Unlocking Australia's Sustainable Finance Potential

PREPARED FOR:
CLIMATE-KIC AUSTRALIA

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Citation

Please cite as: Edwards, M., Kelly, S., Klettner, A., Brown, P., (2019) Unlocking Australia's Sustainable Finance Potential. University of Technology Sydney.

Acknowledgements

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Disclaimer

This publication was produced 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 publication are the sole responsibility of Climate-KIC Australia and do not necessarily reflect the views of the European Union.

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 (BMU) in the context of the International Climate Initiative (IKI). SPIPA is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

Snapshot of high-level findings & recommendations

The financial system lies at the heart of the economy and is therefore integral to reducing short-term systemic risks and enabling the long-term sustainability. Sustainable finance refers to any form of financial service, including investment, insurance, banking, accounting, trading and financial advice, that integrates environmental, social and governance (ESG) considerations into financial decision-making. Sustainable finance is often understood both as 'doing good and doing well'. The former is about ensuring finance improves financial resilience and stability in the management of short-term shocks and the long-term transition to a low carbon, resource-efficient and socially-inclusive economy. The later is a subset of this where sustainable finance is about doing finance well through enhanced transparency, better risk management and improved governance processes that consider environmental and social factors in lending, insurance and investment decision-making.

Momentum is building in banking, insurance and investment to meet the trillions of dollars of finance that is required to deliver on the United Nations Sustainable Development Goals (SDGs) and the pivotal global agreement to limit temperatures from rising two degrees above pre industrial levels. The European Union (EU) sought first mover advantage, through coordinated action by requesting a High Level Expert Group (HLEG), comprised of 20 industry experts, to advise on mechanisms to steer capital towards sustainable investments and protect the financial system from environmental risks and ensure social sustainability. The HLEG released its final report in January 2018 and its recommendations formed the basis of the EU's Action Plan on Sustainable Finance adopted by the European Commission (EC) in March 2018.

Against this background, this report reviews the EU Action Plan, comparing each of its ten action points to the current state of play in Australia. We created a system diagram of key stakeholders and institutions in the Australian finance ecosystem and then conducted semi-structured interviews with 23 representatives from across the following five groups: (i) financial institutions, (ii) market infrastructure and facilitation, (iii) external observers, (iv) peak bodies, and (v) regulatory agencies. Analysis of opportunities for unlocking Australia's sustainable finance potential are considered relative to the unique landscape of the Australian financial sector.

The EU Action Plan items are already progressing towards adoption with three pieces of legislation already proposed by the EC, together with several non-legislative and investigative actions. By comparison to this trajectory, Australia's adoption of sustainable finance initiatives is mixed. On the positive side, there is a patchwork of initiatives across a spectrum of regulatory to voluntary, that could support further uptake of sustainable finance in the Australian context. The recently completed Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has highlighted systemic problems within the finance sector that necessitate structural change to increase ethical responsibility. Although the Commission's report does not refer directly to environmental concerns, many of the recommendations align with the principles of sustainable finance (both in an environmental and social sense) thus representing an opportunity to embed sustainability within the duties of the sector.

Australian experts agree that there is an opportunity to learn from the recommendations of the EU Action Plan, although there is considerable disagreement on some elements such as the adoption of a taxonomy, mandated standards, labels and disclosures (see Table 1). Adopting such a comprehensive and coordinated sustainable finance action plan would require overcoming some serious and endemic hurdles, as well as grasping unique opportunities arising from the differing regulatory environments and legislative powers of the Australian government. We take the main findings from the research and make generic recommendations directed toward different stakeholders in the finance system. They are generic in their scope and timeframe and should be used as means to establish and develop a comprehensive plan to transition to a sustainable financial system. Each recommendation is presented below under four categories and further elaborated in the short report following this summary. The recommendations for each category are preceded by a preamble that is summarised from the views of the research participants':

1. COORDINATION AND LEADERSHIP

Many participant stakeholders[1] indicated that a major impediment to the emergence of sustainable finance was a politicised agenda regarding climate policy that was disconnected from the operationalisation of a progressive policy agenda and even further disconnected from thriving voluntary sustainable finance initiatives. Australia lacks the key centralised initiatives that have underpinned action in the EU, such as mandatory disclosures for investors[2] and an emissions trading scheme.

Most participant stakeholders agreed a sustainable finance system would focus on long-term rather than short-term horizons. This would require a series of changes simultaneously undertaken by different stakeholders across the finance system. This transformation must be underpinned by trust and collaboration between these interdependent stakeholders. Examples of changes that need to be undertaken in concert include: investors setting sustainability risk-adjusted fund performance indicators; asset managers accepting sustainability risk-adjusted long-term returns; and corporate boards developing incentive structures for executives that incorporate sustainability performance.

RECOMMENDATIONS

RECOMMENDATION 1.1:
Create a task-force or committee-led process to advise on a sustainable finance action plan for Australia.

The task force should:

RECOMMENDATION 1.2:
Review the supervisory mandates of the key regulators to ensure they align with principles of sustainability

RECOMMENDATION 1.3:
Review and harmonise the legal reform of duties and disclosure across the different sectors to require sustainability be considered in financial risk and opportunity management as necessary.

RECOMMENDATION 1.4:
Emphasise the need for coordinated sectoral change by leveraging the role of peak body organisations

RECOMMENDATION 1.5:
Establish a working group that coordinates with relevant government departments to investigate funding, regulatory and incentive/disincentive mechanisms supportive of sustainable investment (e.g. direct regulation, tax regimes, emissions trading schemes and other funding mechanisms).

1. Refers to those 23 people interviewed from different stakeholder groups as part of this research

2. See the EU Shareholders Rights Directive II which will be implemented in 2019

2. CONSISTENCY AND COHERENCE

The EU plan aims to harmonise and standardise definitions, labels and standards pertaining to sustainable finance via a taxonomy. The taxonomy will define exactly what amounts to a sustainable economic activity, and this understanding will flow through to financial products, indices, ratings and investments. It will provide consistency around the meaning of green or sustainable finance for all stakeholders: supervisors, regulators, companies, investors, advisers, service providers and civil society. Some participant stakeholders thought that consistent definitions are essential for progressing towards a more sustainable economy, but were concerned about overly precise rules leading to box-ticking behaviour. Some felt that standards and definitions should be created by the private sector, not imposed by regulators or government, and that they will naturally emerge as the sector matures.

RECOMMENDATIONS

RECOMMENDATION 2.1:
Peak Bodies should review the EU taxonomy when finalised and consider how this could be adopted as the basis for defining sustainable finance in Australia.

RECOMMENDATION 2.2:
Representative peak bodies should convene and lead a review of the sustainable benchmarks, indices, tools, standards and labels currently used within their industry sector.

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.

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.

3. TRANSPARENCY AND DISCLOSURE

Australian regulators provide a strong framework of prudential, market and conduct regulation that is already undergoing reinterpretation in order to incorporate longer-term horizons and better integration of ESG concerns. There was general agreement amongst participant stakeholders that there was a need for improved transparency and reporting around ESG factors in financial sector decision making, products and services. The main viewpoint was not supportive of more disclosure, but rather of better disclosure that integrated sustainability risks into financial reporting. Technology may be able to assist in bringing relevant information to all stakeholders across increasingly complex chains of investment. There was a general view that financial sector stakeholders should have a greater duty of care in improving sustainable financial literacy of end-users and consumers.

RECOMMENDATIONS

RECOMMENDATION 3.1:
Reporting requirements should make it mandatory to integrate ESG risks and opportunities into financial performance analysis.

RECOMMENDATION 3.2:
Regulators should continue to assess international voluntary reporting frameworks (e.g. Integrated Reporting, Global Reporting Initiative (GRI), Taskforce for Climate Related Financial Disclosures (TCFD) etc) and determine if and how these can best meet the needs of the Australian market.

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.

4. CULTURE, BEHAVIOUR AND RESPONSIBILITY

Stakeholders in the Australian financial landscape have roles and responsibilities that are different to those found in the EU, most explicitly in regard to the differing powers of the EC and the Australian Federal Parliament. Stakeholder participants described a general lack of understanding and engagement by consumers and colleagues concerning the opportunities of sustainable finance. They said consumers and colleagues tended to carry on with 'business as usual'. Stakeholder participants said there was a proactive attitude within their sustainable or responsible finance networks, but in other circles they were met with a general resistance or despondency that some saw as wilful ignorance. This may be in part attributable to a lack of consensus regarding how finance sector actors should be accountable for sustainability in their decision making. Furthermore it indicates there was a lack of coordination between regulatory and supervisory bodies to formulate and enforce a standardised approach. Views differed regarding how to overcome the entrenched status quo, and who is responsible for doing so. Most stakeholder participants alluded to initiatives others should undertake prior to their own action. This was a general malaise associated with stakeholder participants' perceptions of their own capacity to bring about the adoption of sustainable finance in the Australian financial system. Overcoming this inertia appears to be an endemic and systemic challenge to the adoption of sustainable finance. Some highlighted that important elements of sustainable finance are yet to become topics of serious discussion in the Australian financial sector. Some said there may be a sense of misplaced optimism leading people to believe that action is further advanced than it actually is.

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.

RECOMMENDATION 4.2:
Strengthen industry guidance and codes by providing legal backing and enforcement mechanisms that clearly allocate responsibility to relevant regulatory institutions.

RECOMMENDATION 4.3:
Regulators 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 focused decision-making

RECOMMENDATION 4.4:
Link the remuneration of finance professionals with ethical and responsible conduct that corresponds to long-term sustainability objectives.

Table 1: General sentiment of agreement by EU Action plan items

	EU ACTION PLAN	SUMMARY OF INTERVIEW RESPONSES
0	Overall plan	General agreement
1	Establishing an EU classification system (taxonomy) for sustainable products	Mixed views
2	Creating standards and labels for green financial products	Mixed views
3	Fostering investment in sustainable products	General agreement
4	Incorporating sustainability when providing investment advice	General agreement
5	Developing sustainability/carbon benchmarks	General agreement
6	Better integrating sustainability in ratings and research	General agreement
7	Clarifying institutional investors and asset managers duties	General agreement
8	Incorporating sustainability in prudential requirements	Further research required
9	Strengthening sustainability disclosure and accounting rule-making	Mixed views
10	Fostering sustainable corporate governance and attenuating short-termism in capital markets	General agreement

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Glossary

AASB	Australian Auditing Standards Board
ABA	Australian Banking Association
ACCC	Australian Competition and Consumer Commission
ACSI	Australian Council of Superannuation Investors
ADI	Authorised Deposit-taking Institution
AFA	Association of Financial Advisors
AFCO	Australian Financial Complaints Authority
AFMA	Australian Financial Markets Association
AFSA	Australian Financial Security Authority
AICD	Australian Institute of Company Directors
APRA	Australian Prudential Regulation Authority
ASA	Australian Shareholders Association
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUASB	Auditing and Assurance Standards Board
CAANZ	Chartered Accountant Australia and New Zealand
CBI	Climate Bond Initiative
CEFC	Clean Energy Finance Corporation
CFA	Chartered Financial Analyst Institute
CPA	Certified Public Accountant
CFR	Council of Financial Regulators
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
EU	European Union
FCA	Financial Conduct Authority
FINSIA	Financial Services Institute of Australia
FIRB	Foreign Investment Review Board
FMAA	Financial Management Association of Australia
FRC	Financial Reporting Council
FSB	Financial Stability Board
FSC	Financial Services Council
GRI	Global Reporting Initiative
ICA	Insurance Council of Australia
IFC	International Finance Corporation
IGCC	Investor Group on Climate Change
PRI	Principles of Responsible Investment
MSCI	Morgan Stanley Capital International
RBA	Reserve Bank Australia
RIAA	Responsible Investment Association Australasia
SDGs	Sustainable Development Goals
TCFD	Task Force on Climate-related Financial Disclosures
UNEPFI	United Nations Environment Programme Finance Initiative

Introduction

1.1 OVERVIEW

Financial markets around the world are gaining momentum on the transition to a sustainable financial system. Trillions of dollars must be mobilised to deliver on the UN Sustainable Development Goals (SDGs) and to address the substantial risks posed to extant portfolios to meet the Paris Agreement on Climate Change. The World Economic Forum annual Global Risks Report shows a consistent trend for environment or human-made environmental risks to be of top concern, with the latest report attributing five of the top ten risks to such causes and dominating the top three positions.[3]

There have been a series of comprehensive studies which have investigated the magnitude and risk of sustainability challenges, and identified pathways to address these complex problems. In the landmark report by Stern[4], climate change was identified as the biggest market failure the world has ever seen. Stern identified the role of the financial sector in facilitating the shift required by the global economic system to curb the effects of climate change.

Many countries across the world have committed to, or are already in the process of building the foundations of a sustainable financial system. This report provides a comparative analysis of the EU Action Plan and the state of play of sustainable finance in Australia and explores two related questions:

(i) What regulatory, co-regulatory and voluntary practices might create the conditions needed to improve the sustainability of Australia's financial markets?

(ii) What levers and impediments could facilitate or hinder adoption of sustainable finance policies and practices?

1.2 WHAT IS SUSTAINABLE FINANCE?

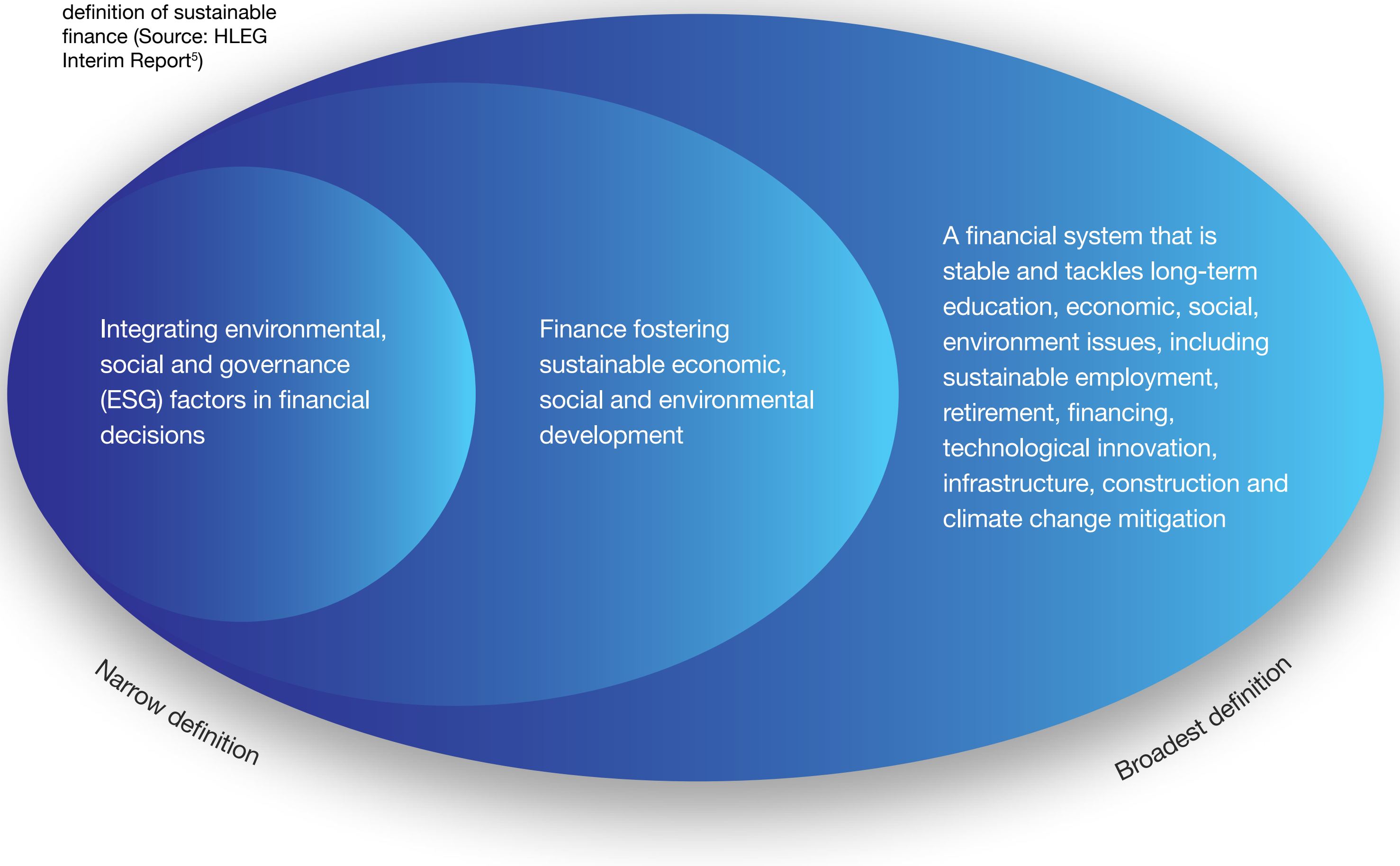
Sustainable finance collectively refers to any form of financial service including investment, insurance, banking, accounting, trading and financial reporting that goes beyond 'business as usual' by integrating ESG criteria into the business or investment decisions for the lasting benefit of clients, stakeholders and society at large. Sustainable finance includes the financing and investment activities that are needed to support the implementation of the SDGs. Figure1 provides three definitions of sustainable finance of increasing scope.

3. The report indicates the likelihood of certain economic risks (ranked descending from 1 = highest likelihood) and in 2019 those environmental or man-made environmental were: Extreme weather events (1); Failure of climate-change mitigation and adaptation (2); Natural Disasters (3); Man-made environmental disasters (6); and, Biodiversity loss and ecosystems collapse (8) http://www3.weforum.org/docs/WEF_Global_Risks_Report_2019.pdf

4. Stern, N., Peters, S., Bakhshi, V., Bowen, A., Cameron, C., Catovsky, S., Crane, D., Cruickshank, S., Dietz, S. and Edmonson, N., 2006. *Stern Review: The economics of climate change* (Vol. 30, p. 2006). London: HM treasury.

Three definitions of Sustainable Finance

Figure 1 The HLEG definition of sustainable finance (Source: HLEG Interim Report[5])



1.3 SUSTAINABLE FINANCE IN THE EU

On 8 March 2018 the EC issued a Communication (COM(2018)97) detailing its Action Plan on Financing Sustainable Growth. The plan comprised the following 10 action points:

1. Establishing a classification system for sustainable economic activities
2. Creating standards and labels for green financial products
3. Fostering investment in sustainable projects
4. Incorporating sustainability when providing investment advice
5. Developing sustainability benchmarks
6. Better integrating sustainability in ratings and research
7. Clarifying institutional investors and asset managers duties
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

5. https://ec.europa.eu/info/sites/info/files/170713-sustainable-finance-report_en.pdf

These action points were based on the HLEG's recommendations,[6] which were drawn out of extensive consultation with relevant stakeholders in the finance sector. One of the key recommendations of the HLEG Report was to leverage action to enshrine sustainable finance at a global level. The aim of this recommendation was to assist countries to agree and develop bilateral "sustainable finance compacts" working with existing fora, both bilaterally and multilaterally, such as the G20, G7, the UN, IOSCO, the International Association of Insurance Supervisors and the International Organisations of Pension Supervisors.

Financial centres across the world have noted the new opportunities offered by the global transition to a sustainable financial system and have started to establish Sustainable Finance Roadmaps that will provide guidance across the sector on how to systematically make the transition to a more resilient and sustainable economy. For example, the UK Green Finance Taskforce provided a final report to the UK Government on accelerating Green Finance in March 2018, Canada has established an Expert Panel on Sustainable Finance and China released guidelines on establishing a green finance system in late 2016.[7]

1.4 SUSTAINABLE FINANCE IN AUSTRALIA

There is not yet a centralised government-led plan for sustainable finance in Australia comparable to the EU Action Plan. However there are many initiatives appearing across different industry sectors and awareness of the key issues is relatively advanced. Figure 2 shows the key milestones of implementing sustainable finance across Australia.

Australia's two regulators most relevant to the finance sector, the Australian Prudential Regulation Authority (APRA)[8] and the Australian Securities & Investments Commission (ASIC)[9] have both signalled the importance of climate related risks through public statements. ASIC's recently published (September 2018) report on climate risk disclosure by Australia's listed companies[10] found that in most instances climate risk disclosures were far too general, and of limited use to investors. Both regulators acknowledge the risks to financial stability and the role of directors in mitigating such risks.

In July 2018 a group of financial sector organisations from across Australia – including banking, insurance and investment industries, representing a large group of financial institutions in Australia with $10 trillion in assets signed a joint statement in support of sustainable finance. Released by the United Nations Environment Programme Finance Initiative (UNEPFI) the statement calls on organisations across the finance sector to support the development of Sustainable Finance Roadmaps for Australia and New Zealand.

