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15 December 2023

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

Dear Sustainable Finance Unit,

On behalf of the UN Global Compact Network Australia ("**UNGCNA**"), I am pleased to attach our submission to the Government's consultation on Australia's Sustainable Finance Strategy.

The UNGCNA is the Australian, business-led network of the UN Global Compact, the world's largest corporate sustainability initiative. We bring together over 300 Australian businesses, including over 50 listed companies, other businesses, non-profits and universities to advance the private sector's contribution to sustainable development. We encourage business to respond to local, regional, and global challenges in ways that demonstrate greater environmental responsibility. To accelerate progress, we work with companies to embed sustainable development principles into their core business strategies.

This submission is written in light of the UN Global Compact's Ten Principles and the Sustainable Development Goals at the heart of the 2030 Agenda for Sustainable Development, adopted by Australia in 2015. This submission does not necessarily reflect the views of all UNGCNA participants.

Should you require further information please do not hesitate to contact Dan Wilcock at dan.wilcock@unglobalcompact.org.au.

Yours sincerely,

Kate Dundas
Executive Director
UN Global Compact Network Australia

UN Global Compact Network Australia:

Submission to the Government's consultation on Australia's Sustainable Finance Strategy

December 2023

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Government’s consultation on Australia's Sustainable Finance Strategy

The United Nations Global Compact Network Australia (**“UNGCNA”**) welcomes the opportunity to respond to the Government’s consultation on Australia's Sustainable Finance Strategy (**“the Consultation”**).

We make this submission in light of the United Nations (**“UN”**) Global Compact’s Ten Principles and the Sustainable Development Goals (“**SDGs**”) at the heart of the 2030 Agenda for Sustainable Development (“**2030 Agenda**”). This submission does not necessarily reflect the views of all UNGCNA participants.

The UNGCNA encourages the Government to advance urgent and ambitious efforts to accelerate the transition to a more sustainable Australian economy, in partnership with the Australian business sector, the international community and other stakeholders.

The launch of a Sustainable Finance Strategy can play a vital role in supporting Australia to achieve its net-zero ambitions and manage climate change effectively – as well as supporting sustainable development more broadly. The UNGCNA strongly supports the objective of the Sustainable Finance Strategy Consultation Paper (“**the Strategy**”) to support the role of financial markets in Australia’s transition to a more sustainable economy and society.

Corporate finance and investments are a catalyst for growth and social impact. The UN has estimated that the world will need to spend between $3 trillion and $5 trillion annually to meet the SDGs by 2030, and the Covid-19 pandemic has increased that estimate by an additional $2 trillion annually.

There is enormous potential to align corporate investments and finance with the SDGs, both to finance business contributions towards the SDGs and to build on existing sustainable finance solutions and framework to support the transition to sustainable development. New and adapted business models and markets represent critical and value-generating investment opportunities for both profit and impact.

Background on the UN Global Compact

As a special initiative of the UN Secretary-General, the UN Global Compact is a call to companies everywhere to align their operations and strategies with Ten Principles in the areas of human rights, labour, environment and anti-corruption. Our ambition is to accelerate and scale the global collective impact of business by upholding the Ten Principles and delivering the Sustainable Development Goals through accountable companies and ecosystems that enable change. With more than 20,000 organisations in over 160 countries and 68 local networks, the UN Global Compact is the world’s largest corporate sustainability initiative - one Global Compact uniting business for a better world.

The 2030 Agenda, adopted by all UN Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 SDGs, which are an urgent call for action by all countries - developed and developing - in a global partnership. The 2030 Agenda recognises that ending poverty and other deprivations must go together with strategies to improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

In Australia, the UNGCNA brings together over 300 Australian signatories to the UN Global Compact, including over 80 ASX listed companies, other major companies, non-profits and universities, to advance the private sector's contribution to sustainable development. We lead, enable and connect businesses and stakeholders to create a sustainable future by supporting businesses to act responsibly and helping them find opportunities to drive positive business outcomes. We guide businesses on how advancing integration of the Global Compact's Ten Principles, and contributing to the SDGs, drives long-term business success.

