17 February 2023

Climate Disclosure Unit
Market Conduct Division
The Treasury
By email: climatereportingconsultation@treasury.gov.au

Submission in response to:

Consultation paper: Climate-related financial disclosure

Thank you for the opportunity to provide a response to the Consultation paper on *Climate-related financial disclosure*. We are pleased to contribute 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.

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].

Over 50 per cent of Rest's members are under the age of 35 and have decades remaining until retirement. Increasingly, a focus on environmental, social and governance (ESG) matters is supported by young investors who prefer investment managers to take an active stance on climate change, diversity, and other stakeholder initiatives. Beyond the traditional expectations of super funds, our younger members are interested to see credible sustainability outcomes from our investments, through both the use of enhanced disclosure standards and improved classification of what constitutes a sustainable asset.

Rest is strongly supportive of the introduction of mandatory climate-related financial disclosure that provides effective, comparable, and consistent information, aligned to global standards. However, the adoption of mandatory reporting will require a transition period to allow areas of the market that are less mature to scale up reporting capabilities.

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.

This submission addresses the key consultation questions in the pages following and seeks to both reflect on our experiences as a superannuation fund to date, and our perspectives on introducing effective climate-related financial disclosure economy-wide. Its scope covers Rest as both a preparer and user of climate-related information.

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 31 January 2023

The Trustee company of Retail Employees Superannuation Trust ABN 62 653 671 394 is Retail Employees Superannuation Pty Limited ABN 39 001 987 739, AFSL 240003 1.4 04/18 ISS23

Responses to key consultation questions

Question 1: What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular:
1.1 What are the costs and benefits of meeting existing climate reporting expectations?
1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

While there is a financial cost for organisations to meet existing (normally voluntary) climate reporting expectations, the benefits of doing so outweigh the costs. Rest has found that the process of implementation leading up to reporting to our members has value. It supports the engagement with companies and financial institutions to better understanding their own climate-related risks and opportunities, and therefore the material information which investors and other stakeholders are interested in.

Rest completed a TCFD[2] aligned climate disclosure in FY21 and FY22 and, being APRA regulated, complies with APRA Prudential Practice Guide CPG 229 *Climate Change Financial Risks*. Rest actively engaged in the consultation on the finalisation of the Guide and has undertaken an audit of our compliance with the Guide.

In our experience, a credible climate-related financial risk disclosure is ultimately the output of expert implementation, and therefore requires resources and capability. This normally flows through to headcount requirements, management time and board oversight.

For Australia to remain an attractive destination for domestic and foreign investment, key stakeholders in the economy (for example, listed companies, large unlisted companies, investors, and other stakeholders such as government departments and agencies) should be required to provide climate-related disclosure. Climate-related reporting is the starting point to taking action to meet net zero goals; it helps to gather data for analysis which means companies and financial institutions, including superannuation funds, are better equipped to understand their exposures, maintaining market attractiveness.

Furthermore, for investors, effective disclosure is an important tool which can help to more accurately price assets and identify risks and opportunities associated with climate change, and to support the efficient allocation of capital towards a climate-resilient, net zero emissions economy. A lack of comparability in climate-related financial disclosures creates challenges for a range of users in assessing an entity's exposure to climate-related risks and opportunities.

Adoption of a global climate-related baseline would help to encourage reporting entities to improve their climate-related practices and disclosures, ultimately leading to economic activities that promote sustainability outcomes, guide an orderly and just transition and address greenwashing concerns.

By aligning with international practice and in particular global baseline standards for climate-related reporting, Australia will be better positioned to respond as the global economy transitions to net zero.

[2] Task Force on Climate-Related Financial Disclosures, https://www.fsb-tcfd.org/

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?
2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

Rest supports a phased approach to mandatory economy-wide climate-related reporting and recognises that a transition period will be needed to allow areas of the market that are less mature to scale up reporting capabilities. We recommend that any transition arrangements should seek to encourage consistent improvement across the market as a whole.

In this context, many large listed Australian entities already produce some form of climate-related disclosure. As a financial institution that is ultimately reliant on the companies and organisations, we invest in to provide this information for our own 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, although with encouragement to commence disclosing sooner. Consideration of smaller entities and other intermediaries could be phased in following these implementations.

Rest suggests that Government indicate at an early stage the timeline in which mandatory reporting will be rolled out to allow for preparation and adoption by reporting entities.

We note that there is international experience with such an approach, for example, in the UK, the Government prepared a roadmap toward mandatory climate-related disclosures which establishes a 5-year indicative path towards mandatory climate-related disclosures to help ensure that the right information on climate-related risks and opportunities is available across the investment chain[3].

