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Climate Disclosure Unit  
Market Conduct Division  
The Treasury  
Langton Crescent  
Parkes ACT 2600

[climatereportingconsultation@treasury.gov.au](mailto:climatereportingconsultation@treasury.gov.au)

**Re: “Climate-related financial disclosure” consultation**

AustralianSuper welcomes the opportunity to provide feedback on the climate-related financial disclosure consultation paper.

We believe that a global approach to the development of climate-related financial disclosure standards and the implementation of the standards in Australia will support investment decision making relating to climate change risks and opportunities.

AustralianSuper is Australia’s largest superannuation fund and is run only to benefit members. Over 3 million Australians are members of AustralianSuper with over \$274 billion in member assets under management. We are the custodians of the retirement savings of one in 8 working Australians. Our purpose is to ensure members achieve their best financial position in retirement and in doing so, we act in members’ best financial interests. The Fund actively stewards its capital and uses its influence to seek long-term value and integrates ESG considerations into its investment decision making to meet this aim.

Climate change is one of the most significant issues facing investors today and climate-related risks and opportunities will impact economies, asset classes and industries, as well as the physical environment. It is critical for us to manage these investment risks and opportunities if we are to deliver our goal of helping members’ achieve their best financial position in retirement.

The Fund has committed to manage its investment portfolio to net zero carbon emissions by 2050. The commitment was made in members’ best financial interests given the potential risk climate change presents to the Fund’s long-term investment performance. Our net zero commitment builds on the actions we are taking to manage the transition and physical risks in the portfolio and our desire to produce outcomes that create and/or enhance companies’ financial value.

**1. General**

AustralianSuper welcomes standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities in Australia. The overarching principle of high-quality disclosures which require transparent, credible, and comparable data is to enable users of climate risk disclosures to make informed decisions.

As an active, long-term investor, AustralianSuper applies a comprehensive approach to managing ESG and climate risks and opportunities in our portfolio. We believe the implementation of the standards in Australia will support our investment decision-making and stewardship activities.

We support Australian climate disclosures that align with those developed by the International Sustainability Standards Board (ISSB). The implementation of the ISSB standards in Australia will ensure alignment with global best practice by providing investors and users of climate related disclosures with comparable and consistent information. As investors in domestic and global markets, a consistent global set of standards is encouraged and welcomed.

## 2. Key points of feedback

- *Inclusion of unlisted entities:* We strongly recommend large unlisted entities are included in the initial phase of implementation. Given users of the proposed disclosures also invest in unlisted entities, the same principles should apply to these entities in terms of reform to improve transparency for investors and for portfolio reporting. The Australian Securities and Investments Commission's (ASIC) definition of large proprietary companies for financial reporting purposes could be adopted.
- *Timing for adoption:* We support the initial date for the disclosures to apply for initial covered entities (including proposed addition of unlisted entities) being financial year 2024-25. Our support assumes that the final Australian standard is released prior to 1 July 2023, which would allow entities 12 months to prepare before the start of the 2024-25 financial year. Given the significant impact the new disclosures will have on processes and systems, we consider that entities will need a minimum of 12 months to implement the requirements;
- *Reasonable grounds:* We support the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions and methodologies for estimates. Our preference is to avoid the safe harbour concept if possible to encourage more robust disclosure;
- *Reporting for investment portfolios:* To allow for consolidation and aggregation of portfolio company emissions/investment data a lag of one reporting period for portfolio disclosures of emissions should be considered. For example, 30 June 2024 portfolio company emissions data would be reported in the 30 June 2025 climate change reporting disclosures of the investor. We would welcome a roundtable or further detailed consultation prior to asset owner specific guidance being released.
- *Continuous improvement:* We support the principle of continuous improvement in reporting from one reporting cycle to the next, which mirrors the principles set out in the Modern Slavery legislation. This can demonstrate progress made and new initiatives implemented to expand and refine how companies are addressing the risks and opportunities relating to climate change.
- *Capability uplift:* There will be a required uplift in capability including resourcing and regulation. This could include educational pathway programs for building sustainable finance capability to ensure the economy is well resourced to implement such initiatives as climate disclosure.