More recently The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has recommended significant changes to the financial services sector in Australia. Both main political parties in Australia have promised to take action on the recommendations. Our review of the Royal Commission report has highlighted several recommendations that are relevant to sustainable finance; these are:

1. There should be stronger connections between particular rules and norms of conduct (p17,42,44)
2. Industry codes should be enforceable (p12,24,49)
3. Corporate governance must focus on non-financial risks as well as financial risks (p35)
4. Remuneration systems must encourage sound management of non-financial risks (p35)
5. All financial services entities should take proper steps to assess and deal with culture and governance issues (p36)
6. Breach of duties of super-fund trustees should be subject to civil penalties (p30, 46)

6. Financing a Sustainable European Economy https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en
7. See RIAA Sustainable Finance Roadmaps Briefing Paper https://responsibleinvestment.org/wp-content/uploads/2018/07/Sustainable-Finance-Roadmap-BRIEFING-PAPER-FINAL-web.pdf
8. https://www.apra.gov.au/media-centre/speeches/australias-new-horizon-climate-change-challenges-and-prudential-risk
9. https://asic.gov.au/about-asic/news-centre/speeches/inquiry-into-carbon-risk-disclosure-opening-statement/
10. https://download.asic.gov.au/media/4871341/rep593-published-20-september-2018.pdf

Figure 2 Timeline of key milestones for implementing sustainable finance in Australia.

1.5 THE OPPORTUNITY FOR AUSTRALIA

A sustainable financial system offers improved financial system resilience and stability to manage short term shocks and the long-term transition to a low carbon, resource efficient and socially inclusive economy. It will provide improved financial decision-making through enhanced transparency, better risk management and improved governance processes that consider environmental and social factors in lending, insurance and investment decision making. By clarifying investor duties and enhancing disclosure requirements, consumers will have access to improved information about their investments that better align with their expectations and overall confidence that their investments are being invested responsibly. With more emphasis on sustainable finance and improved financial infrastructure to support financial decision-making, there will be an increase in the awareness of and support for investment in sustainable projects and green financial products. A financial system that focuses on sustainable finance will ultimately enhance the resilience and global competitiveness of the financial sector in Australia.

Figure 3 shows the relative size of the financial sector in Australia. The size of the bubbles represents the total value of assets that belong to each financial grouping as of 2017. For comparison purposes the market capitalisation of the Australian Stock Exchange (ASX) and the economic output of Australia for 2017 (GDP) has also been included.

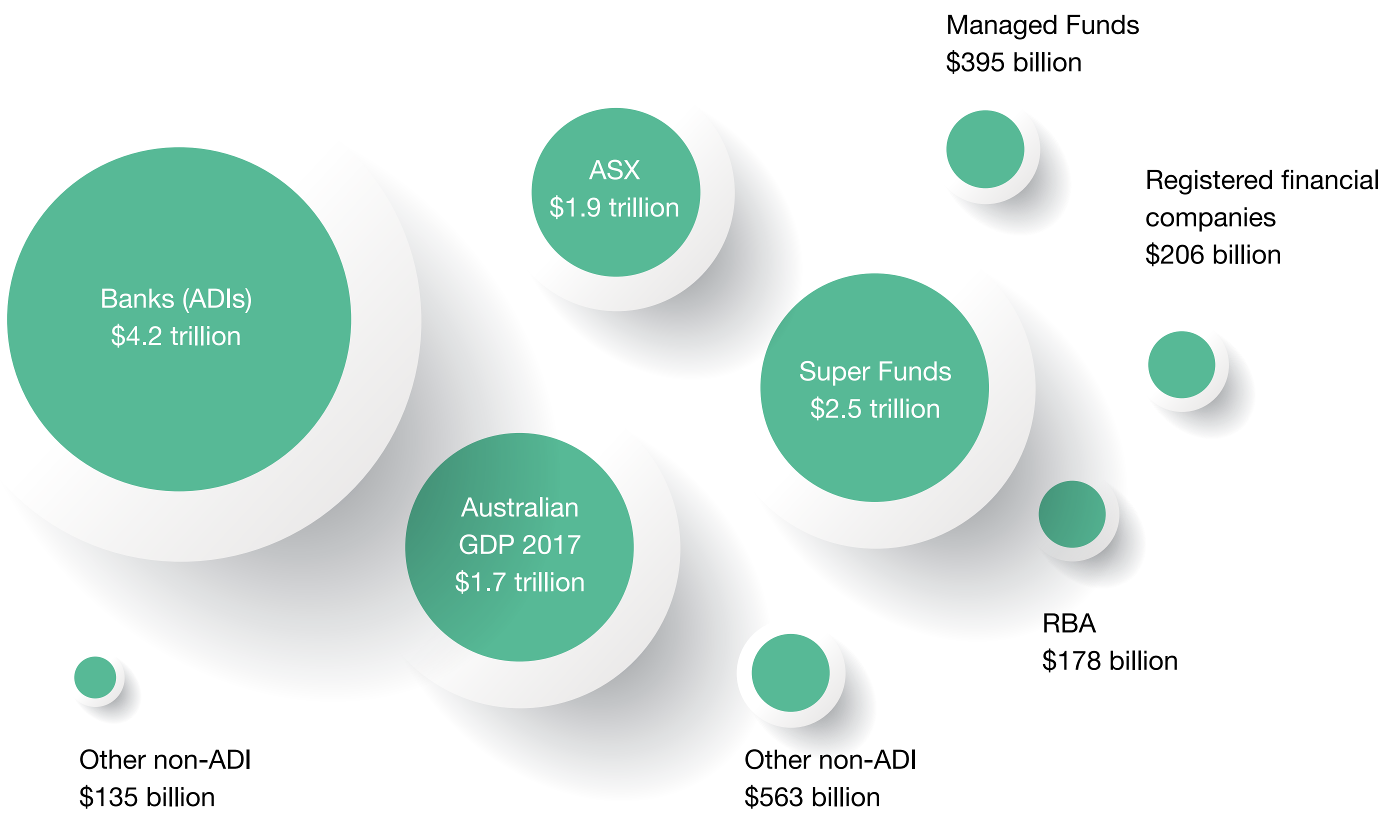


Figure 3 The relative size of Australia's financial sector by major group

Data source: Reserve Bank of Australia, 2018
https://www.rba.gov.au/fin-stability/fin-inst/main-types-of-financial-institutions.html

Key Findings

2.1 INSIGHTS FROM COMPARATIVE REGULATORY ANALYSIS BETWEEN THE EU AND AUSTRALIA

Our regulatory analysis revealed differences in the contextual factors in the political, legislative and cultural landscapes of the EU and Australia that set the conditions for sustainable finance. While acknowledging these, a direct comparative analysis of action currently undertaken by the EU and Australia is summarised according to the 10 EU action points (see table 2 below). A detailed summary of this comparative study is contained in Annex 2: Comparative analysis between the EU and Australia.

Table 2: Summary of EU/Australia comparative analysis

	EU ACTION PLAN POINT	EU ACTION	AUSTRALIAN ACTION
1	Taxonomy	Legislative framework/taxonomy for defining sustainable economic activities	• Industry certification schemes for responsible investment • Discussion of a Taxonomy as part of a Sustainable Finance Roadmap
2	Standards and labels	Use Taxonomy and other assessments/reports to develop standards and labels for sustainable finance products e.g. green bonds	• Green bond market is growing with use of the international Climate Bonds Initiative standard.
3	Fostering investment	Build on existing efforts to direct private capital towards sustainable projects	• The Clean Energy Finance Corporation is active in this area • Also impact investing is growing.
4	Financial advice	Require financial advisors to incorporate sustainability considerations in their advice	• Progressive interpretation of existing law increasingly suggests sustainability preferences should be sought and considered.
5	Carbon benchmarks	Legislative framework for harmonising methods and criteria behind carbon benchmarks – will incorporate Taxonomy	• Industry-based certification and rating schemes around carbon emissions are supported by government
6	Ratings	Develop guidance on integrating sustainability into credit ratings	• International ratings and research used in Australia • Local providers appear to be incorporating wider risk factors
7	Duties of investors	Legislative framework to improve integration of ESG into investment decision-making and to improve transparency around this	• Two industry-led Australian stewardship codes have been published, one for asset managers, and another for asset owners • Legal and regulatory guidance expressly permits but does not actively encourage or mandate the consideration of ESG factors.
8	Prudential requirements	Work towards inclusion of environmental risks in risk management systems and calibration to capital adequacy requirements	• APRA's capital adequacy requirements flow from Basel recommendations and do not expressly refer to sustainability risk
9	Sustainability disclosure	Assess the suitability of corporate sustainability reporting	• Sustainability reporting is largely voluntary, follows international guidance • ASIC report assesses climate risk disclosure by Australia's listed companies
10	Corporate governance	Assess whether boards should be required to develop and disclose a sustainability strategy and how to encourage long-term decision making	• Progressive interpretation of directors' legal duties to include ESG factors including climate risk.

Perhaps due to the lack of centralised government leadership, industry associations appear to be exerting a strong influence on policy development in Australia. Although there has been no legislative action directly attributable to improving sustainable finance there are various existing legal frameworks that are being interpreted to incorporate sustainability. This may be achieved through formal guidance from the regulators or through softer forms of regulation such as industry guides and codes which encourage a more nuanced application of the law to support sustainability goals. These include the Responsible Investment Association Australasia (RIAA) certification system, the Financial Services Council (FSC) and Australian Council for Superannuation Investors' (ACSI) stewardship codes, and the Australian Securities Exchange (ASX) corporate governance code. International initiatives are also having a strong influence on practice within the sector including the Principles of Responsible Investment (PRI); United Nations Environment Programme Finance Initiative (UNEPFI); Global Reporting Initiative (GRI); Climate Bonds Initiative and the Task Force on Climate-related Financial Disclosures (TCFD). Representatives of some of these organisations have agreed to start a process to develop a Sustainable Finance Roadmap for Australia, which is likely to result in a white paper by end-2019.

The two Australian corporate regulators, the Australian Securities & Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) have both begun to investigate the issue of sustainability in finance and in particular the importance of climate risks. ASIC has recently issued a report on corporate climate-risk disclosures and Geoff Summerhayes, of APRA, has discussed climate risk in recent speeches. Both organisations' position on climate-related financial risk is evolving in line with international regulatory best practice. ASIC has expressly included sustainability factors in several of its guidance notes, encouraging consideration of ESG as part of existing obligations.

The interviews and deeper comparative analysis revealed that a key point of differentiation between the EU and Australia is the type of action and where it originates. In this regard the Table 3 (below) is a mapping of the types of actions being undertaken by the EU (highlighted in blue) and Australia (highlighted in green). Several high-level insights can be derived from this mapping activity as follows:

1. COORDINATION

The EU Action Plan appears stronger or at least more formal and better coordinated. It is a centralised plan at the highest level of the EU governing bodies. Yet it must be remembered that this is the role and mandate of the EU – to harmonise economic activity amongst its Member States. The same focus on legislative harmonisation would not be expected at Australian government level. Yet the Australian government has a wider scope than the EU when it comes to the ability to alter national fiscal policy.

2. REGULATORY ORIGINS

The EU has three pieces of proposed legislation making their way through the law-making process (Taxonomy, Carbon benchmarks and Sustainability disclosure) and formal investigations underway in other areas. In Australia the most recent change is at the level of industry associations including the introduction of soft law such as codes of governance and stewardship.

3. LEGITIMACY

In Australia, the early stages of an Australian sustainable finance roadmap and an accompanying consultation process are being led by a member-based organisation (RIAA). This coordinating organisation and process have sought to engage across the finance sector, but have not received the same level of legitimacy from the state as that attributed to the HLEG which was set up by the EC. The EU Action Plan incorporated many of the HLEG's recommendations after the group engaged broadly with EU institutions across the finance sector through a more formalised approach. However, the independence of the Technical Expert Group was considered important and membership was carefully considered.

4. INTERNATIONAL INFLUENCE

The Australian finance sector tends to follow international best practice and/or use international benchmarks and frameworks. It is likely that the same international frameworks are also used extensively in European Member states, yet the EU Action Plan draws primarily on existing EU institutions rather than these independent frameworks. The EU appears to be purposely leading developments whereas Australia is following and learning from international practice. Local branches of international organisations such as the PRI are presently leading the policy development in Australia.

5. SUPERVISORY AUTHORITIES

In both the EU and Australia, formal guidance issued by regulatory authorities (such as ESMA in Europe and ASIC in Australia) appears to be a common method of guiding best practice and changing industry expectations. Although these documents can range in the level of authority they require, they have a strong influence as regulator-sanctioned documents. They play an important role in developing contemporary interpretations of long-standing legislative provisions such as legal duties of care.

Table 3: Map of Regulatory Action (as at end-January 2019)

	TOPIC	TYPE OF ACTION					
		Legislation	Gov't plan or policy	Gov't inquiry/ investigation (may include public consultation)	Standards/ Guidance issued by regulator	Voluntary or self-reg initiative (international or industry)	Private/ stakeholder consultation
	Sustainable finance overall		Commission Action Plan				Taskforce for Sustainable Finance Roadmap
1	Taxonomy – creation of framework for defining sustainable economic activity	Draft Regulation before Parliament				RIAA Certification	Conference discussions
2	Standards and labels for sustainable financial products			TEG report on green bond standard by June 2019 Explore use of EU Ecolabel		Climate Bonds Initiative Standard	
3	Fostering investment into sustainable projects			Commission investigation			
4	Financial advice – should existing legal duty include assessment of clients' ESG preferences	Proposed changes to Directive to include ESG in suitability assessments			Proposed changes to ESMA guidelines to include ESG ASIC guidance gives discretion to advisors on whether to include ESG	RIAA guidance encourages inclusion of ESG	
5	Carbon benchmarks – minimum standards for methodologies	Draft Regulation before Parliament					
6	Sustainability and Credit Ratings – methodologies			Commission study and consultation	Proposed changes to ESMA guidelines	International indexes and guidelines used	
7	Duties of investors – to take into account ESG risks	Included in draft Regulation Action point 9			APRA guidance permits ESG factors, but with focus on financial	FSC and ACSI stewardship codes	Roadmap for Fiduciary Duty
8	Prudential requirements			Commission investigation			
9	Sustainability disclosure – how sustainability is integrated	Draft Regulation before Parliament Corporations Act requires disclosure in relation to financial products; and in relation to a company's risk profile			The ASX corporate governance code recommends disclosure of ESG risks ASIC provides guidance on interpretation of Corporations Act provisions	Frameworks such as the GRI and TCFD are used	
10	Corporate governance			Commission investigations into directors responsibilities			Progressive interpretation of scope of directors duties (after legislative change rejected in 2006)

2.2 INSIGHTS FROM MAPPING THE AUSTRALIAN FINANCIAL SECTOR

A stakeholder analysis was conducted and a detailed summary describing each stakeholder is provided in Annex 3: Mapping the Australian financial sector. The analysis when considered in relation to the interviews highlighted that the Australian financial sector is complex with many interdependent relationships between multiple actors within the system.

In Figure 4 (below) the complexity of these relationships can be seen through the lens of a nested multi-level diagram for the Australian financial sector. At the heart of this diagram is the financial sector and the four primary institutions that provide financial services to the real economy (e.g. investment, insurance, banking and superannuation funds). Each layer of the diagram reveals the relationships of the various actors within the system and how they integrate. Moving from the centre of the diagram to the periphery you have those actors who are directly involved with day to financial transactions such as the allocation of capital, to the next layer of organisations that provide market infrastructure and advice to peak bodies and regulatory agencies. On the outer layers of the diagram you have government, society and finally - the planet. Each layer of this nested multilevel diagram is therefore interdependent with the other layers in the system and all are subject to the environmental limits of the planet. The system is driven by previous inertia, social structures and the information flows between different organisations. Ultimately the whole system is underpinned by the ability of the planet to provide the resources and ecosystem services to the real-economy.

What this diagram highlights is the significance of the financial sector in driving change in the real economy and ultimately to society and the planet. One of the common themes emerging from the discourse in Australia is the lack of political will and willingness for long-term agenda setting from the Australian Government (federal and state) to meet climate change and sustainability targets. As the entire system is nested within the government and judicial system, having political leadership on long-term issues such as climate change cannot be understated and something that has been lacking in Australia for the last decade. Another insight from this diagram is the significance of the financial sector for driving change in the real economy. Moving around this diagram between the different sections helps identify a number of different levers that could be used to transition the system towards being more sustainable. While knowing where these levers could be applied is important, what becomes apparent is that making adjustments in one part of the system while ignoring other parts of the system may not lead to the system-changing outcomes that are desired and may even have unintended consequences in other parts of the system. It is likely that a coordinated and consistent approach across the entire system, where actors are given the agency and support needed, will drive the system towards a sustainable economy.

In summary, each actor plays a valuable role within the financial system for which appropriate responsibility to a sustainable financial system needs to be taken. While all financial institutions have a direct role to play in carrying out and implementing sustainable finance in their day to day operations all actors must play a coordinated role to share risks and opportunities, educate and raise awareness of sustainability using mechanisms such as standard setting, monitoring, benchmarking and policy making.

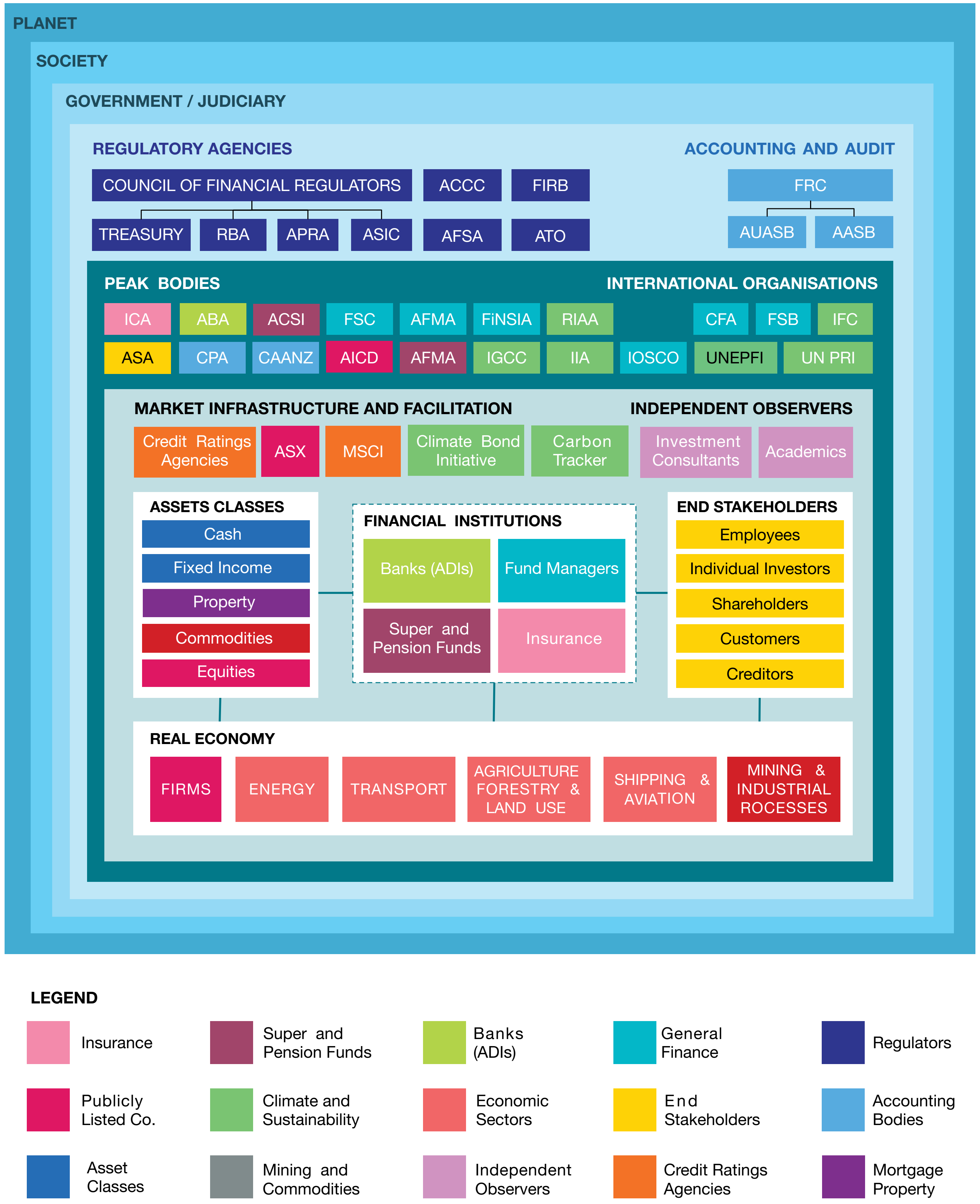


Figure 4 Nested systems model of the Australian financial sector

2.3 EMERGENT THEMES FROM THE STAKEHOLDER INTERVIEWS

Our stakeholder participants were grouped across five categories: (i) financial institutions, (ii) market infrastructure and facilitation, (iii) external observers, (iv) peak bodies, and (v) regulatory agencies. A detailed analysis of the interview data by key themes and interview can be found in Annex 4: Detailed analysis of interviews and comparison with HLEG. Across these broad categories four emerging themes were identified as particularly salient for achieving sustainable finance in the Australian context: achieving policy certainty; improving corporate governance; co-ordinating market mechanisms; and building sustainability into culture and behaviour.

1. ACHIEVING POLICY CERTAINTY:

Consistent policy agenda: All stakeholder participants indicated that consistent policy signals were important. At times this was conflated with calls for a more consistent political agenda. There was a perception of a mis-match between policy and short-term agendas of successive political leaders and parties. All lamented or highlighted the distortion created by a legacy of inconsistent climate and energy policies and an absence of a clear sustainability agenda from the Federal Government. Regulatory certainty was linked to investment pipeline (see below).

