

## Greenwashing risks on the rise as clients demand ESG integrity

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Financial services firms need to be more vigilant about backing up their environmentally friendly, sustainability and ethical claims with credible actions as demand for reliability in ESG products continues to rise.

It comes as the corporate regulator ASIC revealed it made [35 market interventions](#) including corrective disclosures, infringement notices and civil action over so-called 'greenwashing' claims in the nine months to the end of March this year.

"We think that ASIC is really looking to provide a deterrent and get the industry to clean up its act but nonetheless, that is a genuine risk that we need to manage as an industry," Joey Alcock, Frontier Advisors' Head of Responsible Investment, said.

Fiona Reynolds, a Director of Frontier Advisors, said regulators are looking for more fine detail to verify ESG claims. This includes a deeper understanding of a firm's ESG-related targets including what they're aligned to (such as the Paris Agreement), whether interim targets are in place, how progress is measured, and, if carbon offsets are being used, whether they're verified.

"What's written on the box needs to be what the regulator finds inside the box," said Reynolds, who previously spent nine years leading the UN-supported Principles for Responsible Investment (PRI) organisation.

Meanwhile, The Australian Sustainable Finance Institute (AFSI) is working closely with Treasury to define a [sustainable finance taxonomy](#) while Treasury is also working on a mandatory sustainability reporting framework.

Jessica Cairns, Head of ESG and Sustainability, Alphinity Investment Management, said financial services firms shouldn't be afraid of the regulator's focus on ESG claims.

"For most in this space, similar to us, it's not going to change the fundamental things you're doing, it's just clarifying disclosures and external documents for customers and clients."

The manager is continually assessing its approach to ESG, including making sure that any claims pass a common-sense interpretation by people outside of the financial services industry. Alphinity last year appointed one of the big four accounting firms to review the quality of the sustainability data it uses to assess which companies are included in its sustainability funds.

"If we were to get a question from ASIC or a client, we have that evidence we can present," she said.

### Regulatory action serves as a warning

Two recent high profile greenwashing cases involved Deutsche Bank unit DWS and Mercer Superannuation (Australia).

DWS attracted the attention of regulators over allegations it overstated its ESG-integrated funds under management, which led to the resignation of its CEO. Meanwhile, ASIC has launched [legal action](#) against Mercer Super for allegedly making misleading statements about the sustainable nature of some super investment options.

Alcock said DWS had made some concrete efforts in the ESG area, potentially ahead of regulatory requirements, but had still run into trouble.

"It's a great illustration of how we can all improve and go through that process of introspection... looking at our own processes, looking at our governance structures, and making sure that investments and marketing are talking to each other and the message is clear."

As regulators continue to crack down on the area, outsourced ESG assessors are also changing their methodologies. MSCI recently changed its ESG rating methodology, downgrading 31,000 Exchange-Traded Funds (ETFs).

“For MSCI, we feel that there's been a decision there because they are wanting to make themselves a smaller target” Alcock said. “So we've seen third-party verifiers also be cautious about how they represent their own capabilities in this area.”

He said the risk of greenwashing couldn't be outsourced completely and while Frontier's own ESG ratings could serve as a helpful guide, they shouldn't be interpreted as a guarantee.

Reynolds said sustainability has become part of mainstream standards and regulations in the finance industry.

“At the end of the day, it's about reputation, it's about building trust.”