



Labelling and Disclosure Unit
Climate and Energy Division
The Department of Treasury
Langton Cres
Parkes ACT 2600

Date: 29 August 2025

By email: ClimateReportingConsultation@treasury.gov.au

Dear Director Labelling and Disclosure Unit,

Subject: Sustainable investment product labels

I am reaching out on behalf of the [Business Council for Sustainable Development Australia \(BCSDA\)](#), in our role as a pivotal advocate for sustainable development within the business sector and as a global network partner of the [World Business Council for Sustainable Development \(WBCSD\)](#).

Our collective mission is to champion sustainable business practices that are not only globally recognized but also carefully adapted to meet the unique demands of the Australian landscape.

Outlined in the following pages is our feedback to the Consultation you have requested on the **Subject**. We thank you for the opportunity to make these submissions.

We confirm our submission can be made public.

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Yours faithfully,

A handwritten signature in black ink, appearing to read "Andrew Petersen", followed by a horizontal line.

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Executive Summary

The Business Council for Sustainable Development Australia (BCSDA), as the Australian partner of the World Business Council for Sustainable Development, welcomes the Treasury's consultation on Sustainable Investment Product Labels.

Our submission emphasises a balanced, systemic, and pragmatic policy approach that delivers long-term credibility and market integrity, while supporting innovation and flexibility in sustainable finance. We advocate for a framework that is both robust and adaptable, enabling Australia to align with global best practices while meeting domestic market needs.

First, BCSDA supports a **hybrid evidentiary model** that blends prescriptive and principle-based elements. Prescriptive thresholds—such as minimum asset allocations and science-based sustainability criteria—can provide market certainty, while principle-based requirements ensure the framework remains adaptable to emerging sustainability standards, evolving investor expectations, and innovations in investment practice. This combination is essential to guard against greenwashing, promote transparency, and maintain relevance over time.

Second, we recommend **strong alignment with complementary policy initiatives** under the Sustainable Finance Roadmap, particularly the national sustainable finance taxonomy. Linking product label criteria to taxonomy thresholds will enhance interoperability with global frameworks, reduce compliance complexity, and build investor confidence. International experience, such as the EU's Sustainable Finance Disclosure Regulation (SFDR) and the UK's SDR and labelling regime, demonstrates that policy coherence between taxonomies, disclosures, and labels significantly improves market trust and comparability.

Third, BCSDA supports a **strategic role for independent third-party certification** to bolster credibility without creating excessive compliance burdens. Independent verification should be encouraged, with certification criteria grounded in internationally recognised standards and set collaboratively by regulators, industry, and expert bodies. Where mandatory certification is not required, credibility can still be upheld through rigorous regulatory oversight, robust disclosure requirements, and enforcement against misleading claims.

Finally, we stress the importance of **investor-focused clarity and accessibility**. Labels and accompanying disclosures should be concise, consistent, and consumer-friendly, enabling investors to make informed decisions and compare products easily. Embedding continuous review mechanisms within the framework will allow for timely adaptation to evolving standards, market practices, and climate objectives. By combining clear rules, adaptable principles, and credible oversight, Australia can position its sustainable investment labelling regime as both a domestic standard-setter and an internationally recognised benchmark.

Through these recommendations, BCSDA seeks to ensure that the Australian framework delivers market integrity, supports the mobilisation of capital towards sustainable outcomes, and reinforces our commitment to pragmatic, systemic, and long-term solutions that align business action with the nation's sustainable development goals.

Responses to Consultation Questions

Question 1: Role of Sustainable Financial Product Labels under Current Regulations

BCSDA Response

Current Context – Gaps in Clarity and Trust: Under existing regulations, Australian investment products must disclose if they consider environmental, social or ethical factors, and misleading claims (greenwashing) are prohibited by law. However, these measures have not ensured clarity or comparability for investors. The lack of consistent definitions and standards means that products marketed as “sustainable,” “green,” or “ethical” often use these terms in different ways, leaving consumers confused. Surveys show that only 6% of Australians feel they fully understand sustainable investing, and **58% don't know how to compare different ESG investment options** (Colonial First State 2023). Investors struggle to distinguish, for example, a “sustainable” fund from an “impact” fund – only 9% are confident doing so (Colonial First State 2023; Watson 2023). This confusion is compounded by inconsistent terminology and reporting across the industry, undermining investors' ability to make informed choices. It also erodes trust: the **Responsible Investment Association Australasia (RIAA)** finds that **78% of Australians are wary of potential greenwashing** (RIAA 2024).

In fact, concern about misleading sustainability claims has become a top deterrent to investing – over half of consumers cite mistrust of sustainability claims as a barrier to responsible investment (RIAA 2024). Current disclosures and anti-greenwashing rules, while important, tend to be complex and reactive. ASIC's recent enforcement against greenwashing (e.g. an \$11.3 million penalty against a super fund for misrepresenting “sustainable” options) illustrates that relying on general misrepresentation laws alone is inadequate (ASIC 2024). The **harm from greenwashing** is not just financial; it **“distorts relevant information”** for investors and **undermines fair competition** by giving dishonest products an unfair marketing

advantage (Federal Court of Australia 2024). In short, today's regulatory settings leave a gap: investors lack a simple, credible way to identify and compare genuinely sustainable products at a glance.

Role of a Labelling Framework – Clarity, Confidence, Comparability: From BCSDA's perspective, a sustainable investment product labelling framework is a critical **systemic solution** to these issues. **Clear, credible labels** can translate complex sustainability information into an accessible form, empowering everyday investors. The key roles of such labels would be:

- **Enhancing Transparency and Comparability:** Labels create **consistent standards and definitions** for sustainability claims. This allows investors to quickly understand what a fund's sustainability objective means and to **compare products on an "apples-to-apples" basis** (BCSDA 2025). For example, a set of standard label categories or ratings (such as "Responsible", "Sustainable Focus", "Impact" etc.) could be introduced, each with defined criteria. This would address the current lack of agreed terminology – a problem that even product issuers acknowledge (Colonial First State 2023). By **simplifying information**, labels make it easier for retail investors (who often lack time or expertise) to identify products aligned with their values and risk appetite. As Treasury has noted, the objective is for labels to **help investors "identify, compare and make informed decisions"** about sustainable products and to clarify what terms like "sustainable" or "green" signify in practice (Chalmers & Mulino 2025). In essence, labels act as a **shortcut for trust and understanding**, much like nutritional labels on food, summarising key sustainability attributes of financial products in a user-friendly way.
- **Building Investor Confidence and Participation:** A well-designed labelling scheme can **increase investor confidence** that sustainability claims are substantive, not marketing spin. When investors see an official **"sustainable" label (or similar) backed by clear standards**, they can be more confident that the product meets certain environmental, social, or governance criteria. This confidence is crucial to mobilise capital for sustainable development. In fact, **79% of Australian consumers say they would be more likely to invest if products were independently verified as responsible** – indicating that trustworthy labels could unlock greater investment in sustainable assets (RIAA 2024). By reducing scepticism, labels encourage more people to align their savings with sustainability goals, supporting Australia's net zero transition and other sustainability objectives. This aligns with the Government's Sustainable Finance Roadmap, which is **"all about helping to mobilise the capital required"** for Australia's transition to a prosperous, net-zero economy (Chalmers & Mulino 2025). In short, labels provide **assurance** to investors that their money is going into products that genuinely match their stated sustainability profile, thereby fostering greater participation in the sustainable finance market.
- **Combating Greenwashing and Greenhushing:** Sustainable labels, underpinned by enforceable criteria, are a proactive tool to **prevent greenwashing** (misstating sustainability benefits) and its counterpart **"greenhushing"** (unduly downplaying legitimate sustainability efforts due to fear of scrutiny). By **setting clear rules for using terms like "sustainable"**, a labelling framework reduces ambiguity that greenwashers exploit. Product issuers would need to **meet defined standards and provide evidence** to use a sustainability label, making it harder to make false or exaggerated claims. This **raises the bar for disclosure** – issuers must be transparent about strategies (e.g. exclusion filters, impact objectives, ESG integration methods) to justify the label. For example, in the UK's emerging regime, funds will only be allowed to use words like "sustainable" or "impact" in their name if they qualify for a corresponding label by meeting stringent criteria (Investment Association 2024). Australia's framework can similarly require that any product bearing a sustainability label has robust substantiation, with oversight by regulators or independent reviewers. This not only protects consumers from being misled but also **creates a level playing field**: funds that truly pursue sustainability are distinguished from those that merely market it. Over time, this builds trust in the market's integrity. Moreover, **clarity in definitions can reduce greenhushing** – firms will feel more confident making legitimate sustainability claims when they have clear guidelines to follow, rather than staying silent for fear of legal risk (ASIC 2022). In summary, labels serve as a **preventative compliance mechanism**: rather than catching greenwashers after the fact, they discourage greenwashing up front by **"raising standards of disclosure"** (BCSDA 2025) and **eliminating the grey zones** in which dubious claims currently thrive.
- **Complementing Existing Disclosures and Taxonomies:** Labels are not a standalone solution but part of a **holistic sustainable finance framework**. They would **complement the incoming climate disclosure requirements** (which improve company-level transparency) and the **Australian Sustainable Finance Taxonomy** (which defines what activities are "sustainable"). For instance, a product label could indicate a fund's alignment with the Taxonomy (Priority 2 of the Roadmap) or its adherence to certain climate targets. As noted in the consultation paper, labels will leverage the **"increasing information available"** from climate risk reports and transition plans to give investors a concise signal of a product's sustainability profile (Treasury 2025). By integrating these elements, labels ensure that the **rich data from disclosures is translated into something actionable for retail investors**. This is a systemic approach that BCSDA supports – using multiple, reinforcing tools (taxonomy, disclosure, labels, supervision) to drive transparency and accountability in sustainable finance (BCSDA 2025). In practical terms, a label could serve as a **seal of approval** confirming that a product uses credible strategies (e.g. investing in Taxonomy-aligned green projects or engaging actively to improve portfolio companies' ESG performance). Thus, labels act as the **"consumer-facing" layer of sustainable finance policy**, distilling complex sustainability information into a simple form that guides investor decision-making, while pushing issuers to align with broader frameworks and **long-term sustainability outcomes**. Labels should be grounded in the Australian Sustainable Finance Taxonomy and mandatory disclosure regimes, ensuring that investor-facing claims are substantiated by credible, decision-useful evidence.

High-Level Recommendations (Addressing Issues): To fulfil these roles effectively, the labelling framework should be **clear, evidence-based and pragmatic**. BCSDA recommends that labels be built on **principles and criteria grounded in international best practice** (drawing on work by WBCSD, RIAA, and other global standards) to ensure credibility and avoid reinventing the wheel (BCSDA 2025). The scheme could include **tiered labels or categories** reflecting different levels or types of sustainability ambition (for example, differentiating funds focusing on “ESG integration” from those targeting measurable “impact”). Each label should come with **minimum requirements** – such as a percentage of assets meeting sustainable taxonomy criteria, or specific stewardship practices – and robust disclosure requirements so that the label’s meaning is transparent. Importantly, **independent verification or oversight** should back the labelling process, whether through regulator review or accredited third parties, to reinforce trust (RIAA 2024). Additionally, investor education will be key: labels should be accompanied by plain-language explanations, so consumers understand their significance. In implementing labels, regulators should aim for a **phased, proportionate approach** – perhaps starting with voluntary adoption or a transition period – to allow industry to adapt and to refine the criteria before any hard enforcement. Over time, a well-calibrated labelling regime will **raise the quality of sustainability disclosures across the board and enable capital to flow to truly sustainable investments**, as intended (BCSDA 2025). In summary, the role of sustainable product labels is to bridge the gap between **current regulation and investor needs** by providing a **simple, trusted signal of sustainability**. This will enhance transparency, protect consumers from false claims, and **build a more informed, confident market for sustainable finance** in Australia – a market capable of driving the long-term investments needed for a net-zero, sustainable economy.

Question 2: Scope of New Requirements – Applying to All Products Making Sustainability Claims

BCSDA Response

Yes. Any new labelling or disclosure requirements should apply to all financial products that claim to pursue a sustainability objective (in addition to financial returns), or use sustainability-related terms in their branding or marketing. **BCSDA’s view** is that the framework must cover the **full spectrum of products making such claims**, to ensure consistency and protect investors across the board. In practice, this means **any investment product advertised or described as “sustainable”, “green”, “responsible”, “ethical”, “ESG” or similar should be subject to the new rules** (BCSDA 2025).

Capturing all such products is essential to avoid gaps or loopholes that could undermine the effectiveness of the regime. If a fund or superannuation option explicitly states a non-financial sustainability goal (e.g. reducing carbon footprint, promoting social impact) or even just implies it through ESG language, that product should either **adhere to the labelling framework or refrain from using those claims**. This approach creates a **level playing field**: any entity seeking to attract investors with sustainability promises must live up to common standards. It also aligns with consumer expectations – investors reasonably assume that a “sustainable” fund has met some baseline criteria. Thus, broad application of the rules is critical for **market integrity and credibility** of sustainable finance.

