PRI PRINCIPLES FOR RESPONSIBLE INVESTMENT

PRI CONSULTATION RESPONSE

Commonwealth Treasury: Sustainable Investment Product Labelling regime (consultation paper)

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An investor initiative in partnership with
UNEP Finance Initiative and UN Global Compact

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United Nations Global Compact

About this consultation

In February 2026, the Commonwealth Treasury published its second consultation paper on a Sustainable Investment Product Labelling regime for Australia. The consultation builds on an earlier paper issued in July 2025 (PRI submission available here) and seeks stakeholder feedback on four core policy design elements: scope (which products are captured); consumer-facing disclosures; thresholds for asset alignment; and evidentiary requirements underpinning any label or naming regime. The Government is targeting a 2027 commencement date.

The PRI is the leading organisation in advancing responsible investment globally. Set up with United Nations' support, our unique community contributes to stable financial markets and a more prosperous world for all. We bring together signatories, amplify their voices and provide resources and guidance for complex sustainability challenges. The six Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Commonwealth Treasury's call for feedback on Australia's Sustainable Investment Product Labelling regime.

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To inform this paper, the following group has been consulted: Australia Regional Policy Reference Group

While the policy recommendations herein have been developed to be globally applicable, the PRI recognises that the way in which policy reforms are implemented may vary by jurisdiction and according to local circumstances. Similarly, the PRI recognises that there may be circumstances where there are merits to allowing market-led initiatives to precede regulatory requirements.

Key recommendations

The PRI welcomes the Commonwealth Treasury's continued progress in designing a Sustainable Investment Product Labelling regime and its ongoing, substantive engagement with international experience. The February 2026 consultation paper reflects important areas of convergence with the PRI's first-round submission and our broader policy research, including: applying the regime only to products that actively market a sustainability objective (rather than all financial products); recognising the importance of international interoperability; and proposing a principles-based approach to evidentiary assessment. The PRI offers the following six key recommendations to strengthen the regime's final design.

Further clarify the primary policy objectives

The regime's design choices depend significantly on whether the primary objectives are investor protection and market integrity, or actively steering capital toward sustainable outcomes. These objectives are complementary but carry different implications for regulatory design. Recommendations in this submission assume that investor protection and market integrity take precedence and capital allocation remains a secondary, underlying objective. Nonetheless, making this hierarchy explicit before a final consultation will support the wider ecosystem to provide feedback that meets Treasury's objectives and goals. The PRI sees this regime as complementing, standardising and operationalising existing Australian disclosure and anti-greenwashing settings, rather than replacing them.

Develop a layered disclosure framework as the structural foundation and clarify what role this disclosure regime will play in relation to broader investor disclosure frameworks (regulatory and otherwise)

PRI research across 169 frameworks finds that the globally emerging norm distinguishes between: (i) baseline disclosures applicable to all financial products regardless of sustainability claims; and (ii) adoption-contingent disclosures triggered by the use of sustainability labels or terms in product names and marketing. This layered structure ensures higher claims are matched by higher accountability. The proposed regime already reflects this logic by limiting requirements to products marketed as 'sustainable or similar' – the PRI recommends this principle be articulated explicitly as the framework's structural backbone: a layered disclosure architecture in which a concise, comparable consumer-facing disclosure sits at the front end, supported by supplementary methodology and periodic disclosures for other users and purposes. This would preserve retail usability while supporting due diligence, supervisory oversight and comparability. Furthermore, in order to ensure administrative efficiency, this regime should be set in the context of AASB S1/S2 disclosure requirements and other regulatory guidelines from ASIC and APRA.

The layered framework also helps resolve a question of eligibility. Products that incorporate ESG considerations solely as part of mainstream investment risk management — without pursuing a distinct sustainability objective — do not trigger the adoption-contingent disclosure layers. However, where stewardship or integration is deployed in pursuit of a specific sustainability objective, the product remains eligible for the regime, subject to evidentiary requirements proportionate to the nature and strength of the claim.

Support a hybrid CFD with a prescriptive core and principles-based flexibility

The PRI supports Option 3 (hybrid approach) for consumer-facing disclosures. A fully prescriptive template cannot accommodate the legitimate diversity of responsible investment strategies; a fully principles-based approach risks reproducing the vagueness the regime is designed to address. The prescriptive core should be limited to: the sustainability objective in plain language; the product's primary responsible investment approach; a disclosed minimum commitment or threshold framing; a very small number of objective-linked metrics; and a clear link to fuller methodology and product disclosure.

Prefer Option 2 (disclosure) for thresholds, complemented by 'no conflicting assets'

A prescribed minimum threshold risks creating a floor effect where products are designed to the number rather than to their investment objective, and cannot adequately serve the diversity of legitimate strategies. Disclosing a minimum commitment or threshold methodology, supported by periodic reporting on actual portfolio alignment, is more decision-useful for investors and enables genuine comparison. The 'no conflicting assets' sub-option is essential to the credibility of this approach. Where a minimum is ultimately adopted, the PRI suggests 70–75% to align with UK SDR and avoid penalising stewardship-led and transition-focused products.

