



**Unlocking  
Australia's  
Sustainable  
Finance  
Potential**

## WHAT IS IT?

- Expert tour: Ingrid Holmes and Michael Schmidt, members of the EU's High Level Expert Group, whose recommendations formed the basis of the Action Plan
- Discussion paper: led by researchers from the Centre for Business and Social Innovation and the Institute for Sustainable Futures (both at University of Technology, Sydney)
- Coordinated by Climate-KIC Australia: a not-for-profit organisation to foster innovation and collaboration between business, government, research and civil society to achieve climate goals. Affiliated with EIT Climate-KIC, an EU-partnership with similar aims and activities

## Project origins and funding



This presentation has been prepared with the financial support of the European Union in the frame of the Strategic Partnerships for the Implementation of the Paris Agreement (SPIPA) programme. The contents of this event are the sole responsibility of the authors and do not necessarily reflect the views of the European Union.



On behalf of:



Federal Ministry  
for the Environment, Nature Conservation  
and Nuclear Safety

of the Federal Republic of Germany

The programme Strategic Partnerships for the Implementation of the Paris Agreement (SPIPA) is jointly commissioned by the European Commission as a Foreign Policy Instrument Action and the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety in the context of the International Climate Initiative (IKI). SPIPA is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

## Biographies



*Ingrid Holmes, Head of Policy, Hermes Investment Management and member of the High Level Expert Group on Sustainable Finance.*

- Ingrid is Head of Policy at Hermes Investment Management, an active investor in both public and private markets with €40.4bn under management and a further €442.5bn assets under stewardship advice. Prior to joining Hermes Ingrid was a Director at sustainable development think tank E3G, leading a range of global initiatives on sustainable and inclusive finance – including the establishment of the UK Green Investment Bank. She has also held positions at the low carbon asset manager Climate Change Capital; been an energy and environment adviser in the UK Parliament; and adviser at the Department for Environment, Food and Rural Affairs. Ingrid has also held several Government advisory roles including Adviser to the Prime Minister’s Special Representative on Energy Security (2009), Sherpa to the Green Investment Bank Commission (2010/2011), Member of the UK Green Finance Initiative (2016/2018), Member of the European Commission’s High Level Expert Group on Sustainable Finance (2017/2018) and ran the Secretariat for the Green Finance Taskforce (2017/2018). Prior to her career in public policy Ingrid worked for 9 years in science publishing and journalism, with her last role based in New York working for Nature Publishing Group. She has a BSc in Biological Sciences from the University of Edinburgh and an MSc in Environmental Technology from Imperial College London.



*Michael Schmidt, member of the board of directors of Deka Investment GmbH and member of the High Level Expert Group on Sustainable Finance.*

- Michael Schmidt is member of the board of executive directors of Deka Investment, one of Germany’s largest financial institutions with almost €283 billion assets under management. Amongst various responsibilities Michael is also in charge of all activities related to sustainable investments and corporate governance. Before Deka Michael was for six years a board member at Union Investment Privatfonds GmbH and head of equity portfolio management. Prior to that, he was an equity fund manager for 14 years in the asset management division of Deutsche Bank in Frankfurt and London where he held various analyst and management positions. Michael completed a banking apprenticeship, holds a master degree in business administration and is a CFA Charterholder. He is on the board of the German Association for Financial Analysis and Asset Management (DVFA e.V.), he is a member of the sustainability advisory council of Deutsche Post DHL and a member of the High-Level Expert Group on Sustainable Finance of the EU Commission.





# FINANCING A **SUSTAINABLE** EUROPEAN ECONOMY



Ingrid Holmes

• Head of Policy  
Hermes Investment Management

• Member of the High Level Expert  
Group on Sustainable Finance  
of the EU Commission

• Michael Schmidt

• Member of the board of directors  
of Deka Investment GmbH

• Member of the High Level Expert  
Group on Sustainable Finance  
of the EU Commission

The logo for Deka, consisting of a red double-stroke symbol followed by the word "Deka" in a bold, red, sans-serif font.

Political will, regulation and voluntary initiatives are key drivers of sustainable investment worldwide.

**Paris Agreement  
COP 21 (2015)**



**UN (2015)**



**CSR Directive (2017)**

**Pension Funds Directive (2019)  
Shareholder Rights Directive (2019)**



• Picture: alphr.com



# In the European Union there are various drivers of reform.

- Fall off in bank lending and increasing focus on capital markets and 'americanisation' of the EU financial system

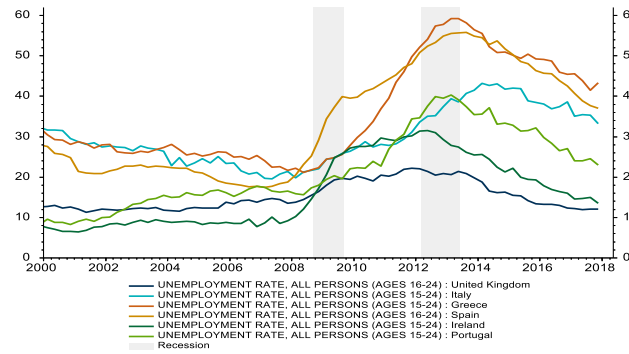


- Persistently low levels of investment and growth and agreement a more activist approach needed by the European Commission

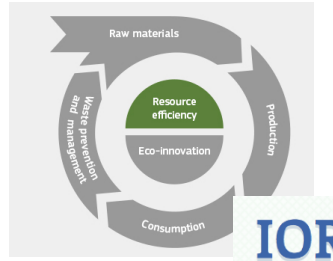
**Capital markets union**  
A plan to unlock funding for Europe's growth



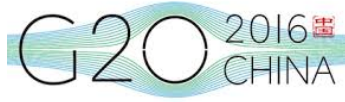
## Concerns about high youth unemployment and social unrest



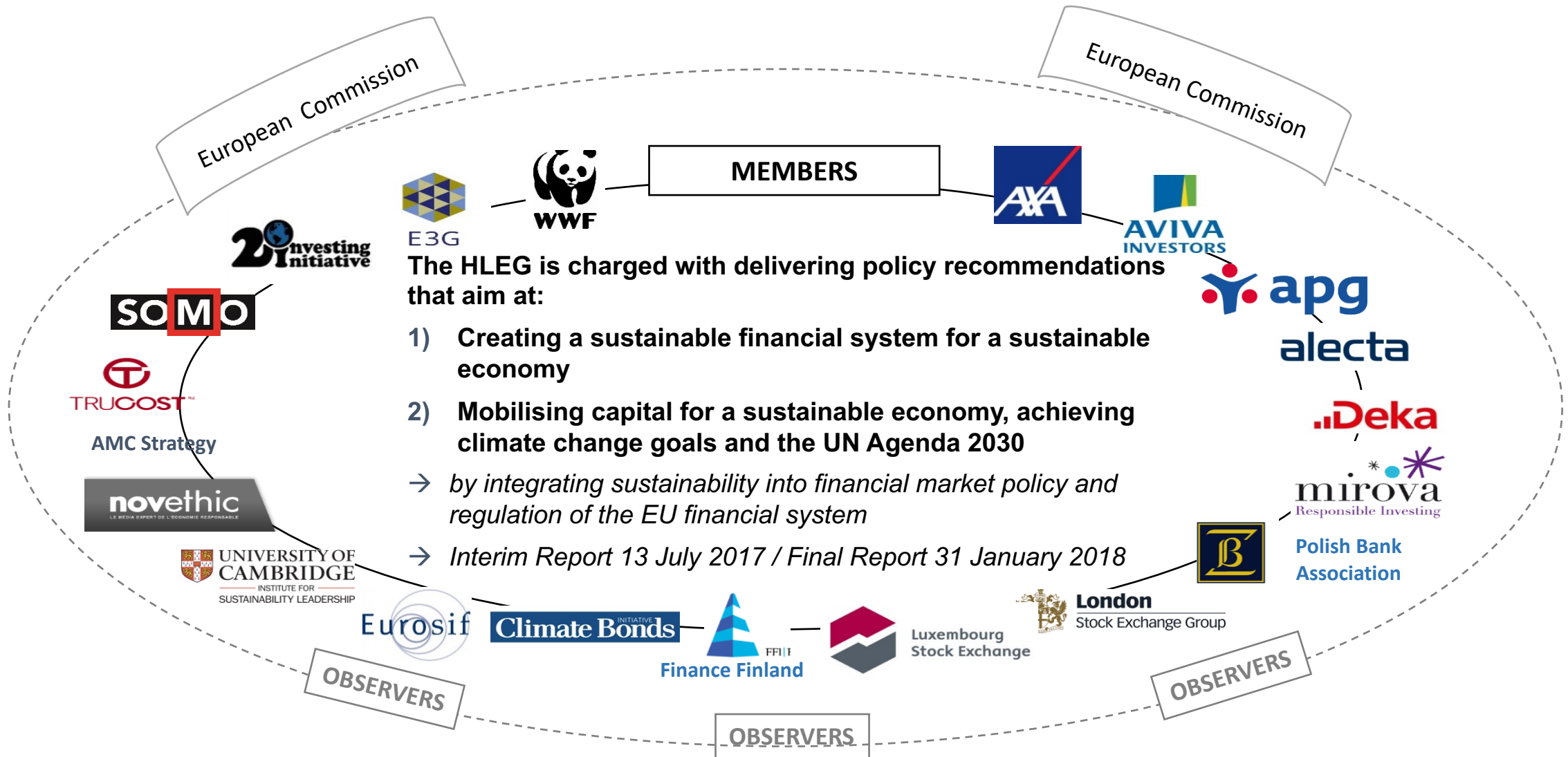
- Plus ongoing elite-level attention on climate change and resource efficiency



**IORP II Directive**



The "High Level Expert Group on Sustainable Finance" was established at the end of 2016 by the EU Commission (DG FISMA) with 20 members and 9 observers.





The final report of the High Level Expert Group is the basis for the EU Commission's Action Plan.



- 2 February 2018: Ceremonial handover to Vice President Dombrovskis in Brussels

**22 February 2018, Berlin:**  
HIGH-LEVEL CONFERENCE  
ON SUSTAINABLE FINANCE  
(Conference of the EU Commission,  
discussion of the HLEG report)

**8 March 2018, Brussels:**  
Publication *Action Plan: Financing  
Sustainable Growth*

**22 March 2018, Brussels:**  
FINANCING THE GROWTH OF  
TOMORROW  
(Conference of the EU Commission,  
discussion of the Action Plan of the EU  
Commission)  
Same time: EU Summit of Heads of  
State and Government

**24 May 2018, Brussels:**  
LEGISLATIVE PROPOSALS ON  
SUSTAINABLE FINANCE  
(Legislative proposals of the EU  
Commission)



The HLEG Final Report is seen as the most comprehensive work on sustainability in the financial industry so far.



