FEBRUARY 2025 ESG POLICY UPDATE—AUSTRALIA

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Australia Environmental Social Governance (ESG) Alert

By: Jim Bulling, Clive Cachia, Lisa Lautier, Adam Levine

AUSTRALIAN UPDATE

ASIC's Key Issues Outlook for 2025

On 24 January 2025, the Australian Securities and Investments Commission (ASIC) released its key issues outlook for 2025 which provides insights for Australian businesses and consumers on the most significant current, ongoing and emerging issues within ASIC's regulatory remit.

ASIC emphasised its desire to be a proactive regulator, ensuring a safe environment for Australian businesses and markets whilst safeguarding consumers. ASIC noted that key factors influencing its perspective on the issues facing Australia's financial system included:

- Increased market volatility;
- Geopolitical changes;
- The global accumulation of debt to drive growth;
- Perceived and real inequality of wealth;
- Shifts in the way capital is invested; and
- Advances in artificial intelligence, data and cyber risk.

Among other issues, ASIC identified poor quality climate-related disclosures as leading to misinformed investment decisions. ASIC noted that informed decision making by investors is facilitated by the provision of high quality, consistent and comparable information regarding a reporting entities' climate related risks and opportunities.

Furthermore, ASIC emphasised the importance of reporting entities having appropriate governance and reporting processes to comply with new mandatory climate reporting obligations introduced as part of the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* (Cth), which took effect on 1 January 2025. Please refer to our earlier summary of the regime here.

ASIC also noted it will continue to scrutinise disclosures which misrepresent the green credentials of a financial product or investment strategies. Please refer to our summary of ASIC's guidelines to prevent greenwashing here.

AU$2 Billion Investment in Clean Energy Finance Corporation

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On 23 January 2025, the Australian Government announced it is providing an additional AU$2 billion to the Clean Energy Finance Corporation (CEFC). This is Australia's specialist investor in the nation's transition to net zero emissions.

The investment aims to enable the CEFC to support Australian households, workers and businesses who are making the shift to renewable energy by offering significant savings.

The investment aims to also help deliver reliable, renewable, cost-saving technologies to the Australian community by generating an expected AU$6 billion in private investment. It is anticipated that this will come from global and local organisations looking to capitalise on the nation's future renewable energy plan.

This follows the CEFC's announcement on 16 January 2025 that it had invested AU$100 million in a build-to-rent strategy to facilitate the design and delivery of affordable, sustainable and high-quality homes. These homes will harness the benefits of clean energy technologies, by aiming to be highly efficient, fully electric and powered by renewable energy.

Since its establishment in 2012, the CEFC has played a key role in helping Australia strive towards its emissions reduction targets. In 2024, the CEFC invested over AU$4 billion in local projects which the Australian Government claims unlocked around AU$12 billion in private investment and supported over 4,000 Australian jobs.

Superannuation CEO Roundtables Emphasise Importance of Consistent Climate Risk Disclosures

The Australian Prudential Regulation Authority (APRA) and ASIC recently hosted two Superannuation CEO Roundtables in November and December of 2024, attended by 14 chief executive officers (CEOs) and other executives from a cross-section of superannuation funds. Climate and nature risks were the key focus of discussions, given the recent legislation mandating climate-related financial disclosures and the introduction of the Australian Sustainability Reporting Standards.

The CEOs collectively acknowledged the importance of consistent climate risk disclosure whilst emphasising the need for clear and practical guidance from regulators and calling for standardised metrics, methods and scenarios to ensure comparability across the industry. The CEOs also outlined the current challenge of aligning different reporting standards across jurisdictions. The host regulatory bodies recognised the value of consistency with international standards of climate risk reporting. They noted that appropriate alignment can avoid duplication of efforts, ensure Australian superannuation funds remain in line with global best practices and provide for effective disclosures for members through which informed investment decisions may be made. In turn, discussions further touched on the impact of climate risk on investment strategies and the selection of investment managers and custodians, highlighting the impact on investment decision-making by participants across the industry.

The discussion also covered nature risk, with APRA interested in understanding how superannuation trustees are addressing nature risk given it is a topic of growing importance. It was acknowledged this was a topic that should continue to be explored.

Participants also discussed the role of industry bodies, and all agreed these bodies can play a crucial role in supporting trustees navigate the complexities of the data. ASIC and APRA expressed their commitment to support the superannuation industry and collaborate with industry bodies to drive consistent and accurate disclosures, effective communication with members and alignment with global standards.

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Australian Government Announces Green Iron Investment Fund

On 20 February 2025, the Australian Government announced an AU$1 billion Green Iron Investment Fund to support green iron manufacturing and its supply chains by assisting early mover green iron projects and encouraging private investment at scale. "Green iron" refers to iron products made using renewable energy.