Question 3: To which entities should mandatory climate disclosures apply initially?
3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?
3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

As an institutional investor, Rest is reliant on the organisations we invest in to provide information for our disclosures, therefore, initially we would be seeking disclosure for corporations that already meet the National Greenhouse and Energy Reporting Act (NGER) threshold and those with obligations under the evolving Safeguard Mechanism. These organisations are generally the highest scope 1 and 2 emitters.

We note that this would follow a similar phased approach undertaken by other jurisdictions, for example the UK and New Zealand, which has taken a phased approach to coverage based on size, revenue, market capitalisation, emissions inventory and/or number of employees.

It is important to note that large financial institutions, such as superannuation funds, may have incomplete data at the start of mandatory reporting given the need to source information from the companies in which they are invested who may not have provided climate-related disclosures previously. As such, a phased approach should be considered for certain financial institutions.

Overall, to achieve alignment with other markets, we would suggest a phase in period of no more than 3 years.

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933783/FINAL_TCFD_ROADMAP.pdf

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?
4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?
4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

Rest supports Australia aligning climate reporting requirements to the International Sustainability Standards Board (ISSB) disclosure standards.

The implementation of the ISSB as a baseline and guiding principles should be adapted where appropriate to the Australian context. This may require some modification of language and adding enhancement where appropriate so that the climate reporting standards for Australia add value rather than being a 'mere' compliance process. There will likely be a need to develop guidance and further define requirements for an Australian context. Government and regulators should work with the market to develop standards, auditable data and scenarios for the disclosure of climate risks by Australian reporters, similar to other jurisdictions' approaches.

In the Australian context, some consideration should also be given to the current APRA guidance CPG 229. This standard currently does not include targets, and many organisations avoid forward looking ambition in their annual reporting due to concerns about public statements of ambition. Further, the Your Future Your Super (YFYS) annual performance test time horizons are backward looking which does not align with medium to longer term time horizons associated with target setting and the management of climate-related risks and opportunities. Appropriate information and mechanisms will need to be in place so that organisations have greater clarity on possible implications of stating ambitious targets, or of not supporting or meeting stated targets, whether internal or external.

Question 5: What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

Rest expects that standards will evolve over time in relation to climate-related financial disclosures, and therefore we believe that the reporting obligations are best incorporated into legislation, with the detail of the reporting requirements developed through standards and guidance. This will ensure mandatory reporting but allow for development as standards evolve, and also allows for the standards to be sector specific, similar to the TCFD sector recommendations.

The framework and standards should ensure that there is a sufficient degree of standardisation that allows comparability between entities. This may have to be achieved by introducing a more prescriptive framework rather than having a framework that contains principles and guidelines that leave room for interpretation.

Question 6: Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

Rest recommends reporting by super funds should be included in the annual reporting package, with some flexibility where the information is positioned, prioritising where the data is most useful to Rest Members, key stakeholders and others.

We offer an example; superannuation funds like Rest are increasingly reporting carbon-related metrics such as the Weighted Average Carbon Intensity metric. Currently this information is in the Sustainability or Climate Change reports. If it were in the finance and operating section of the report members are unlikely to review it as they are particularly interested in their investments, rather than the operations of the Fund. Therefore, the purpose of the disclosure needs to have the audience in context. Superannuation option level reporting may also require a phased in approach, and after total investment portfolio reporting, given the complexity of climate-related data at the option level.

In order to appropriately manage a phased implementation, transitional requirements on how disclosure is provided may also be required. For example, during the initial stages of mandatory reporting, a separate report could be considered, with a transition to climate-related reporting integrated into standard financial and operational reporting over time, and where it's appropriate.

A signposting table could direct readers to where in the reporting package all the 'required to disclose' information can be found.

Additional guidance and support may be required for unlisted companies that are not currently required to produce comprehensive annual reports.

Question 7: What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

Generally, Rest believes that materiality should be commensurate with the size and complexity of the organisation and suggests that further consultation may be required to establish materiality guidance, including clarity on the concept of double materiality.

The guideline of materiality judgement in the draft climate reporting disclosure standards (ISSB guidance) is unclear. Entities need greater clarity on what is to be considered in making a judgement to assess whether the information is material. Allowing a significant margin for management to define materiality undermines the objective of comparability.

Question 8: What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?

Assurance will be needed to ensure reporting integrity, and standardisation. Recognising that climate-related disclosure capability will develop over time, assurance should be phased in as the reporting market and control frameworks mature and be subject to a materiality assessment. In this regard, development of assurance standards will be an integral part of mandatory climate reporting requirements.

