1 December 2023

Sustainable Finance Unit
Climate and Energy Division
The Treasury

By email: SustainableFinanceConsultation@treasury.gov.au

Submission in response to: Consultation paper: Sustainable Finance Strategy, November 2023

Thank you for the opportunity to provide a response to the consultation paper on Australia's Sustainable Finance Strategy.

Rest is a major profit-to-member industry superannuation fund with nearly 2 million members – or around one-in-seven working Australians – that manages assets of nearly $75 billion[1]. Around half of Rest's members are under 30 years of age, and will likely retire after 2050, the year that we have set as our long-term objective to achieve a net zero carbon footprint for the fund.

Rest welcomes the consultation on the draft strategy, and supports the objectives of mobilising private sector investment to provide access to capital to ensure that Australia is in a position to meet emissions reductions targets and work towards a net zero future. The role of Government in setting appropriate policy and frameworks to support these objectives is crucial, and we are pleased to see progress on these initiatives.

We support the key principles as outlined in the consultation paper. Alignment of Australia's sustainable finance arrangements with global markets is critical, as well as ensuring that it effectively supports Australia's emissions reduction plan and transition pathway.

We recognise that the immediate priority of the Strategic Framework is climate change and would encourage the inclusion of other environmental and social considerations in the near future, including social and economic inequity, and in particular improving social and economic outcomes for First Nations people. We would therefore welcome a roadmap of the inclusion of other sustainability factors over the coming years.

We note the work underway through Treasury on initiatives to promote Social Impact Investing, including through work of the Treasurer's Investor Roundtable. We would welcome a coordinated approach to this work and the Sustainable Finance Strategy in order to harmonise effort.

This submission will focus on sections of the consultation paper that are materially important to Rest, included below as Appendix 1. Alongside this contribution, we have also provided input into the submissions of the industry groups we are members of, including ACSI, ASFI, ASFA, and RIAA, all of whom provide a range of complementary perspectives across their various focus areas.

Rest has a Net Zero by 2050 objective for the fund, has conducted a sustainability-related materiality assessment and aligns our sustainability approach to five sustainable development

[1] As at 30 June 2023.

goals. Our FY23 progress is outlined in our Sustainability, Responsible Investment and Climate Change Supplement to our Annual Report, which is now available on our website at https://rest.com.au/why-rest/about-rest/corporate-governance/annual-report.

To discuss any aspect of this submission, I invite you to contact us directly.

Yours sincerely,

Andrew Lill

Chief Investment Officer

Appendix 1 – Response to Consultation Paper

Key Recommendations

- Mandatory reporting of financed emissions by superannuation funds should follow implementation of mandatory reporting for the entities in which they are invested.
- Assurance providers should be specialist, registered ESG auditors.
- A sustainable finance taxonomy should be consistent with Government sectoral plans, strongly governed and maintained, and look to expansion in the future beyond climate priorities.
- Rest welcomes the approach to net zero transition planning at the organisational level, noting that key to supporting more rigorous transition planning will be the development of national sectoral emissions reduction pathways and associated policy guidance.
- Rest supports consistent and clear labelling of investment products, and welcomes plans to consult. Labelling should be simple and provide ease of comparability across providers and products.
- Rest supports a detailed assessment of options to address key sustainability-related data challenges in the financial system.
- Regulatory frameworks related to sustainability should be integrated with other obligations, including the standards against which superannuation funds are measured.

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

As provided in our submission to the Treasury consultation on climate related financial disclosure in February 2023[2] and July 2023[3], Rest is supportive of the introduction of mandatory climate-related financial disclosure that provides effective, comparable, and consistent information, aligned to global standards. However, the adoption of mandatory reporting requires a phased in approach in recognition of both the need to uplift reporting capacity and capability as well as the unique role of asset owners, including superannuation funds, as both the users of disclosures from investee entities and as preparers of disclosures for members, and other interested parties.