Sustainable Finance discussions encompass environmental sustainability issues. Indeed, Environment and Climate Change is a key area of the UNGCNA's work, and we have supported dialogue on these issues for a number of years. Of the UN Global Compact's Ten Principles, three specifically address the Environment:

- **Principle 7**: Businesses should support a precautionary approach to environmental challenges.
- **Principle 8**: Businesses should undertake initiatives to promote greater environmental responsibility.
- **Principle 9**: Businesses should encourage the development and diffusion of environmentally friendly technologies.

However, at the outset we note that the Strategy is narrowly focused on environmental issues and in particular, climate-change. It is important to acknowledge the interconnectedness of the SDGs and adopt a holistic approach that prioritises progress across all fronts. Addressing complex challenges like climate change requires a systemic approach that considers the broader socio-economic context. By tackling climate action (SDG 13) alongside other critical challenges like: food security (SDG 2); renewable energy (SDG 7); sustainable economic growth, decent work for all, and eliminating modern slavery (SDG 8); inequality (SDG 10); sustainable consumption and production (SDG 12); and protection of nature (SDGs 14 and 15), we can build a more sustainable and equitable future for all.

Sustainable finance principles and the SDGs are inextricably linked, forming a crucial partnership for driving positive societal and environmental change. Sustainable finance principles aim to channel financial resources towards projects and activities that contribute to the achievement of all 17 SDGs. For example, sustainable finance can offer investors diverse options for aligning their investments with the SDGs, unlocking new capital sources and accelerating progress towards the goals. By improving frameworks, data availability, and transparency, the Government can enable the full potential of sustainable finance to drive progress towards the SDGs and build a more sustainable future for all.

Consistent with the title of the consultation - using the broad term "Sustainable Finance" – we submit that the Government should frame the Strategy more broadly to drive progress towards all 17 SDGs, or all dimensions of "ESG".[1]

Comments responding to the Inquiry's terms of reference

In this submission, the UNGCNA provides comments responding to the Strategy's Priorities 1, 2, 5, 7, 9 and 11.

[1] The term "ESG" was first used in a 2004 UN Global Compact report to refer to the three closely inter-linked areas of environmental, social and governance issues. The Global Compact (2004) Who Cares Wins – Connecting Financial Markets to a Changing World. Available at: https://d306pr3pise04h.cloudfront.net/docs/issues_doc%2FFinancial_markets%2Fwho_cares_who_wins.pdf

Pillar 1: Improve transparency on climate and sustainability

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

What are the opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations?

A key pillar of the UN Global Compact's work is to support companies to develop the skills, resources and capabilities they need to support their efforts to become more sustainable. The Global Compact provides learning experiences across a broad range of sustainability topics, including sustainability reporting, offering companies actionable insights and best practices.

The Global Compact has worked on sustainable finance for the last decade, bringing companies, investors, and UN agencies together. The Financial Innovation Action Platform evolved into the Chief Financial Officer (CFO) Taskforce in 2019 to establish the groundwork for a broad coalition of CFOs working to harness the full potential of corporate finance to empower the sustainable transition. That initiative became the CFO Coalition for the SDGs.

As corporate sustainability initiatives increasingly become part of core business strategy, leaders are rethinking the future of corporate finance and corporate investments to advance social good. The Global Compact provides the guidance and resources finance executives need to transform their business models and incorporate the SDGs into their business models — a move that can open US$12 trillion in market opportunities. Global Compact resources on sustainable finance include:

- CFO Principles on Integrated SDG Investments and Finance
- Position Paper: CFO Action On Corporate Investment and Finance For Sustainable Development
- Scaling SDG Finance for the Sustainable Development Goals
- SDG Bonds | Leveraging Capital Markets for the SDGs
- Corporate Finance | A Roadmap to Mainstream SDG Investments

As part of its Forward Faster campaign, the Global Compact recently released a guide for businesses to take Finance and Investment Action. Companies who commit to Target 1 on SDG-Aligned Investments and/or Target 2 on SDG-Linked Financing, are supported with resources and capability building via The UN Global Compact Academy and the CFO Coalition for SDGs.

The UN Global Compact Academy also provides a number of training options to build companies' capacities to make sustainability-related financial disclosures, including:

- The Climate Ambition Accelerator (Australia track, full 6-month course)
- Taking financial action for the SDGs: Implementing the CFO principles (Foundation Course)
- Managing nature-related risks and opportunities with TNFD (Video)
- SBTs in the finance sector with Nate Aden of SBTi (Video)

- Taking financial action for the SDGs: Implementing the CFO Principles (SCORM e-learning module)
- Financial Institutions Sector – SBT Exchange (On-demand Course)
- Guidance to report on the SDGs (Video)
- Actions to steer financed emissions towards GHG reduction targets (Q&A Video)

In the context of anticipated policy and legislative changes on sustainable finance, businesses will need to make significant changes to their governance, operations and within their supply chains. Businesses would benefit from industry-wide initiatives and support from the Government for capacity-building and technical assistance to comply with new requirements.

