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SUBMISSION

Submission to Treasury: Climate-related financial disclosure

26 July 2023

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Climate Disclosure Unit

Market Conduct Division

The Treasury

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PARKES ACT 2600

Via email: climatereportingconsultation@treasury.gov.au

26 July 2023

Dear Sir/Madam

Climate-related financial disclosure: consultation paper

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the Treasury consultation paper on climate-related financial disclosure.

About ASFA

ASFA is a non-profit, non-partisan national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $3.3 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing almost 90 per cent of the 17 million Australians with superannuation.

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If you have any queries or comments in relation to the content of our submission, please contact Andrew Craston, Director of Economics, on 0401 016 587 or by email acraston@superannuation.asn.au; or Harvey Russell, Senior Policy Advisor, on 02 8079 0817 or by email hrussell@superannuation.asn.au.

Yours sincerely

Glen McCrea

Deputy CEO and Chief Policy Officer

Executive summary

ASFA welcomes the release of Treasury's second consultation paper on climate-related financial disclosure (the Proposed Disclosure Regime).

ASFA supports the adoption by Australia of internationally-aligned standards for climate-related financial disclosure, which will help facilitate the transition to a low-carbon economy. ASFA also supports the Australian Accounting Standards Board (AASB) formally establishing detailed disclosure standards, aligned as far as practicable with the final standards issued by the International Sustainability Standards Board (ISSB). We note, however, AASB's consultation on the development of Australian standards is expected later this year. Given this sequencing, industry may have further feedback on design and implementation matters, considered as part of this consultation, following the release of the final details relating to the standards. Ideally these streams of work would be considered concurrently. As these consultations progress Treasury may wish to consider providing opportunities for the design of the overall structure of the framework and the detail of the standards to develop in tandem.

APRA-regulated superannuation funds have a responsibility to manage the impact of risks (and opportunities) arising from climate change on long-term investment performance. A well-constructed disclosure framework will help manage these risks. Good-quality disclosure of climate-related risks implies market pricing that better reflects the cost of those risks, and would facilitate a more efficient and sustainable allocation of capital than otherwise would be the case. Over the long-term, this will help ensure that fund investment decisions are made in the best financial interests of members.

The implementation of international disclosure standards by superannuation funds (and other entities) will not be simple and, in some cases, will require significant changes to business operations and increases in associated operational costs. Incorporating the disclosures into annual financial reporting is appropriate for listed entities whose primary stakeholders are likely to be wholesale investors. It is less clear, however, that including these types of disclosures in annual superannuation financial reporting is appropriate for superannuation fund members. ASFA encourages Treasury to consider whether an alternate method of reporting might be made available to superannuation funds to ensure their members receive this information in a more readily digestible form. ASFA welcomes the opportunity to maintain an open dialogue with Treasury on this matter to ensure disclosures are fit for purpose and can be delivered at least cost.

Given their position at the end of the investment chain, the most significant challenge for superannuation funds relates to the availability and quality of the required data from third parties in order to construct meaningful and accurate Scope 3 *financed* emissions reporting. This adds an extra layer of complexity to the capabilities and systems required to collect, process and generate the necessary outputs required.

Superannuation funds are also cognisant of the current professional skills gap, both domestically and globally, required to complete compliance, modelling and assurance in relation to the disclosures.

ASFA supports an appropriate phasing of the requirements over time and is pleased the proposal incorporates a phased implementation approach. In general terms this is likely to provide an appropriate transition for reporting entities, where most reporting items are concerned. ASFA maintains its view, however, that for Scope 3 *financed* emissions, a further year for portfolio investors such as superannuation funds is essential (at least for entities on the Group 1 timeline) as a result of their reliance on reporting from other entities.

This requires a corresponding extension to the phased implementation approach to the commencement of reasonable assurance on this reporting. ASFA also urges policymakers to consider incorporating sufficient flexibility into the assurance framework to help address the skills gap.

ASFA is supportive of the proposed approach to modified liability and considers that the fixed period would need to adjust to the extent that an extension to the phase in is accommodated as we have proposed.

General comments

1. Introduction

ASFA supports the adoption of an internationally-aligned climate risk disclosure framework applicable to businesses and financial institutions, including institutional investors such as APRA-regulated superannuation funds.

