WWF AUSTRALIA

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Australian Treasury Sustainable Finance Strategy Consultation Paper

WWF-Australia (WWF) welcomes the opportunity to provide comments on the Australian Treasury's Sustainable Finance Strategy Consultation Paper, released in November 2023. WWF supports the Government's initiative to develop a sustainable finance strategy, while emphasising the need to address gaps and weaknesses in the approach, notably:

- Lack of evidence of the main barriers to sustainable finance, or evidence that the strategy proposed to overcome those barriers is likely to be effective;
- Missed opportunities to 'raise the bar' by learning from the most ambitious international sustainable finance initiatives, and going beyond them; and
- The need for complementary regulatory action to strengthen incentives for companies to go beyond 'single materiality' reporting and mitigation, including clear deadlines for measuring, reporting and addressing their nature-related impacts.

We expand on these points below, while also responding to some of the questions set out in the consultation paper.

INTRODUCTION

We are living through a period of disruption. Our climate is changing; industries are shifting; technology is evolving at break-neck speed. The World Economic Forum says we are entering the Fourth Industrial Revolution, defined as a "new chapter in human development" where advances in technology, from artificial intelligence to genetically modified organisms, will change the way we live, work, and relate to one another[1].

WWF prefers to speak of a 'Regenerative Revolution' that will put us on track to build a better future, based on emerging conceptions of a nature-positive and 'Regenerative Economy'. WWF's vision is that, by 2030, Australia is an active leader in the transition to a productive and resilient economy that lives within planetary boundaries and restores both natural and social capital. This requires moving from linear to circular business models that eliminate waste and pollution, keeping materials and products in use for longer, while also regenerating damaged ecosystems and halting species loss. A regenerative economy is climate resilient, electrified, and uses only clean and renewable energy. It is nature positive by design, socially inclusive and enhances well-being.

[1] https://www.weforum.org/focus/fourth-industrial-revolution/

Examples of a regenerative transition can be seen around the world. For Australia, three major opportunities are clear:

1. Renewable energy superpower – Australia has the natural endowments and skills to become a major exporter of renewable energy and zero-carbon products. With the world now firmly on the path of decarbonisation, we expect to see declining demand for fossil fuels and rapid growth in markets for renewable energy and zero-carbon products. Australia could – and should – aim to produce and export around 700% of the electricity we currently consume.

2. Nature-positive and circular industry – A second opportunity lies in shifting to sustainable production. Australia can become a nature-positive and circular economy, where natural capital is conserved and restored by every industry, and waste and pollution are minimised through better design and longer use of products. This would help the environment, add value to exports and enhance 'Brand Australia'. With global markets increasingly demanding transparent supply chains and evidence that products are produced sustainably, Australian producers can confidently sell into this growing green market.

3. Building skills and capacity – Another opportunity for Australia is supporting governments, businesses and civil society organisations, both domestically and abroad, to develop the new skills, mindsets and tools required for a Regenerative Economy. We can help ourselves and other countries to build the capabilities, technologies and policy frameworks needed for a zero-carbon, circular, nature positive and more inclusive economy.

A sustainable finance strategy must facilitate these and other emerging opportunities. The strategy must steer both private and public capital to build the physical infrastructure, market institutions and human capabilities that underpin a regenerative and nature positive economy. The comments below elaborate on this mission, while also responding to questions set out in the consultation paper.

GENERAL COMMENTS ON THE CONSULTATION PAPER

1. **A sustainable finance strategy must be evidence-based**

The consultation paper contains little discussion of the barriers to net zero, nature positive capital allocation. Nor does it offer compelling evidence that the proposed approach will overcome these barriers. Both gaps must be filled to support the strategy and ensure it is fit for purpose.

The consultation paper focuses on strengthening transparency through mandatory corporate disclosure of sustainability risks and transition plans, building a sustainable finance taxonomy, and developing a labelling system for sustainable investment products (Pillar 1). However, the paper provides no evidence that increased transparency would lead to a significant shift in capital flows, away from unsustainable ventures and towards more sustainable activities.

