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21 July 2023

Climate Disclosure Unit
Market Conduct and Digital Division
The Treasury

By email: climatereportingconsultation@treasury.gov.au

Dear Climate Disclosure Unit

Climate-related financial disclosure consultation paper – Vision Super response

Introduction

Vision Super is a mid-sized superannuation fund, with 85,000 members and around $13 billion in funds under management. Vision Super was founded in 1947, to look after retirement benefits for workers in the local government and authorities sectors in Victoria. We retain a strong and significant connection with our members in our traditional sectors. We have looked after members' retirement savings and pensions for over 75 years, managing the full range of benefit designs from MySuper and choice accumulation products, and closed defined benefit schemes to lifetime and allocated pensions. Vision Super has signed a heads of agreement to merge with Active Super, to form a fund with around $27 billion in funds under management and 173,000+ member accounts.

Vision Super is very supportive of measures to assist with Australia's transition to net zero emissions and to ensure the community can adapt to the changing climate.

Purpose of the proposed measures

Vision Super believes the intended public policy outcome of the proposed climate disclosures is unclear.

Treasury's Reform Principles state: "Climate disclosure reforms should assist with: Australia's transition to net zero emissions by 2050; adaptation to a changing climate; and broader efforts and initiatives to promote a sustainable financial system in Australia and internationally."

This implies that Treasury's goal is not disclosure but transition to net zero. We agree with this objective as a holistic goal of government climate change policy (albeit with a carbon budget not a deadline). However, this does not make sense as a public policy objective for these measures.

Climate risk cannot be avoided by any investor. There is no feasible scenario where a financial investor can simply avoid certain sectors and/or companies and emerge unscathed. Climate change already affects, and will exponentially continue to affect, every single person and financial asset as well as the societies we all live in. Unless Government is prepared to legislate to encourage and mandate action across the broader economic sector (including government) the stated aims of transitioning to net zero and adapting to climate change will not be successful.

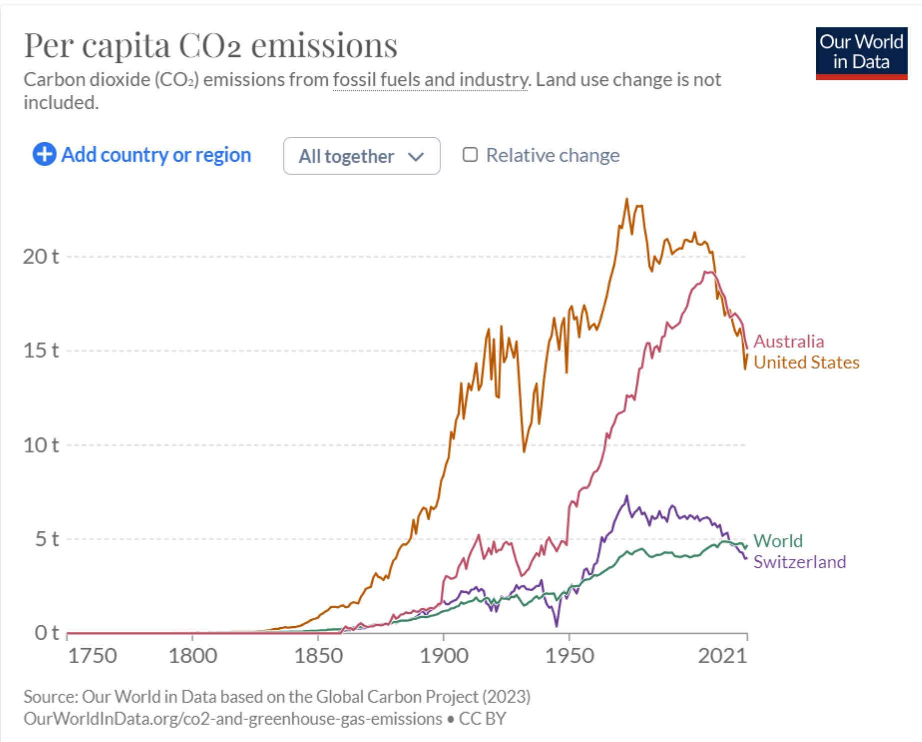
To be blunt, this issue cannot be solved with disclosures. Disclosures will not reduce the level of carbon in the atmosphere. Significant additional action is required from government on this issue. We note the government's announcement of sectoral decarbonisation plans are a step in the right direction and we hope this will in due course lead to the announcement of strong 2035 targets.

