

Climate Related Financial Disclosures

Aware Super Submission

9 February 2024

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Executive Summary

Aware Super welcomes the opportunity to provide feedback on the *Treasury Laws Amendment Bill 2024: Climate-related financial disclosure* exposure draft, which seeks to amend parts of the *Australian Securities and Investment Commission Act 2001* and the *Corporations Act 2001* (Cth) to introduce mandatory requirements for large businesses and financial institutions to disclose their climate-related risks and opportunities. Climate-change risks are financial in nature and deeply embedded across the economy.

The International Sustainability Standards Board (ISSB) reporting standards (IFRS 1 and 2) were developed for entities that issue debt and equity. While we note that asset owners - such as Aware Super - do not issue debt and equity, as an investor in entities that do, we support mandatory climate reporting to inform our investment decision making.

Mandating the disclosure of this information will assist investors' investment analysis, risk assessment, stewardship activities and due diligence processes. We note, however, that the policy intent is not always clearly reflected in the Exposure Draft legislation. Whilst we welcome the introduction of an assets under management (AUM) test to bring asset owners into the reporting regime, **there is uncertainty as to how the test will be applied.**

As an investor, Aware Super has a long history of integrating environmental, social and governance considerations across all investment decisions. Because we have aligned our own climate related reporting to the Task Force on Climate-related Financial Disclosures (TCFD), we have valuable insight into how climate reporting applies to asset owners.

Our role as an investor and provider of capital requires a balanced and pragmatic approach, including considering the risks and opportunities for our portfolios. As a fiduciary, our primary duty is to act in the best financial interests of our members. Accordingly, we believe there are material considerations that the proposed mandatory climate reporting requirements should consider in relation to this positive duty and we have described these below.

While we endorse the submission made by ASFA and ACSI, we have also included our own recommendations.

About Aware Super

Meet Aware Super - the multi-awarded super fund. We're here to help our members grow their savings, whether retirement is 2 or 20 years away. As one of Australia's largest profit-for-members funds, we always remember whose money it is and whose future we're looking after.

That means being super helpful in ways our 1.1m members want, and sometimes in ways they don't expect. From super returns of 8.40% p.a.¹ over ten years for our High Growth option. To expert super advice and guidance for right now. We're committed to helping our members get more from their super, so they can get more for their future.

¹ Index median of 7.89% p.a. for the same period. Source: SuperRatings Fund Crediting Rate Survey (FCRS) 31 December 2023 (SR50 Growth (77-90) Index (approx. 50 options). Returns are after investment fees and costs, transaction costs, tax on investment income and any implicit admin fees. Past performance is not an indicator of future performance.

Recommendations

Summary of recommendations

1. Retain asset owners as a separate reporting group and exclude them from the 'large entities and their controlled entities' criteria.
2. Phase-in asset owners from Group 2, based on an AUM threshold.
3. Extend the year all entities are required to commence climate reporting under the phased-in approach to financial reporting years commencing on or after 1 January 2025, starting from Group 1.
4. Phase-in asset owners from Group 2 and extend the reporting timeline to allow the AASB sufficient time to address key concerns in relation to the draft exposure ASRS Standards.
5. Climate reporting for wholly-owned subsidiaries that are consolidated into the asset owner for financial reporting purposes should be consolidated into the asset owner climate reporting, with no need for a standalone report.
6. Remove the requirement for mandatory assurance, which would better align with the ISSB intent. Alternatively, assurance of sustainability reports should be limited assurance for quantitative metrics only.
7. Remove the transition to reasonable assurance over time.
8. Extend the proposed modified liability to asset owners, to apply on an ongoing basis.
9. Provide additional guidance to asset owners around what a 'reasonable basis' means in relation to reporting that is dependent on third-party data providers.