Greater transparency is necessary for sustainable investment, but it is not sufficient. Until polluters bear the cost of the harm they cause, or regulations and other (dis)incentives constrain financing, polluters will continue to enjoy access to capital markets. They may pay a small risk premium, but the additional cost will remain affordable as long as adverse externalities are not fully internalised.

WWF calls on the government to explain how it will use the information provided in sustainability disclosures and a finance taxonomy to reform environmental, fiscal and other policies in ways that 'internalise' the costs of pollution and other adverse impacts on nature, while protecting vulnerable groups. The consultation paper talks about several regulatory 'use cases' but is silent on this issue.

Similarly, the consultation paper calls for *"incorporating First Nations perspectives and supporting positive social and economic outcomes for First Nations people,"* but no details are provided on the existing barriers to financial inclusion and investment in Indigenous communities, nor how these barriers will be overcome. Again, WWF urges government to provide an analysis of the problem as well as concrete proposals to address it.

2. Australia should adopt best-practice standards and aim to lead rather than follow

The consultation paper suggests that government is content to follow the lead of other jurisdictions and accept relatively low standards of transparency. For example, the paper refers to ISSB as the benchmark for disclosure requirements, despite the weaknesses of this standard. WWF calls on government to consider a wider range of sources for benchmarking its sustainable finance policy, with a preference for more ambitious frameworks that address nature related impacts.

For example, while the ISSB encourages companies to include Scope 3 GHG emissions in disclosures, their standard focusses on risks considered 'financially material' to reporting companies. In contrast, more holistic reporting standards, such as the Global Reporting Initiative (GRI), require organisations to assess and disclose both direct and indirect impacts throughout their value chains, even if these do not pass a narrow definition of 'materiality'. The approach adopted by the ISSB is arguably not in the long-term interests of investors (and other stakeholders) and could impede corporate action on sustainability[2]. WWF calls on Government to play a leadership role in sustainable finance, raising the bar rather than adopting relatively weak standards set by others.

The consultation paper lists a few international initiatives as sources of inspiration (e.g. TCFD, TNFD, ISSB), but ignores other, more ambitious frameworks for corporate reporting and target-setting. The GRI is one notable omission, especially given its long track record and wide adoption (72% of ASX100 companies as of June 2023)[3]. Other omissions include:

- The UN Sustainable Development Goals (SDGs) as an over-arching framework for setting targets and reporting sustainability performance;
- Guidance on setting targets for corporate climate action (not just disclosures) from the Science-Based Targets initiative (SBTi)[4], used by 41% of AXS100 companies as of 2023;
- New guidance for companies on setting nature-related targets, focusing on water and deforestation, published in 2023 by the Science Based Targets Network (SBTN)[5]; and
- The new mandatory European Sustainability Reporting Standards (ESRS), adopted under the EU Corporate Sustainability Reporting Directive (CSRD), which come into force from 2024 for large companies, and embrace smaller companies in subsequent years[6].

3. Expanding disclosure beyond climate requires double materiality and clear deadlines

WWF welcomes recognition that sustainable finance must address issues beyond climate mitigation and adaptation. However, if the strategy is to fulfil its promise as a lever for living within planetary

[2] See for example: https://www.linkedin.com/posts/andreasrasche_issbs-faber-questions-simplistic-push-activity-7118125586094395392-JJ2e/; https://climateimpact.edhec.edu/triple-illusion-double-materiality; https://www.impactinstitute.com/csrd-org-to-faber-without-double-materiality/

[3] https://assets.kpmg.com/content/dam/kpmg/au/pdf/2023/australian-sustainability-reporting-trends-june-2023-update.pdf

[4] https://sciencebasedtargets.org

[5] https://sciencebasedtargetsnetwork.org

[6] https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043

boundaries, disclosures based on double materiality will be vital. Only a double materiality approach, which captures social and environmental risks to society as well as potential impacts on corporate performance, can fully represent the interests of investors and other stakeholders[7].

Moreover, given the urgency of meeting the 2030 deadlines agreed in the Kunming-Montreal Global Biodiversity Framework (GBF), the ambition of the government's 2022 Nature Positive Plan, and the growing consensus that Net Zero targets cannot be achieved without protecting nature[8], WWF calls on government to set firm deadlines for rolling out nature-related disclosure requirements, while also building out the sustainable finance taxonomy to account for impacts and dependencies on natural capital, using a double materiality approach.