Australia is the world's largest iron ore producer, earning over AU$100 billion in export income in the 2023-24 financial year. The iron and steel industry supports more than 100,000 jobs within Australia.

An initial AU$500 million of the Green Iron Investment Fund will be used to support the Whyalla Steelworks (Whyalla) after the Premier of South Australia, Peter Malinauskas, placed Whyalla into administration on 19 February 2025. The funding is proposed to transform Whyalla into a hub for green iron and steel.

Whyalla is considered strategically important for Australia due to its manufacturing capacity, highly skilled workforce, and access to a deep-water port, high-grade magnetite ore reserves and renewable energy sources.

The remaining AU$500 million will be available for nationwide green iron projects, targeting both existing facilities and new developments. Several companies within the industry are already exploring low-carbon iron production from the Pilbara ores in Western Australia.

The Green Iron Investment Fund is the latest initiative from the Australian Government aimed at bolstering Australia's green metals sector. Existing initiatives include:

- An AU$2 billion investment in Australian-made aluminium;
- Passing legislation to deliver Production Tax Credits for hydrogen and critical minerals;
- Investing in major critical minerals and rare earth projects through the Critical Minerals Facility;
- An AU$3.4 billion investment in Geoscience Australia to accelerate the discovery of resources; and
- Funding Hydrogen Headstart to support Australia's hydrogen and clean energy industries.

VIEW FROM ABROAD

CFOs Expect Higher Returns from Sustainability Initiatives than Traditional Investments

A new report from Kearney, '*Staying the Course: Chief Financial Officers and the Green Transition*' (Report), released on 17 February 2025, reveals that chief financial officers (CFOs) across the world are prioritising sustainability investments.

Despite recent speculation that investments in the green economy would face a slowdown, this Report clearly indicates that out of more than the 500 CFO respondents across several jurisdictions, including the United Kingdom, United States, United Arab Emirates, and India, 92% noted their intention to increase current investments in sustainability. This Report also found that of all the CFOs surveyed:

- 69% expected a higher return from sustainability initiatives than from traditional investments;
- 93% saw a clear business case for investing in sustainability; and

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- 61% saw sustainability investments primarily as a cost decision rather than as something that creates value.

This commitment to increasing climate investments indicates that sustainability investment is not viewed as merely an arm of corporate social responsibility but is also seen as an integral means to maximise efficiencies and returns, take advantage of market opportunities and navigate rapidly evolving regulatory landscapes.

Decision to Scrap DEI Policies May Be Indicative of a Broader Trend

The recent omission of diversity, equity, and inclusion (DEI) commitments from numerous listed companies in their annual filing with the US Securities and Exchange Commission may be a harbinger of a broader global trend which could have repercussions for Australia's environmental, social and governance (ESG) investment landscape.

Many of Australia's largest funds currently hold significant capital under management which is invested based on ethical criteria.

DEI policies are integral to a company's ESG rating, as determined by third-party analytics firms, particularly through the lens of social responsibility practices. By demonstrating a commitment to DEI, companies not only fulfil ethical obligations but also align with investor expectations for responsible corporate behaviour, thereby positively influencing their ESG rating. Contrastingly, deprioritising DEI commitments may result in reduced investor demand and potential exclusion from ESG-focused indices.

In the weeks since President Donald Trump signed executive orders to remove DEI hiring initiatives in the US government and its federal contractors, several US companies have begun withdrawing from similar commitments, potentially signalling a broader global trend that other companies might follow. Companies who withdraw from DEI-related commitments may face the possibility of a decrease in their ESG ratings. Broader market consequences include potentially increased volatility in the ESG indices and long-term negative impacts on corporate performance and investor confidence in sustainable economic growth.

Funds with active ESG investment strategies will need to monitor this trend to ensure that their investment portfolios maintain any positive or negative screens and that any ESG disclosures are not misleading or deceptive. ASIC has shown through its recent enforcement activity targeting greenwashing that it will pursue fund managers who do not have appropriate measures in place to ensure the effectiveness of its ESG-related representations.

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KEY CONTACTS



JIM BULLING
CONSULTANT

MELBOURNE
+61.3.9640.4338
JIM.BULLING@KLGATES.COM



AYMAN GUIRGUIS
PARTNER

SYDNEY
+61.2.9513.2308
AYMAN.GUIRGUIS@KLGATES.COM



ADAM LEVINE
PARTNER

PERTH
+61.8.9216.0965
ADAM.LEVINE@KLGATES.COM



CLIVE CACHIA
PARTNER

SYDNEY
+61.2.9513.2515
CLIVE.CACHIA@KLGATES.COM



LISA LAUTIER
PARTNER

SYDNEY
+61.2.9513.2570
LISA.LAUTIER@KLGATES.COM

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