The following considerations will be important considerations in the development of effective financial disclosures:

- To effectively manage the uplift to mandatory climate-related financial disclosure, implementation should be sequenced appropriately. Appropriate sequencing would include initial development of agreed taxonomy, followed by transition planning, and possible voluntary adoption prior to regulatory oversight to manage this change.
- Sequencing is particularly important for superannuation funds as the recipients of investee assets and their reporting, which must inform our own reporting. Superannuation fund mandatory reporting of financed emissions should only follow after the implementation of mandatory reporting for the entities in which we are invested. However, reporting on governance, strategy and risk management can commence earlier.
- Appropriate assurance will be key to the effectiveness of these disclosures. Given the specialist nature of capabilities required, we recommend that assurance providers be sourced from the ESG specialist industry, rather than necessarily connected to an entity's financial

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[2] https://rest.com.au/getmedia/a66a6d6d-b926-42c5-8b56-d4ecbcc1ee25/rest-climate-related-financial-disclosure.pdf?ext=.pdf
[3] https://rest.com.au/getmedia/2fdf13af-cea5-490e-9b6a-65a83f2cb812/rest-submission-climate-related-financial-disclosure-jul-23.pdf?ext=.pdf

auditor. There should be flexibility around an entities' ability to select an auditor for climate-related disclosure purposes, with a register made available, consistent with the Register of auditors provided by the Clean Energy Regulator[4].

- Consideration of how climate-related information is included into service industry financial statements compared to companies which have tangible assets. We would encourage guidance notes are produced for both service sectors and sectors with tangible assets (i.e.. have an inventory). If climate-related risks can't be quantified and only qualified, it may lead to a disproportionate number of entities deeming the risks immaterial, and therefore not disclosing.

It is likely that the capabilities and skills needed by relevant entities to make climate disclosures will be significantly stretched in the early stages of the new reporting obligations. As a consequence, the Government should be mindful of resource constraints, both from a human capital and data availability perspective, when setting reporting expectations, particularly in the early years of the reporting obligations. In this context, there may be a role for Government to play in supporting industry bodies to develop sustainable finance capability uplift through high-quality training.

Priority 2: Develop a Sustainable Finance Taxonomy

Rest strongly supports the development of an Australian sustainable finance taxonomy which can credibly support the transition to net zero.

We also support the view that transitional aspects of the taxonomy should be aligned where possible with sectoral plans developed by the Climate Change Authority (CCA) and across government to maximise consistency with whole-of-government pathways. As noted above, while we support initial focus on climate-related objectives, other sustainability-related criteria should be incorporated into the taxonomy, including on biodiversity and nature and other relevant social factors, taking account of First Nations' perspectives.

Given the current stage of taxonomy development it is too early to form a view on both: (i) how the taxonomy should be incorporated into regulatory frameworks; and (ii) the extent to which it will interact with/inform other sustainable finance strategy considerations, for example product labelling or substantiating sustainability claims. Notwithstanding, given the importance of the taxonomy to the Government's sustainable finance strategy more broadly, robust governance arrangements should be put in place to preserve the integrity of the taxonomy, including oversight and routine review by an appropriate government body or agency, once the initial phase of development is complete.

The joint government-industry led nature of taxonomy development is commendable, although extensive stakeholder engagement and consultation should help to gain more broad-based support across key sectors in the economy.

Further, an ongoing stakeholder feedback mechanism would be useful, to ensure the taxonomy, once implemented, is kept current.

Priority 3: Support credible net zero transition planning

Corporate transition plans provide investors with information that can help to outline the steps companies are taking in transitioning their businesses to net zero by 2050. Investors are then able to make their own judgements.

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[4] https://www.cleanenergyregulator.gov.au/Infohub/Audits/register-of-auditors

This is in contrast to asset owner transition plans, which should help beneficiaries and other interested parties understand the actions that will be taken to transition investment portfolios to net zero.

As noted in our climate-related financial disclosure submissions, we are supportive of forward-looking organisational level climate-related transition plans. Investors will be able to use such disclosures to assess the effectiveness of investee companies in transitioning their businesses to a net zero economy and in doing so develop greater insight into investment portfolio risk and opportunity.