Sustainability incentives and disincentives: Market observers favoured a mix of incentives and disincentives to encourage sustainable investment and discourage carbon-intensive investments and those which had negative long-term social impacts. Generally stakeholders favoured incentives over disincentives.

2. IMPROVING CORPORATE GOVERNANCE:

Governance mechanisms: All stakeholder groups identified corporate governance frameworks and processes as an important lever for enabling sustainable finance. Differences occurred regarding which mechanisms they thought would be most effective.

Directors' duties: All stakeholder groups thought that social and environmental purpose should be incorporated into corporate governance frameworks. Several suggested more specific ways this could occur by mandating consideration of sustainability factors within fiduciary duties such as ESG and climate risks (TCFD) or encouraging B Corp certification. This could be accompanied by more specific prescriptions regarding how information should be reported. Some suggested mandating that one board seat be a sustainability specific position.

Disclosure and transparency: Financial Institutions, market participants and observers all felt it was important to increase the transparency of company reporting and suggested integrated reporting as a means to ensure reporting was connected to comparable financial metrics. Some extended the necessity for disclosure to asset managers and credit rating agencies. They agreed that ESG reporting should be mandated for listed companies and institutional investment funds. Some peak bodies were more in favour of a principles based approach to allow behavioural change. This insight links with improved metrics and benchmarks. Another view expressed was that with increased regulatory certainty, the level and quality of disclosure would increase under current disclosure requirements.

Stakeholder Participation: Stakeholder participants were generally in favour of engaging investors in a form of participative decision-making and that all funds should be directed to consult their beneficiaries regarding their values regarding investment decisions. This was seen as important for shareholders of financial institutions, but also for customers and individual investors who are seeking investment advice.

3. CO-ORDINATING MARKET MECHANISMS:

Foster market interest and pressure: Stakeholder participants highlighted how an increasing proportion of consumers were demanding sustainable assets and this could be amplified by getting larger corporations and funds to influence the market. Financial and investment advisors should be instructed to offer environmental and social products. Others highlighted the key role that analysts and price signals play in driving demand as being more important than regulation. Several thought fund managers should be mandated to consult beneficiaries about the extent to which they wanted to include ESG factors into investment decision making and provide guidance on what that means.

Collaboration: All stakeholders recognised the interdepencies between financial sector stakeholders and supporting industries. Identification of key development areas and directing capital to those areas required coordination between all stakeholders as both risks and opportunities must be shared. Additionally several stakeholders highlighted the need for collaboration between research (especially science) and industry to identify opportunities and develop new financial tools.

Benchmarks, metrics and tools: There were mixed views regarding the utility of these. However there was broad agreement that more consistency was required and new robust and scientifically derived tools were needed that internalised social and environmental costs and attributed broader social and environmental benefits. Linking these to science-based targets, and scenarios, especially in relation to climate change was considered important by financial institutions and market facilitators and observers, for example changing the assumptions in discounted cash flows to consider changes in oil and gas commodities in a low-carbon stress test scenario, and similarly for impairment testing.

Definitions and standards: stakeholders noted that Australia was still at the discussion stage of key definitions. Some were aware of the EU taxonomy, but general awareness was low. Standards were viewed as important mechanisms to standardise information coming into the market regarding risks.

Investment pipeline: there was a general concern about the lack of sustainable finance products in the domestic market. Market participants cited the high costs associated with due diligence on new products and financial institutions saw an opportunity for some form of government backed fund to help scale and enable viable growth of emerging sustainable products. Another view which was aired was the role of a level playing field, where some investable opportunities were competing against demonstrably un-sustainable and unregulated technologies.

4. BUILDING SUSTAINABILITY INTO CULTURE AND BEHAVIOUR:

Education and training: There was general recognition that the sector could learn from experienced professionals from Europe and other countries. Some advocated for mandatory training of asset managers, analysts, consultants and financial advisors, especially in relation to climate and systemic sustainability issues. Several stressed a need to incorporate sustainability into the higher education of finance professionals.

Mobilising interest and awareness: Stakeholders reported a general malaise or lethargy in the market regarding the adoption of sustainability in finance. Peak bodies highlighted how distorted information, such as regarding sustainable asset underperformance, had created market confusion. NGOs and think tanks were viewed as essential for influencing change across the sector. One financial market stakeholder saw a role for direct education or awareness raising for consumers, especially in regard to sustainable superannuation. Some thought technology solutions that made data more readily available and transparent would raise interest and awareness of sustainable opportunities.

After all interviews were analysed, a high level analysis across respondents used the EU action plan template to derive a general view of the Australian experts regarding the current perceived state of play. These are summarised in Table 4 below. Of significance in understanding these views are the differences between the objectives and processes of policy formation in the EU and Australia which render direct comparison inappropriate in some areas.

Table 4: Views from Interview Participants related to Action Plan topics

Opportunity   Mixed Views   Hurdle

	EU ACTION PLAN POINT	INTERVIEW THEMES	OPPORTUNITIES/ HURDLES
0	Overall plan	Collaboration was seen as a key opportunity, for example getting industry experts, scientists and NGOs to have a more active role in investment decisions and also to develop SF projects to be funded Some suggested that we need to open up the debate and do things differently rather than just tinkering with existing frameworks for small improvements – change the incentives across the whole finance system so that sustainable finance becomes the norm.	Opportunity for central coordination
1	Taxonomy	There was agreement that definitions should be globally consistent whether through leveraging the EU Taxonomy work or some other standard. That Taxonomies are always useful even if just in providing greater common understanding. Some were of the view that definitions evolve and develop naturally as a sector matures. Thus it is something that should be driven by the private sector rather than imposed from above. Some participants had concerns that definitions lead to box-ticking and compartmentalising and it is better to look at the overall picture.	Mixed views Agreement on the need for consistent definitions But not on the level of detail or who should drive the process
2	Standards and labels	There was positive sentiment for the role of green standards, labels and reporting, for example integrated reporting can have a beneficial effect by providing greater transparency on climate risks. However, reporting must contain material information and green standards should be consistent with overseas. Some participants expressed scepticism as green labels are not enough to change behaviour and there are many challenges arising from them. For example, difficulties in agreeing to what the labels will be, and awareness of the possible competitive advantages induced from the standards.	Mixed views Agreement on the need for consistent definitions but not on the level of detail or who should drive the process
3	Fostering investment	Some expressed the need for more SF related projects to be available to the investment community. There seems to be difficulties in finding SF projects to invest in, which could be an opportunity for an agency to act as an intermediary connecting SF funds with SF projects or products and perhaps bundling them for investors. There was a view that government could lead by example, especially in regard to investments in sustainable infrastructure. Some expressed concerns over unrealistic expectations around returns on sustainable investments causing projects to fail and harming the reputation of the sector.	Opportunity for more infrastructure and support for sustainable projects, as long as expectations are realistic
4	Financial advice	Encouraging more active and assertive engagement from investors and the financial community is important to progress the discourse on SF in Australia. Consumers and fund members for example should be able to easily gain access to information on their super funds and be able to be more active in where money is invested. An opportunity could be to make sustainable investing the default option for super funds. Organisations should be transparent and communicate more actively with consumers, understanding consumer needs and reacting appropriately.	Opportunity for both financial advisors and product issuers to be more proactive in enabling consumer choice
5	Carbon benchmarks	Benchmarking and evaluation of SF investment is challenging, we are lacking the tools to model for climate risk. A lack of information and awareness contributes to the community not having an urgency for SF. It is important to have effective disclosures that provide value, otherwise it is only adding to the costs of reporting Overall a big opportunity for the education of financial advisors and private investors around SF and climate issues	Opportunity to develop better tools, education and models
6	Ratings	More transparency around the assumptions behind credit ratings risk analysis would be helpful. There seems to be an assumption that if risks are properly assessed this would include alignment to long-term financial risk which would include ESG factors.	Scope for improvement but better understanding of existing situation required
7	Duties of investors	In terms of comments for institutional investment and super funds, there is a sentiment for the market to be underdeveloped for SF, as there are limited options for sustainable investing in Australia. Liquidity is very important for super funds as they must allow members to be able to move their contributions to different funds, generally SF investments are seen as too risky and not liquid enough. Further, super funds do not consider climate risks as their main duty, providing returns for their members is. A common response was to improve the education, skills and tools of financial decision-makers and ensure they receive appropriate sustainability-related information and also are able to understand the impact of climate risks on investment decisions. Existing tools and models seem to not be designed to consider climate - there is a need to widen and improve measurement.	Opportunity for government to clarify fiduciary duties Also to develop better tools, education
8	Prudential requirements	The incorporation of sustainability into capital adequacy requirements had not been directly considered by most participants. There was an untested assumption that bank risk management systems should include all long-term risks.	Better understanding of existing situation required

	EU ACTION PLAN POINT	INTERVIEW THEMES	OPPORTUNITIES/ HURDLES
9	Sustainability disclosure	A common suggestion was to better integrate sustainability and social considerations into the default reporting processes, making disclosure compulsory. However, some felt mandated disclosures are usually just boilerplate and not considered at all by investors. Plus there is a focus on disclosing only positive information rather than warning about the potentially negative effects of an investment.	Mixed views
10	Corporate governance	In terms of improving corporate governance, aligning top management with long-term issues and explicitly linking fiduciary duties with climate risk were ideas suggested. Most respondents acknowledge that directors are no longer able to ignore that climate issues impact their fiduciary duties. Respondents mentioned the nature and speed of the financial market encourage short term behaviour and investment decisions. To encourage long-termism many have suggested more disclosures and mandating integrated reporting. Some have also suggested removal of quarterly reporting as this encourages short term thinking. Interesting arguments were raised that a short-term view is not always incompatible with sustainability.	Opportunity to strengthen long-term reporting and reduce short-term reporting

Markedly, interviews with Australian expert stakeholders revealed an emerging global sustainable finance landscape, largely being driven in niches within the Australian context in particular segments as industry-led voluntary initiatives made by aspirational leaders. Figure 5 illustrates the emergent policy context for sustainable finance. It illustrates the gap between the highly fragmented Australian policy context, and the potential for integration with international initiatives. The development of an Australian roadmap was occurring at the intersection.

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 practive and national initiatives
Systems and patterns are created by the dominant polity. Technology, research, stakeholders, financing and stakeholders converge to make incremental innovations and adaptions 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.

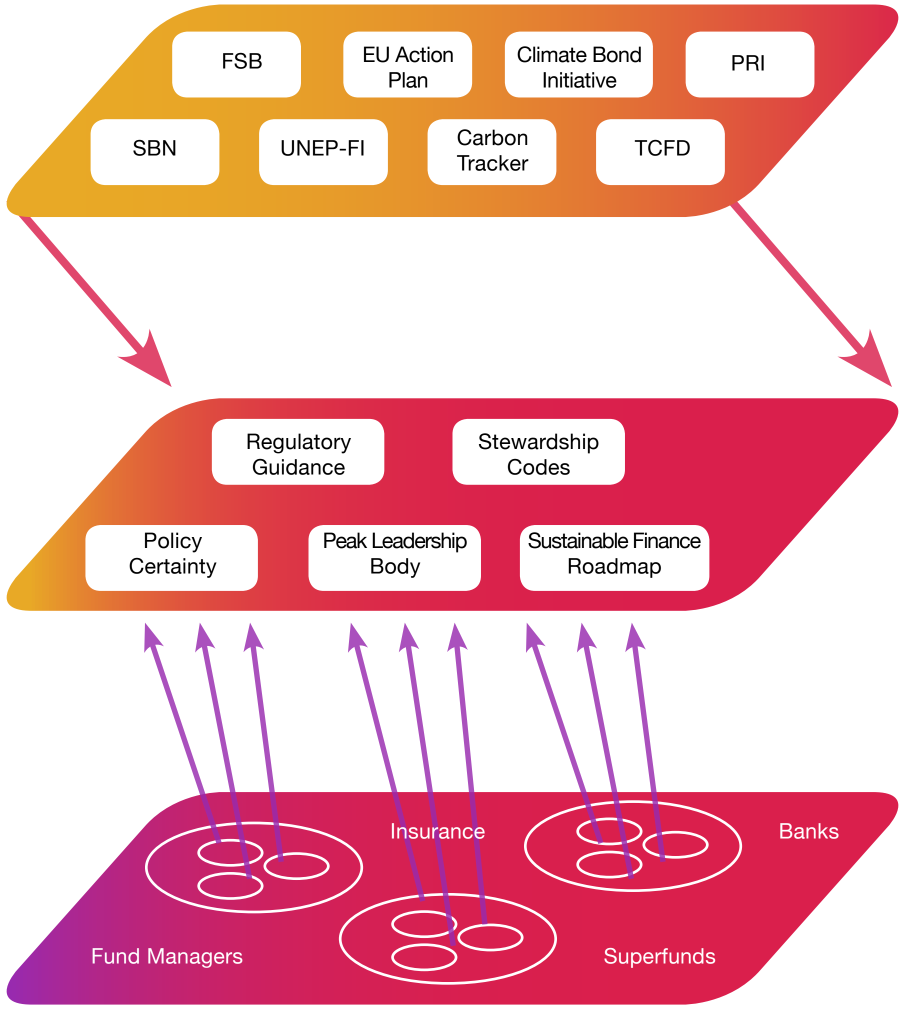
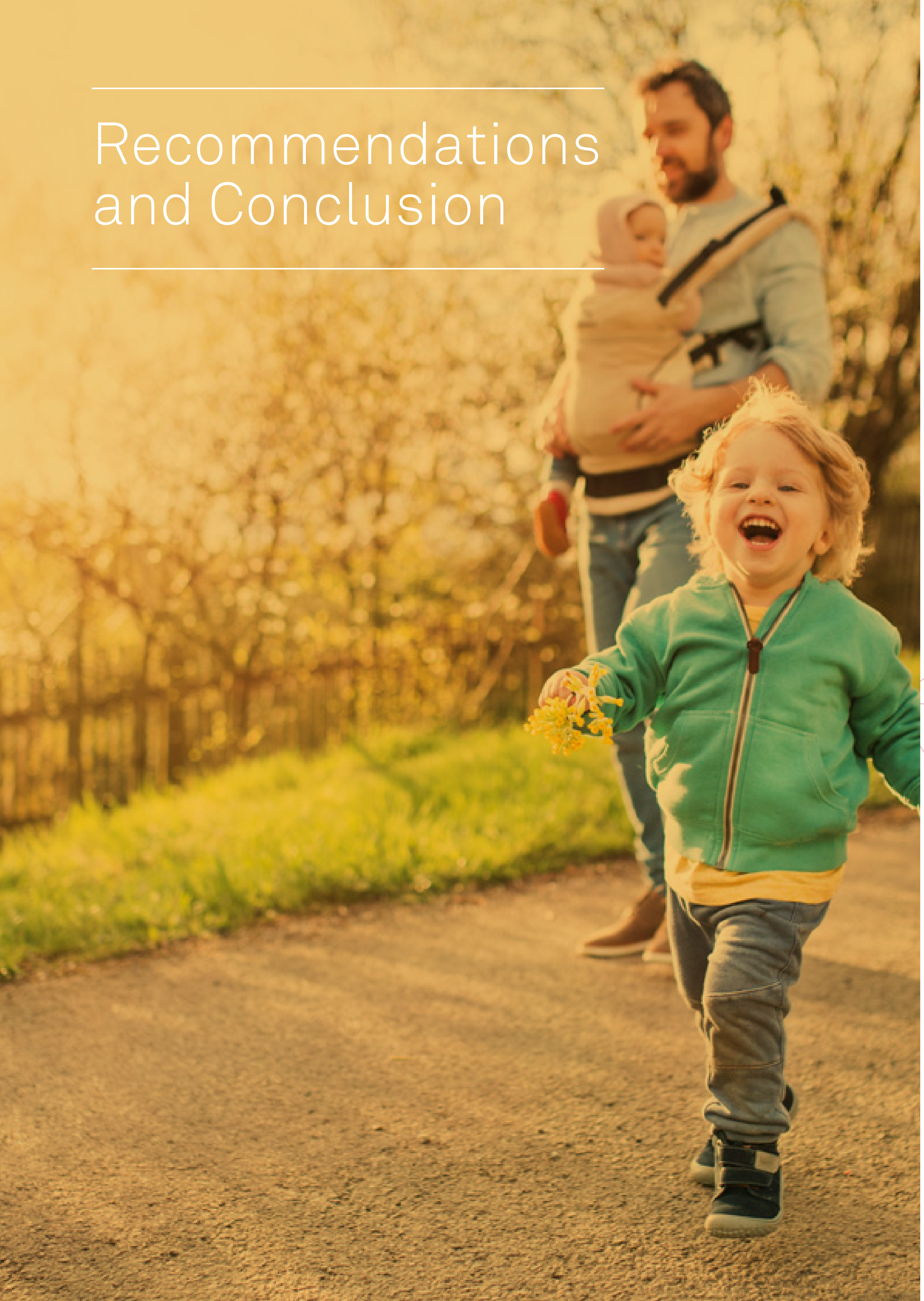


Figure 5 Mapping the transition to sustainable finance

Parts 3 and 4 of the interview analysis in Annex 4, reveals the diversity of viewpoints expressed. Of particular interest is how stakeholder participants viewed the role and opportunities for other stakeholders in the financial system. Notably, stakeholder participants identified how they experienced barriers to the adoption of sustainable finance that they attributed as being problems arising from inaction by other stakeholders. These perceived barriers restrict individual stakeholder agency, amplify the systemic status quo and restrict opportunities for the adoption of sustainable finance.

Recommendations and Conclusion



The recommendations below arise out of a comparative analysis between the EU and Australia on the transition to sustainable finance. The recommendations are limited by the scope and context for which the research was conducted. We compared the EU Action Plan against the current Australian regulatory environment; we mapped the key institutions involved in sustainable finance in Australia and we interviewed a sample of 23 stakeholders across the Australian finance sector. The topic of sustainable finance, together with our key findings, was discussed at a series of round tables and public seminars and any additional information and feedback was incorporated.

Our key findings and recommendations fall under four main headings:

- Coordination and leadership
- Consistency and coherence
- Transparency and disclosure
- Culture, behaviour and responsibility

3.1 COORDINATION AND LEADERSHIP

Australia lacks key centralised initiatives and leadership akin to that seen in the EU. Stakeholders are operating in a very unstable and changeable policy environment which is impeding progress towards sustainable finance. Not only is there a lack of certainty but a lack of coordination across the different sectors of the finance industry. A sustainable finance system should focus on long-term rather than short-term horizons, yet this requires a series of changes simultaneously undertaken by different stakeholders. There is a need for central coordination and leadership and a clear pathway for change.

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 conviene 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 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.

3.2 CONSISTENCY AND COHERENCE

The EU Action Plan aims to harmonise and standardise definitions, labels and benchmarks pertaining to sustainable finance. It will provide consistency around the meaning of green or sustainable finance for all stakeholders. This will improve confidence in 'green' markets and act as a catalyst for improving understanding and enabling education across the sector.

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, 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.

3.3 TRANSPARENCY AND DISCLOSURE

Australian regulators provide strong reporting frameworks for companies and prudential operators, though these do not extend to every part of the finance sector. Many disclosure requirements are already undergoing re-interpretation in order to incorporate longer-term horizons and better integration of environmental, social and governance concerns.

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[11] 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 enance the financial literacy of end-users, members and consumers.

11. https://asic.gov.au/regulatory-resources/financial-services/professional-standards-for-financial-advisers-reforms/

3.4 CULTURE, BEHAVIOUR AND RESPONSIBILITY

Responsibility for sustainable finance should be across the financial system with individual stakeholder groups having clear understanding of their own agency and holding one another accountable. This realisation is necessary to overcome the general culture of continuing with the status quo rather than prioritising ESG factors. Overcoming this inertia requires industry leadership, education and actively placing responsibility on all stakeholder, while mandating authority to enforce accountability.

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.

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.

Annex to the Short Report
"Unlocking Australia's Sustainable Finance Potential"

Disclaimer

This publication was produced 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 publication are the sole responsibility of Climate-KIC Australia and do not necessarily reflect the views of the European Union.

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 (BMU) in the context of the International Climate Initiative (IKI). SPIPA is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

Annex 1: Research Method

This research undertook a comparative analysis between Australia and Europe to understand the potential impacts, impediments and levers that are required to facilitate the transition to sustainable finance in Australia. The research had three primary tasks: (1) explore what Australia could learn and adopt from the European Process, and specifically from the High Level Expert Group (HLEG) on sustainable finance; (2) undertake a systems map of the different actors and groups in Australia relevant to sustainable finance; and, (3) interview key stakeholders from within the financial sector in Australia and key global institutions. A desktop study was conducted using the EU Action Plan as an analytical and comparative framework.

Semi-structured interviews were conducted with a representative sample of key stakeholders. Purposive and snowballing techniques were used. An interview schedule was derived from the set of questions used to survey the EU High Level Expert Group (HLEG). In total, 23 stakeholders from across the financial sector were interviewed for between 40 and 60 minutes. All interviews were recorded and transcribed. Interview analysis software NVIVO was used for coding and analysis and to identify emerging themes from different stakeholders in the financial sector. The following figure illustrates the research process.

