Research paper

What Australian superannuation funds can do in order to achieve carbon-neutral status in their operations?

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About ASFA

ASFA, the voice of super, has been operating since 1962 and is 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.

Background

The ASFA Research Team has undertaken a consideration of the implications and methodologies for superannuation fund trustees aiming to achieve carbon neutrality in their operations, particularly through the use of carbon offsets. This paper evaluates methodologies and how such initiatives align with the sole purpose test. The paper also considers the reliability of the carbon offsets used.

In response to the challenges of global warming driven by greenhouse gas emissions, Australia joined the Paris Agreement, committing to reduce emissions by 43 per cent below 2005 levels by 2030 and achieve carbon neutrality by 2050. To support these goals, the Australian government introduced the Climate Active program, which provides a national standard for carbon neutrality, encourages voluntary emission reductions and offsetting, and certifies organisations that achieve carbon-neutral status.

This paper outlines the concept and significance of carbon neutrality and carbon offsetting, followed by an overview of Australia's Climate Active Carbon Neutral Standard. It also examines examples superannuation funds might undertake, with a focus on their emission reduction efforts in business operations, offsetting projects, and how their carbon-neutral strategies align with Australia's sole purpose test for superannuation funds, noting that the portfolio investments of a fund are out of scope of this paper.

Examples of activities in scope include electricity to power trustee offices, transportation of trustee employees, and paper usage in trustee offices.

This paper's content may provide models or examples for other superannuation funds to achieve carbon-neutral status.

Please note, in addition to this research paper, ASFA commissioned legal advice from leading law firm, MinterEllison, in relation to whether or not the purchasing of carbon offsets for the Scope 1 emissions of the superannuation funds' Trustee offices would be subject to the Best Financial Interests Duty (BFID). The advice received is only available to ASFA members and can be accessed via the link above.

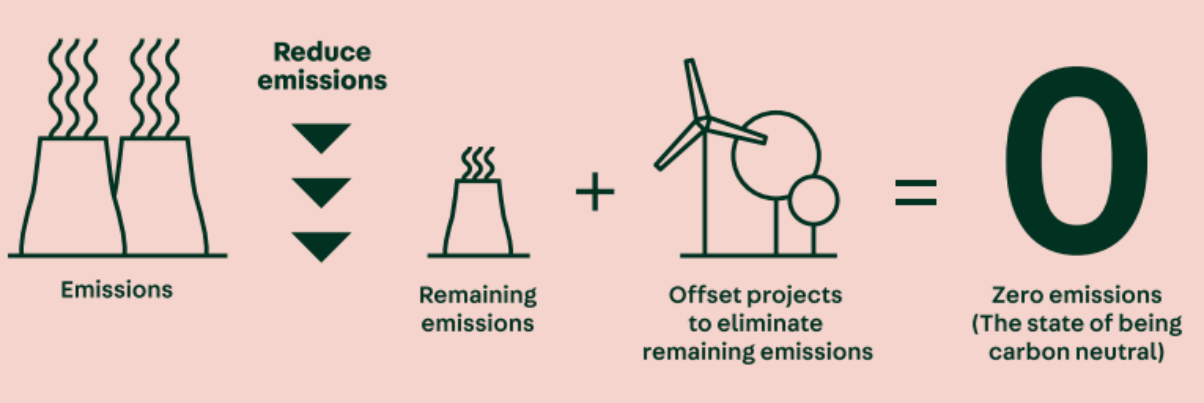
Australia's net-zero obligations

Climate change driven by greenhouse gas emissions poses a significant challenge to human society. Following the Paris Agreement in 2015, most countries began implementing measures to manage their greenhouse gas emissions, with carbon dioxide as the primary focus.

As a party to the Paris Agreement, Australia has submitted its emission reduction commitments, the National Determined Contribution (NDC), to the United Nations Framework Convention on Climate Change (UNFCCC). The 2022 update commits Australia to reducing emissions by 43 per cent below its 2005 levels by 2030, aiming to achieve carbon neutrality by 2050 (Albanese & Bowen, 2022). The next NDC update is scheduled for submission in 2025.