Amend the proposed categorisation of entities, thresholds and phase-in timing

Relationship between the three-criteria size threshold test and the AUM test

Aware Super strongly supports the application of an AUM test to support a clear, consistent and effective application of the reporting requirements for asset owners. This approach also aligns with the UK approach to mandatory TCFD reporting, where the threshold for reporting obligations for occupation pension schemes is based on AUM² and the purpose of reporting for asset owners (i.e. to 'support consistent reporting of climate-related risks and opportunities across the financial sector, noting the significance of these entities in Australia's financial system').

Whilst we support this approach, we note that the Bill is unclear on the relationship between the three-criteria size threshold test and the AUM test. This can be resolved by clarifying in the legislation that asset owners and their associated entities are captured only by the AUM test. This outcome appropriately:

- **Aligns to the purpose of reporting.** The AUM test focuses reporting on the fund, which will likely be the area of most significant climate risk and opportunity.

² [FINAL_TCFD_ROADMAP.pdf \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/100000/FINAL_TCFD_ROADMAP.pdf)

- **Provides clarity.** Where an entity is wholly-owned and does not issue debt or equity, its reporting can be consolidated under its parent’s disclosures, and it will not be required to prepare separate climate reporting.

At present, certain superannuation funds meet both the ‘large entity’ and ‘asset owner’ categories and it is unclear under which category we are required to report.

In addition, the structure of superannuation funds is complex and it is unclear how to apply the three-criteria size threshold. This may result in multiple reports being issued by an asset owner and its associated entities (where superannuation funds have multiple entities that all report as Chapter 2M reporting entities), instead of one consolidated report.

The structure of superannuation funds is characterised by numerous underlying entities. This poses challenges for the seamless application of the consolidated revenue, consolidated gross asset, and employee tests. This complexity creates significant challenges for application and will likely result in suboptimal outcomes.

- For a single asset owner, it may result in the inclusion of some, but not all, underlying entities and/or each entity having to produce individual reports phasing-in at different reporting dates. In certain circumstances, some entities may be out of scope entirely.
- For users of these reports, it may make comparative analysis of superannuation fund climate reporting difficult due to lack of uniformity in the entities covered.
- The consolidated revenue test may result in an unintended consequence given the variability of revenue for superannuation funds, which may result in superannuation funds not meeting the threshold test because it includes realised or unrealised gains in fair value movement. For example, in FY22 several superannuation funds reported a loss.

Additionally, if certain superannuation funds were to be captured as Group 1 Entities, they could face significant challenges in meeting the proposed reporting requirements. For example, the ISSB is not fit-for-purpose for asset owner reporting. The ISSB was designed only for ‘for profit’ reporters that issue debt and equity. As it stands, using the ISSB for asset owner reporting would necessitate substantial additional guidance that is specifically tailored to asset owner reporting (currently, approximately 60% of ASRS 1 and 2 is materially misaligned and would require either the development of new guidance or modification to the Standard to enable meaningful reporting).

The issues outlined above may significantly undermine the policy intent of the legislation, which is to be able to have superannuation funds uniformly provide comprehensive and comparable information to members to help them make informed decisions.

Categorising superannuation funds as ‘asset owners’ and introducing an AUM threshold would facilitate greater transparency, comprehension and informed choice from a consumer perspective, while also being a more practical way to reconcile superannuation fund structures and the challenges asset owners may face in meeting the mandatory climate reporting requirements.

Timing of reporting

Treasury is proposing that phased-in reporting would apply to Group 1 Entities from the financial year that commences between 1 July 2024 and 30 June 2025. This is despite the AASB having not yet finalised its Australian Sustainability Reporting Standards (ASRS) to support the climate-related financial reporting. Delaying the commencement date by 6 months would better enable entities to implement the new reporting requirements, enhance the quality of reporting data and allow more time for all industries and ancillary services (such as consultants and auditors) to scale up and develop the necessary skills and capabilities.