Adopt a principles-based evidentiary approach with ASIC guidance and safe harbour

The PRI strongly supports principles-based evidentiary assessment and recommends that the regime avoid prescribing specific evidence types. Over-standardisation — particularly where it involves audit and assurance — risks crowding out innovation and creating greenhushing incentives. The principles-based approach should be accompanied by: detailed ASIC guidance with worked examples for different strategy types; explicit accommodation of stewardship evidence; and an equivalency or mutual recognition mechanism for product issuers complying with credible third-party standards or certifications, provided the regime recognises a plurality of qualifying frameworks under ASIC oversight rather than anchoring the regime in any single industry standard.

Prioritise international interoperability from the outset

Interoperability should focus on alignment of terminology, disclosure architecture, evidentiary logic and recognition pathways, rather than mechanical importation of overseas thresholds. The PRI recommends that Treasury embed a recognition mechanism for globally-regulated products and design the regime to evolve compatibly alongside AASB S1/S2 and the Australian Sustainable Finance Taxonomy.

Detailed response

The following provides the PRI's response to each consultation question, drawing on our September 2025 Investor Briefing analysing 169 global investor disclosure frameworks, as well as consultation submissions[1] in Australia and other markets on the same topic of sustainable investment product-level disclosures.

Element 1: Scope

Question 1: Is the definition of financial product in the Corporations Act appropriate as the basis for the kinds of investment products captured by this regime? Should the scope be narrowed? Should there be exclusions? Does this approach miss any products?

The Corporations Act definition of a financial product (s763A) is an appropriate and future-proof basis for the regime's scope. Its breadth ensures the regime can capture new product types as sustainable investing evolves, without requiring legislative amendment to respond to market innovation. The PRI supports this foundation.

On sub-question (a) — narrowing to products with an investment component: The PRI does not support narrowing the scope to particular product types such as superannuation or managed investment schemes at this stage. Doing so would create an uneven playing field and may leave gaps that could be exploited. The critical distinction should not be what the product type is but whether the product actively markets a sustainability objective — this is already addressed by the proposed trigger mechanism. For example, as Treasury notes, term deposits have previously used sustainability terminology and could do so again; excluding them in advance would be premature.

On sub-question (b) — exclusions: The PRI recommends one important distinction. The PRI recommends that financial products which simply integrate material sustainability factors into investment decisions should **not** be permitted to use sustainability labels or related terminology in their fund names. This position reflects the important distinction between basic investor duties and sustainability claims that go beyond those duties.

Integrating financially material sustainability factors is part of mainstream investment risk management and existing investor duties. Investors are expected to consider all financially material risks and opportunities – including those related to sustainability – in pursuit of risk-adjusted financial returns. In this sense, assessing financially material sustainability factors is not a special feature of certain products; it is a baseline market expectation.

Because of this, the labelling regime should be reserved for products that make **additional** sustainability claims — that is, products that assert sustainability characteristics or outcomes beyond what is expected under mainstream investment risk management. Only these products should be eligible to use sustainability labels or terminology in their names or marketing.

As such, regarding the adoption-contingent layer: products where sustainability-related considerations are incorporated purely as part of mainstream investment risk management under investor duty obligations without any explicit marketing of a sustainability objective should not be captured by the regime. ESG integration as a risk management tool — with no sustainability objective claimed in product naming or marketing — should not trigger adoption-contingent requirements. Treasury should also guard against circumvention where sustainability-related claims are shifted from the product name to wider fund-level or issuer-level marketing while creating materially the same retail impression.

[1] PRI's Consultations and Letters are available publicly. Our submissions to the 2025 Australian Treasury consultation, 2023 UK Financial Conduct Authority (FCA) consultation, and the 2023 Japan Financial Services Agency (FSA) consultation.

On sub-question (c) — gaps: The PRI notes that structured products, green bonds or sustainability-linked bonds offered to retail investors may not be captured under the current drafting. Treasury may consider explicitly confirming that the scope extends to these product types where they are marketed to retail investors using sustainability terminology.

Question 2: Is the approach of using a non-exhaustive list of 'sustainability' terms appropriate for this regime?

Yes. A non-exhaustive list is a sensible approach considering proportionality to market development. It balances regulatory certainty with the flexibility needed to respond to evolving market terminology. PRI research confirms that jurisdictions including the UK and Singapore also rely on open-ended definitions of sustainability-related terms rather than fixed, closed lists, precisely because market language in this space develops rapidly.

The non-exhaustive list serves as an anchor for enforcement and product issuer certainty, while a clear purpose-based test — does the product market itself as having a sustainability objective? — fills any gaps. Nonetheless, it is important that this list remain relevant and reflective of market practice. The PRI recommends that Treasury and/or ASIC publish guidance on a regular basis reviewing whether the list requires updating, with a formal mechanism for market participants to propose additions/deletions.

