21 July 2023

Climate Disclosure Unit
Market Conduct and Digital Division
The Treasury

By email: climatereportingconsultation@treasury.gov.au

Submission in response to:

Consultation paper: Climate-related financial disclosure, June 2023

Thank you for the opportunity to provide a response to the second Consultation paper on *Climate-related financial disclosure*. We acknowledge the work of Treasury in progressing this critically important initiative and are pleased to make a further contribution to the ongoing discussion on the role that investors, including superannuation funds, have in managing the various risks and opportunities associated with climate change, including policy, regulatory and technology developments. Alongside this contribution, we have also provided input into the submissions of the industry groups we are members of, including ASFA, ACSI, IGCC and ASFI, all of whom provide a range of complementary perspectives across their various focus areas.

Rest is a major profit-to-member industry superannuation fund with nearly 2 million members – or around one-in-seven working Australians – that manages assets of around $73 billion[1].

Rest is strongly supportive of the introduction of mandatory climate-related financial disclosures that provides effective, comparable, and consistent information, aligned to global standards. However, the adoption of mandatory reporting requires a phased in approach and an uplift in capacity and capability. This includes the unique role of asset owners, including superannuation funds, as both the users of disclosures from investee entities and as preparers of disclosures for members, and other interested parties. Our submission in the following pages primarily focuses on these phasing in matters.

With our members in mind, we are already focused on being open and transparent in our own reporting and to providing members with relevant sustainability-related disclosures through our annual Sustainability, Responsible Investment and Climate Change Supplement to the fund Annual Report, and we refer you to the most recent report on our website[2].

To discuss any aspect of this submission, I invite you to contact me directly.

Yours sincerely,

Sarah O'Brien

General Manager, Regulatory and Technical Services

[1] As at 30 June 2023
[2] https://rest.com.au/why-rest/about-rest/corporate-governance/annual-report

Response to proposals in the consultation paper

The role of superannuation funds supporting climate-related financial disclosure

Superannuation funds, including Rest, invest in listed and unlisted assets globally on behalf of their members, and as such need to cover much breadth in relation to climate-related financial disclosure.

As proposed in Treasury's June 2023 consultation paper, Rest would be required to make disclosures as a Group 1 entity, putting us in the same group as many of our investee entities which provide the very information we are reliant upon. Being in the same group is particularly relevant for the disclosure aspects relating to risks and opportunities, metrics and targets, and to a lesser extent transition planning.

As an asset owner, our most material greenhouse gas emissions are our financed scope 3 emissions. A boundary would need to be set as to whether these finance emissions include our investee entities (i.e. Groups 1, 2 and 3) scope 1 and 2 emissions or scope 1, 2 and material 3 emissions.

Superannuation funds need time to continue to seek this information from investee entities, and from those beyond Australian borders. We believe that time in the immediate years ahead is better used gathering and seeking this information than undergoing premature collation, analysis and assurance of data that could be, in part, significantly reliant on estimates.

The nature of the proposed reporting obligations on an asset owner such as Rest will create specific challenges in relation to the uplift required to the new disclosure regime, as well as ongoing year-to-year proposed disclosure obligations. Further information and recommendations related to this are further described below.

Implementation and timing relating to Rest as a user of climate-related financial disclosure

Superannuation funds invest in global listed and unlisted assets on behalf of their members, many entities of which will be covered by the proposed Group 1, Group 2, and Group 3 reporting thresholds. Our investment team, and investment managers (including asset managers and fund managers) who act on our behalf, are required to review the disclosures provided by those entities to support our decision-making process. This is all part of our ESG integration and active ownership (also known as stewardship) activities.

We support the preparation of climate change transition plans, and the protection provisions proposed in relation to forward looking statements, noting that the underlying assumptions should be disclosed in a manner that is easy for investors and others to understand.

We support target setting reporting requirements, although note that many of the entities we invest in are early stage in their climate change disclosures, and therefore suggest any targets be set across a range of time horizons. For example, encouraging reporting entities initially start with qualitative annual targets, which lead up to 2030, 2035 and 2050 targets that are quantitative. Mandating a common baseline of metrics, including industry-specific metrics, will help to ensure consistency.

The development of the AASB standards will be integral to assisting in this process, including what transition plan requirements are appropriate for disclosing entities, and how these will lead to real world outcomes. Having a base line level of consistency within sectors of the metrics and targets would be helpful for comparability, alongside encouraging organisations to set a range of targets that support an entities decarbonisation goals.

We acknowledge that there will likely be challenges initially for a range of entities we invest in producing climate-related disclosures, which could have implications for asset owners such as Rest, including reporting timeframes. For example, in the first phase, asset owners will need time to review, query, and in some cases engage with Group 1 entities prior to using this information in their own disclosures. This could lead to time lags in data and disclosures, and more so if those entities and superannuation funds themselves work to restate previously disclosed information (which should be encouraged).

