

ASIC

ESG: Major change is underway, and we need to be ready.

Speech by ASIC Chair Joe Longo at the Committee for Economic Development of Australia (CEDA) State of the Nation conference, 13 June 2023.

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Check against delivery.

Before I begin, I would like to acknowledge the traditional owners and custodians of the land on which we meet today, and to pay my respects to their elder's past, present and emerging. I extend that respect to Aboriginal and Torres Strait Islander people present today.

In his classic work *The Signal and the Noise* – from which we take our theme today – Nate Silver writes that separating the signal from the noise is difficult because “the story the data tells us is often the one we’d like to hear, and we usually make sure that it has a happy ending”. So how are we to avoid the tendency to read into the future exactly what we would like to see?

The answer is to look around us. As Silver notes, ‘the signal is the truth, and the noise is what distracts us from the truth’.

So today – while I would not be so ambitious as to take on the task of finding the whole truth – I would like to consider a part of the truth, by examining what we see when we look around. And when we do so, it’s clear that change isn’t just on the horizon, it’s already here. It’s happening now, and we need to be preparing for and adapting to that change, now.

So, what do we see when we look around?

Well, it’s clear that environmental, social, and governance (ESG) issues are driving the biggest changes to financial reporting and disclosure standards in a generation.

This is a transformational issue for global markets, and we need to be ready to meet that change at every step of its development.

In today’s State of the Nation address, I would like to begin by highlighting the significance of these changes.

I will then look at how ASIC is working to meet this challenge, and the work we’re doing to ensure Australian companies and investors are equally prepared.

Change is here.

When I said that ESG is driving the biggest disclosure changes in a generation, I mean that the conventional paradigm in finance is already undergoing a seismic shift.

CSIRO released a report last year entitled [Our Future World](#). It highlights seven megatrends, defined as “trajectories of change that typically unfold

over years or decades and have the potential for substantial and transformative impact". This isn't about predicting the future. It's about current trends.

The purpose of identifying these megatrends is to 'guide long-term investment, strategic and policy directions across government, industry, the not-for-profit sector and the broader Australian community'.

Though the focus here is on Australia, these trends resonate globally. Three of the megatrends are particularly relevant to ESG:

- First, climate change adaptation and the protection of livelihoods, infrastructure, and people's quality of life as the climate changes.
- Second, the global push to reach net zero, protect biodiversity and use resources more efficiently.
- And third, unlocking the human dimension and elevating diversity, equity and transparency in business, policy, and community decision making.

We can already see these themes playing out globally. The International Sustainability Standards Board (ISSB) will soon release standards for general sustainability requirements and climate-related financial disclosures.

The UK's Financial Conduct Authority has found that 4 out of 5 adults surveyed (81%) want their investments to do good, not just provide a financial return. The UK market has responded, and Broadridge Financial Solutions predicts the global market for sustainable investment products will reach \$30 trillion USD by 2030.

And, of course, it's worth remembering that before the COVID-19 pandemic – if any of us can remember that far back – the US Business Roundtable famously declared a company's purpose is to "serve not only their shareholders, but also deliver value to their customers, invest in employees, deal fairly with suppliers and support the communities in which they operate".[\[1\]](#)

Domestically, the Australian Institute of Company Directors has long backed 'efforts to consolidate global reporting frameworks on sustainability and environment issues'.[\[2\]](#)

The Australian Parliament last year legislated its ambition to reach net zero by 2050. At the end of last year, the Australian Government published a consultation paper on mandatory climate risk disclosure requirements and tasked the Treasury with developing a comprehensive sustainable finance strategy.

This will encompass a range of measures to improve transparency, deepen Australia's green finance markets, and seize opportunities presented by surging global momentum in sustainable finance.

As part of this strategy, we will see the development of new standards or taxonomies for sustainable investment, further initiatives to reduce greenwashing and strengthen ESG labelling, and continuing participation in global forums to support climate and sustainable finance frameworks and investment.

Last month's Federal Budget built on this announcement, allocating further funding to sustainable finance initiatives, including further support for ASIC to continue to ensure the integrity of sustainable finance markets. This includes investigating and undertaking enforcement action against market participants engaging in greenwashing, and other sustainable finance misconduct.

The signal is clear: major, transformational change has begun. And we all need to be ready.

How we're preparing for change.

In the Australian context, these developments add further weight to the increasing profile of ESG issues as a priority for investors and companies. The good news is, that priority is already being recognised by many Australian companies.

As KPMG's sustainability reporting survey from last year highlighted, nine out of ten ASX100 companies recognise climate as a financial risk. On top of that, three quarters are already reporting carbon targets and reporting against the Taskforce on Climate-related Financial Disclosures (TCFD) framework.

The TCFD provides practical recommendations on climate-related financial risk disclosures to companies, lenders, and investors.

This means there is already positive action at the domestic level to understand what financial markets want from voluntary reporting, as well as to improve the assessment and management of short, medium- and long-term exposures to climate risks.