Rest undertook a voluntary audit for CPG 229 and worked with a specialist external sustainability consulting team who understood climate-related data, processes and subject matter. We therefore believe that assurance will require a joint effort between the financial auditors and the climate- and sustainability-related auditors.

Ideally any assurance will require both a review by the auditor of the financial report and climate and sustainability auditors and should be of the same standard as current financial reporting.

Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

We believe that organisations should be required to provide standardised reporting of data for all scope 1, 2 and 3, and the mandatory guidance should draw from the Greenhouse Gas (GHG) Protocol, CDP and PCAF standards.

As investors, we are highly interested in the reporting of Scope 3 emissions from the companies we are invested in so we would welcome the disclosure of climate reporting. In understanding the difficulties with GHG data collection, a phase in period for scope 3 emissions reporting is recommended. This reporting should be aligned with standards such as the GHG Protocol (for corporates and financial institutions), PCAF or Partnership for Carbon Accounting Financials (for financial institutions specifically) and the TCFD.

We would also support mandatory reporting requirements for private companies that are large emitters, similar to the approach taken in the European Union.

While we recognise the challenges involved with scope 3 reporting, we also note it is becoming more commonplace, with improved quality and accuracy. In addition, there is increasing availability of guidance on scope 3 reporting, such as the ISSB's recent announcement that it will develop a framework for the measurement of scope 3 emissions.

Our view is that well-framed disclosure will acknowledge and detail the challenges and explain the methodologies used, to allow investors to understand and take into account measurement uncertainty. However, a transition period may be appropriate for any disclosure of scope 3 emissions, particularly for smaller entities or those with complex financed emissions, such as superannuation funds. In this context, further guidance will be needed to determine what factors should be considered if it is necessary to make estimates of emission measurement, in particular for scope 3 emissions.

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Rest supports the development of a common baseline of metrics, including industry-specific measures, in order to ensure that there is a degree of consistency between disclosures.

In this context, the ISSB work on industry metrics could be leveraged in developing a baseline of metrics and guidance that consider an Australian context.

Question 11: What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

Investors are seeking credible, comparable disclosures that will enable them to assess the adequacy of an entity's approach to managing climate risk and opportunity. Therefore, minimum standards should be established for a transition plan, so investors are able to compare across the market.

Transition plans are critical to helping investors understand the steps companies are taking in transitioning their businesses. In this context, we are supportive of forward-looking organisational level climate-related transition plans to provide investors decision-useful information. Such information helps investors to determine how companies are approaching the transition to a lower carbon economy and to informing stakeholders on investment portfolio risk and opportunity. For

example, investors make decisions and at the global level as to where the opportunities exist both within sectors and across geographies.

Mandatory reporting should require companies to disclose the use of offsets in their transition plans, incorporating the principle that offsets should only be used when emissions cannot be avoided and an explanation of why the entity is using offsets and how, over time, they can be scaled back. The Oxford Offsetting Principles are a recommended starting point.

The use of scenario analysis provides considerable value in establishing effective risk management processes, and therefore Rest supports the development of a common set of scenarios for organisations and/or sectors to use for scenario analysis to support comparability. These could be based on the International Energy Agency (IEA) or Central Banks and Supervisors Network for Greening the Financial System (NGFS) published scenarios. Further, we would support the development of climate scenarios relevant to the Australian context, although would suggest that this is not a priority.

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

Phasing in of particular disclosure requirements and/or assurance of those requirements will be appropriate in some circumstances, particularly for smaller entities scaling up their reporting capability and for entities, such as superannuation funds, that are towards the end of the chain and reliant on information from multiple layers of third parties.

We note that as investors, superannuation funds may have challenges in emission measurement and disclosures, especially for Scope 3, as they have less control on how Scope 3 emissions are addressed. Data for Scope 3 emissions is highly dependent on the organisations providing data to superannuation funds, which may pose a significant challenge to measure and disclose.

Assurance requirements should be gradually phased in, starting from mandatory limited assurance, followed by reasonable assurance to allow preparers and assurance practitioners sufficient time and the opportunity to build capability and control environments to be well established to support reporting. Mandatory assurance needs to factor in the evolution of the frameworks for data measurement, especially surrounding its reliability.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

> 13.1 How and by whom might any data gaps be addressed?
>
> 13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

Management and disclosure of climate-related risks and opportunities has continued to improve. However, challenges remain, such as incomplete, unverifiable, and incomparable information provided on scenario analysis as well as gaps in the quantification of physical risk. Development of the Australian framework should acknowledge that smaller entities may be less developed in their assessment of climate related risks and opportunities.

