

Climate Disclosure Unit, Market Conduct Division
The Treasury
Langton Cres
Parkes ACT 2600
via email: climatereportingconsultation@treasury.gov.au

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Climate-related financial disclosure

Thank you for the opportunity to provide comment on the proposed mandatory reporting regime for climate-related financial disclosures in Australia.

Australian Retirement Trust was formed through the merger of Sunsuper and QSuper on 28 February 2022. We are one of Australia's largest superannuation funds, managing approximately \$240 billion in retirement savings for close to 2.2 million members.

Australian Retirement Trust (ART) agrees climate change is a material risk to the global financial system, and we have designated it as a material risk to the Fund. Our chief investment officer owns this risk.

We support the introduction of a mandatory disclosure regime as proposed by Treasury and provide the following detail in support of this submission.

We frame our response as a financial institution from two perspectives: firstly, as an institutional investor who would benefit from consistent and improved reporting standards by those companies in which it invests and secondly, as a potential reporting entity.

Below we address the consultation paper's questions that are most relevant to us as a financial institution over the introductory timeframe.

██████████, senior manager policy and government relations at Australian Retirement Trust, is the primary contact about this submission and can be contacted on ██████████ or at ██████████

Yours sincerely

██████████
Chief Strategy Officer
Australian Retirement Trust

Q1: What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular:

1.1: What are the costs and benefits of meeting existing climate reporting expectations?

As an Australian superannuation fund, Australian Retirement Trust (ART) invests in publicly listed and private companies and assets both in Australia and overseas. Alignment of Australian reporting standards with global baseline standards for climate reporting—in particular, the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and the climate standards currently being developed by the International Sustainability Standards Board (ISSB)—would provide useful information to enable investors like ART to make like-for-like comparisons of their Australian holdings against international peer companies. Similarly, international alignment would enable investors like ART to benchmark their portfolio-level climate performance against that of international peer investors. Alignment would also help ART obtain relevant and accurate information to enable it to meet reporting requirements that might be imposed. Universal global standards applicable to public and private markets would also reduce the risk of regulatory arbitrage by companies “shopping” jurisdictions.

1.2: What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

ART sees few benefits if Australia does not align with international practice. By contrast, ART has identified two specific costs from not aligning with international practice. First is the cost to Australian investors. Given that Australian investors, including ART, have holdings in many global markets and need to manage their climate-related risks and opportunities across their entire portfolios, the lack of alignment in standards would impose costs for investors who would need to interpret and/or standardise disclosures.

Second is the cost to Australian companies. International investors would likely face similar costs as Australian investors, as described above. Because the Australian market typically represents a small portion of international investors’ portfolios (the Australia weighting of MSCI ACWI Investable Market Index is 2.2%¹), some international investors may reduce or eliminate their Australian holdings in response to this lack of alignment. This reduced access to international capital could affect valuations or increase the cost of capital at Australian companies, which may result in reduced returns for superannuation members, who have exposure through their super funds to Australian holdings. There would also be a cost in complying with reporting requirements of the proposed framework if we are unable to obtain equivalent data in relation to overseas holdings and asset managers.

Q2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

ART supports a phased implementation for mandatory climate disclosure, with the first report for initially covered entities for FY2024-25 and a transition period of two to three years for smaller entities.

¹ <https://www.msci.com/research-and-insights/visualizing-investment-data/acwi-imi-complete-geographic-breakdown>

2.1: What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

The Australian subsidiary operations of offshore parent companies should be considered in subsequent phases. This approach replicates the approach taken by the European Union (EU) in its Corporate Sustainability Reporting Directive (CSRD), which entered into force on 5 January 2023. Under the CSRD, non-EU companies that have significant activity within the EU are required to provide sustainability information “in order to ensure that third-country [companies] are accountable for their impacts on people and the environment and that there is a level playing field for companies operating in the [EU].”²

Q3: To which entities should mandatory climate disclosures apply initially?

ART believes mandatory climate disclosure rules should apply initially to large listed and private companies. Many Australian superannuation funds, including ART, invest in both listed and unlisted assets. In addition, whether a company is listed or private has limited bearing on its inherent climate-related risks and opportunities. Larger companies (determined by enterprise value, turnover, and/or number of employees) will likely have the financial and/or human resources to meet the initial mandatory climate disclosure requirements. Similarly, larger companies (depending on the sector) comprise the largest share of emissions in the Australian economy.

ART uses many external managers to undertake investments on our members’ behalf. As a result, to ensure we can comply with reporting obligations that might be imposed by this proposed regime, it would be beneficial that it also apply to asset managers.