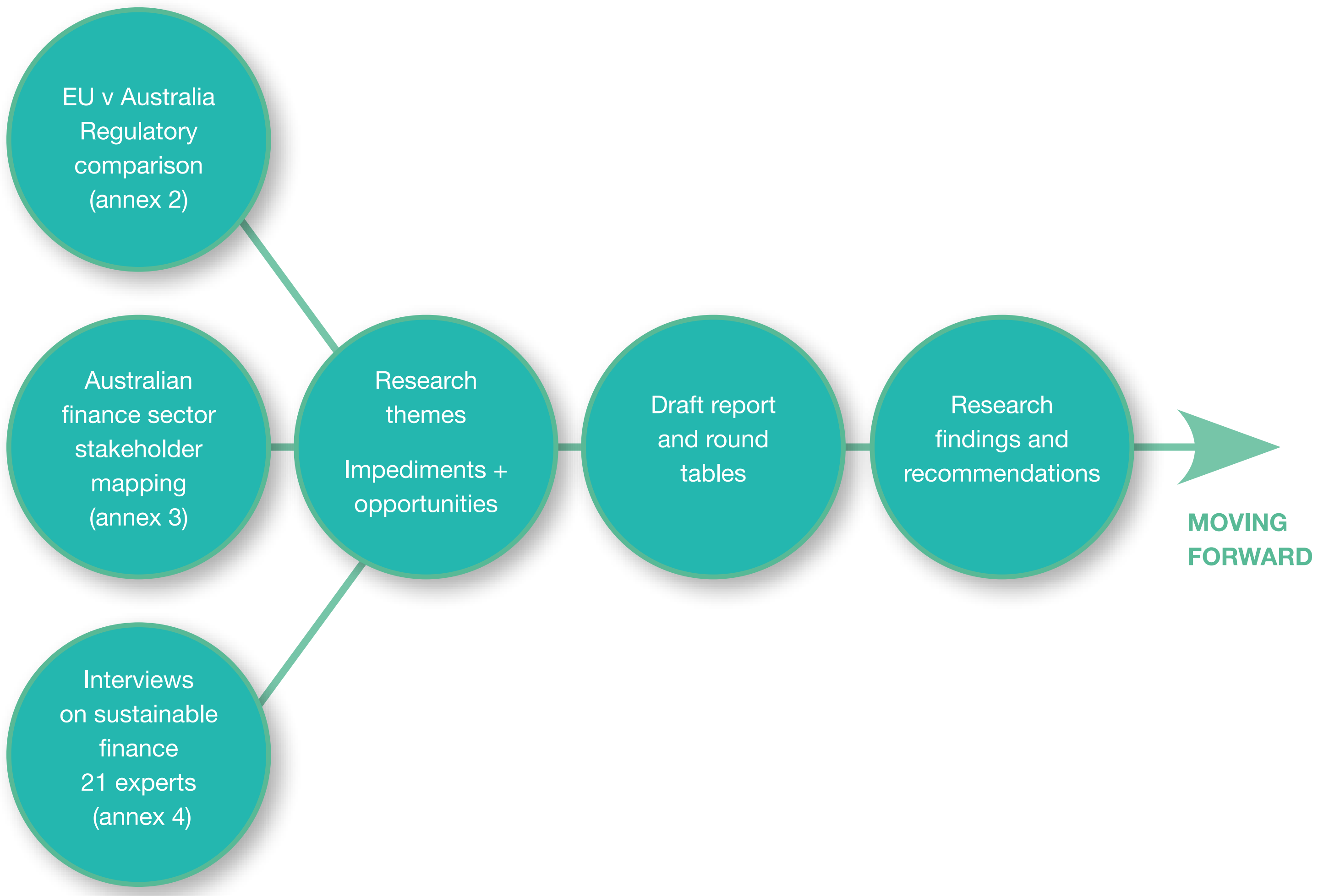


Figure 6 Research method

Annex 2: Comparative analysis between the EU and Australia

The EU Action plan has proposed a set of opportunities to enable SF. Here we present an analysis of how each of the ten EU Action points compare to the Australian context.

1.1 ESTABLISHING AN EU CLASSIFICATION SYSTEM FOR SUSTAINABILITY ACTIVITIES

Action 1 provides for the establishment of a uniform EU classification system (Taxonomy) for environmentally sustainable activities including climate change. The Action Plan recognises that in order for capital to flow to sustainable activities there has to be a shared understanding of what sustainable means. The Taxonomy is a crucial stepping stone towards many of the other proposals of the Action Plan:

> *A clear and unified concept of environmental sustainable investment would provide appropriate signals to economic actors on what activities are considered sustainable; protect private investors by avoiding risks of green washing; ensure that the single market is not fragmented; and provide the basis for further meaningful action (since there will be clarity on what is "sustainable" or "green") in areas such as standards, labels, disclosures, and any future changes to prudential rules (Proposal para. 1.4.3).*

On 24 May 2018 the Commission issued a proposal for a regulation on the establishment of a framework to facilitate sustainable investment (COM(2018)0353) (**Taxonomy regulation**). This draft legislation is currently passing through the EU law-making process meaning it is still subject to change. However it establishes four criteria which must be satisfied if an economic activity is to be considered as environmentally sustainable. The activity must:

1. contribute substantially to one or more of the environmental objectives (see below)
2. not significantly harm any of the environmental objectives
3. be carried out in compliance with minimum social safeguards, particularly regarding labour and discrimination
4. comply with the technical screening criteria

The environmental objectives are listed as follows:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy, waste prevention and recycling
- Pollution prevention and control
- Protection of healthy ecosystems

The Commission has set up the Technical Expert Group on Sustainable Finance (TEG) to assist with developing the technical screening criteria. The TEG will also assist with the detail of other elements of the Action Plan, namely the EU green bond standard (Action point 2); minimum standards for carbon benchmarks (Action point 5); and metrics for disclosure on climate risks (Action point 9). This means there are four sub-groups or working groups of the TEG each focused on one of these issues. The TEG comprises 35 members from civil society, academia, business and the finance sector, as well as additional members and observers from EU and international public bodies. In addition, the Commission has set up a Platform on Sustainable Finance made up of private sector stakeholders who will advise on the technical screening criteria and their cost implications.

2.1 AUSTRALIAN DISCUSSIONS AROUND A TAXONOMY

The Responsible Investment Association Australasia (RIAA) issued a briefing paper for the 2018 United Nations Environment Programme Finance Initiative (UNEPFI) conference in Sydney which explained that the RIAA's Responsible Investment Certification Program provides many elements of a taxonomy. Also the Investor Group on Climate Change (IGCC) has set up the Low Carbon Investment Registry - a public, online database providing examples of low-carbon investments.[12] At the UNEPFI conference a joint statement was released by representatives of the finance sector committing to support a sustainable financial system for Australia and New Zealand. The joint statement provides:

> *The signatories to this Joint Statement agree to convene leading banking, insurance and investment initiatives and key stakeholders, such as government, regulators, consumers and civil society, to start a process to develop Sustainable Finance Roadmaps for Australia and New Zealand, to help achieve national, regional and global goals on sustainable development.*[13]

In November 2018, a conference summary report was issued providing an overview of the topics, outcomes and recommendations covered during the conference.[14] The report states that one of the most important components of a Sustainable Finance Roadmap is agreeing on a sustainable finance taxonomy (page 1). Over the course of the conference, the taxonomy was lowered in order of priority with items such as leadership and clarifying investor and director duties viewed as higher in priority (page 9). The conference ultimately identified that agreeing on a sustainable finance taxonomy was a key component of a Roadmap and that it would:

> *…enable clarity and consistency around the language typically used to explain sustainable financing and sustainable financial products. Adoption of this taxonomy will deliver greater credibility to sustainable financing and be an influential factor in directing investor capital towards sustainable investments (page 11).*

The conference prepared a timeline of events which include the issue of a White Paper (with a targeted release date of August 2019) and a Sustainable Finance Roadmap. The Centre for Policy Development has suggested that compatibility of any taxonomy with the EU classification system would be beneficial.[15]

2.1 CREATING STANDARDS AND LABELS FOR GREEN FINANCIAL PRODUCTS

This Action point would build on the Taxonomy (Action point 1) to create EU standards and labels for sustainable products such as green bonds. Labelling schemes are seen as particularly useful for retail investors who wish to invest sustainably but find it hard to do so directly due to lack of reliably labelled products.

Criteria would have to be developed for specific financial products. As a first step the TEG will prepare a report on green bond standards and the Commission will explore the use of the EU Ecolabel framework for financial products.

2.2 GREEN BONDS IN AUSTRALIA

Australia was relatively slow to enter the green bond market with the first Australian dollar-denominated green bond issued in 2014. However, the green bond

12. See http://globalinvestorcoalition.org/low-carbon-investment-registry/
13. Refer to Joint Statement at : http://www.unepfi.org/wordpress/wp-content/uploads/2018/07/Statement-for-a-Sustainable-Finance-Roadmap-July-2018-FINAL-WEB.pdf
14. See UN Environment Programme Finance Initiative Conference, Financing a Resilient and Sustainable Economy, Conference Summary Report, November 2018. Authored by IAG, Investor Group on Climate Change, NAB and Responsible Investment Association Australasia with input from KPMG, EY and PWC. http://www.unepfi.org/wordpress/wp-content/uploads/2018/11/UNEP-FI-Conference-Summary-Report-FINAL-MR-10-S-20181101.pdf
15. McLeod, Travers & Hurley, Sam "Time for an Australian sustainable finance taskforce", 22 July 2018, The Sydney Morning Herald https://www.smh.com.au/national/time-for-an-australian-sustainable-finance-taskforce-20180720-p4zso1.html

market has grown very fast – since 2015 Australian public and private institutions have issued over $4 billion in green bonds, as compared to $21 billion in the global market in 2017 alone.[16] Australian issuers have used the Climate Bond Initiative Standard as a compliance benchmark.[17] However there are still some concerns over transparency and verification of green credentials.[18] Other labels used in Australia include the RIAA certification program mentioned above and GRESB for green property bonds.

3.1 FOSTERING INVESTMENT IN SUSTAINABLE PROJECTS

The EU Action Plan states that, *'mobilising private capital for sustainable projects, especially for infrastructure, is a prerequisite for the transition to a more sustainable economic model'*. Already the EU has two organisations providing financial and technical support for sustainable infrastructure investment within Europe, the European Fund for Strategic Investments (EFSI) and European Investment Advisory Hub. Also the EU External Investment Plan (EIP) will encourage sustainable investment in partner countries and will mobilise public and private finance through the European Fund for Sustainable Development (EFSD). This Action point proposes further measures to improve the efficiency and impact of instruments aiming at sustainable investment support. There are no detailed proposals or policies at this stage.

3.2 AUSTRALIAN DEVELOPMENTS AROUND INVESTING IN SUSTAINABLE PROJECTS

The last Labor Australian Government established the Clean Energy Finance Corporation (CEFC) as a specialist clean energy financier.[19] The CEFC has now invested over $360 million across seven certified green bond issues providing cornerstone underwriting as well as supporting a green lending platform.[20] It also supports innovative start-up companies through the Clean Energy Innovation Fund. Also impact investing, although a small sector in absolute terms, is growing fast in Australia.. The first Australian social benefit bond was issued in 2013 by the Benevolent Society and the NSW government, in partnership with two banks, with the aim of supporting vulnerable families in NSW.[22] The Australian Advisory Board on Impact Investing is working on how to scale impact investment through better design, stronger intermediaries and flexible capital. In May 2017 the RIAA launched the Impact Investment Forum to support impact investing in the region and integrate it across investment portfolios.[23]

4.1 INCORPORATING SUSTAINABILITY WHEN PROVIDING INVESTMENT ADVICE

In the EU the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD) require investment firms and insurance distributors to offer 'suitable' products to meet their clients' needs, when offering advice. The Commission proposes to amend these directives to ensure that sustainability preferences are taken into account in the suitability assessment. It will invite the European Securities Markets Authority (ESMA) to include provisions on sustainability preferences in its guidelines on the suitability assessment.

16. See Clare Corke, Green Bond Market: An Australian Focus, 5 April 2018 https://www.corrs.com.au/thinking/insights/green-bond-market-an-australian-focus/
17. See Oliver Yates, Australia's Budding Green Bond Market https://www.cefc.com.au/media/feature-articles/files/australias-budding-green-bond-market/
18. Cole Latimer, Climate Bonds market to hit a new benchmark in 2018, Sydney Morning Herald, 10 January 2018 https://www.smh.com.au/business/banking-and-finance/2018-the-year-of-the-green-bond-20180109-p4yycb.html
19. See https://www.cefc.com.au/about-us/
20. Corke, above n 14
21. Jessie Pettigrew, Making Money and doing good – the rise of sustainable and impact investing, BT advisory, 20 April 2018 https://www.bt.com.au/insights/perspectives/2018/03/sustainable-and-impact-investing.html
22. Rosemary Addis, Fabienne Michaux and Sally McCutchan, Scaling Impact: Blueprint for collective action to scale impact investment in and from Australia, Australian Advisory Board on Impact Investing, November 2018 https://impactinvestingaustralia.com/wp-content/uploads/20181120_Scaling-Impact.pdf
23. See https://responsibleinvestment.org/impact-investment-forum/

4.2 AUSTRALIAN DEVELOPMENTS AROUND THE SUITABILITY OF FINANCIAL ADVICE

In 2012 Australia's *Corporations Act* was amended to place a legal duty on providers of financial advice to act in the best interests of their clients.[24] This replaced a former more narrow suitability test. In Section 961B(2) the legislation sets out various things that an adviser must do to be acting in a client's best interests including identifying the objectives, financial situation and needs of the client.

The Australian Securities and Investment Commission's (ASIC) regulatory guide 175 provides further guidance on how advisers can satisfy their duty to the client. When it comes to enquiries about the client's view on sustainability (or ESG factors) the guide suggests that:

> *Advice providers must form their own view about how far s961B requires inquiries to be made into the client's attitude to environmental, social or ethical considerations. Advice providers may need to ascertain whether environmental, social or ethical considerations are important to the client and, if they are, conduct inquiries about them (RG175.311).*[25]

As far as we are aware there has not yet been any discussion in Australia on whether to amend the law to expressly refer to sustainability preferences. In its Financial Adviser Guide to Responsible Investment, the RIAA suggest that, in order to comply with their legal duty, advisers ought to ask clients a full and comprehensive set of questions including seeking out any sectors they may not be comfortable investing in.[26] They refer to the EU's proposal to place a positive requirement on advisers to proactively seek out the sustainability preferences of their clients and suggest that this may become the 'new norm of knowing your client' (page 12).

5.1 DEVELOPING SUSTAINABILITY BENCHMARKS

This Action point aims to deal with the current unreliability of emerging ESG benchmarks due to lack of transparency regarding their methodologies. On 24 May 2018 the Commission issued a proposal for a regulation on low carbon benchmarks and positive carbon impact benchmarks (COM(2018)355) (**Benchmark regulation**). This is still passing through the EU law-making process and thus is subject to amendment. It will provide minimum standards for the criteria and methods used to select and weight the underlying assets of carbon benchmarks, and to calculate the carbon footprint and carbon savings associated with the underlying assets. It will also require more transparency around the methodologies used for broader ESG benchmarks.

As part of its impact assessment the Commission considered several policy alternatives and chose an approach that focuses on minimum standards for the methodology used for 'low-carbon' and 'positive carbon impact' indices.

- 'Low-carbon benchmark' means a benchmark where the underlying assets are selected so that the resulting benchmark portfolio has less carbon emissions when compared to the assets that comprise a standard capital-weighted benchmark.
- 'Positive carbon impact benchmark' means a benchmark where the underlying assets are selected on the basis that their carbon emissions savings exceed the asset's carbon footprint.

The Technical Expert Group (TEG) has been tasked with developing a design and methodology for these carbon benchmarks. After concerns were raised about mandatory use of the EU Taxonomy by administrators of carbon benchmarks the proposal was amended to provide more flexibility

24. See Hanrahan Pamela, Legal Framework for the Provision of Financial Advice and Sale of Financial Products to Australian Households, Background Paper 7, Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, April 2018, p66-67 available at https://financialservices.royalcommission.gov.au/publications/Documents/legal-framework-for-the-provision-of-financial-advice-background-paper-7.pdfRefer to Joint Statement at : http://www.unepfi.org/wordpress/wp-content/uploads/2018/07/Statement-for-a-Sustainable-Finance-Roadmap-July-2018-FINAL-WEB.pdf
25. ASIC RG 175 Licensing: Financial product advisers – conduct and disclosure available at https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-175-licensing-financial-product-advisers-conduct-and-disclosure/
26. RIAA Financial Adviser Guide to Responsible Investment, 2018 available at https://responsibleinvestment.org/wp-content/uploads/2018/09/RIAA-Financial-Adviser-Guide.pdf

5.2 AUSTRALIA AND CARBON BENCHMARKS

The Australian Government has not yet directly addressed benchmarks that may be used by investors and portfolio managers to compare the carbon footprint of their investments and enable better strategic decision making. However, sustainability benchmarks from index providers such as Dow Jones, S&P, FTSE and MSCI are available to Australian investors.

Also within specific industries there are various rating and certification schemes supported by government and intended to help measure carbon footprints. This is first step towards understanding which underlying investments might be considered high or low carbon. For example:

- the voluntary National Carbon Offset Standard managed by the Department of the Environment and Energy which measures the energy efficiency of buildings
- the National Greenhouse and Energy Reporting Scheme (NGERS) which requires corporations that pass certain thresholds to report to the Clean Energy Regulator their emissions, energy production and energy consumption each financial year.

6.1 BETTER INTEGRATING SUSTAINABILITY IN RATINGS AND RESEARCH

The lack of broadly-accepted market standards on how to rate companies' sustainability performance means it is important for transparency around the methodologies used by market research providers. The Commission will carry out a study on the depth and breadth of sustainability research and rating methodologies.

Also it is unclear to what extent credit rating agencies include sustainability factors in their ratings. The Commission will consult on whether to mandate credit rating agencies to explicitly integrate sustainability factors into their assessments and will invite ESMA to consider this in their guidelines.

6.2 AUSTRALIAN SITUATION

Specialist sustainability ratings agencies and index providers assess companies according to ESG criteria. These tend to be international agencies such as MSCI ESG rating and CDP (formerly the Carbon Disclosure Project).

In February 2018 ASIC published the findings of its market-wide surveillance of credit rating agencies (CRAs) in Australia.[27] There are six CRAs operating in Australia, including four international CRAs. To operate they must hold an AFS licence which, amongst other things requires them to comply with the International Organization of Securities Commission's code of conduct for CRAs (IOSCO code).

Australia Ratings provides details of its rating methodology on its website. Although sustainability is not mentioned explicitly, ratings do take account of risk management, governance and industry regulation:

> *In assigning a credit rating to an entity Australia Ratings will focus on the credit risks. However, understanding an entity's approach to managing not only its credit risks but other risks to which it is exposed assist in determining the entity's resistance to unexpected changes.*[28]

7.1 CLARIFYING INSTITUTIONAL INVESTORS AND ASSET MANAGERS DUTIES

Action 7 provides for the tabling of a legislative proposal to clarify institutional investors' and asset managers' duties in relation to sustainability considerations. It identified that there is already a legislative framework in place for institutional investors and asset managers to act in the best interests of their clients and to incorporate sustainability risk but these are not consistently applied. Related to this is Action 9 which provides that asset managers and institutional investors would be requested to disclose how they consider sustainability factors in their strategy and investment decision making process.

27. REP 566 Surveillance of credit rating agencies available at https://asic.gov.au/regulatory-resources/find-a-document/reports/rep-566-surveillance-of-credit-rating-agencies/

28. See Australia Ratings website https://www.australiaratings.com/credit-ratings/methodology

The Action Plan provides that the aim of the proposal will be to:

- require institutional investors and asset managers to consider sustainability factors in their decision making process; and
- increase transparency to clients regarding how sustainability factors are integrated into their decision-making process.

On 24 May 2018, the Commission published its legislative proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341 (COM(2018)354) (**Duties and Disclosures regulation**). It provides for harmonised rules on the transparency to be applied regarding integration of sustainability risks in investment decision-making, advisory processes and financial products aimed at sustainable investment.

7.2 DUTIES OF INVESTORS IN AUSTRALIA

In December 2016 there was the release of an Australia Roadmap for Fiduciary Duty in the 21st Century.[29] It was prepared by the PRI (Principles for Responsible Investment), UNEPFI and the Generation Foundation and made the following recommendations regarding investors' duties to fund beneficiaries:

- Regulatory action – APRA should *update paragraphs 34 and 36 of* "Prudential Practice Guide SPG 530 – Investment Governance" to "clarify to superannuation funds that ESG issues are material to risk and return analysis. They therefore should be incorporated alongside other risk and return factors in investment decision making."
- Stewardship and intermediation:
  - The Financial Services Council (FSC) should continue to work with Australian asset managers to strengthen stewardship expectations, including engaging companies on ESG issues;
  - Stewardship expectations could be formalised through the development of a stewardship code. This should be industry-led;
  - Australian asset owners should incorporate stewardship expectations in the selection, appointment and monitoring of asset managers.
  - Investor education – Trustee boards should ensure capacity and competence on ESG issues. This should be industry-led.