*"Given the complexity of the financial system and its policy and regulatory framework, there is **no single lever** to achieve these ambitions and 'switch' the financial system to sustainability.(...) The art of implementation will be to not increase **the overall regulatory burden and complexity**, given that the ultimate purpose is to facilitate more investment."*

④

Connecting themes

⑧

Key recommendations with highest priority

⑧

Cross-cutting recommendations

⑧

Financial institutions and sectoral recommendations

④

Social and broader environmental sustainability recommendations



The report highlights four connecting themes to accelerate the transformation towards a sustainable financial system.

1. The first theme is the need for Europe to achieve a fully coordinated approach to sustainable development, one that synchronises changes in the financial system with action in the real economy.
2. The second theme addresses the central role of finance as a service function, responding to the needs and preferences of its clients and customers – notably Europe's citizens, entrepreneurs and public authorities.
3. The third theme highlights the importance of connecting sustainable finance with the specific needs of places across Europe.
4. The fourth theme is the imperative of extending the time horizons of financial decisionmaking so that apparently distant but transformational sustainability shifts can be anticipated, their associated opportunities captured and their related risks minimised.



16 key and cross-cutting recommendations can be clustered into three major areas of action.

**A sustainable financial system...**

**Four connecting themes**

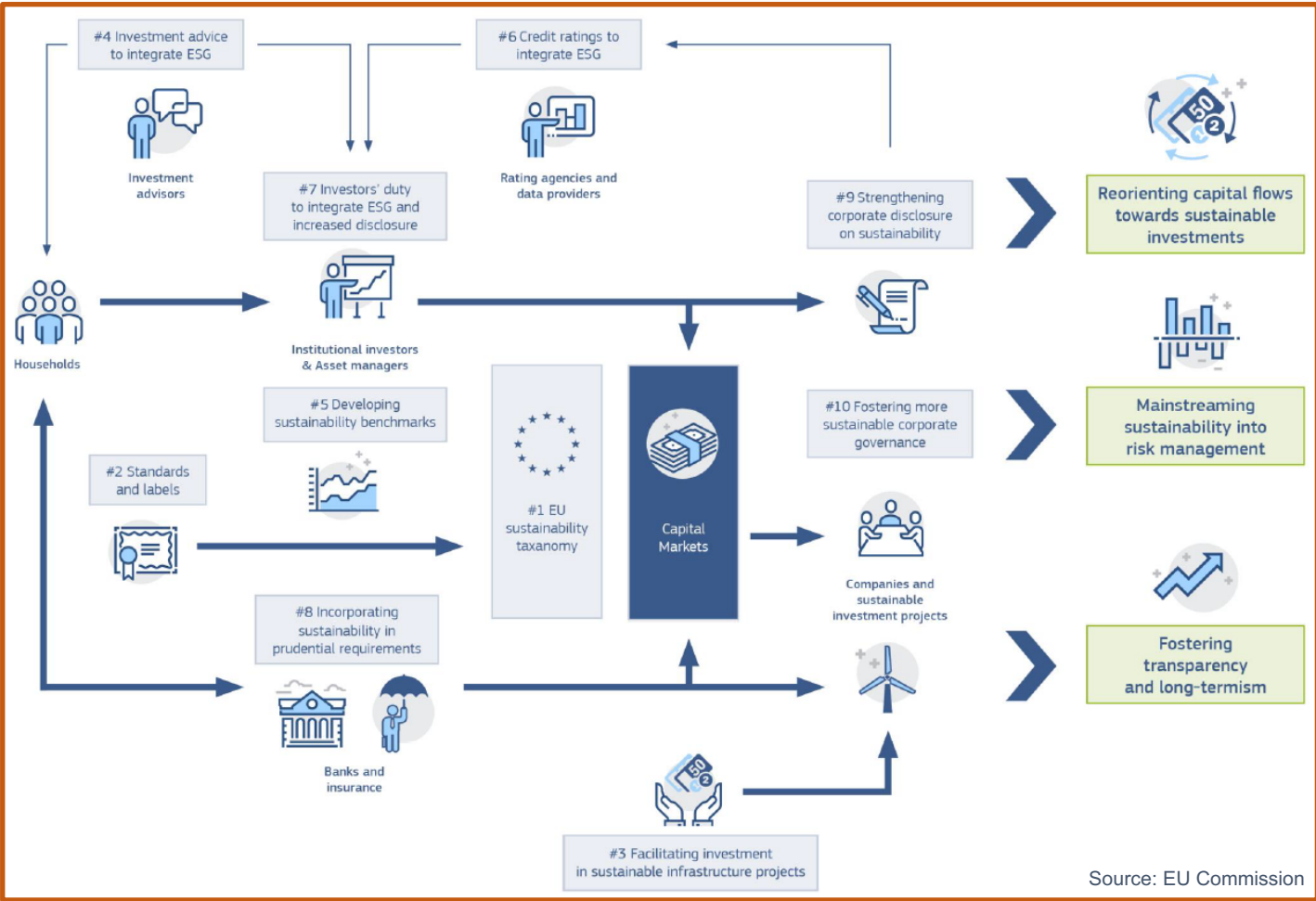
Major areas of action	Key recommendations	Cross-cutting recommendations
Definitions and standards	Common taxonomy (1) Standards and labels (5) Retail investors (4)	Global level (8)
Culture and behaviour	Investors' duties (2) Governance and leadership (7) Supervisory authorities (8) Retail investors (4)	Short-term vs. long-term (1) Citizen engagement (2) Think sustainability first (7)
Transparency and impact	Disclosure rules (3) Sustainable infrastructure (6) Retail investors (4)	EU observatory (3) Benchmarks (4) Accounting standards (5) Investment in energy efficiency (6)

**... for a sustainable economy**

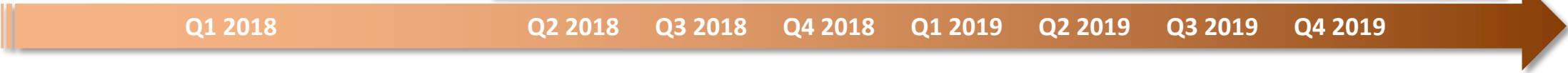
The numbers in brackets indicate the number of the respective recommendation in the HLEG report.



# The HLEG recommendations have been largely adopted in the European Commission's Action Plan "Financing sustainable growth".



Source: EU Commission



Almost all HLEG recommendations are reflected in the EU Commission's Action Plan.

European Commission		Key recommendations								Cross-cutting recommendations								Financial institutions and sectoral recommendations							
		1	2	3	4	5	6	7	8	1	2	3	4	5	6	7	8	1	2	3	4	5	6	7	8
HLEG		✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗
Action Plan	Measures	1	✓																						
	2				✓	✓																			
	3						✓								✓										
	4				✓																				
	5												✓												
	6																					✓			
	7		✓																	✓	✓				
	8																	✓	✓						
	9			✓											✓										
	10							✓	✓																
	*						✓				✓				✓										
	**															✓									

\* Implementation of Action Plan    \*\* Next steps



# The 10 explicit measures of the Action Plan provide the roadmap for European regulation on sustainable finance.

		2nd Q 2018	3rd Q 2018	4th Q 2018	1st Q 2019	2nd Q 2019	3rd Q 2019	4th Q 2019
1	<b>Establishing an EU classification system for sustainability activities</b> ➔	✘			✘	✘		
2	Creating standards and labels for green financial products	✘	✘	✘	✘	✘		
3	Fostering investments in sustainable projects	✘	✘	✘	✘	✘	✘	✘
4	<b>Incorporating sustainability when providing investment advice</b> ➔	✘		✘				
5	<b>Developing sustainability benchmarks*</b> ➔	✘				✘		
6	Better integrating sustainability in ratings and research					✘	✘	
7	<b>Clarifying institutional investors and asset managers' duties</b> ➔	✘						
8	Incorporating sustainability in prudential requirements	✘	✘	✘	✘	✘	✘	✘
9	Strengthening sustainability disclosure and accounting rule-making*	✘	✘	✘		✘		
10	Fostering sustainable corporate governance and attenuating short-termism in capital markets				✘	✘		

✘ Non-legislative measures

✘ legislative proposal

✘ Second level measure

\* Operational details to be (partly) elaborated by the Technical Expert Group (TEG).



The first four proposals of the European Commission are currently in the legislative process.

	Regulatory Level	HLEG recommendation	What is this about?	Who does it affect?
<b>A unified EU classification system („taxonomy“)</b>	Level 1	Yes	Establishment of harmonised criteria to determine whether an economic activity is environmentally sustainable.	All investors
<b>Investors' duties and disclosures</b>	Level 1	Yes	More consistency and clarity on how ESG risks become part of investment decisions.	Asset managers, institutional investors, insurance brokers, investment advisors and financial portfolio managers
		Yes	Financial institutions must disclose how they integrate ESG risks in their investment decision-making process.	
		No	Asset managers and institutional investors must demonstrate how their investments are aligned with ESG objectives and disclose how they comply with these duties.	
<b>Low-carbon benchmarks</b>	Level 1	No	The benchmarks "low-carbon" and "positive-carbon impact" enable investors to evaluate investment portfolios against climate targets.	Rating agencies, benchmark users (e.g. institutional investors)
		Yes	Benchmark providers must indicate how their methodology takes ESG factors into account.	
<b>Better advice to clients on sustainability (suitability tests)</b>	Level 2	Yes	Individual clients must be asked about their preferences regarding sustainability.	Asset managers, insurance brokers, investment advisors

Source: [https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance\\_en](https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance_en)





## The EU Commission follows an ambitious implementation timeline.





**UTS  
Research  
Insights**



# Unlocking Australia's Sustainable Finance Potential

## Research team

Dr Melissa Edwards  
Research Director  
Centre for Business and Social Innovation

Dr Scott Kelly  
Research Director  
Institute for Sustainable Futures

Dr Alice Klettner  
Senior Lecturer  
UTS Business School

Dr Paul Brown  
Senior Lecturer  
Centre for Business and Social Innovation  
Faculty of Transdisciplinary Innovation