Rationale – Consistency, Accountability, and Clarity: Applying new requirements to all self-identified sustainable products addresses several issues:

- **Preventing Regulatory Arbitrage:** A narrow or optional regime could be gamed. For instance, if only products choosing to opt into a label are regulated, some managers might avoid the label but still insinuate sustainability through vague language. **Including all that make sustainability claims closes this loophole** – firms cannot simply use different terminology to sidestep standards. Consistent coverage ensures **no product misrepresenting itself as “green” can fly under the radar**. This was a lesson from overseas: regulators like the UK’s FCA have proposed **restricting the use of sustainability-related terms (such as “ESG”, “green” or “impact”) in product names and marketing unless the product qualifies for an official sustainability label or category** (FCA 2023; Investment Association 2024). Australia should adopt a similar stance. If a product’s name or advertising suggests a sustainability focus, it *must* comply with the new framework’s criteria and disclosure rules. Such clarity will push all market participants toward honest labelling and discourage “wild west” marketing of unsubstantiated ESG claims.
- **Ensuring Universal Consumer Protection:** Every retail investor who chooses a product for its sustainability features deserves the same level of protection and information. Whether the product is a managed fund, ETF, superannuation investment option, or other financial product, if it’s sold on a sustainability premise, the investor should be able to **trust that premise is backed by standards**. By applying requirements uniformly, **investors can have confidence across the sustainable investment market** – they won’t be left guessing which “green” funds are held to high standards and which are not. This is especially important given the variety of terms used (green, ethical, carbon-neutral, etc.) which currently confuse consumers. A comprehensive scope means **“sustainable = meets the new standards” in all cases**, a simple message that will enhance understanding and trust. It also helps investors avoid false distinctions; for example, a “socially aware” fund not labelled under a narrow regime might appear different, when in substance it’s making similar claims. **Uniform rules eliminate such inconsistencies**, making it easier for consumers to compare like with like.
- **Reinforcing Market Integrity and Reducing Greenwashing:** Greenwashing can occur in any segment of the market that isn’t tightly supervised. By **casting a wide net over all sustainability claims**, regulators signal that there are *no*

safe havens for misleading ESG marketing. This broad coverage will incentivize all fund managers to be more rigorous and honest about their sustainability practices if they choose to highlight them. In effect, **the entire market for sustainable products will be held accountable** to common principles – raising overall trust. Notably, this doesn't mean every fund must become "sustainable," but if they **claim to be**, they must prove it. This standard can also deter marginal or superficial claims: a manager who is not serious about sustainability may decide not to use the buzzwords at all (thus reducing greenwashing noise in the marketplace) rather than face the scrutiny of compliance. Meanwhile, genuinely committed responsible investors will welcome the clearer **"truth in labelling"**, as it validates their efforts and helps attract capital. According to consumer research, **concerns about greenwashing have been holding back a majority of investors from investing more sustainably** (RIAA 2024). A broad application of labelling rules directly tackles this, giving investors assurance that any product waving the sustainability flag has substance behind it. Over time, this will encourage a **race to the top** on sustainability quality among all labelled products, as investors can easily identify and favour those that meet robust standards.

- **Dynamic Scope with Proportionality:** While the new requirements should be broad, they can be implemented in a **proportionate and flexible manner**. For example, the regime might start by focusing on the most common retail products (like managed funds and superannuation options marketed as sustainable) and later extend to other product classes as needed. Regulators could issue guidance on what constitutes a "sustainability claim" to capture obvious cases (product names, stated objectives in disclosure documents, advertising claims). This guidance should err on the side of inclusion – if in doubt, a claim should trigger the standards. However, it can also clarify that generic statements (e.g. an unfunded mention of "considering ESG risks" in fine print) do not allow a product to escape scrutiny if the overall marketing presents it as sustainable. Another consideration is **'transition periods'**: products currently using these terms should be given time to either **comply with the new criteria or rebrand/adjust their messaging** if they cannot meet them. This avoids sudden market disruption while ultimately achieving full coverage. Additionally, proportionality could involve **scaling requirements to the level of claim** – for instance, a product claiming to target specific impact outcomes might have additional reporting requirements versus one that only applies basic ESG screening. The key principle remains that **any claim beyond conventional financial returns triggers the appropriate level of standards and oversight**.

Addressing Potential Counterarguments: Some industry participants have identified that making labels or disclosure mandatory for all "sustainable" products could increase costs or complexity. It is true that complying with a standard involves effort (e.g. tracking sustainability metrics, obtaining verification). However, limiting the regime only to a subset (for example, an "opt-in" label) could create **perverse incentives and uneven playing fields**. High-quality funds would incur the compliance cost to use the label, potentially making them slightly more expensive, while lower-commitment funds might avoid the label and remain cheaper but also less transparent. This outcome would **penalise genuine sustainability leaders** and possibly confuse consumers further (Song 2025). In contrast, applying baseline requirements to all who claim sustainability ensures the costs and benefits are shared across the sector. It becomes a cost of doing business honestly in the sustainable finance market – a **pragmatic measure to boost confidence in the long term**. Moreover, by setting clear guidelines, the framework can actually reduce uncertainty for product issuers (many of whom currently grapple with how to communicate sustainability without overstepping).

Rather than deterring innovation, consistent rules will **encourage more product issuers to offer sustainable options**, knowing the ground rules upfront. There is also a public interest argument: as sustainable investing grows (over **\$1.6 trillion in assets now employ responsible investment strategies in Australia** – RIAA 2024), there is a societal benefit in ensuring all those investments are truthfully represented and directed to impactful outcomes.

Investors should not only know which products are doing good, but also be alerted if a product might be doing harm (Song 2025). While the initial scope is focused on positive sustainability claims, in the long run Australia could consider broader transparency (for example, labels or disclosures indicating when a product significantly **lags on sustainability metrics or contributes to adverse impacts**). Such ideas reflect that ultimately **full market transparency** is the goal – but the immediate priority is to **bring all self-declared sustainable products into line**.

Recommendation – "Sustainable" Means Standards Apply: BCSDA recommends that Treasury implement a rule where **any financial product using sustainability-related descriptors or objectives must comply with the sustainable labelling framework or associated disclosure standards**. Concretely, if a product's name, marketing or investment mandate suggests it targets environmental, social, ethical, or governance outcomes beyond pure returns, then it falls under the new requirements. This should be communicated clearly to industry via guidance and, if necessary, backed by regulatory enforcement (e.g. ASIC monitoring product offerings for misuse of terms).

The framework might:

- introduce **authorized label designations** (for example, official labels like "Certified Sustainable Fund" or tiered labels as discussed in Q1);
- **restrict the use of those designations to compliant products;** and

- additionally, even for products that choose not to use an official label, regulators should consider **requiring a disclaimer** if they use ESG terms without meeting the criteria – for instance, a note in the Product Disclosure Statement that “This product is not certified under the sustainable investment label framework,” to alert investors.

However, the preferable outcome is that firms adjust to meet the standards if they wish to market the sustainability aspect. International best practice supports this direction: other jurisdictions are moving to **tie marketing language to regulatory status** (Investment Association 2024). Adopting a similar approach in Australia will ensure our market does not become a dumping ground for weakly-regulated “ESG” products as other markets tighten their rules.

By **applying new requirements universally to all who claim sustainability aims**, Australia will foster a **trustworthy, high-integrity sustainable finance sector**. This comprehensive coverage is fundamental to achieving the policy goal of labels – which is to **give investors confidence in sustainability claims and comparability across offerings** (Chalmers & Mulino 2025).

In summary, **broadly applying the labelling framework to all relevant products is the most pragmatic and effective path** to protect consumers, encourage genuine sustainable investment, and uphold the long-term credibility of the market. BCSDA strongly supports this inclusive approach as part of a **principles-based, long-term policy solution** for sustainable finance.

Question 3: International Regime Aspects for Australian Application

BCSDA Response

Australia can draw on several key features of overseas sustainable investment labelling frameworks to shape a robust, long-term regime. Adopting best practices from abroad – while tailoring them to Australian market realities – will help protect investors and encourage genuine sustainable finance. Important aspects to consider include:

- **Minimum Sustainability Investment Thresholds:** Many jurisdictions require funds using sustainability labels to invest a high proportion of assets in line with their stated ESG or sustainability objective. For example, the UK’s new Sustainable Investment labelling rules mandate that **at least 70% of a fund’s assets must meet the fund’s sustainability objective** (FCA 2023). Similarly, the US SEC’s updated “Names Rule” now compels any fund whose name suggests an ESG focus to invest **at least 80% of assets in accordance with that theme** (SEC 2023). Singapore’s regulator requires ESG funds to allocate roughly two-thirds of net assets to the designated ESG strategy (MAS 2022). These thresholds aim to ensure truth in labelling – i.e. that a “sustainable” fund mostly holds genuinely sustainable assets. Adopting a clear minimum asset allocation (e.g. 70–80%) for Australian funds with ESG labels would **directly tackle greenwashing** by tying fund names to actual holdings. It’s a pragmatic rule that gives fund managers some flexibility (for diversification or liquidity needs) while **holding them accountable** for maintaining a majority sustainable portfolio (SEC 2023; FCA 2023).
- **Defined Sustainability Categories and Criteria:** International regimes often classify sustainable funds into specific categories with set criteria. The UK Financial Conduct Authority (FCA) introduced **three primary sustainability labels** – “Sustainability Focus”, “Sustainability Improvers”, and “Sustainability Impact” – **plus a hybrid “Mixed” category** (Sidley Austin 2023; FCA 2023). Each has defined characteristics (e.g. Focus funds invest mainly in assets already sustainable, Improvers target assets improving their sustainability, etc.), and all must meet the 70% sustainable investments threshold (FCA 2023). This multi-label approach recognizes different sustainability strategies (from investing in green leaders to engaging with transition companies) and could be valuable in Australia. It would allow funds to pursue various sustainable goals yet still carry an accredited label – **encouraging innovation (e.g. climate transition funds)** while preventing less rigorous funds from misrepresenting themselves. Clearly defining categories and qualifying criteria (potentially aligned with global definitions like the EU’s forthcoming “Sustainable” vs “Transition” product categories) would provide **systemic consistency** and help investors compare “apples with apples” (European Supervisory Authorities 2024).
- **Naming and Marketing Restrictions (Anti-Greenwashing Rules):** Another lesson is to restrict the use of terms like “green”, “sustainable” or “ESG” in fund names and marketing unless stringent criteria are met. The US SEC’s rule explicitly targets deceptive names, and the FCA likewise bars firms from using sustainability-related terms in a fund’s name or marketing **if the product doesn’t qualify for a sustainability label** (SEC 2023; FCA 2023). These rules, essentially “truth-in-labelling” requirements, directly address greenwashing by **making it unlawful to mislead investors with a glossy name**. For Australia, incorporating a similar rule would be relatively straightforward and highly effective. It ensures that if a fund advertises itself as “sustainable”, it genuinely adheres to defined sustainability standards – otherwise the fund must refrain from such terminology. **This builds trust** and protects retail investors from mis-selling (SEC 2023). Australian regulators (ASIC) have already pursued cases of misleading sustainability claims; a formal naming rule would bolster these efforts by setting a clear, enforceable standard upfront.
- **Consumer-Facing Disclosure Requirements:** **Yes, there is strong merit in requiring consumer-friendly disclosure of sustainability information, as the UK has done.** The FCA’s regime obliges funds with a sustainability label to publish

a concise “*consumer-facing disclosure*” document summarising the product’s sustainability aims, strategy, and key metrics in plain language (FCA 2023). This is in addition to more detailed technical disclosures. The goal is to empower everyday investors with **clear, comparable information** about what makes a fund “sustainable” – for example, the fund’s sustainability objective, the types of assets held, proportion of assets aligned with that objective, and any impact targets. BCSDA believes such transparency is crucial: many retail investors are interested in green investments but confused by jargon and varying claims. A standardised short disclosure (perhaps akin to a nutrition label for funds) would improve understanding and comparability. It also forces issuers to articulate and **justify their sustainability claims in concrete terms**, which deters vague or unsubstantiated claims (MAS 2022). Other jurisdictions support this approach; for instance, the European Union’s SFDR requires funds to publicly report how they incorporate ESG, which has effectively created *de facto* labels (European Supervisory Authorities 2024). Australia should incorporate a similar requirement for a simple, accessible sustainability overview in fund PDS documents or as a standalone sheet. This measure addresses the information asymmetry problem and helps investors make informed decisions aligned with their values.

- **Robust Ongoing Reporting and Accountability:** International frameworks also emphasize ongoing performance reporting and regulatory oversight. UK-labelled funds must provide annual sustainability reports on how they are meeting their objectives (Sidley Austin 2023; FCA 2023). In India, mutual funds must disclose ESG scores of portfolio holdings and how they exercise voting on ESG issues (SEBI 2023). These practices ensure the label isn’t a one-off compliance checkbox; instead, funds remain accountable over time. They align with BCSDA’s call for **long-termism and accountability**. For Australia, requiring periodic reporting on sustainability outcomes (e.g. carbon footprint, engagement results, or % taxonomy-aligned assets) would reinforce that a label is a commitment to continuous progress. Additionally, regulators could issue guidance on best practices (much like the Monetary Authority of Singapore’s guidance on clear ESG definitions in fund prospectuses) to **guide industry behaviour** (MAS 2024). Strong supervision and the threat of enforcement (fines or loss of label for non-compliance) complete the toolkit. Australia’s regime should empower ASIC/APRA to monitor labelled funds and act against greenwashing – this enforcement backdrop will encourage genuine adherence to the rules.
- **Use of Taxonomies and Definitions:** Many jurisdictions link fund criteria to broader sustainable finance taxonomies or standards. The EU, for instance, defines “sustainable investments” partly via its Taxonomy for environmentally sustainable activities, and is considering minimum shares of Taxonomy-aligned assets for future labels (European Supervisory Authorities 2024). India’s new ESG fund rules tie eligibility to companies’ **Business Responsibility and Sustainability Reports (BRSR)** – requiring 65% of an ESG fund’s assets be in companies with high-quality sustainability reporting assurance (SEBI 2023). These approaches recognize that a fund’s sustainability is only as credible as the activities of the companies or projects it finances. In an Australian context, the Government could consider linking fund label criteria to our developing **Australian sustainable finance taxonomy** (Treasury 2023) – for example, requiring a certain portion of assets in activities deemed sustainable under that taxonomy, once it’s in place. Likewise, drawing on international definitions (like the ISSB climate disclosure standards or the UN Sustainable Development Goals) can help define what qualifies as a “sustainable investment” for funds. Clear definitions guard against **subjective or overly broad interpretations** by fund managers. BCSDA’s view is that leveraging such objective standards will make labels more meaningful and comparable globally, while still allowing flexibility (funds could invest outside the taxonomy list up to a limit, like the 20-30% leeway in other regimes).