Question 3: Should terms relating to the governance and social elements of ESG be in scope of this regime? Why?

Yes. Responsible investment encompasses environmental, social and governance dimensions and the regime should reflect this in full. The PRI's Principles explicitly address all three dimensions, as does the responsible investment industry more broadly.

Excluding governance and social terminology would create an arbitrary distinction that does not reflect how the market operates or how investors understand sustainability. Products that market themselves as 'ethical', 'socially conscious', 'responsible' or 'ESG' generate exactly the same investor expectation — and therefore the same risk of greenwashing — as products using environmental terminology. The same regulatory protections should apply.

The PRI's analysis confirms that leading jurisdictions in this space — including the UK, EU, Singapore and Hong Kong — apply their disclosure and labelling requirements across the full ESG spectrum rather than restricting to environmental claims.

Question 4: Are there any terms in the non-exhaustive list that create unintentional consequences and should not be included? Are there any terms missing?

The PRI highlights two terms that may warrant specific attention:

- **Future**: As a standalone word this term is widely used in product naming with no sustainability connotation. Including it in the list without qualification risks capturing products that have no sustainability claim, generating confusion and potential compliance burden for products without express sustainability objectives. Treasury may consider either removing 'Future' from the list or qualifying it explicitly (e.g. 'Sustainable Future', 'Future of the Planet') with guidance clarifying that standalone use does not trigger the regime.
- **Equity**: This term has a well-established meaning as an asset class (equities, equity investments) entirely distinct from its social meaning ('social equity', 'gender equity'). Treasury may consider clarifying in guidance that 'Equity' only triggers the regime where used in a social or sustainability context, not where it refers to the asset class.

Treasury should also test whether 'transition' needs explicit treatment in the non-exhaustive list and supporting guidance, especially because transition-oriented products may not fit a static green-asset model. It may be beneficial for Treasury to consider drafting the non-exhaustive list across four sections that cover overarching sustainability claims and each 'ESG' theme. Each section will benefit from a brief explanation of the intended coverage and a list of potential words that gets covered in the thematic. This may aid in qualifying words with non-sustainability uses such as those mentioned above.

Treasury may also wish to clarify the boundary treatment of values-based products, including faith-based funds, that may pursue functionally similar outcomes to sustainability-marketed products without using sustainability terminology.

Element 2: Consumer-facing disclosures

Question 5: Do you support the introduction of mandatory consumer-facing disclosure obligations?

Yes, with an important qualification. The PRI strongly supports mandatory consumer-facing disclosure obligations for products marketed as sustainable or similar. The first-round submissions from the PRI and other respondents — as noted in the consultation paper itself — consistently supported this approach. The case for a tailored labelling regime is not that Australia lacks existing conduct and disclosure obligations, but that a standardised, comparable and product-specific framework can make sustainability claims easier to navigate and supervise in practice. The case rests on three pillars:

- Voluntary templates/frameworks consistently produce inconsistent outputs because product issuers have an incentive to present sustainability attributes selectively. The UK SDR's experience confirms that mandatory requirements are necessary to achieve comparability. Australia does benefit from existing voluntary market infrastructure, including industry certification frameworks, and Treasury should design the regime so that such frameworks can complement — rather than substitute for — regulatory requirements.
- A mandatory consumer-facing document can be designed to provide a clear enforcement reference point for ASIC, complementing existing anti-greenwashing provisions under the ASIC Act and the Corporations Act.
- The PRI's analysis of 169 frameworks finds that adoption-contingent mandatory pre-contractual product-level disclosure is a common feature of investor sustainability disclosure regimes internationally, including the UK SDR, EU ESMA Guidelines, and Singapore MAS Circular.

The critical qualification: the regime should aim to make existing disclosures more simplified and accessible rather than adding new comprehensive layers of reporting on top of existing PDS obligations. Retail investors do not require more information than institutional investors — our observation is that they require the same information in a more accessible form. The CFD should therefore be a distillation, not an addition.

Question 6: How could voluntary templates achieve the policy objectives?

The PRI's position on voluntary versus mandatory templates has evolved through direct regulatory engagement. In our January 2023 response to the FCA's SDR consultation, the PRI supported an industry-led approach to templates at that early stage — recognising that standardisation should not hamper innovation and that further streamlining could develop as global alignment increased. That position was appropriate for the FCA's initial proposals in 2022–2023.

For Australia in 2026, the context has evolved and is different. The UK SDR has now been operating for over a year. Research by the Investment Association that the FCA references confirms that jargon and inconsistency in voluntary practice continue to hinder retail investor understanding of sustainable investment products. Australia has the benefit of three years of additional international evidence on what

voluntary approaches produce in practice: inconsistency and selective disclosure. The PRI's recommendation of Option 3 (hybrid mandatory) for Australia reflects this understanding.