In response to this, in 2017 the FSC launched its standard on "*Principles of Internal Governance and Asset Stewardship*" for asset managers. The standard is mandatory for FSC members and requires disclosure on a number of issues including the '*approach to considering Environmental, Social and Governance factors (risks and opportunities) and whether these considerations influence investment decision-making and company engagement*' (page 10).[30] It also includes provisions suggesting disclosure and transparency around the internal governance of asset management firms including remuneration policies. In May 2018 the Australian Council for Superannuation Investors launched a voluntary stewardship code for asset owners. Five superannuation funds have become signatories to the code.

APRA has not updated its regulatory guide to account for the increased risks of climate change and other sustainability related factors that may not be presently addressed in setting expectations and carrying out supervisory work. It permits the inclusion of ESG considerations as long as they are in the best interests of beneficiaries.[32]

29. See https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-australia-roadmap/258.article

30. See page xx of the Standard, available at https://www.fsc.org.au/_entity/annotation/82bbc3f8-316c-e711-8103-c4346bc5977c

31. See https://www.acsi.org.au/publications-1/australian-asset-owner-stewardship-code.html

32. Prudential Practice Guide SPG 530 – Investment Governance, November 2013 https://www.apra.gov.au/sites/default/files/prudential-practice-guide-spg-530-investment-governance.pdf

In 2017 a legal opinion by Noel Hutley and James Mack concluded that "*Climate change risks can and should be considered by trustee directors to the extent that those risks may intersect with the financial interests of a beneficiary of a superannuation fund*".[33]

8.1 INCORPORATING SUSTAINABILITY IN PRUDENTIAL REQUIREMENTS

This Action point calls for a better reflection of climate and other environmental risks in prudential regulation. The Commission will explore whether these risks could be incorporated in financial institutions' risk management policies and capital requirements. Any proposals will build on the Taxonomy regulation by incorporating its definitions of sustainable activities.

Also, the Commission will invite the European Insurance and Occupational Pensions Authority (EIOPA) to provide an opinion on the impact of prudential rules for insurance companies on sustainable investments, with a particular focus on climate change mitigation. As PRI Report comments, this part of the action plan has a substantial way to go.[34]

8.2 AUSTRALIAN PRUDENTIAL REQUIREMENTS

The Australian Prudential Regulation Authority (APRA) last updated its practice guide on risk management in April 2018.[35] This accompanies its risk management standard, mandatory for all regulated entities. The risk management framework refers to material risks without expressly referring to sustainability or environmental risks.

APRA requires all authorised deposit-taking institutions (ADIs) to maintain adequate capital as detailed in Prudential Standard APS 110.[36] The board of directors of an ADI is under a duty to ensure that the level and quality of capital maintained is commensurate with the type amount and concentration of risks to which the ADI is exposed from its activities (para 10). These include credit, market and operational risks. APRA requires risk management frameworks to be integrated with the internal capital adequacy assessment process (ICAAP). The extent to which non-financial risks (including climate and other environmental risks) ought to be included in these calculations is not specified.

APRA's standards are based on the Basel Committee's recommendations and therefore tend to reflect international standards. If the Basel Committee takes up suggestions to explicitly acknowledge environmental risks this is likely to flow through to Australian standards.[37]

9.1 STRENGTHENING SUSTAINABILITY DISCLOSURE AND ACCOUNTING RULE MAKING

Related to Action 7, this Action point aims to improve the consistency of disclosures to end-investors on the integration of sustainability risks and sustainable investment targets in investment decision-making. The aim is to make it easier to effectively compare different financial products across EU states as to their ESG/sustainability credentials.

Since 2018 the EU Directive on disclosure of Non-Financial Information has required public corporations to disclose material information on how they manage ESG risks. The Commission will has launched a public consultation on sustainability reporting with the aim of finding an appropriate balance between flexibility and the standardisation of disclosure necessary for investment decisions. The Commission also plans to revise the non-binding guidelines relating to disclosure

33. Noel Hutley and James Mack, Memorandum of Opinion Superannuation Fund Trustees Duties and Climate Change Risk, June 2017 available at https://www.envirojustice.org.au/sites/default/files/files/20170615%20Superannuation%20Trustee%20Duties%20and%20Climate%20Change%20(Hutley%20%26%20Mack).pdfSee page xx of the Standard, available at https://www.fsc.org.au/_entity/annotation/82bbc3f8-316c-e711-8103-c4346bc5977c

34. See https://www.unpri.org/sustainable-financial-system/the-european-commission-action-plan-action-8/3008.article

35. APRA Prudential Practice Guide CPG 220 Risk Management available at https://www.apra.gov.au/sites/default/files/cpg_220_april_2018_version.pdf

36. Prudential Standard APS 110 Capital Adequacy available at https://www.apra.gov.au/sites/default/files/140918_draft_aps_110_capital_adequacy_final.pdf

37. See Stability and Sustainability in Banking Reform: Are environmental risks missing in Basel III?, University of Cambridge Institute for Sustainability Leadership in association with UNEP Finance Initiative, August 2014

of non-financial information and provide further guidance to companies on "*how to disclose climate-related information, in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) and the climate-related metrics developed under the new classification system*. The TEG is involved in developing these guidelines on climate related disclosures.

The EU Action Plan also notes growing concerns around accounting rules, in particular the impact that the new International Financial Reporting Standard (IFRS 9) might have on long-term investments. The Commission notes the importance of ensuring accounting standards do not discourage sustainable and long-term investments.

9.2 CORPORATE SUSTAINABILITY DISCLOSURE AND ACCOUNTING RULES IN AUSTRALIA

Sustainability disclosure by Australian companies is largely voluntary. However a report by PRI and Baker McKenzie, identified that there are a number of mandatory regulations and voluntary guidelines that can extend to incorporate "disclosure of financially relevant climate risk".[38] Under s299A(1) of the Corporations Act 2001 listed companies must disclose information that shareholders would reasonably require to make an informed assessment of the entity's operations, financial position, business strategies, and prospects for future financial years (the operating and financial review or OFR). ASIC Regulatory Guide 247 "Effective disclosure in an operating and financial review" provides that an OFR should include a statement regarding environment and sustainability risk if these risks could affect the company's financial performance. In 2018 ASIC published a report assessing the state of corporate disclosure on climate risk and found 17% of listed companies included climate risk in their OFR.[39]

ASIC regulatory guide 65 gives guidance on how financial product issuers can meet their obligations under *S1013DA Corporations Act 2001* to disclose in Product Disclosure Statements (PDS) how labour standards or environmental social or ethical considerations are taken into account in investment decisions.[40] Disclosure is required whether or not these matters are taken into account.

Listed companies are required to comply or explain against the Australian Securities Exchange's (ASX) *Corporate Governance Principles and Recommendations* (ASX code).[41] Recommendation 7.4 states, 'A listed entity should disclose whether it has any material exposure to environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks'. The code notes '*the increasing demand from investors especially institutional investors, for greater transparency on these matters so that they can properly assess investment risk*'. Publication of a sustainability report in any format is generally seen as enough to comply with this recommendation. The Australian Council of Superannuation Investors (ACSI) has conducted an annual assessment of the extent and quality of the sustainability reporting of the ASX200 for over ten years. The most recent report noted a trend towards the adoption of international reporting frameworks including the TCFD framework.[42]

Coming into force on or after 1 July 2019 is the 4th edition of the ASX Code. The current draft expressly refers to climate risk and refers to several guides and standards on sustainability reporting:

- ESG Reporting Guide published by the Australian Council for Superannuation Investors (ACSI) and the Financial Services Council (FSC) 2015.
- the Global Reporting Initiative (GRI)

38. See page 7 PRI and Baker McKenzie report titled "Recommendations of the Task Force on Climate-related Financial Disclosures - Review of Local Relevance Australia

39. ASIC REP 593 Climate risk disclosure by Australia's listed companies, September 2018 available at https://asic.gov.au/about-asic/news-centre/find-a-media-release/2018-releases/18-273mr-asic-reports-on-climate-risk-disclosure-by-australia-s-listed-companies/

40. ASIC RG 65 Section 1013DA disclosure guidelines, 2011, available at https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-65-section-1013da-disclosure-guidelines/

41. Third edition available at https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf

42. ACSI, Corporate Sustainability Reporting in Australia, 26 June 2018 available at https://www.acsi.org.au/publications-1/research-reports.html

- Standards published by the Sustainability Accounting Standards Board
- the Climate Disclosure Standards Board's Framework for reporting environmental and natural capital
- the recommendations of the Financial Stability Board's Task force on Climate-related Financial disclosures (TCFD)
- the Senate Economics Reference Committee report entitled *Carbon Risk: A burning issue* April 2017 (and the Government response which encourages stakeholders to carefully consider the TCFD)

In November 2017 APRA announced that it would be surveying regulated entities to better understand emerging practice. APRA executive, Geoff Summerhayes noted that: "*whether due to regulatory action or- more likely – pressure from investors and consumers, Australia's financial sector can expect to see more emphasis on disclosure around climate risk exposure and management*.[43] The ASIC report found that current disclosure was very fragmented and inconsistent making it difficult to compare across companies or industries.

With Australia following international accounting standards, there are a range of mechanisms in place to facilitate harmonisation. It has been acknowledged by the AASB that climate and other emerging risks are currently predominantly considered outside financial statements if at all.[44] However, as such risks become 'material' factors to the industry in which the entity operates, or the expectations of investors, such risks warrant disclosure in financial statements, regardless of their numerical impact. This guidance provided by the AASB (Australian Accounting Standards Board) and the Auditing Assurance Standards Board (AUASB) expect that directors, preparers and auditors consider such material risks when preparing financial statements. The guidance provided by AASB recommends that entities preparing financial statements consider:

- whether investors could reasonably expect that emerging risks, including climate related risks could affect the amounts and disclosures reported in the financial statements and have indicated the importance of such information to their decision making; and,
- what disclosures about the impact of climate-related risks are material to the financial statements in light of the guidance in APS 2.

10.1 FOSTERING SUSTAINABLE CORPORATE GOVERNANCE AND ATTENUATING SHORT-TERMISM IN CAPITAL MARKETS

This Action point will initiate investigations into whether undue short-term pressures in capital markets impede long-term corporate decision-making, as well as potential solutions. The EU Commission will assess whether there is a need to require boards to develop and disclose a sustainability strategy (which may include supply chain due diligence and measurable sustainability targets); and to clarify rules regarding how directors act in the company's long-term interest.

10.2 AUSTRALIAN SITUATION

Directors in Australia have a legal duty to act in the best interests of the corporation (section 181 Corporations Act 2001). There were two government-led inquiries in 2005/2006 around whether to expressly incorporate the interests of a wide group of stakeholders in this duty (as was done in the UK). However this was rejected on the basis that a progressive interpretation of the law permits directors to take a wide range of interests into account.[45]

There is a growing view that directors have a duty to consider climate-related business risks as part of their duties under the Corporations Act 2001. Notably in October 2016 a legal opinion by Noel Hutley and

43. Taken from statement made by Geoff Summerhayes on 29 November 2017 to the Centre for Policy Development ("The weight of money: A business case for climate risk resilience")

44. https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin_13122018_final.pdf

45. See Parliamentary Joint Committee on Corporations and Financial Services, Corporate responsibility: Managing risk and creating value, June 2006, available at https://www.aph.gov.au/binaries/senate/committee/corporations_ctte/completed_inquiries/2004-07/corporate_responsibility/report/report.pdf

Sebastian Hartford-Davis concluded that directors who fail to consider climate change risks could be liable for breaching their duty of care.[46]

However there was industry resistance in May 2018 to the proposed inclusion of reference to a corporation's 'social licence to operate' in the 4th edition of the ASX corporate governance code.[47]

The Sustainable Finance Roadmap suggested by the 2018 UNEPFI conference (see Action point 1) will address:

- aligning finance with the long-term including changing incentives (listed as priority 1); and
- focusing on leadership to ensure leaders have the appropriate skills to consider sustainability risks (listed as priority 2).

46. Available at https://cpd.org.au/wp-content/uploads/2016/10/Legal-Opinion-on-Climate-Change-and-Directors-Duties.pdf

47. See for example, https://www.afr.com/leadership/governance-council-backs-down-on-industry-supers-social-licence-push-20180806-h13lc7

Annex 3: Mapping the Australian financial sector

In this section we provide a description and highlight opportunities for key plays in the Sustainable Finance stakeholder and policy landscape.

3.1 FINANCIAL ACTORS

FINANCIAL INSTITUTIONS

A financial institution is an establishment that conducts financial transactions such as investments, loans and deposits and invests assets on behalf of its members. Australian financial institutions operate in a competitive and profitable financial sector that is well regulated.[48] There are six types of institutional investors: endowment funds, commercial banks, mutual funds, hedge funds, pension funds and insurance companies. Institutional investors perform the majority of trades on exchanges and greatly influence the price of securities. Australia has a rapidly expanding and globally significant managed funds (MF) industry which is now the sixth largest in the world with $3.5 trillion of funds under management as of September 2018.[49] All financial institutions operating in Australia are supervised by the Australian Prudential Regulation Authority (APRA) as Authorised Deposit Taking Institutions (ADIs). In the following section a brief description of each category of financial institution will be provided and the role they play in assisting the transition to a sustainable financial system.

FUND MANAGERS

Institutional investors that invest in mutual funds, hedge funds and endowment funds pool funds on behalf of their members to create an investment vehicle for the purpose of investing in securities such as stocks, bonds, money market instruments and other assets. Each type of fund is structured differently based on the objectives, risk appetite and maturity of the investment.

The opportunity for managed funds in sustainable finance

Institutional investors with managed funds could better integrate ESG methodologies and develop instruments, models and metrics (best practice) to better assess risks and opportunities in investment assets for their clients and adopt organisational principals that promote high standards of competence in ESG issues. In doing so asset managers should be required to report on any relevant and material sustainability issues in relation to their business strategy, operations and risk. They should also establish clear understanding of their clients' preference on sustainability, governance and any other broader ethical issues. Managed funds will need to play a key role in the investment of new sustainable infrastructure to drive a low carbon economy.

SUPERANNUATION/PENSION FUNDS

Superannuation or 'super' is money that is put aside to provide support for individuals during retirement. In Australia it is mandatory for all employees to pay a minimum of 9.5% of their ordinary time earnings into super. Superannuation in Australia is universal and mandatory and governed by the 'Superannuation Guarantee' scheme introduced in 1992. The scheme is further encouraged by tax benefits for additional contributions. In September 2018 there was $2.8 trillion of super assets under management up from $277 billion just two decades earlier in 1998 and now represents the fourth largest pension fund in the world.[50] Ethical or responsible investment is a superfund that is created to meet certain views on moral, environmental or political matters.

48. http://fintech.treasury.gov.au/the-strength-of-australias-financial-sector/

49. http://www.abs.gov.au/ausstats/abs@.nsf/mf/5655.0

50. https://www.austrade.gov.au/News/Economic-analysis/australian-pension-fund-assets-growth-among-the-worlds-strongest

The opportunity for super funds in sustainable finance

Funds promoted as ethical or responsible in Australia have more than quadrupled in size over the last four years and now represent more than $620 billion[51] under management up from $13.9 billion in 2002 and equates to roughly 23% of Australian super funds under management. With an increasing trend to provide pension fund users with sustainable investment options and improved online user interfaces to manage their own assets, users will increasingly be able to choose investments that match their own ethical views. The challenge for this sector is remaining open and transparent about the process for how the ethical fund was created and the principles upon which it is based. Pension funds should be required to disclose publicly whether and how they account for climate risk and include such factors in their risk management systems.

RETAIL BANKS AND AUTHORISED DEPOSIT TAKING INSTITUTIONS (ADIS)

There are four main commercial banks in Australia these are: (i) Commonwealth Bank of Australia (CBA), (ii) Westpac Banking Corporation (Westpac), (iii) Australian and New Zealand Banking Group (ANZ), and (iv) National Australia Bank (NAB). All banks operating in Australia require a banking licence to operate which is provided by APRA. Each of the four major banks are among the largest banks in the world by market capitalisation and all rank in the top 25 safest banks. Australian banks are amongst the most profitable in the world. There are several other smaller banks with presence throughout the country and some large financial institutions such as Credit Unions, Building Societies and Mutual Banks. The World Economic Forum Financial Development Index of 2012 rated Australia as one of the world's best performing financial centres, partly due to the strength of financial intermediation and financial stability.

The opportunity for financial institutions in sustainable finance

Many Australian banks are already seeing green finance as a business opportunity. Although most banks have an investment function to play in the drive towards responsible (ethical) allocation of capital it is through lending that banks can play an important role. As a customer facing institution, banks play a special role in the financial sector about what projects they choose to fund. As shown by the Adani Coal Mine development, all four large Australian Banks have now refused to finance the mine. Tilting a bank's lending book towards funding sustainable investment opportunities, particularly in emerging markets or for early stage innovation projects for climate adaptation could provide much needed capital for sustainable projects. Banks could also incorporate ESG dimensions into risk analysis, credit assessments and approval processes for lending.

INSURANCE SECTOR

Insurance is essential for a viable economy by providing individuals and organisations protection against the risk of loss. The Australian insurance market can be roughly divided into three sectors: life insurance, general insurance and health insurance. Like in most competitive insurance markets, there are a large number of providers (brokers) who sell insurance on behalf of a small number of underwriters (who may also offer insurance products directly to the public). In Australia there are four underwriters who account for three-quarters of the Australian market these are: Insurance Australia Group (IAG) with 29%, Suncorp Group with 27%, QBE with 10% and Allianz with 8%.

The opportunity for insurance in sustainable finance

From the asset and liability side of insurance, collected premiums form a pool of funds required to meet prudential capital requirements (PCR). These funds represent an opportunity responsible investment portfolios. For the actuarial side of insurance, there is an opportunity to build climate resilience into Australia's financial system as a result f climate change and the transition to a low carbon economy. Economic losses including lost productivity, foregone revenue and damage to assets and public infrastructure are at risk of increasing due to climate change.[52] APRA's concern goes beyond the impact of more frequent and damaging natural disasters may have on insurers' balance sheets and their capacity to pay claims. It

51. https://www.morningstar.com.au/ETFs/article/socially-responsible-investing-exceeds-620bn/166264

52. https://www.apra.gov.au/media-centre/speeches/weight-money-business-case-climate-risk-resilience

also flows through to insurers' ongoing ability to keep premiums affordable and available in high-risk areas. A lack of insurance availability for some towns or cities would be deeply financially damaging, reducing investment, supressing economic growth, harming employment and raising the credit risk for households and businesses.

3.2 GOVERNMENT AND PUBLIC SECTOR

COUNCIL OF FINANCIAL REGULATORS

https://www.rba.gov.au/fin-stability/reg-framework/cfr.html

The Council of financial regulators (CFR) is the co-ordinating body for Australia's main financial regulatory agencies whose role is to contribute to the efficiency and effectiveness of financial regulation and to promote stability of the of the Australian financial system. It is a non-statutory body for Australia's main financial regulatory agencies including the Reserve Bank of Australia (RBA), which chairs the council; the Australian Prudential Regulation Authority (APRA); The Australian Securities and Investment Commission (ASIC); and the Australian Treasury. The CFR meets in person quarterly for members to share information discuss regulatory issues and co-ordinate responses to the potential threats to financial stability. The CFR also advises the Government on the adequacy of Australia's financial regulatory arrangements.

The potential for CFR to promote and support sustainable finance

The CFR has a climate change working group. As a coordinating body, the Council of Financial Regulators has an opportunity to be a leader across regulatory bodies in Australia, and to coordinate Australian efforts in sustainable finance policy. As a direct adviser to government, the council has an opportunity to address the adequacy of Australian regulatory arrangements to government.

AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY (APRA)

https://www.apra.gov.au/

The Australian Prudential Regulation Authority (APRA) is an independent statutory authority that supervises institutions across banking, insurance and superannuation and promotes financial system stability in Australia. APRA is primarily concerned with maintaining the safety and soundness of financial institutions such that public can have confidence the financial institutions in Australia will meet their financial commitments under all reasonable circumstances. Under legislation APRA are tasked with administering and protecting the interests of depositors, policyholders and superannuation fund members.

The opportunity for APRA for sustainable finance

APRA has a duty to warn the institutions that it regulates, if it identifies a risk that could threaten the stability of the Australian financial sector. In 2017 Geoff Summerhayes announced the importance of building a sustainable economy and the prudential threat of the various risks posed by climate change. Such issues can no longer be ignored and the risks of a transition to a low carbon will need to be addressed by the sector. As a supervisory authority APRA has the authority to oversee processes for improved disclosure of climate risks and the ability to conduct stress tests on the institutions it regulates specifically related to climate risks.

AUSTRALIAN SECURITIES AND INVESTMENT COMMISSION (ASIC)

https://asic.gov.au/

The Australian Securities and Investments Commission is an independent Australian government body that acts as Australia's corporate regulator. ASIC's role is to enforce and regulate company and financial services laws to protect Australian consumers, investors and creditors.

The opportunity for ASIC for sustainable finance

ASIC is responsible for publishing guidelines and frameworks for climate risk disclosure for Australia's listed companies. There is an opportunity for improved focus on encouraging strong and effective corporate governance for sustainability and ensure that companies adequately disclose material climate change risks. Further ASIC could engage and review international best practice and monitor international developments in sustainable finance.