Capacity building support to the business community – and to SMEs in particular – should continue for a transition period after the reforms are phased in. For example, the Government could produce clear and practical guidance for business to assist in meeting their anticipated obligations under the Strategy, including data gathering and reporting practices. Engagement should also continue periodically to assess the implementation (including any associated challenges) and effectiveness of any reforms.

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

We support Australia's substantive alignment with ISSB's subsequent releases for sustainability-related financial disclosure frameworks and standards, which includes TNFD guidance. We also advocate for moving beyond disclosure towards nature-positive practice, which includes target setting in line with the UN Environment Program Finance Initiative ("**UNEP-FI**").

As explained by UNEP-FI, the interconnectedness of nature and climate requires an integrated approach to these crises from the financial sector. Although the "E" in ESG has been mostly linked to climate change thus far, we suggest widening the scope to other impacts and risks to the financial system. These include biodiversity loss, deforestation, declining ocean health and pollution.

Notably, the term "nature-positive" has been increasingly adopted, with G7 leaders recently announcing that "our world must not only become net zero, but also nature positive, for the benefit of both people and the planet." Likewise, this echoes the findings of the IPCC 6th Assessment Report ("**AR6**"), which asserts that climate change adaptation cannot be delivered without considering nature and biodiversity. Likewise, we also support Australian leadership in hosting the 2024 Global Nature Positive Summit.

We support use of the term "nature-positive" as defined by the SBTN, which pushes for system-level change, as a long-term goal (by 2050), achieved through immediate ambitious actions taken by a range of stakeholders. This includes engaging cities, food systems, energy & electricity systems and regional areas to: reduce pressures caused by nature and biodiversity impact; contribute toward the regeneration of natural capital stocks and restoration of ecosystems; scale up collective action within ecosystems, value chains, and communities of practice; and make progress measured by both organisational capacity to manage nature and biodiversity impact and by the health of the ecosystems in which organisational operations are embedded.

We suggest that the Government also engage in nature-positive target setting in addition to the disclosure of nature & biodiversity impact. For example, UNEP-FI recently released guidance for financial sector contributions to curbing nature loss and aligning financial flows to nature positive outcomes. In line with UNEP-FI's private sector suggestions, we suggest that the Government support the finance sector with the following:

- Collaborative support for initiatives in favour of biodiversity such as the UNEP-FI, Principles for Responsible Investment (PRI), Business for Nature and the Finance for Biodiversity Pledge;
- Adaptation of investment strategies and engagement with companies;
- Assessing private sector risks, impacts and dependencies;
- Setting targets in line with the SDGs and the Kunming-Montreal Global Biodiversity Framework; and
- Reporting publicly on positive and negative contributions to biodiversity by using the Taskforce on Nature-related Financial Disclosures ("**TNFD**") or similar approaches.

Priority 2: Develop a Sustainable Finance Taxonomy

What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy? What are the key insights from international experience to date?

Sustainable finance taxonomies can provide credibility, integrity and transparency to the market, facilitating the identification of sustainable investment opportunities for financial market participants, and, in turn, enabling the mobilisation of capital linked to sustainability objectives.[2] An Australian sustainable finance taxonomy has the potential to be a useful tool to support net-zero goals and mobilise capital towards a more sustainable future. By facilitating more widespread and credible sustainability reporting, a taxonomy would promote greater availability of relevant information for sustainable development (SDG 12). Further, a well-designed and implemented sustainable finance taxonomy could provide an additional tool to address greenwashing and promote greater transparency in the financial system (see comments below in relation to Priority 5).