RESPONSES TO QUESTIONS IN THE CONSULATION PAPER

Questions set out in the Consultation Paper are listed below in *italics*. WWF responses are in red font. Not all questions are addressed.

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

- *How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?*
    - → Australia should lead rather than follow global trends. This means setting a deadline for mandatory disclosure of sustainability issues beyond climate. WWF was pleased to see references in the consultation paper to the TNFD, which we strongly support[9].
    - → ISSB disclosure standards require single materiality assessments. However, even if the information disclosed is consistent and accurate, financial markets may ignore or downplay sustainability issues that do not pose a clear risk to their operations and shareholders. WWF strongly believes that corporate disclosures should be expanded to include external social and environmental impacts ('double materiality').
    - → Double materiality disclosure is arguably better aligned with Target 15 of the Global Biodiversity Framework (GBF), under the Convention on Biological Diversity (CBD), which the Australian Government has committed to implement[10].
    - → Double materiality disclosure is better able to highlight the potential systemic risks of climate change and nature loss, which are of growing concern to financial regulators around the world[11].
    - → Disclosures must be reinforced by stronger regulations and financial incentives, so that firms move quickly to internalise adverse impacts, especially on nature.

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?*

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[7] https://investesg.eu/2023/07/25/one-materiality-and-make-it-a-double-please-wwf-international/
[8] https://climatechampions.unfccc.int/no-net-zero-without-nature/
[9] https://wwf.panda.org/wwf_news/?9680966/TNFD-nature-related-risks-and-opportunities-reporting
[10] GBF Target 15 calls on governments *"to encourage and enable business* [to] *monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity"* (https://www.cbd.int/article/cop15-final-text-kunming-montreal-gbf-221222).
[11] https://www.ngfs.net/en/communique-de-presse/ngfs-acknowledges-nature-related-risks-could-have-significant-macroeconomic-and-financial. See also WWF's analysis and recommendations on financial regulation (https://wwfint.awsassets.panda.org/downloads/wwf_gfri_roadmap_2022_nov_2022.pdf).

- → A recent WWF review of sustainable finance taxonomies revealed the need to integrate nature-related performance criteria early on, including consideration of impacts and dependencies on nature throughout supply chains[12].
- → There is a serious credibility risk if Australia follows the example of the European Union, which included fossil gas and nuclear as 'sustainable' transition fuels in the EU taxonomy. WWF opposed this in the EU and would likely oppose it in Australia[13].
- → A taxonomy can and should inform (and be informed by) broader regulatory policy, e.g. pollution pricing, mitigation requirements, and liability for harm. The use cases listed in the consultation paper (Box 4) imply that transparency will drive change. However, while better information is necessary, it is not sufficient. Taxonomies should be used to guide impact mitigation requirements and other incentives for corporate action, as well as disclosure requirements and labelling standards.

- *What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?*
  - → Alignment to 1.5°C pathway and carbon budgets.
  - → Supporting measurements, policies and incentives to accelerate the shift to a circular economy, which means designing out waste and pollution, keeping materials and products in use, and regenerating natural systems.
  - → Nature-positive business, including biodiversity conservation and restoration through more sustainable management of agriculture, forestry and fisheries.
  - → Provision of fresh water, seawater/ocean and terrestrial ecosystem services.
  - → First Nations 'Closing the Gap' measures and indicators of success.
  - → Better indicators of social inequality and other indicators of social capital.
  - → Valuing community-led, nature-positive, regenerative ventures.
  - → Sustainable Development Goals (SDGs) to be progressively incorporated into the taxonomy, taking into account the Global SDG report 2023[14].