**Centre for Business and Social  
Innovation**  
[cbsi.uts.edu.au](http://cbsi.uts.edu.au)

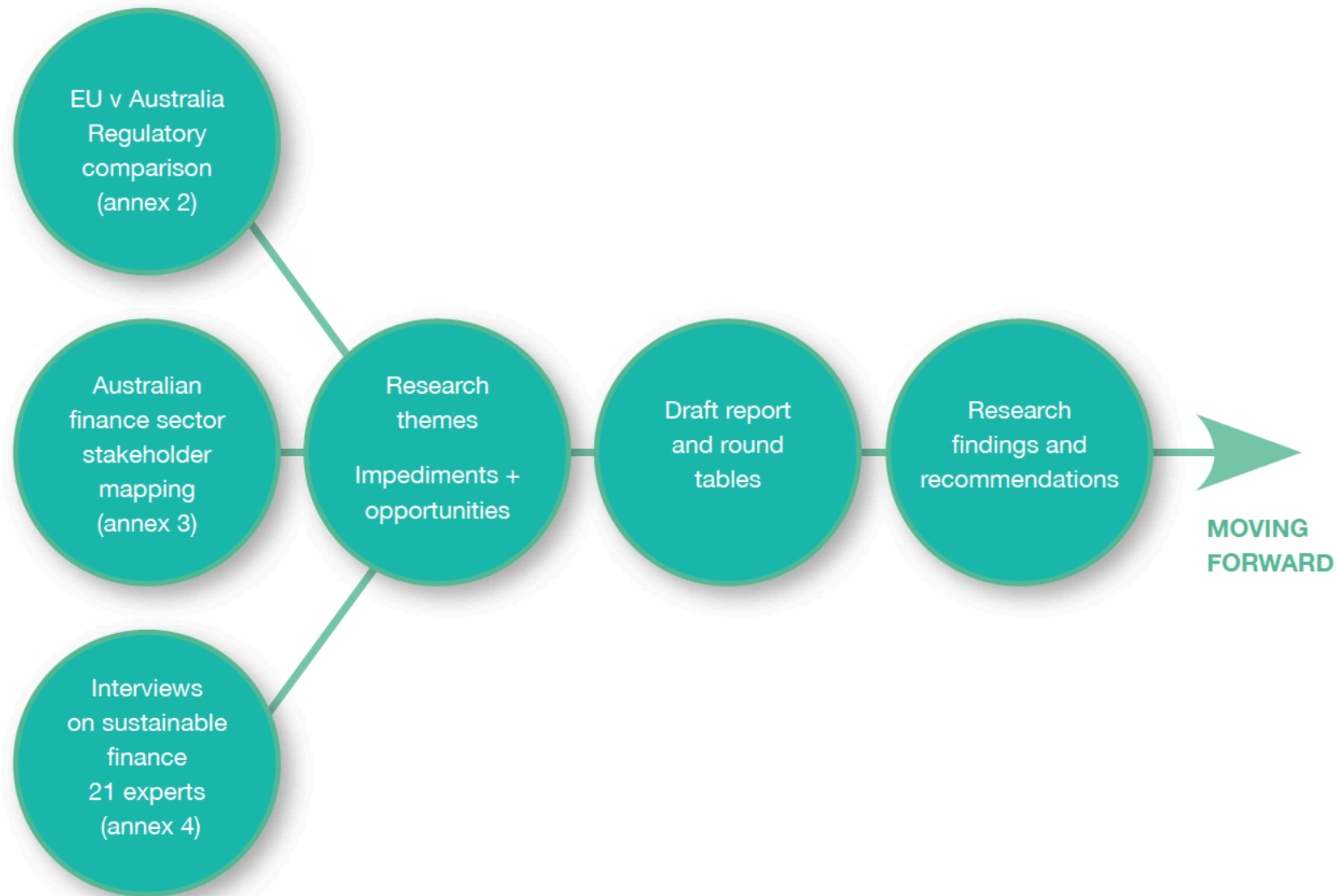
**Institute for  
Sustainable Futures**  
[isf.uts.edu.au](http://isf.uts.edu.au)

# Agenda

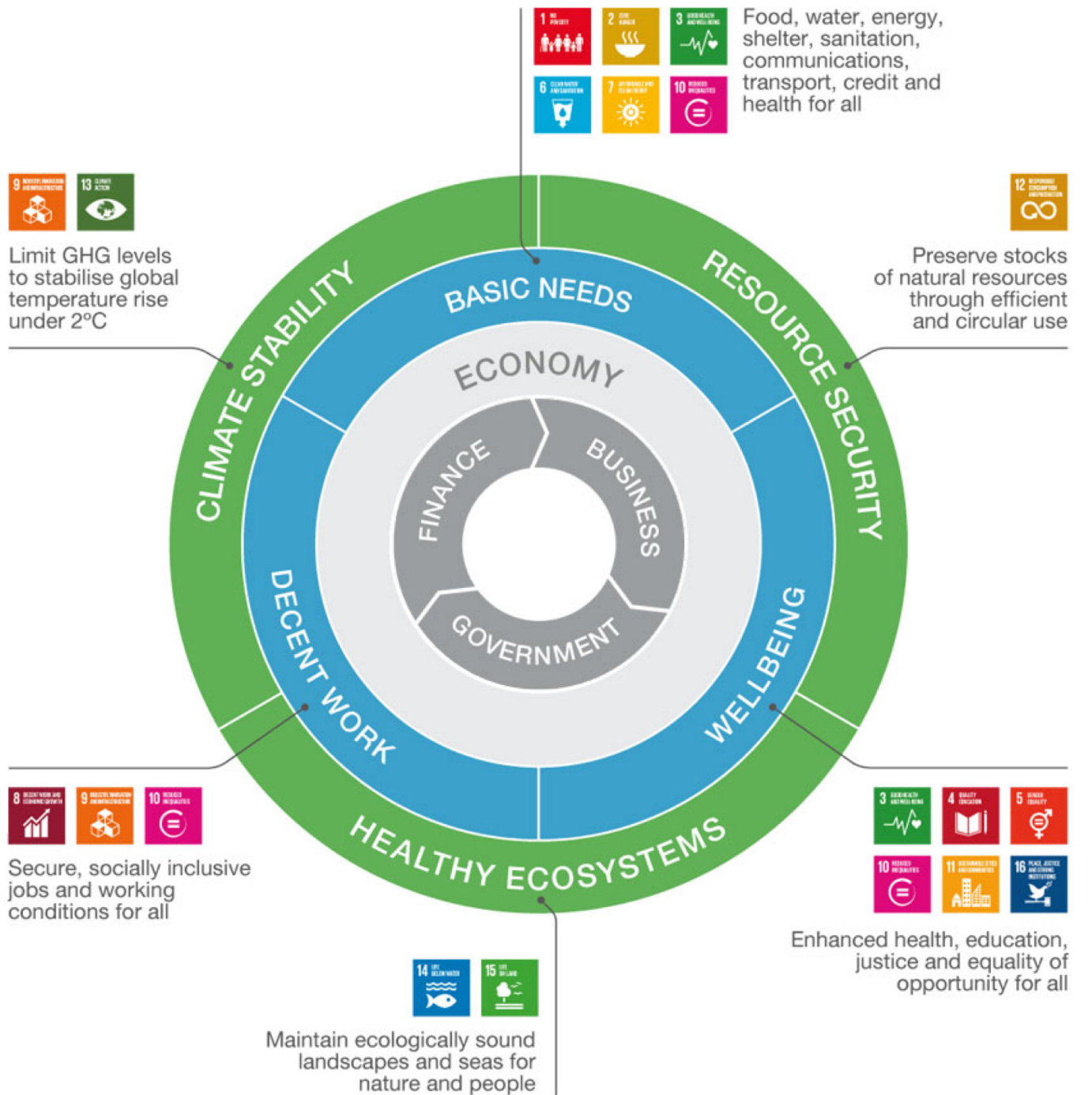


- 1 Context and opportunity
- 2 Mapping the Australian financial sector
- 3 Comparative analysis
- 4 High level themes from interviews
- 5 Recommendations

