Climate-related financial disclosure: Second consultation

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UniSuper welcomes the opportunity to provide feedback to the Treasury's second consultation on climate-related financial disclosure.

UniSuper supports the development of mandatory climate reporting aligned to the ISSB standards.

We embed environmental, social and governance considerations (ESG) across all investments. Since 2018, we have aligned our own climate related reporting to the Task Force on Climate-related Financial Disclosures (TCFD) and have advocated for mandatory climate reporting.

Our submission below is in the context of UniSuper as a superfund reporting as a *preparer* under the regime for its *users*, which are mainly our members.

We are concerned by Treasury's proposed draft reporting requirements because they do not appear appropriate for the superannuation industry and asset owners' climate reporting needs. These requirements emphasise the provision of climate related information by preparers which are relatively sophisticated capital markets participants, for users of that information which are typically also relatively sophisticated, such as institutional investors. This leaves a gap for superfunds as preparers like UniSuper, whose users are typically less sophisticated individual members. The framework does not reflect that we have a reliance upon climate information from our investees and our need to provide accessible information to a different audience. At a high level, Treasury must seek to differentiate the reporting requirements between, say, a mining company, primarily responsible for emissions, and a superfund, with only derivative exposure to emissions through its debt and equity ownership of investee companies.

UniSuper's feedback on the proposed structure is summarised below alongside the considerations we believe should be incorporated into the roll out and design phase that will make mandatory climate reporting achievable for superfunds and asset owners and drive comparable and comprehensive reporting.

- **Superfunds, as aggregators of underlying investments should have a different, but aligned, reporting framework.** This distinction is needed to recognise that asset owners should not be treated the same under the reporting regime as other corporations. The draft consultation paper (which leans on the ISSB Standard) is primarily focussed on the provision of information to users which are typically sophisticated capital markets participants. This fails to appreciate the end user of superfund reporting is typically members of the public, in contrast to wholesale sophisticated investors who utilise company reporting.

- **Mandatory reporting for investors should be paused until reporting standards and industry metrics are developed first.** It is critical we have reporting standards and methodologies to ensure comparable and comprehensive reporting before mandating required reporting, including additional guidance from ASIC and AASB. The current plan to develop this over time or by 'End State' after requiring mandatory reporting is not considered best practice and will drive inconsistent disclosure and uncertainty. We encourage Treasury to engage with industry to develop an investor specific reporting framework that is aligned to the existing proposal, with focus placed on developing methodologies for Scope 3 financed emissions. This should be accompanied by investor specific guidance on areas where relief can be sought due to undue cost or effort, or how materiality is intended to apply.

- **Financed emissions (Scope 3) reporting should be phased in at later stages.** Investors as aggregators of debt and equity should be phased in as mandatory reporters after there is a critical mass of companies reporting Scope 1 and 2 emissions. This allows for the mobilisation of resources and data internally, in third-party data providers and service providers, and allows for data and methodologies to mature in terms of coverage and quality prior to superfunds being required to report. This would result in more accurate and comparable data. Requiring the reporting of financed emissions before this data is available, reliable and accurate could result in superfunds inadvertently misleading members.

- **Modified liability settings for financed emissions reporting and safe harbour provisions are needed due to the required aggregation of financed emissions and unavoidable reliance upon third party data providers.** In addition, there is a need for greater clarity around what a 'reasonable basis' means in relation to climate reporting. Appropriate protections for forward looking statements for superfund directors must recognise existing requirements and their near total dependency upon accurate company reporting and data collection by third party data providers.

- **Assurance requirements should not be required at this stage for climate-related financial disclosures**. Aligned to the approach of the ISSB, mandatory assurance at this time should not be required. The ISSB emphasises the importance of creating a reporting framework that is capable of assurance, rather than mandating assurance for a still to be established framework. The proposed assurance requirements and timelines are likely not achievable or practical, will come at a significant cost to members and appear overstated in comparison to assurance requirements for other reporting, such as the Annual Report. We recommend that Treasury encourages the voluntary adoption of assurance and considers assurance in the future after further consultation on the proposed assurance expectations following the finalisation of reporting requirements, and the anticipated limitations across the market are well understood.

