Friday 29 August 2025

Director
Labelling and Disclosure Unit
Climate and Energy Division
Langton Cres
Parkes ACT 2600

Email: ClimateReportingConsultation@treasury.gov.au

Dear Director,

Sustainable investment product labels

As the representatives of over 300,000 professional accountants, Chartered Accountants Australia and New Zealand (**CA ANZ**) and CPA Australia thank you for the opportunity to provide feedback in response to Treasury's Sustainable Investment Product Labels Consultation Paper (the "Consultation Paper", the "Paper") released in July 2025. We make this submission on behalf of our members and in the public interest.

CPA Australia and CA ANZ welcome the opportunity to contribute to Treasury's consultation on sustainable investment product labels. We support the development of a framework that improves clarity, comparability, and integrity in sustainability claims, while avoiding unintended consequences such as greenwashing, greenhushing, or regulatory arbitrage.

Our submission responds to each consultation question and draws on our previous work, including submissions on growth/defensive asset classification, faith-based product benchmarking, and the Annual Superannuation Performance Test.

It is our view that all investor-facing terminology used to describe investment products, including commonly used terms such as growth, balanced, managed growth or conservative are important, and government and regulators should take steps to ensure they have more uniform definitions across the investment universe than at present.

We support the development of a labelling framework that enhances clarity, comparability, and integrity in sustainability claims made by financial product issuers. In this submission, we advocate for a framework that is inclusive of diverse investment strategies, underpinned by clear evidentiary standards, and designed to support informed decision-making by retail investors. We recommend a hybrid approach to defining sustainable investment practices, mandatory consumer-facing disclosures for products using sustainability-related terms, and alignment with the Australian Sustainable Finance Taxonomy and other Roadmap initiatives.

We support the development of a sustainable investment product labelling framework that is:

- Clear and consistent in terminology.
- Inclusive of diverse investment strategies.
- Aligned with international best practice, and leveraging such practice where market maturity exists.
- Designed for retail investor understanding.
- Supported by robust evidence and oversight.

We would welcome further engagement with Treasury and regulators as the framework is refined and implemented.

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Chartered Accountants Australia and New Zealand

33 Erskine Street, Sydney, NSW 2000
P: +61 1 9290 1344
W: charteredaccountantsanz.com
ABN: 50 084 642 571

CPA AUSTRALIA

CPA Australia

L20, 28 Freshwater Place, Southbank, VIC 3006
P: +1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

Should you require any further information or clarification, please do not hesitate to contact Richard Webb, Superannuation Lead at CPA Australia on richard.webb@cpaaustralia.com.au .

Yours sincerely,

Richard Webb
Superannuation Lead
CPA Australia

Tony Negline
Superannuation and Financial Services Leader
Chartered Accountants Australia and New Zealand

Attachment

Submission

Executive summary

CPA Australia and CA ANZ welcome the opportunity to contribute to Treasury's consultation on sustainable investment product labels. We support the development of a framework for financial product labelling that improves clarity, comparability, and integrity in sustainability claims, while avoiding unintended consequences such as greenwashing, greenhushing, or regulatory arbitrage.

Our submission responds to each consultation question and is intended to provide analysis primarily within the context of reporting and disclosure in respect of APRA-regulated superannuation funds, who arguably are the largest stakeholders for this consultation.

Responses to consultation questions

Background and context

The Paper is part of the Sustainable Finance Roadmap[1], which aims to improve transparency and integrity in sustainability claims made by financial products. The Government plans to implement a labelling framework by 2027 to help retail investors identify, compare, and make informed decisions about sustainable investment products.

CA ANZ and CPA Australia believe that, for integrity, any appropriate labelling systems for investment products need to be regulated and maintained. We encouraged Government in our submission of December 2023[2] to:

> *…engage with industry bodies such as the Responsible Investment Association Australasia, a member of the Global Sustainable Investment Alliance, to understand existing leading local and global practices in labelling and certification. The Sustainable Finance Taxonomy should also be considered as it relates to a labelling system for financial products.*

We also supported the development of the Sustainable Finance Taxonomy.

Although we would argue that this should extend to the entirety of the investment market and investors including wholesale and sophisticated investors, this consultation limits the scope of relevant investors to investors who are not wholesale investors, and who personally invest in pooled investment products such as superannuation funds or managed investment schemes (MISs), including exchange traded funds (ETFs).

This consultation is also limited to the role that disclosure and the relevant regulatory settings which ASIC is responsible for. The role played by APRA in assessing investment strategy implementation as part of the superannuation performance test does not form part of this consultation.

Policy problem

The policy problem defined in this Paper is the need to accurately disclose or acknowledge relevant considerations for investors in relation to environmental, social and governance matters when discussing the investment strategy of investment products.