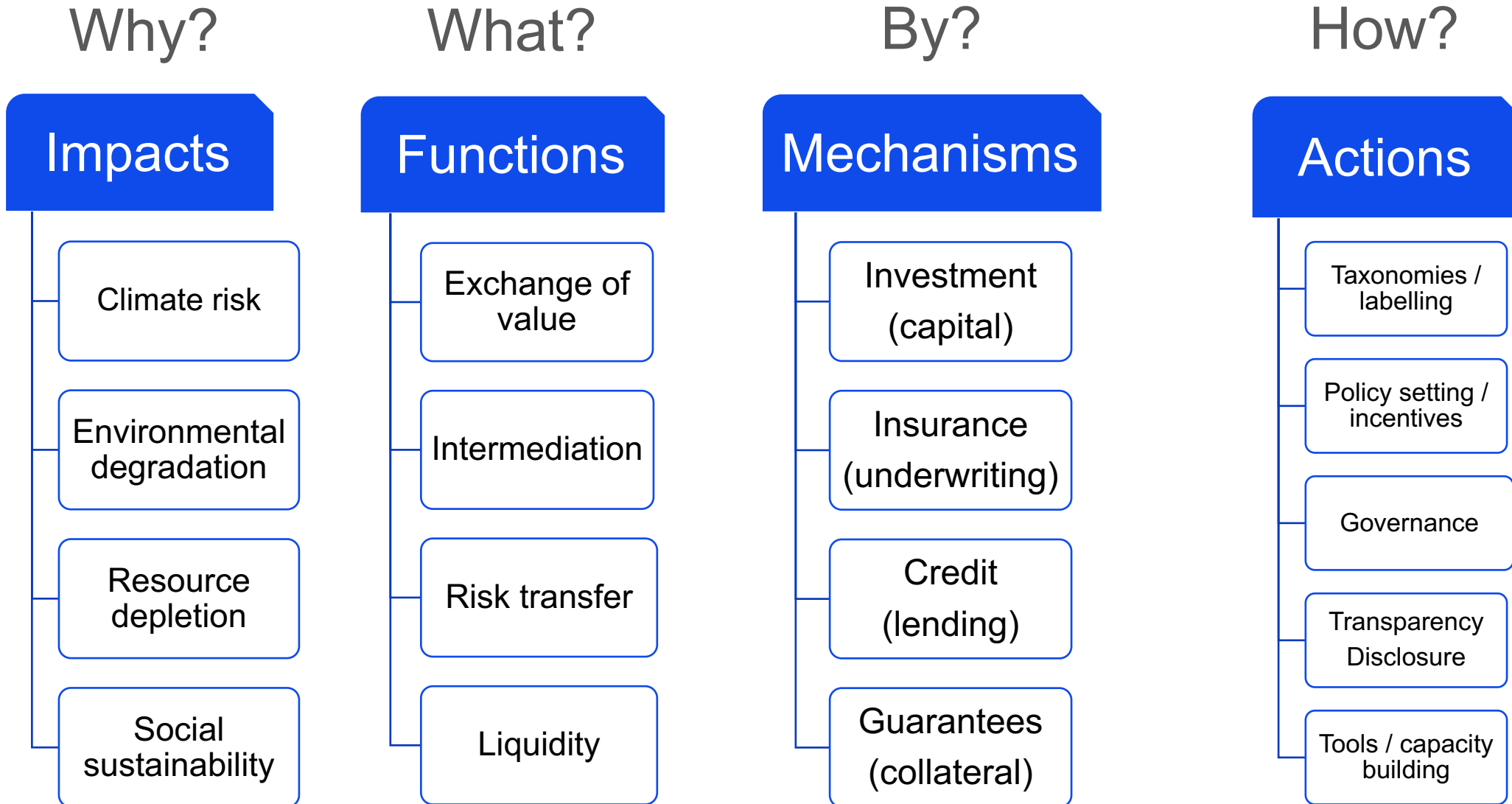
# Research Approach



# Context

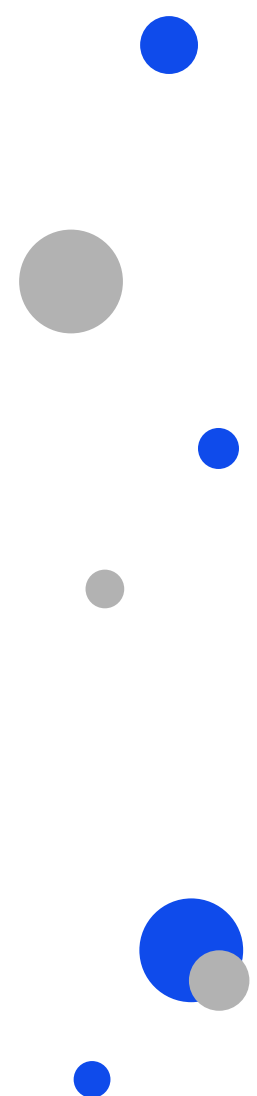
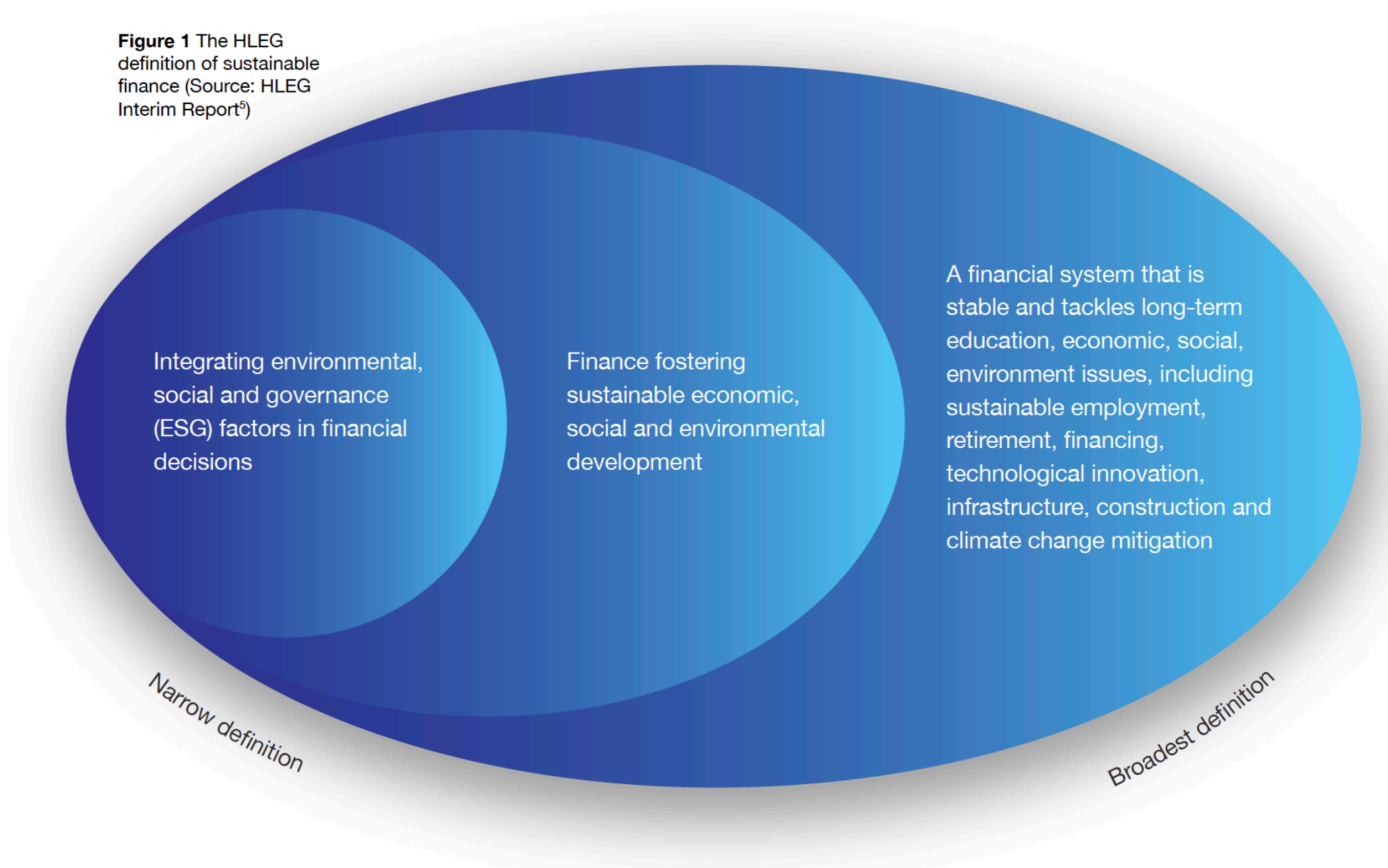


# What is sustainable finance?



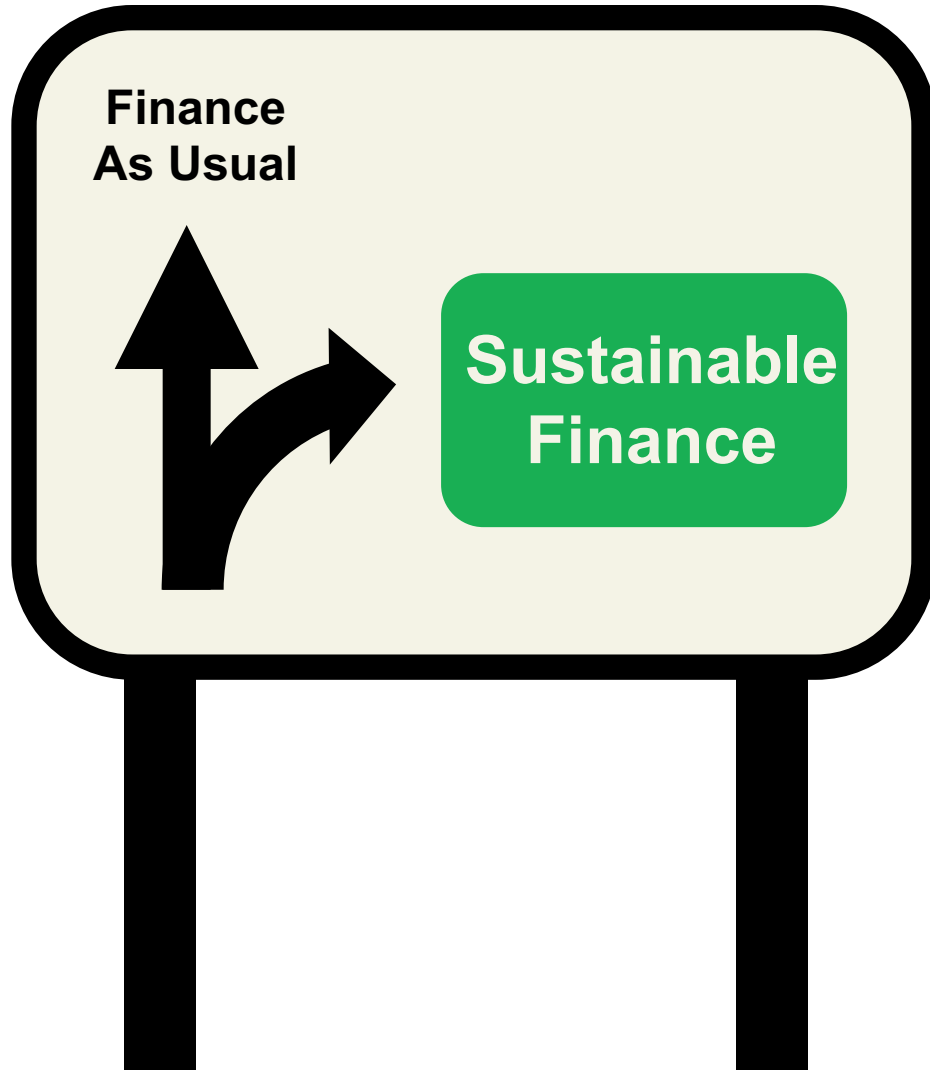
# Three definitions of Sustainable Finance

**Figure 1** The HLEG definition of sustainable finance (Source: HLEG Interim Report<sup>5</sup>)





# How do we turn the corner?



- **Global momentum is building**
  - Climate Bonds Initiative (2009)
  - The FSB published the TCFD Report (June 2017)
  - HLEG Sustainable Finance (Feb 2018)
  - EU Action Plan: Financing Sustainable Growth (March 2018)
  - Key developments from: UNPRI, UNEPFI, GRI, G20 SFSG, IFC, NGFS.
  - National developments from around the world..
- **Australia is following....**
  - Public statements from APRA climate risk (Feb 2017)
  - CFR - Climate Change Working Group (Nov 2017)
  - Climate risk disclosure report from ASIC (Sep 2018)
  - 300 financial institutions issued statement to support development of sustainable finance roadmap (June 2018).
  - Banking Royal Commission (Feb 2019)

# Timeline of key milestones for implementing sustainable finance in Australia

**June 2017**

**TCFD Report**

Financial Stability Board (FSB) publishes final report on Taskforce for Climate-Related Financial Disclosures (TCFD).