We welcome further consultation and or engagement on topics including:

- Consultation regarding the impact of additional ISSB standards updates since the release of the first draft in March 2022;
  - Development of asset owner guidance or specific considerations for asset owners;
  - Guidance support provided by Government such as industry metrics, scenarios and climate data; and
  - Capability uplift activities for the sustainable finance industry ecosystem.
- Further context and detail is provided on each of the above topics in section 3.

**3. Detailed feedback**

**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)? In particular:

- 1.1 What are the costs and benefits of meeting existing climate reporting expectations?
- 1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

Investors welcome the availability of more comparable climate data across the Australian economy for varying asset classes and international portfolio investments. For example, the adoption of the international accounting standards has brought about a similar harmonisation with increased transparency, accountability, and efficiencies.

Investors currently utilise Sustainability Reporting and Climate Change reports to conduct due diligence and stewardship on their assets. For private market holdings AustralianSuper encourages portfolio companies to publish such reports. While Task Force on Climate-related Financial Disclosures (TCFD) aligned reporting provides key insights in a comparable manner for companies, the information presented is currently not fully standardised across sectors, asset classes, methodology and assumptions. We recognise and welcome the current uplift and quality in disclosure of selected sectors and companies and believe the implementation of aligned disclosures will encourage broader adoption of best practice disclosures.

Capability uplift

There will be a required uplift in capability including resourcing and regulation. This could include educational pathway programs for building sustainable finance capability to ensure the economy is well resourced to implement such initiatives as climate disclosure.

We would be happy to be involved in discussions regarding capability uplift from an implementation perspective.

The associated costs of implementation would likely be borne in a less efficient manner if no mandatory climate reporting disclosure regime was adopted. This is due to the needs of capital markets, investors and other stakeholders for climate-related disclosures.

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

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

We consider that whilst some entities are reasonably mature and prepared for the introduction of these new disclosure standards, some entities will require time to scale up their expertise and capability.

We support the initial date for the disclosures to apply to initial covered entities for the financial year 2024-25. Our support assumes that the final Australian standard is released prior to 1 July 2023, which would allow entities 12 months to prepare before the start of the 2024-25 financial year. Given the significant impact the new disclosures will have on processes and systems, we consider that entities will need a minimum of 12 months to implement the requirements. We support having early adoption available for those entities that have

systems and processes up and running as best practice examples for other entities. We recognise the dependency for entities to rely on third parties for scope 3 emissions data which may impact reporting timeframes.

We support a phased in approach where disclosures rely on underlying entity reporting such as Scope 3 emissions Category 15: Investments. Data gap allowances for this category of emissions disclosures should also be considered, factoring in transparency as to what the gaps are, reasons for them and improvements anticipated in future reporting periods. It would be helpful if the final standards acknowledge that this alignment includes the application of the exception to consolidation applicable to investment entities contained in IFRS 10 Consolidated Financial Statements. This is discussed further in question 9.

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

- 3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?
- 3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

We strongly recommend large unlisted entities also be included in the initial phase of implementation. The ASIC definition of large proprietary companies for financial reporting purposes could be adopted. Given users of the proposed disclosures also invest in unlisted entities, the same principles should apply to these entities in terms of reform to improve transparency for investors and for portfolio reporting. We would also recommend consultation with the UK Government on their thresholds and related benefits and challenges.

The inclusion of large unlisted entities could also allow for greater cooperation within supply chains or precincts which are key to an orderly transition. Each sector will be impacted on a different level, however this does not necessarily correlate with whether a company is listed or privately held. AustralianSuper has been engaging with private companies for a number of years on climate risks and opportunities.

We agree that large, listed entities and large financial institutions should be covered in the initial phase.

Considerations for financial institutions regarding aggregation of emissions data are also covered in Question 2 and 9.