Data shows that retail investors struggle to understand terms used in marketing descriptions such as sustainable, green, ethical or responsible. Comparisons of investment options marketed as

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[1] Treasury, The (2024). *Sustainable Finance Roadmap*. [online] treasury.gov.au. Canberra: Commonwealth of Australia. Available at: https://tinyurl.com/y3pyfsa6 [Accessed 25 Aug. 2025].

[2] Grant, S. and Kasapidis, E. (2023). *Sustainable Finance Strategy*. Sydney: Chartered Accountants Australia New Zealand, p.5. Available at: https://tinyurl.com/ywvhbea9 [Accessed 25 Aug. 2025].

sustainable can confuse Australians and only 9% of Australians can tell the difference between an impact fund and a sustainable fund.

Additionally, product issuers themselves use a wide variety of terms and strategies, with no standardisation or accepted comparability metrics. Normal disclosure requirements for superannuation funds and managed investment schemes (MIS) do not support simple or meaningful comparisons of sustainability characteristics, and a considerable amount of work is needed by consumers to verify claims independently.

On top of this, there is evidence that greenwashing – where misleading or exaggerated sustainability claims are made – and, potentially, greenhushing – where sustainability claims are either avoided to reduce regulatory risk, or to downplay lower performance due to increased ESG risk or fees – is used by product issuers to limit transparency or distort markets. We would suggest that disclosure may also not be assisted by the potential presence of "greenwishing": aspirational ESG objectives worded in such an indefinite way that the product could never meet such an objective.

1. Role of sustainable financial product labels

The use of labels in investment disclosure is fraught with a number of inconsistencies and ambiguities, and consumers navigating disclosure which uses such labels without financial advice can understandably find this confusing. In 2020, CPA Australia wrote[3] in a submission to a working group convened by Conexus Institute that defining investment terms (in this case, the labels "growth" and "defensive" in respect of investment assets) would have considerable advantages to investors, such as:

- *The terms could be adapted in a more specialised way to individual assets or investment pools to better reflect the purpose by which the investment manager is using the assets.*
- *Assets which change categorisation could be better monitored by regulators and researchers.*
- *Appropriate descriptions of asset attributes would assist financial advisers when assessing their clients' attitudes and investment preferences.*

Ultimately, CPA Australia determined in that submission that if such terms were not to be defined, their use to retail investors was not appropriate, and usage of these terms in contexts involving retail investors should be discontinued.

Labels such as "sustainable" and other similar terms should serve as a consumer-facing tool to improve understanding and comparability of sustainability claims. They should complement existing disclosure obligations and performance benchmarks, but not replace them. Labels must be meaningful to retail investors and their financial advisers, not marketing-driven, and should reflect actual investment strategies and outcomes.

Consistency in **all** terms used to describe an investment option is important. The government should be seeking to ensure any term used is accurate and has a consistent and reliable basis.

2. Scope of new requirements

We are concerned that the scope of this review does not completely lend itself to the review of metrics such as sustainability objectives, where these are used in addition to, or in place of maximising financial returns. The use of financial returns as a relevant metric is, as of the *Your Future Your Super* (**YFYS**) package of reforms, paramount in respect of trustee-directed investment options in superannuation. YFYS introduced a limited degree of statutory benchmarking in respect of the superannuation performance test, which looks at the financial performance of multisector investment options relative to composite benchmarks selected by APRA, with a parallel test used in respect of fees and costs. Essentially, the performance test is a test of how well trustees have executed their investment strategy relative to objective benchmarks, even if CPA Australia and CA ANZ have raised

[3] Pflugrath, G. (2020). *Growth/defensive asset categorisation*. [online] Melbourne: CPA Australia, p.4. Available at: https://tinyurl.com/3fa9ee8e [Accessed 21 Aug. 2025].

previous concerns on a number of occasions[4] regarding the selection of benchmarks including accuracy, adequacy, avoidable tracking error, and disincentives to active investment management.

Notably, there is no equivalent with managed investment schemes, as these products are not prudentially regulated.

That said, setting sustainability objectives has advantages in relation to setting consumer expectations with respect to these sorts of investments, even if, at present, there may not be a mechanism to test aspirational objectives.

We consider that requirements should apply to all financial products that make sustainability claims, regardless of whether those claims are primary or secondary to financial returns. This ensures consistency and avoids regulatory arbitrage.

International context

Other jurisdictions such as the UK, US and EU are currently undertaking sustainable financial product labelling reforms.

The Government is interested in these and other jurisdictions' approaches to sustainable labelling. For example:

- Binding regulatory guidance in Singapore and India requires product issuers to ensure that the use of ESG labelling is based on a minimum percentage of fund assets dedicated to that fund's sustainability objective.
- Similarly, a "Names Rule" exists in the USA which requires that at least 80 per cent of assets are in the type of investment which complies with the ESG terminology used by the fund.
- The regime in place in the UK insists that at least 70 per cent of the gross value of the sustainability product's assets are invested in accordance with the sustainability objective, with specific naming and marketing rules in place, as well as mandator consumer disclosures.
- The EU sets out mandatory sustainability labelling for asset managers and a classification system identifies funds based on their characteristics and levels of sustainability.