**November 2017**

**CFR Working Group**

Council of Financial Regulators creates the climate change working group

**May 2018**

**ACSI Stewardship Guide**

The Australian Council for Superannuation Investors published the Australian Asset Owners Stewardship Code.

**June 2018**

**RIAA Proposes Roadmap**

The Responsible Investment Association of Australia (RIAA) convened an industry led process to develop a sustainable finance roadmap for Australia.

**February 2019**

**Banking Royal Commission**

Haynes published the final report into misconduct in the financial services sector highlighting the need for wide ranging reform.

**February 2017**

**APRA Public Statement**

Public Statements from APRA on the importance of climate risk for financial stability

**July 2017**

**FSC Stewardship Guide**

Publication of standard principles of internal governance and asset stewardship by the FSC

**March 2018**

**EU Action Plan**

The EU Action plan for sustainable finance is published adopting the majority of recommendations from the High Level Expert Group (HLEG)

**September 2018**

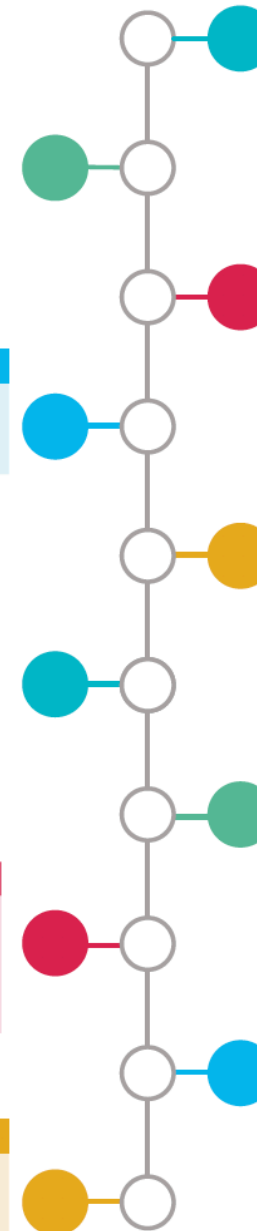
**ASIC Climate Risk Disclosure**

The Australian Securities and Investment Commission (ASIC) published findings on its inquiry into climate risk disclosure for Australian Companies

**December 2018**

**AASB and AUASB Guidance**

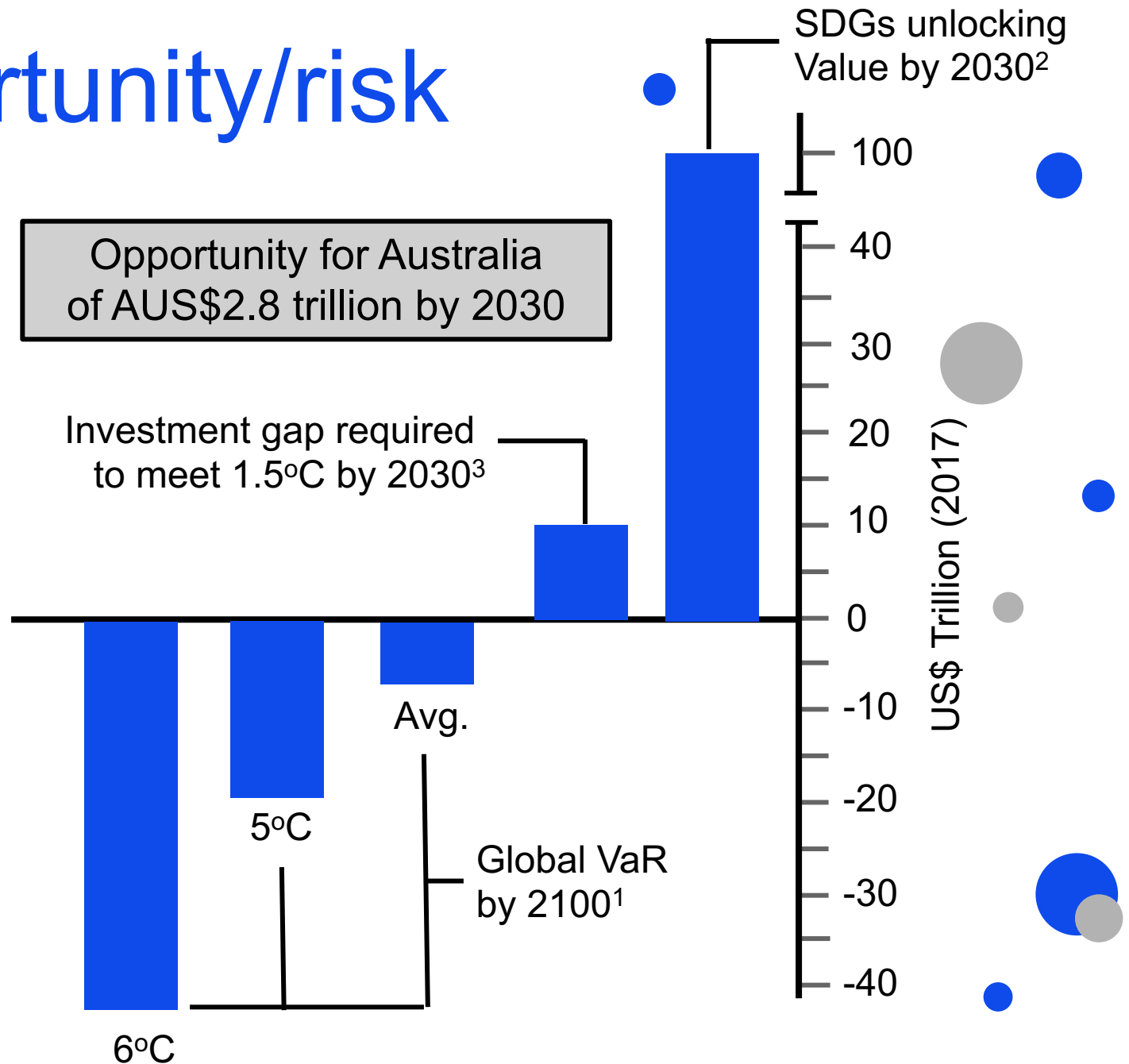
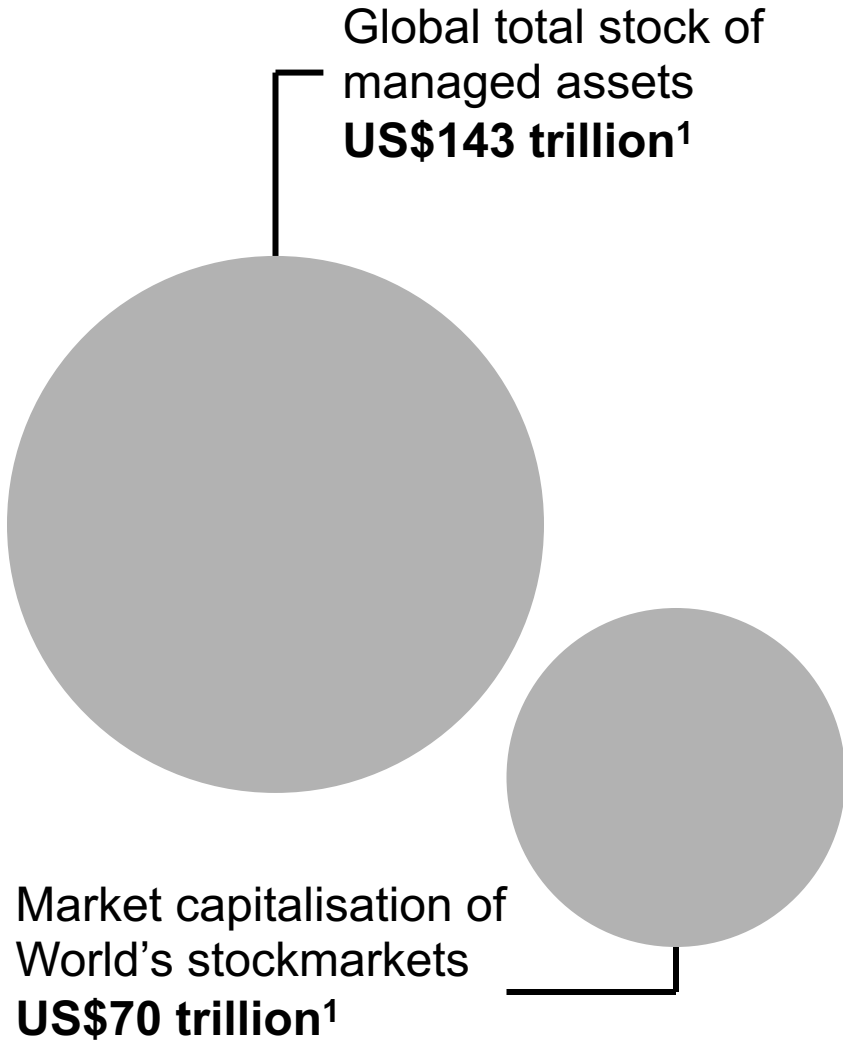
The Australian Accounting Standards Board and the Auditing and Assurance Standards Board publish guidance on disclosing climate-related risks material to financial statements.