We would draw Treasury's attention to the example of Australia's global leadership in the reduction of harm from tobacco. This was achieved via strong government regulation, advertising, education and taxation. Investor action on tobacco occurred largely post-regulation, with the advent of the tobacco free pledge in 2018. This investor “action” has not noticeably changed the trajectory of smoking in Australia (nor is it likely to on an objective reading of the evidence).[1]

A further point of evidence is Treasury’s own comments. In its December consultation paper Treasury noted:

“Driven by Australia’s strong demand for foreign capital and position as an open and well-regulated economy, Australian businesses have generally been on the front foot in meeting market and regulatory expectations. In 2021, Australia had the 4th largest number of TCFD-supporting organisations by jurisdiction.[2]”

Despite this “front footedness” on disclosures, Australia is one of the highest per capita emitters globally, even worse than the United States. Disclosure is not the answer to the prime problem we should all be focused on – reducing emissions and transitioning to clean energy in order to maintain a liveable climate and an intact society. The collection of data should be used to provide feedback to refine and improve policy measures. Government should make this very clear.



[1] https://www1.racgp.org.au/newsgp/clinical/smoking-target-cannot-be-achieved-on-current-trend, https://www.macrotrends.net/countries/AUS/australia/smoking-rate-statistics
[2] https://www.fsb.org/2021/10/2021-status-report-task-force-on-climate-related-financial-disclosures/

In summary, we are very supportive of the proposed measures but only has part of a wider set of co-ordinated measures by government and with some amendments. As a hot, rich medium-sized power, Australia's best interests is to be a leader on transition. We have more to lose, and more quickly, than most.

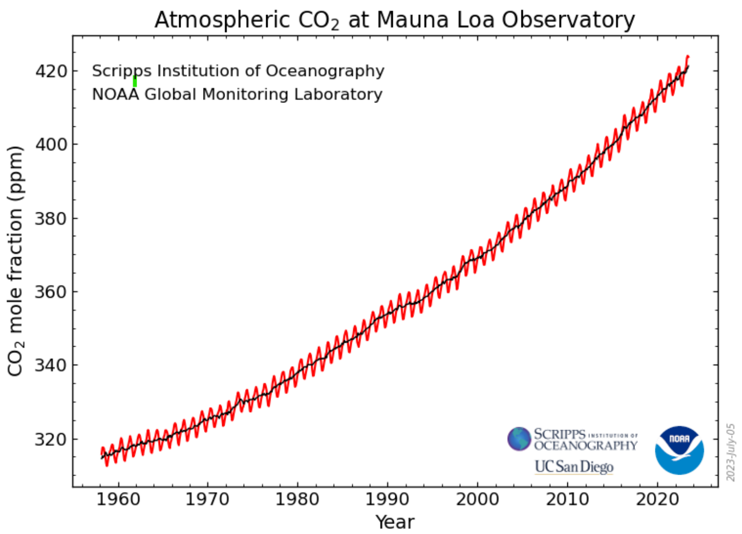
Proposal: that all entities that meet prescribed size thresholds and that are required to lodge financial reports under Chapter 2M of the Corporations Act 2001 (Cth) (Corporations Act) would be required to make climate-related financial disclosures.

Vision Super is broadly supportive of companies disclosing scope 1 and 2 emissions, along with scope 3 emissions associated with their operations (ie not those associated with non-controlled investments). We would add that government entities should be included under the criteria for disclosure, noting that governments are among the biggest sources of carbon emissions.

Treasury's paper notes: "Reporting content requirements would also aim to ensure that Australian capital markets keep pace with investor demands for high quality and comparable information on climate-related risks globally."

While we believe that comparable data globally is necessary, there is no evidence to date that increasing disclosure requirements (such as the TCFD) has had any positive impact on carbon emission reduction. We think the greater use of such data will be to inform government policy.

The chart below sets out how successful our attempts to reduce emissions to date (including by requiring better disclosures) have been.



Proposal: Principles of financial materiality would apply.

