



Investor
Group on
Climate
Change

Submission – Treasury Laws Amendment

Bill 2024: Climate-related financial disclosure

February 2024

About the Investor Group on Climate Change

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments.

Our members manage more than \$30 trillion in assets under management (AUM), with beneficiaries including more than 7.5 million Australians and New Zealanders. Members include our countries' largest superannuation and retail funds, specialist investors and advisory groups.

We are a not-for-profit organisation. Our work is funded by members' fees, philanthropy, partnerships, and sponsorship from supporters who understand the power of capital to support climate action.

About the consultation

Treasury is seeking views on the [Exposure Draft legislation and accompanying explanatory materials](#) to introduce mandatory requirements for large businesses and financial institutions to disclose their climate-related risks and opportunities. The Exposure Draft legislation seeks to amend parts of the Australian Securities and Investment Commission Act 2001 (Cth) and the Corporations Act 2001 (Cth).

The Australian Accounting Standards Board (AASB) is undertaking a separate consultation on the draft reporting standards, with responses due 1 March 2024.

Summary of IGCC position

IGCC welcomes the release of draft legislation as a significant milestone towards internationally aligned climate-related financial risk disclosure requirements in Australia. Access to consistent and comparable disclosures will enhance investors' financial analysis, risk assessment, stewardship, and due diligence. The inclusion of scope 3 emissions data is a critical element for assessing material risk and opportunity across the value chain.

As major markets move to mandate climate-related financial disclosures, these new requirements will help Australia remain a competitive destination for investment capital. These reforms are a natural evolution of Australia's strong corporate governance framework to promote efficient and resilient markets.

We support phased implementation based on entity size and emissions thresholds for reporting under the National Greenhouse and Energy Reporting (NGER) scheme. We welcome the introduction of an assets under management (AUM) test that is more aligned with the organisational structures and business models of institutional investors. However, further review is needed to reduce complexity and ambiguity in their application.

Additionally, we outline several key considerations for reporting content to draw to Treasury's attention, which will be addressed in more detail via the AASB consultation process, and next steps on supporting arrangements.

Summary of recommendations

Draft legislation

- Provide greater clarity on the applicability and phasing of the reporting requirements for investors, including superannuation funds.
- Provide clarity on the ability for superannuation fund licensees and fund managers operating managed investment schemes to report on a consolidated basis under the draft legislation.
- Moving the start date for Group 1 to 1 January 2025 is an appropriate measure to ensure sufficient time to accommodate consultation processes and the parliamentary schedule before the expected reporting commencement date.

Matters related to reporting content in the standard developed by the AASB

- Promote international alignment building on ISSB standards IFRS S1 and IFRS S2, ensuring modifications are additive and do not unnecessarily subtract from or alter the underlying provisions for company reporting.
- Continue to actively engage in the process, such as the AASB's consultation, to address necessary modifications where the standard is applied to a wider range of entities than captured by the ISSB's mandate, in particular superannuation funds.
- Expand provisions for the use of scenario analysis to include at least *three* future states, adding a 3°C or higher scenario to assess physical climate risks.
- Provisions related to industry-based metrics in IFRS S2 are important for quality, decision-useful disclosures and should not be omitted from Australian reporting requirements.

We remain ready and able to support the government in its process towards implementing these important updates to Australia's climate-related disclosure framework.

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Detailed response

Clarifying reporting entity thresholds for reporters with registered superannuation entities and managed investment schemes

IGCC members have generally supported separate threshold criteria for investment institutions with Registrable Superannuation Entities (RSEs) and Managed Investment Schemes (MIS) based on an assets under management (AUM) test, which better aligns with the investment institution's business models and organisational structures.¹

As currently proposed, it is unclear in the draft legislation how the three-part reporting threshold applies to these investment institutions and interacts with the AUM test.

Despite efforts to provide greater clarity via an AUM test, some superannuation funds and fund managers have expressed ongoing challenges and numerous interpretations in applying the thresholds. This appears to be leading to unintended consequences including different corporate entities that make up the institution being required to report at different groups, and presenting relevant information across multiple reports, rather than in one coherent picture (see Box 1). There is concern that this lack of uniformity could undermine the policy intention of promoting uniform and comparable reporting.

Further revisions and guidance are needed to ensure thresholds reflect the purpose and intent of reporting by investors and can be clearly applied.

