pools** As outlined under Pillar 2 Priority 8, if the current barriers preventing super funds from participating in Australia's transition to a low carbon economy are removed, the opportunities for Australia to be a global leader in sustainable finance and global climate mitigation are enormous. To recap, we have the opportunity to: ● Reducing carbon emissions by 36m tonnes over 30 years ● Increasing real GDP by $170bn in 10 years ● Adding 620,000 new green jobs over 10 years ● Reducing inflation by 7% over 10 years ● Increasing superannuation investment returns by 28% over 20 years ● Avoiding the Government increasing net debt by 13% **Fossil Fuel Phase Out** Australia needs to commit to completely phasing out fossil fuels. UN Secretary General's Climate Acceleration Agenda calls for the following action, which the Government should enact: ● No new coal and the phasing out of coal by 2030 in OECD countries. ● Ensuring net zero electricity generation by 2035 for all developed countries. ● Shifting subsidies from fossil fuels to a just energy transition. ● End all licensing and funding (public and private) of new coal, oil and gas. These actions align with the recommendations from the Intergovernmental Panel on Climate Change (IPCC) and also the International Energy Agency (IEA), which have shown that there must not be any new fossil fuel projects if we are to achieve net zero. Regarding phasing out coal, Australia could take action by developing a Just Transition Framework similar to Germany's Coal Commission. This is a multi-stakeholder group that devised a plan to phase out coal in Germany, that included the voices of workers and regions reliant on the coal economy, allowing a just transition focus to be present in the designing of the phase out. This could be further expanded to manage the phase out of all fossil fuels in Australia. **Sustainable Mining** The mining and materials sector makes up a significant portion of the Australian economy and the extraction and recycling of metals and minerals is crucial to develop the necessary technology for a transition to a 1.5°c world. In developing a sustainable finance taxonomy, Australia has an opportunity to position itself as a leader in sustainable mining. There are a few key actions the government can take:

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	Join the Extractives Industry Transparency Initiative (EITI) standard. The purpose of the standard is to bring transparency to the whole mineral extraction supply chain, minimise corruption, and ensure that the extraction of minerals creates public benefit. There is a clear opportunity to work with EITI in creating sustainable, accountable, and usable sector criteria for the mining industry that will also deliver on Australia's Critical Mineral Strategy. The standard clearly aligns with the goals of this strategy and will bring accountability and credibility to both Australia's mining sector and sustainable finance taxonomy. ● Engage with Aboriginal and Torres Strait Islander Peoples and look to incorporate Free, Prior, and Informed Consent (FPIC) into law as per the requirements of the United Nations Declaration on the Rights of Indigenous People (UNDRIP). In the words of Mark Podlasly, member of the Nlaka'pamux Nation and Chief Sustainability Officer at the First Nations Major Projects Coalition,"The road to net zero runs through Indigenous lands." We need to build frameworks that allow partnership to occur between companies and Aboriginal and Torres Strait Islander communities to enable a just transition that works to deliver positive environmental and social outcomes. The Australian Human Rights Commission has recommended a national program to oversee its implementation and to schedule it into the definition of human rights. Canada passed a bill in 2020 to further their implementation of UNDRIP. They have shared their learnings from this experience, and have said that the operationalisation of FPIC has been a challenge. Australia has an opportunity to walk with Aboriginal and Torres Strait Islander Peoples here and set a standard globally. Furthermore, creating policy on how industry should engage with Aboriginal and Torres Strait Islander peoples will reduce commercial and legal risk for decarbonisation and renewable energy projects, including onshore and offshore wind, pumped hydro, and energy storage (i.e. batteries). Under our current lack of a cohesive and fair approach, "*both Australian and foreign investors now consider that investment into Australia carries with it sovereign risk*". Creating sound policy that is led by Aboriginal and Torres Strait Islander voices will reduce risk, attract investment, and streamline approval processes. ● Join other governments in a call for a moratorium on deep sea mining. There is too much uncertainty regarding its damaging effects on the seabed environment, and a lack of governance and a regulatory framework for Australia to support this activity. The government needs to ensure that the extraction of minerals for the energy transition does not cause further damage to ecosystems.

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What are some longer-term international sustainability goals for Australia where sustainable finance can play a role?	Australia currently has the fourth largest pool of super savings in the world. As this continues to grow, our representation amongst the largest asset owners globally will increase. As outlined under Pillar 2 Priority 8, if the Government can calibrate the Your Future, Your Super performance test settings to ensure Australian super funds can participate in Australia's transition to a low carbon economy, they will be well positioned to help influence similar transitions for other countries. This would significantly demonstrate Australian leadership in sustainable finance and ultimately meaningfully contribute to global efforts to transition to a low carbon world.