Vision Super agrees that from a government perspective the burden on company reporting should be based on the financial materiality to the broader economy. We would argue that any impact of significance to the company should already be reported. More specific requirements may encourage this. We would again note that this principle suggests reporting requirements should cover scope 1 and 2 emissions and only those scope 3 emissions attributable to the organisation's operations. Requiring large investors such as superannuation funds to disclose the scope 3 emissions of their portfolios would do nothing to reduce emissions or to provide government with useful data, and would instead be a significant compliance burden with no clear public policy benefit. Bearing this in mind we would support the same approach as used by the ISSB.

Proposal: From commencement, companies would be required to disclose information about governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities.

“Managing climate-related financial risks” is impossible on our current trajectory. The situation requires direct government intervention to reduce emissions and ensure Australia adapts to the challenges of a hotter world.

As such, disclosing information about managing climate-related risks ahead of radical global action by governments to reduce emissions is an impossible ask. All such a requirement will lead to is meaningless but impressively wordy statements often written by consultants, with no impact on emissions, climate change, or adaptation.

Any such disclosures should be consistent with broader government policy, proportionate to the benefit of the reporting, the reliability of data and the capacity of institutions to supply robust and meaningful data.

Proposal: From commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state.

Based on the disclosures we have seen to date this proposal will be meaningless unless realistic assumptions are imposed on covered entities. That is, we think government should prescribe detailed scenarios for companies to report against.

We note that many companies we invest in have strategies at apparent odds with their stated transition goals. We think in truth that no business can state exactly how it will get to net zero from here - and this should not be expected. However, some companies have strategies which appear to be in direct contradiction to their stated goals, particularly if scope 3 emissions are included. Scenarios should be mandated to restrict the ability for a company to state it is ‘Paris aligned’ while pursuing a strategy that will directly increase emissions (for example through pursuing greenfields coal projects). Wider industry considerations should be mandated so that we avoid a situation where all companies in an industry argue that the transition to net zero involves them materially increasing their emissions profile for the next decade while their competitors move more quickly to zero net emissions.

Proposal: From commencement, reporting entities would be required to disclose climate resilience assessments against at least two possible future states, one of which must be consistent with the global temperature goal set out in the Climate Change Act 2022.

The government’s own target of reducing Australia’s greenhouse gas emissions to 43% below 2005 levels by 2030 and to zero by 2050 is itself not necessarily consistent with holding the increase in the global average temperature to well below 2°C above pre-industrial levels. This would need to be restated in terms of a carbon budget as both objectives could just be met with a wide degree of difference in emissions depending on the path taken. This target would need to be updated as new evidence comes to hand.

The alternative approach itself is also not specific enough. We recommend Treasury take the best scientific advice available to it to set out the most realistic achievable target from here. We do not accept Treasury’s argument that mandating specific scenarios risks having some risk or opportunity overlooked. Companies are always free to do their own additional scenario testing and any prudent business would do so if they felt they were particularly exposed to an additional risk or opportunity.

But from a public policy perspective, it is and should be the very large risks (both in terms of likelihood and impact) that dominate.

Proposal: From commencement, transition plans would need to be disclosed, including information about offsets, target setting and mitigation strategies.

Transition plans are not in the hands of any one entity no matter how large. For example, any entity connected to a grid powered by brown coal has little ability to transition effectively. Again, transition will require significant intervention from governments around the globe. We don't believe any entity today in any jurisdiction is in a position to confidently describe in detail how they will transition to net zero if all relevant factors are taken into account including embedded emissions. However, companies should be required to disclose realistic plans to begin or progress their transition and to disclose where the uncertainties lie.

Vision Super strongly supports the proposal to require comprehensive disclosure on offsets. We agree with previous submissions that offsets should be an option of last resort and a mechanism to determine where an increasingly limited climate budget is spent.

The current offset market is an example of market failure. Offsets are being used by some as a mechanism to avoid emission reduction. Any use of offsets should be via a globally recognised and capped offset system rather than one vulnerable to any particular government's political constraints. It should be focused on offsetting those activities that are carbon-intensive but essential to the common good, rather than being available to companies for whom it is more profitable to continue to pollute and to externalise the results of that pollution.