As more jurisdictions around the world move to implement mandatory climate risk disclosure requirements, and capital markets and investors' expectations for quality, comparable risk disclosures increase, Australia will need to keep pace. To date, superannuation funds have made good progress in developing approaches to measure and manage climate risks as well as aligning disclosures to existing frameworks.

In responding to the latest Consultation Paper ASFA has focused on issues around the technical implementation of an internationally-aligned climate risk disclosure framework and transitional arrangements, in particular for superannuation funds. In doing so ASFA has attempted to balance the need for consistent and comparable disclosures to apply as soon as possible, with the need to appropriately manage the operational and regulatory costs associated with implementation.

2. Disclosures for superannuation funds will be different from those for typical corporate entities

Under the proposed climate-related financial disclosure regime (the Proposed Disclosure Regime), the information disclosed by APRA-regulated superannuation funds will differ significantly from that disclosed by other typical large corporate entities – in terms of the composition of estimates, the degree of uncertainty around estimates and the key audience for reporting.

A superannuation fund's emissions can be separated into the emissions associated with the operation of the superannuation business, and emissions associated with a fund's set of investments on behalf of its members (or 'financed' emissions).

For the former, a fund's emissions can be thought of as being consistent with those of a typical large listed corporate entity. Such emissions would include the Scope 1 and 2 emissions that relate to the superannuation business, and Scope 3 emissions that relate the superannuation business's supply chain (or Scope 3 *supply chain* emissions).

- Essentially, Scope 3 *supply chain* emissions are all indirect emissions that occur in the value chain of an entity that are not already accounted for in Scope 1 and 2 emissions. Scope 3 *supply chain* emissions are a consequence of the entity's business activities, but occur from sources the entity does not own or control.
- From the perspective of a superannuation business, Scope 3 *supply chain* emissions comprise Scope 1 or 2 emissions of other entities.
- Conversely, the Scope 1 and 2 emissions of a superannuation business are included in the Scope 3 *supply chain* emissions of other entities.

For a fund, Scope 3 *supply chain* emissions (relating to a superannuation business) would include the following:

- Transportation of fund employees between their homes and the fund workplace (or for business-related- activities) in vehicles not owned or operated by the fund.

- Production and transportation of capital goods purchased or acquired by the fund.
- Operation of assets leased by the fund (and not included in the fund's Scope 1 and Scope 2 emissions), such as office space.

Scope 3 *supply chain* emissions of individual entities are not necessarily aggregable – and Scope 3 *supply chain* emissions of individual entities should not be aggregated across entities to determine total emissions in a given region. Double counting with respect to Scope 3 *supply chain* emissions occurs when two entities in the same value chain account for the same emissions from a particular emissions source.

This does not mean that disclosed Scope 3 *supply chain* emissions in isolation are not useful. Each entity within a particular value chain has some degree of influence over those emissions. In principle, Scope 3 accounting facilitates the simultaneous action of multiple entities to reduce emissions throughout the economy.

For funds, total Scope 3 emissions also include *financed emissions*. A fund's Scope 3 *financed emissions* comprise the Scope 1, 2 and 3 emissions that relate to the fund's set of investments on behalf of fund members.

- Within the *IFRS S2 Climate-Related Disclosures*, the term *financed emissions* is defined as the portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by an entity to the investee or counterparty.

From a fund's point of view, the portion of Scope 3 *financed emissions* that comprises the Scope 1 and 2 emissions of other entities are aggregable, but of course are also reflected in the disclosed emissions of the original entities – and so are not necessarily aggregable from an economy-wide perspective. In this respect, from a fund's point of view, the accounting of these categories of emissions is somewhat analogous to the accounting of a fund's Scope 3 *supply chain* emissions (as described above).

In contrast, Scope 3 *financed emissions* (that is, *financed* Scope 3 of Scope 3 emissions) are not necessarily aggregable from a fund's point of view – that is, where the entities in which a fund invests report the same emissions in their Scope 3 emissions. Double-counting is intrinsic to Scope 3 of Scope 3 emissions – again, this does not mean that disclosed Scope 3 of Scope 3 emissions in isolation are not useful, as in principle Scope 3 accounting facilitates simultaneous action among entities. However, it does mean that that estimates of Scope 3 of Scope 3 emissions are subject to greater uncertainty compared to other categories of emissions.

