Sustainable finance holds the key to a prosperous future

**Sustainable finance** – factoring people and the environment into capital markets, alongside financial performance – is a growing force globally.

Australians want their money to have a positive impact on the world while delivering strong financial returns, with **four out of five Australians** expecting their **bank account and superannuation** to be **invested responsibly and ethically**.

Sustainable finance can play a key role in supporting a prosperous future for our nation, from **building infrastructure** and **supporting affordable housing** to **investing in new technologies** and **financing the transition to net zero** emissions.

A robust sustainable finance sector will ensure Australia has a **strong, stable and resilient** financial system that attracts capital.

Our **global trade and investment partners are making laws** that support sustainable finance, boosting the power of capital to support sustainability and climate change goals.

Australia cannot fall behind. We must **engage with international markets and regulators** to remain viable to global investors and seize the opportunities presented by sustainable finance.

The Australian Government can commit to a future of sustainable finance by establishing a **whole of government approach to embedding sustainability into the financial system and unlocking capital**. This would support our national economic, social and environmental goals for a thriving and prosperous Australia.

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About the Responsible Investment Association Australasia

RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand and is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

With close to 500 members managing more than AU$40 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Our membership includes super funds, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

RIAA also delivers tools for investors and consumers to better understand and navigate towards responsible investment products and advice, including the world’s first and longest-running Responsible Investment Certification Program for financial products, and the online consumer tool Responsible Returns.
Establishing a robust sustainable finance sector

**1. Create a national sustainable finance strategy**

Australia needs a national sustainable finance strategy, as in the United Kingdom and the European Union. This would enable Government agencies and the finance sector to successfully work together to deliver Australia’s urgent priorities, like tackling climate change in line with the Paris Agreement and progressing the UN Sustainable Development Goals.

A coordinated national approach would line up Government agencies to leverage finance in areas such as climate change, energy, agriculture, nature, regional development, infrastructure and regulation. It would position the Australian Government as a strong player in global markets, attracting investment at a time when global capital is flowing fast towards sustainable assets, companies and governments.

The advantages of a national sustainable finance strategy for Australia would be:

- clarity and direction to our capital markets, to support progress on Australia’s global commitments on sustainability and climate change;
- a consistent, coordinated approach by Government agencies, enabling them to better leverage private capital to support critical Australian Government priorities;
- strategic alignment of Australia with international developments in sustainable finance;
- positioning Australia to engage constructively and credibly in setting international standards and norms, in a way that supports the interests of Australians;
- making Australia a more attractive destination for global capital and a more competitive economy, as money moves further towards cleaner, more sustainable investments; and
- growing investment and jobs in sustainable Australian industries.

**Australia can develop and implement a national sustainable finance strategy, which considers the work of the finance industry set out in the Australian Sustainable Finance Roadmap, backed by a collaborative forum involving sustainable finance and responsible investment groups.**

**2. Secure a seat at the table to shape global developments**

For Australia to remain an attractive market for investors, we must play our part in shaping the new standards and regulations that are rapidly emerging around the world.

Australia’s financial system is closely linked to regions with more advanced regulation of environmental, social and governance (ESG) factors and sustainable finance, and new regulation is emerging quickly. There are sustainable finance taxonomies, and global reporting standards coming from the International Sustainability Standards Board and Taskforce on Nature-related Financial Disclosures (TNFD – already supported by the Australian Government). Agendas are set at global peak regulator bodies such as the International Platform on Sustainable Finance, and action plans have been established at the G20 Sustainable Finance Working Group. Given the impact of these developments on Australia, it is increasingly important that Australia actively shapes the global policy and regulatory environment.

- **Australia can engage with global partners and influence international developments by joining the International Platform on Sustainable Finance and actively engaging with the G20 Sustainable Finance Working Group.**
3. Build Australians’ trust in responsible investment

The Responsible Investment Association Australasia’s (RIAA) 2022 survey of Australian consumers showed that four in five (83%) Australians expect their money in superannuation, banks, and other investments to be invested responsibly and ethically. However, the financial services sector needs to do a better job of meeting expectations, with 72% of people concerned about ‘greenwashing,’ or financial products being pitched as having better social or environmental credentials than they really have.

The Australian Government can build consumer confidence in the financial system’s sustainability credentials with better-targeted regulation that improves the standard, transparency, and consistency of financial products on offer to Australians. A legal framework for robust responsible investment and sustainable finance should include support from the regulators through guidance and codes. Targeted regulation of financial products will mean:

- Australians can invest and save in line with their values and preferences; and
- superannuation funds and investment managers can invest in the transition away from carbon, in a way that delivers financial returns whilst aligning with their clients’ values.

Australia can help people invest their money sustainably and in line with their values, by:

- requiring full portfolio holdings disclosure (including disclosure of underlying holdings) for all investment products, consistent with global leading practices to enable transparency for clients;
- ensuring further clarification of fiduciary duties of investment trustees to remove ambiguity that investing in line with a more sustainable future is consistent with delivering best member outcomes;
- reviewing the benchmarking of superannuation fund performance to remove any inadvertent deterrent for responsible investment and sustainable finance approaches (including ‘active ownership’ or stewardship of assets);
- providing the market with clear guidance on how to avoid ‘greenwashing,’ and how to not mislead consumers in the description and promotion of financial products;
- supporting investors to effectively engage on companies’ ESG issues – and report back to the people whose money they invest – by endorsing a robust stewardship code for investment managers; and
- establishing sustainable financial product labelling standards, in line with those delivered by RIAA’s Certification Program, Australia’s independent third-party investment product verification.