Net-zero emissions, also known as carbon neutrality, refers to a state in which human-caused carbon dioxide emissions are balanced by their removal (Zhang et al., 2024). Achieving net-zero emissions requires a combination of reducing emissions and addressing remaining emissions through removal and/or offsetting. As illustrated in Figure 1, carbon offset projects play a critical role in addressing residual emissions.

Figure 1: Carbon neutrality



Source: Climate Active (2022)

National Standards on achieving carbon neutrality

The Climate Active program, a government program managed by the Australian Government's Department of Climate Change, Energy, the Environment and Water (DCCEEW), plays an important role in achieving carbon neutrality. The program operates in three key areas:

i) it encourages voluntary climate action by businesses and organisations,
ii) it publishes the Climate Active Carbon Neutral Standard (the National Standard hereafter), and
iii) it certifies entities that have achieved carbon neutrality by meeting the requirements of the Neutral Standard.

Climate Active is currently under review and is subject to potential reform by the DCCEEW. Issues have been raised by various commentators in regard to whether the Climate Active program requires sufficient emission reductions, whether there is over-reliance on carbon offset, issues relating to the selection of offsetting projects, and certification pathways. There is a risk that the current certifications

could convey a misleading impression of carbon neutrality, sometimes described as greenwashing. While the review and reform process is ongoing, Climate Active continues to use the National Standard for issuing certifications.[1] In line with the principles of the National Standard and issues raised in recent discussions, organisations are encouraged to focus on carbon emission reduction in business operations and offset the remaining emissions when necessary.

To become certified as carbon neutral,[2] organisations must follow four steps: establish the emission boundary, set a base year, collect data on emission sources, and calculate the carbon account.

In particular, the National Standard listed the following emissions deemed to be relevant:

- All stationary energy and fuels used in buildings, equipment, machinery or vehicles in the organisation's control (e.g. natural gas, fuels used in generators or vehicles).
- All electricity consumed by buildings, equipment, machinery or vehicles in the organisation's control (this includes servers or other machines off-site if the associated emissions are likely to be large relative to other emissions deemed relevant by the National Standard).

In addition to the two listed categories, all other emissions identified as consequences of an organisation's business activities must be assessed for relevance.[3]

Figure 2: Example of an organisation's emission boundary (quantified, non-quantified, and excluded)

Quantified	Non-quantified	Excluded
Paper		
Water		
Business travel		
Freight		
Staff commute to work	Office furniture	International offices
Waste		
Electricity		
Petrol and gas used in company cars		
Stationary energy		

Source: Climate Active (2022)

[1] On 16 June 2023, the ACCC suspended the assessment of the certification trademark rules upon the request of the DCCEEW for the period of review and reform (ACCC, 2023). Updates will be announced in due course.
[2] Carbon neutrality is the term used globally in the public sector, industry, and academia. However, the DCCEEW may consider replacing the current 'carbon neutral' certification with a new term.
[3] It is suggested to apply a relevance test for emission source identification. When any two of the following conditions are met, it is considered relevant: 1) the emissions are likely to be large relative to the organisation's electricity, stationary energy and fuel emissions, 2) the emissions contribute to the organisation's greenhouse gas risk exposure (i.e. will the impacts of climate change pose a serious risk to the viability of this emission source over a timeframe suitable to the organisation), 3) the emissions are deemed relevant by key stakeholders, 4) the organisation has the potential to influence the reduction of emissions from a particular source, 5) the emissions are from outsourced activities that were previously undertaken within the organisation's boundary or from outsourced activities that are typically undertaken within the boundary for comparable organisations.

Reduction of emissions

To achieve carbon neutrality, organisations must develop and implement emission reduction strategies. The National Standard recommends following a hierarchy of actions:

i) Energy Efficiency: Install energy-efficient lighting and appliances.
ii) Onsite Renewable Energy: Generate renewable energy within operational sites.
iii) Offsite Renewable Energy: Procure renewable energy from external sources.

Examples of reduction actions include:

- Switching to renewable energy sources.
- Substituting emissions-intensive products or activities, such as adopting electric vehicle fleets or reducing business travel through virtual meetings.
- Improving waste management by adopting practices such as source separation and biogas capture.

