



Foreign Affairs, Defence and Trade Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

By email

Dear Committee members,

CPD submission to the Senate Foreign Affairs, Defence and Trade References Committee Inquiry into the United Nations Sustainable Development Goals

Thank you for the opportunity to make a submission to this inquiry. The Centre for Policy Development is an independent policy institute focused on long-term policy challenges in Australia and our region. Our research and advocacy on a range of issues is closely linked with the SDG agenda, including on human trafficking and people smuggling, settlement services for humanitarian migrants, sustainable agriculture and food systems, and rebuilding trust in our democratic and civic institutions.

The attached submission is narrower in scope, highlighting ways in which the SDG framework can help to strengthen business, investor and financial market responses to sustainability-related risks and opportunities. This issue, with a particular focus climate-related risks, has been a key focus for CPD's work over recent years.

There is immense potential for the SDGs to positively influence domestic policy and priorities, and for Australia to make a major contribution to the global sustainable development agenda. Given long lead times on investment and policy development, and the scale of the efforts needed on both fronts to achieve the 2030 goals, this potential can only be realised if we integrate the SDGs into governance, regulatory guidance and policy formulation now.

Your Committee's work provides a crucial opportunity to review Australia's SDG-related priorities and governance processes and to develop a more concerted and effective Australian response to the 2030 Agenda. We look forward to following your progress and would welcome the opportunity to discuss this submission or related CPD research in more detail if that would be useful.

Yours sincerely

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OVERVIEW OF SUBMISSION

This submission focuses primarily on how the SDGs can support better business, investor and financial market responses to sustainability-related risks and opportunities.

In the **short term**, the SDGs can assist by providing organisations with a framework for improving sustainability-related risk assessment, target setting and disclosure. This can help them meet public, investor and regulator expectations for more sophisticated sustainability risk management and governance. Increasingly, these risks are seen as core business issues rather than separate environmental, social or governance concerns.

In the **medium term**, the SDGs can help align investment, regulation and policy to improve long-term value creation and a more sustainable foundation for finance, growth and development.

These opportunities are discussed in turn below. In summary, we offer the following recommendations:

- (1) Financial regulators should raise awareness about the relevance of the SDGs to good governance, risk management and disclosure, building on recent public leadership on the relevance and materiality of climate-related risks and opportunities.
- (2) The ASX Corporate Governance Council should update its Corporate Governance Principles and Recommendations to reflect (a) the increased regulatory and market focus on material impacts of sustainability-related risks and (b) the importance of the Taskforce on Climate-related Financial Disclosures' recommendations and of other frameworks like the SDGs as a tool for guiding entities' disclosures and responses.
- (3) The Australian Securities and Investments Commission should provide updated guidance to company directors outlining an enhanced focus on climate risks and other sustainability-related risk management and disclosure, in line with recent statements from the Australian Prudential Regulation Authority.
- (4) The Government should identify development of an SDG-aligned sustainable finance agenda as a key priority in a revamped SDG strategy, and appoint a taskforce to recommend policy and regulatory reforms to boost sustainable finance and investment in Australia.
- (5) The Government should establish a dedicated centre-of-gravity in a central agency like the Department of Prime Minister and Cabinet to drive SDG-related reporting, leadership and policy development.

SHORT TERM: DISCLOSURE, CORPORATE GOVERNANCE AND FINANCIAL REGULATION

The SDGs can be a valuable tool for companies and investors striving to meet rising expectations for sophisticated management of sustainability-related risks. These expectations have surged in recent years, particularly in the area of climate-related risks. Key sustainability-related challenges are no longer seen as non-financial matters that are separate or distinct from core business, governance and risk management. Instead they are viewed as an increasingly important part of a business's near and long-term operating environment that can have a material impact on its prospects. This demands an integrated response as part of core business strategy, governance and reporting.