# Globally, sustainable finance is booming

- Global green/sustainable loans **quadrupled** in 2018 to \$30 billion/year
- Global green/climate bond issuance broke **\$500 billion** in Nov 2018
- In 2018 sustainability funds listed by Morningstar increased by 20%
- Institutional shareholder voting trends in support of sustainability proposals increased from **26% to 29%** in first half of 2018 (up from 19% in 2014)
- Total number of PRI signatories has increased **15% YoY**

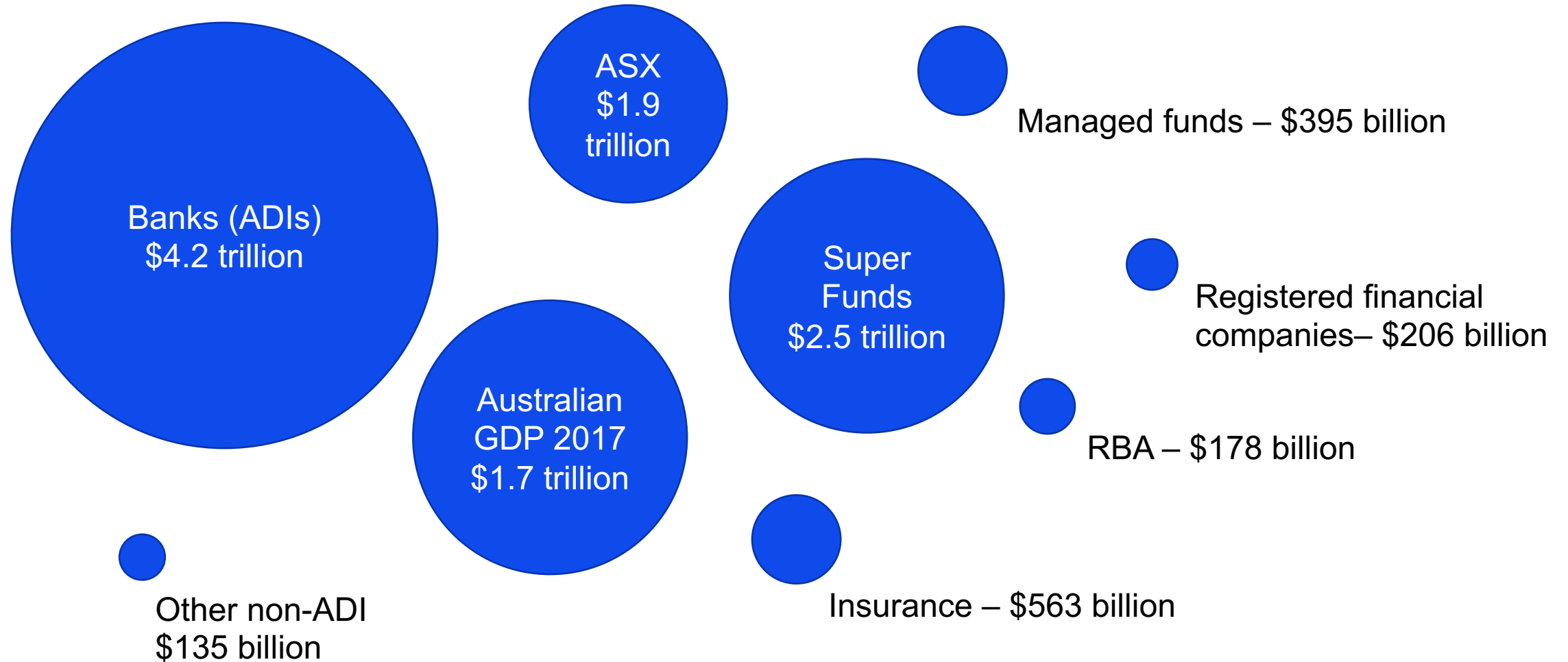
# The global opportunity/risk



1. Economic Intelligence Unit. (2015) The Cost of Inaction.  
 2. Business Sustainable Development Commission. (2017) Valuing the SDG Prize

3. McCollum, D., Zhou, W., et al. (2018). Energy Investment needs for fulfilling the Paris Agreement and achieving the SDGs. Nature Energy.

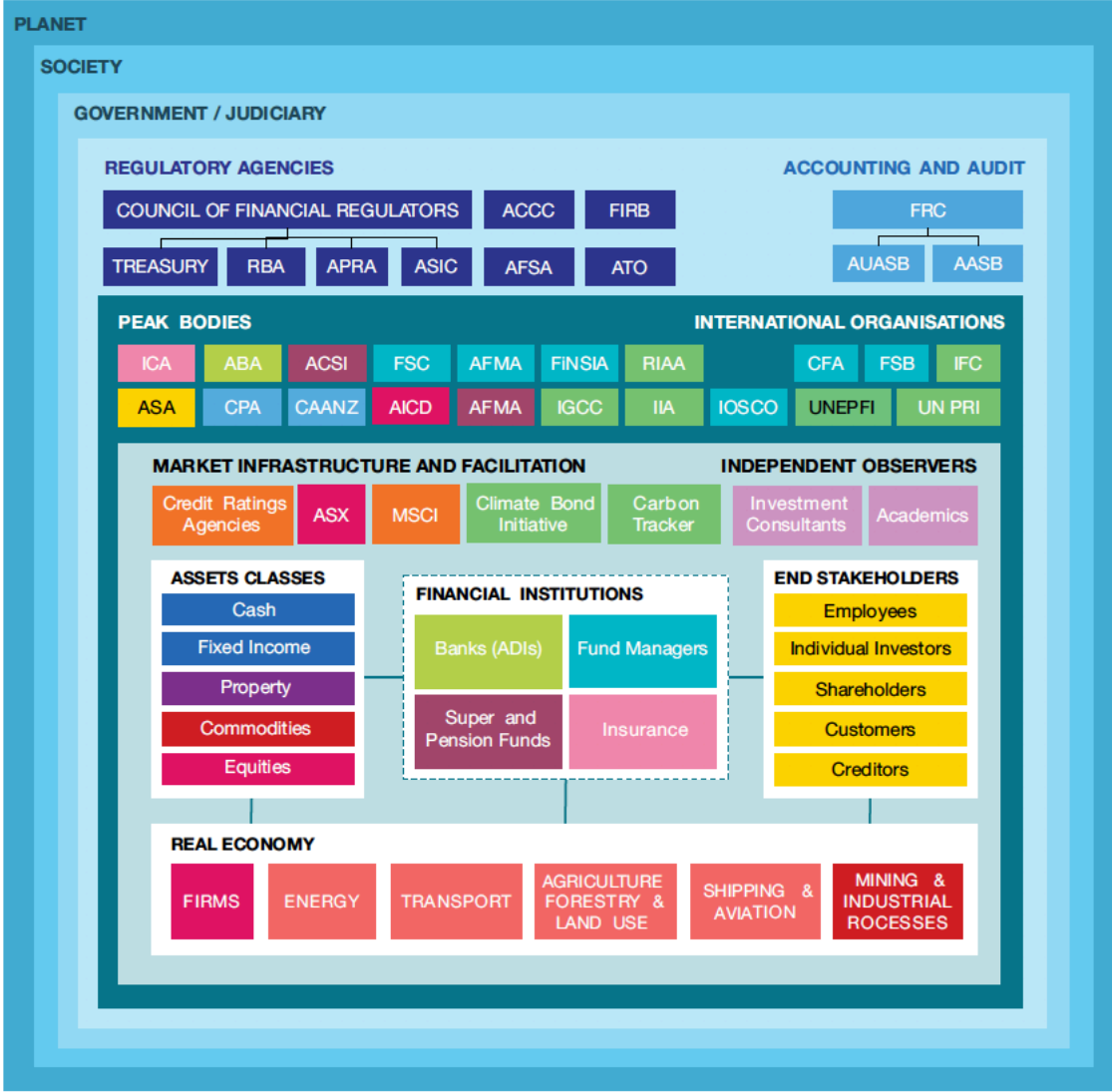
# Where is the opportunity for Australia?



Data Source: Reserve Bank of Australia, 2018.

<https://www.rba.gov.au/fin-stability/fin-inst/main-types-of-financial-institutions.html>

# Nested Systems Model of the Australian Financial Sector



## LEGEND

- Insurance
- Super and Pension Funds
- Banks (ADIs)
- General Finance
- Regulators
- Publicly Listed Co.
- Climate and Sustainability
- Economic Sectors
- End Stakeholders
- Accounting Bodies
- Asset Classes
- Mining and Commodities
- Independent Observers
- Credit Ratings Agencies
- Mortgage Property

One  
question?

Will my decision to [X]  
do harm or good?

X = [invest, insure, lend, guarantee, sell, buy ... etc. ]

# State of Play in Australia

	EU Action Plan	State of Play in Australia
1	Taxonomy	<ul style="list-style-type: none"><li>• There is nothing in Australia quite like the EU taxonomy</li><li>• The RIAA has a certification scheme for responsible investment</li><li>• Discussion around a taxonomy will occur as part of a Sustainable Finance Roadmap</li></ul>
2	Standards and labels	<ul style="list-style-type: none"><li>• The Green bond market is growing in Australia</li><li>• International standards tend to be used e.g. Climate Bonds Initiative standard</li></ul>
3	Fostering investment	<ul style="list-style-type: none"><li>• The Clean Energy Finance Corporation is active in this area</li><li>• Also impact investing is growing</li></ul>
4	Financial advice	<ul style="list-style-type: none"><li>• Progressive interpretation of existing law (duty to act in best interests of client S961B Corps Act) increasingly suggests sustainability preferences should be sought and considered (ASIC guide 175)</li></ul>
5	Carbon benchmarks	<ul style="list-style-type: none"><li>• Industry-based certification and rating schemes around carbon emissions are supported by government, some concerns over verification of green credentials</li></ul>
6	Credit and sustainability ratings	<ul style="list-style-type: none"><li>• International ratings and research are often used in Australia</li><li>• Local providers appear to be incorporating wider risk factors</li></ul>



# State of Play in Australia

	EU Action Plan	State of Play in Australia
7	Duties of investors	<ul style="list-style-type: none"><li>• Duty to act in the best interests of the client (e.g. SIS Act s52)</li><li>• Legal and regulatory guidance expressly permits but does not actively encourage or mandate the consideration of ESG factors (e.g. APRA SPG 530)</li><li>• FSC stewardship code for asset managers (mandatory for FSC members) encourages transparency around ESG approach</li><li>• ACSI stewardship code for asset owners (voluntary) encourages incorporation of ESG into investment strategies</li></ul>
8	Prudential requirements	<ul style="list-style-type: none"><li>• APRA's capital adequacy requirements flow from Basel recommendations and do not expressly refer to sustainability risks</li></ul>
9	Sustainability disclosure	<p><b>Listed companies:</b> OFR should include a statement regarding environment and sustainability risk if these risks could affect the company's financial performance (s299A(1) Corps Act and ASIC guide 247); ASX corporate governance code recommends disclosure of material environmental and social sustainability risks (Principle 7); Global reporting frameworks are used (GRI, CDP, TCFD)</p> <p><b>Investors:</b> Stewardship code reporting recommendations – disclosure of approach to ESG</p> <p><b>Advisors:</b> PDS must disclose how labour standards or environmental, social or ethical considerations are taken into account (s1013DA Corps act)</p>
10	Corporate governance	Progressive interpretation of directors' legal duties to take account of ESG factors, including climate risk, in decision-making