Overall, Australia should **embrace a blend of these global best practices**: a high minimum sustainability asset threshold, well-defined label categories, strict naming rules, mandatory consumer-facing disclosures, ongoing reporting, and alignment with credible sustainability definitions. Each of these addresses specific issues (from greenwashing to investor confusion) in a pragmatic way. Crucially, they should be calibrated to Australian investors’ needs – for example, ensuring any threshold or disclosure requirement is “meaningful in an Australian context” (e.g. reflecting local market composition and data availability). By learning from the UK, EU, US, Singapore, India and others, Australia can leapfrog to a leading-standard regime that **builds trust, protects investors, and mobilises capital for sustainable development**. BCSDA supports this systemic approach and recommends the Government incorporate these elements, with appropriate consultation, to deliver a durable, future-proof labelling framework.

Question 4: Importance of International Interoperability

BCSDA Response

International interoperability is highly important for Australia’s sustainable investment product labelling, and is a priority that BCSDA strongly endorses. In a global financial system, capital and investment products flow across borders; thus, aligning our labels with international frameworks offers multiple benefits: it builds investor confidence, attracts global investment, and reduces friction for product issuers. At the same time, interoperability must be pursued in a way that preserves the integrity and relevance of labels for Australian investors.

- **Facilitating Cross-Border Capital Flows:** If Australia’s sustainability labels are recognized as comparable to those in major markets (like the EU or UK), international investors will more readily invest in Australian funds and vice versa. Global asset managers would be able to offer the same “sustainable” or “ESG” fund in multiple jurisdictions with

minimal adjustments, lowering compliance costs and encouraging them to include Australia in their offerings. Interoperability effectively **expands the pool of sustainable investment options** for Australians. For example, a European Article 8 fund (under SFDR) or a UK “Sustainability Focus” fund could be marketed in Australia with confidence that it meets similar criteria to a domestic sustainable fund, and Australian investors would understand its label. This consistency is important for a **small but globally connected market like Australia**, which often imports financial products. BCSDA supports alignment that makes it easier for capital to flow into sustainable projects here, helping finance Australia’s transition to a low-carbon economy. Conversely, if our labelling diverges drastically, we risk isolating our market or creating duplicate compliance requirements that deter foreign investment managers. Industry feedback has indeed called for alignment – Australian investor groups have **specifically urged the government to align labels with existing schemes in the EU, UK and US** (McNally 2024). This broad consensus reflects a pragmatic understanding that common standards will catalyse sustainable finance flows globally.

- **Consistency and Clarity for Investors:** From the retail investor’s perspective, international consistency in labels means better understanding and comparability. Many Australians invest internationally or in funds managed by global firms. If terms like “sustainable”, “green”, or specific category names carry a similar meaning across markets, investors can more easily trust and compare products. It reduces confusion – for instance, an **Article 9 fund in Europe (the highest sustainability category under SFDR) broadly equating to a “Sustainability Impact” fund in the UK** and potentially a top-tier sustainable fund label here in Australia. While frameworks won’t be identical, striving for interoperability (through common underlying definitions or disclosure standards) will mean an investor reading a fund factsheet in London or Sydney sees familiar concepts and metrics. This clarity is vital to maintain investor trust and engagement in sustainable investing. **Global surveys indicate that lack of standardisation has been a barrier** – when each country uses different criteria, some investors question the credibility of labels. Aligning with global best practices (like taxonomy use, percentage thresholds, and disclosure formats) can elevate the credibility of Australia’s regime in the eyes of both local and international stakeholders.
- **Reducing Compliance Burden and Supporting Industry:** An interoperable regime is also in the interest of Australian fund managers and companies. Many Australian firms have parent companies or investor bases overseas. If our labelling requirements mesh with international ones, firms can leverage work already done for other markets (such as reporting under TCFD/ISSB standards or classifying assets under the EU Taxonomy) to meet Australian requirements. This **avoids reinventing the wheel** and lowers the cost of compliance, especially for globally active managers. It also means Australian sustainable funds could be more easily compared or even passported into other markets in the future, giving our financial industry greater export opportunities. Importantly, interoperability does **not** mean blindly copying another regime – it means ensuring the core principles and metrics are translatable. For instance, Australia’s forthcoming taxonomy is being designed to be interoperable with the EU and Singapore taxonomies (GTLaw 2023). This kind of alignment (common definitions of green activities) will directly support product label interoperability, because funds globally will be assessing investments against similar criteria (Treasury 2023). In essence, aligning with global standards is a **long-term strategic move** to integrate Australia’s sustainable finance market with the world, which BCSDA sees as key to scaling up investment in sustainable development.
- **Maintaining Local Relevance:** While pursuing interoperability, we must ensure labels remain meaningful in the Australian context – a point acknowledged by the Treasury. Australian retail investors have specific interests (for example, some may be sensitive to funds’ involvement in certain local industries like mining or indigenous community impacts). International frameworks might not address these nuances. Therefore, the Government should seek a balance: **basing our labels on global frameworks but adding any necessary Australian criteria or explanatory guidance**. For instance, if we align with the UK’s 70% sustainability asset rule and labels, we should verify that what counts as a “sustainable investment” is appropriate for Australian market conditions (perhaps referencing Australian climate policies or sustainability standards). Another example: the EU’s SFDR doesn’t explicitly cater to indigenous rights or community impact, but an Australian label might incorporate such factors given their importance here – without undermining overall compatibility. Interoperability should thus be pursued at the level of **common standards and transparency**, rather than exact uniformity. As the WBCSD network partner, BCSDA emphasizes pragmatic alignment: adopt international best-practice definitions and disclosures, and contribute Australian expertise to evolving those standards, so that over time global frameworks also become more inclusive of issues that matter to Australia and Australians. In this way, Australian labels can serve local investors well and still be understood globally as bona fide sustainable products.

Overall, international interoperability of sustainable investment labels is **very important for Australia’s success in sustainable finance**. It will help us build a credible market that attracts global capital and offers Australian investors products they can trust and compare worldwide. By aligning with global norms (while tailoring to our needs), Australia can punch above its weight – influencing and participating in the global sustainable finance system rather than operating in isolation.

This approach supports systemic change, one of BCSDA’s priorities, by creating larger, connected markets for sustainability-focused capital. We recommend the Government actively coordinate with overseas regulators and standard setters (through IOSCO, the International Sustainability Standards Board, and bilateral dialogues) so that Australia’s labelling regime is **globally compatible** from day one. The payoff will be greater investor confidence, more efficient cross-border operations for fund issuers, and ultimately more investment directed to genuinely sustainable outcomes, both at home and internationally.

Question 5: Do the Responsible Investment Approaches (identified in Table A of the Consultation Paper), UNSDG and PRI cover the field for sustainable investment approaches?

(a) Are there others that should be considered?

BCSDA Response

Coverage of Sustainable Investment Approaches: The approaches identified in Table A – **Screening, ESG integration, Thematic investing, Stewardship, and Impact investing** – together with strategies like UN Sustainable Development Goals (UNSDGs) alignment and the Principles for Responsible Investment (PRI), **largely cover the spectrum of recognized sustainable investment strategies**. These five categories were recently harmonised by global bodies (CFA Institute, GSIA, PRI) in response to IOSCO’s call to standardize terminology, indicating they represent the key approaches used in responsible investing worldwide.

It is our understanding that in Australia and New Zealand, for example, **ESG integration** and **corporate engagement/shareholder action** (a form of stewardship) are each employed for about 30% of sustainable assets, followed by **negative screening** at 24% (GSIA 2023). This underscores that the Table A approaches reflect the most prevalent methods in practice. Additional approaches often cited in literature – such as “*best-in-class*” *positive screening* or *norms-based screening* – are in essence sub-categories of **Screening** (applying inclusion or exclusion criteria) and are encompassed by the definitions in Table A.

Similarly, “**community investing**” or certain forms of “**impactful thematic investing**” would be captured under **Impact investing** or **Thematic** approaches. Overall, the listed approaches (plus explicit UNSDG- or PRI-driven strategies) provide a comprehensive framework. There do not appear to be completely distinct “sustainable” investment strategies outside this set that currently warrant separate definition – most other practices (e.g. climate-transition focused funds, best-in-class ESG stock selection, norms-based exclusions) can be mapped into these categories. To ensure consistency, any recognised approach should be evidenced through disclosure data that aligns with Australia’s taxonomy and mandatory reporting standards, avoiding self-defined claims. Therefore, **the Table A approaches (with UNSDG and PRI alignment) cover nearly the full field of sustainable investment approaches** as understood today.

Question 5(b): Are any of these approaches inappropriate? If so, why?

BCSDA Response

Appropriateness of Any Approaches: In principle, none of the standard approaches is inherently “inappropriate,” but **some approaches may be insufficient on their own to warrant a sustainability label without additional qualifications**.

ESG integration as a standalone approach is sometimes seen as too broad to merit marketing a product as “sustainable” on that basis alone. ESG integration simply means incorporating environmental, social, governance factors into investment analysis to improve risk-adjusted returns – a practice now adopted by **97% of investment firms globally** (Russell Investments 2024 survey, cited in (CFA Institute 2023, Russell Investments (2024)). Because it focuses on financial materiality and risk management, integration does not necessarily imply a positive sustainability impact or specific ethical stance. Regulators have cautioned that a fund labelled simply for “ESG integration” could mislead consumers – **investors might assume such a fund has positive societal impact, when it may just use ESG data in stock picking without excluding harmful activities** (CFA Institute 2023). For this reason, the UK’s Financial Conduct Authority has **ruled that funds using only an “ESG integration” strategy (or basic ESG tilts with no sustainability objective) will not qualify for a sustainability label** under its new labelling regime (FCA 2023).

The same applies to negative/exclusionary screening alone – while excluding certain “bad” industries (e.g. tobacco or coal) can align with investor values, it may not justify calling a product “sustainable” if the fund has no broader sustainability goal or positive impact. The FCA explicitly excludes products relying *solely* on exclusions from its sustainable labels, to ensure labelled funds do more than simply avoid a few sectors (Financial Conduct Authority-UK, 2023). The concern is that minimal exclusion or generic ESG consideration could be used as “greenwash” to market a fund as ethical or green without substantial changes to its portfolio or strategy.

Likewise, claiming alignment with PRI principles or broad UNSDG themes, by itself, could be seen as **insufficient** for a product label. Becoming a PRI signatory indicates a firm’s high-level commitment to responsible investing (indeed over 5,300 signatories globally representing \$128 trillion AUM have signed on (PRI 2024)), but **it does not guarantee that a specific investment product is significantly “sustainable.”** A fund manager could sign the PRI and integrate ESG, yet the fund’s holdings might not differ much from a conventional portfolio. Using “*PRI-aligned*” as a product label could therefore confuse investors unless backed by concrete strategy.

Similarly, mapping investments to UN SDGs can be problematic if done superficially – there is a risk of “rainbow-washing” (SDG-washing). The SDGs were not designed as an investment framework, and there are no universal standards for what it means for a portfolio to support the SDGs (Stewart Investors 2025). In practice, some funds have claimed SDG alignment while holding companies that arguably undermine certain goals (Stewart Investors 2025). For example, a fund might tag a pharmaceutical stock as contributing to *SDG 3 (Health)* even if that company has poor ethical records – without clear rules, such claims can mislead. European regulators found many **SDG-branded funds had little evidence of real “impact,”** calling this “*impact washing*” (ESMA 2023 report, via IPE news).

These examples show that **an approach can be considered inappropriate for a label if it’s too generic or easily misrepresented.** **ESG integration** (without further sustainability objectives) and **simple negative screening** are the clearest cases where additional safeguards or combined strategies are needed before calling a product “sustainable” (CFA Institute et al. 2023; FCA 2023). On the other hand, approaches like **Impact investing** inherently target positive outcomes by definition, so they are clearly aligned with sustainability labelling, if impact is measured and reported.

In summary, **no approach is wholly “inappropriate,” but some – especially basic integration or exclusion – should not alone confer a sustainability label** due to the risk of minimal substantive change and potential to mislead investors about actual sustainability benefits.

Question 5(c): What are the merits and deficiencies of each approach?