A further issue in relation to the use of disclosures relied on by asset owners concerns the extent to which assurance can be relied upon. Further time lags would likely be caused if superannuation funds are required to seek assurance on this third-party information. We therefore seek clarification that an asset owner can reasonably rely on the assurance processes conducted by the disclosing entity. This is proposed with the understanding that assets owners would be reviewing and querying information provided as part of executing on their responsible owner and reporting activities.

Recommendations:

1. Clarify that asset owners can reasonably rely on the assurance processes undertaken by the entities they are invested in, rather than conducting further formal assurance activity; and that assurance for asset owners is process based. For example, for financed emissions the assured should be based on the calculation methodologies of the aggregation of the information, rather than the technical emissions calculation methodology.

Implementation and timing relating to Rest as a Preparer of climate-related financial reporting

As noted in our February 2023 submission, Rest supports a phased approach to mandatory economy-wide climate-related reporting and notes that an uplift period will be needed to allow areas of the market that are less mature to scale up reporting capabilities. Transition arrangements should seek to encourage consistent improvement across the market as a whole.

As a financial institution that is ultimately reliant on the companies and organisations we invest in to provide disclosure on their, at minimum, operational emissions for our own climate disclosures, our view is that such entities should be required to commence mandatory disclosure initially, with non-listed financial institutions, specifically superannuation funds and other asset owners to follow.

As both a preparer and user of climate-related information and given the points raised above, Rest would encourage consideration of a nuanced phased in approach for asset owners, particularly in relation to the proposed assurance roadmap and timeline for climate disclosures.

In this context, we recommend consideration be given to either:

Introducing Group 1a and Group 1b reporting entities, whereby Group 1b would be asset owners for which all qualitative aspects of disclosure are maintained, with the key change being information related to material scope 3 quantitative climate-related information. We propose this type of information runs 2 years after Group 1 commences, i.e. following the assurance timeline for Group 2. An approach such as this would allow asset owners to compile information, particularly for finance emissions which is where our most material emissions lie; or

- Alternatively, require asset owners to commence disclosure on the same timeframe as other Group 1 reporting entities but with the exception in the initial two years to report financed emissions, in line with Group 2 and Group 3 reporting timelines. This would also have the added benefit of requiring less need to restate estimated data in superannuation fund annual disclosures.

As preparers and users of climate-related disclosures we would also welcome sector guidance on what Scope 3 emissions are to be reported to help with both comparability across sectors where we are Users of the reporting, and as Preparers ourselves. Further detail on this is in the following section.

Recommendations:

2. Whilst maintaining the proposal of superannuation funds reporting in Group 1, we suggest the introduction of a further phase-in approach for asset owners, through one of the following options:
    a. Creation of a Group 1b, that provides qualitative disclosures as per Group 1, with Scope 3 quantitative climate-related information to be provided two years following, aligned to Group 2 reporting entities, allowing asset owners to receive, review and challenge information regarding financed emissions, or
    b. Retain Group 1 asset owners in Group 1 phase, with the exception of any financed emissions, which would be progressively introduced in following years.

Challenges on the implementation of Financed Scope 3 Emissions reporting

There has been considerable work examining the complexities of asset owners and the reporting of scope 3 financed emissions. To name a few, both MCSI Inc.[3] and World Resources Institute (WRI)[4] have sought to examine and provide guidance on managing the challenges of measuring financed emissions, with further updates from WRI expected.[5]

Figure 1, below, aims to set out at a high level, the basic flow of emissions data as it relates to Rest, as both a user and preparer of climate-related information.

As represented in the orange boxes, there is a significant challenge where intermediaries exist. Examples of challenges to the availability of scope 3 financed emissions for reporting entities like Rest include where data is not complete, there are data lags, the entities are offshore (some in markets which are yet to mandate emissions reporting) or an intermediary is involved.

These intermediaries further add to the complexities around the scope of assurance and what that might entail. For example, in a group of asset owners there may also be numerous different data providers (for the same companies) for financed emissions. Consideration should also be given to the extent of the ability of assurance to identify any differences in the data across asset owner's needs. Therefore, the scope of what assurance seeks to confirm as accurate data will be important.

We would be pleased to meet to discuss these matters in greater detail, given the complexity of the issue at hand.

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[3] https://www.msci.com/www/blog-posts/which-scope-3-emissions-will/03153333292
[4] https://ghgprotocol.org/scope-3-calculation-guidance-2
[5] https://ghgprotocol.org/ghg-protocol-standards-and-guidance-update-process-0,

