

### **About Ethical Partners Funds Management:**

Ethical Partners Funds Management is a boutique responsible investment funds management firm, managing over \$1.8 billion in ASX listed equities for institutional and retail clients.

Ethical Partners is an engaged, active member of the Investor Group on Climate Change and the Principles of Responsible Investment Global Policy Reference Group, and strongly believes in the responsibility of and opportunity for investors to advocate on creating an enabling policy environment for responsible investing, as well as the financial sector's critical role in impacting climate change.

It is in this capacity that we are pleased to make this direct submission to the Australian Treasury's Consultation on Climate related Financial Disclosure, in addition to our strong support of the submissions made by both the PRI and the ICGCC to this consultation.

### **Ethical Partners Climate Change in Investment Considerations**

Ethical Partners has publicly stated our firm belief that climate change represents one of the most serious challenges for the world today in terms of economic, political, and human impacts. Ethical Partners understands that this means there could be significant impact of climate change on the operations of some major Australian companies and sectors in our investable universe.

As prudent investors who aim to reduce risk and find opportunity in investment, we therefore strongly believe that understanding and mitigating climate risk within our investments is a crucial part of our investment analysis, valuation, and portfolio construction, as well as our company engagements and wider advocacy activities.

Ethical Partners also believes that the transition to a low carbon world also provides many opportunities for companies that are leading in how they consider their sustainability pathways, and for astute investors looking to support those leaders and emerging climate change solutions.

Further information on Ethical Partners approach towards managing climate change in our investments are detailed in our TCFD reporting, available here [https://assets.website-files.com/5b4d31c5e11a78eff0022917/639fb92c752e9722c59b2003\\_Ethical%20Partners\\_TCFD.pdf](https://assets.website-files.com/5b4d31c5e11a78eff0022917/639fb92c752e9722c59b2003_Ethical%20Partners_TCFD.pdf)

### **Key Recommendations/Consultation Questions:**

- **Ethical Partners strongly supports the Australian Government's commitment to introducing mandatory climate related disclosure standards as a key pillar of its sustainable finance agenda.**
- **We strongly agree with the PRI that if implemented effectively, mandatory, and standardised disclosure of climate change related risk, opportunities and impacts will improve market transparency, assist both companies and investors to navigate the transition and help facilitate two-way global investment flows for Australia.**

- We also firmly agree that **the quantity and quality of climate change and sustainability disclosures is often inadequate, lacks consistency and comparability at present across the ASX landscape**, which limits our ability to fully analyse and include in our investment decisions and capital allocations the risks a potential investment are facing, their contribution to impacting climate change, their risk mitigation, their competitive advantage, and their opportunity and innovation strategies as related to the real, present and systemic risks of climate change on our economic system.
- We would also submit that **a voluntary reporting environment, as we have currently across the ASX, has not been adequate to spur the committed action on climate related financial disclosures to the level that is required for our investment analysis.**
- As such we would firmly agree that in order to generate this comprehensive and decision useful data for investors, that **the Australian government should mandate compliance with sustainability disclosures, which will ultimately be subject to the same legal and regulatory requirements and accountability mechanisms as existing financial disclosures.** This firmly reflects our belief that these climate related disclosures are as fundamental and financially relevant as any other financial disclosures to Australian investors.
- We further note that this would **bring Australian investors and companies on to a much more level playing field with international peers, given the strong direction towards mandatory climate related disclosure standards** internationally, including in the EU and UK, including the CSRD, and amendment to the Companies Act 2006 (UK), as well as mandatory TCFD requirements for listed issuers for the Singapore Exchange, recent legislation in New Zealand and the progression of plans to amend the Securities Act of 1933 and the Securities Exchange Act of 1934 to require climate related disclosure in registration statements and annual reports.
- We would therefore reiterate the recommendation by the PRI **that mandatory disclosure standards should be phased in as soon as possible, beginning with the 2024/2025 financial year.** We believe that ASX listed companies have had adequate time to begin to consider and compile the relevant disclosures, and that investor groups and shareholders have been clearly and directly engaging with ASX listed companies on the need to prepare for regulation on this reporting over several years, and therefore we feel that the timeframe for this mandatory reporting is fair and reasonable.
- **We would also agree that these disclosure requirements should mirror as closely as possible the emerging ISSB requirements, in order to allow global comparability and interoperability.**

Furthermore, **we strongly support the mandatory requirements including, or mirroring, the elements of the existing TCFD and TNFD frameworks**, which we feel hold pertinent investment decision information, as well as being a very good framework to spur internal governance and strategy decisions around climate and nature related risks.

We would also suggest that Treasury **consider including the requirement to report scenario analysis**, which we consider is an important investment- useful disclosure, aligning with the ISSB baselines as a starting point, within these proposed reporting requirements.