If Treasury nonetheless proceeds with voluntary templates as an interim measure, the PRI recommends the following minimum conditions to preserve the policy objectives:

- Templates should be positioned explicitly as transitional, with a stated review date (e.g. two years from commencement) and a clear commitment to make them mandatory upon conditions such as: uptake rates falling below a certain coverage (e.g. 80%) of in-scope products or if ASIC's monitoring identifies material inconsistency in outputs.
- The template must be developed through genuine industry co-design including product issuer associations, ASIC, consumer advocates, and beneficiary representatives, with consumer testing before finalisation — consistent with the process the FCA used for the UK SDR's Key Sustainability Information document.
- Complementary mechanisms to promote reputational accountability will also be important in a voluntary context. As we have seen in Hong Kong, Singapore, the UK, and the EU, ASIC may play a role here by publishing and maintaining a public register identifying which products have adopted the template and allowing side-by-side comparison of outputs.

Question 7: Which of the above design options do you support, and why? If prescriptive, what elements should be mandated? If principles-based, what should be included?

The PRI recommends a two-layer content approach.

Core CFD content should be limited to:

- the sustainability objective in plain language;
- the product's primary responsible investment approach;
- a disclosed minimum commitment or threshold framing;
- a very small number of objective-linked metrics;
- and a clear link to fuller methodology and product disclosure.

This core should be concise, standardised and comparable across products. Its purpose is to help retail investors quickly understand the nature of the claim being made, rather than to reproduce the full disclosure architecture.

Supplementary or strategy-specific disclosure should then provide the additional information necessary to understand and test the claim in context. This may include:

- detailed methodology and data sources;
- treatment of direct and indirect investments, including material limitations;
- exclusions methodology;
- stewardship approach and outcomes, where stewardship is material to the claim;
- asset-class-specific considerations;
- adverse impacts, risks or trade-offs relevant to the claim;
- and progress updates or interim milestones, where relevant.

Transition-oriented products may require different explanatory disclosure to avoid being assessed solely through a static green-asset lens. For the principles-based elements, issuers should have flexibility to explain their screening, engagement or thematic methodology, how sustainability is integrated into portfolio construction, and any interim milestones or targets. ASIC guidance should include worked examples across common strategy archetypes.

Table 1: Summary of key disclosure aspects

Disclosure aspect		UK SDR	EU ESMA Guidelines (SFDR)	Singapore MAS Circular
Sustainability characteristics or objectives		✓	✓	✓
Adverse impacts on sustainability outcomes		Identify material negative sustainability outcomes	Disclose DNSH, PAIs, etc.	×
Risks and limitations[2]		Risks	×	Both risks and limitations
Policies, strategies, and monitoring processes		✓	✓	✓
Methodologies, KPIs, and metrics for measuring progress		✓	Includes alignment with the EU taxonomy	✓
Implementation process	Asset allocation plan	✓	✓	✓
	Stewardship	Includes escalation plans	×	✓
	Resources	✓	×	×
	Due diligence	×	×	✓
Outcomes and progress update	Progress	✓	✓	✓
	Asset allocation	✓	✓	✓
	Actions	✓	✓	✓

Question 8: Would you support mandating disclosure of direct and indirect investment exclusions in the CFD? Does the Box 2 exclusions list capture the appropriate range?

Yes. The PRI supports mandatory disclosure of exclusions for both direct and indirect investments. Exclusions are among the most tangible and verifiable sustainability characteristics a product can have, and are frequently cited by retail investors as one of their primary interests when selecting sustainable products. Mandatory disclosure ensures investors can compare exclusion practices consistently.

On indirect investments: the PRI acknowledges that look-through data for indirect exposures (pooled vehicles, ETFs, fund-of-funds) is not always available, particularly for smaller product issuers. The disclosure requirement should therefore operate on a 'best efforts and limitation disclosure' basis for indirect investments, with product issuers required to disclose both the exclusion policy and any material limitations in their ability to verify indirect exposure compliance.

On the Box 2 exclusions list (sub-question a): the list is a reasonable starting point. In the PRI's view, the key design principles are that exclusions should be objective-linked, decision-useful, transparent in methodology, and applicable to direct and indirect holdings where feasible. Illustrative implementation refinements could include the following:

- Add controversial weapons as an explicit, standalone exclusion category. Controversial weapons (cluster munitions, anti-personnel landmines, biological and chemical weapons) are excluded by the overwhelming majority of responsible investment products globally and by most recognised industry standards.
- Clarify the animal testing entry: animal testing for some purposes (e.g. pharmaceutical product safety where no alternative exists, as required by law) is widely distinguished from animal testing for

[2] Limitations of sustainability strategy, process, data uses or methodologies.

cosmetics or non-essential consumer products. Guidance should specify which type of animal testing the exclusion covers to avoid disproportionate impact on pharmaceutical and biomedical research companies.

- Introduce revenue thresholds for each exclusion category rather than applying a binary 'any involvement' standard for indirect investments where full look-through is not available. The UK SDR and EU proposed framework both use revenue thresholds (typically 5–10%) to provide practicable compliance standards. Australian guidance can specify appropriate revenue thresholds by category.