Recent developments in Australia clearly demonstrate that the bar is rising. In 2016, CPD and the Future Business Council commissioned a legal opinion by Noel Hutley SC and Sebastian Hartford-Davis on company directors' legal duties to consider climate-related risks.¹ The opinion concluded that directors are required to consider climate-related risks and opportunities that are foreseeable and that intersect with the interests of the company. It also found that failure to do so could expose directors to personal liability for breach of duty. (A subsequent legal opinion by Noel Hutley SC and James Mack concluded that similar duties to consider climate risk also apply to superannuation fund directors).² The opinion concluded that:

"It is likely to be only a matter of time before we see litigation against a director who was failed to perceive, disclose or take steps in relation to a foreseeable climate-related risk that can be demonstrated to have caused harm to a company (including, perhaps, reputational harm). To consider climate change risks actively, and disclose them properly, will reduce exposure to liability, and maximize the potential for activating the business judgement rule."

This analysis applies with equal force to other sustainability-related risks and opportunities, to the extent that they have foreseeable, material impacts on a company's interests. Clear signs of accelerating market and policy responses to this wider set of sustainability issues (including the signals embodied in the SDGs themselves) mean that company directors are likely to be held to a higher standard on these issues too.

In a similar vein, the Australian Prudential Regulation Authority's recent emphasis on climate change as an emerging risk shows how many financial regulators are incorporating sustainability issues into their risk assessments and mandates. In February 2017, APRA Executive Member Geoff Summerhayes said that climate-related risks were emerging as an important issue for the insurers, banks and superannuation funds that APRA supervises, particularly in light of the Paris Climate Agreement, the Noel Hutley SC legal opinion and the Taskforce for Climate-related Financial Disclosures (TCFD). He said:

"While climate risks have been broadly recognised, they have often been seen as a future problem or a non-financial problem. The key point I want to make today, and that APRA wants to be explicit about, is that this is no longer the case. Some climate risks are distinctly 'financial' in nature. Many of these risks are foreseeable, material and actionable now. Climate risks also have potential system-wide implications that APRA and other regulators here and abroad are paying much closer attention to..."

...To be blunt, given all the developments I've flagged today, if entities' internal risk management processes are not starting to include climate risk as something that has to be considered – even if risks are ultimately judged to be minimal or manageable – that seems a pretty reasonable indicator there might be something wrong with the process. Similarly, if you're an investor and

¹ 'Climate Change and Directors Duties', Noel Hutley SC and Sebastian Hartford-Davis. Available at <https://cpd.org.au/wp-content/uploads/2016/10/Legal-Opinion-on-Climate-Change-and-Directors-Duties.pdf>

² 'Superannuation Fund Trustee Duties and Climate Change Risk', Noel Hutley SC and James Mack. Available at <http://superswitch.org.au/wp-content/uploads/2017/07/170615-Market-Forces-Memorandum-Superannuation-Trustee-Duties-and-Climate-Change-Risk-Hutley-Mack-.pdf>

you're not already asking questions about how the companies you invest in approach these issues – perhaps you should be.”³

In subsequent statements, Geoff Summerhayes noted a clear international trend towards a more interventionist approach by regulators on sustainability-related issues in general, building on a more specific focus on the possible systemic impacts of climate risk.⁴ In earlier public statements, APRA has also emphasised related emerging risks associated with corporate risk culture and the erosion of social licence, among others.⁵

These developments are part of a growing focus by regulators and investors on sustainability-related risks – and on frameworks and governance processes for assessing, disclosing and responding to them. The SDGs can play an important role in this context in several ways:

First, the SDGs are beginning to inform best-practice approaches to understanding climate-related risks and their connections to other sustainability issues – particularly in the area of scenario analysis.

The Financial Stability Board’s TCFD report has firmly established scenario analysis – a process for considering how different climate-related transitions and pathways will impact businesses and investments – as a hallmark of high-quality climate risk management and disclosure. This expectation has been reinforced by many financial regulators, including in Australia by APRA and the Reserve Bank.