RESERVE BANK OF AUSTRALIA (RBA)

https://www.rba.gov.au/

The primary duty of the reserve bank is to contribute to the stability of the currency, full employment and the economic prosperity and welfare of the Australian people. The bank is tasked with meeting an agreed medium-term inflation target, working to maintain a strong financial system and efficient payment systems. It achieves this by by setting monetary policy (interest rate setting) and currency issue (supply of money) to ensure financial system security. It also provides banking services as required by the Australian Government and its agencies and to a number of overseas central banks and official institutions. It also manages Australia's gold and foreign exchange reserves.

The opportunity for the RBA for sustainable finance

The orthodox approach of Central Banks focusing on price stability has been severely undermined by the global financial crisis. Central banks are also responsible for safeguarding financial stability. While this opens up a new discussion on the scope of – and limits to – the mandate of central banks, there is an argument that the threat of climate change could have a material risk on financial stability. RBA has an opportunity to play a catalysing role in launching a platform for sustainable finance where the financial sector and the public sector can cooperate in seeking ways to increase sustainable investments. While there is still debate in Europe whether central banks should also directly use monetary policy tools and macro-prudential tools to facilitate green finance central banks are generally very cautious about using its main policy tools for goals other than its mandated objectives of inflation and financial stability. However, there remains an open question whether central banks should play a more active role in facilitating green finance.

THE TREASURY

https://treasury.gov.au

The Treasury is central policy agency, and is expected to anticipate and analyse policy issues with a whole-of-economy perspective, understand government and stakeholder circumstances, and respond rapidly to changing events and directions.

Treasury provides sound economic analysis and authoritative policy advice on issues such as: the economy, budget, taxation, financial sector, foreign investment, structural policy, superannuation, small business, housing affordability and international economic policy. The Treasury also works with State and Territory governments on key policy areas, as well as managing federal financial relations

The opportunity for the Treasury for sustainable finance

As the central policy agency for the sitting government the Treasury has a responsibility to track and report on the economic impacts of climate change and other environmental risks. The Treasury has access to modelling capabilities that allow the short, medium and long-term environmental and climate risks to be identified and dealt with. The treasury has already demonstrated that early action is less expensive than later action.

AUSTRALIAN COMPETITION AND CONSUMER COMMISSION (ACCC)

The ACCC promotes competition and fair trade in markets to benefit consumers, businesses, and the community. They also regulate national infrastructure services. Their primary responsibility is to ensure that individuals and businesses comply with Australian competition, fair trading, and consumer protection laws - in particular the *Competition and Consumer Act 2010*.

FOREIGN INVESTMENT REVIEW BOARD (FIRB)

http://firb.gov.au/

The FIRB is a non statutory body established in 1976 to advise the Treasurer and the Government on Australia's Foreign Investment Policy (the Policy) and its administration. The Board's functions are advisory only. Responsibility for making decisions on the Policy and proposals rests with the Treasurer. The Treasury's Foreign Investment Division (the Division) provides secretariat services to the Board and is responsible for the day to day administration of the arrangements.

AUSTRALIAN FINANCIAL SECURITY AUTHORITY (AFSA)

https://www.afsa.gov.au/

We manage the application of bankruptcy and personal property securities laws through the delivery of high quality personal insolvency and trustee, regulation and enforcement, and personal property securities services.

AUSTRALIAN TAX OFFICE (ATO)

https://www.ato.gov.au/

The Australian Taxation Office (ATO) is the principal revenue collection agency of the Australian

Government. The ATO effectively manages and shapes the tax and superannuation systems that support and fund services for Australians.

FINANCIAL REPORTING COUNCIL

http://www.frc.gov.au/

The financial reporting council is responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standards managed by the AUASB and AASB, setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by the Australian auditors and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia.

The opportunity for the financial reporting council for sustainable finance

As the FRC provides oversight of accounting standards in Australia, it has the opportunity to provide leadership to ensure that Australia is implementing international best practice when considering climate risks and other material sustainability issues that may or may not have a quantitative impact.

AUDITING AND ASSURANCE STANDARDS BOARD (AUASB)

https://www.auasb.gov.au/

The AUASB is an Australian Government agency that develops and maintains financial reporting standards applicable to entities in the private and public sectors of the Australian economy.

The opportunity for AUASB for sustainable finance

Foster adherence to sustainability reporting with an expectation that directors, preparers and auditors will consider the materiality of climate-related risks. If investors reasonably expect that climate-related risks or other emerging risks have a significant impact on the entity and would that risk qualitatively influence investors' decisions, regardless of the quantitative impact on the financial statements, then disclosure of risk is recommended.

AUSTRALIAN ACCOUNTING STANDARDS BOARD (AASB)

https://www.aasb.gov.au/

The AASB is an independent accounting standard setter. The members of this board are appointed by the Financial Reporting Council (FRC) and the chair is appointed by the relevant Minister. The board is committed to developing, in the public interest a single set of high quality understandable accounting standards that require transparent and comparable information in general purpose financial statements.

The opportunity for AASB for sustainable finance

The AASB has an opportunity to improve the standard accounting framework to support disclosure on sustainability practices and on the material risks of climate change that influence investment decisions.

3.3 PEAK BODIES

CERTIFIED PRACTICING ACCOUNTANTS (CPA)

https://www.cpaaustralia.com.au/

The CPA is a professional accounting membership body that administers the CPA qualification and represents the view of members to governments, regulators, academia and the general public. Core services to members include education, training, technical support and advocacy.

CHARTERED ACCOUNTANTS AUSTRALIA AND NEW ZEALAND (CAANZ)

https://www.charteredaccountantsanz.com/

The CA ANZ are a professional accounting membership association that administers the Chartered Accounting (CA ANZ) designation..

Opportunity for CPA and CA ANZ for sustainable finance

Accountants are key stakeholders in the organisational reporting process, with professional accountants having the skills and expertise to provide leadership in this space. CPA and CA ANZ are leading advocates of sound corporate governance and are members of the Australian Stock Exchange Corporate Governance Council (ASXCGC). They have the opportunity to engage and educate their members on the principles of best practice in sustainability reporting and climate risk disclosure and provide advocacy to government. Members of CPA and CA ANZ have a crucial role play in embracing sustainability to ensure that the organizations they serve are resilient by linking sustainability to a broader business agenda and strategy.

INSURANCE COUNCIL OF AUSTRALIA (ICA)

http://www.insurancecouncil.com.au/

The ICA is the representative body of the general insurance industry in Australia. ICA members represent approximately 95 percent of total premium income written by private sector general insurers. Across the insurance sector in Australia approximately $45 billion of gross premiums are written each year. The industry employs approximately 60,000 people and on average pays out about $31 billion in claims each year.

Opportunity for the ICA for sustainable finance

As the representative body for the insurance sector for Australia it aims to influence both ethically and expertly the political social, business and economic environment in Australia to promote members' roles in providing insurance protection and security to the community. The ICA has an opportunity to convene and represent the insurance sector on the importance of climate risks to government.

RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA (RIAA)

https://responsibleinvestment.org/

The RIAA is a peak industry body representing responsible, ethical and impact investors across Australia. RIAA has an active network of over 240 members who manage more than $9 trillion in assets globally. Responsible investing as defined by the RIAA is a process that takes into account environmental, social, governance (ESG) and ethical issues into the investment process of research, analysis, selection and monitoring of investments.

Opportunity for the RIAA for sustainable finance

As a leader and active participant in Responsible Investing in Australia, RIAA has an opportunity to provide leadership and guidance to the investment community. They are also well placed to convene and make submissions on how the Australian financial system could make a shift to sustainable finance. RIAA are presently leading the creation of a steering committee to oversee the creaton of a sustainable finance roadmap for Austraila.

AUSTRALIAN INSTITUTE FOR COMPANY DIRECTORS (AICD)

https://aicd.companydirectors.com.au/

The AICD is a non-profit membership association for company directors. Membership of the AICD includes access to a professional network, events, professional development and a voice on policy issues. The AICD is committed to excellence in governance education, director development and advocacy.

Opportunity for the AICD for sustainable finance

As a peak body representing company directors the AICD has an opportunity to educate its members on the importance of sustainability in governance decision making and director development. There is also an opportunity for this organisation to provide advocacy for climate resilience and embedding increased ethical practice around sustainability into business practices.

AUSTRALIAN SHAREHOLDERS ASSOCIATION (ASA)

https://www.australianshareholders.com.au/Default.aspx

The ASA educates investors and stands up for shareholder rights. They are Australia's largest, independent, not-for-profit individual investor association. The ASA are passionate about keeping the market fair for the everyday, independent investor.

Opportunity for the ASA for sustainable finance

As an independent peak body representing individual investors the ASA has an opportunity to advocate for sustainable finance to companies. The ASA keeps companies and their leaders accountable when it comes to performance, executive remuneration, risk management and dividend policies. The ASA is therefore well placed to communicate climate change risks and the benefits of sustainable governance to the boards of companies and through company AGMs.

FINANCIAL SERVICES COUNCIL OF AUSTRALIA (FSC)

https://www.fsc.org.au/

The FSC is a leading peak body which sets mandatory standards and develops policy for more than 100 member companies in the Australian Financial Sector. Full members represent Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The FSC has a vision for all Australians to have a fair and financially secure future.

Opportunity for the FSC for sustainable finance

As a peak body that sets mandatory standards there is an opportunity to review or implement new standards that incorporate sustainable finance principles. The FSC could also provide guidance and resources to members on implementing sustainable finance principles.

AUSTRALIAN COUNCIL OF SUPERANNUATION INVESTORS (ACSI)

https://www.acsi.org.au/

ACSI is a peak body representing 39 Australian and international superannuation investors collectively representing more than $2.2 trillion in assets. The organisation exists to provide a strong collective voice on environmental, social and governance (ESG) issues on behalf of its members. ACSI members believe that ESG risks and opportunities have a material impact on investment outcomes. Through ACSI their members collaborate to achieve genuine, measurable and permanent improvements in the ESG practices and performance of the companies they invest in.

Opportunity for ACSI for sustainable finance

ACSI are a leading peak body on ESG matters for Australian superannuation investors and therefore have an important role to play as a convenor and promoter for sustainable finance. For example, ACSI could provide advice, set new guidelines, develop new tools and advocate for regulatory change to government.

AUSTRALIAN BANKING ASSOCIATION (ABA)

https://www.ausbanking.org.au/

The ABA represents 24 member banks in Australia and provides provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

Opportunity for the ABA for sustainable finance

As a peak body representing the banking industry in Australia the ABA is well placed to convene their membership base and develop new guidelines, tools and standards that embed sustainable finance in the banking sector. As the ABA already recognises that climate change is a global problem and believes the banking sector is critical for the design and implementation of various climate change policies. They also support the establishment of a price on carbon and introduction of a carbon market in Australia. The ABA could also look to building a series of climate stress tests that could be used by the financial industry in Australia.

THE AUSTRALIAN FINANCIAL MARKETS ASSOCIATION (AFMA)

https://afma.com.au/about-us

The Australian Financial Markets Association (AFMA) was formed in 1986 and today is the leading industry association promoting efficiency, integrity and professionalism in Australia's financial markets – including the capital, credit, derivatives, foreign exchange and other specialist markets. They have more than 110 members, from Australian and international banks, leading brokers, securities companies and state government treasury corporations to fund managers, energy traders and industry service providers.

The opportunity for the AFMA for sustainable finance

As a peak body representing the needs right across the financial sector, the AFMA has the potential to provide leadership to their members on sustainable finance. Through education and awareness raising campaigns the AFMA can promote consistency, develop tools and promote integrity towards sustainability in Australia's financial markets.

THE FINANCIAL SERVICES INSTITUTE OF AUSTRALIA (FINSIA)

The origins of FINSIA date back to 1886, when it established by a group of bankers to drive improvements in professional practice and high standards of conduct. Working with key stakeholders including the industry and regulators, FINSIA's purpose continues to raise professional standards of competency and conduct in financial services. This supports raising trust and pride for FINSIA members to deliver better community outcomes. It is achieved through education, ongoing professional development and engagement within a professional community. Professional practitioners who are members of FINSIA are required to abide by a Code of Conduct, which is supported by disciplinary processes.

The opportunity for FINSIA for sustainable finance

As a primary function of FINSIA is to work with stakeholders, industry and regulators to raise professional standards and competency it follows that sustainable finance fits squarely within FINSIAs existing remit. FINSIA has an opportunity to integrate the principles of sustainable into its existing Code of Conduct and to support its members to meet these guidelines.

INVESTOR GROUP ON CLIMATE CHANGE (IGCC)

https://igcc.org.au/

The IGCC is a collaboration of Australian and New Zealand institutional investors focusing on the impact that climate change has on the financial value of investments. The IGCC aims to encourage government policies and investment practices that address the risks and opportunities of climate change, for the ultimate benefit of superannuants and unit holders. It has a vision for an efficient transition to a low carbon economy.

Opportunity for the IGCC for sustainable finance

The IGCC has three core aims:

1. Raise awareness of the potential impacts, both positive and negative, resulting from climate change to the investment industry, corporate, government and community sectors;
2. Encourage best practice approaches to facilitate the inclusion of the impacts of climate change in investment analysis by the investment industry; and
3. Provide information to assist the investment industry to understand and incorporate climate change into the investment decision.

As a leader in this space, the IGCC has an opportunity to engage other institutions in implementing the cross-cutting transition to a sustainable financial that is required.

3.4 RELEVANT INTERNATIONAL BODIES

CHARTERED FINANCIAL ANALYST (CFA) INSTITUTE

https://www.cfainstitute.org

The CFA Institute seeks to set professional standards for investment management practitioners and broadly engage other finance professionals through their interest and interactions with the investment management industry. Improving outcomes for investors advances our social mission and benefits members through greater demand for educated and ethical investment management professionals. The CFA is a global independent organisation.

Opportunity for the CFA for sustainable finance

Building on the organisations core mission and values "to engage with the core investment management industry to advance ethics, market integrity, and professional standards of practice, which collectively contributes value to society" the CFA is well positioned to offer training, professional advice and leadership to membership.

FINANCIAL STABILITY BOARD (FSB)

http://www.fsb.org

The Financial Stability Board aims to promote international financial stability; it does so by coordinating national financial authorities and international standard-setting bodies as they work toward developing strong regulatory, supervisory and other financial sector policies. It fosters a level playing field by encouraging coherent implementation of these policies across sectors and jurisdictions. The FSB led the report on the Taskforce for Climate Related Financial Disclosures (TCFD)

The Opportunity for FSB on sustainable finance

As an industry leader in understanding the risks of climate change, the FSB can continue to lead debate on the implementation of sustainable finance.

UN PRI

https://www.unpri.org/

The PRI is an independent non-profit global proponent of responsible investment. It is not associated with any government and is supported by but not part of the United Nations. The PRI is an international network of investors working together to put the principles of ESG into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision-making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system.

Opportunity for the UNPRI on sustainable finance

As a global leader in the principles and advocacy of sustainable finance, the UN PRI could assist Australian organisations to drive sustainable finance.

INTERNATIONAL FINANCE CORPORATION

https://www.ifc.org

IFC—a sister organization of the World Bank and member of the World Bank Group— is the largest global development institution focused exclusively on the private sector in developing countries. The Bank Group has set two goals for the world to achieve by 2030: end extreme poverty and promote shared prosperity in every country.

The opportunity for the IFC and sustainable finance

As a core focus of the IFC is within developing countries, it has a key role to play in ensuring that finance used for development purposes meets broad sustainability criteria.

UNITED NATIONS ENVIRONMENT PROGRAMME – FINANCE INITIATIVE

http://www.unepfi.org/

The UNEP-FI is a partnership between United Nations Environment and global financial sector with a mission to promote sustainable finance. UNEP-FI's work includes a strong focus on policy, by facilitating country level dialogues between finance practitioners, supervisors, regulators and policy makers. At an international level they promote financial sector involvement in processes such as the global climate negotiations.

The opportunity for UNEP-FI

The UNEP-FI provides great resources and international network of financial sector players that are implementing sustainable finance initiatives. Australian entities would benefit from actively engaging further with the UNEP-FI. At present there are only two Australian organisations who are members of the UNEP-FI (ANZ and Australian Ethical Investment).

Market infrastructure and facilitation

CARBON TRACKER INITIATIVE

https://www.carbontracker.org/

Carbon Tracker is an independent financial think tank that carries out in-depth analysis on the impact of the energy transition on capital markets and the potential investment in high-cost, carbon-intensive fossil fuels.

The opportunity from Carbon Tracker on sustainable finance

There is an opportunity for Australia public and private sector organisations to use the research, methods, models and frameworks that have been spearheaded by the Carbon Tracker Initiative.

CREDIT RATING AGENCIES (CRAS)

https://www.moodys.com/

https://www.standardandpoors.com/

https://www.fitchratings.com

Credit rating agencies (e.g. Moody's, Standard&Poors and Fitch Ratings) assign metrics (credit ratings) about a debtor's ability to service their liabilities and a likelihood of default. An agency may rate the creditworthiness of issuers of debt obligations or debt instruments. A credit rating agency facilitates the trading of securities with a corresponding impact on interest rates. Credit Rating Agencies were criticised in the wake of the financial crisis for overestimating the value of sub-prime mortgages and are therefore a critical part of the financial system.

The opportunity for credit ratings agencies for sustainable finance

Market experts are starting to scrutinise how CRAs assess the risks of climate change in their rating assessments, especially investments in fossil fuels. By not accurately assessing the risks posed by fossil fuels, rating agencies may be artificially inflating the credit rating and financial value of those organisations and countries that carry fossil fuel assets on their balance sheets. Overstated credit ratings threaten not only investors and markets, but ultimately the global economy. How far rating agencies are willing to integrate climate and other environmental risks into their assessments is an open question. However, there is an opportunity to start a dialogue with these agencies and move to a system with more transparency.

CLIMATE BONDS INITIATIVE (CBI)

https://www.climatebonds.net/

The Climate Bonds Institute is an international organisation that aims to mobilise the global bond market to promote investment in projects and assets necessary for a low carbon and climate resilient economy. It is an investor focused not-for-profit. In 2010, CBI launched the the Climate Bond Standard and Certification Scheme to help both the investment community and governments preference for fixed-income investments for climate change solutions. The Green Bond market has grown from less than $11 billion in 2011 to $165 billion in 2018.

The opportunity for Climate Bonds Initiative

Australia has significant potential to play a larger role in the global green bond market.

INVESTMENT CONSULTANTS

Consultants firms play an important role in helping organisations that operate or interact with the financial sector improve their performance, primarily through the analysis of the market and through advice.

The opportunity for Investment Consultants

Consulting firms have an opportunity to influence strategic decision making within organisations. A robust evidence base utilising data and research on the commercial and broader benefits of sustainable finance could be used to help organisations make a transition. For example specific services include due diligence, carbon measurement and reporting, environmental impact assessments, sustainability reporting and materiality risk assessment, cost benefit analysis amongst others.

IMPACT INVESTING AUSTRALIA

https://impactinvestingaustralia.com

Impact Investing Australia is an independent organisation dedicated to growing the opportunities for investments that deliver positive social and environmental impact alongside a financial return. This can include grants and providing investment options to solve social issues. Providing finance for not for profit organisations, businesses, social enterprises and programs spanning a wide range of areas.

The opportunity for Impact Investing Australia

Developing market infrastructure, growing market participation and influencing government policy and research to promote impact investing across Australia.

MORGAN STANLEY CAPITAL INTERNATIONAL (MSCI)

https://www.msci.com/

MSCI Provides indices for investment and benchmarking purposes.

The MSCI ESG Indexes are designed to support common approaches to environmental, social and governance (ESG) investing, and help institutional investors more effectively benchmark to ESG investment performance as well as manage, measure and report on ESG mandates. MSCI's ESG Indexes also provide institutional investors with transparency into ESG sustainability and values alignment, together with the ability to compare holdings. There is an opportunity for institutional investors to engage with MSCI on the development of new market indices for Australian purposes.

AUSTRALIAN STOCK EXCHANGE

https://www.asx.com.au/

ASX is one of the world's leading financial market exchanges, offering a full suite of services, including listings, trading, clearing and settlement, across a comprehensive range of asset classes. As the first major financial market open every day, ASX is a world leader in raising capital and consistently ranks among the top five exchanges globally. With a total market capitalisation of around $1.5 trillion, ASX is home to some of the world's leading resource, finance and technology companies. Our $47 trillion interest rate derivatives market is the largest in Asia and among the biggest in the world.

The opportunity for the ASX for sustainable finance

The ASX has an opportunity to develop and support new sustainable and low carbon indices of Australian listed stocks. These could be used as a comparator for the existing high carbon standard ASX indices. A low carbon or net positive carbon index will allow passive investors to strategically invest in low carbon equities.

Annex 4: Detailed analysis of interviews and comparison with HLEG

The HLEG group conducted a survey and prepared a consultation document in July 2017. The analysis of the survey appeared as Annex 2 to the HLEG report.

The UTS team interviewed twenty three people using a semi-structured format over the phone or face to face to gain data on key stakeholder views for Sustainable Finance in Australia. Questions were derived from the HLEG survey with the addition of a number of 'stakeholder' specific probing questions.

The following document provides:

- a descriptive overview of the interviews by stakeholder group and the key themes and insights derived from the thematic analysis (part 1);
- a comparison of key similarities and differences between the Australian and EU samples (part 2). It should be noted that the sampling and collection methods differed in the EU and Australian contexts; and,
- a stakeholder analysis that considers how different stakeholders viewed the role and significance of other key stakeholders to draw out some of the key divergences (part 3).
- A stakeholder analysis that considers how different stakeholder groupings view sustainable finance mechanisms and agencies (part 4).