Question 9: What other considerations should the Government consider if it progresses with mandatory consumer-facing disclosure obligations?

The PRI highlights the following additional design considerations:

- **Interaction with the existing investor sustainability disclosure architecture:** The consumer-facing disclosure should be designed to sit within the existing disclosure architecture — as a simplified summary of, rather than a parallel to, the entity-level sustainability disclosures being introduced under AASB S1/S2. ASIC guidance should make explicit how the CFD relates to existing PDS obligations and entity-level sustainability reports to avoid duplication and unnecessary cost.
- **Stewardship disclosure:** Stewardship is an important mechanism for achieving real-world sustainability outcomes, yet it is the disclosure topic least consistently addressed across the frameworks the PRI reviewed (fewer than 40% of stewardship codes require outcome disclosures). Australia can draw on emerging international practice to strengthen stewardship outcome disclosure as part of the CFD framework.
- **Machine-readable format:** Requiring the CFD to be available in a machine-readable, structured data format (consistent with existing ASIC digital disclosure initiatives) would enable comparison platforms, fintech applications, and institutional data users to aggregate and compare sustainability information at scale — significantly amplifying the regime's investor protection objectives at low additional cost to product issuers.
- **Consumer testing:** The consultation paper correctly notes BETA's finding that effective labels must communicate clearly to non-expert investors. The PRI strongly recommends that the CFD template be developed with mandatory pre-finalisation consumer testing, consistent with the process used in developing the UK SDR's Key Sustainability Information document. The Investment Association's 2025 finding that over half of UK investors are aware of SDR labels but that jargon continues to hinder green investment is a direct signal of the work required.
- **Greenhushing risk:** Scheme design should actively monitor for and mitigate greenhushing risks. ASIC should conduct periodic market-wide reviews of whether the CFD regime is inadvertently discouraging product issuers from making legitimate sustainability claims, and should report publicly on these findings.

Question 10: Should separate CFD requirements be developed for different types of financial products (i.e. non-fund products)?

In principle, administrative burden and a user-friendly system should be a priority in such considerations. The PRI supports a common core CFD requirement across all product types captured by the regime, with ASIC guidance providing strategy-specific supplementary guidance for different product types. A common core ensures comparability for retail investors, which is the regime's primary objective. Strategy-specific supplementary guidance addresses the legitimate differences between, for example, a superannuation option, a managed investment scheme, and a structured green product.

On wholesale funds: Treasury may wish to consider whether equivalent principles should apply where wholesale products use sustainability terminology. The EU SFDR, for example, serves a purpose in delivering

sustainability disclosures to a range of investors, including those institutional. Institutional and retail investors require largely similar information; disclosure to retail investors needs to be more accessible and digestible.

Question 11: When and how should the CFD be provided to the client/potential client?

The PRI offers the following considerations, while recognising that implementation detail will benefit from further market and consumer testing:

- Available at the point of sale: the PRI's preferred model is a short, standardised standalone document, but the PRI recognises that the policy objective — prominence, comparability and accessibility at the point of investment decision — can also be met through a highly standardised, clearly demarcated section within the PDS, presented in a format that supports comparison and, where feasible, extraction. The policy objective is prominence and comparability, not duplication for its own sake.
- Updated at least annually, within a reasonable period of the end of each financial year, to reflect actual sustainability performance data for the period.
- Material changes trigger an interim update within a reasonable period — for example, if the product's sustainability objective, primary approach, or threshold disclosure changes materially.
- Available in both digital and print formats, with the digital version in a structured, machine-readable format.
- Consistent with ASIC's 'clear, concise and effective' standard under Part 7.9 of the Corporations Act, with a recommended maximum length for the core CFD (two pages in the case of the UK SDR).

Element 3: Thresholds

Question 12: Should a threshold be prescribed (Option 1) or only require disclosure (Option 2)? Which option best ensures credibility? If Option 1, what is the appropriate threshold?

The PRI recommends Option 2, structured around a disclosed minimum commitment or threshold methodology, supported by periodic reporting on actual portfolio alignment and accompanied by a 'no conflicting assets' safeguard. Our reasoning:

On credibility (sub-question a): Option 2, paired with 'no conflicting assets', provides a more credible foundation for the regime than Option 1 alone. Option 1's apparent simplicity masks a significant risk: it creates a compliance floor that products are designed to meet rather than a genuine reflection of the product's sustainability ambition. PRI analysis of the EU SFDR experience — where minimum thresholds contributed to clustering of products just above the qualifying threshold without meaningfully differentiated sustainability outcomes — should be considered as a cautionary example in this context. A disclosed minimum commitment or threshold methodology, combined with periodic reporting on actual portfolio alignment, is more decision-useful for investors, enables genuine comparison between products with different sustainability ambitions, and would not foreclose a 'race to the top' environment.