BCSDA Response

Merits and Deficiencies of Each Approach: Each sustainable investment approach has strengths and weaknesses in delivering on sustainability claims:

- **Screening (Exclusions/Inclusions):**
 - **Merits:** Screening is a straightforward way to **align investments with investor values or norms**, by systematically excluding activities deemed harmful (e.g. weapons, tobacco, thermal coal) or including only those meeting certain ESG criteria. It can prevent investor money from funding the worst-offending companies or sectors, thus **avoiding exposure to unethical or high-risk businesses**. Screening also sends a market signal – e.g. widespread fossil fuel exclusions can stigmatize carbon-intensive companies and potentially lower their valuations over time. Many Australian funds have adopted negative screens (24% of Aust/NZ sustainable AUM uses exclusion screening (GSIA 2023), indicating its practicality and popularity.
 - **Deficiencies:** A basic exclusion screen **does not actively improve sustainability outcomes** – it mainly *avoids harm* rather than creating positive impact. There is a limit to its effect: screened companies may simply find capital from other sources, so real-world impact can be minimal if not combined with engagement. Over-reliance on exclusions can also **reduce diversification** and exclude entire sectors (which may impact returns or omit companies that are trying to transition for the better). If criteria are not well-defined, screening can appear arbitrary or lead to “*greenwashing*” – e.g. a fund might market itself as “ethical” for excluding one or two industries while remaining invested in others with significant ESG issues.
 - **Thus**, screening’s simplicity is both its strength and its weakness: it’s easy to communicate and implement, but **on its own it doesn’t ensure a fund is driving positive sustainability outcomes** beyond avoiding certain controversial exposures.
- **ESG Integration:**
 - **Merits:** ESG integration involves **embedding environmental, social, and governance factors into investment analysis and decision-making**. This approach can improve risk management – by evaluating ESG issues (climate risks, labour practices, board quality, etc.), managers gain a more holistic view of each investment’s long-term prospects. There is evidence that integration can **enhance risk-adjusted returns** over time (the intent of integration as defined by CFA/GSIA), since ESG issues can be financially material. Integration is now considered a mainstream best practice; it ensures that sustainability considerations aren’t ignored in the portfolio. It’s also *flexible* – applicable across asset classes and sectors without drastically limiting the investment universe.
 - **Deficiencies:** A major drawback is that **integration by itself does not guarantee any particular sustainability outcome or standard**. Because nearly all managers now claim to integrate ESG (97% of firms globally, as noted above), saying a fund “integrates ESG” **does not differentiate it as a “sustainable product”** (Russell Investments 2024 in (CFA Institute 2023). One manager’s integration process may be far less rigorous than another’s, yet both could use the term. This creates **confusion and potential mis-selling**: for instance, retail investors often assume an “ESG fund” is contributing to positive change, when it may simply be a traditional fund doing basic ESG risk checks. Thus, integration has high **methodological variance** and is hard to verify – it usually happens internally (research process), with limited disclosure. Without additional commitments (like targets or exclusions), a fund that only does ESG integration might still invest in companies with poor sustainability performance if they are deemed financially attractive.

- **In short, ESG integration is an important tool for investment quality, but by itself it's a low bar for "sustainability" and can be used as marketing without substantive changes**, which is a concern (hence regulators often will not grant a special label for mere integration (Russell Investments, 2024).
- **Thematic Investing:**
 - **Merits:** Thematic investing means **focusing on investments linked to specific sustainability themes or trends**, such as renewable energy, green technology, sustainable agriculture, social infrastructure, or other environmental/social megatrends. The merit is that it **channels capital into areas with inherent sustainability benefits** – for example, a climate technology theme fund directs money to companies enabling decarbonisation, or a health & education theme supports human development goals. Thematic funds make it easy for investors to target issues they care about (e.g. a water sustainability fund, or a gender equality portfolio). Performance of thematic funds can be strong if the theme aligns with long-term structural growth (many sustainable themes, like clean energy or electric mobility, are growth areas backed by policy).
 - **Deficiencies:** Thematic investing can suffer from **narrow focus and concentration risk** – by design, these funds are less diversified and heavily exposed to certain sectors or technologies. This can lead to higher volatility and cyclicity (e.g. a solar energy theme fund's returns may swing with policy changes or tech innovation cycles). Another challenge is **defining the theme rigorously**: if criteria are loose, a fund might include companies of questionable relevance to the theme, which dilutes its sustainability impact (for instance, a "climate solutions" fund including a broad array of tech companies, some only tangentially related to climate). There is a risk of **"theme drift"** or greenwashing, where a fund is branded with a popular theme, but the actual holdings don't strongly reflect that theme's goals. Additionally, a theme might address one aspect of sustainability while overlooking others (a single-theme fund might inadvertently hold companies with poor performance on other ESG dimensions).
 - **Thus**, while thematic investing can deliver **tangible sustainability exposure**, its impact depends on how genuinely the portfolio aligns with the chosen theme and how that theme contributes to sustainable outcomes. Success requires clear definitions and often an active, research-intensive approach to ensure integrity of the theme.
- **Stewardship (Engagement & Voting):**
 - **Merits:** Stewardship involves using shareholder rights to **actively influence investee companies' behaviour and improve their ESG performance**. This includes practices like corporate engagement (dialogue with management), filing or voting on shareholder resolutions, and broader advocacy as an owner. The merit of stewardship is that it **can drive real-world change even in companies that are not "sustainable" leaders today**. Rather than divesting, engaged investors can push companies on climate transition plans, better labour standards, diversity, governance improvements, etc. Successful engagement can lead to measurable outcomes (for example, many big emitters have set net-zero targets or improved disclosures under pressure from investor coalitions like Climate Action 100+). Stewardship thus **leverages ownership influence to improve sustainability across the whole market**, not just in the fund's own holdings but economy-wide, which is crucial for systemic issues. It also helps investors fulfill their fiduciary duty by mitigating ESG risks in portfolio companies over the long term (protecting value for beneficiaries).
 - **Deficiencies:** The main challenge is **measurement and time lag** – stewardship outcomes are not guaranteed and often materialise slowly. It can be difficult for investors to assess a fund's engagement effectiveness; claims of being "active owners" might ring hollow if engagement is minimal or ineffective. Some companies may resist change, limiting impact. There's also a **free-rider problem**: the success of stewardship often relies on collective action (many shareholders voting/engaging), so an individual fund's contribution can be hard to isolate. In terms of product labelling, a fund might call itself "sustainable" because of its stewardship approach even if its portfolio isn't particularly green – this could confuse consumers who equate sustainability with the holdings rather than the process. Without transparent reporting (e.g. publishing engagement objectives and outcomes), stewardship claims might lack credibility. Additionally, stewardship requires significant expertise and resources (dedicated teams, access to management), which not all managers have – some may overstate their activity.
 - **Overall, effective stewardship is a powerful tool to improve companies' sustainability, but it is hard to verify and varies widely between managers.** It delivers **long-term, systemic impact** when done well, but as a label on a product, it needs robust evidence (engagement policies, case studies) so that investors understand what is being done behind the scenes.
- **Impact Investing:**
 - **Merits:** Impact investing involves **investing with the intentional goal of generating measurable positive social and/or environmental impact alongside a financial return**. Its greatest merit is that it **directly targets sustainable outcomes** – impact funds typically report specific metrics (e.g. tonnes of CO₂ avoided, number of underserved borrowers financed, hectares of habitat restored) to quantify their contribution. This approach ensures that invested capital goes into projects and companies that are providing solutions to sustainability challenges (such as renewable energy projects, social housing, microfinance, healthcare in low-income communities, etc.). Impact investing often adheres to frameworks like the Impact Management Project or reports against the SDGs, which increases transparency and accountability for results. For investors seeking a

tangible “do good” aspect, impact funds offer high credibility: by definition they aim for “**additionality**” (financing outcomes that likely wouldn’t occur otherwise).

- **Deficiencies:** Impact investing can face **limitations in scale and liquidity**. Many pure impact investments are in private markets (e.g. unlisted enterprises, infrastructure projects, green bonds), which can mean lower liquidity and higher due diligence costs. Historically, some impact investments accepted below-market financial returns in exchange for impact, though in mainstream markets many aim for market-rate returns. Still, **there may be a trade-off between optimizing financial return and maximizing impact**, depending on the sector (for instance, investing in rural microfinance or social enterprises might carry higher risk or lower yield). Another challenge is **impact measurement and verification** – while transparency is a goal, not all funds use rigorous methods to prove causality of outcomes, and there is a risk of “impact washing” if claims aren’t audited. The pool of investable opportunities that meet strict impact criteria can be limited, potentially leading to concentrated portfolios or capacity constraints. Moreover, true impact investing often involves smaller scale projects; large asset managers may struggle to find sufficient pipeline to deploy very large funds strictly in high-impact assets. Despite these issues, the deficiencies are relatively well-managed through industry standards (many impact funds follow IRIS+ metrics or GIIN guidelines).
- **Overall, impact investing has the strongest sustainability credentials (intent and impact are baked in), but investors must accept possible constraints on diversification and the need for robust impact tracking.** It is currently a smaller portion of the market by AUM (e.g. only ~1% of Aust/NZ sustainable AUM was classified as impact investments in 2022 (GSIA 2023)) – but it is growing as demand for demonstrable outcomes rises.
- **UN SDG Alignment:**
 - **Merits:** Aligning an investment strategy with the UN Sustainable Development Goals provides a **broad, internationally agreed framework for sustainability objectives**, which can make a product’s purpose more relatable. The 17 SDGs cover a comprehensive range of issues (from climate action to poverty reduction), so an SDG-aligned fund signals that it seeks positive impact across one or multiple goals. This can help **attract investors who want their capital to support global development priorities** – it effectively links investments to widely recognized social/environmental outcomes. SDG alignment can guide portfolio construction (e.g. selecting companies whose products or revenues contribute to specific goals) and encourages a forward-looking, solutions-focused approach. It also helps investment managers articulate impact narratives: for instance, financing a clean water infrastructure company is framed as contributing to *SDG 6: Clean Water and Sanitation*.
 - **Deficiencies:** However, as earlier noted, **SDG alignment is not a standardized investment approach** – it’s more of an overlay that can be interpreted in many ways. There is **no universal yardstick for what constitutes a “significant contribution” to an SDG**, which leads to inconsistent practices. A major deficiency is the potential for “**SDG-washing**” or “**rainbow washing**”: funds may claim alignment without concrete evidence of how their investments advance the goals. Research has found corporate SDG reporting to be weak and often **unbalanced, highlighting positives but omitting negatives** (Stewart Investors, 2025). For example, a company might be mapped to SDG goals based on positive products (like nutritious food offerings for SDG 2 – Zero Hunger) while ignoring harmful practices (like high plastic waste or poor farmer treatment). If a fund simply maps its holdings to any SDGs they touch, it could end up labelling many companies as “advancing SDGs” when the net contribution is dubious. Thus, **without strict methodology, SDG-themed funds can mislead investors** into believing they are funding clear-cut solutions when they may not be. The SDGs are also very broad; some goals (like “Decent Work” or “Partnerships”) are hard to measure or can apply to almost any large company, reducing the meaning of an SDG label. In practice, to avoid these pitfalls, asset managers need to set *specific targets or screens tied to the SDG indicators* and possibly limit holdings to those with high “SDG impact intensity.” But since this is not yet standardised, the SDG approach deficiency is the **lack of agreed disclosure standards or minimum thresholds**, which can undermine credibility (Stewart Investors 2025 notes that much SDG fund reporting currently lacks rigour and could be prone to greenwashing (Stewart Investors, 2025)).
 - **Overall, SDG alignment is inspiring and comprehensive in theory, but without clear standards it risks being too vague.** It should be used carefully, ensuring genuine alignment (ideally measured by SDG-related revenues or impact metrics) to avoid mere branding.
- **PRI Principles Alignment:**
 - **Merits:** Adhering to the **Principles for Responsible Investment (PRI)** signals a firm-level commitment to integrate ESG considerations into investment practice and be accountable via annual reporting. The PRI is a widely respected framework – as of 2024 it has over 5,300 signatory institutions managing \$128 trillion+ in assets (PRI 2024). A product that claims “PRI alignment” would ostensibly be managed by a PRI signatory and follow the six Principles (such as incorporating ESG issues into analysis, being active owners, seeking disclosure from entities, and reporting on activities). The merit here is **credibility and global acceptance**: the PRI has become an industry baseline for responsible investing. If a fund manager is a PRI signatory, investors can expect a certain level of ESG integration and transparency.
 - **Deficiencies:** However, the **PRI operates at the organisational level**, not at the individual product level. All it requires is that the firm commit to improving its ESG integration and report annually; it does **not certify specific funds as “sustainable.”** Thus, touting a fund as “PRI-aligned” may not tell investors much beyond the fact that

its manager is generally committed to responsible investing. There is considerable variation in how rigorously signatories implement the Principles. Some signatories have been criticized for nominal adherence (signing on for reputational reasons but doing little in practice). In fact, the PRI's rapid growth means signatories now include many large asset managers – including those who offer both dark green funds and more conventional funds. Simply being a signatory doesn't prevent a firm from offering products with minimal sustainability integration. Therefore, the **deficiency of using PRI as a product label is that it's too broad and non-specific**. It could even be seen as **"box-ticking"**: a fund might claim PRI alignment as a marketing point, but that does not assure any particular standard for the fund's portfolio. Also, PRI reporting is confidential between the firm and PRI (with a high-level assessment made public), so investors can't easily verify how a given fund applies the principles.

- **In short, while the PRI framework is valuable for raising industry standards, referencing it alone is not a sufficient proof of a product's sustainability merits.** Any product claim of "aligned with PRI" would need to be backed by more tangible strategy details (what ESG factors are integrated? what exclusions or impacts?) to be meaningful to investors.

Question 5(d): Should the approaches be ranked on their ability to deliver sustainable outcomes?

BCSDA Response

Ranking Approaches by Ability to Deliver Outcomes: There is a case for recognising that some investment approaches are **more directly linked to positive sustainability outcomes** than others – however, formally **"ranking"** them could be challenging and may have unintended consequences. For example:

- In principle, one could argue that **Impact investing** ranks highest in delivering tangible sustainable outcomes, since it is intentionally focused on measurable impact and often reports outcomes (e.g. renewable energy generated, social benefits achieved).
- **Thematic investing** (when focused on solutions like clean tech or social housing) can also deliver strong outcomes tied to that theme (for instance, financing more solar capacity or affordable homes).
- **Stewardship** can yield broad outcomes by improving companies' practices (which can have far-reaching environmental or social benefits if successful, e.g. pushing a major emitter to adopt science-based climate targets).
- on the other hand, **ESG integration** is primarily aimed at improving financial performance by considering ESG; and
- **negative screening** mainly avoids certain harms.