For a typical entity, its Scope 3 emissions will be subject to the greatest degree of uncertainty – in other words point estimates for Scope 3 will be subject to a larger degree of error compared with a typical entity's Scope 1 and Scope 2 emissions. For superannuation funds, it is likely that around 90 per cent of fund emissions will be *financed* Scope 3 of Scope 3 emissions.[1]

As noted above, a fund's *financed* Scope 3 of Scope 3 emissions are not aggregable. Further, the Scope 3 emissions of the entities in which funds invest are subject to the greatest degree of uncertainty (relative to Scope 1 and 2). Thus, deriving a fund's overall *financed* Scope 3 of Scope 3 emissions will involve a compounding of errors around inaccurate point estimates.

- The ISSB noted feedback it received regarding Scope 3 of Scope 3 emissions. Some areas of stakeholder concern about the inclusion of Scope 3 of Scope 3 emissions in the required calculation of financed emissions were data quality and data availability.[2]

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[1] WBCSD paper: *Reaching net zero: incentives for supply chain decarbonization,* November 2021; ASFA calculations

[2] ISSB Staff paper: *Climate-related Disclosures - Financed and facilitated emissions*, December 2022.

ASFA is not suggesting that superannuation funds (and other analogous asset owners) should be exempt from reporting *financed* Scope 3 of Scope 3 emissions. Entities participating in financial services, including asset owners, are increasingly monitoring and measuring their financed emissions. ASFA agrees that this practice helps entities to assess their exposure to climate-related risks and opportunities, and how entities might best adapt.

However, it is the case that superannuation funds (and other analogous asset owners) face particular challenges in compiling meaningful estimates for financed emissions. Further, as explored in more detail in Section 7 of this submission, superannuation funds are at the very end of the chain of disclosures – a fund's financed emissions do not feed into the disclosures of other entities.

Overall, ASFA considers that this warrants a delayed timetable for the disclosure of financed emissions (Section 3), and greater scope in the Proposed Disclosure Regime to account for the inherent uncertainty in quantifying certain estimates (Section 4).

Observations

- Superannuation funds are at the very end of the chain of disclosures in the economy.
- Superannuation funds (and other analogous asset owners) face particular challenges in compiling meaningful estimates for a large component of their emissions – in particular, the Scope 3 emissions of the entities in which funds invest.

3. Phase-in for disclosure for funds' financed emissions should be extended

ASFA supports, in broad terms, the proposed timetable for the phase-in of disclosure obligations in the Consultation Paper and the proposed 'three-phased approach', starting with a relatively limited group of very large entities.

As outlined in Section 2, a superannuation fund's emissions can be separated into the emissions associated with the operation of the superannuation business, and emissions associated with fund's set of investments on behalf of the fund's members (or financed emissions).

For a fund's Scope 1 and 2 emissions (that relate to the superannuation business), and Scope 3 emissions that are related the superannuation business's supply chain (Scope 3 *supply chain* emissions), ASFA agrees these would be phased-in in line with the proposed timetable in the Consultation Paper. That is, the vast majority of superannuation funds will fall within the proposed Group 1 set of entities, and would follow the timeline as proposed in the Consultation Paper.

- 2024-25: Limited assurance of Scope 1 and 2 emissions
- 2025-26: Reasonable assurance of Scope 1 and 2 emissions, and limited assurance of Scope 3 supply chain emissions, scenario analysis and transition plans as they apply to the superannuation business.
- 2026-27: Reasonable assurance of Scope 3 *supply chain* emissions.

As noted in the Consultation Paper, the proposed staggered timetable incorporates a proposed one-year exemption from reporting general Scope 3 emissions, following the commencement of mandatory disclosure requirements for an entity (and further, that disclosed Scope 3 emissions could accrue in any one-year period that ends up to 12 months prior to the relevant reporting period).

A fund's Scope 3 *financed* emissions comprise the Scope 1, 2 and 3 emissions that relate to the fund's set of investments on behalf of fund members.

ASFA proposes that the portion of Scope 3 emissions that are attributable to the Scope 1 and 2 emissions of other entities would be phased-in in line with the proposed timetable in the Consultation Paper, but with a one-year lag. That is, the vast majority of superannuation funds will fall within the proposed Group 1 set of entities, and would follow the timeline below.