The 'no conflicting assets' sub-option is essential to Option 2's credibility: at minimum, non-threshold assets should not conflict with the stated objective (see Question 16).

On the appropriate threshold if Option 1 is adopted (sub-question b): if Treasury nevertheless adopts a prescribed minimum, a lower-end international range would be preferable to preserve flexibility for diversified and transition-oriented products. Global examples are trending toward a threshold in the range of 70–75%. This aligns with the UK SDR (70%), is compatible with EU proposed framework (70%), and avoids penalising stewardship-led or transition-focused strategies where a high asset alignment percentage on

current metrics may not be achievable even for high-integrity products. The PRI recommends against a threshold above 75%, as this may risk excluding legitimate transition finance strategies from the regime.

Question 13: How should a threshold be calculated? What assets should contribute, and how should different sustainability impacts be considered?

Threshold calculation is one of the most technically complex elements of the regime. The PRI recommends the following principles:

- **Objective-linked calculation:** Threshold calculation should be objective-linked, not based on a single mandated metric set. The disclosure regime should standardise structure and transparency, not force unlike strategies into the same metric architecture. A climate-focused product should calculate alignment using a recognised climate-related standard (e.g. Paris-aligned benchmarks, net-zero pathway assessment); a social exclusion product by reference to its exclusion criteria; an impact product against its stated impact metrics. ASIC guidance should include worked examples for climate, transition, exclusion-led, impact, stewardship-led and mixed-strategy products.
- **Transparent disclosure of methodology:** The calculation methodology — including data sources, asset classification approach, treatment of indirect investments, and any limitations — should be disclosed as part of the CFD. Investors and ASIC should have access to this information to be able to confirm the veracity of claims.
- **Avoid threshold ranges as a design feature:** The consultation suggests a threshold range (e.g. 70–80%) as a possible design element under Option 1. The PRI recommends against ranges, as they introduce ambiguity without providing clarity to investors. A single point threshold, if adopted, is preferable.
- **Different investment approaches contribute differently:** Stewardship-led and active ownership strategies present a particular challenge because their sustainability contribution is realised through engagement outcomes over time rather than through portfolio composition at a point in time. Any threshold calculation framework should provide explicit accommodation for stewardship evidence as a valid and material contribution to threshold compliance, not solely asset-level data.

Question 14: What are the practical administrative considerations for implementation?

The PRI highlights the following practical considerations:

- **Data infrastructure:** Threshold compliance depends on sustainability data infrastructure that is still maturing. The regime should adopt a phased implementation pathway, with requirements becoming more precise as AASB S1/S2 and Australian Sustainable Finance Taxonomy disclosures mature.
- **Lead time:** Product issuers should be given sufficient and reasonable lead time from the finalisation of rules to first compliance date, to build data infrastructure, update systems, redesign products where necessary, and staff the compliance function. We have observed 18 months as a timeframe consistent with the lead times provided in comparable jurisdictions.
- **Superannuation performance test interaction:** Treasury should ensure the regime does not create product-design incentives that sit awkwardly with trustees' existing obligations and performance settings, including the Your Future Your Super performance test.
- **Passive deviations:** Temporary deviations from the disclosed threshold due to market movements outside the product issuer's control should be treated as passive breaches subject to prompt correction and disclosure, not triggers for immediate regulatory action. The UK SDR and Singapore MAS Circular both adopt this approach.

Question 15 :Should direct and indirect investments be treated differently for thresholds? How would compliance be evidenced for indirect investments?

The PRI supports differential treatment of direct and indirect investments, with clear disclosure of the approach used for each. For direct investments, full threshold calculation should be required. For indirect investments (pooled vehicles, ETFs, fund-of-funds), a 'look-through where available' approach should apply, with:

- Full look-through required where underlying fund-level sustainability data is available (e.g. where the underlying fund is itself required to report under this regime or an equivalent international regime)
- Best-efforts calculation with explicit limitation disclosure where full look-through is not available
- A minimum floor of fund-level label or certification compliance as a proxy for threshold compliance for indirect investments in internationally-regulated sustainability-labelled funds

Compliance should be evidenced through transparent methodology disclosure in the CFD. ASIC should accept this as satisfying indirect investment evidential requirements at this stage, while building a roadmap for improved look-through capacity.

Question 16: Is there a role for a mechanism governing assets not contributing to the threshold? Advantages/disadvantages of UK vs EU approaches? Which should be preferred?

Yes. Under a disclosure-led threshold model, a mechanism governing non-threshold assets is necessary to preserve credibility. Without it, a product could disclose some aligned exposure while retaining holdings that materially undermine its stated sustainability objective. While Australia's existing misleading and deceptive conduct provisions provide an important backstop, they operate reactively and case-by-case; a product-level mechanism governing non-threshold assets provides ex ante standardisation and prospective certainty that existing provisions do not, by their nature, replicate.