While data gaps will continue to remain, reporting entities should be transparent about the data they are using, its limitations, the level of uncertainty associated with the data, and any assumptions made.

Question 14: Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

Rest believes that reporting entities should be encouraged to supplement disclosures with additional information, including scenario analysis and provide disclosure of any assumptions underpinning the scenarios. Scenario analysis is an important tool for understanding an entity's resilience to a range of climate scenarios by highlighting possible risks and opportunities and strategies for adapting to these impacts.

We would support a nominated central body, that, overtime, develops a set of climate scenarios based on internationally accepted scenarios, alongside sector emissions reduction trajectories for decarbonisation plans. There are many assumptions made in scenarios analysis that the development of a 'common library' could provide considerable value in assisting entities to provide comparable disclosures. These could be drawn from existing international standards, for example the IEA, NGFS, GHG Protocol, CDP and PCAF.

Relevant financial regulators should develop further guidance to support and strengthen the quality of disclosures by entities across the TCFD's recommended disclosures, including governance, strategy, risk management and metrics and targets.

Question 15: How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

As noted in our response to question 11, Rest is supportive of disclosure of forward-looking organisational level climate-related transition plans to provide investor decision-useful information. Such information helps investors such as Rest to determine how companies are transitioning to a lower carbon economy and to inform our members on investment portfolio risk and opportunity. The disclosure of forward-looking statements reflects existing practice, as many Australian listed companies make and manage forward-looking statements in disclosures such as TCFD reports and other reporting.

In providing forward-looking statements, disclosure of assumptions and noted uncertainties should be included, and we would support the existing 'reasonable grounds' requirements and disclosures of uncertainties and assumptions applied to any new reporting.

We would also recommend a safe harbour regime for financial institutions disclosing Scope 3 emissions in the initial phases of implementation, to allow for reasonable reliance on newly developed disclosures.

Question 16: Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed?

Rest believes that annual reporting is appropriate in this space. Entities may elect to provide additional reporting on a risk-assessed basis if there is significant change in climate-related risks or risk appetite and could utilise existing continuous disclosure processes to do so.

Use of or interest in information provided in climate related financial disclosures may increase over time, as disclosures matures, and other stakeholders, for example, government, employees, suppliers, or customers may be more interested in the climate related information. However, the

regime should be developed to provide flexibility for the mandatory disclosure to be used for additional purposes where appropriate.

Given the quantity of information to be disclosed, there should be consideration of the reporting deadline, and what is sufficient to allow preparers and assurance practitioners adequate time to report, particularly in the first years of mandatory disclosure. Some of the data to be reported exists in a super fund's sphere of influence rather than in the sphere of control, for example, external investment managers as opposed to internal investment management.

Further, in the Australian context, there are a range of existing obligations and disclosures that may need to be considered to ensure there are not inconsistences or that force entities into making decisions as to priorities of obligations. For example, ASIC's guidelines on greenwashing are likely to be a key consideration in climate-related disclosures and may cause entities concern around transition planning and making forward statements, even if they do have a reasonable basis to make a claim.

Question 17: While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

Many organisations within scope will be covered by Workplace Gender Equality Act and Modern Slavery reporting and may be undertaking Tax Transparency reporting. Therefore, we would encourage a suitable amount of flexibility to seek alignment and synergies with the reporting of other ESG issues for both financial institutions and the companies in which we invest.

As a guiding principle, there should be flexibility in the design of any disclosure framework to accommodate additional standards as they are released by the ISSB.

Climate-related reporting disclosure is the first part in a series of planned ISSB Standards dealing with sustainability issues, including nature and biodiversity.

Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

Where reporting is to be provided to regulators, use of digital reporting tools is preferable. For reporting to members or shareholders, existing requirements on the provision of annual financial reporting information is sufficient.

Question 19: Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

Leveraging the existing body, the AASB, may support commencing reporting in the soonest time, however, we acknowledge that having a separate sustainability board or reforming the existing bodies would bring a focus and expertise that may be required to ensure the unique requirements of climate-related disclosures are addressed sufficiently. Therefore, a phased approach may be required, with the development of the final structure to be finalised over time.

Regardless of the structure, it is vital that any independent body tasked with having carriage of the reporting standards has:

- sufficient resourcing to undertake the development of the climate and sustainability standards,
- capability and capacity to incorporate industry views in the development of those standards and to stay abreast of international climate-related disclosure developments, and
- sufficient expertise in sustainability issues.