4. Help investors to gauge how sustainable companies really are

Investors need high-quality, comprehensive, comparable information about companies to make decisions about where to direct capital to align with both financial and sustainability objectives.

Company sustainability reporting is growing internationally. The new International Sustainability Standards Board (ISSB) draft standards follow on from the global Taskforce on Climate-related Financial Disclosures (TCFD) requirements which are being mandated in the UK, New Zealand, and the United States. The Taskforce on Nature-related Financial Disclosures (the ‘nature’ equivalent of the TCFD) is also developing a global nature-related disclosure standard.

Sitting alongside these disclosures is the need for a single ‘taxonomy’ for sustainable investment, so investors can compare how companies are performing on ESG issues, and finance can provide greater comparability between product exposure to sustainability assets. The Australian Sustainable Finance Institute (ASFI) is developing a taxonomy purpose-built for Australia, aligning with international efforts such as that in the European Union.

Australia can strengthen investors’ ability to make well-informed decisions about sustainability risk by:

- immediately mandating reporting against the TCFD framework for listed and unlisted companies;
- engaging with the ISSB to develop robust global sustainability standards, then promptly integrating the new ISSB standards in Australia;
- continuing to support the rapid development of a robust TNFD reporting framework and promptly adopting the TNFD framework in Australia; and
- supporting ASFI’s sustainable finance taxonomy for Australia.
Setting a clear pathway for investors to mobilise capital for a fair, prosperous and sustainable Australia

Finance can be mobilised to support Australian Government policy objectives in many areas, from modern slavery to cyber safety to Indigenous cultural heritage protection. For this, investors and companies require certainty, including a clear view of Australia’s future regulatory environment. There are some clear opportunities for the Government to provide investors with the confidence that will enable investment in support of Government objectives into the future.

5. Establish Paris-aligned greenhouse gas emissions reduction trajectories and interim targets

Establishing emissions reduction trajectories and interim targets would set out a clear path for the investment community, allowing them to align investment activity to the national goal of net zero greenhouse gas emissions by 2050, with a pathway that is globally and scientifically credible to the Paris Agreement goal of limiting global warming to no more than 1.5 degrees above pre-industrial levels.

- **Australia can** establish interim science-based targets and trajectories that will support individual financial institutions to make net-zero-aligned decisions.

6. Make a strong commitment to the United Nations Sustainable Development Goals

In line with the Senate Standing Committee on Foreign Affairs Defence and Trade’s United Nations SDG Report recommendations, the Government needs a clear implementation plan for the delivery of Australia’s SDG commitments. This should be in partnership with the investor community, focusing on guidance on reporting against the SDGs and eventually mandating reporting by companies, allowing the tracking of progress against the Goals.

- **Australia can** implement a national SDG implementation plan, in partnership with the investment sector, to develop guidance and expectations on reporting against the SDGs, with a view to eventually mandating reporting.
7. Protect nature and our natural capital

30% of Australia’s GDP is dependent on biodiversity and ecosystem services. The Government can better enable investors to protect Australia’s unique biodiversity by regulating to support a nature-positive economy. This could include appropriate nature-related reporting mechanisms, risk mitigation strategies, metrics and targets, as well as innovations in impact investing, nature markets and nature-related disclosures.

- **Australia can** implement nature-positive policies that support investment in natural capital, in parallel with TNFD implementation.

8. Support clean technologies, especially renewable energy and electric vehicles

Supporting clean technologies includes supporting their enabling infrastructure such as transmission networks, in light of their critical role in reaching our emissions targets. Government can do this by continuing the vital work of the Clean Energy Finance Corporation (CEFC) and Australian Renewable Energy Agency (ARENA) to support the development and commercialisation of clean technology, and implementing policy settings across Government that encourage investment in the rapid uptake of electric vehicles in Australia.

- **Australia can** support the growth of clean technology, particularly by supporting and funding the CEFC and ARENA.

9. Support the rights of First Nations Peoples to self-determination and free, prior and informed consent

Supporting the rights of First Nations Peoples is especially important in relation to the control of territories and natural resources, economic development and the practice of culture. The voice of First Nations Peoples is critical in creating a shared national identity that drives sustained equality and equity of opportunity for all Australians. Australia needs to respect our greatest cultural assets, and require free, prior and informed consent of First Peoples to any decision-making, in line with Australia’s obligations under the United Nations Declaration of the Rights of Indigenous Peoples.

Investors have joined with the First Nations Heritage Protection Alliance and the UN Global Compact Network Australia to form the Dhawura Ngilan Business and Investor Initiative. The initiative supports the co-design with Aboriginal and Torres Strait Islander people of new laws that align with the United Nations Declaration on the Rights of Indigenous Peoples, and the best practice standards in Dhawura Ngilan: A Vision for Aboriginal and Torres Strait Islander Heritage in Australia. Fully implementing these laws (as recommended by the Joint Standing Committee on Northern Australia’s Inquiry into the destruction of Juukan Gorge caves) would make Australia a less risky place to do business and in turn reduce the cost of capital.

- **Australia can** co-design national laws to protect Aboriginal and Torres Strait Islander peoples’ cultural heritage.

10. Make a strong commitment to human rights protections

Committing to protecting human rights would build investors’ confidence that they are not supporting unlawful and unethical business practices such as modern slavery. The Government can continue Australia’s commitment to protecting people from modern slavery, through stronger legal obligations to eradicate modern slavery from supply chains. The Government should also continue to promote equity and inclusion in corporate Australia, which would support the financial performance of companies and help build an economy for all Australians.

- **Australia can** introduce stronger legal obligations in relation to modern slavery, building on Australia’s current modern slavery disclosure laws.