On the UK 'not conflicting' approach (sub-question a): The PRI prefers the UK's 'not conflicting' model. Its advantages are flexibility (accommodates the full diversity of strategies including transition and stewardship-led approaches), proportionality (focuses regulatory attention on net impact rather than prescribing asset allocation), and alignment with existing market practice. Its primary disadvantage is that 'not conflicting' requires interpretation and regulatory guidance needs to be sufficiently detailed to prevent gaming. The PRI recommends that ASIC publish regular guidance on what assets it considers to conflict with standard sustainability terminology categories, and that this guidance be reviewed at least every two years.

On the EU prescribed prohibition approach (sub-question b): The EU approach provides more legal certainty but reduces flexibility to an extent that could disadvantage legitimate strategies including transition finance (where assets may be classified as 'conflicting' on current metrics even if they are integral to a credible decarbonisation strategy). The EU's own market experience has demonstrated the complexity and unintended consequences of maintained prohibition lists across product categories.

Table 2: Indicators related to measuring adverse/negative impacts on sustainability outcomes

EU SFDR	UK SDR
DNSH Principle: This principle ensures that investments do not cause significant harm to any environmental or social objectives.	Material Negative Outcomes: Requirements mandate the identification of material negative outcomes that may arise in pursuing the responsible investment objective. This approach focuses on identifying and addressing significant negative impacts without the structured framework of PAI indicators.
There are 64 PAI Indicators (14 are mandatory for corporate assets, 2 apply to sovereigns, and 2 apply to real estate assets, while 46 are voluntary). These indicators help in assessing the negative impacts of investments on sustainability outcomes.	

Preferred approach (sub-question c): The PRI recommends the UK's "not conflicting" model as the primary standard. ASIC should publish and periodically review guidance on the types of assets that may conflict with commonly used sustainability terminology categories. Over time, ASIC may wish to consider whether a narrow set of categories warrants clearer treatment through guidance, but the regime should not rely primarily on fixed prohibition lists.

Element 4: Evidentiary assessment

Question 17: Do you support a principles-based approach to evidentiary assessment? Why or why not? If not, what alternative?

Yes. The PRI strongly supports a principles-based approach to evidentiary assessment. This position is well-grounded in both our first-round submission and our global investor sustainability disclosure framework research.

The core case for principles-based over prescriptive evidentiary requirements:

- **The diversity of responsible investment strategies.** Spanning negative screening, positive screening, ESG integration, thematic investing, stewardship and engagement, and impact investing — means that prescribing specific evidence types would advantage some strategies over others without improving sustainability outcomes. Prescribing, for example, portfolio-level carbon intensity data as the primary evidence type for a fund whose stated objective is advancing workers' rights through active engagement would produce perverse results.
- **The PRI's research confirms that over-standardisation is a primary driver of greenhushing,** particularly where it involves audit and assurance. Compliance costs rise, issuers withdraw legitimate claims, and retail investors lose access to sustainability information.
- **The proposed principles-based approach is consistent with the UK and Singapore models.** The UK SDR explicitly requires evidence to be 'robust and evidence-based' without prescribing form, and the Singapore framework requires ongoing reporting demonstrating the fund's assets are managed in line with the ESG strategy.

The principles-based approach should be accompanied by robust regulatory guidance, worked examples, and a safe harbour mechanism to ensure it is genuinely rigorous rather than merely flexible in name.

Question 18: What types of evidence substantiate sustainability claims? What is the relationship with industry standards? Should the regime prescribe specific standards?

The PRI draws on its experience as a global standard-setter and its analysis of global responsible investment practice to identify the following evidence types as the most material for substantiating sustainability claims:

- **Portfolio-level data:** Holdings-level data demonstrating the proportion of assets aligned with the sustainability objective, calculated using a disclosed, objective-specific methodology.
- **Investee-level sustainability data:** Company-level sustainability disclosures, ESG ratings, or assessments derived from AASB S1/S2-compatible frameworks. Product issuers should disclose data sources and known limitations.
- **Stewardship records:** For stewardship-led strategies, voting records, engagement logs, escalation records and documented outcomes should be accepted as primary evidence. Fewer than 40% of frameworks globally accommodate stewardship evidence adequately.
- **Third-party certifications and standards:** Compliance with credible third-party standards or certifications may provide useful evidentiary support, provided the regime recognises a plurality of qualifying frameworks under ASIC oversight rather than anchoring the regime in any single industry standard. This could include local or international frameworks meeting criteria of independence, transparency, robustness and regular review. Relevant frameworks may include the Australian

Sustainable Finance Taxonomy for climate mitigation and transition claims, alongside international standards and certifications.

- **Internal methodologies:** Proprietary sustainability assessment methodologies, clearly documented, regularly reviewed, and supported by transparent disclosure of key assumptions. These are particularly relevant for impact and thematic strategies where standardised external data may not capture the relevant sustainability characteristics.
- **Forward-looking evidence:** Transition plans, theories of change, interim targets and milestones, and portfolio-level progress metrics that demonstrate how the product's sustainability objective is expected to be achieved over time. These are particularly material for transition-oriented and impact strategies where current-state alignment data alone may not capture the product's intended trajectory.