- 2026-27: Limited assurance of Scope 3 *financed* emissions from the Scope 1 and 2 emissions of other entities, and the relevant scenario analysis and transition plans.
- 2027-28: Reasonable assurance on Scope 3 *financed* emissions from the Scope 1 and 2 emissions of other entities.

ASFA proposes that the portion of Scope 3 emissions that are attributable to the Scope 3 emissions of other entities would be phased-in in line with the proposed timetable in the Consultation Paper, but with a two-year- lag. That is, the vast majority of superannuation funds will fall within the proposed Group 1 set of entities, and would follow the timeline below.

- 2027-28: Limited assurance of Scope 3 *financed* emissions from the Scope 3 emissions of other entities, and the relevant scenario analysis and transition plans.
- 2028-29: Reasonable assurance on Scope 3 *financed* emissions from the Scope 3 emissions of other entities.

Table 1 shows summarises the proposed, staggered timetable.

Table 1: Proposed timeline for climate disclosures for superannuation funds

	2024-25	**2025-26**	**2026-27**	**2027-28**	**2028-29**
Scope 1 and 2	Limited	Reasonable			
Scope 3 *supply chain*		Limited	Reasonable		
Scope 3 *financed* (from Scope 1 and 2 of other entities)			Limited	Reasonable	
Scope 3 *financed* (from Scope 3 of other entities)				Limited	Reasonable

ASFA considers that there are compelling reasons for an extended staging of disclosures for financed emissions.

Superannuation funds are at the end of the chain of disclosures in the economy. Estimates of Scope 3 *financed* emissions are reliant on the disclosures of the multitude of entities that funds invest in on behalf of their members. In the context of the proposed timeline for the phase-in of disclosure obligations, this includes entities in Groups 2 and 3 that are not scheduled to disclose their Scope 3 emissions until 2027-28 and 2028-29 respectively (that in turn will feed into *financed* Scope 3 of Scope 3 emissions). Further, a fund's financed emissions do not feed into the disclosures of other entities.

By design, funds' estimates of *financed* Scope 3 of Scope 3 emissions in particular will be subject to relatively high degrees of uncertainty (due to double counting and a compounding of errors). In the interests of limiting uncertainty, a delayed phase-in of disclosure of financed emissions would allow other entities to produce more accurate estimates of their emissions (that feed into funds' financed emissions).

The audience for a fund's disclosure of financed emissions is different from the audience for a fund's disclosure of emissions from the superannuation business. As set out in Section 7, while the primary audience for the latter comprises other corporate entities and investment professionals, the primary audience for financed emissions comprises individual members (and do not feed into the disclosures of other entities).

It should be emphasised that superannuation funds have current obligations to account for the impact of climate-related risks on their investment portfolios – and in this regard, assessed risks are embedded in fund's assessments of their future expected returns.

Recommendations

- ASFA considers that the timetable proposed in the Consultation Paper for the disclosure of funds' *financed* emissions should be extended.
    - A one-year lag for financed emissions that are derived from Scope 1 and Scope 2 emissions.
    - A two-year lag for financed emissions that are derived from Scope 3 emissions.

4. Greater scope in the Proposed Disclosure Regime to account for the inherent uncertainty in quantifying certain estimates

Given that the discussion within the Consultation Paper relates largely to design elements of the Proposed Disclosure Regime, the Paper (appropriately) makes only high-level observations about the potential content of disclosures under the regime.

The Consultation Paper notes that disclosure content requirements for Australian entities will be contained in domestic standards – which will be developed by the AASB. The Paper notes that content requirements would aim to provide clarity to reporting entities about what types of information must be disclosed and to ensure the requirements improve access to decision-useful information for users of financial reporting.

The Consultation Paper envisages that the Australian standards will closely align with the international standards developed by the ISSB (that is, *IFRS S2 Climate-related Disclosures*). At the time the Consultation Paper was published, the ISSB had only just completed but not publicly-released its final version of the standards. As such, the Consultation Paper's reference point regarding the international standards is the draft version of *IFRS S2 Climate-related Disclosures*.

It is worth noting that the ISSB's final standards contain points of clarification (not present in the draft standards) regarding disclosure obligations of reporting entities that understandably were not reflected in the Consultation Paper's high-level observations.