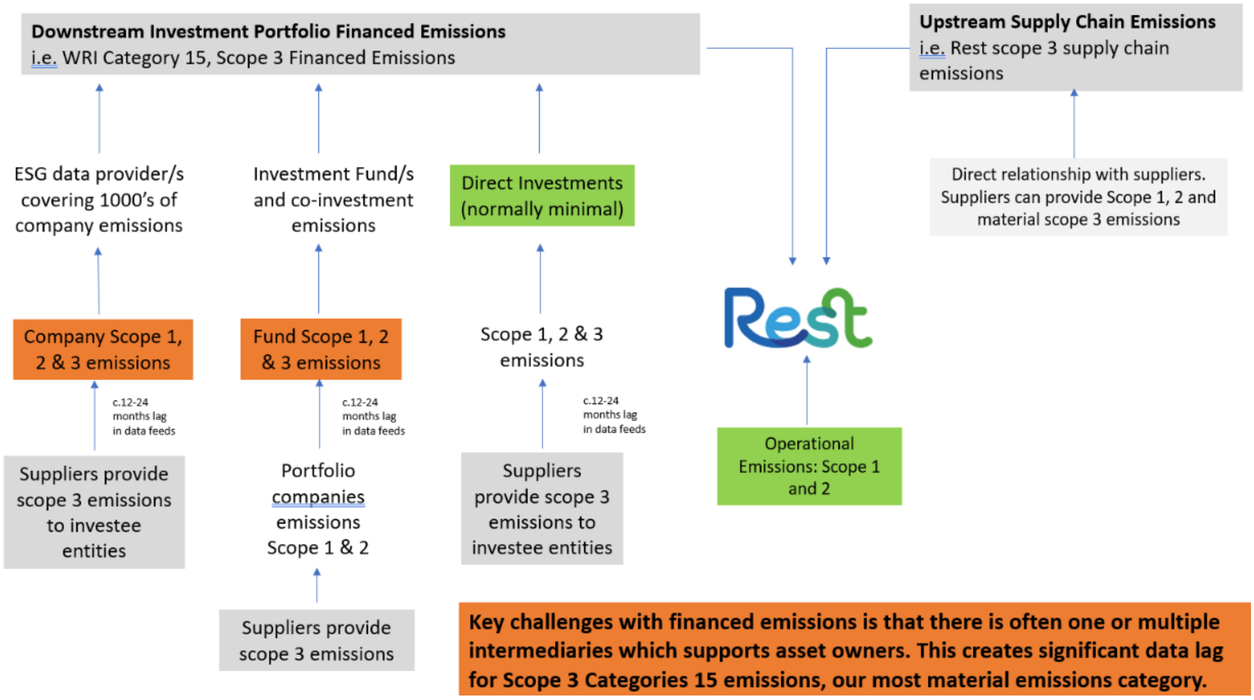

Figure 1: *Scope 3 emissions in the context of an Asset Owner who's most material emissions are financed emissions. This simplified diagram aims to show the intermediaries or layers involved in sourcing financed emissions, and the time lag that comes with that as investee entities also uplift capacity and capability. Boxes shaded in green show where emissions (both operational scope 1 and 2 emissions and financed scope 3 emissions) are easiest for Asset Owners to directly source. Boxes shaded orange aim to represent the reliance on intermediaries (who themselves may rely on other intermediaries).*

Lastly, all group 1 entities will be challenged by availability of scope 3 data, for both upstream and downstream emissions. A level of sophistication is recommended in the market whereby suppliers should be encouraged to provide a pro rata scope 1, 2 and (in time, scope 3) emissions for services and/or products provided on invoices. This discipline would encourage all entities to consider measure, monitor and report emissions and provide these to their customer. Further, it would help finance teams to gather supply chain emissions data, that should in time be included in financial systems reporting.

Recommendations:

3. Given the methodological and data challenges associated with financed emissions, further guidance for financed emissions disclosure, including where estimations are appropriate, should be developed in advance of reporting commencement.
4. Suppliers to provide emissions for services or products provided on invoices, starting initially with attributable scope 1 and 2 emissions, and building up to material scope 3 over time.

Further detailed guidance on scope 3 emissions disclosure will materially assist reporting entities and enhance the usability of disclosures for investors.

Assurance

Rest believes that some of the challenges with assurance in the early phases is likely to be the need for rapid sourcing and uplift of data on climate-related financial matters that may result in lower levels of accuracy. This makes the collection, analysis and assurance process complex, and therefore Rest welcomes the approach of limited assurance phasing to reasonable assurance, combined with modified liability.

Rest identifies some concerns with financial auditors being proposed as leading climate disclosure assurance engagements. To ensure a competitive assurance market which is credible and trusted, we would propose mechanisms that encourage the financial auditors to reach beyond their own firms to ensure the market develops appropriately, and with the relevant technical experts.

Given the challenges identified in the consultation paper regarding assurance - including capacity of existing registered auditors to scale up to the increased demands by the entities seeking assurance on new financial disclosure information - we recommend that a phased approach on assurance requirements in the initial two years is appropriate for asset owners sitting in Group 1. We instead propose that these years include reviews by internal audit teams as an alternative.

We anticipate that additional clarity on assurance requirements will be forthcoming following AASB setting climate-related disclosure standards. As such, we would encourage further consultation on assurance requirements once standards have been established and limitations better understood, including complexities in measuring and reporting financed emissions.

Recommendation:

5. Asset owners to remain in Group 1, although have an assurance timeline that fits more alongside Group 2. This provides asset owners time to gather and report financed emissions with greater certainty, and provides assurers time to build up capacity and capability.