SUBMISSION

Submission to Treasury — Climate-related financial disclosure: exposure draft legislation

9 February 2024

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Via email: ClimateReportingConsultation@treasury.gov.au

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Dear Director

Climate-related financial disclosure: exposure draft legislation

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to Treasury's consultation on exposure draft legislation for 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 $3.6 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 0803 or by email hrussell@superannuation.asn.au.

Yours sincerely

Andrew Craston

Director, Economics

Climate-related financial disclosure

From the perspective of the superannuation system, a well-designed regime for the disclosure of climate-related financial information would help support its core objectives.

Sustainability: With respect to private and public sector entities across the economy, good-quality disclosure of climate-related risks would facilitate a more efficient and sustainable allocation of superannuation capital across the economy than otherwise would be the case.

Operational effectiveness: a disclosure regime that minimises (to the degree that is practicable) complexity in reporting would support disclosure of comparable information for end users.

ASFA supports internationally-aligned, climate-related financial disclosure

ASFA supports the work of Treasury regarding the adoption, by Australia, of internationally-aligned standards for climate-related financial disclosure.

APRA-regulated superannuation funds (collectively, institutional superannuation) have a responsibility to manage the impact of the risks (and opportunities) arising from climate change on long-term investment performance. The decarbonisation of superannuation fund portfolios – and the actions undertaken to that end – are fundamentally consistent with the statutory requirement on funds to act in members' best financial interests.

For superannuation funds, as users of disclosed information from a host of entities, sound frameworks for climate-related disclosure will help management of climate-related risks. Good-quality disclosure of climate-related risks (by the entities in which funds invest) implies market pricing that better reflects those risks, and would facilitate a more efficient and sustainable allocation of superannuation capital. Ultimately, this would help support Australia's net-zero transition that avoids the worst impacts of climate change while limiting disorderly economic or financial adjustments – and thus support the wellbeing of Australians.

APRA-regulated superannuation funds are universal asset owners – that is, through their diversified portfolios superannuation funds hold a (fairly) representative slice of the Australian economy. While exposure to, and impacts of, climate-related risk can vary markedly across different entities within an economy, for superannuation funds the exposure is more systemic in nature. Ultimately, this means that for funds (and to a greater extent than other forms of business entities), progress to net zero is intertwined with progress of economy-wide decarbonisation.

Exposure Draft: specific comments

The consultation documents (Exposure Draft legislation and accompanying explanatory material), proposes a timetable for relevant entities to comply with the regime for climate-related financial disclosure. In essence, for an individual entity, compliance is a function of the form and size of the entity.

For the former, the two categories are: (1) general corporate entities and (2) 'asset owners'. Within each of the categories, there are size-based tests that determine the timing of compliance.

- For general corporate entities, a three-part test
- For 'asset owners', an assets-under-management (AUM) test

However, there is uncertainty whether an entity that meets both the Group 1 threshold for the three-part test (Table 1) and the AUM threshold would be classified as Group 1 or Group 2 (AUM version) for the purposes of reporting obligations.

Table 1: Size-based tests

Test for Group 1	Test for Group 2 (AUM version)
Consolidated gross assets > $1,000m Consolidated revenue > $500m Employees > 500	AUM > $5,000m

Within the superannuation ecosystem, there are many cases where an entity could be classified as either Group 1 or Group 2 (AUM version). A typical superannuation organisation has multiple underlying entities, which will include at least one asset-holding entity that could be classified as either Group 1 or Group 2 (AUM version). Some organisations will have multiple asset-holding entities. More broadly, the superannuation ecosystem also includes many wholesale entities that hold investments on behalf of superannuation trustees. Just with respect to the approximately 100 registered superannuation entities (RSEs), ASFA estimates that around 40 would be classified as either Group 1 or Group 2 (AUM version).

Whether an (asset-holding) entity is classified as Group 1 or Group 2 (AUM version) would alter the timing of disclosures during the phase-in period for the climate-reporting regime. This is particularly relevant for organisations with complex corporate structures that can comprise multiple, separate (underlying) reporting entities.

ASFA considers that the Exposure Draft should be amended to provide clarity regarding the classification of Group 1 and Group 2 (AUM) entities.

To this end, ASFA considers an AUM test is more relevant to entities that collectively could be termed 'asset owners', but in effect hold investments on behalf of other parties (consumers in the case of superannuation). The AUM test would align reporting with the main form of emissions for the superannuation industry – that is, the emissions that relate to superannuation investments and AUM (*financed emissions*). It is also worth noting that this would be consistent with approaches in other jurisdictions, such as in the UK.

A further source of uncertainty relates to the implications of the current category/size tests for the consistency of reporting within some organisations (during the phase-in period).

Under the disclosure regime, an organisation may be required to report against: multiple asset-holding entities; a trustee; and in some cases, a corporate parent that sits above the superannuation trustee in the corporate structure. For a particular organisation, the timing of reporting for separate entities within the organisation may differ (separate entities may be subject to different test thresholds).

In this regard there is uncertainty as to whether, for an organisation, a particular set of emissions – specifically, financed emissions of an asset-holding entity – also would be reported at the level of a corporate parent (as defined above), and potentially at a different time during the phase-in period than for the asset-holding entity.