We note that the Australian sustainable finance taxonomy project is well advanced as a joint industry-government initiative led by ASFI and Commonwealth Treasury. While an Australian sustainable finance taxonomy must be tailored to domestic objectives, it is also necessary to ensure it is comparable and interoperable with other taxonomies at regional and global levels. Interoperability will facilitate access to cross-border financial markets, while avoiding information asymmetry and market fragmentation. We note that UNEP recently released a publication providing a number of guiding principles from international experience and promoting alignment of international taxonomies: "Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean" including:

- assessment and prioritisation of key economic sectors
- guidance on selection of activities
- guidance on methodologies for selection of metrics for defining screening criteria
- guidance on process of taxonomy development and governance structures

[2] United Nations Environment Programme, 2023. Common Framework of Sustainable Finance Taxonomies for Latin America and the Caribbean. Latin America and the Caribbean. Available here.

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

We note that the current development of an Australian sustainable finance taxonomy is predominantly focused on climate change mitigation, with minimum social safeguards and a Do No Significant Harm framework. We recommend that the Government plan to support the extension of the taxonomy more broadly to other environmental and social objectives in the future, with a priority on biodiversity, ecosystems and ecosystem services; human rights; and human capital.

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

The UNEP publication on a *Common Framework of Sustainable Finance Taxonomies* made the following pertinent observations about governance arrangements:

> The importance of adequate governance of taxonomies lies in the fact that the development of taxonomies requires decisions on selection of objectives, sectors, activities, and eligibility criteria, which involves coordination between multiple actors, both governmental and non-governmental. Therefore, it is necessary to organise the process under a structured hierarchy with clear roles and responsibilities assigned before the start of the process. The responsibilities and tasks of the various entities selected for the development of the taxonomy depend on the governance structure selected and must ensure a multi-stakeholder engagement (including the consultation process with public and private sectors, NGOs, civil society, multilaterals, academia, and other technical experts) to ensure a robust and a transparent development process which will also help improve the acceptance of taxonomies by market participants. Taxonomies should be shielded from political changes and/or discussions so that they maintain credibility in the markets in the face of political cycles. This can be achieved mainly through the inclusion of stakeholders other than government agencies or ministries in the development process. Hence, this guiding principle calls for the definition and planning of adequate governance for development and implementation of taxonomies and to ensure its applicability in the market.[3]

Pillar 2: Financial system capabilities

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?

The UNGCNA recently made a comprehensive submission to the Senate Inquiry into greenwashing (attached at **Appendix 1**).

The UNGCNA strongly supports the overarching intent of that Inquiry: to improve the quality and availability of information about environmental and sustainability issues in the market. This objective aligns closely with two specific targets of the SDGs:

[3] *Ibid*. See Guiding Principle 6.

- 12.6: encourage companies to adopt sustainable practices and sustainability reporting
- 12.8: to ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature.

We consider that the ultimate policy goal is to promote greater transparency, with more accurate information, about ESG characteristics of businesses, and the goods and services they supply to the market. To achieve that goal, it is important for the policy settings to achieve a balance between mechanisms to promote appropriate disclosures of information, with proportionate regulatory responses to instances of inaccurate or misleading information in the market.

To date, there is limited information to suggest that the existing legislative prohibitions dealing with false, misleading or deceptive conduct are not fit for purpose to deal with legitimate cases of ESG-washing. We take the view that serious instances of ESG-washing can be addressed under existing legislative frameworks. Existing matters before the courts should be monitored as they progress through the system before conducting a subsequent review of whether new legislation is genuinely warranted to supplement the existing legislation.

Nevertheless, we suggest that more detailed Regulatory Guidance on the existing legislation would provide greater certainty to the business community, as they navigate the growth of demands for ESG information and build the necessary capabilities and processes. Regulatory Guidance should also explicitly address enforcement policy. In order to reduce incentives for "greenhushing," we recommend that the regulatory community explicitly articulate a continuum of regulatory responses to be applied - from firm responses to deliberate or egregious breaches of the law by ESG-washing, through to education and compliance responses in examples where more minor, mistaken or inadvertent accusations of ESG-washing might be made.

We acknowledge that both the ACCC and ASIC have released updated Regulatory Guidance over the course of 2023 that help to better inform market participants. We also recognise that it will be important for enforcement policies to remain flexible and adaptable, so they can be updated as terminology, technology and business practices continue to develop and evolve.

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?

It is apparent that the outcomes of the Strategy will place additional pressures on the already growing demand for business data to assess and report on sustainability considerations. In many cases, businesses require access to data in the control of other businesses in their supply chain or sector. The need for efficient and cost-effective data exchange is only increasing.