In addition, too many companies' transition plans involve an increasing emissions profile with transition depending on current unproven and/or uncommercial technologies and/or offsets. This should not be permitted as evidence of a commitment to a net zero transition.

Proposal: From commencement, all entities would be required to disclose information about any climate-related targets (if they have them) and progress towards these targets.

This could be a tremendous amount of work for smaller entities. Without fairly prescriptive science-based criteria for how plans and progress are measured, the information would likely be worthless. Non-government third-party authentication is likely to be just as successful as it has been in other areas with conflicted interests unavoidable. This is particularly the case for financial entities who have interests in non-controlling interest in a portfolio of assets, some of which may be in jurisdictions without any reporting requirements. As noted above, we believe reporting requirements should be limited to scope 1 and 2, along with the operational aspects of scope 3 only.

Further to this point, superannuation funds would face a unique dilemma if reporting on scope 3 emissions of portfolio investments were to be required.

If investment-related scope 3 reporting is required, investors who (rightly) support reaching net zero emissions via a transitioning economy will come under pressure to exclude investments that are emission intensive. This may in turn increase the risk of the fund failing the 'Your Future Your Super' performance test.

More importantly from a public policy perspective, as noted above, there is no evidence that divestment from carbon-intensive companies or industries makes any difference to an underlying goal of achieving net zero emissions. Requiring investors to report the carbon emissions of their portfolio would be a burdensome compliance exercise with aims that contradict the government's superannuation policy, and which would provide no clear public policy benefit. Further, it would increase costs for members of superannuation funds without improving retirement outcomes.

If the Government ultimately decides to continue with full scope 3 emissions reporting for superannuation funds, consideration should be given to amending YFYS performance testing. To be clear, we fully support superannuation funds and other financial entities disclosing scope 3 emissions as it relates to their own operations and to other entities under their control.

Proposal: From commencement, entities would be required to disclose information about material climate-related risks and opportunities to their business, as well as how the entity identifies, assesses and manages risk and opportunities.

Vision Super agrees with this proposal but we would argue it should be incumbent on companies to do this already. We also think it make sense for companies and related entities where they have operational control. For larger financial investors the risks and opportunities are essentially universal and typically there is no operational input or control. We reiterate that on our current trajectory no adaption will be possible and mitigation efforts are currently well short of being sufficient. Disclosure requirements should be consistent with guidance from CPG 229.

Proposal: From commencement, scope 1 and 2 emissions for the reporting period would be required to be disclosed.

Given the variety of outputs on emissions from third-party sources we strongly support mandatory self-reporting.[3] We believe that emissions should be reported gross of eligible units, certificates and offsets with the impact of any certificates, units or offsets clearly stated. Government should resource oversight internally rather than outsource to potentially conflicted private entities such as big four consulting firms via audit requirements. On a net basis this is likely to be cheaper and more effective than outsourcing compliance. This oversight would not need to be comprehensive, merely sufficient to ensure sufficiently accurate reporting.

Proposal: Disclosure of material scope 3 emissions would be required for all reporting entities from their second reporting year onwards. Scope 3 emissions disclosures made could be in relation to any one-year period that ended up to 12 months prior to the current reporting period.

Scope 3 emissions are by far the biggest source of emissions for many Australian companies, such as energy producers and airports. The lack of sophistication or agreement on how to measure scope 3 emissions should not mean entities are allowed to report in bad faith. However, we agree that some latitude should be given to incomplete responses by entities reporting in good faith. As noted above, such reporting should be limited to operational scope 3 emissions. For investors, it is beyond our control how portfolio companies report or emit. Vision Super makes up at best a small proportion of the shareholder and debt base of each of our investments. It is not clear how we could meet this requirement with the best will in the world. Government should mandate scope 3 methodology to ensure consistency in reporting.

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[3] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3722973

Proposal: By end state, reporting entities would be required to have regard to disclosing industry-based metrics, where there are well-established and understood metrics available for the reporting entity.

We agree with this proposal but note that the condition of well-established and understood metrics may be a difficult one to meet.

Any questions or clarifications about this submission can be addressed to:

[redacted]
Head of Communications
[redacted]

Yours sincerely

[redacted]

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Chief Investments Officer