The final standards appear to better reflect the challenges that entities will face in developing meaningful quantitative information about the current or anticipated financial effects of climate-related risk, particularly during the early stages of a disclosure/reporting regime, and the expectations on entities around disclosure obligations (in particular Paragraphs 18-20 of final standards). For example, Paragraph 19(b) states that:

> *An entity need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity if the entity determines that the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.*

Paragraph 21 sets corresponding obligations for an entity that determines that it need not provide quantitative information (about the current or anticipated financial effects of a climate-related risk or opportunity). In particular, the entity would be required to explain why it has not provided quantitative information, and provide related qualitative information.

Similarly, the ISSB's final standards regarding climate-related scenario analysis (to assess an entity's climate resilience) contain analogous clarifications and adjustments to entities' obligations.

ASFA, and the broader superannuation industry, will welcome the opportunity to contribute to the AASB's consultation on the Australian standards for the Proposed Disclosure Regime – which Treasury has suggested will commence in the second half of 2023.

While the process for developing the Australian Standards (by the AASB) is separate from the current process for designing the Proposed Disclosure Regime (by the Treasury), they should not be considered independent processes. For entities that will be subject to the regime, the greater degree of certainty around the final tone and content of the Australian standards, the greater the degree of comfort with particular design elements of the regime. This is particularly so with respect to the phase-in period (such as the timing and degree of assurance), and more broadly, the early years of operation of the regime.

Observations

- For entities that will be subject to the regime, the greater degree of certainty around the final tone and content of the Australian standards, the greater the degree of comfort with particular design elements of the regime.
- While the process for developing the Australian Standards (by the AASB) is separate from the current process for designing the Proposed Disclosure Regime (by the Treasury), they should not be considered independent processes.

5. Assurance

In our submission to the first stage of this consultation process, ASFA emphasised the critical role of independent external assurance to lend credibility to climate-related disclosures. As a general principle, end-users (including superannuation fund members) should have confidence in the integrity of disclosed information. This will help engender trust and to avoid confusion among investors and other stakeholders

including members of superannuation funds. However, developing the appropriate assurance framework for these new regulated disclosures will be challenging.

As highlighted in our previous submission ASFA cautions in relation to the current skills gap in the market, both domestically and globally, required to manage both reporting in line with the disclosure requirements, as well as with respect to assurance.

There is a critical role for independent external assurance, aligned with international standards, to lend credibility to climate-related disclosures. Of course, decisions on reporting obligations including consistency and standardisation of reporting (yet to be finalised for the Australian context), will affect an entity's ability to provide accurate information and, ultimately, the ease with which the auditing process can be conducted. In this sense, entities and assurance providers will await the final requirements before a final judgement can be made on how feasible it will be to facilitate the audit process.

Given the alignment of the proposed framework to corporate financial reporting requirements, ASFA understands the logic behind the proposal that financial auditors would lead climate risk assurance engagements, with support from technical climate and sustainability experts as required. We believe the participation of climate reporting experts in this market will be important to address skill and supply gaps. However, we would caution that this approach may lead to unnecessary concentration of experts within a subset of professional firms. This may have an impact on the overall level of supply of services and the diversity of approaches to overall climate reporting assurance, and this may be something policymakers need to monitor over time.

6. Liability and enforcement

ASFA welcomes the proposed approach to liability taken in the Consultation Paper, and in particular the concept of a time and scope-limited modification of liability settings.

ASFA emphasises its existing concerns relating to the applicability and operation of the current liability framework to forward-looking statements. In particular, with reference to Scope 3 *financed* emissions there are concerns that the availability and reliability of data will not be sufficient in the short term to confidently report on the required disclosures. Ultimately, the availability/quality of disclosures (by the entities in which funds invest), will determine the robustness of funds' disclosures. Superannuation funds will need to update, and in some cases develop, systems to collect and process the necessary data and to generate the required outputs for reporting and disclosure. The complexity of requirements for superannuation funds is likely to be compounded due to the heavy reliance on external data sources, including new reporting by business entities under the climate-reporting disclosures being introduced under this proposal.

As we have identified above, given their position in the investment chain, it will be late 2028 before superannuation funds can access the Scope 3 emissions reporting (reasonable assurance level) completed by many of the entities in which they invest. To ensure funds can report meaningfully and with confidence on Scope 3 *financed* emissions, ASFA proposes a deferral of their obligations to report Scope 3 *financed* emissions reporting and reasonable assurance. We believe this requires a corresponding extension to the proposed protection from misleading or deceptive conduct, false or misleading representations or similar claims, from three years to at least four years from commencement.