These approaches have a **more limited or indirect link to actual sustainability improvements**. If one were to rank purely on the **ability to deliver positive sustainable outcomes**, a rough hierarchy might place **Impact investing at the top**, followed by **Thematic and high-impact stewardship**, then **broad ESG stewardship/integration combined approaches**, and **simple integration or exclusion near the lower end** (since by themselves they don't create new positive outcomes, they either influence risk/return or avoid negative involvement). This aligns with regulatory perspectives: for example, the EU's Sustainable Finance Disclosure Regulation effectively distinguishes funds with a *sustainability objective* (akin to impact/thematic outcome funds, Article 9) from those that merely *promote* ESG characteristics (Article 8, often integration-focused) – confirming that the former are expected to deliver greater sustainability outcomes. Additionally, the **UK's proposed fund labels** create categories that implicitly reflect differing outcome ambitions: *"Sustainability Impact"* funds target a positive, measurable impact, whereas *"Sustainability Focus"* or *"Improvers"* funds might hold sustainable assets or engage to improve assets (UK FCA 2023) – this is effectively a form of ranking by approach (impact vs transition vs basic ESG).

However, there are **deficiencies to a formal ranking system**. First, **metrics for "sustainable outcomes" can be subjective or vary by theme** – how does one compare the outcome of a climate-focused thematic fund versus a community impact fund? Any ranking could oversimplify these diverse objectives into a single scale. Second, a strict ranking might inadvertently label certain approaches as "second-class." For instance, if ESG Integration or negative screening were officially ranked low, investors might shun those strategies entirely, even though they still serve certain investor preferences (e.g. ethical exclusions for faith-based investors) or play a role in risk management. It could also incentivize gaming the system – product issuers might try to fit into the "highest ranked" category (impact) on paper without truly meeting the spirit, just to win investor capital.

From **BCSDA's perspective**, a better solution is to **classify and disclose the approach type clearly (and possibly categorise funds by approach)**, rather than assign a hard ordinal rank. By **differentiating the approaches** used, investors can understand the nature of the product. For example, a fund could be clearly labelled as an "Impact Fund" versus an "ESG Integrated Fund" – investors seeking real-world impact can gravitate to the former. This achieves the intent of ranking (highlighting which have more ambitious sustainability goals) without implying that one is definitively "better" than the other in all respects. It's also important to note that many funds **blend approaches** (e.g. a fund might do ESG integration, some exclusions, and active stewardship simultaneously). In such cases, a simplistic ranking might not capture that nuance.

Overall, **while approaches differ in their likely sustainability impact (with Impact investing and certain thematic or engaged strategies contributing most directly to sustainable outcomes), a formal ranking system may not be the optimal policy tool.** Instead, ensuring transparency about the approach and perhaps grouping products by approach *type* would “rank” them in a qualitative way. This allows investors to compare like-with-like (e.g. compare one impact fund to another impact fund) and understand that, say, an “*Impact*” product is generally expected to deliver more concrete sustainability outcomes than an “*ESG Integrated*” product.

The goal should be to **empower investors with clear information on the approach and its implications**, rather than to potentially stigmatise certain approaches via an official rank. By doing so, the labelling regime can guide investors toward the level of sustainability ambition they desire, which inherently ranks the approaches by outcome, without discouraging improvements across all approach types (for example, encouraging even ESG integrated funds to adopt stronger stewardship or impact elements over time).

Question 6: Should allowable investment approaches be prescribed in legislation, or left for industry to define?

BCSDA Response

Prescribing Approaches in Legislation vs Industry Definitions: There is a balance to be struck between **regulatory clarity and flexibility**.

BCSDA’s view is that a degree of **formal definition of allowable sustainable approaches is needed to create consistency and trust**, but this can be achieved in a **principles-based manner** that leverages industry standards rather than overly rigid rules.

Prescribing the broad investment approach categories (as per Table A) in legislation or regulation could provide **much-needed clarity** – both for product issuers (knowing which strategies qualify as “sustainable” under the label regime) and for investors (who get a consistent understanding of terms across products). If everyone uses the same definitions for, say, “*impact fund*”, “*thematic sustainable fund*”, or “*ESG-integrated fund*”, it will reduce confusion and the risk of greenwashing. International experience supports this: global standard-setters have aligned on common terminology, and IOSCO encourages regulators to reference these in their frameworks to improve market integrity. Having these approaches defined (either in law or in regulatory guidance) would anchor Australia’s labels in an internationally recognized taxonomy, **giving investors’ confidence that labels mean the same thing across different providers** (and even across markets). It also makes it easier for regulators (ASIC, ACCC) to enforce against misuse of terms – there is less wiggle room if terms are codified.

On the other hand, **too much inflexibility in legislation could be problematic**, given that concepts of sustainability are evolving. If Parliament hard codes a list of permitted approaches, any innovation (say a new approach like “circular economy investing” or other future concepts) might be stifled or left out until laws are amended. Industry is often quicker to adapt to new ideas than legislation. Moreover, rigid definitions might encourage a “**checkbox**” **compliance mentality** rather than genuine sustainable outcomes – firms could structure products to fit the legal definition without truly advancing sustainability (a potential unintended consequence).

The consultation document itself notes that leaving approaches undefined could increase **uncertainty and burden on issuers** – product providers might be unsure when they are allowed to use a sustainability label, and in the absence of clear definitions, they would need to provide **more extensive evidence to justify their claims**, possibly raising costs (Treasury Consultation Paper 2023). We have seen that scenario in other jurisdictions: for example, prior to clear guidance, European fund managers interpreted “sustainable investment” differently under SFDR, leading to inconsistent claims and later reclassifications when stricter criteria came in. **Clarity upfront can prevent costly rework and compliance risk later.**

A **middle-ground approach** is emerging: many stakeholders suggest that **regulators should set out high-level definitions or criteria for approaches, while industry codes fill in details**. For instance, the Government could prescribe that a fund using a “**sustainability**” label must employ one or more of the recognised approaches (screening, integration, thematic, etc) – **possibly referencing the CFA/GSIA/PRI definitions – and meet certain quality standards for whichever approach is used.** This gives a baseline in law (so no one can label a fund “sustainable” if it doesn’t at least follow one of these strategies in substance), but it does not micro-manage exactly how each strategy must be implemented. The **industry can then develop best-practice guidelines** for each approach, update those as needed, and even go beyond (industry might recognize sub-categories like positive screening or norms-based screening under the broad “Screening” definition, for example).

Importantly, **industry-led efforts are already underway in Australia**. RIAA, for example, operates a longstanding Responsible Investment Certification Program and is now developing a “**sustainability classification**” **system to differentiate products by how they address sustainability** (RIAA 2024). This suggests the industry can refine the approach criteria.

However, relying *only* on voluntary industry definitions in the absence of any regulatory standard could perpetuate inconsistency – different managers might market similar funds in very different ways. In fact, one impetus for the

Government's labelling push is that **industry self-regulation has not fully solved the problem of inconsistent nomenclature and potential greenwashing**. A purely industry-defined regime might also lack teeth – without regulatory oversight, less scrupulous actors could stretch definitions to label-hop and make exaggerated claims.

BCSDA favours an approach where allowable investment strategies for sustainability labels are defined in regulation at a high level, aligning with global terminology, and supplemented by industry guidance. In practice, this could mean ASIC or Treasury issues formal definitions (perhaps via legislative instrument or regulatory guide) saying, for example, *"Sustainability-focused products may employ approaches such as those defined by CFA/GSIA/PRI (Screening, ESG Integration, Thematic, Stewardship, Impact) or combinations thereof, provided they meet criteria X, Y, Z."* This gives everyone the same vocabulary. Meanwhile, industry bodies (RIAA, ASFI, etc.) can work out detailed best practices and even provide certification to ensure those approaches are applied rigorously (as RIAA has done). This collaborative model leverages **industry expertise and agility** while **ensuring consistency and enforceability** via regulation.

It is worth noting that other countries are also blending regulatory and industry efforts. The UK's new SDR labels, for instance, set clear criteria for what counts as a sustainable fund, but using broadly-understood concepts like "Focus, Improvers, Impact" that mirror global approach categories (Skadden.com, 2025). They deliberately kept the label definitions high-level (with percentage thresholds and governance requirements) to allow managers some flexibility in implementation. Similarly, Europe's SFDR does not list approaches by name, but requires disclosure of how a fund attains its environmental/social characteristics or objectives – which in practice forces clarity on the approach used.

Overall, **prescribing allowable approaches (or at least establishing a common set of defined approaches) in legislation/regulation is advisable to improve transparency and comparability.** It will solidify what "sustainable investment product" means in Australia. However, it should be done in a way that remains **adaptive** – likely via secondary legislation or regulatory guidance informed by industry input, rather than hard-coding every detail in primary law. This way, as the understanding of sustainability evolves (e.g. new science, new investor priorities), the framework can be updated more easily in consultation with experts. The regime should be **"principles-based and anchored in widely accepted industry standards," not overly prescriptive** (RIAA 2024). Such an approach will provide clarity without stifling innovation and leverage the ongoing work of industry groups in defining and validating sustainable investment strategies.

Question 7: Which approach can best improve the confidence of Australian investors? Which options best help investors to identify, compare, and make informed decisions about sustainable investment products?

BCSDA Response:

To **significantly boost Australian investors' confidence** in sustainable investment products, the consensus – supported by BCSDA's perspective – is that a *clear, credible, and standardised labelling system* overseen by regulators is the optimal approach. In practice, this means implementing an **official sustainable product label regime** that **delineates different types or tiers of sustainable investment strategies, sets minimum criteria for each, and requires evidence-based disclosure of sustainability claims**. Such an approach directly addresses the current problems: it combats inconsistency, reduces greenwashing, and makes it much easier for investors to **identify and compare products** on a like-for-like basis.

Key features of the recommended approach include:

- **Defined Label Categories with Global Alignment:** Investors are best served when labels are **consistent and meaningful**. By using standard categories (like those in Table A or like the UK's labels of Focus/Improvers/Impact Skadden.com, 2025), each product can be classified in a way that investors immediately understand the **sustainability approach and ambition level**. For example, one fund might carry a **"Sustainable Impact"** label (indicating it aims for measurable positive impact), while another might be labelled **"ESG Integrated"** (indicating a lighter shade of sustainability focus). This classification helps investors **make informed decisions** by comparing apples with apples – e.g. they can compare two "Impact" funds against each other, rather than slog through marketing jargon. International alignment of definitions further builds confidence: Australian labels and terminology aligned to global standards (CFA/GSIA definitions, UNSDG, etc.) ensure that both local and international investors know what the label signifies (RIAA Co-CEO emphasizes the need for an **"internationally-aligned"** regime to attract global capital and uphold credibility (RIAA, 2025). A cohesive taxonomy of sustainable investment approaches, embedded in the labelling scheme, **improves trust** that the product is what it claims to be, no matter who the issuer is.
- **Objective Criteria and Evidence Requirements:** The approach that will inspire the most confidence is one where **sustainability claims are backed by data and verification**. Each label or claim should come with substantiation – for instance, if a fund is labelled **"Climate Transition Fund"**, it should be required to disclose its climate impact metrics or the emissions trajectory of its portfolio. If a fund claims to be **"impact investing"**, it must report the impact outcomes. **Requiring this evidence uniformly** gives investors assurance that labels aren't just marketing. The Treasury's labelling proposal intends exactly this: a **"clear, evidence-based framework"** where product issuers must meet set criteria to use a label. This could involve independent audits or certification (there is strong investor

appetite for independent verification – an Australian survey showed a majority want **independent certification to prove a product is truly responsible**, given greenwashing concerns (RIAA 2024b). When investors see a government or trusted body's stamp on a "Certified Sustainable Product" (for example), it **substantially boosts confidence** compared to relying on each provider's self-defined claims.

- **Principles-based Anti-Greenwashing Oversight:** In addition to specific labels, a broad anti-greenwashing rule (like the ASIC guidance that any sustainability claim must be "fair, clear and not misleading") underpins confidence. The UK and other markets have introduced such rules alongside labels (UK Financial Conduct Authority, 2023). This means even for products that choose not to use an official label, their marketing is held to high standards. Australian investors will benefit from this twin approach: **visible labels** for products that meet high standards, and **strict oversight of any sustainability-related marketing** for all others. Knowing that regulators are actively policing sustainability claims – and issuing hefty penalties for breaches (e.g. ASIC's recent \$10–\$13 million fines against funds for greenwashing) – reassures investors that **blatantly misleading products are being weeded out**. Confidence grows when the **playing field is clearly defined and enforced**.
- **Investors' Ability to Compare Like-for-Like:** A standardised label approach directly helps with comparison. Under the status quo, two funds both calling themselves "sustainable" might be using entirely different strategies (one maybe just excludes tobacco, another invests in clean tech startups). Investors must dig into fine print to tell the difference. With an improved approach, those two funds would carry different labels or classifications, instantly signalling their nature. For instance, one might be labelled "**Ethical Exclusions Fund (Negative Screen)**" and the other "**Thematic Sustainable Fund (Clean Tech)**" – the investor can decide which aligns with their objectives. **Simplified disclosure templates** for sustainable funds (as planned in the Treasury roadmap) will also aid comparison: if every sustainable product provides a short, standardized summary of "what approach we use, what sustainability goal we target, and how we measure it," investors can quickly scan these summaries side by side. The UK's SDR, for example, mandates a **consumer-facing disclosure** that highlights key sustainability features in a simple format to enable comparisons (UK Financial Conduct Authority, 2023). Australia's approach can emulate this, making the label not just a title but a gateway to comparable information.
- **Investor Education and Engagement:** Finally, the best approach acknowledges that confidence comes from understanding. The labelling regime should be accompanied by **investor education initiatives** explaining what each label means and how to use them in decision-making. As BCSDA prioritises long-term and systemic change, building a base of informed investors is key. The confidence will be highest when investors feel they can trust but also verify – trust the label and verify via the transparent information provided.