PART ONE: OVERVIEW OF THE RESPONDENTS

1.1 TYPE OF RESPONDENTS BY STAKEHOLDER

The interview sample was constructed from a stakeholder analysis derived by matching those identified in the HLEG report, consisting of representatives from industry, government, academia and non-profit organisations.

Respondents were categorised based on stakeholder type and groupings that were derived through the Australian stakeholder analysis (section 2 of this report). These grouping are as follows:

(i) Financial Institutions -approximately 33% of the interviewees; (ii) Government and Public Sector - approx. 5% of the interviewees; (iii) Market operators/ facilitators and observers - approx. 23% of the interviewees; (iv) Peak Bodies - approx. 33% of the interviewees; and (v) Related sector actors - approx. 5% of the interviewees.

1.2 OVERVIEW OF THE GENERAL THEMES AND KEY INSIGHTS

Each interview was recorded and transcribed, with the interpretation of the data conducted through thematic analysis and the development of codes using qualitative software, Nvivo. Themes were derived directly from the interview questions.

1.3 MOST IMPORTANT ISSUES FOR THE DEVELOPMENT OF SUSTAINABLE FINANCE BY STAKEHOLDER (GENERAL OVERVIEW)

Asset Managers: A variety of matters were identified by the asset managers. The most prominent theme related to the community (customers) general negative disposition or apathy toward sustainable finance. Asset managers expressed how misunderstandings ('muddied waters'), distrust and a general lack of reliable information accentuated this issue:

> *Some people don't have a long-term perspective in terms of their financial goals. For the way they want to manage their money and the way they want to manage their lives. I think, the more interesting question is, in terms of generating superior financial returns there's a larger number, a large group of the community that doesn't believe that sustainability is aligned potentially with deriving excess returns. And people that think that a focus on sustainability is a distraction or a drag on long-term returns, are going to naturally be skeptical of focusing it on sustainability in either a short-term or a long-term time scale. So, that's not a timing issue, that's just a belief issue.*

AND;

> *we're talking about sustainable finance and sustainability as a desirable outcome, but we're actually, we're coming from a place where there's, according to surveys, there's very low trust in business in the finance sector, in the media. So institutions are under attack, there's populism, there's all of these other issues, and so how do we regain the trust of the community around business activity?*

Two others pointed to the general finance system as being problematic as it was '*greasing the wheels of the real economy*' without a framework to guide long-term and sustainable investment decisions.

Other issues were related to the lack of clear standards and frameworks to compare between sustainable finance products or the lack of investable at-scale sustainable projects with asset managers:

> *there is not enough available investment opportunities to deploy that capital in more sustainable investments or impact investments or the like. Then at the same time, there are plenty of smaller operators out there who are looking to grow small businesses that are far more sustainably-minded and yet, they're too small then to access the capital.*

Two asset managers thought the short-term market logic was the biggest inhibitor to sustainable finance, but also posed the biggest risk especially in relation to climate change: *I think the long dated risk around climate may or may not get fully appreciated by the Australian investment market.* Likewise, two asset managers referred to the endemic problems in executive remuneration as being tied to short-term incentives.

Policy certainty and stricter regulation was considered by two as important because in Australia there was a tendency to 'leave it to the market' which has led to the general mistrust of the sector as evidenced by the recent Royal Commission into Banking.

Banks: The main concern was a lack of sustainable investments products in the domestic market and barriers to the creation of new ones made exceptionally difficult due to the role of gatekeepers (asset consultants) in keeping the status quo and the expense associated with creating new products.

Also of concern was that the 'vernacular' of climate risks and sustainability were not being translated into practice:

> *I don't think it affects decision-making. I think it is part of the vernacular. I think that everybody knows about it. Everybody talks about it, but outside of potentially the insurance industry, I would say that it does not impact behavior. I think banks are a great example of that. You can map climate risk on mortgage books, but I can guarantee you there's not one bank in Australia that's not writing mortgages or is writing mortgages aligned to that and pricing that in.*

Energy sector: the importance of developing a culture and attitude conducive to sustainability:

> *everybody talks about getting the right policy and indeed the right processes but they're actually it still boils down to a bunch of individuals and their attitudes, the cultures in which they create and implement that policy and their biases to get the outcomes we want and you know, the longer I've been this game and I think the more, I think that this is a behavioral problem more than it is a technical policy problem.*

Which was related to shifting the market focus away from a focus on short term information.

The inhibitor related to policy was expressed as being related to the powerful influence of industry lobby groups especially the fossil fuel sector.

Peak Bodies: These groups were specifically focused on a general lack of awareness regarding sustainable finance and sustainability more generally, especially among the public, executives and government. They thought that most super beneficiaries were unaware about where their funds were invested, despite expressing positive sentiments about not wanting to invest in 'harmful activities'. Executives in the finance industry needed to put customer primacy back at their centre of their focus and raise awareness about the need for long-term sustainable investments. Governments could also be more aware of the role the finance sector could play in transitioning to a sustainable economy.

Other matters of significance was the need for regulation to create certainty in the market and the need to apply financial tools differently to account for long-term horizons.

Regulator: the market focus on short-termism.

Super funds: the most prominent theme related to a lack of awareness of or engagement with sustainable finance by executives and others in the finance sector. Another expressed this as a general inertia in the market where people were inclined to '*just carry on with business as usual*' whereby managers became ignorant to issues such as climate change or if they didn't think it was of high concern they can '*justify it to yourself that it's not something you'll need to look at this year or next year then you'll just keep kicking the can down the road*'.

Others pointed to governance issues related to a lack of monitoring of disclosures or company behaviours. And another expressed this as an information failure, that they did not have access to good data on company performance in relation to climate change which put the onus on funds to collect information.

Finally, they viewed a need to change the traditional investment decision making focus to include externalities and to value long-term market value not pinned to a penalty, but to encourage innovation.

NGOs: Saw the main issues as being a general lack of awareness and need for education for current incumbents in the finance sector as the greatest issue. While also acknowledging the generational shift occurring:

> *younger generations are attracted to ethical investment and more responsible investment;*

And,

> *So as more money moves towards that, then there's the incentive for the people managing non-ethical money to make their funding. Right, I think we get to the point where the vast majority of money will be managed responsibly.*

Finally they saw the major barrier to sustainable finance policy being the strength of industry association lobby groups that actively lobby against 'sensible policy' despite being seen publicly to state a contrary stance.

Market infrastructure: Viewed the greatest issue as being a lack of projects for sustainable finance:

> *Finance is merely a means of achieving outcomes. It's what you use the finance for that is the real issue. You can have a really fantastic sustainable finance system, but that will be tiny if you haven't got the projects to finance...Unless governments in Australia start to change their planning modes, their economic development modes, their agricultural priorities, we're not going to see a big sustainable finance sector in Australia, because there's nothing to damn well finance.*

Once sustainable choices are available an accompanying need is for education to allow people to understand and discern sustainable choices.

Think tanks: Saw the main issues as being related to market short-termism, specifically in relation to the evaluation models not taking into account low carbon transitions and the difficulties associated with benchmarking specifically in a climate aligned financial system (decarbonising the market would mean not all funds would outperform).

Government regulation needs to be more stringent and discourage carbon intensive energy sources.

Independents and academics: the main issues identified were the lack of engagement with sustainable finance and governance issues. In relation to the former, it was expressed that there is a lot of noise and signaling in the market, but very little movement in terms of capital allocation toward sustainable finance and in particular investments that align with climate change goals. This is perhaps in part attributed to it being a very multi-disciplinary area and there being much silo-ing in the market. In relation to governance the view was expressed that disclosures are not the answer as they often state obvious information that is not useful to inform investment decisions and what is reported cannot easily be benchmarked. The costs of reporting are very high. Other related issues that were expressed is that sustainable finance needs to generate financial rather than purely social returns.

Finally the view was expressed that barriers to sustainable finance occur as the finance sector in general has lost credibility and public trust and that industry lobbying is restricting development and implementation of climate policy.

Government regulation would be most effective in incentivizing long-term performance.

PART TWO: OVERVIEW OF HOW STAKEHOLDERS PERCEIVE THE CURRENT ROLE OF GOVERNMENT, FINANCIAL INSTITUTIONS AND MARKET INFRASTRUCTURE IN THE SF SYSTEM.

2.1. GOVERNMENT

All stakeholders agreed that the most important role for government is to provide clear and consistent policy signals, especially in relation to climate policy. There was some divergence regarding what, how and who the government should regulate in relation to climate policy.

The following is a generalised view by stakeholder category:

2.1.1 FINANCIAL INSTITUTIONS

Respondents wanted greater clarity around the obligations of pension trustees and called for regulations focused on incentives in order to reveal opportunities as well as risks. All stakeholders wanted government policy to send consistent price signals, with super funds specifying a need for a policy that puts a price on carbon. In general, super fund respondents wanted policy certainty, but avoidance of over-regulation.

Asset managers were more specific about the role of regulation in providing stable price signals to the market (including subsidies and funding) and clarifying the duties of company directors. They advocated for more decisive action beyond principles for responsible investment to incentivise behaviour change. Suggested mechanisms were:

- incentives to stimulate sustainable markets (such as electric vehicles and renewable energy)
- a new agency or body like the CEFC but with a broader remit
- tax incentives for banks and individuals to reward sustainable investment decisions
- leadership by example through applying sustainable finance (beyond ESG) to their own funds such as the Future Fund
- investment in public infrastructure rather than privatisation
- providing statutory backing to a reliable certification body and scheme
- improving the liquidity of sustainable finance through generalised funding at the corporate and government levels.

Super funds were particularly concerned about the need for a stable regulatory environment that incentivised a long-term view, this was important to stimulate the forms of investment needed to adapt to climate change.

2.1.2 GOVERNMENT AND THE PUBLIC SECTOR

Respondents in general believed that the government's role is in "bringing everything together":

> *The government could have a role in just bringing everything together. There's a lot of different groups doing a lot of good work, just bring everything together and have it accessible to everybody … making use of all the work that is happening.*

4.2.1.3 MARKET OPERATORS/ FACILITATORS AND OBSERVERS

These respondents all agreed government needed to have a more consistent policy framework on mitigation and adaptation generally (not just finance) and some emphasised that this policy framework needed to align with a commitment to the Paris goals.

Those engaged in building market infrastructure saw this as being particularly significant in relation to urban planning:

> *Innovating financing model for necessary urban infrastructure, But certainly urban planning. And, rethinking urban planning on sustainability in the context of both climate resilience and mitigation is a really big agenda, which includes urban development financing models.*

And this was backed in general terms by an academic observer:

> *So I have a very strong view that there's a role for government in facilitating and leading investment in core infrastructure but really a lot of the rest is up to the private sector. So that's where it's more the government's consideration*

if social costs are not reflected at the individual investment level adequately then you'd have to, the government has to create rules around taxation of activity or licensing of activity that somehow changes that.

Several noted that the financial sector was already heavily regulated, but that this regulation did not go far enough to incorporate severe environmental and social risks. They believed that policies needed to be consistent to encourage investment, and that this needed to be sector-specific:

clean technology and things, that's the obvious, one. The other thing could be in areas of agriculture, some support in that sector. Housing affordability.

One academic observer specified that voluntary disclosures were not enough, and that to be effective they needed to be made mandatory in legislation:

if there is a problem then it is essentially up to the government to legislate for effective disclosure so that the extent of the problem is transparent. So this is what I think is important, you know the role of disclosure in my mind is transparency.

2.1.4 PEAK BODIES

These interviewees highlighted the need to reduce uncertainty and adopt a stable policy framework, particularly in relation to climate policy. Providing stability for sustainable investment was seen as more important than focusing on disclosures, which they felt were not be seen as the panacea:

The level of chopping and changing in government policy certainly doesn't help if the government wants to pick winners and make certain investments more attractive, in whatever way then that's fine. But the constant changes to policy don't make it easy for businesses to kind of make clear investment decisions and know what outcomes they're going to get for that.

They also thought that policy in these areas needed to be devoid of politics:

Policy at the moment, in a whole range of areas is hostage to very dysfunctional politics. And so if we come back to say, climate, climate risk is a long-term risk to the sustainable investment portfolios of all Australians because all working Australians are also shareholders indirectly through superannuation as well as all of those huge numbers of direct shareholders, and we've had no policy for 10 years now. And that means investment decisions get distorted because of the uncertainty in the policy settings.

They noted that government was always 'picking winners' and if they were picking anything other than zero emissions winners then this was problematic. In this regard there was a role for investment in research to develop and invest in 'cutting edge' technologies. However, they thought that statutory agencies could be more specific in their guidance, for example:

APRA talking about climate risk and APRA updating SPG 530 around fiduciary duties and being much more clear on precisely what those duties are.

2.1.5 RELATED SECTORS

There was a strong view that government should mandate on climate-related financial disclosures across all financial operators, including credit rating agencies, fund managers, all superannuation funds and insurance companies.

2.2 FINANCIAL INSTITUTIONS

There were differences in perspectives regarding how various participants were operating in the financial system and the barriers and opportunities. The differences in views were especially noticeable between retail and institutional investors (with the latter considered better-positioned for long-term investment horizons). Stakeholders were aware of the interdependencies between different stakeholders in the system and there was a general view that intermediaries and agencies also had a significant role to play as levers for directing capital towards sustainable projects and products. In general, there is a sentiment that the sector is experiencing a torpid attitude towards climate risk and sustainability more generally. This highlights a need for awareness raising, education and capability building.

The following is a generalised view by stakeholder category:

2.2.1 FINANCIAL INSTITUTIONS said that banks will not take action unless incentivsed by the market. For example bank representatives said that banks won't take action on climate risk in the issuing of mortgages unless there is a substantial proportion of defaults. Even then, it is difficult to make the case that weather events are linked to climate risk. There was a view that the capital is too expensive. Government could incentivise banks by making the cost of capital less onerous for long-term investment

For institutional investors such as superannuation funds, asset managers highlighted the main barriers for uptake was because the requirements of the default options were not conducive to sustainable investment. Banks said greater transparency and more competition in the superannuation market would help stimulate informed customer demand. Super funds also agreed that transparency was important and that all funds should publicly disclose the companies they invest in. Furthermore, they should actively encourage open dialogue with their customers regarding where their funds are invested.

Asset managers and superannuation fund representatives both agreed that from a prudential perspective they needed to be concerned about liquidity requirements (mostly because customers can switch funds with a month's notice). This liquidity requirement discouraged funds from investing in more long-term sustainable infrastructure projects. Investing in listed companies with higher liquidity requirements was favoured over unlisted infrastructure or unlisted property investments. Paradoxically, listed investments are quite often viewed as short-term and contrary to long-term investment.

Banks and super funds highlighted a related barrier: the lack of viable, credible product in the domestic market for institutional investors and banks:

At this point in time, they need the viable, credible products, because even bonds have a very limited life. Debt is short-term at the best of times, and it comes down to companies and products to invest in. If you want to be a long-term investor, obviously things like equities are your best play. In Australia, in particular, the investment universe is very limited, and so you have to go offshore.

Some of them also said that the type of businesses suited to long-term investment were higher risk, as often they have less cash flow due to capital requirements in the start-up or early-growth stage or due to a dependency on R&D for new technologies.

Retail investors said that advisers were generally misinformed about sustainable finance or were part of the problem of 'perpetuating myths' about uncertainty related to green funds. Where intermediaries were successful in facilitating responsible and sustainable investments, they noted it was because some high net-worth individuals and family foundations were making 'benevolent offerings' by accepting losses on new social investment products. Furthermore, responsible investment advisers were identified as providing education to their clients to facilitate sustainable investment.

Finally, asset managers thought benchmarks were not effective in incentivising sustainable investment in the sector as a whole, as other forms of rating funds (such as the RIAA highlighting best practice) were more likely to reward behavioural change.

2.2.2 GOVERNMENT AND PUBLIC SECTOR INTERVIEWEES generally believed that banks' responses had been positive, especially in relation to disclosure and reporting. They expressed the sentiment that super funds had greater potential to support long-term investments.

2.2.3 MARKET OPERATORS/ FACILITATORS AND OBSERVERS generally believed that financial institutions had been concerned with a long-term view, but that they had over-exposure in fossil fuel markets. They agreed that the default option in super funds was a major barrier to sustainable finance and highlighted the opportunity for raising customer awareness.

They pointed to the exemplar of some progressive super funds that were investing in sustainable portfolios, and that advisers in general could do more to provide information about non-default options and also inform customers when their sustainable funds outperformed the default options.

One think tank expressed the strong view:

that institutional investors have to align their portfolios with the Paris agreement, which means that if the fossil fuel economy has to contract by 20 to 30% or 40% to be compliant with Paris, then Australia needs to support regulation, including transparency and disclosure, that gets institutional investors aligned with the goal.

The general view regarding retail investors was that there was a need to mobilise interest in sustainable investment, and for advisers to have a range of sustainable options that they explain to their clients.

2.2.4 PEAK BODIES generally expressed negative sentiments towards banks, although saw they had been doing some great work in moving capital toward sustainable project financing and issuing of climate, green and SDG-aligned bonds. They saw super funds as already having a long-term fiduciary duty built into their constitutions because they had liabilities stretching out for decades.

They suggested banks could do a lot more to express their key purpose as being customer-focused, rather than being about shareholder primacy. They believed banks should be focused on a sustainable economy and the creation of public wealth to:

> *realise that their social license is predicated on somehow demonstrating at least an equal footing on profit for public benefit.*

> *… they're so busy dealing with themselves and trading amongst themselves. And that's been part of the issue.*

One respondent highlighted that outside of the 'big four' were the type of institutions that will endure after the banking Royal Commission:

> *There are a lot of banks that already have a mutual constitution that's built for neutrality - they're essentially not for profits, and they behave in the best interest of their members.*

Peak bodies were generally positive about the returns retail investors could expect on responsible investment. They believed these returns were gaining strength and visibility in the market. For example one peak body representative noted that there was:

> *massive interest coming out of the private wealth markets right now from family offices, from high net worth individuals, from charities and foundations, who are all moving really rapidly to align their own investments with their mission and values. Often, it's very clear mission alignment. Often, we're seeing a lot of next generations coming through in wealthy families who are having a big influence on how their money is being invested, how their savings have been invested, and really targeting much more proactive positive outcomes with their investment.*

Despite this, they noted that financial advisers are:

> *not well educated on responsible investing, sustainable investing, impact investing, and so there's a real need for advisers when they're considering the requirements to know their clients and act in the best interests of their clients. We would argue that that absolutely necessarily includes them understanding the ethics, values and sustainability preferences of their clients as well.*

And for the most part sustainability information for retail investors was touted as being relatively 'opaque' and difficult to interpret as they did not have access to expensive analytical data related to ESG.

2.2.5 RELATED SECTOR representatives expressed the view that there were behavioural issues in the banking sector where norms continued to favour a short-term focus. These interviewees had a strong view that superannuation constituents should have much greater role in decision-making about their investments.

PART THREE: OVERVIEW OF STAKEHOLDER GROUPINGS' VIEWS REGARDING SPECIFIC SUSTAINABLE FINANCE MECHANISMS AND AGENCIES.

3.1 CREDIT RATING AGENCIES

An overarching view was that the mechanisms that agencies use for their ratings must be more transparent. One regulator thought this could come through a taxonomy or more explicit disclosure regarding risk determination. One market facilitator stressed that agencies had a 'conflict of interest' because:

> *they're paid by the issuers. This is a design flaw we did not repair globally after 2008, despite it becoming abundantly clear that that was a factor in the collapse of 2008.*

3.2 MECHANISMS TO PROMOTE LONG-TERM THINKING

Most interviewees agreed that short-termism was endemic and that it prevailed due to incentive structures being tied to short-term goals and a lack of trust between asset/portfolio managers, broads and company executives. A shift to long-termism was reliant upon systemic changes and building trust and cooperation between different entities. Mechanisms to enable a change needed to be extensions of existing tools, such as cost benefit analysis, benchmarks, scenarios, incentives and taxes, to account for long-term social and environmental impacts. Uptake of these measures relied on overcoming a general apathy and engaging all stakeholders to participate in investment decisions.

3.2.1 FINANCIAL INSTITUTIONS

One financial institution said that short-term goals were necessary for obtaining long-term objectives. However these goals had become misguided and were overly focused on profitability and high margins, without considering impacts on other stakeholders and long-term risks. Asset managers felt that the amount of information that comes into the market, and the speed at which it comes, has promoted short-termism which is further accentuated by the 'perverse incentives':

> *Brokers are incentivised to create more transactions because that's how they get paid as well. So you have a kind of perverse incentive there for brokers to continue to provide research which would encourage shorter-term trading strategies that would then wind up costing the fund money, which then didn't really affect the investment manager because they weren't necessarily paying themselves.*

Banks thought the major reason short-termism prevails is because listed companies are beholden to their boards who in turn put pressure on CEOs to focus on maximising value measured through dividend cycles rather than adopting a long-term view.

