

SUBMISSION

Submission to ASIC –
Consultation Paper 380:
Sustainability Reporting

20 December 2024

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Via email: sustainable.finance@asic.gov.au

20 December 2024

Dear Sir/Madam

Sustainability Reporting

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the Australian Securities and Investments Commission's consultation on Sustainability Reporting.

About ASFA

ASFA has been operating since 1962 as the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers.

We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

If you have any queries or comments in relation to the content of our submission, please contact Andrew Craston on 0401 016 587 or by email: acraston@superannuation.asn.au.

Yours sincerely

Andrew Craston
Director, Economics

Context

ASFA supports the Government's work agenda to develop and operationalise its broad-based Sustainable Finance Strategy, including the regime for sustainability reporting. ASFA also supports the Government's prioritisation of climate within the work program, where reforms that relate to Australia's net zero transition are prioritised over the broad range of sustainability-related reforms. ASFA agrees that prioritising climate-related reforms is consistent with the systemic nature of climate-related risks for the Australian economy, and the need for urgent economy-wide action.

From the perspective of the superannuation system, a well-designed regime for the reporting of sustainability-related financial information would help support the system's core objectives.

- Sustainability: With respect to private and public sector entities across the economy, good-quality reporting of sustainability-related financial information would help facilitate a more efficient and sustainable allocation of superannuation capital across the economy than otherwise would be the case.
- Operational effectiveness: a regime that minimises (to the degree that is practicable) complexity in reporting would support the reporting of comparable information for end users.

Treatment of consolidated entities

ASFA considers that the draft ASIC guidance should provide greater clarity around the commencement of reporting obligations for RSEs where the RSE licensee is a subsidiary of a Group 1 entity for the purposes of the sustainability reporting regime.

Under the sustainability reporting regime, entities that meet the definition of a Group 1 entity commence reporting during the period starting 1 January 2025 (to 30 June 2026). RSEs with \$5 billion or more of assets under management are defined as Group 2 entities (asset owners) and commence reporting during the period starting 1 July 2026. While not explicitly stated in the guidance, it is assumed that RSEs with less than \$5 billion of assets under management are defined as Group 3 entities only if they meet at least two of the three relevant size criteria (that is; consolidated revenue, consolidated assets, employees). Group 3 entities commence reporting during the period starting 1 July 2027.

Within the superannuation ecosystem, there are many cases where an entity that meets the definition of a Group 1 entity, and undertakes operations that are broader than 'asset ownership', has as one of its underlying (subsidiary) entities an entity that meets the definition of an asset owner (or a Group 3 entity). In such cases, the draft ASIC guidance is not clear whether it is intended that the Group 1 entity would report on a consolidated basis that includes the asset-owner (or Group 3) entity during the period starting 1 January 2025, or whether the asset-owner entity would be excluded during the initial reporting period (that applies to Group 1 entities).

Treatment of consolidated entities: investment entities within RSEs

Under the Australian Accounting Standards Board (AASB) *Accounting Standard 10: Consolidated Financial Statements*, where investment entities controlled by a Registered Superannuation Entity (RSE) meet the required definition, these entities are not required to be consolidated in the RSE's annual report. Instead, these entities are reported as financial assets, at fair value, through profit or loss on the RSEs balance sheet.

Under the proposed sustainability reporting regime, it is not clear whether unconsolidated controlled investment entities would be required to prepare a sustainability report. Such a requirement would generate an additional and unnecessary compliance burden for RSEs and increase compliance costs, especially given

that unconsolidated controlled investment entities are excluded from consolidated financial reporting and are not required to prepare annual financial reports under Chapter 2M of the Corporations Act.

ASFA considers that unconsolidated controlled investment entities (as per AASB 10), should be exempt from this requirement. To this end, ASIC could extend the draft guidance in paragraph *RG 000.43* to state that unconsolidated controlled entities that are exempt from consolidation under AASB 10 are also exempt from preparing a sustainability report. This alteration would align with existing accounting standards and avoid increasing compliance costs for RSEs – that ultimately would be borne by fund members.

Content of sustainability reports: forward-looking information

The draft ASIC guidance cites Appendix D of *AASB S2 Climate-related Disclosures* and *RG 170 Prospective Financial Information* as the basis for determining the characteristics for climate-related, forward-looking statements to be made on ‘reasonable grounds.’