We note that like other large financial institutions, we rely on our investee companies for emissions data; this means we may not have a complete data set for the first year of mandatory reporting. Despite this, ART has already commenced reporting of climate-related information, to the extent possible with current data coverage and quality, and this limitation should not preclude superannuation funds from being captured in the initial phase of reporting.

Q4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

ART supports the adoption of the baseline ISSB climate disclosure standards in Australia once these have been completed. These standards are widely accepted in the investor community. Nonetheless, further guidance and/or requirements may need to be developed to ensure applicability in Australia, including the development of Australia-specific data and transition pathways for key sectors of the Australian economy consistent with limiting global warming to 1.5 degrees Celsius.

One consideration is that Australian companies with significant operations in the EU will need to comply with the EU CSRD, which is developing sustainability reporting requirements, including climate. The EU CSRD reporting requirements are expected to slightly differ from that of the ISSB climate reporting standards. However, ISSB meeting notes indicate that ISSB and the EU will endeavour to ensure interoperability, which may resolve this issue over time.

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>

Q5: What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

ART supports the first option of the two framework design options presented in the consultation paper. Legislating the overarching climate disclosure obligations gives investors and other reporting entities policy certainty on the principles of overseeing and managing climate-related risks and opportunities. Standards and regulatory guidance, including on such items as definitions and metrics, that detail how the disclosure obligations should be implemented would evolve over time as reporting best practice continues to be refined.

Q6: Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

ART believes that the location of climate reporting requirements should be at the discretion of the reporting entity, provided that reporting is annual and aligns with current financial reporting requirements. For listed companies, ART is generally agnostic as to the location of current climate reporting (such as in the annual report, in a separate sustainability report, or in a separate climate report), provided that such reporting is easy to find and is cross-referenced with the financial statements.

For unlisted entities that meet size requirements, ART considers it would be appropriate for climate reporting to be included within the financial reports, or alongside as a separate document, that such entities are required to lodge on ASIC's public register. This disclosure would help superannuation funds like ART meet their own climate reporting requirements for the unlisted assets they hold, as well as facilitate comparison of disclosures against peers.

As a super fund with a variety of stakeholders, we aim to deliver relevant content in the best channel and/or medium for the reader. To ensure our climate-related financial disclosures reach the right audience(s), we would prefer some flexibility in being able to use our discretion to determine where we publish them.

Q7: What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

We agree the reference point for materiality should align with ISSB guidance and the IFRS standard.

Q9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

ART is supportive of requirements for companies to measure and report Scope 1 and 2 emissions. We note that the measurement of Scope 3 emissions is highly complex and technical, and consideration needs to be given to sectors with highly disparate supply chains and the ability to provide meaningful information. ART is not opposed to Scope 3 reporting in an appropriate phased approach, but any standard needs to be cognisant of the challenges in measurement and reporting.

Q10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Yes, because this will facilitate comparisons between reporting entities, within sectors, and across geography and time. Comparability is a crucial requirement for investors to be able to use metrics in the investment process and subsequent reporting. Consistency will also ensure that there is clarity in compliance requirements and in relation to regulatory oversight and guidance.

Q11: What considerations should apply to ensure covered entities provide transparent information about how they are managing climate-related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

Investors need to build a comprehensive picture of how companies are using their understanding of their own emissions data and the effects of climate change on their businesses to mitigate their emissions and adapt to changing operating conditions.

In view of the need to effect real-world outcomes, rather than simple compliance, ART supports a requirement to publish transition plans that align with international standards (the ISSB standards, once complete).

We note that the adherence of a company's transition plan to accepted international standards does not guarantee the quality of the company's climate strategy and risk management approach.

Q13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

Investors such as superannuation funds invest across several asset classes on behalf of our members, and many of our investments are managed by third party managers within Australia and in overseas jurisdictions. As a result, our ability to meet climate reporting requirements, for example, in private markets, would be contingent on these managers providing relevant data. The availability and quality of this data vary substantially by asset class. For asset classes with less mature climate data regimes (e.g., cash, derivatives, etc.), data methodologies and capabilities to report such data would need to be developed.

Q14: Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

Stress-testing portfolios against scenarios that evolve as new information becomes available is critical to making accurate statements, both current and forward-looking. ART would support enhanced regulatory guidance on climate scenarios. If companies use their own scenarios, they should reveal their own assumptions and explain any divergence from standard scenarios and assumptions.

Q18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

We agree digital financial reporting should be standard practice across all jurisdictions. Successful implementation by reporting entities of all sizes will depend on both a robust infrastructure and supporting arrangements, including education and training.