21/7/23

Climate Disclosure Unit
Market Conduct and Digital Division
The Treasury
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PARKES ACT 2600
climatereportingconsultation@treasury.gov.au

Re: 'Climate-related financial disclosure' second consultation

AustralianSuper welcomes the opportunity to provide feedback on the Treasury's second consultation 'Climate-related financial disclosure' climate-related financial disclosure'.

Background

AustralianSuper is Australia's largest superannuation fund, with over 3.1 million members, and $288bn in member assets under management. Our purpose is to help members achieve their best financial position in retirement.

Climate change is one of the most significant issues facing investors today and climate-related risks and opportunities will impact economies, asset classes and industries, as well as the physical environment. It is critical for us to manage these investment risks and opportunities if we are to continue to deliver our goal of helping members achieve their best financial position in retirement.

AustralianSuper welcomes standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities in Australia. The overarching principle of high-quality disclosures which require transparent, credible, and comparable data is to enable users of climate risk disclosures to make informed decisions. We believe the implementation of the standards in Australia will support our investment decision-making and stewardship activities.

Our submission highlights the potential challenges faced by the dual responsibilities that will apply to superannuation funds as investors and as reporting entities. It is important that the application and timing of these discrete requirements occur in a meaningful and orderly manner.

Commentary

We are pleased to see the incorporation of the following proposals in the second consultation paper:

- A phased implementation approach which takes into consideration the different levels of reporting maturity and readiness in Australia.
- Inclusion of large, listed and unlisted entities in the initial phase of implementation.
- Development and alignment of Australian climate reporting standards with international ISSB standards.
- The principle of continuous improvement in reporting from one reporting cycle to the next, and the phased implementation of climate reporting requirements.

Overall, AustralianSuper is supportive of the proposed climate-related financial disclosure principles, and agrees with the need for transparent, standardised, and comparable climate change reporting. However, we are concerned that the positions proposed in the second consultation paper, suggest companies and investors, and even asset owners and investment managers, face a similar reporting task.

Asset owners (including superannuation funds) and investment managers will be both users and preparers of climate change disclosure, and face reporting challenges that won't be applicable to companies. The proposed approach will therefore need to be tailored to accommodate differences between companies and investors.

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In our first submission, AustralianSuper asked that consideration be given to dependencies specific to asset owners in measuring portfolio emissions including aggregation of portfolio companies' emissions data which is often reported at varying reporting periods and quality levels.

The following paragraphs outline in more detail the reporting challenges faced by investors, which we believe requires further consideration in the final climate disclosure proposal.

Timeline - Our previous submission supported the initial reporting date of the 2024-25 financial year, providing the Australian standards were finalised and legislated prior to 1 July 2023, to provide Group 1 entities one year to establish processes and systems to implement the disclosure requirements. Given that standards have not been finalised, we do not believe this start date is practical for Group 1 entities, particularly asset owners and funds, who do not have established processes and systems. Robust measurement methodologies, data collection and estimation processes require time to establish.

- ***Recommendation 1**: A minimum of 12 months transition period be provided post final legislation to allow for the capability and skills uplift.*

Reliance on external data - Asset owners are reliant on investment managers and individual companies, for climate information and emissions data. Given the dependence on investee company reporting data, we suggest asset owners disclose in the same timeframe as proposed for companies but using previous year manager or company reporting. For example, 30 June 2024 portfolio company emissions data to be reported in the 30 June 2025 portfolio climate change reporting disclosure. The scale of the data collection and aggregation task investors must undertake to assess and disclose portfolio financed emissions across multiple asset classes and investments may necessitate that investors disclose prior year data.

- ***Recommendation 2**: Asset owners disclose in the same timeframe as companies but using previous year manager or company reporting. For example, 30 June 2024 portfolio company emissions data to be reported in the 30 June 2025 portfolio climate change reporting disclosure.*

Data access - Investor (owners and managers) portfolios will likely comprise of international companies residing in jurisdictions where disclosure regulations aren't applicable. Investor portfolios are also likely to hold smaller unlisted companies and invest with smaller managers who don't meet the threshold and would therefore not necessarily be capturing emissions data.

- ***Recommendation 3**: Consideration be given to investor reporting requirements on companies falling into these categories, as well as size and type of ownership (directly held or within a fund).*

Intended audience - The stated purpose of climate disclosure is to enable investors to understand and assess the climate-related financial risks and opportunities faced by reporting entities; how entities are managing, planning for, and adapting to these risks and opportunities; and to support policy makers and regulators to better understand and assess broader systemic risks to Australia's financial system. Given the level and type of climate disclosures suitable for superannuation fund members, (who in the most part are not making investment choices) is not likely to be the same as that of an institutional investor or regulator. We ask that the audience or intended end user of a superannuation fund's climate disclosure be clearly stated, for example regulators or fund members. If the end user is intended to be superannuation fund members, a simplified reporting template may assist communication.

