

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langston Crescent
PARKES ACT 2600
By email: climatereportingconsultation@treasury.gov.au

Climate-related financial disclosure – Treasury consultation paper

Industry Super Australia (ISA) is a research and advocacy body for funds that carry the Industry SuperFund symbol. ISA manages collective projects on behalf of those funds and their five million members. Our aim is to maximise the retirement savings of all our members.

ISA appreciates the opportunity to provide this submission on designing and implementing standardised, internationally aligned requirements for disclosure of climate-related financial risks and opportunities in Australia. We also welcome the Government's broader commitment to develop a comprehensive sustainable finance strategy, of which climate-related disclosure will form part.

ISA broadly supports greater alignment with international standards and making disclosure mandatory for large organisations, including unlisted entities. These reforms will help industry super funds to identify and consider climate and sustainability-related risks in the entities in which they invest, and to manage both the transition and physical risks of climate change. It will also allow them to better track delivery of their own net zero carbon emission targets by improving the transparency of climate risk in the entities in which they invest.

The long-term investment horizon of industry super funds creates incentives to invest responsibly and sustainably with strong environmental, social and governance (ESG) principles. Most industry super funds incorporate ESG considerations when making investment decisions. It would be sensible to allow the flexibility to accommodate likely future global developments of broader social and governance disclosures into these reforms.

With significant capital available for investment, super funds are always seeking new investments that are in the best financial interests of their members. When looking at whether an investment is in the best financial interests of its members, a super fund will choose its investments based on a range of criteria, including expected risk and return, including climate-related risk.

The objective of disclosure should be to enable investors, consumers, and regulators to easily identify the adequacy and credibility of an entity's approach to climate risks and opportunities. Moving towards mandatory reporting and greater alignment with international standards will improve transparency and consistency, which are critical for investors and financiers to be able to compare investment opportunities and their associated climate-related risks.

ISA's view is that the proposed timing for initially covered entities to report in FY 2024-25 is realistic. Many if not most of the entities that would fall within the initially included entities already report on these matters and it is reasonable to proceed to make such reporting mandatory.

The remainder of this submission focuses on the need to:

- ▶ align with international standards as much as possible
- ▶ include unlisted entities as part of the initially covered entities, and
- ▶ include scope three emissions as part of mandatory reporting, with appropriate guidance.

Align with international standards as much as possible

ISA supports a focus on aligning reporting requirements as much as possible with the international standards and metrics being developed through the International Sustainability Standards Board (ISSB). Credible and consistent international standards are critical for transparency and are important for investors such as industry super funds when comparing investment opportunities across international jurisdictions.

Australia needs to uplift its disclosure and reporting standards to align with the practices of market-leading jurisdictions and international developments. It should develop aligned reporting and disclosure requirements, green taxonomies, and a framework for identifying greenwashing.

Reporting should also be efficient and cost effective for entities, with care taken to ensure existing national reporting requirements remain consistent and aligned with international standards. This will help reduce the compliance costs that can arise when reporting under multiple standards and regimes.

ISA does not support Australian carveouts, concessions or adjustments such as for scope three emissions, which are being contemplated in the United States. In this vein, the disclosure regime should include scope three emissions, which is discussed further below.

Unlisted entities must be covered

ISA supports the proposal to phase in coverage and reporting requirements. This is a sound approach that will help to build confidence in the regime and allow lessons to be learned and consolidated as new entities are added.

Mandatory reporting requirements should initially focus on larger entities given they are more likely to have the resources to comply, and be otherwise exposed or contribute to the systemic risk of climate change. Including the ASX200 listed companies as part of the initially covered entities makes sense given their size and that most are already reporting their climate-related risks. However, the task should not stop at listed companies.

Industry super funds are significant investors in unlisted assets. To enable comparability of investments and their associated climate risks, incorporating these entities into the mandatory reporting regime sooner rather than later is important.

ISA's view is that reporting should be mandatory for all large institutions, including unlisted entities. 'Large' in this context could be determined using a sensible existing reference point, such as the Corporations Act definition of large proprietary company.

Many unlisted entities already comply with the National Greenhouse and Energy Reporting (NGER) obligations. Similarly to ASX200 listed companies, these entities are accustomed to reporting climate risk and thus there are good reasons for including them in the mandatory reporting regime sooner rather than later. Incorporating large unlisted non-financial companies that report under NGER in the first phase of coverage will ensure that the largest share of emissions is captured in the first stage of reporting.

How and when to incorporate unlisted entities should be a key theme to work through during the next round of more detailed consultations.

Scope three emissions should be included

Unlike scope one and scope two emissions, which arise from sources owned or controlled by an entity, there is a greater degree of uncertainty around defining and hence reporting scope three emissions.

Given scope three emissions are not produced by an entity but rather are indirectly produced through activities and assets up and down its value chain, there are two main concerns around reporting scope three emissions: 1) how to obtain the data on emissions; and 2) when and where to stop assessing emissions upstream and downstream in an entity's value chain.

ISA supports aligning Australia's approach to reporting scope three emissions with the international approach. That approach generally is to include scope three emissions within mandatory reporting requirements, along with guidance on how to do so, including through the lens of materiality. ISA does not support creating a safe harbour for scope three emissions.

A degree of uncertainty around reporting scope three emissions is expected. But rather than delay scope three mandatory reporting obligations, the Government should focus on defining the 'reasonable grounds' requirements on which forward-looking statements must be made and providing guidance to entities before reporting commences in 2024-25. While there will be gaps in the data in the first year or two of reporting, this can be managed through clear disclosure about what the data gaps are, the methodology used, and the assumptions applied. Any assessment of 'reasonable grounds' should take these uncertainties and assumptions into account. Regulators should adapt their approach accordingly and commensurate with the guidance provided and uncertainty involved. There is existing guidance on calculating scope three emissions in the Greenhouse Gas Protocol, and the ISSB has indicated that it will be providing further guidance. However, assurance standards will need to be developed and phased in generally for disclosures and for scope three emissions in particular.

Please contact me if you have any questions in relation to this submission.

Yours sincerely

██████████
Senior Economic Research Adviser

████████████████████