- **Reporting entities should be free to choose stand-alone climate reporting or integrate it within the Annual Report.** Companies and superfunds should have discretion on the location of disclosures, such as a dedicated climate report, as long as publishing occurs within 90 days of the end of the financial year, similar to existing disclosure requirements. Superfunds utilise dedicated climate reports which will allow for greater utilisation of the data and tailoring to suit a primarily retail investor audience.

Ultimately, there is clear demand from our members and the Australian public for greater disclosure of climate related metrics. To ensure this is achieved we would be happy to provide any support or practical knowledge, including examples of how we engage with companies and data providers, to assist Treasury in delivering the regime.

Should you have further queries, please contact Policy and Advocacy Specialist [redacted] via email at: [redacted] or ESG Manager [redacted] via email at: [redacted].

Proposal 1: 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.

Currently, financial institutions are set to be captured in the first cohort. This fails to recognise that the material emissions for many financial institutions are financed emissions (Scope 3). This represents a clear timing issue as investors are currently required to report at the same time as the entities they are dependent on receiving data from. This is further detailed under Proposal 10.

We appreciate the urgency of requiring mandatory climate reporting. However, setting the expectations of reporting prior to finalising the standards which entities are expected to report against, and supplementary guidance is not considered best practice and makes it challenging to provide comprehensive feedback.

UniSuper appreciates and supports the transparency reasoning behind its inclusion under Chapter 2M of the Corporations Act 2001. However, utilising Chapter 2M for this purpose does not acknowledge the clear differences between a superfund and a typical corporation.

Utilising Chapter 2M to determine which entities are required to report may limit Treasury's ability to tailor or target requirements to fit different sectors and organisations climate risks or opportunities. A potentially more appropriate solution for superannuation funds would be the creation of a climate reporting standard administered by the Australian Prudential Regulation Authority, building on and aligned with the existing CPG 229 Climate Change Financial Risk, which would allow for the provision of an accessible holistic, comparable overview of a funds financial and environmental performance.

Regarding reporting content. We do not support the idea of integrating climate reporting into the Annual Report. While this may be appropriate for listed entities, it is not for a superfund. We have provided a detailed response under Proposal 12.

Proposal 2: Principles of financial materiality would apply.

We support the proposal that the principles of financial materiality apply, however, definitions and guidance need to be developed to distinguish how this applies to reporters who are not considered under the ISSB Standard such as asset owners, asset managers or other users of financial statements as they will be different from other reporting entities such as an ASX-listed company.

Proposal 3: 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.

We support this proposal and currently provide this information within our Climate Risk report.

Proposals 4 & 5

Proposal 4: From commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state.

Proposal 5: 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.

We are supportive of this proposal but note that the move over time to quantitative scenario analysis is typically more useful for a wholesale, sophisticated investor assessing the climate risk of an investee company rather than for a retail investor considering how an investment portfolio changes under different scenarios. Treasury must balance the needs of an average superfund member and a sophisticated asset owner to ensure that the information is sufficiently accessible and that it can be done in a way that does not create undue cost or burden compared to the utility of the output.

When considering how superfunds should provide scenario analysis to members Treasury should consider that:

- Superfunds must tailor their communications for retail investors, a large proportion of which have low levels of financial literacy. We note that the Corporations Act sets the expectation that an issuer must give the holder of the information, *retail investors*, all of the information that the issuer, *superfunds*, reasonably believes the holder needs to understand his or her investment in a financial product. This is currently achieved through our Climate Risk report which focuses on explaining data, rather than presenting it in raw form

- That scenario analysis is not required to be undertaken annually. Most preparers would undertake this analysis in a strategic manner (such as 3- or 5-year planning) rather than annual planning purposes

- That as sophistication expectations are increased it is likely outside resources and tools are needed to complete the task, this will come at a cost to members.

- Regarding modified liability settings please refer to Proposal 14.

We support proposal 5. Both transition risks (low warming scenarios) and physical risks (higher warming scenarios) should be considered when understanding risks and opportunities. However, for superannuation fund reporting it should be considered within the context described above regarding qualitative and quantitative scenario analysis.

Proposals 6 & 7

Proposal 6: From commencement, transition plans would need to be disclosed, including information about offsets, target setting and mitigation strategies.

Proposal 7: From commencement, all entities would be required to disclose information about any climate-related targets (if they have them) and progress towards these targets.