With respect to the proposed approach to liability ASFA would also appreciate clarity relating to the scope of the proposal. The Consultation Paper states that:

> *"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."*

Given concerns about the availability and accuracy of data in the early years of the regime, ASFA supports the application of modified liability to scenario analysis and full transition plans as well as specifically to forward-looking statements and Scope 3 reporting. We acknowledge each of these areas is referred to in the paper, however, it would be helpful in finalising the framework, to explicitly identify each of these aspects as being subject to the modified liability provisions.

Recommendations

- Consistent with ASFA's proposed deferred timeline for fund's disclosure of Scope 3 *financed* emissions (see above), the assurance and liability arrangements should be similarly deferred.

7. The form of disclosure needs to be most useful

The Consultation Paper proposes that superannuation funds, like the broader group of Australian corporate entities, would be required to publish climate-related disclosures as part of their annual reports. Superannuation funds, as of 1 July 2023, have financial reporting obligations consistent with those that apply to corporate entities generally under Chapter 2M.

For superannuation funds, unlike the general group of Australian corporate entities subject to Chapter 2M, the annual report may not be the optimal mechanism for *all* climate-related disclosures. Given that superannuation funds have only recently been brought into the regime, it could be reasonably argued that the reporting requirements under the Proposed Disclosure Regime are designed more with listed corporate entities in mind rather than superannuation funds.

A key principle underpinning the international standards (for climate-related disclosure) is that disclosures provide for the optimal dissemination of information to primary end-users. In practice, this implies that disclosures should contain information that is most relevant to the key audience (for the entity's disclosures), and in the most relevant and useful format. Ultimately, the degree to which the form of disclosure aligns with the requirements of primary end-users will have a bearing on end-users' understanding of the impact of climate-related risks, and the degree to which end-users can monitor and influence entities' climate-related commitments and obligations.

For a typical Australian listed corporate entity, the primary end-users for the information that the entity will disclose – in accordance with the Proposed Disclosure Regime – will be other listed corporate entities and wholesale financial institutions.

With respect to the former, as is discussed in Section 2, any entity's Scope 1 and 2 emissions also will be reflected in the Scope 3 emissions of certain other entities (where the entities are connected through supply chains). Thus, for a typical Australian listed corporate entity, the qualification and quantification of climate-related risks will require utilisation of the comparable disclosures of other listed corporate entities.

With respect to the latter, primary end-users will be wholesale financial institutions making decisions regarding the provision of new debt and equity funding to listed corporate entities, or the buying/selling of listed securities in secondary markets. The group of wholesale financial institutions includes wholesale asset owners – including superannuation funds. Sophisticated retail investors can also be considered key end-users of the information that will be disclosed in accordance with the Proposed Disclosure Regime.

For these end-users, the key form of climate-related disclosures is that which is incorporated into annual reports. As the Consultation Paper notes, for the typical corporate entity, the annual report is a primary

document through which entities communicate details to end-users of their activities, financial results, and strategies (which are of course far broader than climate-related risks). For many entities, climate-related risks and opportunities are inextricably linked to these. Professionals within other corporate entities and wholesale financial institutions (as well as sophisticated retail investors) are best placed to use and interpret disclosures around climate-related risks in the context of an entity's financial position as presented in the financial reports.

With respect to superannuation funds, any consideration of the optimal form of disclosure needs to take account of the fact that both the type of disclosures, and the primary end-users of those disclosures, will be different from those of the typical listed corporate entity.

As outlined in Section 2, a superannuation fund's emissions can be separated into the emissions associated with the operation of the superannuation business, and emissions associated with fund's set of investments on behalf of the fund's members (or 'financed' emissions). The differences in the type of, and audience for disclosures warrant different approaches to disclosure.

For the former, a fund's emissions can be thought as being consistent with those of a typical listed corporate entity. Such emissions would include the Scope 1 and 2 emissions that relate to the superannuation business, and the Scope 3 emissions related the superannuation business's supply chain (both upstream and downstream). The Scope 1 and 2 emissions (relate to the superannuation business) will be included in the Scope 3 'supply-chain' emissions of certain other corporate entities. Thus, the primary end-users of a fund's Scope 1 and 2 emissions will be other corporate entities.