The option that encapsulates these features is essentially a **government-endorsed, industry-informed labelling system with tiered labels and strict criteria**. This is very much in line with what the Treasury is considering (and what BCSDA supports in its submission). It leverages global best practice. For instance, Europe's experience shows that when clear criteria were introduced, the market adjusted and greenwashing was reduced – over 350 funds in the EU had to downgrade their sustainability classification in late 2022 when stricter guidance clarified what truly "sustainable" meant, thereby cleaning up the market (Bloomberg 2023). While that transition was rocky, it ultimately improved credibility for the remaining sustainable funds.

Similarly, in Australia, **RIAA's own certification program offers a case study**: RIAA reports that when funds apply for its Responsible Investment Certification (a voluntary label), **70% of them had to make enhancements to meet the standard** – improving their product design, disclosures or marketing to genuinely reflect sustainability aims. This process resulted in better products and reduced the likelihood of greenwashing for those funds (RIAA 2024). If a national scheme can replicate this at scale (with regulatory backing), investors stand to benefit enormously. They can be **confident that a product with a government-recognized sustainability label has passed a credibility threshold**, and they can readily discern how one labelled product differs from another.

Overall, the approach that best improves investor confidence is **one that delivers transparency, comparability, and accountability**: a standardized, **regulated labelling system** that categorizes products by their sustainable investment approach and requires robust substantiation of claims. This system, **developed collaboratively with industry** (to ensure practicality and buy-in) but ultimately anchored in clear rules, will help investors **identify which products truly match their sustainability preferences, easily compare those products' strategies and impact, and make informed investment decisions** without fear of being misled. When investors see that a "sustainable" label means something – e.g. that it is backed by rigorous standards and monitoring – their trust in sustainable finance will be strongly enhanced. This in turn can mobilize more capital into genuinely sustainable investments, creating the positive feedback loop of confidence and market growth that the Sustainable Finance Strategy aims for.

Question 8: What should determine when product labels apply to a financial product? What are the benefits and costs of:

(a) applying labels to all financial products regardless of sustainability claims?

BCSDA Response

Apply Labels to All Financial Products – Broad Coverage. Under a universal labelling approach, every retail financial product would be classified under the sustainability labelling framework, whether it markets itself as “green” or “ethical.” This broad approach ensures consistency and a level playing field across the industry.

A key benefit is avoiding the **penalisation of sustainable products**: if only products claiming sustainability had extra labelling compliance, they could become more costly or less competitive (EY 2023; Song 2025). Applying labels to all products means **sustainability-focused funds are not singled out with higher costs**, addressing concerns that limited labelling would make “sustainable” funds more expensive to manage compared to conventional funds (Song 2025). It also **captures products that might otherwise ‘fly under the radar’**. For example, a fund heavily invested in carbon-intensive industries would still be required to disclose its sustainability profile. This helps investors understand if a product may have harmful environmental or social impacts, not just the ones with positive claims (Climate Energy Finance 2023; Song 2025). A universal regime therefore **reduces greenwashing** (when providers stay silent about sustainability) because all products must report on sustainability attributes regardless. Another advantage is alignment with emerging global best practice. In the EU, for instance, all investment funds must now **classify and disclose their sustainability level** (under SFDR classifications of standard, ESG-promoting, or sustainable funds) which has improved transparency and comparability (Fisher, Hodge & Beals 2023). Broad labelling in Australia would similarly raise minimum disclosure standards across the board and build trust that the whole market is being held accountable. Additionally, it could highlight “brown” or unsustainable exposures in products that might otherwise make no sustainability claims – information that responsible investors increasingly want to know (Climate Energy Finance 2023).

However, applying labels to all products also comes with costs and challenges. It would **increase compliance burden industry-wide**, even for products that never intended to focus on sustainability. Small or simple funds may face new reporting requirements, incurring administrative costs for issuers and potentially higher fees for consumers. Policymakers must ensure the framework is **proportionate** so as not to over-regulate products with minimal sustainability relevance. There is also a risk of information overload for retail investors if every product carries sustainability data. Labels must be **clear and user-friendly** to truly aid decision-making (Colonial First State 2023). Additionally, implementing a universal scheme is complex: defining criteria that meaningfully differentiate all products requires robust standards and possibly phasing-in over time. The EU experience shows that broad regimes can become complicated; indeed, European regulators are now simplifying SFDR categories to better address confusion and greenwashing risks (Jones 2024). Despite these costs, BCSDA believes that smart design can mitigate burdens – for example, simpler requirements for funds with no sustainability aims – while still **delivering the benefits of market-wide transparency**.

(b) applying them only to products that market themselves as sustainable or similar?

BCSDA Response

Apply Labels Only to Self-Declared “Sustainable” Products – Targeted Coverage. Under this narrower approach, labelling requirements would **trigger only when a product markets itself using sustainability-related terms** or claims (e.g. in its name or advertising calling the product “sustainable,” “green,” “ethical,” “responsible,” etc.). The benefit of this model is a more **focused and lower-cost regulatory scope**. It targets the products most likely to influence sustainability-minded investors, ensuring those making ESG claims provide substantiation. This approach avoids burdening products that have no sustainability aspect – for those conventional funds, business continues as usual with no new labelling overhead. From an implementation perspective, it may be simpler initially: regulators can concentrate on defining and policing a set of sustainability terms, and industry participants who do not use those terms can opt out of the regime. This targeted approach directly tackles **greenwashing** in marketing; any fund that *chooses* to brand itself as sustainable must meet defined criteria and disclosures, which protects consumers from misleading claims (ASIC 2024a). Indeed, one driver for this approach is that **funds using buzzwords like “ethical” or “green” often attract consumers** – as seen in ASIC’s case against Mercer, where a super fund’s “Sustainable Plus” options were marketed to appeal to members “deeply committed to sustainability” (ASIC 2024a). By regulating only these, authorities can home in on the area of greatest risk for misrepresentation.

Despite its more limited scope, the targeted approach has notable drawbacks:

- A core concern is **greenwashing** – firms with legitimate sustainability practices might refrain from highlighting them or using ESG labels to avoid coming under the labelling regime’s scrutiny (KPMG 2023; Jones 2024). This would be a perverse outcome: companies “do good but don’t talk about it,” reducing transparency for investors. Evidence from Europe suggests this is a real issue. When stricter EU rules came in, at least dozens of funds **downgraded or removed sustainability labels** from their branding to escape higher regulatory requirements (Jones 2024). Such greenwashing means investors lose information about which products truly have sustainability strategies, impeding informed choice and potentially slowing the flow of capital to sustainable initiatives.
- Another downside of only labelling self-declared funds is that it **does not flag unsustainable products** – a fund heavily invested in fossil fuels, for example, wouldn’t carry any sustainability label or warning under this approach. As some stakeholders noted, it “*should be clear to investors if products may cause harm to the environment or*

society,” not just whether they do good (Climate Energy Finance 2023). A narrow regime could thus leave a gap in transparency for most products.

- It also creates an **uneven playing field**: sustainable funds bear additional compliance costs that traditional funds avoid. This could *disincentivise innovation* in sustainable finance, as fund managers might decide the extra burden isn't worth the label unless investor demand is very strong. Over time, that could slow the growth of sustainable investment options, contrary to Australia's net-zero and Sustainable Finance Roadmap goals.
- Finally, a terms-based approach can be **gamed or limited** – firms might use alternative language to imply sustainability (to attract investors) without using the specific regulated words, thus avoiding the rules while still marketing indirectly. Policing a narrow set of terms may not capture the full spectrum of green claims in advertising.

BCSDA's Perspective: On balance, BCSDA sees merit in a broader labelling framework that covers most retail investment products, while being pragmatic in implementation. A **hybrid solution** could also be explored – for instance, requiring *baseline sustainability disclosures for all products* (so no one can entirely avoid accountability), combined with *enhanced labelling standards for products that actively claim sustainability credentials*. This would ensure **minimum transparency across the market** and curtail greenwashing, yet still focus rigorous requirements where they matter most for preventing greenwashing. Ultimately, the trigger for applying a label should be guided by whether the labelling framework's **purpose – protecting investors and enhancing comparability – is served**.

BCSDA supports an approach that **empowers consumers to easily identify what each product's sustainability stance is**, whether that's “not pursuing sustainability”, “integrating ESG factors”, or “sustainability focused.” Providing this clarity across the board will build trust. It can be achieved in stages, starting perhaps with voluntary or opt-in labelling that becomes mandatory over time as definitions and systems mature. Importantly, whichever scope is chosen, it should be backed by **clear definitions (for terms like “sustainable”) and alignment with international standards** to ensure credibility (BCSDA 2025). In summary, **labels should apply whenever they add value to investor decision-making and market integrity** – BCSDA leans toward an inclusive regime, to raise overall standards and avoid unintended disincentives, while remaining mindful of cost-benefit balance in the policy design.

Question 9: Which approach would best address issues of greenwashing and/or greenhushing?

BCSDA Response

Greenwashing (making misleading or unsubstantiated sustainability claims) and **greenhushing** (downplaying or hiding genuine sustainability efforts) are twin challenges for regulators. BCSDA's view is that a **broader, all-encompassing labelling framework** is better suited to tackle both issues holistically. Applying labels or at least standardised disclosures to all products (option (a)) creates an environment of **full transparency**, leaving fewer places for greenwashers to hide and no incentive for others to stay silent about sustainability.

From a greenwashing perspective, **clear standards and labels force honesty**. When any fund that claims to be “sustainable” must meet defined criteria and disclose how it meets them, it greatly reduces the room for exaggerated or false claims. Recent regulatory enforcement underscores how needed this is: in Australia, 52% of investors cite greenwashing as the number one barrier to trusting and adopting responsible investments (RIAA 2024). ASIC's first court action on greenwashing (the Mercer case in 2024) resulted in an \$11.3 million penalty for misleading sustainability statements, with the Federal Court emphasizing that consumers place great importance on ESG claims and must be able to trust those statements (ASIC 2024a). This case exemplified how **funds gain a marketing advantage by presenting as “green,”** which is precisely why robust labelling rules are required – to ensure such competitive advantage is only available to products that truly adhere to higher sustainability standards (ASIC 2024a). A comprehensive labelling regime (covering all products) would combat greenwashing by **making sustainability information standardised and verifiable across the market**. It sets a benchmark: if a product wants a positive sustainability label, it must earn it through evidence, and all other products still must state their status (even if they make no sustainability claims). This “speak the same language” approach hampers greenwashing because inconsistent or self-serving definitions won't pass the official criteria. It also enables regulators and consumers to more readily **spot anomalies** – for example, if every “Sustainable” fund must disclose its portfolio alignment to a taxonomy or exclusions, it's easier to catch one that deviates from its promises.

As for **greenhushing**, a broad approach significantly **reduces the incentive to keep sustainability quiet**. If all funds must disclose basic sustainability metrics or categorise themselves, then actively hiding one's sustainability performance no longer guarantees avoiding scrutiny – silence is not an option. By contrast, a narrow labels-only-for-some regime could unintentionally **encourage greenhushing**, as discussed. Firms fearing public criticism or regulatory burden might choose not to use any sustainability terms, even if they are doing commendable ESG work, thus keeping that information away from investors. This has been observed internationally: when the EU tightened its definitions for top-tier “sustainable” funds, many asset managers **downgraded Article 9 funds to Article 8** or removed ESG language to sidestep the higher bar (Jones 2024). Such shifts are classic greenhushing – **diluting transparency to avoid potential compliance hassles**. This is a lose-lose: investors can no longer tell which funds have high sustainability ambitions, and the funds themselves may attract less of the

growing pool of ESG-minded capital. BCSDA favours an approach that **encourages open disclosure of sustainability strategies, not silence**. A broad labelling framework does that by **normalising sustainability reporting for all**, so that talking about ESG is standard practice rather than something that singles you out.

In weighing the two options (all products versus only self-labelled products), option (a) clearly offers a more **effective check on greenwashing and greenhushing simultaneously**. It eliminates the loophole of opting out (you cannot avoid the discussion by simply avoiding certain words) and it establishes *uniform trust*. As noted by the ASIC Commissioner, maintaining trust in sustainable finance requires that investors get “accurate and reliable information” and that misleading claims are stamped out (ASIC 2024b). A universal regime answers this by making *accuracy compulsory for everyone*. Meanwhile, the incremental costs of broad labelling are justified by the benefit of **market integrity**. Greenwashing not only harms consumers but also honest businesses – it erodes confidence in all sustainable products when a few bad actors make false claims. By addressing it head-on with strict criteria, and not providing an “escape hatch” via greenhushing, Australia’s framework can instil confidence that when a product is labelled (or not labelled) a certain way, it genuinely reflects its characteristics.

That said, BCSDA recognises the need for **balance**. While the broad approach is superior in principle for curbing misinformation and nondisclosure, it should be implemented in a way that does not unduly burden or confuse. This could include phasing requirements and providing guidance so that firms are clear on how to comply without resorting to silence. International coordination will help too – aligning with global terminology and taxonomies means firms have less reason to “hush,” since what they report in Australia will be useful internationally as well. Ultimately, the approach that best tackles both greenwashing and greenhushing is one that **maximises transparency and accountability across the spectrum of financial products**. In BCSDA’s view, that leans strongly toward the comprehensive labelling (option (a)), possibly augmented with measures like an **anti-greenwashing rule** (as the UK has introduced for all financial firms making sustainability claims (FCA 2023)) to ensure even those outside labelled categories do not mislead. By taking a broad, all-inclusive stance, Treasury can address the root of both problems: making sure every sustainability claim is honest, and every fund has *nowhere to hide* in terms of impact or objectives.

Question 10: What features of a financial product should trigger a labelling requirement?

(a) Should particular words or terms be specified?