- *What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?*
  - → Legislate the taxonomy, rather than rely on administrative rulings.
  - → The paper states that *"taxonomy criteria could be incorporated into corporate reporting requirements, transition planning frameworks, and labelling schemes for sustainable investment products"* (pg. 13). The list of potential use cases should be extended to include stronger and wider impact mitigation requirements (e.g. expansion of the Safeguard Mechanism to embrace small-scale emitters, expansion of biodiversity impact assessment and mitigation requirements beyond listed threatened species and Matters of National Environmental Significance).
  - → The Clean Energy Regulator (CER) currently manages reporting and disclosure for the Renewable Energy Target, National Greenhouse & Energy Reporting Scheme (NGERs) Safeguard Mechanism, Corporate Emission Reduction Transparency Report (CERT), and the planned Guarantee of Origin for Hydrogen certificates program. WWF would support CER being designated to manage the sustainable finance taxonomy, subject to establishment of an independent supervisory board or body with representation from Treasury and relevant private and civil society organisations.

[12] https://wwfint.awsassets.panda.org/downloads/when_finance_talks_nature.pdf
[13] https://www.wwf.eu/?6688941/Five-Reasons-To-Oppose-The-Inclusion-Of-Gas-And-Nuclear-Power-In-The-Eu-Taxonomy
[14] Global Sustainable Development Report (GSDR) 2023 | Department of Economic and Social Affairs (un.org)

Priority 3: Support credible net zero transition planning

- *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?*
  - → ISSB is not the only nor necessarily the best standard for corporate sustainability disclosures. Government should review other sources of guidance, notably the GRI, TNFD, and European Sustainability Reporting Standards (ESRS)[15].

- *Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?*
  - → GHG emissions from Australia's land sector may be seriously under-reported, due to inaccurate measurement of vegetation change[16]. A key opportunity is to improve the monitoring and reporting of native vegetation loss and regrowth in a timely and nationally consistent way. The Commonwealth currently uses the National Carbon Accounting System (NCAS) to account for land use emissions. However, NCAS estimates are inconsistent with monitoring by some States, such as Queensland's Statewide Landcover and Trees Study (SLATS)[17]. More accurate reporting of GHG emissions from land use is essential to ensure credible carbon accounting, well-informed net zero planning, and lower risk to carbon market investors.
  - → Explain how the taxonomy will inform the progressive development of national sectoral emissions reduction pathways.
  - → Add a reference to the SBTN standard for Nature.

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?*
  - → The pre-requisites of credible labelling include multi-stakeholder governance, continuous improvement, integration of social as well as environmental impacts, transparent audit trails, right of appeals. Follow ISEAL best-practice guidance[18].
  - → A sustainable investment product labelling regime is only as good as the underlying securities included in the investment fund. A credible labelling system for sustainable investment products will therefore need to devise a credible system for assessing the sustainability performance of underlying assets.

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?*
  - → In a submission to the Senate Inquiry into Greenwashing, WWF recommended clear rules against greenwashing as well as stronger enforcement; government support, regulation and incentives for credible certifications; fines for rule-breaking that

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15 https://www.responsible-investor.com/incoming-gri-chair-strongly-urges-australia-to-choose-eu-standards-over-issb/

16 https://assets.wwf.org.au/image/upload/f_pdf/file_WWF_Trees_Scorecard_report

17 https://www.researchgate.net/publication/360577362_Deforestation_in_Queensland_201819_nearly_double_what_Australian_Government_reports_to_the_UN

18 https://www.isealalliance.org

provide an effective deterrent; public information campaigns to help consumers assess corporate claims; and taking inspiration from the EU Green Claims Directive[19].

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?*
    - → WWF encourages government to move quickly to integrate deforestation and conversion risk in corporate disclosure requirements, in the finance taxonomy, and in financial product labelling. Guidance is available from ongoing initiatives, notably the Accountability Framework initiative (AFi) and the EU Regulation on deforestation-free products (EUDR), as well as WWF[20].

Priority 7: Addressing data and analytical challenges

- *What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?*
    - → See response to Priority 3.