# Differences and similarities EU/Australia

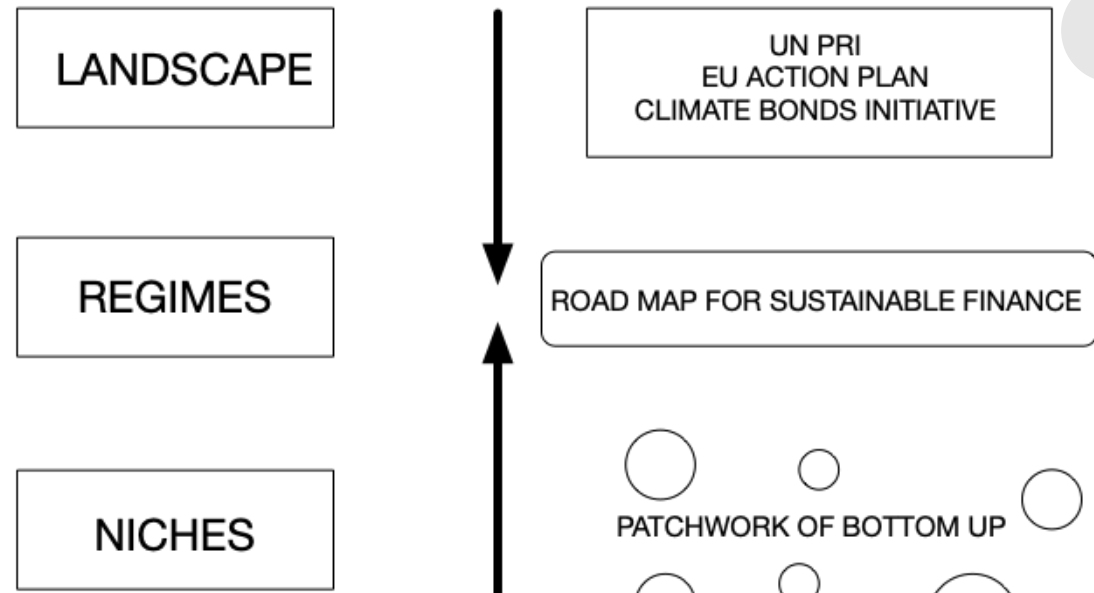
**Coordination** – Australian action is more fragmented and piecemeal

**Regulatory origins** – Change in Australia is being led from the bottom up

**Legitimacy** – Australian initiatives may be seen as less mainstream and more of a peripheral movement

**International influence** – the Australian finance sector draws heavily on international best practice and international benchmarks

**Supervisory authorities** – both the EU and Australia are guiding practice and influencing expectations through formal regulatory guidance



EU ACTION PLAN POINT	EU ACTION	AUSTRALIAN ACTION	
1	Taxonomy	Legislative framework/taxonomy for defining sustainable economic activities	<ul style="list-style-type: none"> <li>• Industry certification schemes for responsible investment</li> <li>• Discussion of a Taxonomy as part of a Sustainable Finance Roadmap</li> </ul>
2	Standards and labels	Use Taxonomy and other assessments/reports to develop standards and labels for sustainable finance products e.g. green bonds	<ul style="list-style-type: none"> <li>• Green bond market is growing with use of the international Climate Bonds Initiative standard.</li> </ul>
3	Fostering investment	Build on existing efforts to direct private capital towards sustainable projects	<ul style="list-style-type: none"> <li>• The Clean Energy Finance Corporation is active in this area</li> <li>• Also impact investing is growing.</li> </ul>
4	Financial advice	Require financial advisors to incorporate sustainability considerations in their advice	<ul style="list-style-type: none"> <li>• Progressive interpretation of existing law increasingly suggests sustainability preferences should be sought and considered.</li> </ul>
5	Carbon benchmarks	Legislative framework for harmonising methods and criteria behind carbon benchmarks – will incorporate Taxonomy	<ul style="list-style-type: none"> <li>• Industry-based certification and rating schemes around carbon emissions are supported by government</li> </ul>
6	Ratings	Develop guidance on integrating sustainability into credit ratings	<ul style="list-style-type: none"> <li>• International ratings and research used in Australia</li> <li>• Local providers appear to be incorporating wider risk factors</li> </ul>
7	Duties of investors	Legislative framework to improve integration of ESG into investment decision-making and to improve transparency around this	<ul style="list-style-type: none"> <li>• Two industry-led Australian stewardship codes have been published, one for asset managers, and another for asset owners</li> <li>• Legal and regulatory guidance expressly permits but does not actively encourage or mandate the consideration of ESG factors.</li> </ul>
8	Prudential requirements	Work towards inclusion of environmental risks in risk management systems and calibration to capital adequacy requirements	<ul style="list-style-type: none"> <li>• APRA's capital adequacy requirements flow from Basel recommendations and do not expressly refer to sustainability risk</li> </ul>
9	Sustainability disclosure	Assess the suitability of corporate sustainability reporting	<ul style="list-style-type: none"> <li>• Sustainability reporting is largely voluntary, follows international guidance</li> <li>• ASIC report assesses climate risk disclosure by Australia's listed companies</li> </ul>
10	Corporate governance	Assess whether boards should be required to develop and disclose a sustainability strategy and how to encourage long-term decision making	<ul style="list-style-type: none"> <li>• Progressive interpretation of directors' legal duties to include ESG factors including climate risk.</li> </ul>

# Summary overview of EU/Australia Comparison

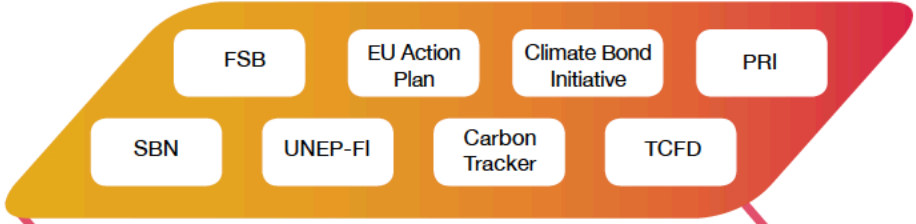
# Interviewees' views on EU Action Plan

EU Plan	Views of Australian interview participants	
Taxonomy	Agreement on the need for consistent definitions But not on the level of detail or who should drive the process	↔
Standards/labels	Agreement on consistency and new tools to internalise costs Some concern over effects on competition	↔
Fostering investment	A need for more infrastructure and support to create more sustainable investment options	✓
Financial advice	Both financial advisors and product issuers should be more proactive in enabling consumer choice	✓
Carbon benchmarks	A need for better tools and benchmarking of investments as well as information and awareness	✓
Ratings	More transparency around methodologies for credit ratings risk analysis and sustainability ratings would be helpful	✓
Duties of investors	Education seen as important in improving the skills of investors and moving away from the status quo	✓
Prudential requirements	Capital adequacy not been considered in detail Assumption that wider long-term risks included in risk management	?
Sustainability disclosure	Better integration of sustainability into default reporting Yet more disclosure is not the answer, must be comparable	↔
Corporate governance	Agreement on incorporating climate risk into directors' responsibilities and supporting long-term horizons	✓

# Mapping the transition to sustainable finance

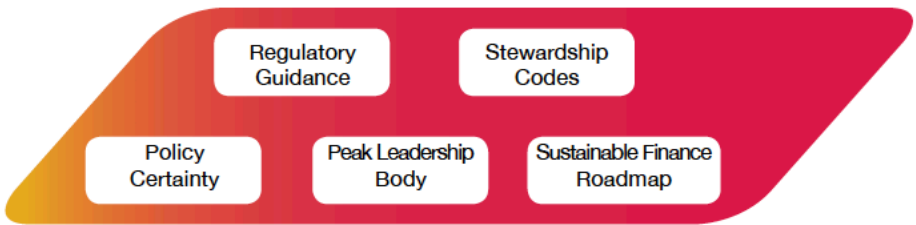
## LANDSCAPE (MACRO)

**Global trends and international initiatives**  
Larger environment composed of societal and environmental forces such as macro economics, climate change, global political developments, international standards and broad social trends.



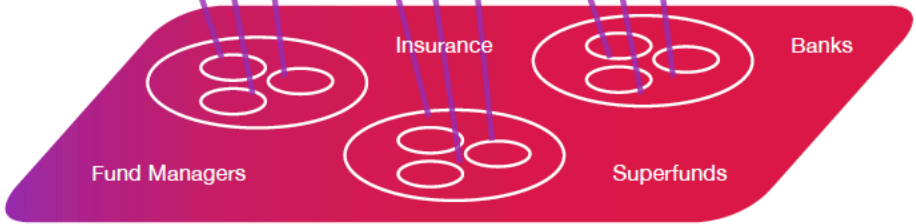
## REGIMES (MESO)

**Cultural practice and national initiatives**  
Systems and patterns are created by the dominant polity. Technology, research, stakeholders, financing and stakeholders converge to make incremental innovations and adaptations to national and local challenges.



## NICHES (MICRO)

**Market-based and voluntary initiatives**  
Experimental and opportunistic challenges are met by radical innovators and first movers. Individual institutions work to integrate environmental and social risks into their day-to-day business approaches.



# Interview themes

## Impediments and Opportunities

Impediments	Opportunities
Infrastructure/policy development	Infrastructure/policy development
Lack of policy certainty (partly due to industry lobbying) Lack of investable, at-scale sustainable projects	Government role in coordinating and bringing everything together Educate and improve awareness
Lack of regulation to discourage unsustainable activities	Regulate to incentivise long-term performance, with a focus on opportunities not just risks
Corporate governance	Corporate governance
Lack of shareholder engagement with disclosed information Lack of quality/comparability of disclosed information	Improving the consistency of disclosure, perhaps through mandated frameworks
Lack of integration of ESG in regulatory and reporting frameworks	Include ESG risks and opportunities in directors duties, perhaps reflect wider stakeholders in board composition
Market short-termism, encouraged by remuneration systems (at both investor and company level)	Disincentivise high-frequency trading and casino-style speculating

# Interview themes

## Impediments and Opportunities

Impediments	Opportunities
Investment markets	Investment markets
General inertia and tendency to carry on with business as usual	Improve education and awareness of financial advisers and managers
Views that sustainable projects tend to be higher-risk	Align investment portfolios with the Paris Agreement
Lack of clear standards to compare sustainability of products	Reliable certification body and scheme to label sustainable products
Lack of integration of climate risk into practice	Create financial tools for long-term horizons
Liquidity requirements for super funds	Improve transparency around ratings methodologies and remove conflicts of interest
Customer behaviour	Customer behaviour
Customer view of sustainability as a detraction from long-term returns (perhaps perpetuated by advisers)	Raise customer awareness and enable more choice around long-term sustainable investment and non-default super options
Customers unaware of where funds invested, too much going to default options	

# Coordination and Leadership

## RECOMMENDATIONS



### RECOMMENDATION 1.1

**Create a task-force or committee-led process to advise on a sustainable finance action plan for Australia**

The following recommendations relate to the activities and factors such a task force should consider:

### RECOMMENDATION 1.2

**Review the supervisory mandates of the key regulators to ensure they align with principles of sustainability**

With the assistance of each supervisory authority, we recommend the task force undertake a review of existing mandates with the goal of clarifying the extent these can be interpreted through the lens of sustainable finance. The review should outline if the existing mandate sufficiently considers sustainable finance or if the existing mandate needs to be reconsidered and potentially amended to align with the principles of sustainable finance. The review process will clarify the extent to which each supervisory authority can and should act in the interest of promoting and supporting sustainable finance objectives including but not limited to ESG factors and the long and short term risks to financial stability resulting from climate change.