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

- 4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?
- 4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

Yes, ISSB is the most relevant standard setting body for a consistent global baseline, in particular for global investors and companies. The costs of tailoring standards to Australian circumstances would outweigh any benefits.

Australian considerations are covered in Question 16.

Continuous improvement

We encourage better practice, not just in the minimum expectations of the standards themselves. We support including the principle of disclosure of continuous improvement from one reporting cycle to the next, which mirrors the principles set out in the Modern Slavery legislation. This can demonstrate progress made and new initiatives implemented to expand and refine how companies are addressing the risks and opportunities relating to climate change. As investors, this provides us with critical information to assess progress and evolving approaches to managing climate risk.

**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)?

The key considerations that should inform the design of a new regulatory framework include the need to maintain global consistency as much as possible. Therefore, rather than drafting Australian specific requirements, the new regulatory framework should adopt the ISSB standards to set the overarching obligations for climate disclosures.

We support incorporation of the overarching obligations for climate disclosure (governance, strategy, risk management, targets and metrics) into legislation and building out the detail of those obligations through standards and guidance.

**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?

Conceptually, we support climate reporting being included in financial and operating reviews so that climate data and disclosures are as integrated as possible.

However, given practical considerations, most notably assurance, uplift requirements and the nature of climate change disclosures we support inclusion in an alternative separate report forming part of the annual report.

**Question 7:** 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 with the alignment to the International Financial Reporting Standards (IFRS) definition given the following definition:

*“IAS1: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”*

To promote global consistency of reporting, the application of materiality should align with the ISSB standards. For commentary regarding emissions disclosures please refer to the Question 9 response in particular for scope 3 emissions.

**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?

There is a critical role for independent external assurance to provide credibility to climate information for investors relying on the information provided. We support collaboration between standard setters and regulatory bodies and such entities as Australian Accounting Standards Board (AASB), Australian Prudential Regulation Authority (APRA), ASIC, Auditing and Assurance Standards Board (AUASB), Australian Securities Exchange Ltd (ASX) and relevant international entities to ensure alignment and implementation which is fit for purpose.

From an overarching perspective we support a phase in of “limited assurance engagements” initially with an aim for “reasonable assurance engagements” given the continuous improvement and systems that will follow from mandatory disclosure. We would welcome collaboration with audit firms, as they will be closest to the challenges faced with providing assurance over climate disclosures.

**Question 9:** What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

The overarching consideration is to provide users of climate risk disclosures with transparent, credible and comparable data and disclosures. Therefore, key assumptions and methodologies relating to emissions disclosures should be reported.

Considerations for asset owners:

Considerations specifically relevant to asset owners in measuring portfolio emissions including aggregation of portfolio companies’ emissions data which is often reported at varying reporting periods and quality levels. This will influence the timeframe in which aggregated portfolio emissions can be reported in climate disclosures. To allow for consolidation and aggregation of portfolio company emissions/investment data a lag of one reporting period for portfolio disclosures of emissions may be required. For example, 30 June 2024 portfolio company emissions data to be reported in the 30 June 2025 portfolio climate change reporting disclosure.

Considerations relating to international portfolio companies and size and type of ownership will also influence the ability to capture emissions data. Limitations with regards to collection and aggregation of large quantities of portfolio data will need to be allowed for and disclosed.

We would welcome a roundtable or further detailed consultation prior to asset owner specific guidance being released, noting this has been flagged by the ISSB as an area for refinement.

Considerations relating to current frameworks National Greenhouse & Energy Reporting (NGER) framework reporting. Corporate Emission Reporting Transparency Initiative (CERT) and Climate Active’s Carbon Neutral Standards:

- For current companies captured under the NGER’s reporting framework, consideration should be given as to how NGER’s interacts with reporting timeframes and reporting processes including audit

requirements to avoid potential duplication with proposed climate disclosures. This should not compromise the Nationally Determined Contributions obligations.