3. Aspects of international regimes for Australian application

We believe that that Australia could consider applying the following in relation to a fund product complying with sustainable product labelling:

- Minimum asset thresholds, for example, the UK's 70% rule.
- Consumer-facing disclosures, such as those used in the UK model.
- Naming and marketing restrictions used in jurisdictions such as the US and UK. These elements promote clarity and reduce greenwashing risk.

Whilst we recognise the potential problems of greenhushing, we do not support mandatory sustainability labelling in all situations, such as is the case in the EU. CPA Australia and CA ANZ considers that consumer-facing disclosures should be mandatory for any product using sustainability-related terms, such as is the case in the UK if these result in the consumer incurring higher costs or reduced investment universe as a result of applying any sustainable filters to the operation of an investment product. These disclosures should be concise, accessible, and explain the product's sustainability objective, strategy, and metrics. Model wording could be introduced to assist RSEs and REs to comply with requirements.

[4] See for example Negline, T. and Webb, R. (2023). *Superannuation Performance Test Regulations 2023 Exposure Draft ('the Exposure Draft')*. [online] Melbourne: CPA Australia. Available at: https://tinyurl.com/ykk8r9rw [Accessed 21 Aug. 2025].

4. Importance of international interoperability

Interoperability is important for global consistency, as well as any healthy export market for Australian investment products, but labels must in the first instance be fit-for-purpose for Australian retail investors. Alignment with international standards (e.g. Principles for Responsible Investment (PRI), UN Sustainable Development Group (UNSDG)) is desirable but should not override domestic relevance. Interoperability is ideal however it must not override the needs of the Australian market.

Designing standardised labelling

The Government has identified an objective to create a labelling framework that enables investors to confidently assess and compare sustainability claims made by different financial product issuers. To achieve this, the Paper seeks feedback on three key design elements:

- which investment approaches should be considered 'sustainable',
- under what circumstances a label should be used or required, and
- what evidence should be necessary to substantiate the use of a label.

The overarching aim is to ensure that sustainability claims are clear, credible, and useful to investors.

The Paper discusses the challenge of defining 'sustainable' investment approaches, noting that the term can mean different things to different people. It references harmonised definitions developed by the CFA Institute, Global Sustainable Investment Alliance (GSIA), and PRI, which include five core approaches: screening, ESG integration, thematic investing, stewardship, and impact investing. These may also be aligned with broader frameworks such as the UNSDG and the PRI. The Paper presents two options for how these approaches could be treated in the labelling framework:

- explicit definition in legislation to provide clarity and consistency, or
- left undefined to allow flexibility and accommodate evolving understandings of sustainability.

Each option carries trade-offs in terms of regulatory certainty, investor protection, and cost.

5. Coverage of responsible investment approaches

CPA Australia and CA ANZ believe that the CFA Institute/GSIA/PRI definitions, UNSDG, and PRI provide a strong foundation. However:

- For the purposes of ensuring transparency and comparability, faith-based strategies should be explicitly included within such a regime. Takaful definitions (and their equivalents outside of Islamic finance) could be used in such contexts as insurance if standardisation is preferred.

- Hybrid strategies, for example ESG and thematic approaches to asset selection, should also be accommodated together with the degree to which responsible investment approaches drive asset selection.

Future consideration could be given to other investment approaches in the interests of transparency, for example, where investment management approaches may be materially relevant for consumer disclosure purposes, such as where indexation is used.

In response to part (a) of this question, where consideration was requested for investment approaches which may be inappropriate, CPA Australia and CA ANZ believe that none are inherently inappropriate, but lack of transparency or suboptimal benchmarking can undermine any approach.

However, our response to part (b) highlights that there may be some relevant positives and/or negatives of these approaches.

- **Screening**: Simple and easily applied, but may lack nuance due to subjective factors or business framing.

- **ESG integration**: Widely used, but difficult to verify by retail investors and lacks standardisation.

- **Thematic**: Clear focus, but may be narrow, and could increase diversifiable risk due to potential asset concentration.
- **Stewardship**: Valuable with long-term approaches to asset selection, but difficult to measure.
- **Impact**: High potential correlation with investor preferences, but requires robust evidence of actual results over the investment timeframe.

Part (c) of the question asks about ranking different approaches. We caution against ranking, noting that where these approaches are used, there may be contextual reasons for their effectiveness. There may also be situations where hybrid approaches may be beneficial. Instead, a requirement for clear disclosure of the approach used and its intended outcomes would be preferable.

