

Corporations Branch
Market Conduct Division
Treasury
Langton Cres
Parkes ACT 2600

Email: climatereportingconsultation@treasury.gov.au

14 February 2023

Re: Australian Treasury Consultation Paper on Climate-Related Financial Disclosure (Consultation)

Dear Corporations Branch Team,

Federated Hermes very much appreciates the opportunity to provide our views on the Consultation. Federated Hermes is a global leader in active, responsible investment. We manage over USD 669 as of 31 December 2022 across equity, fixed income, and private markets, in addition to multi-asset strategies and proven liquidity -management solutions, in a number of jurisdictions globally, including Australia.

We are guided by the conviction that responsible investing is the best way to create long-term, sustainable wealth for our clients and their beneficiaries. Through our world-leading stewardship services, we engage companies on strategic and sustainability concerns to promote investors' long-term performance and fiduciary interests.

We believe there are two mutually reinforcing strands of responsible investment management: responsible investment and responsible ownership. Together, these aim to generate sustainable wealth creation for the end beneficiary investors, encompassing investment returns and their social and environmental impact. This drives our governance structures – designed to put our clients and beneficiaries at the heart of everything we do – and our investment and engagement activities, through which we seek to deliver strong risk, adjusted returns and where possible, to contribute to positive outcomes in the wider world, consistent with client objectives and applicable requirements.

We strongly support the principles around which Treasury articulates its reform: enhancing transition to net zero emissions by 2050 and, most importantly, aligning new requirements with international reporting practices. We encourage the Treasury department to review and align their efforts with analysis with jurisdictions that have already implemented climate disclosure requirements based on the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. As divergence from global standards will both increase cost and lead to investor confusion, we urge the Treasury to adopt a policy of alignment with international practices and standards.

We broadly support the Treasury's approach to phasing in any new requirements, however cautioning that implementing the correct sequencing is critical, and we agree with the Treasury's determination that requirements should apply first to large businesses, financial institutions, and other entities and, only then, to smaller institutions. To avoid sequencing errors observed in the EU with the Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainability Reporting Directive (CSRD), disclosures requirements should first apply to corporate issuers, then to fund managers and other financial product providers. Such an orderly sequencing will ensure that financial institutions get the data they need to comply with their own climate disclosure obligations. We also seek clarification as to the applicability of the Consultation to fund managers. Among financial institutions, fund managers are the ones for which data from corporate issuers is crucial, not only for their own disclosure obligations but, even more importantly, for their investment and engagement activities.

We also support both the calendar the Treasury envisages, as it is aligned with international standard setters' agenda, in particular the International Sustainability Standards Board (ISSB), and the alignment with the TCFD recommendations and future ISSB standards that are built on the TCFD recommendations. The use of commonly accepted standards is key to mitigating international divergence.

Regarding reporting of metrics (including emissions), offsets and transition plans, we consider the requirement to disclose scopes 1 and 2 emissions, and material upstream and downstream scope 3 emissions, to be the foundational component of the suggested rule that creates significant positive impacts given it leads to more timely, accurate, comprehensive, comparable, and standardized information disclosed by public and private companies. We also suggest Australian authorities could provide further guidance on what information is material per sector, and mandate reporting across material categories of scopes 1, 2, and 3 emissions. We are confident this disclosure will contribute to informed capital allocation and business decisions, resulting in improved value creation and risk mitigation for investors.

In addition, Federated Hermes believes that Scope 1, 2 and material Scope 3 disclosures should be disclosed on both absolute and intensity basis. These will help investors understand both the magnitude of company-specific exposures and help investors compare performance across companies.

It is important to disaggregate GHG emissions by constituent gases rather than just reporting in aggregate CO₂e, specifically and particularly including methane due to its near-term warming potency compared to CO₂. Disaggregation by gas will help investors better assess risk of companies in methane-intensive sectors such as oil and gas and agriculture, as well as in their value chains.

We encourage reference to existing and emerging ESG frameworks such as the ISSB global baseline. Furthermore, we encourage that climate and GHG emissions disclosures are subject to the same standards as financial information, requiring audit that should be conducted by an independent and qualified third-party. In relation to the level of assurance, we believe the audit firm should have policies and procedures designed to provide it with reasonable assurance over climate and emissions data and information disclosed by the issuer.

Federated Hermes strongly believes regulation has an important role to play in encouraging transparent investor communication, avoiding greenwashing, fostering the greening of the

economies and just transition, and encouraging investment houses to meet the needs of the investors they serve through the delivery of sustainable outcomes in the investments they make. Federated Hermes appreciates the opportunity to present our views on the reforms the Treasury envisages, and we look forward to further discussion and work with the Australian authorities on this important topic.

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