- As NGER's reporting is used for national emissions accounting purposes, the reporting may not address carbon risk exposure embedded in the company's broader value chain, supply chain or fossil fuel reserves, for example, as represented by scope 3 emissions.
- To ensure that the Climate Active's Carbon Neutral Standards, certification process and terminology aligns with ISSB / international best practice, considerations of allowable boundaries for different sectors and precincts should be considered.
- To ensure there is no duplication and consistency for relevant reporters incorporated into their transition planning.

We recommend further joint consultation with high emitting companies and investors to ensure key elements of these schemes are captured in proposed reporting. To avoid duplication, current schemes such as CERT should be aligned to the proposed climate-related disclosures and/or phased out where possible. We acknowledge as the NGER's framework would be required for the purposes of national emissions accounting purposes and may be required in any case.

#### Considerations regarding scope 3 emissions:

We support company disclosures on scope 1, scope 2 and scope 3 GHG emissions. However, we recognise the challenges relating to disclosure of scope 3 emissions and understand further collaboration to define scope 3 boundaries for certain industries may be required.

We welcome support from the Government to provide conditions and structures to support such collaboration for sectors to build guidance on scope 3 emissions boundaries where no industry boundary guidance applies. This should align to international best practice on a sector basis. As outlined in the GHG protocol, additional measures are necessary to enable valid comparisons across companies, such as consistency in methodology, consistency in data used to calculate the inventory, and reporting of intensity ratios or performance metrics.

From an investor perspective, asset level scope 3 emissions are not considered as material for some companies' business models in the transition to a net zero economy, however scope 3 emissions data is necessary information for an economy wide transition.

The ClimateAction 100+ Net Zero Company Benchmark assessment methodology provides guidance regarding materiality relating to scope 3 emissions.<sup>1</sup>

We support the reasonable grounds principle relating to disclosure of scope 3 emissions. This could include disclosure of the method of estimation and data quality scoring such as data score recommendations from the Partnership for Carbon Accounting Financials (PCAF). We welcome continuous improvement of disclosure data quality year on year.

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<sup>1</sup> <https://www.climateaction100.org/wp-content/uploads/2021/10/V1.1-Disclosure-Framework-assessment-methodology-Oct21.pdf>

**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 support industry-based disclosure requirements. With regards to IFRS S2 Appendix B Industry-based disclosure requirements, we encourage engagement with industry and further consultation to expand the industries to ensure fit for purpose definitions and complete coverage.

We note that the 'Financials' industry groups in Appendix B include Asset Management but not Asset Owners. Due to the unique nature of pension and superannuation funds with respect to climate-related risks and opportunities, it is important that industry specific disclosure requirements are developed for asset owners. We would welcome involvement in this process.

We also note that private asset sectors are not currently captured in the industry groups. We would support separate consultation to ensure consistency and applicability.

We would also welcome further consultation and engagement relating to the finance industry disclosure requirements utilising the PCAF Global GHG Accounting & Reporting Standard for the Financial Industry.

**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?

Guidance regarding transition plans include frameworks such as the ClimateAction 100+ Net Zero Company Benchmark and the Disclosure Framework Indicators. These include elements such as net zero ambition, targets, decarbonisation strategies, capital allocation alignment, climate policy engagement, climate governance etc.

In relation to offsets, considerations regarding quality of offset strategies and how the procurement of offsets aligns with such guidance provided by the Integrity Council for the Voluntary Carbon Market (core carbon principals), and the Oxford Principles for Net Zero Aligned Carbon Offsetting. This includes such elements as permanence, additionality, co-benefits and verification. Companies should disclose how offsets are incorporated into their transition planning and what level of reliance they are placing on offsets to reach net zero (i.e. technical/commercial readiness of decarbonisation pathways).

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

As a general comment, the reporting and assurance requirements should be phased in to reflect the practical difficulties entities and auditors will face in complying with the requirements, and to allow for development of systems and processes to comply with the requirements. The recommendations should consider a phase in approach as set out in question 2.



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

13.1 How and by whom might any data gaps be addressed?

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

Data gaps:

Data gaps considerations for asset owners and existing framework are addressed in the Question 9 response. Data gaps relating to physical risk are addressed in the Question 14 response.