On whether the regime should prescribe specific standards (sub-question a): The PRI recommends against prescribing specific standards, as this risks locking in current approaches that may evolve rapidly. Instead, ASIC should specify the characteristics a qualifying standard must possess (independence, robustness, transparency, regular review) and maintain a publicly accessible register of recognised standards. This approach creates dynamic rigour without the regulatory rigidity of a prescribed list.

Question 19: How can a principles-based regime ensure sufficient consistency across products and issuers while allowing flexibility?

The tension between flexibility and consistency is the central design challenge of a principles-based evidentiary framework. Early implementation should emphasise guidance, supervisory engagement and correction of good-faith misapplication, with stronger enforcement focused on egregious or repeated misuse. The PRI recommends four mechanisms to address it:

- **Regulatory guidance with worked examples:** Detailed, regularly updated guidance setting out what constitutes sufficient evidence for different product types and responsible investment strategies — including specific worked examples for negative screening funds, ESG integration funds, engagement-led funds, impact funds, and transition funds. This is analogous to the role ASIC's INFO 271 already plays for anti-greenwashing guidance, and may come in the form of a revision or addition.
- **Standardised methodology disclosure:** Requiring all product issuers to disclose their evidence methodology in a standardised structure — objective, approach, data sources, limitations, independent review — within the CFD or an accompanying disclosure, enables comparability of methodologies without prescribing the methodologies themselves.
- **Periodic ASIC market-wide review:** Consistent with ASIC's 2021–2022 greenwashing review, ASIC should conduct periodic reviews of evidentiary practices across the market to identify systemic inconsistencies, update guidance accordingly, and publish findings. This creates a self-correcting mechanism within the principles-based framework.
- **Industry self-regulatory bodies:** Industry-developed standards or certifications may provide useful evidentiary support where they meet transparent criteria of independence, robustness, transparency and regular review, but ASIC should retain responsibility for assessing whether any framework qualifies.

Question 20: Are there particular challenges in evidencing certain sustainable investment approaches? How should a principles-based regime accommodate these differences?

Yes. Products using 'impact' terminology should face a higher evidentiary burden, given the stronger consumer expectation of intentional, measurable real-world outcomes. The PRI identifies three categories of

sustainable investment strategy that present specific evidential challenges, and recommends how the regime should accommodate each:

Stewardship and engagement-led strategies: Where stewardship or engagement is the primary mechanism by which a product seeks to achieve its sustainability objective, the evidentiary burden should be higher and should include clear explanation of the theory of change, escalation processes and reported outcomes. The PRI does not support categorically excluding integration- or stewardship-led products from label eligibility, but recognises that where these approaches are the sole mechanism, the risk of consumer misapprehension is higher and the evidentiary requirements should reflect this. The PRI recommends that the regime explicitly accommodate stewardship evidence (voting records, engagement logs, escalation records, documented outcomes) as primary evidence for these strategies, and that ASIC publish specific guidance on evidential standards for active ownership.

Transition finance strategies: Products targeting assets in sectors undergoing decarbonisation or other sustainability transitions face a particular challenge: their assets may appear 'non-aligned' or even 'conflicting' on current metrics even if they are directly funding the economy-wide transition to a sustainable future. The UK SDR's 'Sustainability Improvers' label is a model worth examining for Australia. Products should be permitted to evidence transition strategies through: (i) investee transition plans assessed against a recognised standard; (ii) active monitoring and engagement records; and (iii) progress reporting against stated transition milestones. The regime should not inadvertently penalise transition finance by requiring asset alignment metrics that are not designed for this strategy type. ASIC guidance should include worked examples for transition products, including acceptable evidence of pathway credibility, engagement strategy and portfolio treatment of high-emitting sectors. For transition products, threshold and non-conflicting-asset assessment should recognise credible transition pathways, not only current-state taxonomy alignment.

Private market strategies: Private markets should be held to the same credibility standard as public markets, while permitting different evidence types and a phased improvement pathway for look-through and data quality. The issue is not a lighter standard, but a tailored evidentiary pathway. The PRI's analysis notes that private market sustainability frameworks such as the ESG Data Convergence Initiative (EDCI) are beginning to fill this gap but remain immature. The regime should set proportionate, staged evidential standards for private market strategies, with a clear roadmap for increasing rigour as data infrastructure improves.

Note:

In the longer term, Treasury may wish to consider whether baseline sustainability-related disclosure obligations for all financial products — not only those marketed with sustainability characteristics — would strengthen the overall regime architecture by reducing boundary and avoidance incentives. This is consistent with the PRI's broader analysis of the role of investor sustainability disclosure within a holistic policy framework.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the Commonwealth Treasury further to enhance investor sustainability disclosure in Australia.

Please send any questions or comments to policy@unpri.org.

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