Asset managers stressed that change had to be systemic, with big players involved across asset managers, company executives and investors. They pointed to specific metrics and frameworks that would provide information on sustainable performance and long-term trajectories as being critical in shifting to long-termism. They thought mechanisms such as integrated reporting, metrics on Scope 1 and 2 emissions, Lost Time Injury Frequency Rates on the safety front and environmental standards and trend lines on performance were good measures of sustainability performance . Companies could pay loyalty dividends to executives and change how boards viewed company performance. Financial advisers should have be required to disclose the social and environmental performance of a fund and inform customers about sustainable options. Third parties should rank and publicise the performances of asset/portfolio managers and independent NGOs must continue to place pressure for companies to be held accountable for their decisions. Finally, they saw inertia as being tied either to lethargy or an absence of effective education about sustainable finance.

Banks highlighted the role fiduciary duties played stating that:

> *the fiduciary obligation for ESG risk and opportunity needs to be governed at the board level, and be mandated to be part of the fiduciary responsibility of the board. That's the only thing that's going to change anything.*

This needs to be accompanied by more standardised forms of ESG reporting to enable reliable comparative data and information.

Super funds were focused on improving the current tools that provided information in the market so that they are more aligned with long-term horizons and connected to scientific targets. They thought government should direct funding toward the development of these tools and frameworks. Mandating disclosure was seen as important, but only if the information was standardised and could be used to accurately inform decision-making. They believed that the assessment of climate risks should be based on scientifically derived performance management tools, targets and frameworks. Finally there was a view that investment funds needed to be more active in shaping the policy agenda to set long-term objectives.

3.2.2 MARKET OPERATORS/ FACILITATORS AND OBSERVERS saw the main reason for the focus on short-term outcomes as being tied to the incentive horizons for brokers, portfolio managers and company executives. The main mechanisms to change this would be to introduce *"new rules, penalties or taxes that fundamentally shift the economic equation"*. Changing to long-term thinking was also seen as a behavioural and attitudinal matter. One expert thought change would be brought about by the millennial generation who were more educated about and aware of climate change issues.

3.2.3 GOVERNMENT AND PUBLIC SECTOR representatives believed that efforts to move to long-term thinking would be more effective if tied to market pressures for long-term risk and returns, rather than regulations.

3.3.4 PEAK BODIES saw short-termism as being endemic and tied to incentive structures. In particular, they said that asset managers often put pressure on boards to withdraw from a long-term strategies if they were having a negative effect on the short-term share price.

They said that building trust between asset managers, boards and executives would be crucial to reversing the trend toward short-termism. This could be achieved through greater collaboration between key players to direct capital into areas of greater need, guided by the SDGs.

Enabling companies to be sustainable was tied seen as being intertwined with corporate governance and assessing social and environmental performance. They believed companies needed to take voluntary action on what they saw as most material (meaning most likely to affect the profitability or effectiveness) to their performance, but that they be mandated they do so and that they be required to disclose evidence of their sustainability performance. One believed that requiring all listed companies to have B Corp certification could speed up progress toward assuring sustainable company performance as they would be forced to state their public benefit as a performance metric which could be linked to a tax incentive.

Taxes were also seen as a tool for discouraging high-frequency trading.

They saw a need to develop metrics and benchmarks, and the corresponding skills and capabilities, to encourage responsible investment. Possible examples included: cost benefit analyses that take into account the broader social and environmental impacts of an investment fund; metrics and benchmarks tied to scientific goals (especially in relation to climate change); and recently developed tools for modelling long-term impacts.

Finally, they said transparency and awareness raising were key levers for transitioning to long-termism, and that mostly this was connected to stakeholders being more actively engaged with and participating in investment decisions:

> *for example, getting consumers aware of the fact that they have choice and where to find good information so that they're - as consumers, they're like citizens in democratising their consumption, if you like.*

Such stakeholder involvement could be through investors having a more power to influence corporations, customers being more knowledgeable and able to influence financial advisers and asset managers, and advisers being more responsive to customers.

3.2.5 RELATED SECTORS believed that short-termism was endemic across the entire financial system and that shifting to long-termism was a matter of education but it also required changes to corporate governance. In particular, they felt there was a need to align executives with climate risk, and to mandate disclosures on climate-related risks.

3.3 MECHANISMS: GREEN BONDS, LABELS AND REPORTING

Views about whether these were key levers were mixed.

3.3.1 FINANCIAL INSTITUTIONS

There was a general sentiment that labels and standards were good to avoid 'greenwashing' and to enable comparison, but these interviewees felt that making labels and standards compulsory would be counterproductive especially if this became the main focus of government policy. One assest manager commented how labels and reporting were not as important as resetting the conversation about the general purpose of the finance sector:

> *I just don't think it's as important as really lifting the requirements around what is the social license to operate of the finance sector, what are our stewardship responsibilities, being very explicit around those things.*

And more explicitly, a bank representative said that government should stay out of regulating labels and standards beyond regulation at the board level.

3.3.2 GOVERNMENT AND PUBLIC SECTOR interviewees favoured alignment with international standards.

3.3.3 MARKET OPERATORS/ FACILITATORS AND OBSERVERS recommended aligning with international standards, rather than creating Australian standards independently. Another observer thought it was best to avoid overly prescriptive definitions, labels and stanrds. One academic expert highlighted the difficulty of creating standards for things that were generally considered to be on a continuum.

3.3.4 PEAK BODIES believed that integrated reporting was more useful for material financial performance. Many thought that the Australian financial sector was not yet mature enough to use labels. Rather, they believed that Australia should adopt leading practices such as the EU taxonomy that would provide global benchmarks. They also noted that there was potential to adopt a broader approach by including social indicators and other indicators more aligned with the SDGs.

3.4 FINANCIAL MARKETS, CORPORATIONS AND MANAGERS' ACCOUNTABILITY

There was general consensus among respondents about the accountability for ESG, although they noted that more consistent approaches were required, and several stakeholders highlighted the potential of integrated reporting as a mechanism for improving existing tools by enabling them to be more aligned with useful market information.

Asset managers expressed a strong view on the issues within financial markets that had shifted from their traditional purpose:

> *The problem with the stock exchange is that traditionally, it was about allocating capital to grow companies and grow the economy over the long term, and that's what you did. Whereas now, it's become a casino. And so people are speculating on value, valuations rather than allocating capital to grow the economy for long-term. Things like early reporting, high frequency trading, the creation of ludicrous products around hedging volatility or speculating on volatility and the like, all contribute to the casino.*

Most stakeholders agreed that directors' duties should take into account climate risk. One respondent qualified this by pointing out that it would be difficult to link accountability to individuals given the complexity of global company operations and supply chains. One observer noted that any moves to mandate accountability at the corporate level without broader government policy would be counterproductive and ineffective.

3.5 LEARNING FROM OVERSEAS

Most stakeholders cited exemplars of sustainable finance from overseas especially Europe. Contextual factors specific to Australian markets were cited as noteworthy. In particular, the Australian sector was considered by most to be already highly regulated, and they felt that this provided a good foundation for extending existing frameworks to include social and environmental impacts and performance. Most stakeholders believed Australia was a step away from realising this, as at the company level basic mandates regarding ESG reporting and climate risk were absent and there was policy certainty regarding climate change and sustainability more generally.

3.5.1 FINANCIAL INSTITUTIONS

Asset managers cited examples of corporate governance reform in the UK related to ESG, and emerging dialogue around placing employees on company boards. One asset manager referred to an initiative in Sweden where an organisation had facilitated collaborative approaches to bring together government, companies and suppliers to promote and develop collaborative responses to address sustainability, and another referred to an investment body set up and supported by the German government that was prioritising sustainable investment projects.

Both banks and super funds were supportive of the EU Roadmap and thought that Australia should adopt something similar without needing to 'reinvent the wheel'. Bank representatives thought that European banks were ahead of the curve in terms of pricing loans to incentivise good behaviour. There was a concern that Australian banks could get left behind. Super fund interviewees referred to changes in corporate governance being mandated in France to ensure transparency. They felt this was an example of best practice.

3.5.2 GOVERNMENT AND PUBLIC SECTOR interviewees saw a notable difference in the 'mainstreaming' of the sustainable finance discussion other countries, especially in Europe.

3.5.3 MARKET OPERATORS/ FACILITATORS AND OBSERVERS

Most exemplars were cited as being in Europe, especially in regard to:

- mandating disclosures and aligning performance to Paris climate change goals (most notably in Switzerland)
- making the default option for super funds the sustainable option (notably in Sweden)
- the EC taking on board the recommendations of the NGO work that enabled the development of the EU roadmap. One outcome of this will be that EU nations will be better positioned to push capital markets around the world to integrate sustainability
- the processes of developing mechanisms for consulting their members and constituencies
- Europe appeared to have a broader understanding of sustainable finance beyond focussing only on oil and gas companies.

Another observer pointed to the incentivisation policies regarding green investments that were being introduced in China. They saw this as being worthy of replication in the Australian context. That observer also noted that in the US the securities regulator was able to apply standards which were then followed up by the accounting standards body to enable better comparisons across companies (not fair value, but analysts can use it to determine expected profitability).

3.4.4 PEAK BODIES expressed a positive attitude toward the EU taxonomy and thought this was particularly successful in the EU context due to the deep commitment of the European parliament. Some of the specific mechanisms that Australia could adopt were:

- a focus on inclusive growth
- a focus on fiduciary duty redirected toward promises to the consumer
- the development of the HLEG and process they undertook to develop broad support and commitment across the sector.

3.4.5 RELATED SECTORS saw Denmark as exemplary in terms of investment in renewable energy. This was seen as best market practice even without the added consideration of climate risk.

Appendix 1: Chronology of EU Events

DATE	EVENT
12 December 2015	The Paris Agreement involving a commitment to: • holding the increase in global average temperature to well below 2°C above pre-industrial levels; and limiting the increase to 1.5°C, since this would substantially reduce the risks and effects of climate change. • increasing the ability to adapt to the adverse impacts of climate change and fostering climate resilience and low greenhouse gas emissions in a manner that does not threaten food production • making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.
End of 2016 (22 December 2016)	European Commission (**Commission**) sets up the High Level Expert Group (**HLEG**) on sustainable finance
13 July 2017	HLEG Interim report
12 December 2017	One Planet Summit: • 12 climate commitments • 2°C max temperature rise targeted by the Paris Agreement on climate • 4,000 participants at the first One Planet Summit in Paris on 12 December 2017
31 January 2018	HLEG publishes its final report setting out recommendations to the Commission on sustainable finance
8 March 2018	Commission releases its Action Plan on Financing Sustainable Growth. In response to the HLEG recommendations.
24 May 2018	Commission releases 3 proposals aimed at: • taxonomy – establishment of a unified classification system relating to "sustainable economic activities" • disclosure • benchmarks and sought feedback on amendments to delegated acts under the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive
13 June 2018	Commission sets up the Technical Expert Group (**TEG**) on Sustainable Finance
23 & 24 July 2018	The UN Environment Programme Finance Initiative held a conference on "Financing a Resilient and Sustainable Economy" in Sydney where it was recommended that a "Sustainable Finance Roadmap" for ANZ be developed.
November 2018	Conference summary report for the UNEP FI conference held in Sydney was published.
End of 2018	This was the target date for establishing the Steering Committee for Australia's "Sustainable Finance Roadmap"
January - November 2019	This was the target date for Australia's draft white paper, the "Sustainable Finance Roadmap" to be worked on and released
End of 2019	Targeted launch date for Australia's "Sustainable Finance Roadmap"

Appendix 2: Summary of interview responses by question

NODE	DESCRIPTION	INTERVIEW QUESTION(S)	SUMMARY OF KEY INSIGHTS BY NODE
SF Define	Interviewee definition of SF and comments		Generally respondents have agreed with the given definition for Sustainable finance, they have emphasised the importance of integrating social utility and perspectives However, there are some difficulties in having a clear consensus for a SF definition, some commented on the use of growth and GDP when discussing SF possibly leaning towards a short term perspective, also deciding what is in fact material for consideration is challenging to determine Interesting interpretations for SF mention that SF does not only regard the financial tools that are more 'sustainable', also respondents have emphasised that SF is the appropriate balance of short and long term needs, as well as having a clear focus with a definition not merely a consolidation of many different perspectives
SF Issues	General issues to sustainable finance in Australia, including enablers and barriers	What is the most important issue that needs to be addressed for Australia to move towards sustainable finance? Do you think the Australian financial sector recognises climate risk adequately in decision making? If not/so why?	Respondents have outlined many different issues and considerations for SF in Australia, most notably the need for clearer regulations and government policy around the issue of climate change There seems to be a sentiment towards a lack of engagement with SF in the public community and markets generally, as there is a lack of information available needed to make climate risk related decisions. Education is needed to better equip public investors and financial advisors Many respondents mention the issue with lack of executive and manager engagement with SF, due to lack of well-designed incentives and overall ignorance from financial managers. This leads to some saying that the public does not trust the finance sector and express a pessimistic sentiment on the influence of the sector to impact climate change Related is the importance of government intervention to improve corporate governance, currently many have expressed the lack of clear policy and general understanding from the government around climate risk issues Industry lobbying is seen as a barrier to encouraging SF, as corporate contributions and lobbyists are perceived by some to be a main challenge in developing coherent climate policies. Big need for strong leadership and direction for the market from government Further, some have expressed the need for more SF related projects to be available to the investment community. There seems to be difficulties in finding SF projects to invest in, could be an opportunity for an agency to act as an intermediary connecting SF funds with SF projects or products Benchmarking and evaluation of SF investment is challenging, we are lacking the tools to model for climate risk. A lack of information and awareness contributes to the community not having an urgency for SF. It is important to have effective disclosures that provide value, otherwise it is only adding to the costs of reporting
Short-termism	Sentiment on short termism	Agree with short-termism in finance being a barrier to SF?	There is an acknowledgement that short termism is needed, but there should be a balance between long and short The market is currently designed to be short term oriented, with incentives and remuneration lacking long term orientation, the speed of the market and information encourages short term transactions and puts pressure on the short term Main priority of most organisations is geared towards the short term, many lacking long term strategies Apparently, there is a lack of empirical evidence for short termism in the market. The difficulties in actually measuring short termism contributes to this Others have also mentioned that long termism can be irrelevant for certain decisions, where short term is more appropriate, different people have different time scales
Mechanisms for Long termism	How to align community with long term sustainability considerations and transition to SF	What key levers could the Australian government use to best align the investment and analyst community with long-term sustainability considerations in the real economy? Would clearer benchmarks around low-carbon and carbon-positive activities assist in assessing climate-related risks?	Many suggestions from respondents to encourage SF in Australia, general themes included improving corporate governance to align companies towards long term goals, better designed incentives and schemes to encourage not only companies to engage in SF but also the public, and many mentioned the importance in education and the development of tools to assist financial advisors and market participants to become knowledgeable of SF and understand climate risks in investments Collaboration was seen as a key opportunity, for example getting industry experts, scientists and NGOs to have a more active role in investment decisions and also to develop SF projects to be funded In terms of corporate governance, a common mechanism was to better integrate sustainability and social considerations into the default reporting processes, making disclosure compulsory. Additionally, aligning top management with long term issues and explicitly linking fiduciary duties with climate risk were other examples suggested Incentives for both corporate executives but also for investors to make more long term transaction were seen to be important, one example is the use of loyalty share to reward and encourage long term stock holding A common response was to improve the education, skills and tools of financial decision makers and ensure they receive appropriate sustainability related information and also are able to understand the impact of climate risks on investment decisions. Existing tools and models seem to not be designed to consider climate, need to wider and improve measurement Finally, encouraging more active and assertive engagement from investors and the financial community is important to progress the discourse on SF in Australia. Consumers and fund members for example should be able to easily gain access to information on their super funds and be able to be more active in where money is invested. Organisations should be transparent and actively communicate with consumers, understanding consumer needs and reacting appropriately
SF Groups	Stakeholders for sustainability and long term investing	See above	
Banks		What would be the best way to involve banks more strongly on sustainability, particularly through long-term lending and project finance?	Mixed sentiment on banks role and participation with SF in Australia, where on one hand respondents acknowledge that banks do indeed have an important role to play in moving towards SF with many examples of involvement from banks and that they are willing participants. But on the other hand, banks have been somewhat stubborn and at times ignorant due to their obligations for the short term. An interesting comment was that the bank's purpose has been lost, where traditionally the role of the bank was seen to be a public service. Banks have an essential role in the economy but seem to now be occupied with trading with themselves and creating financial products for profit. There needs to be an assessment on the bank's primacy, where currently the duty of banks is for their shareholders and that in turn directs the orientation of banks to the short term Suggested mechanisms to drive banks towards the long term have been clearer government policies, greater disclosures on SF elements, incentivising towards SF investment and overall building confidence in SF markets to allow banks to invest
Institutional Investors		What would be the best way to involve institutional investors more strongly on sustainability, particularly through long-term investment?	In terms of comments for institutional investment and super funds, there is a sentiment for the market to be underdeveloped for SF, as there are limited options for SF in Australia. Liquidity is very important for super funds as they must allow members to move their contributions to different funds, generally SF investments are seen as too risky and not liquid enough. Further, super funds do not consider climate risks as their main duty, providing returns for their members is. Some suggested having SF orientated funds as an available option for members, making this clear and improving transparency and communication between the fund and its members to where money is going Generally a big issue was the current lack of communication to members and the ability for members to easily direct their super contributions to SF funds, either because of lack of options for SF funds and also challenges in the process of setting this up

Financial Markets and Corps		How can we encourage long-term decision making in financial markets and corporations?	Respondents mentioned the nature and speed of the financial market encourage short term behaviour and investment decisions. To encourage long termism many have suggested for more disclosures and mandating integrated reporting Some have also suggested removal of quarterly reporting as this encourages short term thinking. Generally there should be increased shareholder engagement and increased transparency of ESG issues
Govt role	Comments on specifically the government's role to support sustainable investment projects; Government action, levers and regulations	How could the government best create a strong and visible pipeline of sustainable investment projects ready for investment at scale? Do you think that government supported voluntary action is sufficient, or do you think regulatory intervention is required? Do you have other suggestions?	Many have expressed the lack of coherent climate policy from the government, this is imperative for SF in Australia. Having clear legislation for markets and companies, developing clear policies and communicating the importance of climate in fiduciary duties and disclosures. Governments also have a key investment role, where they can lead the market towards SF investment and can encourage the market. They can engage with technology and innovation, supporting industry, as well as small scale SF projects to alleviate the risks of SF usually perceived by the market. Overall most important role is to develop clear and coherent regulation and policies, communicating this clearly across industry and possibly acting as an intermediary for different stakeholders to promote SF in the market and send appropriate price signals to the market
Green Standards, Labels and Reporting	Considerations for Australian standards and labels for green products	What considerations should the Australian government keep in mind when establishing an Australian standard and label for green bonds and other sustainable assets? How can the government ensure high-quality standards and labels that avoid misuse/green-washing? How might we develop consistent standards and labels for green finance products? Is current sustainability reporting by listed companies helpful in investment decision making, how could it be improved? What accounting standards and rules could be adopted to improve the transition towards a more sustainable financial system?	Positive sentiment for the role of green standards, labels and reporting, for example integrated reporting can have a beneficial effect by providing greater transparency on climate risks. However, reporting must contain material information and green standards should be consistent with overseas. Some have expressed skepticism, as green labels are not enough to change behaviour and there are many challenges arising from them. For example, difficulties in agreeing to what the labels will be and important consideration to be aware of the possible competitive advantages induced from the standards. Overall, for Australia green labels and standards must be consistent and comparable with overseas and that it should be a process that naturally emerges from the market. Having clear definitions will help this develop
Private SF	Comments for mobilizing private SF	What do you think should be the priority when mobilising private capital for social and environmental dimensions of sustainable development?	Some good examples of available products and advisors moving towards SF, it is growing in popularity in the private investor market However, many still do not have the understanding, skills and tools to make climate informed SF investment decisions, where financial models are not specified and private investors have difficulties in measuring climate risks Suggestions include improving exposure of SF in private markets and transparency to investor of SF related issues Overall a big opportunity for the education of financial advisors and private investors for SF and climate issues
Credit Rating Agencies	Comments on credit rating agencies	What are some of the most effective ways to encourage credit rating agencies to take into consideration ESG factors and/or long-term risk factors?	Opportunity for agencies to play a role in governing SF, it will be important for rating to reflect long term risks However, agencies need to be regulated as there may be issues with conflicts of interest, a suggestion was to have the government set up an agency, with examples from overseas governments being assertive in playing this role
Overseas	Learnings from overseas examples	Is there anything that Australia can learn from what is being done in Europe and/or other countries in the area of sustainable finance and if so what are they?	Respondents provided many examples of overseas action for SF, usually around the development of clear road maps and definitions around SF. Other examples involve having more active engagement with fund members and investors in company AGM's and decisions. The public is more informed about climate issues and there are dedicated agencies to promote and fund SF Having well designed incentives and disclosures are important, there needs to be broad industry acknowledgement for climate risks The default super fund being SF, unless the contributor opts out the super fund will be SF
Management accountability	Comments on accountability of senior management	Do you think the directors and senior management should be accountable for not taking action to mitigate climate risk? What about more generally incorporating the requirements of ESG?	It needs to be clear and explicit that the fiduciary duties of directors include climate risks There needs to be legislation outlining this, but also requires active measures to change behaviours of managers Respondents acknowledge that directors are no longer able to ignore and neglect that climate issues impacts their fiduciary duties