Capability challenges:

There is potential for skills shortages in the sustainable finance industry.

We welcome the work of the Government's newly established Jobs and Skills Australia body: one of its first tasks is a study into our clean energy workforce needs. This, along with the Government's upcoming Employment White Paper, should include educational pathway programs for building sustainable finance capability to ensure the economy is well resourced to implement such initiatives as climate disclosure.

**Question 14:** 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?

It would be beneficial for Government to make publicly available central scenarios and data for use by the private sector in transition modelling and on the financial impact of warming scenarios to provide economy wide downside risk to not achieving Paris alignment.

In addition, a central body/database relating to physical risk would assist companies and investors in analysing and responding to physical risk. There are currently challenges with disaggregated physical risk climate data which sits at multiple levels of Government and private providers.

We welcome additional consultation to inform scenario design.

**Question 15:** How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

We support the 'reasonable grounds' requirements and disclosure of uncertainties or assumptions and methodologies for estimates. Our preference is to avoid a safe harbour concept if possible to encourage robust disclosure. We suggest the regulator should provide guidance or examples as to what reasonable grounds constitutes; e.g. stipulating the methodologies and data sets that are considered as reasonable grounds for forward looking statements. The above approach should assist to alleviate concerns regarding legal repercussions relating to disclosure.

The disclosure regime should encourage disclosure by companies as it helps investors make better investment decisions.

We welcome support across all regulatory bodies to encourage transparency and continuous improvement in disclosures allowing for inherent uncertainties in the climate transition. We also support the concept of climate disclosure requirements being proportional to the risks companies seek to address.

**Question 16:** Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements and how should these interactions be addressed?

Climate-related financial risk disclosures, to the extent they are financially material to the entity's operations, should be viewed as being equally as important as other information that companies need to disclose under current mandatory reporting or disclosure regimes. As such, we would expect climate-related financial risk disclosures to be subject to the same principles and requirements that govern these regimes. For example, a climate related financial risk could be considered "market sensitive" information under the ASX Listing rules and consequently subject to the same disclosure requirements.

**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 recommend incorporating the ability and flexibility to adopt other ISSB standards, but not at the hinderance of the adoption of the climate standards.

Australian adoption should aim to keep pace with international climate and sustainability related reporting.

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

The question of digital reporting shouldn't be restricted to sustainability reporting; rather, the requirement for digital reporting should consider all regulatory reporting and be implemented as part of a wholistic plan.

We recommend a phase in of digital reporting requirements if adopted, and further consultations on appropriate systems.

We also recognise the long-term benefits of digital reporting for processes and systems and from a portfolio aggregation perspective. We suggest that scope 1, 2 and 3 emissions data is provided in a consumable format for aggregation such as data packs, to aid in cross-organisational reporting and analysis.

**Question 19:** Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

Our view is that, initially, the Australian Accounting Standards Board (AASB) should hold the responsibility of implementing climate standards developed by the ISSB. In the longer term, however, AustralianSuper supports the concept of Structure 3, where Commonwealth legislation would be amended to combine the functions and powers of the FRC, AASB and AUASB into one entity responsible for financial reporting system oversight,

standard-setting and advice to government. In addition to the accounting and auditing standard setting powers of the AASB and AUASB, the body would also have statutory authority to make climate and sustainability risk disclosure standards.

One of the biggest risks in setting sustainability standards is ensuring sufficient subject matter expertise is available, and whichever structure is adopted should be aimed at mitigating this risk.

#### 4. Additional feedback and further consultation

We would be pleased to provide additional information or to discuss our feedback in further detail. We look forward to further consultation on the Australian implementation of the climate related financial disclosures. If there are any further questions, please contact [REDACTED], Head of ESG & Stewardship [REDACTED].

Yours Sincerely,

[REDACTED]

02/16/2023

[REDACTED]

Head of ESG & Stewardship – AustralianSuper

[REDACTED]

02/16/2023

[REDACTED]

Chief Financial Officer – AustralianSuper