Priority 8: Ensuring fit for purpose regulatory frameworks

- *Do you agree that existing regulatory and governance frameworks and practices have adapted well to support better integration of sustainability-related issues in financial decision making? Are there barriers or challenges that require further consideration?*
    - → The paper acknowledges the limitations of disclosure: *"transparency alone is not enough – sustainability-related considerations need to be practically embedded in the decision making and governance of firms, financial institutions and regulators"* (pg. 25). Nevertheless, the regulatory 'use cases' set out in the paper are timid. More effort is required to identify policy reforms that will lead firms to internalise adverse social and environmental impacts, e.g. land use zoning, technology mandates, trade policy, pollution pricing, or expanded mitigation and offset requirements[21].
    - → The paper does not mention environmentally harmful subsidies, which undermine efforts to boost sustainable financing. WWF calls for the rapid removal, reduction or reform of harmful incentives, including subsidies, as the Australian Government has repeatedly committed to do in international fora[22].

- *What steps could the Government or regulators take to support effective investor stewardship?*
    - → The paper references the recent Y*our Future, Your Super Review*[23]. WWF supports adjustments to rules and regulations governing the superannuation industry to facilitate investments in sustainable activities. For example, the 'Your Future, Your Super' Performance Test benchmarks suggest that superannuation funds are currently discouraged from making large investments in renewable energy.

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[19] https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Greenwashing/Submissions (submission no. 20).

[20] https://accountability-framework.org; https://www.dcffinance.org; https://environment.ec.europa.eu/topics/forests/deforestation/regulation-deforestation-free-products_en

[21] https://wwf.panda.org/discover/our_focus/finance/greening_finance/greening_financial_regulation/

[22] Target 18 of the GBF calls on governments to *"eliminate, phase out or reform incentives, including subsidies, harmful for biodiversity, in a proportionate, just, fair, effective and equitable way."* See also the 10 Point Plan for Financing Biodiversity, endorsed by Australia (https://www.financebiodiversity.org/call-to-action).

[23] https://treasury.gov.au/consultation/c2022-313936

- → Promote and enforce directors' duties to consider climate and nature-related risks.
- → Promote corporate disclosures that go beyond single materiality risks, to include adverse external impacts on the environment and communities.

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?*
  - → Ensure that any government-issued green bonds are certified to the highest standard, e.g. the Climate Bonds Initiative or EU Green Bond standard[24].

- *What other measures can the Government take to support the continued development of green capital markets in Australia?*
  - → Ensure that sovereign green bonds go beyond a narrow focus on climate and support a comprehensive, nature-positive investment framework. A range of environmental issues can and should be addressed, including the sustainable use and protection of water and marine resources, the transition to a circular economy, waste and pollution prevention and control, the conservation of biodiversity and restoration of degraded ecosystems.

Priority 10: Catalysing sustainable finance flows and markets

- *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?*
  - → Extend public subsidies to discount financing costs for firms in industries that meet specified nature-positive criteria under the sustainable finance taxonomy.

- *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?*
  - → Private capital is reluctant to invest in novel projects where financial returns are contingent on potential market demand for biodiversity (e.g. biodiversity credits). The CEFC should offer seed capital to establish and scale ('proof of concept') business models that create verified nature and biodiversity benefits.
  - → Offer co-payments for carbon projects that deliver verified benefits for nature and/or Indigenous communities.
  - → Offer technical assistance to private firms (e.g. landholders) seeking to deliver nature positive carbon credits.

Priority 11: Promoting international alignment

- *What are the key priorities for Australia when considering international alignment in sustainable finance?*
  - → Double materiality risk assessments and disclosures, in line with the European Sustainability Reporting Standards (ESRS).
  - → Investment in climate action according to the Science-Based Targets initiative (SBTi) and piloting science-based targets for nature in accordance with guidance from the Science-Based Targets Network (SBTN).

Priority 12: Position Australia as a global sustainability leader

[24] https://www.climatebonds.net; https://www.wwf.eu/?11908716/European-Parliament-increases-transparency-for-green-bonds

- *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?*
  → Increase public financial support to developing country partners for climate mitigation and adaptation, and for global biodiversity conservation. This can include direct public support as well as blended finance initiatives, where public funds and/or financial guarantees are used to de-risk private capital and increase financial flows to projects that deliver verified climate and biodiversity benefits.

Contact Details:
Quinton Clements
Head of Policy & Horizon Scanning
qclements@wwf.org.au
0419626269