As resources for scenario analysis are refined, the SDGs are becoming an important framework for understanding how climate-focused strategies and adjustments interact with other environmental, economic and social issues. As the IPCC has highlighted, “comprehensive strategies in response to climate change that are consistent with sustainable development take into account the co-benefits, adverse side effects and risks that may arise from both adaptation and mitigation options.”⁶ To date, most readily-available scenarios for analysing different climate change trajectories focus primarily on adjustments and pathways in the energy sector. However, emissions reduction and adaptation trajectories and targets are embedded in a much wider context of social, economic and environmental changes, challenges and objectives.

Over time, related aspects of the sustainable development agenda are likely to be explicitly incorporated into prominent climate-related scenarios used by private sector actors and regulators. In some cases, this is already occurring. The latest scenario published by the International Energy Agency, which publishes the most widely-used suite of global climate scenarios, is called the Sustainable Development Scenario.⁷ This scenario “integrates the objectives of the three SDGs that are most closely related to energy” (addressing climate change, achieving universal modern energy access, and improving air quality),⁸ implying a more rapid rate of renewable energy penetration, efficiency improvements and overall emissions reduction. Later this year, the IPCC will release a special report on *Global Warming on 1.5°C* that includes a section on the linkages between limiting warming to 1.5°C and achieving the SDGs.

³ ‘Australia’s new horizon: Climate change challenges and prudential risks’, Geoff Summerhayes, February 2017. Available at <http://www.apra.gov.au/Speeches/Pages/Australias-new-horizon.aspx>

⁴ ‘The weight of money: A business case for climate risk resilience’, Geoff Summerhayes, November 2017. Available at: <http://www.apra.gov.au/Speeches/Pages/The-weight-of-money.aspx>

⁵ For example, see ‘The view from the other side of the table: Regulation, trust and social licence’, Geoff Summerhayes, October 2016. Available at: <http://www.apra.gov.au/Speeches/Pages/The-view-from-the-other-side-of-the-table-Regulation-trust-and-social-licence.aspx>

⁶ IPCC Fifth Assessment Report Summary for Policymakers, 2016. Available at https://www.ipcc.ch/pdf/assessment-report/ar5/wg3/ipcc_wg3_ar5_summary-for-policymakers.pdf

⁷ Information on the IEA Sustainable Development Scenario is available at:

<https://www.iea.org/newsroom/news/2017/november/a-new-approach-to-energy-and-sustainable-development-the-sustainable-development.html>

⁸ SDG 3.9, SDG 7, SDG 13.

Second, the SDGs provide a ready-made framework for scanning for and responding to wider sustainability-related risks – including risks to social license.

The commitments embodied in the Paris Climate Agreement have provided credible, actionable signals to markets about looming transitions in climate-related policy and investment. In a similar (if more general) way, the SDGs also provide a strong signal about the trajectory of policy, investment and societal expectations – particularly from investors, policymakers and communities that have committed strongly to the 2030 Agenda.

The targets and indicators that underpin each goal – and the body of experience and expertise that is growing around them – can provide a ready-made framework for organisations to engage with specific sustainability-related issues (for example, climate action, gender equity, or sustainable cities). This is particularly important at a time when key sustainability-related issues have emerged as critical, high-impact economic risks at the global level. For example, water, food and weather-related risks – as well as failure to adequately address climate change – have consistently been identified as amongst the most immediate and high-impact global risks in studies like the World Economic Forum's *Global Risk Report*.⁹

Even where direct economic or business impacts are less immediate, the SDGs can still be directly relevant for organisations guarding against risks to their reputation and social license to operate. This has emerged as a critical issue, especially in the financial sector, in the wake of the GFC – including in Australia, as demonstrated by the current Financial Services Royal Commission. Public expectations for better business performance on values and sustainability-issues are growing. When companies, investors or industries are disconnected from or misaligned with social values and expectations, they are vulnerable, both in the marketplace and to costly legal, regulatory or policy responses.