BCSDA Response

The labelling framework must clearly define **which product characteristics or marketing practices will activate the need for a sustainability label or disclosure**. BCSDA supports a **multi-pronged approach to triggers**, combining **specific terminology triggers** with **objective threshold criteria**, to capture all relevant products while providing flexibility for different sustainable investment strategies.

Specified “Sustainability” Terminology: A straightforward trigger is the **use of particular words or claims in a product’s name, advertising or documentation**. If a fund or investment product uses descriptors such as “sustainable,” “green,” “ethical,” “responsible,” “ESG,” “impact,” or similar, it should automatically fall within the labelling regime. These terms signal to consumers that the product has a sustainability focus, so it is critical that such products be held to the framework’s standards. Clear lists of regulated terms can be provided (and updated as needed) to guide issuers. This approach aligns with practices abroad: for example, the UK’s Financial Conduct Authority has ruled that if a fund wants to use sustainability-related terms in its name or marketing, it must meet the criteria for one of the official sustainability labels, otherwise such terms are prohibited (FCA 2023; KPMG 2023). Similarly, the U.S. SEC’s updated “Names Rule” requires that any fund name suggesting an investment theme (like climate or ESG) must invest at least 80% of its assets in line with that theme (SEC 2023) – effectively tying the use of *ESG words* to concrete portfolio content.

Specifying trigger terms will directly **catch funds that are explicitly marketing themselves on sustainability credentials**, ensuring they cannot simply adopt the language for appeal without substance. It also provides **clarity to industry**. If you avoid those terms entirely, you know the strict labelling rules may not apply (though of course general misleading-conduct laws still do). One important consideration is to **cover synonyms and implications**: firms might use words like “impactful” or “future positive” or even names of themes (e.g. “Climate Innovation Fund”) to imply sustainability. The labelling rule should be drafted broadly enough to encompass terms that “*lead a reasonable investor to think the product has environmental or social characteristics*.” A guidance note or examples could help, so that creative branding does not become a loophole.

BCSDA also sees merit in **capturing sustainability-related certifications or badges** – if a product advertises that it is “RIAA certified” or “follows UN Sustainable Development Goals”, etc., those claims should likewise trigger compliance with the labelling/disclosure framework to ensure consistency and verification of such claims. In essence, **any deliberate marketing of sustainability, by name or implication, should be the tripwire for mandatory labelling**.

(b) Should it be based on a threshold such as per cent of product invested under a sustainable investment approach or objective?

BCSDA Response

Quantitative Thresholds for Sustainable Investment Content: In addition to policing words, **objective features of the product's actual investments or strategy should trigger labelling requirements.**

A key idea is setting a **threshold proportion of the portfolio or assets that are invested according to a sustainability mandate or objective**. For instance, if a fund commits that $\geq 50\%$ of its assets will be in sustainable investments (as defined by some criteria), that commitment could require it to use a sustainability label (or at least be subject to the framework's verification of that claim). This concept ensures that funds which might not overtly brand themselves as "green" but nonetheless dedicate a significant portion to ESG-aligned assets are captured.

It also bolsters the credibility of labels: products seeking a sustainability label should have to demonstrate a minimum level of alignment with sustainable activities. International precedent supports using thresholds: the UK's new Sustainable Investment labels require that **at least 70% of a labelled fund's assets meet the sustainability criteria for that category**, to prevent dilution by unscreened investments (FCA 2023; Sidley 2023). Such rules mean, for example, a "Sustainable Focus" fund in the UK must hold 70%+ in assets that are sustainable under its definition, ensuring most of the portfolio walks the talk.

BCSDA believes a threshold can address **the substance over form**. It can be a guardrail against funds with minor greening from being marketed as wholly green. By having a numeric test, regulators make the labelling more **quantifiable and testable**. For example, Australia could say: *to use any sustainability label (or to call itself a sustainable fund), a product must invest at least X% of its portfolio in assets or companies that meet defined sustainability standards (with X potentially in the range of 70-80%, informed by global norms)*. The exact percentage can be determined via consultation, balancing purity versus practicality (many supported 70% in the UK as a high but achievable bar (Reid & Smith 2023)).

In addition to portfolio composition, **having a sustainability objective or strategy** could be a trigger. If a product's official investment objective (in its prospectus or PDS) includes achieving environmental or social outcomes (e.g. targeting carbon reduction, impact investing in communities, etc.), this feature should bring it under the labelling regime, even if the name does not have a buzzword. This ensures that products which "bake in" sustainability in their strategy face the same accountability. A fund that, say, explicitly aims to invest in renewable energy infrastructure would be subject to labelling requirements by virtue of that stated objective, thereby preventing a scenario where it markets impact in the fine print but avoids oversight by not using the word "green" in its title.

Integrating Both Approaches: In practice, the **terms trigger** and **threshold trigger** can work together. The labelling framework might specify that either the presence of certain words/claims or the meeting of certain quantitative criteria will classify a product as a "sustainable investment product" requiring a label and enhanced disclosure. This covers all bases: it catches marketing-driven claims *and* substance-driven situations. It also helps mitigate gaming – if a fund tries to avoid using the key terms but still heavily invests in sustainable assets to attract ESG investors subtly, the high sustainable asset percentage could still trigger requirements.

Conversely, if a fund uses a green term but only invests 10% in green assets, it would be in breach unless it changes either its name or its asset allocation.

Importantly, to implement a threshold, Australia will need to **define what counts as a "sustainable investment"** or similar. Here, leveraging the newly released Australian Sustainable Finance Taxonomy will be crucial. The taxonomy provides science-based criteria for activities considered environmentally sustainable or in transition (ASFI 2025). Regulators could say, for example, *X% of a fund's assets must be aligned with the Taxonomy's criteria (for climate mitigation, etc.) to meet a certain label*. This approach grounds the label in evidence and internationally aligned definitions, boosting credibility. It would also encourage funds to report their taxonomy alignment, which prepares the market for any future mandatory sustainability reporting. For social or ethical aspects beyond the climate taxonomy's scope, the framework might need additional definitions (perhaps drawing on established ESG certification schemes or standards).

BCSDA suggests that **regulators set a high-level threshold and allow flexibility initially**, with the expectation that funds justify how they determine an asset as sustainable (subject to guidance). Over time, as taxonomy and data capabilities improve, that threshold can become more quantitatively precise and enforceable.

In addition to words and percentages, **other potential triggers** include use of external sustainability ratings or affiliations (if a fund advertises a high Morningstar Sustainability Rating or similar, perhaps it should be looked at), or if it charges a fee

premium explicitly for an ESG service (which implies a sustainability claim). While these are secondary factors, they all point to the product positioning itself in the sustainable finance space and thus warrant the oversight of the labelling scheme.

Addressing potential issues: Specifying triggers must be done carefully to avoid unintended consequences. There is a risk that a rigid list of words could be overly narrow or, conversely, chill legitimate communications. Authorities should update guidance as new terminology emerges (for example, if “climate-aligned” or “Paris-aligned” became common terms, they should be captured).

For thresholds, one concern is **asset fluctuation**. A fund might be 75% green at one point but market changes or inflows/outflows could drop it below the threshold unintentionally. Regulations should allow some **time frame or averaging** for measuring the threshold (the UK allows temporary deviations if well-explained, such as during portfolio rebalancing or market downturns (FCA 2023)). Another consideration is **multi-asset or diversified strategies** – a strict threshold might be harder for them to meet even if they are legitimately sustainable (for instance, a balanced fund with 60% sustainable assets might still be worthy of a label if the rest is neutral). The framework might consider more than one tier of labels (like a lighter “ESG integrated” label for funds below the main threshold, akin to the EU Article 8) so that investors still get information on those products. BCSDA’s recommendation is to **set a high bar for any fund that wants to call itself explicitly sustainable**, but also ensure the framework communicates gradations to investors.

In summary, a financial product should be **subject to the labelling regime if it presents itself as having any sort of sustainability focus – either through its words or through its actual investment allocations/objectives**. Terms (like sustainable/green/ethical) offer a clear-cut regulatory trigger that is easy to enforce. Meanwhile, quantitative thresholds ground the labels, ensuring they reflect meaningful sustainability content. Combining both will best capture the range of products and prevent circumvention. Such triggers, backed by reference points like the Australian taxonomy and international standards, will help Australia’s labels to be **credible, transparent, and effective in distinguishing products**. This gives investors’ confidence that when they see a sustainability label or claim, it genuinely denotes a higher level of sustainable investment activity, and conversely, that absence of a label also carries informational value. BCSDA supports trigger definitions that are **objective, evidence-based, and adaptive** as the market evolves.

Question 11: Should evidentiary requirements underpinning labelling be prescriptive, principled or a mixture of both?

BCSDA Response:

A **mix of prescriptive and principle-based evidentiary requirements is recommended** to balance certainty with flexibility. A purely **prescriptive approach** (e.g. setting fixed asset thresholds or emissions criteria) provides clarity and comparability for product issuers and investors (Treasury 2025). For instance, the UK’s fund labelling rules require at least *70% of assets* meet sustainable criteria for certain labels, which offers a clear benchmark (FCA 2023). This certainty helps prevent “greenwashing” by ensuring a minimum standard is met. However, overly rigid rules can **stifle innovation and quickly become outdated** as sustainability practices evolve (Treasury 2025). The EU’s experience illustrates this: when strict definitions of “sustainable investments” were imposed, roughly *350 funds reclassified themselves to avoid the highest sustainability category*, shrinking the market of top-tier “green” funds (EFAMA 2025). This “*great reclassification*” shows that if evidentiary hurdles are too high, issuers may simply opt out of sustainability labels – depriving investors of choices and reducing market transparency. Conversely, a **principle-based approach** requires that any sustainability claim be backed by “sufficient, credible evidence,” but gives flexibility in how to demonstrate that (Treasury 2025). This adaptability encourages innovation and can be updated with emerging best practices. The downside is potential ambiguity: without concrete guidelines, issuers might interpret standards inconsistently, and well-intentioned funds could face uncertainty about what evidence is “enough” (BCSDA 2025).

BCSDA’s perspective is that Australia should adopt a “**clear, evidence-based and principles-aligned framework**” – effectively a hybrid model (BCSDA 2025). In practice, this means setting **some prescriptive baseline standards** (to ensure credibility and consistency) while allowing **principle-based flexibility** for different strategies and new developments. For example, the framework might mandate that a fund labelled “Sustainable” invest a significant portion (e.g. majority) in assets meeting defined sustainability criteria (a prescriptive element), but also require a narrative or data-driven justification for how the fund’s strategy delivers positive sustainability outcomes (a principle-based element). This combination leverages the best of both approaches: **investor confidence is built through robust, verifiable metrics**, and issuers maintain the ability to innovate and improve their methods over time (FCA 2023; BCSDA 2025).

Importantly, strong evidentiary standards are needed to address trust issues – over **52% of investors cite greenwashing as a top barrier to sustainable investing** (RIAA 2024b). A hybrid approach would raise the bar on proof (so claims are trustworthy) while avoiding a one-size-fits-all formula that might inadvertently discourage sustainable investment offerings. In summary, **prescriptive rules** (clear criteria) should set the floor, and **principle-based guidance** (focus on outcomes and continual evidence) can drive best practices above that floor. This will ensure labels are both **credible and adaptable**, aligning with BCSDA’s call for systemic, pragmatic and long-term policy measures. Evidentiary requirements should be

anchored in Australia's taxonomy and supported by mandatory disclosures, ensuring comparability across markets and credibility for investors.

Question 12: Should evidentiary requirements for investment product labels be linked to other policy initiatives being progressed as part of the Roadmap (such as the taxonomy)?

BCSDA Response:

Yes. Evidentiary requirements for sustainable product labels should be closely linked to Australia's broader sustainable finance initiatives, particularly the emerging national taxonomy. Integrating the forthcoming **Australian Sustainable Finance Taxonomy** will provide a science-based foundation for what counts as "sustainable" investment activity (WBCSD 2024).

A taxonomy defines clear criteria and thresholds (e.g. for greenhouse gas emissions, sector-specific performance) for economic activities to be deemed environmentally or socially sustainable. By aligning label requirements with these definitions, **product issuers have an objective benchmark** for evidence: for example, a fund claiming a "*Climate Sustainable*" label might be required to invest a certain percentage in taxonomy-aligned assets or companies (ASFI 2024). This linkage ensures consistency – the term "sustainable" means the same across corporate disclosures, taxonomy reporting, and product labels – which makes it easier for investors to trust and compare products. It also leverages work already done as companies begin reporting taxonomy alignment and climate metrics, fund managers can use that data to substantiate their sustainability claims (WBCSD 2024).

Linking to the taxonomy would **enhance credibility**. It grounds the label's evidentiary standards in a framework developed by experts and aligned with international norms (the Australian taxonomy is being designed in line with global best practices, akin to the EU Taxonomy) (RIAA 2024a). This reduces the risk of "greenwashing" by ensuring that a labelled "*Green*" fund is truly investing in activities proven to support sustainability goals (e.g. renewable energy, green buildings meeting set standards). It also helps mobilize capital efficiently: investors worldwide are increasingly looking for taxonomy-aligned investments, so labels tied to the taxonomy could attract more capital to Australia's transition projects (WBCSD 2024). From a policy perspective, linking initiatives creates a **cohesive sustainable finance architecture** – the Sustainable Finance Roadmap envisions taxonomy, disclosures, and labels working together (Treasury 2024). For example, as Australia implements mandatory climate risk disclosures for companies, the data from those disclosures (like emissions or science-based targets) can feed into product label criteria, ensuring labels reflect real performance and not just marketing.

However, this linkage should be implemented pragmatically. The taxonomy is still being developed (with consultations ongoing), and it may not immediately cover all sustainability themes (ASFI 2024). Therefore, evidentiary requirements could **initially reference the taxonomy where available (for environmental claims)**, and use principle-based standards for areas the taxonomy doesn't yet address (like certain social outcomes). As the taxonomy expands, the label criteria can be updated accordingly. This phased approach ensures that the **label regime remains flexible and inclusive in the near term, yet moves toward a robust, harmonized standard in the long term**.

