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

Climate-related financial disclosure – Treasury's design consultation

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 the detail, implementation, and sequencing of standardised, internationally aligned requirements for the disclosure of climate-related financial risks and opportunities in Australia.

Introduction

ISA welcomes the Government's commitment to standardise climate disclosures by large businesses and financial institutions. 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 industry super funds 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.

ISA's view is that the proposed sequencing of reporting entity coverage is sensible and proceeding at a reasonable pace, and is pleased to see the main concerns raised in its 17 February 2023 submission to Treasury's discovery consultation have been taken on board in this subsequent consultation, namely:

- aligning with international standards (IFRS1 and IFRS2) as much as possible
- making disclosure mandatory for large organisations, including unlisted entities as part of the initially covered entities, and
- including scope three emissions as part of mandatory reporting, with appropriate guidance.

ISA supports the proposed definition of materiality in the reporting requirements, the one-year phase-in for reporting scope three emissions, and the ability to report previous financial year information in the current reporting period.

However, ISA is concerned the proposals lack sufficient detail for industry super funds to be able to understand with clarity their reporting requirements as disclosing entities under the regime.

More information needed on specific guidance proposed

Superannuation funds face unique challenges as disclosing entities under the proposed reforms. As asset owners and unlisted entities, they rely on different sources of information to listed entities to meet their disclosure obligations and have numerous investments they will need to report on, all which takes significant time and resources to both establish and manage ongoing.

ISA acknowledges the further work to come, with plans for the AASB to develop detailed disclosure standards and guidance that are aligned with those being developed by the ISSB. However, we are concerned that while agreement on disclosure is being sought at a high-level, there is a lack of detail about those proposed reporting requirements. Further information about the specific guidance proposed to be developed and the timeframes is needed to provide necessary clarity for industry super funds.

Challenges for super funds reporting on financed emissions

Our key concern is that the consultation does not acknowledge the challenges associated with reporting financed emissions compared with operational emissions. Reporting on financed emissions relies on estimates and the timeliness of information provided by trustees and asset managers. It also depends on information provided by overseas entities that may not be covered by Australia's climate-related financial disclosure regime, and which might not provide the requisite information. Clear guidance is needed for superannuation funds on how to deal with these challenges as asset owners that will be required to report on the emissions in their portfolios.

Funds are also presently using different methodologies so there is also a need to provide a core methodology to ensure consistency and allow for comparability.

Guidance needed on scope three emissions

ISA notes Treasury's acknowledgement of the need for further guidance and progress on data challenges around scope three estimation methodologies, and that the Government's work to develop a Sustainable Finance Strategy will look at the options and priorities for addressing key data challenges and providing clearer guidance in these areas.

The guidance to be developed should acknowledge that only a proportion of a portfolio may be reported in early years, and that numbers will change in previous years as more information becomes available. There needs to also be guidance on core methodology to be used, and on the disclosure of assumptions and estimates. The guidance to be developed should be subject to consultation with experts and industry. It should also be made available before the reporting requirements start.

Flexibility needed with assurance requirements

As noted in the Consultation Paper, the intention of these reforms is to produce robust climate disclosures that provide investors with transparency around business plans and sensitivity to climate-related risk. But assuring these types of disclosures is challenging without agreed frameworks or sufficiently auditable data, and assurance requirements will therefore need to be flexible. Further guidance should be provided on what assurance means in this context, particularly when it comes to scope three emissions.

Given that the International Auditing and Assurance Standards Board (IAASB) project is developing an overarching standard on sustainability reporting, it would be premature to design an assurance framework before the IAASB standard and the Australian reporting requirements are finalised.

In summary

Industry SuperFunds support these reforms but will face unique challenges as disclosing entities, which regulators must take into account including as part of the transitional modified liability regime. Clear guidance for super funds on making forward-looking statements will be key. A separate consultation process before the Australian standards are finalised by the AASB will be important in order to work through these challenges. Guidance for super funds will also be critical given the gaps around financed emissions for asset owners in the ISSB standards, which are unlikely to be resolved by the AASB Standard.

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

Yours sincerely

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