In this context, the SDGs are one important framework companies can use to understand how their business model relates to different sustainability challenges and evolving societal expectations, and to guide their responses. They can help inform organisations about where they are vulnerable to misalignment, and where they might be well placed – or even uniquely placed – to make a positive contribution. In this way they can help businesses develop, and communicate, a strategy for shoring up their social license and demonstrating their social value.

Third, the SDGs provide a practical guide to sustainability-related target setting and progress reporting, as well as to wider sustainability-related disclosures.

The 169 targets that sit beneath the SDGs provide a detailed guide to priority areas specific to each goal, and to metrics and progress indicators that are relevant to each. Related tools such as the SDG Compass seek to help businesses adopt the goals to define their priorities, set specific targets and communicate their progress.

The UN Global Compact has developed comprehensive guides for understanding the specific business actions, and a related set of metrics and disclosures, that are most relevant to each of the SDG target.¹⁰ These include resources to connect the SDG targets and indicators to existing global sustainability reporting frameworks established under the Global Reporting Initiative. In July this year, the Global Compact and the GRI will release *A Practical Guide to Defining Priorities and Reporting* which will provide a more detailed, step-by-step approach for business reporting and action against the SDGs. Over time, these resources are likely to see the SDGs become an integral part of a common language for corporate reporting on societal and sustainability issues.¹¹

⁹ *Global Risks Report 2018*, World Economic Forum. Available at: <https://www.weforum.org/reports/the-global-risks-report-2018>

¹⁰ *Business Reporting on SDGs: Analysis of Goals and Targets*. Available at: https://www.globalreporting.org/resource/library/GRI_UNGC_Business-Reporting-on-SDGs_Analysis-of-Goals-and-Targets.pdf

¹¹ 'The SDGs: A common language for corporate reporting', pwc, October 2016. Available at: <https://www.pwc.nl/nl/assets/documents/pwc-the-sustainable-development-goals.pdf>

In light of these opportunities, policymakers and regulators should encourage wider use of the SDGs in strategy, risk management and reporting.

While much of this agenda will be business-led, legislators and regulators have a critical role to play. APRA's agenda-setting leadership on climate risk has underlined how effectively key regulators can focus attention on important emerging risks and related tools like scenario analysis. The wide influence of recent legal opinions on directors' and trustees' legal obligations on sustainability-related risks highlights how closely attuned corporate leaders are to legal and regulatory requirements around governance and disclosure.

Recent high-profile international reviews have encouraged policymakers to establish clearer and more onerous duties for directors' and investors to consider climate and sustainability risks, and to impose more demanding mandatory disclosure regimes.¹² Consideration of these more far-reaching changes in Australia, in line with emerging global trends, will likely fall to future governments. In the interim, however, policymakers and regulators can do more to clarify expectations and encourage companies and investors to make use of the best-available resources to strengthen risk management and disclosure, including the SDGs. This will only grow in importance as large institutional investors, international regulators and shareholder groups ramp up their focus on these issues.

At a minimum, this should include the following:

- Public leadership by regulators to raise awareness about the relevance of the SDGs and their value as a framework for assessing sustainability-related targets, metrics and opportunities. This would add vital support to government efforts to build greater corporate and public awareness of the SDGs, building on Australia's first Voluntary National Review.
- The ASX Corporate Governance Council should update the Corporate Governance Principles and Recommendations governing risk management and disclosure to (a) reflect the increased regulatory and market focus on material impacts of sustainability-related risks and (b) highlight the importance of the TCFD recommendations and other frameworks like the SDGs as a tool for guiding entities' disclosures and responses.
- The Australian Securities and Investments Commission should provide updated guidance to directors outlining an enhanced focus on climate risks and other sustainability-related risks, in line with similar statements from APRA. This should also highlight the relevance of the TCFD recommendations and the SDGs as tools for developing stronger risk management processes and better sustainability-related disclosures.

MEDIUM TERM: INTEGRATING THE SDGS INTO POLICY DEVELOPMENT AND FINANCIAL REGULATION

In the longer term, the SDGs should be systematically entrenched as a guide to strategy and policy development to build a more sustainable foundation for growth and development.

