AustralianSuper

30/07/2021

By email: PolicyDevelopment@apra.gov.au

General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

Re: Consultation on draft prudential practice guide on climate change financial risks

AustralianSuper welcomes the opportunity to provide feedback on the draft Consultation Paper CPG229: Climate Change Financial Risks (CPG).

AustralianSuper is Australia's largest superannuation fund and is run only to benefit members. Over 2.4 million Australians are members of AustralianSuper with over $225bn in member assets under management. We are the custodians of the retirement savings of more than 10% of Australia's workforce. Our sole focus is to use our size and scale to ensure members achieve their best financial position in retirement and in doing so, we always act in members' best financial interests.

Climate change is one of the most significant issues facing investors today. Climate-related risks will impact all economies, asset classes and industries, as well as societies and the physical environment. AustralianSuper therefore has a responsibility to manage the risks and opportunities arising from climate change and climate change has been identified as a material issue for the portfolio by the Fund's Board.

The Fund has committed to manage the investment portfolio to net zero emissions by 2050. The commitment was made in members' best financial interests given the risk climate change presents to the Fund's long-term investment performance.

Our net zero commitment builds on the actions we are taking to manage the transition and physical risks in the portfolio and our desire to produce outcomes that create and/or enhance companies' financial value. These actions are conducted across four pillars of investment, stewardship, measurement and reporting, and advocacy.

The Fund publishes a Taskforce for Climate-related Disclosure (TCFD)-aligned report annually which includes further information on our approach to climate change financial risk. This report is available on our website.

1. General

AustralianSuper welcomes the provision of guidance on climate change financial risk, especially given its growing importance for the economy and financial markets. We further welcome that this guidance is to be provided in the form of a Prudential Practice Guide and that the guidance supports compliance with APRA's existing risk management and governance requirements rather than imposing new requirements.

We note that aspects of the CPG appear focused on climate risk from a banking sector perspective, especially with respect to climate risk management. As an APRA-regulated superannuation fund, and as an asset owner, we must manage climate change financial risk as informed by our investment strategy, the nature of our investments, our investment timeframes and member's best financial interest. Several of the points raised below are aimed at addressing this perspective.

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2. Risk Management

As an active, long-term investor, AustralianSuper applies a comprehensive approach to managing climate risks in our portfolio. This approach includes stewardship and advocacy activities. We exercise the rights and responsibilities of being a large shareholder including through proxy voting and engagement. Our objective is to communicate our long-term investment interests to companies, which includes effective management of climate change risks and opportunities, so that we can improve returns for members.

Given their criticality in managing climate risks from a superannuation perspective, we suggest the CPG should call out these risk management activities in the guidance. For example, paragraph 33 should specifically refer to activities such as stewardship and advocacy as additional risk management activities that a prudent entity should consider.

As material emissions for APRA-regulated entities relate to emissions from businesses to which they have a financial exposure, we would welcome inclusion of portfolio emissions foot printing as a risk monitoring tool.

Regarding the risk criteria used to identify economic sectors with higher or lower exposures to physical and/or transition climate risks, we suggest additional consideration be given to operational risk, including for example workforce disruptions that may materialise through high temperature climate scenarios.

3. Financial risk of climate change

We note the classification of "Liability Risk" as a separately identifiable risk. We agree with the potential importance of liability risk in entities' management of climate change. Given AustralianSuper treats it as an outcome or impact from the mismanagement of both transition risk and physical risk within our framework, we welcome the flexibility provided for entities in the discussion of this risk definition within the CPG.

4. Scenario Analysis

We welcome the proposed guidance on scenario analysis set out in the CPG, and consider scenario analysis to be a key tool in understanding and helping to manage climate risk.

We would further highlight the use of scenarios aligned to the Paris-targets (e.g. warming to well below 2, preferably to 1.5 degrees Celsius) given the importance of those targets and timelines with respect to government policy and business strategy.

Scenario analysis should consider potential downside scenarios too, including scenarios where these targets are not met. However, we would welcome further guidance on how supervised entities can make use of very long-run scenarios, given the extreme uncertainty associated with such scenarios. In particular, we would welcome further guidance from APRA on how supervised entities can evidence review and incorporation of any insights from very long-run scenario analysis into their business and investment strategies.

5. Disclosure

We support endorsement of TCFD-aligned reporting, including related guidance and recommend that this be highlighted as best practice disclosure. This alignment would help to provide for standardised disclosure as a basis for comparative assessment, which should allow for more informed decision making in managing climate change risk.

We would be pleased to provide additional information or to discuss this feedback in further detail. If that would be of assistance, please contact Andrew Gray, Director, ESG & Stewardship (AGray@australiansuper.com).

Yours Sincerely,

Alistair Barker
Head of Total Portfolio Management, Investments