In contrast, for a superannuation fund's financed emissions, the primary end-users will be the individual members of the funds. As outlined in Section 2, a fund's Scope 3 emissions comprise the Scope 1, 2 and 3 emissions that relate to the fund's set of investments on behalf of fund members. Unlike the case above, a fund's financed emissions will represent an endpoint in the chain of disclosures within the economy – they will not feed into the disclosures of other entities.

Currently, 17 million Australians have a superannuation account.

Anecdotally, there is growing expectation (among members of superannuation funds) for funds to disclosure both the exposure, and the impact of, climate-related risks on members' superannuation. This would include the degree to which funds account for climate risk in investment decisions, and by extension, the degree to which climate risk is reflected in expected risk-return profiles. It should be emphasised that superannuation funds have current obligations to account for the impact of climate-related risks on their investment portfolios – and in this regard, assessed risks are embedded in a fund's assessments of expected returns.

In this regard, an optimal mechanism for disclosing risks related to financed emissions to individual fund members may not be within annual financial reports, but instead via separate reports targeted to the typical superannuation member.

Thus, superannuation funds, in addition to having to incorporate climate-related disclosures within their annual reports, are likely to need to produce a separate set of disclosures to ensure members can access the relevant information (in a more digestible form).

While some other types of entities (that will be included in the regime) may also consider developing such materials, this dual form of reporting is likely to be more prevalent among superannuation funds. The reason for this is two-fold. Firstly, compared with typical users of financial statements (such as investment professionals), the typical superannuation fund member is generalist/non-technical in nature. Secondly, the compulsory nature of superannuation implies that funds will be obligated to make this information available to all their members.

In terms of costs relating to the implementation of the Proposed Disclosure Regime, policy makers should therefore be aware there is an effective duplication embedded into the proposed approach (for publicising climate-related disclosures in annual reports) for the superannuation industry. This will require additional resources for funds to produce and maintain the appropriate consumer-targeted disclosures.

Observations

- Superannuation funds, in addition to having to incorporate climate-related disclosures within their annual reports, are likely to need to produce a separate set of disclosures to ensure members can access the relevant information in a more digestible form.
- The effective duplication embedded into the proposed approach for publicising climate-related disclosures in annual reports will require additional resources and introduce additional costs.

8. Regulatory Guidance

The AASB will be responsible for developing Australian climate disclosure standards following this consultation. These standards are envisaged to closely align to the requirements in IFRS S2 Climate-related Disclosures.

The ISSB, in developing its disclosure standards, has also developed industry-based guidance for some 11 aggregated sectors and 68 sub-sectors (built on the Sustainability Accounting Standards Board Standards). This will mean, for example, for the financial sector, the standards will be given clear direction on the required disclosures expected for sub-sectors within the financial sector. Within the financial sector, specific industry guidance has been developed for asset management, commercial banks, insurance (and other financial services). This means, for example, in the financial services context, the standards give clear direction on the required disclosures expected for sub-sectors within the broader sector, rather than having to translate all requirements from a general, cross-industry perspective.

ASFA considers that Australia should draw on this approach in the development of its standards and accompanying materials. Industry-specific requirements for Australian superannuation funds and investment management firms will be important in defining and measuring the particular inputs of these entities given they operate as pooled, wholesale investors. Expectations with respect to disclosure will also be required where entities invest in unlisted and direct assets, where availability of data and comparability may be more challenging than in other investment markets.

The Consultation Paper expects that by the end of the phase-in period that:

> *"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."*

At the same time, whilst the proposal assumes further guidance accompanying the standards will be available in the 'medium term', including industry specific metrics, there is little information on how this will be produced.

ASFA believes it is appropriate for Treasury to outline a more specific timetable for this additional information/guidance, noting that alignment as far as possible with the release of the overarching standards would be ideal. It is unclear from the consultation paper whether AASB will produce industry specific guidance in addition to the standards, and what role ASIC guidance will play under the Proposed Disclosure

Regime. ASFA, and the broader superannuation industry, would appreciate greater clarity on which governing body or regulator will issue additional guidance to accompany the standards.

Recommendation

- ASFA considers that it is appropriate for Treasury to outline a more specific timetable for additional information/guidance, noting that alignment as far as possible with the release of the overarching standards would be ideal.