This agenda is as relevant in Australia as it is internationally. Some of our most pressing social, economic and environmental challenges – including our lagging performance on climate action, education and innovation and still-profound problems with poverty, gender equity and environmental degradation – are closely linked to the SDG agenda. Declining trust in politicians, governments and business has made it even more difficult to address entrenched challenges and respond to new ones.

¹² For example, the European Commission's Action Plan on Financing Sustainable Growth and the UK's Green Finance Taskforce, discussed below.

Operating in the background has been a more fundamental challenge: our ongoing difficulty aligning short- and long-term incentives and priorities to drive the greater good over time. This challenge has intensified in Australia despite what should be considerable advantages stemming from our rich natural and social capital stocks, our strong public institutions, and the size and sophistication of major financial sector players (like superannuation funds) with long-term investment horizons and mandates.

In this context, any framework that helps decision makers think through short- and long-term priorities, targets and tradeoffs can play a valuable role. The SDGs, because of their comprehensive nature and wide global adoption, can make a crucial contribution here. Leading regulators, investors and companies are beginning to use SDG framework to understand risk, build trust and develop networks around shared challenges and opportunities. Governments and policymakers too can use the SDGs to improve policy development, build collaboration and shape a more productive public conversation about long term aspirations and challenges.

However, this is only possible with a real commitment to the SDG agenda – something that cannot happen if the SDGs remain peripheral to the core business of government or are viewed primarily through an overseas development lens. Providing lip service to the 2030 Agenda while continuing business as usual would only reinforce cynicism and distrust about the ability of our public institutions to deliver sustainable development and meet changing societal expectations.

With these factors in mind, we suggest the following priorities:

1. Progress reporting and policy leadership on the SDGs should be conducted by a central agency that spans a domestic and international focus – ideally, the Department of Prime Minister and Cabinet (PM&C).

Building a strong capability for SDG reporting and pursuing SDG-related policy linkages and opportunities is essential. The connections between the SDGs and Australia's Overseas Development Assistance program are important, and the Department of Foreign Affairs and Trade has a major role to play in helping meet Australia's SDG commitments. But adopting a primarily ODA- or internationally-focused lens for the SDGs risks neglecting the broader contribution they could make to domestic policy and priorities.

Ultimately, while the international components of the SDG agenda are critical, the most powerful contribution Australia can make to advancing the goals is genuinely rising to the challenge of sustainable development at home. Establishing a bureaucratic centre-of-gravity for SDG strategy within a central agency such as PM&C is a necessary condition for realising the full potential of the SDGs and signaling a revitalised Australian commitment to the full breadth of the 2030 Agenda.

Other changes worthy of consideration include:

- Incorporating the SDGs into Cabinet processes for considering risks or demonstrating wider benefits associated with policy proposals. This could be done by utilising tools such as the SDG Compass to map the impacts of policy proposals, or by incorporating particular SDG goals and targets into the environmental, social and other impact and risk assessments that are already conducted as part of Cabinet processes.
- More systematically incorporating the SDGs into the roles and mission of other government departments. This could help to strengthen communication and awareness of the SDGs within the community, and also demonstrate their value as an organising principle for policy design and implementation.

- Leveraging the SDGs as part of the Council of Australian Governments' (COAG) agenda. COAG could play a crucial role co-ordinating action and accountability on the SDGs across different jurisdictions, as well as facilitating sharing of innovations and best practice from local and state governments that are already advanced in their use of the SDGs.
2. The Government should identify development of an SDG-aligned sustainable finance agenda as a key priority in a revamped SDG strategy. This agenda could be developed by a government-appointed taskforce charged with recommending policy and regulatory reforms to boost sustainable finance and investment in Australia.