This is a strong start. But ESG is not a static space, and the bar is continually being raised ever higher. As such, there is a need for companies to reflect on and review governance standards, to ensure stronger support for disclosure.

To help this process, ASIC continues to engage with key stakeholders here in Australia. We have long been part of the Council of Financial Regulators Climate Working Group – alongside APRA, the RBA, and the Treasury. This group has been working on these issues for a number of years now.

There's no denying there's a lot of work ahead. But sustainable finance is an important strategic priority for ASIC, and I'm determined to ensure that we continue to be positioned to meet the challenges ahead.

Part of this will necessarily involve upskilling to ensure rigorous and reliable disclosure to support our capital markets. Australia is, after all, an importer of capital. This means we have to meet the demands of international capital markets.

As we have done for a number of years, we continue to encourage voluntary reporting under the recommendations of the TCFD for the current financial year.

But our message is clear. Firms should be well advanced in embedding robust corporate governance practices ahead of more rigorous reporting requirements that are imminent in the standards being released by the ISSB in two weeks. These ambitious standards will require companies to adopt a systematic approach to collecting and analysing data across the company itself, and its supply chains. Preparation for that should be starting now.

The Treasury also intends to put out a position paper on these standards that will cover the Government's plans for when they are intended to be adopted and come into operation, and a scaled introduction, depending on the size of entity, is expected. The paper will likely appear within the next fortnight.

So again, the signal is clear: change isn't just coming, it's happening.

And, as part of the larger need to meet international demand, ASIC's role as a national regulator requires us to engage not just with Government and domestic stakeholders, but also with our international regulatory peers.

We're also a member of a global sustainable finance taskforce facilitated by the International Organisation of Securities Commissions (IOSCO). This is an important forum to engage with regulators in other jurisdictions about the significant changes afoot.

In fact, later this week I will be attending the annual IOSCO board meeting in Bangkok, where sustainable finance will dominate the agenda.

Similarly, we recognise the role carbon markets play in supporting private sector action on emissions reduction. As market operators, including the Clean Energy Regulator appointed operator, start to enter this space, ASIC will play our part in the development of a carbon market in Australia.

This includes promoting standards of integrity and transparency, as we do in other Australian licensed markets.

But, of course, honing our collective skills in this area cannot mean that we never actually get to the business of engaging with, and reporting on, sustainable finance and other ESG initiatives now. We can't let our preparations for the future mean a drop in compliance with existing legal obligations.

As ASIC has made clear on many occasions, we must maintain high standards of governance and disclosure today, and ASIC will not overlook current misconduct – including greenwashing – because of the continuing developments in ESG. This is obviously not negotiable.

For this reason, we have a targeted program of work underway to ensure that happens. [ASIC issued guidance](#) mid last year to help Australian companies comply with their obligations.

We conducted a review of sustainability-related products and reported back to industry last month. Our [most recent greenwashing report](#) provides transparency on why and when ASIC intervened to correct disclosures.

We are seeing inaccurate labelling and vague terms like “carbon neutral” that aren’t founded on reasonable grounds. We encourage issuers and advisers to consider that report – and our guidance – when preparing disclosures.

In response to these changes and challenges, some Australian commentators and firms have in effect said, “we have such a good ESG policy, but we can’t say anything about it because the regulators won’t let us”.

In a sense, this isn’t a surprising response, since, as Nate Silver remarks, “The instinctive shortcut that we take when we have ‘too much information’ is to engage with it selectively, picking out the parts we like and ignoring the remainder, making allies with those who have made the same choices and enemies of the rest.”

But this concept, which has been coined ‘greenhushing’, is in our view just another form of greenwashing, and risks misleading by omission. Silence from firms and failing to engage isn’t the answer.

Conclusion

Today is about asking “what is the state of the nation?”

At least part of the answer lies in recognising that the nation is in the centre of a once-in-a-generation shift in financial reporting and disclosure standards.

And as we continue to maintain our high standards to comply with existing legislation, we must remain conscious of the changes that lie ahead – and start our preparations now.

This might seem like a daunting task. But it's a necessary one. To quote Simon Sinek, author of *Start with Why*, 'average companies give their people something to work on - in contrast, the most innovative organisations give their people something to work towards'.

It is only by taking the time to decide what to work towards, to prepare for change, that we can grow through it to emerge on the other side stronger, more secure, and, hopefully, with better outcomes for all - consumers, investors, and companies.

This is the challenge of the changing face of ESG: to respond, to renew, and to improve. And we begin by making ourselves ready today.

[1] Business Roundtable. Updated Statement Moves Away from Shareholder Primacy and Includes Commitment to All Stakeholders. "Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans,'" <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

[2] <https://www.aicd.com.au/company-policies/sustainability-policy/sustainable-finance/aicd-progress-on-proxy-advice-class-action-risk-reforms.html>