### RECOMMENDATION 1.3

**Review and harmonise legal reform of duties and disclosure across the different sectors to require sustainability be considered in financial risk and opportunity management as necessary.**

As a central coordinator the task force would be responsible for ensuring that any legal reform of fiduciary duties or disclosure requirements is done in a coordinated manner such that the legal duties of company directors, investors and fund trustees each support the inclusion of ESG considerations in a consistent manner, despite being spread across different legal regimes. Transparency should also be extended across the sector, from listed companies, to large investment funds, asset managers and the creators of financial tools such as ratings agencies. This harmonisation of the features of legal duties and disclosure obligations should support a norm of long-termism all the way through the investment chain.

Recommended review processes should include consideration of the extent to which existing norms of finance:

- provide a duty to extend the time horizon of risk analysis in line with the horizon of beneficiaries to capture long-term non-linear, non-cyclical risks (including climate related risks);
- a duty to design investment strategies consistent with beneficiaries objectives, including non-financial preferences;
- mobilise and orient private capital flows towards sustainable investments;
- permit prudential rules to be used to define new capital adequacy ratios for low-risk green investments.

### RECOMMENDATION 1.4

**Emphasise the need for coordinated sectoral change by leveraging the role of peak body organisations**

Australia has a rich and diverse financial services sector that is well represented by a number of peak bodies representing the interests of their members. While some peak bodies are already exploring how the principles of sustainable finance can be more widely adopted across their membership base, more can still be done. Peak bodies have the power to convene and lead their members they represent and therefore the power to promote change to the system from within. Peak bodies are in a unique position to develop guidelines, share tools and best practice and initiate new standards and labels. Peak bodies could convene their constituencies to general rigorous deliberations and develop such guidance. We recommend that

### RECOMMENDATION 1.5

**Establish a working group that coordinates with relevant government departments to investigate funding and incentive/disincentive mechanisms supportive of sustainable investment**

There is an opportunity for Australia to show international leadership to decarbonise its energy supply, deploy energy efficiency technologies and revolutionise its transportation network. Embarking on this journey will require new finance and funding mechanisms that lower risks for upscaling sustainable technologies and crowd-in private capital.

Australia has already proven the success of funding clean energy technologies through the Clean Energy Finance Corporation (CEFC). Given the success of this funding body we recommend the creation of other funding mechanisms for sustainable development investment opportunities such as:

- Government backed climate fund - this would provide investment for low cost abatement opportunities to upgrade infrastructure, support businesses and citizens with energy efficiency and assist local communities with climate change mitigation and adaptation needs.
- Green investment bank (GIB) - a bank that is backed by the government and dedicated to green investments could provide low interest loans and issue green bonds for high risk or longer term projects. A bank could leverage the power of the balance sheet and capital adequacy ratios to provide credit for low carbon long-term investments. The GIB would be wholly owned by the government and devolved administrations and would not impact on public finance due to its full independence.



## RECOMMENDATIONS



### RECOMMENDATION 2.1

**Peak bodies should review the EU taxonomy and consider how this could be adopted as the basis for defining sustainable finance in Australia**

The EU taxonomy defining sustainable economic activities is likely to become an international benchmark for use in application of standards, labels and benchmarks. A taxonomy would greatly assist in weighing the relative costs and benefits unique to the Australian financial sector and to ensure competitiveness in the emerging global market.

Each industry sector should consider how application of the taxonomy could impact on future investment flows. The following peak bodies have been identified to convene and lead change within each of the respective sectors:

- Australian Banking Association (ABA) - The banking sector and all deposit taking institutions
- Insurance Council of Australia (ICA) - Australian insurance providers
- Association of Super Funds Australia (ASFA) and Australian Council of Superannuation Investors (ACSI) - Australian superannuation industry
- Australian Financial Markets

Association (AFMA) - Financial markets

- Financial Services Council (FSC) and Financial Services Institute of Australia (FINSIA) - Financial services companies
- Australian Institute for Company Directors (AICD) - Australian directors
- Chartered Accountants Australia and New Zealand (CAANZ) - Chartered accountants

### RECOMMENDATION 2.2:

**Representative peak bodies should convene and lead a review of the sustainable benchmarks, indices, tools, standards and labels for use within their industry sector.**

Demand for sustainable financial products in Australia is accelerating and there are no universal standards or labels for what these financial products represent. Financial products that contain terms such as “responsible”, “ethical”, “sustainable”, “green”, “renewable” etc are being sold on the Australian financial markets without any common definition for what these products actually mean and with no formal scrutiny or auditing process in place. We therefore recommend that Australia implements,

# Consistency and Coherence

where appropriate, existing international standards and labels (e.g. Climate Bonds, Green Bonds, Investment Funds)

### RECOMMENDATION 2.3

**In accordance with their mandates, Australian regulators (ASIC, APRA and ACCC) should collaborate to set, monitor and enforce appropriate use of minimum standards around the labels, ratings, standards and indices permitted in the Australian market.**

If minimum standards are implemented there must be enforcement mechanisms to maintain the credibility of labels and provide remedies for misrepresentation or misuse of definitions and standards. We recommend that Australian regulators ensure that these standards can be upheld and challenged through existing

mechanisms in the financial system (e.g. Financial Ombudsman, APRA, ASIC, ACCC).

### RECOMMENDATION 2.4

**When preferred/minimum standards and definitions have been determined, all regulators and peak bodies should embark upon education and awareness campaigns to ensure accurate use and end-user or member understanding.**

It is important that education about and awareness of green standards flow through the finance sector to the ultimate end-users and beneficiaries of green investments. Education campaigns and website information must be developed to support the appropriate use of any taxonomy, labels, indices and benchmarks.

## RECOMMENDATIONS



### RECOMMENDATION 3.1

**Reporting requirements should make it mandatory to integrate ESG risks and opportunities into financial performance analysis.**

Financial reports should be required to disclose the extent to which ESG factors, climate and emerging risks and opportunities have been considered as part of financial reporting. This should include not just whether these risks and opportunities have been incorporated but transparency around how they have been incorporated.

### RECOMMENDATION 3.2

**Regulators should continue to assess international reporting frameworks and determine which of these best meet the needs of the Australian market.**

Mandatory reporting could be linked to use of one of the existing international reporting frameworks such as the TCFD, integrated reporting or the GRI. Accounting standards are also moving to incorporate ESG risks in more traditional reporting frameworks.

### RECOMMENDATION 3.3

**Regulators should consider how disclosure regimes satisfy needs beyond those of sophisticated investors to provide information to enable the general public to understand how to make sustainable financial decisions.**

One of the key barriers to the consideration of sustainability is the role of investors and financial advisers in the decision-making process. ASIC recently updated the professional standard for financial advisors<sup>11</sup> and included several measures to raise the educational, training and ethical standards of financial advisers providing retail advice to clients on complex financial products. The sustainability preferences of retail clients and customers must be sought by financial advisers and this should be a mandatory obligation. Generally, there is an opportunity to enhance the financial literacy of end-users, members and consumers.

# Transparency and Disclosure

## RECOMMENDATIONS



### RECOMMENDATION 4.1

**Improve long-term education and awareness around sustainable finance through peak bodies and professional associations with involvement of the tertiary sector.**

Sustainable finance is a complex topic spanning many traditional disciplines and professions. Peak bodies, tertiary education institutions and other professional education organisations should include sustainable finance literacy in their professional education programmes as both stand-alone courses where specialised technical proficiency is required or integrated into existing curriculum.

### RECOMMENDATION 4.2

**Strengthen industry guidance and codes by providing legal backing and enforcement mechanisms that clearly allocate responsibility to relevant regulatory institutions.**

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in Australia recommended that industry codes be approved under statute such that breach of key promises made to customers in the code be a breach of the statute (p.11, 24). This is equally relevant to some of

the codes and standards now in place to encourage reporting and engagement on sustainability and ESG. Each industry sector should consider how to strengthen its codes, standards and guidance to provide redress for stakeholders adversely affected by a breach of the code.

### RECOMMENDATION 4.3

**Regulators to work together to improve and standardise, where practical, governance and risk management systems for all participants in the finance system: listed companies, banks, superannuation funds, asset management firms and financial advisors to encourage long-term decision-making.**

Corporate culture starts with the board who are responsible to the company and its shareholders. Given the materiality of climate change risks and the importance of sustainability to the long-term success of the company the board must take due regard to all stakeholder interests including those of employees, creditors, customers, suppliers and local communities, adhering to ESG standards and best practice. Boards should be compelled to appoint at least one voting member who is responsible for monitoring and overseeing ESG and broader sustainability objectives within the firm.

# Culture, behavior and Responsibility

Sustainability should be embedded in the duties of all company directors and in the governance rules related to company management and these are considered as part of the fiduciary duties of directors and senior executives.

### RECOMMENDATION 4.4

**Link the remuneration of finance professionals with ethical responsible conduct that supports long-term sustainability objectives.**

Our findings, as well as the findings of the Royal Banking Commission, suggest that rewards based on financial success, at both individual and corporate level, can skew decision-making to the short-term and encourage risky or unethical behaviour. We recommend that the remuneration systems across the finance sector are reviewed with a view to linking remuneration more clearly to long-term sustainability objectives.

For Australia to transition to a sustainable finance system, policy and regulatory

certainty are critical, especially in relation to setting and committing to the achievement of Paris Targets and other SDGs. Any visible progression towards this in Australia is grassroots and experts are calling for the government to take a consistent approach on carbon and energy policy and for coordinated sectoral leadership. A task force with legitimate backing from the Australian Federal Government would be a fundamental first step in this direction. Policy and coordinated leadership should be accompanied by guidance on implementation and the mechanisms that could most likely enable sustainable finance, attribution of responsibility and precise mandates to enforce accountability.

Overall, it is clear that all participants in the Australian financial sector needs to recognise their agency in participating and shaping a rapidly evolving global landscape and be aware of the responsibilities of inaction.

**Unlocking  
Australia's  
Sustainable  
Finance  
Potential**

**Thankyou**