ASFA considers that the draft ASIC guidance should provide greater clarity regarding what would be considered as a ‘reasonable basis’ (as per *RG 170 Prospective Financial Information*). In particular, if ASIC considers that the materials referred to in *paragraph RG 000.77* would provide a ‘reasonable basis’ for forward-looking statements, this should be noted in the ASIC guidance.

Additional guidance around climate-related, forward-looking statements should be developed given the risk of misunderstanding among end-users as to how climate-related, forward-looking statements can be made with a reasonable basis. As an example, it would be valuable to include additional guidance that notes that as climate reporting is expected to be prepared on an annual basis, this provides opportunity to review and update statements, subject to continuous disclosure obligations. The time frame over which climate risks and opportunities may be expected to materialise will be a relevant consideration.

Sustainability-related financial information in the Operational and Financial Review

For listed entities, paragraphs *RG 000.107* to *RG 000.120* of the draft ASIC guidance relate to the disclosure of sustainability-related financial information in the Operating and Financial Review (OFR). It is not clear whether these requirements are intended to also apply to RSEs.

In accordance with Section 299 of the Corporations Act, RSEs are required to prepare an annual directors’ report, which includes the Operating and Financial Review (OFR). *RG 247 Effective Disclosure in an Operating and Financial Review* is the only artefact that provides any guidance, however *RG 247* is not applicable to RSEs.

ASFA considers that RSEs should be exempt from a requirement to report sustainability-related financial information in the OFR. It would impose an additional compliance burden on RSEs and increase compliance costs – without providing clear benefits to fund members. In particular, imposing this requirement on RSEs could lead to unnecessary duplication of reporting, where sustainability-related financial information disclosed within an OFR also would be disclosed within the sustainability report.

Investor Guidance on sustainability reporting

Given that the ISSB standard was not developed for investor reporting, investors are looking for comprehensive guidance that reflects the nuances and differences they have compared with an entity that issues debt and equity. The guidance provided in the consultation mostly draws on arrangements for listed entities, which does not in totality address the needs of investors amongst other reporters.

Sustainability-related financial information – other documents

Clarification is required as to what entails sustainability-related financial information in the context of using information elsewhere – that is in PDSs and other documents. More broadly, there is a question as to whether such outcomes are consistent with the broad policy intent of the reporting regime.

Modified liability

The draft ASIC guidance (paragraph *RG 000.60*) proposes modified liability for climate-related financial disclosures related to Scope 3 greenhouse gas emissions and scenario analysis, for the financial years commencing between 1 January 2025, and 31 December 2027.

For RSEs, Scope 3 emissions largely comprise financed emissions – that is, the Scope 1, 2 and 3 emissions that relate to the fund's set of investments on behalf of fund members. From an RSE's point of view, the component of Scope 3 financed emissions that comprises the Scope 1 and 2 emissions of other entities are aggregable. In contrast, the component of Scope 3 financed emissions that comprises the Scope 3 emissions of other entities (*Scope 3 of Scope 3 emissions*) are not necessarily aggregable from an RSE's point of view – that is, where the individual entities in which a fund invests report the *same* emissions in their individual Scope 3 emissions. For RSEs, it is likely that around 80 to 90 per cent of emissions will be *Scope 3 of Scope 3* emissions.

For RSEs (and assert owners in general), deriving an aggregate of Scope 3 emissions relies on data reported by investee entities (that is, the entities in which RSEs invest) and generated by specialised third-party providers. Collecting this data is a complex and challenging task given the large number, and variety of entities represented in fund investment portfolios. Further, the veracity of estimates produced by individual investee entities differs (although the accuracy and useability of estimates for individual investee entities is expected to improve and converge over time).

Investee entities are subject to assurance for the purposes of calculating Scope 1 and Scope 2 emissions data, which are reported as Scope 3 financed emissions by RSEs.

To allow RSEs to rely on this data without verifying its accuracy and minimise the risk of misstatements or liability, ASFA considers that ASIC should provide guidance on liability for Scope 3 emissions – recognising where data has already been subject to reasonable assurance by a recognised assurance provider.

ASIC guidance should also include circumstances where modified liability protections for reporting entities and their directors would be considered – for example, where entities rely on third-party data subject to reasonable assurance. This would enable reporting entities to structure their internal governance frameworks accordingly when incorporating data for the purposes of reporting Scope 3 emissions.