At a high level we are supportive of this proposal as it will improve transparency for target setting including disclosure of mitigation strategies, how offsets are used and the underlying composition of those offsets. We agree with the focus on transparency rather than mandating and prescribing transitioning planning activities or ambition. We agree that disclosure can be met by clearly articulating whether a transition plan exists or not.

We do have concerns around this proposal being an area for mandatory reporting from commencement for superfunds when:

- The reporting requirements will not be clear until the development of the AASB Standard

- There is a lack of guidance for asset owners under the ISSB standard, and in the consultation, when it comes to transition plan requirements.

We believe our current reporting would meet this requirement as a preparer, however we encourage Treasury to prioritise the development of the reporting standards and guidance prior to enforcing the requirement. This should include how materiality applies and where relief can be sought because of undue cost or effort. We also recommend prioritising transition planning disclosure for companies whose business strategies are materially exposed to climate risk.

Proposal 8: 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.

We support this proposal and currently provide this information within our Climate Risk report. Where there is existing guidance for reporting material climate risk it is important it is aligned to those standards and practice guides.

Proposal 9: From commencement, Scope 1 and 2 emissions for the reporting period would be required to be disclosed.

We support this proposal and to ensure parity with other preparers Scope 1 and 2 emissions can be provided from commencement. In providing this, we do not believe that Treasury have sufficiently considered occupational constraints to collecting, auditing and publishing these materials within a 3-month period. As it stands, providing Scope 1 and 2 emissions reporting within the Annual Report can present a time challenge which could impact the quality and ability to present the data to our key stakeholders (retail investors) potentially limiting the value of the data.

UniSuper discloses in our Climate Risk Report, through Climate Active certification, that our operational emissions are carbon neutral. To do this, we receive certification by Climate Active which has historically had a significant time lag of 12+ months. We are committed to publishing this data as the requirements intend, however, the operational constraints of certifying organisations pose a clear challenge.

Proposal 10: 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.

We do not agree with the current timeline for disclosing financed emissions. We are also concerned by the lack of formalised reporting standards.

To drive consistent and comparable reporting that users and preparers can have confidence in using and disclosing we strongly recommend that:

Mandatory reporting should be paused until reporting standards and industry metrics are developed first. This should include investor specific guidance, financed emissions methodologies and guidance from both ASIC and AASB, as outlined in Figure 2. The current plan to develop this over time or by 'End State' after requiring mandatory reporting is not best practice and will drive inconsistent disclosure and uncertainty. It is critical that reporting standards and guidance are developed before mandating reporting and we encourage Treasury to prioritise and engage with industry to develop an investor specific reporting framework that is aligned to the existing proposal, with focus placed on developing or agreeing on methodologies for Scope 3 financed emissions.

Based on the above and because superfunds are aggregators of investee company Scope 1 and 2 emissions, financed emissions reporting should have a different timeline for reporting that allows for a few years of baseline Scope 1 and 2 emissions reporting to occur by investee companies before requiring asset owners and other financial institutions to aggregate these emissions. This will not only provide lead time for the development of a reporting standard for financed emissions, but it will also allow time to develop domestic capacity in the following areas:

- Service providers who will be required to service the thousands of organisations that are required to report
- Third-party data providers to capture this data in a rigorous manner. Asset owners are reliant upon data provided by third-party data providers to measure our carbon footprint
- Internally within financial institutions. Service providers and third-party data providers capture some but not all investee company's emissions. Internally within the fund we still must undertake significant manual data collection for unlisted assets.

It is also critical that Treasury acknowledge that financed emissions aggregation will – even by 'End State' – include the following types of emissions which reduces the accuracy of this reporting in a way that does not affect other emissions reporting:

- Company disclosed and assured emissions (such as those from the Australian market and more developed markets)
- Company disclosed emissions and no assurance (from any markets where disclosure is voluntary and does not require assurance)

- Estimated emissions by a third-party data provider (from markets where disclosure is voluntary and can chose not to report emissions).

By way of example, in the process of reporting our current Scope 3 emissions and reviewing data provided by two different third-party data providers, we have seen differences in emissions reporting on the same company where there was almost 15 times the difference between the estimated emissions of the same company. This is just one of several examples where inconsistent reporting and estimation methodologies could have a material impact on carbon footprint calculations.