The massive investment gaps that need to be filled to deliver the SDGs are well known, and the funds being mobilised in this effort – while well short of what is needed to achieve the goals – are already creating significant momentum and opportunities. Independent of the goals themselves, the financial, economic and strategic opportunities associated with green finance and other sustainability-related products and investments are attracting major attention in leading financial institutions and centres around the world. The SDGs have a vital role to play in this context, for example by helping to provide market clarity on sustainability standards and by underpinning specific innovations like SDG-linked bonds. Together with the Paris Climate Agreement, the 2030 Agenda also provides an international policy framework that can guide national and regional reforms to ensure consistency with a wider sustainable development agenda.

There have been major moves in this direction internationally, including most significantly through the European Commission with its *2018 Action Plan on Financing Sustainable Growth*, and the work of the United Kingdom's *Green Finance Taskforce*.

The EC Action Plan, informed by a two-year High-Level Expert Group review,¹³ outlines a comprehensive program to deliver on three goals: reorienting capital flows toward a more sustainable investment to achieve more sustainable and inclusive growth; managing risks stemming from climate change and other environmental and social issues; and fostering transparency and long-termism in financial and economic activity.¹⁴ This program is guided by and framed around the twin pillars of the Paris Agreement and the SDG: goals which “will guide us in preparing for a future that ensures stability, a healthy planet, fair, inclusive and resilient societies and prosperous economies.”

Key elements of the European Commission action plan are of direct relevance for Australia. These include clarification of directors' and fiduciaries' duties on sustainability-related issues; reviewing and expanding mandatory requirements for risk disclosure; developing a consistent taxonomy of sustainable investment products and categories; and reviewing options for incorporating sustainability factors in prudential requirements. Some of these issues were explored in the Senate's 2017 inquiry into carbon risk disclosure and have been the subject of broader reviews in the past. For several reasons – including the major challenges of meeting our SDG and Paris commitments and to keep pace with major international – now is the time to consider options for a more comprehensive Australian response.

The Government should support the development of a similar sustainable finance strategy in Australia as part of a revitalized commitment to the 2030 Agenda. This would give practical voice to the SDGs in a way that mobilises attention but also action and investment. Following the model used in Europe, core elements of this agenda could be developed by a government-appointed taskforce comprising senior representatives from relevant key agencies and institutions (PM&C, Treasury and the RBA),

¹³ *Financing a Sustainable European Economy*, Final report 2018 by the High-Level Expert group on Sustainable Finance, January 2018. Available at: https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf

¹⁴ Full text of the EC Action Plan is available at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097>

regulators, financial market institutions, investors, professional associations (for example, legal, auditing and accounting) and academic and civil society experts, including specialists in sustainable development.¹⁵ This group could be tasked with providing a comprehensive study of risks and opportunities associated with green and sustainable finance in Australia. Ultimately, it would recommend options and priorities to support an SDG-aligned Australian agenda for sustainable finance, for financial regulators and policymakers to consider.

A sustainable finance strategy could support greater SDG-aligned investment domestically (including drawing on additional capital from offshore) and empower Australian investors and institutions to pursue global opportunities in sustainable finance and investment. It could draw on support from companies and investors building their sustainability credentials and capabilities, a banking sector with a keen interest in rebuilding its reputation and social license, and regulators who will value a structured process for considering new expectations, disclosures, products and risks. These actors could work together to develop this agenda in a way that is at least partially insulated from political blockages and controversies.

Making a strong contribution on sustainable finance and the SDGs would also play to Australia's diplomatic and strategic interests and strengths. Australia has a large and sophisticated financial sector and long-standing commitment to and interest in sustainable development and rules-based governance abroad. A committed Australian SDG strategy, including support for new approaches for financing sustainable development, could make an important contribution to the 2030 Agenda. In turn, along with actions to meet our Paris commitments, this would see Australia doing its part to support crucial new global agreements and governance, at a time when many of the norms and institutions that have governed the post-war international order are under pressure.

¹⁵ For more information on the make-up and activities of the European Commission's High-Level Expert Group, see: <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=3485&NewSearch=1&NewSearch=1&Lang=EN>