It would be prudent for the Australian Government to support coherent data related initiatives, such as the development of centralised, open access platforms. The creation of a central repository for sustainability data, accessible to all market participants, would generate efficiencies by enabling benchmarking and risk assessments.

However, we also note that the increased need for exchange of commercial data amongst businesses could be in tension with Australian and international competition laws. Violations of cartel offences or other anti-competitive agreements can be asserted or established on the basis of information exchanges amongst businesses. It is critical that Treasury engage with the Australian Competition and Consumer Commission to support the development of appropriate information exchange protocols and systems, as well as to provide clear regulatory guidance to the business community about the extent to which information can lawfully be exchanged for sustainability purposes. We note that extensive work has been undertaken on this topic in other jurisdictions to give businesses greater certainty about when collaborations for climate action will be exempt from competition law. For example, the UK Competition and Markets Authority has published new Green Agreements Guidance, explaining how competition law applies to environmental sustainability agreements between firms operating at the same level of the supply chain, to help them act on climate change and environmental sustainability.

Pillar 3: Australian Government leadership and engagement

Priority 9: Issuing Australian sovereign green bonds

What are the key expectations of the market around issuance of, and reporting against, sovereign green bonds? What lessons can be learned from comparable schemes in other jurisdictions?

The UN Global Compact has produced a guide that explores the role of the bond market in sustainable development: "SDG Bonds | Leveraging Capital Markets for the SDGs:"

> The bond market – the largest asset class in the global financial markets – can play a role in the realisation of the SDGs. With US$6.7 trillion of annual issuance, bonds can provide a cheap, reliable and scalable source of capital for a variety of stakeholders involved in the implementation of Agenda 2030, including companies, governments, cities and public-private partnerships. SDG bonds also provide an answer to the lack of SDG investment opportunities for institutional investors. A diverse portfolio of SDG Bonds, including sovereign, municipal, corporate and project bonds across developed and emerging markets could fulfill mainstream investors' growing demand for impact while matching their risk-return appetite.

Priority 11: Promoting international alignment

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

Given the reality of global supply chains and international markets, businesses would benefit from harmonisation of relevant regulatory requirements, standards and principles across national and international jurisdictions, to the extent possible. Having different legislative schemes, different regulations and different enforcement approaches between Australia and major trading partners creates additional burdens and compliance costs for businesses operating across multiple jurisdictions.

For international consistency, the Global Compact recommends that companies align with existing global standards to define and account for their SDG-aligned investments and financing. This includes:

- Sustainable finance standards, including the green, social, sustainability and sustainability-linked bond and loan principles from the International Capital Market Association ("**ICMA**") and the Loan Syndications and Trading Association ("**LSTA**").

- Country or regional sustainable taxonomies. However, taxonomy alignment is not required for SDG-aligned investments, as the SDGs and taxonomies can cover different scopes of impact.

- Sustainable investment and banking standards and frameworks, for example:

    - The Global Investors for Sustainable Development ("**GISD**") Definition of Sustainable Development Investing and Model Mandate

    - UN Environment Programme Finance Initiative Principles for Responsible Banking

    - Principles for Responsible Investment ("**PRI**")

- Sustainability reporting standards and standardised sustainability metrics: the International Sustainability Standards Board ("**ISSB**"), European Sustainability Reporting Standards ("**ESRS**"), Task Force on Climate-Related Financial Disclosures ("**TCFD**"), Sustainability Accounting Standards Board ("**SASB**"), CDP and the Global Reporting Initiative ("**GRI**").

We also suggest that Australia align with the *UN Alliance for SDG Finance* – led by the UNGC, UNEP-FI and PRI. The *Global Alliance on SDG Finance* brings together three distinct but complementary platforms on SDG finance, providing a comprehensive set of solutions to mobilise private capital in achieving the SDGs:

- UN Global Compact Financial Innovation for the SDGs
- UNEP-FI Principles for Positive Impact
- PRI Blueprint & Advisory Group on the SDGs

Closing

It is important for Australia to develop an ambitious and effective suite of measures to accelerate the transition to a more sustainable Australian economy, in partnership with the Australian business sector, the international community and other stakeholders.

The UNGCNA will continue to connect, promote and enable the business community's efforts towards achieving the Sustainable Development Goals. We would be happy to discuss further if we can be of any assistance in engaging the business sector in relation to the outcomes of this consultation.

Contact

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