Additionally, asset owners depend entirely on the disclosure of information by the companies they invest in. According to the current schedule outlined in the ASRS Standard, in the second year, asset owners will be obligated to quantify the scope 3 emissions of their investee companies, which should be disaggregated in our financed emissions. However, completing this task within the current schedule is not feasible. This is because corporate investee companies will only start providing their emissions data in the same year that we are required to aggregate them. For asset owners to accurately aggregate this data, a 12-month lag for financed emissions is required after investee companies publish their emissions.

Definitions and asset owner specific guidance

The ISSB reporting standards (IFRS S1 and IFRS S2) that are the basis for the ASRS Standards have been designed for ‘for profit’ entities that receive external capital to fund operations.

“This Standard uses terminology suitable for profit-oriented entities, including public-sector business entities. If entities with not-for-profit activities in the private sector or the public sector apply this Standard, they might need to amend the descriptions used for particular items of information when applying IFRS Sustainability Disclosure Standards (para 9, IFRSS1).”

Applying the exposure draft ASRS Standards presents significant challenges for asset owners as it appears that the guidance has not been developed to align to asset-owner specific reporting requirements (approximately 60% of ASRS 1 and 2 is materially misaligned). Aware Super will provide specific detailed feedback on these issues in our response to the current AASB consultation. To address this feedback, we expect that the AASB may require additional time to develop asset owner specific guidance in consultation with industry.

Recommendations

1. Retain asset owners as a separate reporting group and exclude them from the ‘large entities and their controlled entities’ criteria.
2. Phase-in asset owners from Group 2, based on an AUM threshold.
3. Extend the year all entities are required to commence climate reporting under the phased-in approach to financial reporting years commencing on or after 1 January 2025, starting from Group 1.
4. Phase-in asset owners from Group 2 and extend the reporting timeline to allow the AASB sufficient time to address key concerns in relation to the draft exposure ASRS Standards.
5. Climate reporting for wholly-owned subsidiaries that are consolidated into the asset owner for financial reporting purposes should be consolidated into the asset owner climate reporting, with no need for a standalone report.

Exclude mandatory assurance from scope

Aware Super considers that mandatory assurance of sustainability reports should not be required. Whilst the ISSB has emphasised the importance of creating a reporting framework that is capable of assurance, it does not recommend mandating assurance. Alternatively, if assurance is kept within the legislation, we agree with this assurance being limited and covering quantitative metrics only.

We are concerned that the intention of limited assurance of climate metrics will be scaled up to cover all climate disclosures by 2030 and then transition to reasonable assurance. This appears disproportionate and incongruous with the intention to have ‘similar assurance requirements to those currently in the Corporations Act for financial reports’.

In addition, the move to reasonable assurance over time will create material cost and burden, which will ultimately be borne by members.

As a user of financial statements, Aware Super does not believe the marginal additional value to investment decision-making from reasonable assurance would outweigh these additional costs.

Recommendations

6. Remove the requirement for mandatory assurance, which would better align with the ISSB intent. Alternatively, assurance of sustainability reports should be limited assurance for quantitative metrics only.
7. Remove the transition to reasonable assurance over time.

Extend the proposed modified liability to asset owners

Aware Super welcomes the proposed modified liability in relation to scope 3 greenhouse gas emissions and scenario analysis. Whilst it is proposed that this limited immunity will apply only to transitional reporting for financial years commencing 1 July 2024 and 30 June 2027, we recommend that it operates on an ongoing basis for asset owners.

Asset owners are in the unavoidable position where they must rely on the accuracy and completeness of third-party data providers' reporting to report on aggregated financed emissions. Accordingly, appropriate protections for asset owners and their directors should recognise this dependency.

Moreover, the scale of the undertaking that will be the collection and collation of this third-party data should not be underestimated. There are considerable practicalities that government and institutions alike will require time to work through.

Recommendations

8. Extend the proposed modified liability to asset owners, to apply on an ongoing basis.
9. Provide additional guidance to asset owners around what a 'reasonable basis' means in relation to reporting that is dependent on third-party data providers.