6. Prescribed vs industry-defined approaches

We recommend a hybrid model where core approaches are prescribed in legislation, but allow industry to propose new ones subject to regulator approval.

It may be that prescription is better left to regulatory instruments and guidance to allow for evolution product offerings. This would mean legislation should be at a higher level.

7. Best approach for investor confidence

A principles-based framework with mandatory consumer disclosures, naming rules, and benchmarking transparency will best support informed investor decisions.

Triggering the requirement

The Government proposes that consistent labelling and disclosure requirements should apply to a broad range of financial products marketed as 'sustainable' or similar, including managed funds and superannuation products. Under the *Corporations Act 2001*, financial products encompass a wide array of instruments such as shares, bonds, insurance products, derivatives, and margin lending facilities. The consultation seeks feedback on whether:

- the labelling requirements should apply to all financial products or
- the labelling requirements should only apply to those using specific sustainability-related terms, and whether certain words or claims should automatically trigger labelling obligations.

Currently, product naming and marketing practices vary significantly, with terms like "ethical", "social", and "sustainable" used inconsistently across issuers. Some stakeholders have argued that applying labelling requirements only to products making sustainability claims could create cost imbalances and reduce transparency. Others suggest that labels should be triggered by the use of specific terms, as these claims can influence investor decisions. The Paper notes that marketing a product as sustainable may make it more attractive to certain investors, and this advantage has been acknowledged in recent regulatory actions addressing greenwashing.

8. When should labels apply?

We consider that application of labels to all financial products would ensure consistency but may impose unnecessary costs on products not making sustainability claims. Additionally, we again note that the scope of this Paper has been limited in the definition of "investor" on page 3 to:

> *…a retail investor, that is, an investor who is not a wholesale investor, and personally invests in pooled investment products such as superannuation funds, or managed investment schemes (including exchange traded funds).*

Finally, we wish to point out that not all financial products are homogeneous: We would expect that in the case of an asset such as insurance – arguably a pooled product – an issuer does not normally provide any level of detail about the investment strategy of the insurer's statutory fund to the same degree as the RE of a managed investment scheme.

At this stage, it would be the preference of CPA Australia and CA ANZ that only products labelling themselves as sustainable or similar determine when product labels apply. This targets the framework to where it's needed and avoids overreach. Further consideration could be given in future to uses of other labelling, and future application to other financial products.

9. Best approach to address greenwashing/greenhushing

CA ANZ and CPA Australia recommend that labelling and disclosure requirements apply to any product publishing investments with sustainability-related terms. This balances transparency with flexibility and reduces incentives for greenwashing, and to a degree, greenhushing.

The risk of greenhushing could be further alleviated with further imposition of a duty whereby the exposure to relevant ESG risk outside of sustainable investment objectives may require mandatory labelling – including disallowing unpublished sustainability objectives where these are in place. However, as we explained earlier, we are not certain that the potential risks of greenhushing have been adequately quantified.

10. Features that should trigger labelling

CPA Australia and CA ANZ agree that terms such as *sustainable*, *ethical*, *green*, *impact*, *responsible*, *ESG*, and *social* should automatically trigger labelling requirements. The challenge here will be identify all the relevant terms while allowing for further product development. Flexibility in the regulatory framework will therefore be a key issue.

Additionally, we consider that a minimum threshold (for example, 70% of assets aligned with sustainability objective) should be required to use a label, consistent with UK and US models.

Evidence base

Maintaining the integrity of sustainable financial product labels requires robust evidentiary standards that give investors confidence in the claims made by product issuers. The labelling framework could adopt either a prescriptive approach—defining specific asset types, thresholds, or activities—or a principles-based approach, which allows issuers to justify their claims with credible evidence. While prescriptive rules offer clarity, they may be too rigid and stifle innovation. A principles-based model provides flexibility but requires strong regulatory guidance and may benefit from third-party certification to ensure credibility. Existing certification bodies such as RIAA, B Lab (B Corp), and the Ethical Advisers Co-operative offer mechanisms to support this model and help investors assess the integrity of sustainability claims.

11. Prescriptive, principled, or mixed evidentiary requirements

CPA Australia and CA ANZ have a preference for a mixed model, whereby some elements are principles-based for flexibility, but with prescriptive elements (for example, asset thresholds, KPIs etc) for clarity and enforcement.

12. Link to other Roadmap initiatives

CA ANZ and CPA Australia agree that the evidentiary requirements for financial product labels should align with:

- The Australian Sustainable Finance Taxonomy.
- Climate-related financial disclosures.
- Transition planning guidance.

13. Role of third-party certification

We believe there may be a place for third party certification, however we are not convinced this should be compulsory as this would impose costs on smaller entities. Compulsion might also discourage market innovation and participation.