Rest supports the Government's priority of supporting more transparent, credible and ambitious transition planning and disclosure by Australian companies. Key to supporting more rigorous transition planning will be the development of national sectoral emissions reduction pathways and associated policy guidance on anticipated emissions reduction trajectories.

We welcome the approach outlined in the consultation paper, noting that the Government's immediate priority is to focus on new climate disclosure requirements, before progressing more detailed transition planning work in 2024. In the near term, we support adoption of ISSB-aligned corporate disclosure requirements for transition planning for issuers of capital and would encourage the Government to continue monitoring emerging international standards and practice, including the UK's Transition Plan Taskforce, recognising that further in-depth industry consultation will be undertaken in 2024.

In the medium-term, the Government should continue its work to support uptake of the TNFD, recognising that companies and investors should be considering their material nature-related risks and opportunities. The Government could consider providing guidance on nature-related disclosures and supporting development of publicly available data.

Finally, we would welcome measures which help to encourage these earlier years of mandatory transition planning, particularly given they are forward-looking, and the future can turn out differently in practice.

Priority 4: Develop a labelling system for investment products marketed as sustainable

Rest welcomes Treasury's intention to consult regulators and industry on labelling standards in 2024.

Rest supports consistent and clear labelling of investment products and is committed to ensuring that labels across all investment products are meaningful for our members. Labelling should be simple and provide ease of comparability across providers and products.

Superannuation funds already have a range of products on the market that have sustainability objectives. Table 1 below outlines the range of product or option names across seven superannuation funds. As shown, there is considerable diversity of investment objectives, the investment mechanisms for screening or exclusion, and risk rating for these products, making informed decision-making on the part of a consumer difficult.

In particular, there is considerable variation of investment objective and methodology, including across asset classes, exclusionary screening on a range of topics and other restrictions. Consistent labelling requirements would enhance the transparency of the sustainability finance market and drive better outcomes for consumers as they seek to make informed decisions.

Table 1: Superannuation fund sustainability investment options naming

Fund	Sustainable Investment Option Name	Risk Band Level
Fund A (1 option)	Socially Aware	Short-term (less than 5 years): High Medium-term (5 to 20 years): Medium Long-term (more than 20 years): Low
Fund B (1 option)	Socially Conscious Balanced	High
Fund C (1 option)	Sustainable Growth	High
Fund D (3 options)	Socially Responsible Investment (SRI) High Growth Socially Responsible Investment (SRI) Defensive Socially Responsible Investment (SRI) Balanced	High Low Medium to High
Fund E (3 options)	Sustainable Balanced Sustainable High Growth Global Environmental Opportunities	High High Very High
Fund F (1 option)	Sustainable Balanced	Medium to High
Fund G (4 options)	Balanced Socially Conscious High Growth Socially Conscious Conservative Balanced Socially Conscious Conservative Socially Conscious	High High Medium to High Medium

It should be noted that many superannuation funds have a Net Zero by 2050 target for the whole investment portfolio. Under a narrow understanding of sustainability, all products could be considered 'sustainable,' while not being specifically labelled as such. Rest would therefore welcome this complexity to be considered as the Government sets out to legislate a labelling regime. This can help ensure that labelling has the intended effect across the industry, rather than creating a relatively small number of labelled funds. By all means, if the intent is to mobilise capital then labelling that covers all assets under management rather than a select few should be mandated and welcomed.

As investment providers of generally mature offerings with an understanding of the importance of sustainability, we believe that labelling considerations should be simple and flexible enough to provide transparency across a range of products. Further, any labelling standards should be designed to encourage participation aiming to improve transparency and disclosures to members.

In the near term, we would recommend Treasury await the development of taxonomy to ensure labelling consistency, and continue to monitor developments on product labelling in other markets to ensure there are no unintended consequences. We welcome further detailed industry consultation before finalising any labelling system.

Rest notes that RIAA's certification programme helps build credibility in the marketing of sustainable investment, and we support RIAA's position on the importance of certification.