Proposal 11: 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 do not support leaving the development of a reporting standard until 'End State'. The development of a reporting standard and industry-based metrics are critical for obtaining comparable and comprehensive climate-related information. We strongly recommend that Treasury prioritise the development of reporting standards and industry metrics first, and then propose a phased-in reporting requirement.

Proposal 12: Reporting will be in annual report and continuous disclosure obligations will apply.

We do not support the idea of integrating climate reporting into the Annual Report. While this may be appropriate for listed entities, it is not for a superfund. However, we do agree the publishing of climate reporting should be published within 90 days of the end of the financial year similar to existing reporting requirements.

For climate reporting to be effective, it must be accessible and actionable by the average superfund member. We invest in improving the superannuation literacy of our members in numerous ways including, but not limited to, our website, seminars, podcasts, advice and our annual Climate Risk report. We can say with confidence that placing this information in the annual report, which is a corporate document, is not the appropriate location for a superfund.

Beyond accessibility, consideration should be made of the operational challenges this presents. The consultation provides a relatively short timeframe to mobilise and upskill workforces to meet the requirements, which require higher levels of assurance than certain aspects of a traditional annual report. This creates a challenge in terms of additional risk and cost burden.

Proposal 13: Assurance will be phased in.

Mandatory assurance at this time should not be required as part of the scope. The ISSB Standard emphasises the importance of creating a reporting framework that can be assured rather than mandating assurance. We recommend that Treasury encourage voluntary adoption of assurance in the interim and look to consider assurance in the future after further consultation on proposed assurance expectations is undertaken when reporting requirements are confirmed and the anticipated limitations across the market are well understood.

As it is currently proposed in the draft consultation paper and as outlined in Table 3, we are concerned about the timeline, content and coverage requirement of assurance. We do not believe these are currently achievable or practical and could result in the following issues:

- Excessive assurance coverage and undue cost and effort: It is not necessary to require reasonable assurance coverage across all climate reporting and should be limited to assuring only important metrics. The proposed coverage of assurance is significantly higher than required for other documents, such as an Annual Report, and will create significant cost burden to our members

- Independence challenges: Currently there is a small concentration of players available to undertake this work and it may impact the independence of auditors when it is likely consulting requirements will drastically increase

- Resourcing challenges: There is a limited pool of qualified sustainability assurance experts and the relatively quick escalation into reasonable assurance requirements will be challenging to resource.

Proposal 14: Climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three years.

As set out in our previous submission we outlined that the following is required:

- Detailed guidance and clear guidelines on the minimum areas of disclosure deemed necessary to provide consumers with sufficient information for a reasonable superannuation fund member to make an informed decision

- Ongoing modified liability settings for financed emissions reporting and safe harbour provisions which are needed based on the challenges around aggregating financed emissions and reliance on data providers (as highlighted under Proposal 10). In addition, there is a need for greater clarity around what a 'reasonable basis' means in relation to climate reporting. Ultimately appropriate protections for forward looking statements for superfund directors must recognise that they are ultimately reliant upon accurate company reporting and data collection by third party data providers. At present there is time-bound modified liability and no safe harbour provisions.

In understanding and appropriately applying these Treasury should consider the following areas and how to apply the regime to RSEs:

- If super funds will be subject to a specific climate-related disclosure regime, this should cover the field. There should be sufficient protection for trustees from the risk of claims like those in *McVeigh v REST 2018* from members asserting their general right to information reasonably required to understand their interest in the fund as this should be addressed by the reporting requirements
- There should be protection for superannuation funds which rely (as they inevitably must) upon the information given to them by the organisations in which they invest, and also in circumstances where the organisations in which they invest (which in many circumstances will not be bound by Australian legislation) do not provide the information needed to comply with the Australian disclosure obligations. Consideration for this recognises that an investor disclosing their portfolio emission is a Scope 3 disclosure and is reliant on underlying investments accurately reporting which is outside of a superfunds operational control

- This should be extended to other third-party sourced or derived climate-related data which superfunds are reliant upon for understanding the carbon foot printing of their investments and their approach to climate change. There are material challenges asset owners face in producing disclosures that rely on estimates or data from third-party data providers. For those reasons, protections should be extended to apply to data obtained by a third-party provider.

Civil penalty provisions are appropriate; however, they must be measured, recognise the significant expenditure required by superfunds to comply and consider whether superfunds have taken reasonable steps to ensure frameworks are in place to ensure the accuracy of reporting outputs.