Box 1. Superannuation fund corporate structure example

Accounting and corporate structures for superannuation entities are unique and industry specific. Most superannuation funds have an RSE Licensee, as well as the RSE, often with separate financial reporting. Given this structure, there is a potential unintended consequence that the legislation would require separate sustainability reports for the RSE and the Licensee (because their financial reports are not consolidated). This could be addressed by clarifying that the AUM test applies to require one sustainability report from the RSE Licensee and the funds for which it is a trustee.²

For ease of understanding and use of reported information for end investors and other stakeholders it is important to streamline reporting at the appropriate entity level. Noting that a single fund manager or superannuation fund licensee can operate multiple funds (in the case of large fund managers this may be over 500 managed investment schemes, for example), it is important to clarify emphasis on

¹ Large entity thresholds are based on existing criteria for a large proprietary company under Ch 2M of the Corporations Act, with reference to amount of consolidated revenue, assets and number of employees. These do not always easily translate to trustees of registrable superannuation entities and responsible entities for managed investment schemes. For example, the underlying RSE and MIS may not be within the control of the trustee or responsible entity.

² Example extracted from ACSI submission on Treasury Laws Amendment Bill 2024: Climate-related financial disclosure, February 2024.

risks and opportunities for the overarching investment entity, rather than placing onus at the individual product level. Of course, this does not detract from the entity’s judgement and obligation to provide information material to users, which may require disaggregation of some information at a fund level.

This is addressed to some extent by consolidated reporting for sustainability reports under section 292(2) of the draft legislation. Ensuring that this ability to report at the “group head” level is clear for fund managers and superannuation entities, even where a consolidated financial statement is not prepared, and that the AUM test can be easily interpreted in the context of consolidated reporting provisions, will help to provide clarity and reduce regulatory burden for these entities.

Timing for Group 1 reporting

Treasury’s final policy statement requests feedback on whether deferring commencement of the first reporting period to 1 January 2025 instead of 1 July 2024 would help entities to produce quality reporting.

IGCC has supported the ambition of a 1 July 2024 start date, recognizing the importance and urgency of consistent and comparable climate-related financial disclosures. However, we understand that a 1 January 2025 start date may be necessary to get the regulatory settings in place and to ensure Group 1 is able to prepare quality reporting, accommodating consultation timeframes and upcoming parliamentary schedules.

Reporting content to be reflected in the final standard by the AASB

Treasury’s final policy position statement outlines several topics outside of the draft legislation that are relevant to the AASB’s development of climate-related disclosure standards building on ISSB IFRS S1 and IFRS S2. IGCC will provide detailed feedback via the AASB’s consultation process, however flag key areas of relevance to Treasury as a stakeholder and decision maker in the process.

ISSB Standards for corporate reporting

IGCC supports the policy intent of full adoption of ISSB’s IFRS S1 and S2 as a baseline for profit-oriented company reporting, with modifications building on the baseline. Amendments will also be necessary to ensure the standard can be appropriately applied to a wider range of entities captured by reporting requirements (Box 2).

We caution against removing parts of the standards or restructuring them. This will risk compromising the integrity of the baseline and adding complexity for both reporters and users operating across markets.

Where feasible, Australian-specific considerations should be additive, rather than replacing or changing the meaning of provisions.

This includes, for example:

- Maintaining the structure and integrity of IFRS S1³ and IFRS S2, rather than moving parts of IFRS S2 into IFRS S1 and subsequently deleting them from IFRS S2.
- Keeping provisions related to industry-based metrics intact, rather than removing them as currently proposed.
- Allowing NGER reporting entities to continue aligning with NGER methodologies for measuring scope 1 and 2 emissions, while not overextending this application to reporting entities that are not NGER reporters.
 - This should also recognise that NGER reporting entities may need to consider reporting approaches under the GHG Protocol based on equity share or financial control, which can provide a more comprehensive view of risk and liability throughout supply and value chains, in addition to the operational control approach required under NGER.
- Amending relevant descriptions and definitions to incorporate the wider range of entities captured.

Box 2. Ensuring the standard is fit-for-purpose for captured entities

Where the Australian reporting standard is applied to a broader range of entities than originally intended by the ISSB’s mandate, such as unlisted superannuation funds, necessary amendments⁴ must be considered to ensure these entities can effectively adhere to the reporting requirements. The AASB’s consultation and review, specifically tailored to address considerations pertinent to superannuation funds, plays a critical role in this adaptation.

Moreover, while the ISSB is expected to produce guidance for financial institutions such as banks, insurance providers, and asset managers under the IFRS S2, this guidance may not encompass asset owners, such as superannuation funds or pension funds. Therefore, it will be important to develop supportive guidance in close consultation with the industry.