Lastly, we would support government efforts to adopt definitions and guidance on broader responsible investment practices that should help labelling regimes[5]. This includes a definition of the two main styles of impact investing[6], and impact investing across the investment spectrum -

[5] https://www.unpri.org/investment-tools/definitions-for-responsible-investment-approaches/11874.article
[6] https://link.springer.com/article/10.1007/s43546-020-00033-6

institutional scale which is suited to asset owners operating in Australia through to philanthropy, which normally resides in the non-for-profit sector and family offices, for example.

Priority 5: Enhancing market supervision and enforcement

Rest believes that existing laws and regulations are sufficient to address greenwashing concerns (that is, misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical). The combined oversight by ASIC and the ACCC is also sufficient to address misconduct by both financial services providers and corporates.

Development of guidance notes could help to ensure that reporting entities better understand what is considered ESG-integrated, sustainable, ethical or environmentally responsible, and what is not. In this context, the development of an Australian taxonomy and Treasury's intention to consult regulators and industry on product labelling standards could assist in developing such guidance.

The development of disclosure requirements, the taxonomy, and alongside guidance and labelling should help to provide clarity to the financial services sector. Furthermore, this development should continue to be considered in a global context, with definitions and classifications aligned to standards being developed elsewhere, particularly given the global universe of investment options.

In terms of regulating ESG ratings, and to ensure consistency, these should be regulated in the same manner as credit ratings.

Priority 6: Identifying and responding to potential systemic financial risks

Rest is, in principle, supportive of the proposed approach outlined in the consultation paper for APRA to lead the Council of Financial regulators (CFR) in expanding its work on climate and sustainability-related financial risks and deepening risk management capabilities and practices across financial regulators and market participants, including the superannuation sector.

Rest welcomes the RBA considering climate change impacts on the economy and Treasury's capability to model climate opportunities and risks. In short, we are strongly supportive of a whole-of government approach to assessing systemic financial and macroeconomic risks.

As noted in earlier submissions, the use of scenario analysis provides considerable value in establishing effective risk management processes, and therefore Rest supports the development of a common set of scenarios for organisations and/or sectors to use for scenario analysis to support comparability. These could be based on the International Energy Agency (IEA) or Central Banks and Supervisors Network for Greening the Financial System (NGFS) published scenarios. In this context, the Government could consider developing climate scenarios relevant to an Australian context and investments in Australia, and consider extending over time these scenarios to other systemic financial risks such as nature-related systemic risks.

Further, we would welcome the adoption of frameworks to assess nature-related systemic risks and the assessment of these, and as guided by the TNFD.

Priority 7: Addressing data and analytical challenges

Rest supports the proposal for the CFR to conduct detailed assessment of options to address key sustainability-related data challenges in the financial system. Issues highlighted in the initial stakeholder engagement relating to scope 3 emissions, climate scenarios and decarbonisation pathways, sustainability data beyond emissions (i.e. social factors, nature-related information and impact metrics) and the potential value of a centralised repository of corporate sustainability data should be prioritised in the first instance.

Currently there is a wide variety of ways that companies report on their relevant metrics and data, which can make it difficult for investors to find consistent, decision-useful information. Asset owners are also increasingly using a variety of different ESG data, particularly climate-related data, and both qualitative and quantitative. A centralised repository for a set of core sustainability metrics would significantly improve efficiency and comparability in the market, with then capability for other relevant metrics and data to be monitored, measured and disclosed.

The consultation paper notes the CFR's recommendations will be published at the end of 2024, which we note is six months after the proposed introduction of climate-related financial reporting requirements. If timing is unable to be aligned, it would be optimal for clear guidance to be provided to support appropriate disclosure, while data challenges remain.

Sustainability data challenges include the number of different reporting platforms being used in the market to obtain ESG-related data, particularly climate change-related greenhouse gas data. Rest believes that implementing concrete requirements for how this data is presented, such as by including scope 1, 2, and 3 for investment portfolios, would help to bring synergy to the market. Over time, this could allow technology platforms to scrape data rather than requiring investment managers and investee entities to complete multiple forms from various platforms.

