Government of South Australia
Department of Treasury and Finance

State Administration Centre
200 Victoria Square
Adelaide SA 5000
GPO Box 1045
Adelaide SA 5001
DX56205
Tel 08 8226 9500
http://www.treasury.sa.gov.au
ABN 19 040 349 865

Mrs L.M.O'Malley, MLA, Chair
Public Accounts Committee
Parliament House
4 Harvest Terrace
WEST PERTH WA 6005

By email: lapac@parliament.wa.gov.au

Dear Mrs O'Malley,

I refer to your letter dated 10 July 2023 inviting a written submission discussing ESG from the Department of Treasury and Finance in the context of securing international investment to support borrowing programs of the Australian states and territories.

The Department of Treasury and Finance manages its financing activities through the South Australian Government Financing Authority (SAFA) as the State's central financing authority. It operates in international capital markets to issue bonds and other securities to fund the State's net debt (currently circa $30 billion). SAFA only issues debt into wholesale capital markets and roughly one quarter of its total debt is held by offshore investors.

It is considered that the extent to which financing activities align with ESG principles is of increasing concern to investors. Direct feedback from domestic and offshore investors indicates a significant number have incorporated ESG into their investment mandates, although their approaches differ based on circumstances, appetite and jurisdictional overlay.

SAFA expects investor concern and engagement on this issue will increase further as global sustainability standards and regulation exert pressure on institutional investors to account for, and disclose, their ESG performance, management of climate-related risks, and alignment with sustainable outcomes such as those embodied in the United Nations' 2030 Agenda. Many institutional investors in South Australia's bonds are signatories to the UN Principles for Responsible Investment (PRI), and other global partnerships leading sustainability reform in capital markets.

The prevailing global investment environment also suggests there is a growing expectation that governments (sovereigns and sub-sovereigns), corporates and other entities will articulate their pathway to mitigate and adapt to the impacts of climate change.

In 2021, it was considered prudent to integrate ESG into SAFA's borrowing program in a more robust, transparent, meaningful and credible way, and Moody's noted the ESG strategy in its credit analysis of the State of South Australia dated 17 August 2022, which stated that:

"SAFA is refining its ESG framework to centre on the state's sustainability measures and commitments which are core to its modus operandi and better aligns ESG positioning across the whole-of-government. Related initiatives include aligning budgets to the state's Sustainable Development Goals, delivering a sustainability framework for its bond issuance program, creating a Sustainability Committee and using the Task Force on Climate-Related Financial Disclosures reporting within SAFA and over time, across government."

Whilst there is not a globally regulated 'sustainability' standard for debt products, it would appear there are well accepted market-based standards centred around principles-based guidance like that issued by the International Capital Markets Association (ICMA).

It is noted that sustainability bond frameworks like that of the Western Australian Treasury Corporation conform to ICMA standards that primarily serve to provide transparency and accountability over the use of debt toward achieving sustainable outcomes. It is also noted that market-based standards such as ICMA typically require debt frameworks to describe sustainability benefits (milestones) that can be quantified ex-ante, together with the criteria that will be used to assess benefits, outcomes or impact (such as metrics calculated in independently produced statistical time-series).

SAFA understands that transparent reporting of impact measures is becoming increasingly important as is obtaining independent review, involving an evidentiary assessment of processes that account for how the debt is to be/ has been used, the governance process determining the sustainable activities to be financed, and the ongoing reporting of performance outcomes – all elements of the ICMA standards.

It appears that the sustainable debt market is continuing to evolve and the matter of what constitutes a 'sustainable bond' is complicated further with the overlay of bespoke classification systems used by each of the 'ESG' indices, trading platforms and stock exchanges.

To date, South Australia has taken a 'first principles' approach to align with the fundamental tenets of sustainable financing frameworks, which serve to provide transparency and accountability over the use of the debt and the associated sustainable outcomes. SAFA's approach has been deliberately cautious whilst the sustainable debt market continues to evolve, and it has also sought to build on the maturing of the State's overall approach to sustainable economic development[1]. We will continue to monitor emerging frameworks considered to be best practice to inform recommendations relating to our future strategy.

Yours sincerely

Anthony Coates
CHIEF EXECUTIVE OFFICER - SAFA

11 August 2023

---

[1] SA Government Economic Statement, Responding to Climate Change, Climate Change Actions