In BCSDA's view, aligning labels with the taxonomy and related initiatives (like climate disclosure standards) will create a **systemic solution** – it provides clarity to issuers, comparability to investors, and channels investments into activities verified to support Australia's net-zero and sustainability goals (BCSDA 2025). In summary, linking evidentiary requirements to the taxonomy **anchors the labels in credible, data-driven criteria** and helps future-proof the framework as part of a unified sustainable finance strategy.

Question 13: What should be the role of independent third-party certification?

(a) If third-party certification is required, what criteria should the product be certified against and who should set those criteria?

BCSDA Response:

Independent third-party certification can play a valuable supporting role in a sustainable labels regime, but it should not be the sole guarantor of credibility. BCSDA's view is that while third-party verifications (e.g. by RIAA, B Lab, or others) can enhance trust, the regulatory framework should ensure credibility *even if certification is optional*. Below we address both scenarios:

Should Australia mandate independent certification for sustainable investment products, the **criteria for certification must be rigorous, transparent and aligned with the official labelling standards**. The certification criteria should cover all key aspects of the product's sustainability claims, such as:

- the fund's stated sustainability objective,
- the percentage of assets meeting defined sustainable criteria,
- the use of robust metrics/Key Performance Indicators to measure progress, and
- the fund's stewardship practices (FCA 2023).

In essence, the certifier would be checking that the product indeed adheres to whatever the label promises (e.g. if a fund is labelled "*Sustainability Focus*", at least 70% of assets are truly in sustainable investments as per the taxonomy or standard).

To avoid fragmentation, **the government or regulator should set these criteria or formally endorse a standard**. For example, ASIC/Treasury could convene an expert panel (including industry and scientific experts) to define the certification benchmark in line with the national taxonomy and disclosure rules. This ensures every certified product is held to the same high standard.

Existing programs could be leveraged: the Responsible Investment Association Australasia's **Certification Program** is one model, as it already uses a *principles-based, internationally aligned standard* and a rigorous assessment process (RIAA 2024a). In fact, RIAA reports that **70% of investment products seeking its certification had to improve their sustainability practices or disclosures to meet the standard** – demonstrating how tough criteria can drive better performance (RIAA 2024a).

The regulator could recognize such schemes or accredit specific third-party providers to certify funds against the agreed criteria.

Who sets the criteria? Ideally a collaboration: regulators provide oversight and consistency, while technical experts (from bodies like RIAA, academic institutions, or standards organizations) contribute to setting measurable thresholds and methodologies. This could take the form of a **government-endorsed certification framework** managed by an independent board. The board would update criteria over time (ensuring they remain science-based and reflective of evolving best practice) and approve qualified auditors or ratings agencies to conduct the actual certifications. Importantly, mandating certification would require **addressing practical issues**: ensuring there are sufficient qualified certifiers to meet demand, and managing costs so that especially smaller fund managers are not priced out of offering sustainable products. If done well, required third-party certification could create a **trustworthy "seal of approval"**, giving investors' confidence that any labelled product has been externally vetted and truly "does what it says on the tin" (BCSDA 2025). This approach mirrors other fields (e.g. Green Building ratings or Climate Bonds certification) where independent verification against a clear standard has improved market integrity.

(b) If third-party certification is not required, how can credibility and robustness of labels be ensured?

BCSDA Response:

Even without mandatory external certification, **credibility and robustness of sustainable labels can be ensured through strong regulatory requirements and transparency**. Firstly, regulators must enforce that any sustainability claim by a product is based on a **"reasonable basis" with sufficient evidence (as required under existing law)** – essentially an internal evidentiary standard backed by the threat of penalties for misrepresentation (ASIC 2024).

ASIC's recent crackdown on greenwashing highlights this: over 12 months, ASIC took *47 interventions* against firms for misleading sustainability claims, and Australian courts imposed multi-million-dollar fines on funds that overstated their green credentials (ASIC 2024). These enforcement actions send a clear message that labels must be honest and substantiated. Building on this, the labelling framework can require **robust disclosures** from product issuers. For example, fund managers should publish the sustainability objective of the product, the criteria or screening methodology they use, data on how the portfolio meets those criteria, and regular reports on outcomes achieved. This is akin to the UK's approach of **"naming and shaming" via transparency** – in the UK, any fund using sustainability-related terms in its name or marketing (even without an official label) must provide detailed sustainability disclosures and is prohibited from using terms like "sustainable" or "impact" frivolously (FCA 2023). Such rules ensure that even without a third-party auditor, funds are legally bound to explain and justify their sustainability claims in detail, enabling investors and watchdog groups to hold them accountable.

Additionally, the framework could incorporate **periodic independent reviews or audits** on a sample or risk-basis. For instance, regulators might require that a proportion of labelled funds undergo an independent compliance audit each year (like financial audits) – this keeps issuers diligent, knowing they could be checked.

Another mechanism is to encourage **voluntary certification** and market-driven signals. The government could endorse certain third-party certifications as "gold standard" without mandating them; funds that opt for these can be viewed favourably by investors, creating competitive pressure for others to improve. Already, many Australian fund managers seek

credentials like RIAA's certification or Ethical Advisers' "*Leaf Ratings*" to demonstrate their credibility (RIAA 2024a; Ethical Advisers Co-op 2023). For example, the independent Leaf Ratings initiative has motivated some fund providers to enhance their ethical practices to achieve a higher rating, showing that transparency and external feedback can spur improvements.

Also, **greater transparency of data** will empower the market: if all labelled funds disclose portfolio holdings and sustainability metrics, analysts and civil society can scrutinize and compare products. This "sunlight" approach rewards those that truly align with sustainability goals and exposes those that don't. Finally, ensuring strong **governance and accountability within product issuers** is key. Regulators could require that any firm offering a sustainable product have appropriate internal oversight – for instance, a sustainability committee or officer attesting that the product's investments meet its claims. Senior management sign-off on sustainability statements (like financial statement signoffs) would create liability for misleading information, thus incentivizing due diligence.

Overall, even without mandatory third-party certification, **a combination of clear rules, mandatory high-quality disclosures, active enforcement, and market transparency can uphold the integrity of sustainable labels.**

BCSDA would support measures such as **regulatory guidance (e.g. ASIC's Info Sheet 271 on avoiding greenwashing)**, public reporting requirements, and perhaps **voluntary codes of conduct** that industry participants commit to. The aim is to make sure that the label on a product genuinely reflects its sustainability performance – achieved either through the watchful eye of regulators and informed investors, or through the pride and incentive of earning reputable certifications. **Credibility comes from trust, and trust comes from verification – whether by independent parties or by robust evidence revealed to all.** By embedding verification (in one form or another) into the labelling framework, the Government can ensure these labels are not just marketing, but a **reliable guide for investors seeking sustainable outcomes** (BCSDA 2025).

Section X: Evaluation, Continuous Improvement, and International Alignment

Evaluation and Continuous Improvement

To ensure the Sustainable Investment Product Labelling Framework remains credible, effective, and fit-for-purpose over time, BCSDA also recommends embedding a structured **evaluation and improvement cycle** into the policy from the outset.

This approach draws on OECD principles of *Institutionalisation, Quality, and Impact* and aligns with the Australian Government's Regulatory Policy, Practice & Performance Framework.

1. Establish a Central Oversight Champion

- Create a designated **Sustainable Finance Labelling Office** within an existing regulator or as a standalone statutory body.
- Responsibilities to include:
 - Monitoring label compliance and market developments.
 - Coordinating evaluations across government and industry.
 - Recommending adjustments to label categories, thresholds, or governance processes based on evidence.

2. Embed an Evaluation Clause in the Framework

- Require a **formal independent evaluation** of the labelling scheme at least every two years.
- Scope of review to include:
 - Effectiveness in preventing greenwashing and greenhushing.
 - Investor understanding, trust, and uptake.
 - Market impacts, including cost-effectiveness and unintended consequences.
 - Alignment with international regimes and evolving sustainability standards.
- Evaluation findings to be tabled in Parliament and made public in accessible formats.

3. Implement a Feedback and Review Mechanism

- Convene an **annual stakeholder review forum** involving:
 - Product issuers and industry associations.
 - Consumer groups and investor advocates.
 - Civil society organisations with expertise in sustainability.
- Use this forum to test whether labels remain clear, relevant, and comparable, and to identify emerging issues requiring policy response.

4. Integrate with Other Regulatory Systems

- Map label criteria against the Australian Sustainable Finance Taxonomy, climate disclosure requirements, and international labelling regimes.
- Update guidance annually to reflect:
 - New taxonomy criteria.
 - Changes in global standards (e.g., EU SFDR, UK SDR).
 - Best practice in consumer communication and digital accessibility.

5. Leverage Digital Tools for Transparency

- Maintain a **public online registry** of all labelled products, including:
 - Label category and date of certification.
 - Summary of qualifying criteria met.
 - Latest compliance and performance data.
- Provide downloadable datasets to encourage third-party analysis and research.

6. Apply Continuous Improvement Principles

- Use evaluation results to refine criteria, enhance disclosure templates, and update enforcement protocols.
- Publish an **annual “State of Sustainable Investment Labels” report** summarising market trends, compliance outcomes, and planned policy adjustments.

By embedding these evaluation and continuous improvement measures, Australia can ensure its sustainable investment labelling framework remains a **trusted, adaptable, and internationally recognised benchmark**, capable of evolving with market innovations and investor expectations.

International Alignment

The evaluation and continuous improvement process should be designed to maintain close alignment with **international sustainable finance labelling regimes**, ensuring that Australia’s framework remains interoperable and globally credible. Regular reviews should benchmark Australian criteria, thresholds, and disclosure requirements against leading jurisdictions, including:

- The **UK Sustainability Disclosure Requirements (SDR)** and labelling regime.
- The **EU Sustainable Finance Disclosure Regulation (SFDR)** and Taxonomy.
- The **US SEC “Names Rule”** and ESG fund disclosure guidance.
- Relevant OECD and IOSCO principles on sustainability-related disclosures.

This benchmarking will ensure Australian labels remain comparable with those in major markets, reducing compliance complexity for cross-border investment products and enhancing Australia’s attractiveness as a sustainable finance hub. Evaluation reports should include a dedicated “Global Alignment” section summarising:

- Areas where Australian practice matches or exceeds international norms.
- Divergences that are intentional (e.g., tailored to Australian market context) versus those requiring adjustment.
- Opportunities to integrate emerging best practices from other jurisdictions into future updates.

By embedding international benchmarking into the evaluation cycle, Australia can future-proof its regime, avoid regulatory isolation, and reinforce investor confidence both domestically and globally.

We note the importance of designing a framework that is interoperable with the UK, EU, and US regimes while reflecting Australian market needs. See **Annex A** for a comparison of key features.

Annex A: Comparison of Sustainable Investment Product Labelling Regimes (Australia, UK, EU, US)

This annex provides a high-level comparison of the proposed Australian labelling framework with the UK’s Sustainability Disclosure Requirements and labels, the EU’s Sustainable Finance Disclosure Regulation, and the US SEC’s Names Rule. It highlights scope, categories, evidence requirements, anti-greenwashing measures, and interoperability intent.

Sustainable Investment Product Labels – International Comparison

Feature	Australia (DOT Consultation 2025)	UK – FCA Sustainability Disclosure Requirements (SDR) & Labels	EU – Sustainable Finance Disclosure Regulation (SFDR)	US – SEC Names Rule
Scope / Application	Roadmap targets 2027 commencement. Scope (all products vs only sustainability-labelled products) under consultation.	Applies to UK-domiciled funds; use of labels is voluntary. Anti-greenwashing applies to all FCA-authorised firms; naming/marketing rules apply to asset managers.	Applies to all financial products in scope of SFDR; classification into Articles 6, 8, or 9 is mandatory. These are disclosure categories, not formal ‘labels.’	Names Rule applies to registered funds and advisers; requires ≥80% of assets to match the focus implied by the fund’s name (e.g., ESG).
Label Categories	To be determined – consultation exploring multi-tier approach (e.g., ESG integration, sustainability focus, impact).	Four labels: Sustainability Focus, Improvers, Impact, Mixed Goals. Each requires ~70% asset alignment with its objective.	Article 6 = no E/S promotion; Article 8 = promotes E/S characteristics; Article 9 = sustainable investment objective. Market uses these as shorthand categories.	No formal categories: SEC’s withdrawn 2022 ESG Fund Disclosure proposal would have distinguished ESG-integration vs ESG-focus, but this will not proceed.
Evidence & Disclosure	Design options include threshold-based, principles-based, or third party-verified criteria.	Requires entity- and product-level disclosures; clear, fair, and not misleading claims; ~70% asset threshold for labelled products.	Disclosures vary: Art 6 = basic; Art 8/9 = pre-contractual, PAI, DNSH, sustainability indicators, periodic reports.	Must substantiate ≥80% alignment; no additional ESG-specific disclosures after June 2025 withdrawal of prior proposal.
Anti-Greenwashing Measures	Considering explicit anti-greenwashing and “greenhushing” provisions.	Anti-greenwashing rule in force: sustainability-related claims must be fair, clear, and not misleading.	No explicit anti-greenwashing rule, but detailed DNSH and disclosure obligations deter misleading claims.	Names Rule addresses misleading names; other ESG-specific disclosure rules withdrawn June 2025.
Interoperability Intent	Government seeking alignment with UK, EU, and US regimes where possible.	Not an explicit policy goal, but design broadly consistent with global norms.	EU reviewing SFDR since May 2025 to simplify categories and explore consumer-friendly labels.	Domestic focus; no stated interoperability objective.

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