We welcome the proposal for the CFR to conduct a detailed assessment of options to address key sustainability-related data challenges in the financial system, and support the issues highlighted from the initial stakeholder engagement.

Priority 8: Ensuring fit for purpose regulatory frameworks

Rest is broadly supportive of the proposed approach. Regulation should aim to be consistent, targeted and proportionate and encourage the integration of sustainability-related risks and opportunities by reporting entities. In this context, Rest would be supportive of the further integration of sustainability-related considerations into APRA's SPS 530, and into other standards and requirements, including CPS 231, noting transition to CPS 230, and FAR. Accompanying guidance notes would be welcomed.

Superannuation performance testing brings about increased transparency, and any review should consider whether relevant benchmarks encourage or inhibit investment in supporting the transition to net zero and sustainability goals more broadly. Given the complexity of this issue, Rest would welcome further, detailed consultation on any potential changes to the APRA Annual Performance Test, introduced in the Your Future, Your Super reforms.

Investor stewardship forms an important part of Rest's approach to responsible investment as a long-term universal owner. As such, we would be supportive of consideration being given to the introduction of a requirement for investors to disclose their approach to stewardship on a regular basis. In this context, ACSI's Australian Asset Owner Stewardship Code is an example of a simple, yet effective framework to support effective and transparent stewardship activities. While guidance from Government would be useful to support good practice, it will also be important to weigh up any potential stewardship-related disclosure requirements in amongst extensive and growing sustainability-related reporting expectations more broadly.

Priority 9: Issuing Australian sovereign green bonds

Rest believes green bonds will play an important role in helping to finance the transition to net zero by 2050. Rest welcomes the Federal Government's intention to issue an inaugural sovereign green bond in 2024 and its intention to develop a high-quality green bond program.

Alongside consideration of any green (or potentially transition) bonds' use of proceeds, investors will likely assess any issuance against Australia's broader climate-change commitments, including key climate-related polices, future climate-related commitments and nationally determined emission reduction targets.

Rest's framework for assessing labelled green bonds requires issuance alignment with the International Capital Markets Association (ICMA) green bond principles. A key risk is the potential for greenwashing should a bond not be true to label, therefore a good governance process around use of proceeds (project evaluation and selection, management of proceeds, reporting on proceeds) is also expected. Ideally, an external review of any green bond program is conducted to provide an additional layer of surety for investors that proceeds will be/are being used appropriately.

Under our framework, we also expect regular reporting on the progress of projects as well as the provision of detailed information on the environmental benefits and outcomes achieved as a result of the investment (at least every 18 months but preference is for annual reporting). Regular investor updates through transparent reporting on the use of proceeds and positive impact generated can help build investor confidence.

The development of an Australian taxonomy will greatly assist in clarifying what constitutes a green investment while at the same time helping to take account of local considerations. For example, New Zealand's consideration of Māori perspectives on the environment and wellbeing in their sovereign green bond framework is notable and a similar recognition of First Nations communities could be considered in an Australian context. The development of an Australian taxonomy as well as a sovereign green bond framework (and subsequent issuance) will help to raise public awareness of green investment opportunities which could also promote greater demand for green financial products and services.

Priority 12: Position Australia as a global sustainability leader

Rest supports the Government's ambition for Australia to be a global leader in sustainable finance. As a net importer of capital, Australia's transition to a clean energy economy will require significant investment to meet its climate targets and to ensure communities are not left behind.

We are strongly supportive of the broad suite of climate-related and sustainability policies and initiatives that the Government has (or intends) to put into place which will present future investment opportunities as well as opportunities for Australia to collaborate on sustainable finance initiatives at a regional and multilateral level.

As noted above, while we support climate change being the immediate focus of Australia's sustainable finance strategy, we would strongly encourage the inclusion of other environmental and social considerations in the near future, including nature-related risks and opportunities, material social factors, and improvement of social and economic outcomes for First Nations people.

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