- We would also strongly **encourage Treasury to consider any further interlinkages between the proposed mandatory climate related disclosures and the development of an Australian sustainable finance taxonomy**, in order to ensure that the mandatory disclosures provide sufficient information to determine alignment with the taxonomy categories.
- We would also agree with the PRI's submission that **consideration should be given to the establishment of an independent entity, or the tasking of an existing independent entity, to develop sector specific decarbonisation pathways, as well as general and sector specific guidance on the development of credible, accountable transition plans.**
- We would further **recommend that the Australian Government ensures that this transition planning guidance reflects the key elements of a credible transition/Net Zero plan, as outlined by the recent Integrity Matters report from the United Nations High Level Expert Group on the Net Zero Emissions Commitment of Non-State Entities.**

At present, there is no rigour or comparability, or accountability around many of the decarbonisation plans across the ASX, and we believe that the **inclusion of clear standards around these plans and commitments within the proposed mandatory climate related financial disclosures will be crucial to combat the risks of greenwashing within the ASX landscape.**

We would also agree with the PRI submission who details that a **credible transition plan should include:**

- A description of the strategy of the organisation to pivot towards a net zero future with near term (every 5 years) science-based targets consistent with the long-term objective of net zero by 2050.
  - Contain verifiable and quantifiable KPI's which measure the success of an organisation's climate transition strategy and track progress.
  - Provide accountability, with clearly defined roles and responsibilities, including an effective government mechanism.
  - The organisation's plan should be reviewed and updated regularly through the annual reporting cycle.
  - That best practice guidance on transition plans should be developed by an independent authority, as previously noted.
- We would also submit that **the use of carbon offsets in these plans be subject to rigorous standards on their reporting, the assurance on their credibility, and a clearly reported intention to decrease and minimise their use over time, with the company's transition plans clearly detailing their focus on real emissions reductions in the first instance.**
  - In terms of size thresholds, Ethical Partners would agree with the PRI that **these requirements cover, at a minimum, the S&P/ASX 300.** We believe these companies should already be aware of the need for climate related risk and opportunity analysis and disclosure and be already working internally on this disclosure, and we furthermore believe that

mandatory, credible disclosure from these companies is critical for the risk and opportunity analysis of investors such as ourselves.

- We would further submit that this **reporting should be subject to third part verification and assurance requirements.**
- We would also agree with the PRI that a fundamental concept of mandatory disclosures is the ability for these reporting requirements to be enforced, and therefore we would support the PRI's suggestion that the **Australian Government consider amendments to the Corporations Act 2001 (Cth) that would support the enforcement of these required disclosures.** We would furthermore suggest that the Australian Government work closely with the ASX, APRA and ASIC regarding the enforcement of these mandatory reporting requirements within companies listing requirements and compliance with other relevant corporate governance regulations.
- We would also refer to the recent legal opinion by Sebastian Hartford-Davis and Kellie Dyon, building on the landmark "Hutley options" by Mr Hartford-Davis and Noel Hutley, SC, as sought by the Investor Group on Climate Change, the Responsible Investment Association Australia and the Australian Council of Superannuation Investors recently. We note that this **legal advice has highlighted that directors should not face increased liability risks under ISSB standards and should not need any kind of "safe harbour" provisions.** We would agree that it is our clear expectation as shareholders that company directors are already considering and measuring their material climate change risks, and that therefore, climate related disclosures are simply the requirement to clearly and adequately disclose this information to their shareholders. We also note, as the PRI has done in their submission to this enquiry, that the existing reasonable grounds requirements provide competent directors with sufficient confidence to robustly disclose and make forward looking statements on climate related risks and opportunities, including such metrics as Scope 3 emissions.
- We would also agree with the PRI that the **new climate reporting requirements should align with the company's financial reporting schedules,** to both encourage a continual focus on the financial relevance, and integration into financial strategy of these key climate related financial risks and opportunities, as well as to align with investors investment decisions and analysis cycles.
- We would strongly welcome the **inclusion of Scope 1,2, and 3 emissions as crucial.** The significant inputs and assumptions, the calculation methodology and the organisational scope are also crucial inclusions for investors.

**Scope 3 in particular, constitutes the largest and most impactful emissions for many ASX listed industry segments and companies and therefore, we believe that the inclusion of these emissions is essential for the credibility and the impact of this disclosures regime.**

- Ethical Partners would also **suggest the adoption of the Potential Structure 2: Establishing a separate sustainability standards board** with the powers to develop, make and monitor climate and sustainability related risk disclosure standards, reflecting the creation of the ISSB, with readily understandable parallels to the international structure. We believe that, as suggested, the preparatory work undertaken by the FRC, AASB and AUASB will mean that the creation of this new sustainability standards board need not delay this crucial action on climate related financial disclosures.
- Finally, Ethical Partners would support the suggestion by the PRI that the **proposed climate related financial disclosure reporting requirements be designed with the intention and ability in mind to extend these mandatory disclosures to include other key sustainability issues, particularly natural capital and biodiversity, as well as human rights and social concerns, as able, in the future.** A particular benefit of the emerging TNFD framework is its ability to build on and leverage of the acceptance of, and investor and company experience with the TCFD, and we would suggest that the ability to leverage off this initial proposed climate related financial disclosures could be a key benefit for the acceptance of and adoption of further mandatory sustainability related disclosures that are crucial for Australian investors in the future.
- We would also agree with the PRI that **the development of a common, publicly accessible platform allowing access to these disclosures by financial market participants is key.**