# Submission: Climate-related financial disclosures

2 February 2023

[redacted]

## Overview

[redacted]

Future Super Group thanks the Treasury for the opportunity to comment on the key considerations for the design and implementation of climate-related financial disclosures in Australia.

[redacted]

## Response to the Treasury Consultation Document:

**Question 1: What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)?**

Future Super Group believes that the opportunity cost of absent climate disclosure in the Australian economy means investors and customers will unknowingly support companies who will contribute to the exhaustion of the remaining carbon budget, meaning a safe climate with under 1.5C of warming will be soon out of reach.

**Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?**

We support mandatory climate disclosures reporting for the 2024-2025 financial year. The urgency of the climate crisis demands aggressively paced rollout of climate disclosure, even over the ability of larger and slower organisations to keep up. A focus should also be put on larger companies in higher emitting sectors, as they are well resourced to meet these requirements, and integral to the climate transition.

**Question 3: To which entities should mandatory climate disclosures apply initially?**

We agree with the initial reporting entities proposed by the Treasury. We propose that this should be extended to also cover high emitting industries (i.e. Energy, Agriculture, Forestry and Other Land Use (AFLOU) and Transport), as they are key sectors that need to be tracked by the Government and market alike. Additionally, large private companies should also be included, and that the definition for large companies be based on the Corporations Act 2001. A particular emphasis should be put on private funds/managers that own a large amount of high emitting assets.

**Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by [redacted] the International Sustainability Boards?**

[redacted]

[redacted]at the ISSB is the appropriate standards authority to align with. Additionally, climate reporting should [redacted] the same legal and assurance requirements as financial reports.

**Question 5: 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?**

We believe that there should be robust regulation surrounding targets, strategy and plans so that these disclosures cannot be an avenue to greenwash. Regulation should mandate that they be grounded in science, and publicly available modelling so companies are held accountable. Further attention should be put in a discussion around carbon offsets, what role they plan in any targets or plans, and how they are reported.

**Question 6: 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?**

We believe they should be a part of annual reports. Summaries can be placed in annual reports, with technical data put in the appendix/supplementary information section.

**Question 8: What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?**

We believe that ideally, assurance providers should be subject to independence and quality management standards. However, other experts (i.e. climate disclosure experts) should be required to audit companies and their disclosures. These experts, in turn, should be managed with standards, reviews and accountability to manage conflict of interests. Additionally, we posit that disclosures should be subject to random checks by a relevant government body for review, and any inconsistency would mean that the company and the auditor would be held liable.

**Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use [redacted]lian emissions reporting frameworks?**

[redacted]

[redacted]ll scopes, including Scope 3 (upstream and downstream) emissions should be required from the onset. [redacted]f Scope 3 data continues to improve over the years, and should no longer be considered an excuse for poor disclosure. Absent Scope 3 reporting, a coal mine that is powered by solar panels could be considered compatible with a Net Zero 2050 commitment.

**Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?**

We agree that a common baseline of metrics should be defined. Common metrics underpinned by robust global standards (such as the Partnership for Carbon Accounting Financials (PCAF)) is the only way to enable comparable reporting across the economy. We believe that it would be appropriate to legislate for a minimum set of metrics, including some that anchor emissions reporting to the remaining carbon budget under various temperature scenarios (e.g. 1.5 degrees, 2 degrees). Additionally, we believe that industry-specific metrics should be emphasised for high emitters when rolling requirements out. For example, energy/utilities would need to report on coal-powered energy and emissions, and agriculture to have methane-specific requirements.

**Question 11: 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?**

Aside from risk and opportunities disclosure, we believe organisations must be required to disclose:

1. Whether they have climate targets/plans (and if so, what they are)
2. Whether these plans are linked to established temperature targets (e.g. Paris agreement)
3. Whether these targets are certified by an external body
4. What the scope of these targets is (specific parts of the business and the scopes included)
5. Whether the business plans to use offsets as part of these targets, and to what extent

a. If yes, will the offsets in Australian or international, and relevant certifications

**Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in [redacted] different phases, and why?**

[redacted]

[redacted]gency of the issue, we do not believe that there should be a phased-in approach to disclosure. Legal opinion [redacted]ght by Responsible Investment Association Australasia (RIAA), the Australian Council of Superannuation Investors and the Investor Group on Climate Change confirmed that Australian company directors should already be focussing on financially material issues such as climate risk and other sustainability matters.

**Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?**

We don't have firm views on the specific data challenges in Australia. Carbon data is still not perfect - especially for scope 3, where most of it is modelled for most organisations. With that being said, we believe that this shouldn't hinder progress on disclosure, and regulation should keep up with improvements in the area instead of waiting for perfect or better refined data.

**Question 17: While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?**

We believe that reporting regulation should reference other reporting as climate change does not exist in a vacuum. Other sustainability reporting disclosures include nature-based disclosures and modern slavery disclosures. While they might not apply to all companies, there is overlap where entities should be required to report on more than one issue. We encourage more flexibility, and believe that there should be no exclusionary elements to the guidance that will prevent other forms of ESG reporting being added to the framework at a later point in time.

**Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?**

We believe that point of reporting is providing accessible, comparable information. Digital reporting is vital to allow the spread of information and comparability.

SUPER FUTURE

**Prepared by:**

[redacted] (Senior Impact Analyst)

[redacted] (Head of Government Relations & Regulatory Affairs)

[redacted] (Sustainability Officer)

[redacted] (Ethical Investment Analyst)