- ***Recommendation 4**: The intended audience for superannuation fund's climate disclosure be clearly stated.*

In addition to the different climate disclosure challenges facing investors as opposed to companies, we have outlined AustralianSuper's perspective on what has been proposed in relation to specific elements of the reporting content:

Scenario analysis

We support entities initially using qualitative scenario analysis with a shift to quantitative disclosures by the end state. While the proposed approach provides increased flexibility for reporters, we believe it reduces comparability and clarity across different reporting entities. We recommend Treasury establish two standardised scenarios to be adopted by all reporting entities, with one scenario being aligned to the Paris Agreement goal of below 2 degrees (and best efforts to maintain 1.5 degrees), and the other stress testing the portfolio against increasing physical climate impacts (ie IPCC RCP 8.5). Flexibility can be retained by enabling entities to include additional scenarios in their analysis to the two central scenarios.

Scenarios developed by the Network for Greening the Financial System (NGFS) appear to be the most suitable for investor use, seeing they were developed by a global network of central banks (including Australia's RBA) specifically for financial sector application. We note that in 2022, APRA specified the use of two NGFS scenarios in the stress testing exercise required of Australia's four major banks as well as Macquarie.

- ***Recommendation 5****: Two scenarios be adopted by all reporting entities. One being aligned to the Paris Agreement goal of below 2 degrees (and best efforts to maintain 1.5 degrees), and the other stress testing the portfolio against increasing physical climate impacts.*

Transition plans

We support the development of further guidance and best practice examples of transition plans and would welcome further consultation on the expectations for transition plan disclosures for companies and superannuation funds, noting the different regulatory obligations of the latter. We would also suggest referencing the recently published UK Transition Plan Taskforce Disclosure Framework, to maintain alignment with international best practice standards.

- ***Recommendation 6****: Guidance to support better practice transition plan reporting should incorporate international jurisdictions and consultation with technical experts, industry, and investors.*

Risk management

Given the significant impact physical climate change risks pose to Australia's environment, economy and society, we ask that physical risk assessment and management be included in the disclosure requirements.

- ***Recommendation 7****: Physical risk assessment and management be included in the disclosure requirements.*

Emissions accounting

We believe the stipulation of existing data calculation standards and methodologies will provide support for the provision of transparent, credible and comparable data and disclosures climate risk disclosures. We suggest Treasury provide specific reference to existing carbon accounting frameworks and methodologies such as the GHG Protocol and the Portfolio Carbon Accounting Framework (PCAF) for portfolio financed emissions.

Scope 3 emissions

We support the proposal to include a one-year exemption from reporting scope 3 emissions in line with ISSB's proposed approach. We also support the inclusion of a one-year lag in the reporting of scope 3 emissions for investors, as this will assist superannuation funds with the aggregation of portfolio data for publication prior to their reporting date.

However, we propose the GHG Protocol Scope 3 standard be specified, and with guidance provided on the setting of Scope 3 boundaries, and methodologies for scope 3 estimation. Considering that

Scope 3 emissions are most often the largest emissions source of a given company, a defined, standardised approach to Scope 3 data calculation is essential.

Investors also require confirmation on what is required for inclusion in Scope 3 portfolio emissions disclosure. Scope 3 emissions generally represent the Scope 1 and 2 emissions of another company. For example, when asset owners and managers report emissions associated with their investments (Scope 3 financed emissions) does this require the reporting of Scope 1 and 2 emissions associated with portfolio companies, or are investors expected to additionally collect and report portfolio company (financed) Scope 3 emissions?

- ***Recommendation 8**: Clarify Scope 3 (financed emissions) reporting boundary and confirm initial year of Scope 3 reporting for investors, taking into consideration investor's dependence on company reporting.*

Reporting location and timing

AustralianSuper conceptually supports the inclusion of climate disclosures in the annual report, or as a separate report forming part of the annual report; however, we believe climate related disclosure and data should meet a quality and reliability threshold before this can eventuate. The issues outlined above indicate that data quality and consistency will likely be poor for some time. Publishing climate related external party information and data, reliant on high levels of estimation could be potentially detrimental.

There also needs to be further consideration given to the likely inconsistency between reporting years for climate disclosure and data, versus financial year end reporting, applicable to investors, due to data reliance and consolidation needs as outlined above.

Assurance

We believe the introduction of assurance (limited or reasonable) requirements can only be workable and useful once consistent emissions accounting standards are defined and mandated, and data quality standards are achieved.

- ***Recommendation 9**: Assurance requirements should be phased in given that data quality and reporting need to reach a level of standardisation and maturity.*

We also ask that Treasury consider the cost associated with assurance over superannuation fund's climate disclosure and emissions data – and find a way to limit the assurance scope, so that costs are commensurate with the value the disclosure provides to superannuation fund members.

Additional feedback and further consultation

We would be pleased to provide additional information or to discuss our feedback in further detail. We look forward to the next stages for the implementation of the climate related financial disclosures. If there are any further questions, please contact James Bennett, Government Relations & Public Policy Advisor (jbennett@australiansuper.com).

Yours sincerely,

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