High warming scenario to assess physical impacts needed in reporting standard

Assessing the largest systemic risks from climate change should not be optional. The latest scenarios by a group of 127 central banks and financial supervisors, even if warming is limited to 1.5°C the costs of physical climate impacts to the global economy are (conservatively) five times higher than the cost of reducing emissions⁵ and around double the cost of other global events like COVID-19. Under current policies, economic costs of climate change are more than 10 times the cost of a 1.5°C emissions pathway.

³ Adopting IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information in full, while only making mandatory elements to “give effect to climate disclosure standards” would achieve Treasury’s desired policy intent, reduce modifications, and set a baseline for sustainability reporting that can be applied voluntarily and in anticipation of future sustainability-related reporting standards.

⁴ See paragraph 9, IFRS S1.

⁵ Explore the NGFS scenarios here: <https://www.ngfs.net/ngfs-scenarios-portal/explore/>; see further IMF, December 2023: <https://www.imf.org/en/Blogs/Articles/2023/12/05/benefits-of-accelerating-the-climate-transition-outweigh-the-costs>.

IGCC recommends that the currently proposed provisions for use of scenario analysis⁶ are extended to include at least *three* future states, adding a 3 °C or more scenario.⁷

This would bring Australia's provisions on use of scenario analysis in line with New Zealand.⁸ It would provide clarity to companies that a 3 °C or more scenarios should form part a company's approach to assessing its exposure and resilience to material physical risks. It does not limit a company's discretion to apply scenarios most relevant to its business activities, and to take an approach that is proportionate and relevant to the circumstances of the entity.

Ensuring the inclusion of a current policies or hot house scenario⁹ provides an indication of the climate impacts under an higher warming scenario and improves the ability to consider the likely impact of climate change over the medium and long term.

Keep provisions for industry-based metrics intact

We recommend provisions for industry-based metrics are included in Australian requirements from the outset.

Industry-based metrics in addition to sector-neutral metrics are important to support disclosure of comparable information most relevant to the company's business model. Companies generally both want to and are expected by investors to consider and disclose information most relevant to their industry.¹⁰

Cutting out parts of IFRS S2 related to industry-based metrics detracts from the policy intention of full adoption of the ISSB's IFRS S2 baseline and creates an unnecessary barrier to producing quality and comparable disclosures.

Provisions relating to industry-based metrics in IFRS S2 are flexible to allow reporting entities to consider the applicability of industry-based metrics set out in supporting guidance. This flexibility alleviates concerns that some metrics may not be suitable for Australian companies.

⁶ That entities should use at least two future scenarios and one must align with the most ambitious temperature goal in the Climate Change Act 2022 (Cth) (ie. limiting global warming to 1.5 degrees Celsius.)

⁷ Investors expect to see a wider range of scenarios, including an orderly transition to 1.5°C, an abrupt or delayed transition (1.5°C to 2°C), current policies (3+°C) and high case (4+°C) scenario, as well as disclosure of rationale for bespoke scenarios. Of these, the lower and upper ends are particularly important to assess resilience. The delayed disorderly scenario vs an orderly transition also helps entities asset risks and opportunities in an environment with sudden policy shifts which seek to reduce emissions on steeper trajectory and can cause increased transition risks.

⁸ [Aotearoa New Zealand Climate Standard \(NZ CS 1\), para 13.](#)

⁹ The NFGS hot house world scenarios assume that some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming. Critical temperature thresholds are exceeded, leading to severe physical risks and irreversible impacts like sea-level rise. See further <https://www.ngfs.net/ngfs-scenarios-portal>

¹⁰ See example cross industry and industry-based metrics in IFRS S2 Accompanying Guidance.

Next steps on guidance and supporting arrangements

We acknowledge the government's substantial and ongoing efforts towards implementing a climate-related disclosure regime that is consistent with international best practice and fit-for-purpose for Australia. We look forward to continuing to engage closely on next steps towards implementation and supporting arrangements such as guidance, including through the government's sustainable finance strategy. This includes:

- Prioritising a clear framework for credible corporate transition plans as a critical next step in 2024.
- Supporting companies to develop required skills, resources and capabilities to make disclosures under the proposed climate disclosure obligations, and addressing data and analytical challenges, for example:
 - Methodologies for Scope 3 emissions, including financed emissions.
 - Targeted guidance for a wider range of entities captured by the Australian disclosure scheme compared to ISSB's focus, such as superannuation funds, which will be particularly important to ensure requirements are practical and meet end-user needs.
 - Providing common emissions factors where needed, in consultation with financial institutions.
 - Tools and open-source data to support climate-related analysis, planning and disclosures.
 - Domestic scenarios drawing down from international scenarios, which may be informed by sector pathways and plans underway by the Climate Change Authority and government.
 - Providing resources to support smaller entities to utilise the data effectively.