DFA Australia Limited
Level 43, Gateway, 1 Macquarie Place
Sydney, NSW 2000

9 February 2024

Director
Climate Disclosure Unit
Climate & Energy Division
The Treasury
Langton Crescent
Parkes ACT 2600

Re: Climate-related Financial Disclosure: Exposure Draft Legislation

Dear Director of the Climate Disclosure Unit,

DFA Australia Limited ("Dimensional Australia") appreciates the opportunity to provide feedback on the climate-related financial disclosure exposure draft legislation[1] (the "Exposure Draft") published by the Treasury ("Treasury"). Dimensional Australia is an investment manager holding an Australian Financial Services License and is a subsidiary of US-based Dimensional Fund Advisors LP (together with Dimensional Australia and its affiliates, "Dimensional"). We are writing to express our concerns that under the Exposure Draft, registered investment schemes with over A$5 billion in assets under management ("Large Funds") will be subject to the climate-related disclosure requirements.

1. ***Requiring funds of a certain size—irrespective of whether they pursue sustainability-related strategies—to deliver sustainability reports is likely to confuse and distract investors.***

First, according to Morningstar data as at December 31, 2023, *none* of the Large Funds that would be subject to mandatory climate-related reporting under the Exposure Draft pursues a sustainability-related strategy.[2] We are very concerned that investors will be understandably puzzled to receive an extensive sustainability report, including information about the fund's climate-related risks and opportunities, for a fund that does not include sustainability as part of its investment strategy. Requiring Large Funds to disclose information about their climate-related governance and risk management processes is not only unlikely to be useful or relevant to an investor in a non-sustainability fund, but the presence of extraneous disclosure is likely to divert investors' attention away from more pertinent information contained in the fund's annual report. In our view, mandatory climate-related disclosures are simply not appropriate for an investor in a fund that does not pursue a sustainability strategy.

[1] The Treasury, *Climate-related Financial Disclosure: Exposure Draft Legislation* (Jan. 2024) available at https://treasury.gov.au/consultation/c2024-466491#:~:text=The%20Exposure%20Draft%20legislation%20seeks,climate%2Drelated%20risks%20and%20opportunities.

[2] This is based on our analysis of Morningstar data, using the Morningstar flag "Sustainable Investment Overall" to determine whether a fund pursues sustainability-related strategies. Dimensional Australia currently manages one fund—the Dimensional Global Core Equity Trust—that has over A$5 billion in assets and another—the Dimensional Australian Core Equity Trust—that is approaching the A$5 billion mark. The investment objective of both funds is, in part, is to provide long-term capital growth by gaining exposure to a diversified portfolio of securities; the funds are not designed for investors who wish to screen out particular types of companies or investments or who are looking for funds that meet specific labour standards, ethical, environmental, social or governance goals.

Furthermore, the application of the mandatory climate-related reporting requirements to funds that do not pursue sustainability-related strategies may be inconsistent with the guidance provided by Australian Securities and Investments Commission ("ASIC") in Information Sheet 271, which outlines steps to avoid misrepresenting the extent to which a financial product is environmentally friendly, sustainable, or ethical.[3] Given the greenwashing concerns raised by ASIC, we believe it may be inappropriate for investors in a non-sustainability fund to receive a detailed sustainability report and climate statement about the fund.

2. ***Producing climate-related reports will be costly and may raise costs for fund investors.***

Under the Exposure Draft, Large Funds will be required to produce reports that comply with the sustainability reporting standards set by the Australian Accounting Standards Board (the "AASB"), which are based on the sustainability disclosure standards set by the International Sustainability Standards Board (the "ISSB"), which build upon the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). We note that the draft AASB reporting standards are quite extensive and require detailed disclosure of an entity's material climate-related financial risks and opportunities, climate-related metrics, and climate-related governance or risk management processes, controls, and procedures. Treasury itself, in proposing a phased implementation approach, has acknowledged that it will take time for companies to build the capability and skills to comply with the reporting requirements, and for the market for related professional services to adjust to meet the increased demand for services at competitive prices.[4] We feel certain that the costs to Large Funds of complying with the AASB requirements will be high, raising costs for fund investors. In our view, the costs incurred by Large Funds to produce climate-related disclosures will outweigh any perceived benefits to fund investors—particularly in the case of Large Funds that do not pursue sustainability strategies.

3. ***The AASB sustainability reporting standards are not designed with fund investors in mind, and we encourage Treasury to consider what sustainability disclosure requirements would be appropriate for funds as part of its initiative to create a labelling framework, rather than under the Exposure Draft.***

Finally, we note that while there has been international convergence toward adoption of the ISSB standards, this has generally been in cases where operating companies—not funds—are required to comply with a climate-related disclosure framework. In our experience, where regulators have adopted rules to require funds to produce sustainability disclosures, they have adopted different disclosure requirements for funds and for operating companies. For example, in the UK, the Financial Conduct Authority has adopted separate climate-related disclosure requirements for different types of entities, recognizing that the nature of certain businesses and the diverse needs of the different users of disclosure call for tailored disclosure requirements, not a one-size-fits-all approach. This recognition has resulted in distinct disclosure frameworks for different types of entities: UK listed companies are subject to rules

[3] ASIC, *Information Sheet 271, How to avoid greenwashing when offering or promoting sustainability related products* (June 2022), available at https://asic.gov.au/regulatory-resources/financial-services/how-to-avoid-greenwashing-when-offering-or-promoting-sustainability-related-products/.

[4] The Treasury, Policy Impact Analysis: Climate-Related Financial Disclosures (Sept. 2023), available at https://treasury.gov.au/sites/default/files/2024-01/c2024-466491-pia.pdf, at 29.

based on the TCFD recommendations; asset managers are also subject to rules based on the TCFD recommendations, but with modifications taking into account the nature of the asset management business; and finally, funds and other investment products are subject to rules that are not based on the TCFD recommendations but tailored specifically for funds.[5]

In its Sustainable Finance Strategy, Treasury has announced its intention to develop a labelling system for investment products marketed as sustainable.[6] If, as part of that labelling initiative, Treasury deems certain climate-related disclosures to be potentially relevant to investors in funds marketed as sustainable, then this might be a more appropriate path for Treasury to propose fund-specific disclosures, instead of subjecting funds—simply because they are of a certain size—to inappropriate operating company disclosure standards.

If we could be of further assistance, please do not hesitate to contact Stephanie Hui, Lead Counsel, Public Policy and Vice President, at +1 (512) 306-2310 or at Stephanie.Hui@dimensional.com. We would be happy to make ourselves available for further discussion or to answer any questions concerning this submission.

Sincerely,

Bhanu Singh
CEO, Dimensional Australia

5 See FCA, *Policy Statement 20/17: Proposals to Enhance Climate-related Disclosures by Listed Issuers and Clarification of Existing Disclosure Obligations* (Dec. 2020); FCA, *Policy Statement 21/24*: *Enhancing Climate-related Disclosures by Asset Managers, Life Insurers and FCA-regulated Pension Providers* (Dec. 2021); and FCA, *Policy Statement 23/16*: *Sustainability Disclosure Requirements (SDR) and Investment Labels* (Nov. 2023).

6 See The Treasury, *Sustainable Finance Strategy Consultation Paper* (Nov. 2023), available at https://treasury.gov.au/sites/default/files/2023-11/c2023-456756.pdf.