Use of offsets

After implementing reduction strategies, any remaining emissions must be offset by retiring an equivalent number of eligible offset units.

Only eligible offset units (listed in the National Standard Appendix) can be used as part of a carbon neutral claim against the National Standard.[4] Organisations are encouraged to choose units from projects that align with corporate goals and values, or projects that deliver desired social or environmental outcomes.

Regulatory considerations for superannuation funds.

Superannuation funds in Australia aiming for carbon neutrality in their trustee operations must adhere to regulatory guidelines to avoid greenwashing—misrepresenting the environmental benefits of their practices.
Depending on the context it is possible that disclosure about the operations of a trustee or a fund is considered to be 'in relation to a financial product or financial service' under the *Corporations Act 2001* (Corporations Act) and, accordingly, the disclosure requirements in the Act under Chapter 7 would apply to such disclosure.

The Corporations Act and the *Australian Securities and Investments Commission Act 2001* contain general prohibitions against a person making statements that are false or misleading, or engaging in dishonest, misleading or deceptive conduct 'in relation to a financial product or financial service'.

The definition of 'financial product' and 'financial service' in the Corporations Act include activities like managing a financial product or providing a financial service, such as dealing in financial products. If the operations relate directly to the management, offering, or distribution of a financial product, then

[4] The list may be updated upon the availability of new information or offset units.

any disclosure about the fund's operations is likely be considered to be 'in relation to a financial product or financial service'.

In *ASIC v Managed Investments Scheme Operators [2009] FCA 1224* the court examined whether the responsible entity's conduct and disclosures about the operation of a managed investment scheme were sufficiently connected to the financial products being offered.

The court emphasised that the phrase 'in relation to' in the Corporations Act is broad and should be interpreted contextually. Disclosures about the operation of a managed investment scheme can be considered 'in relation to' financial products if they have a *material connection or relevance* to the products offered under the scheme.

The Court considered that the operation of the scheme, including financial risks, governance practices, and compliance with regulatory requirements, was intrinsically linked to the financial products offered under the scheme. It determined that information about the operation of a managed investment scheme is material if it would influence a reasonable investor's decision to acquire, hold, or dispose of an interest in the scheme.

Courts often assess whether there is a sufficient nexus between the disclosure and the financial product or service. Factors include whether the disclosure:

- impacts the financial decisions of consumers
- relates to the features, risks, or operations of the financial product
- is required to comply with regulatory requirements.

The Australian Prudential Regulation Authority (APRA) provides some guidance through Prudential Practice Guide CPG 229, which assists trustees in managing climate-related financial risks within their governance and risk management frameworks.

Additionally, the Australian Securities and Investments Commission (ASIC) addresses greenwashing concerns, emphasising the importance of accurate and transparent disclosures regarding sustainability claims. ASIC's Information Sheet 271 outlines how superannuation trustees can avoid greenwashing when promoting sustainability-related products – this is primarily concerned with representations of the portfolio, but the same regulatory regime applies to the trustee operations as claims of carbon neutrality or carbon reduction plans go to branding and consumer communications.

All claims of environmental actions should be transparent, proven and accurate. Having third party assurance through certification and/or robust audit practices should be strongly considered. Superannuation funds should note that most carbon reduction certification schemes require the use of public statements or reports.

Internal governance considerations for superannuation funds

Internal governance frameworks can be updated to ensure that environmental sustainability is integrated into decision-making processes, risk management, and accountability mechanisms in the trustee office.

At the board level, trustees can establish a clear policy with a stated objective for carbon neutrality, supported by a comprehensive strategy to reduce operational emissions. This strategy should include realistic timelines, interim milestones, and key performance indicators (KPIs) to track progress. The

board should also regularly review and endorse these plans to ensure alignment with fiduciary duties and evolving regulatory expectations.

It may be helpful to designate a sustainability officer or responsible team to oversee the implementation of carbon-neutral initiatives, such as energy efficiency improvements, renewable energy sourcing, and waste reduction. This person/team should report regularly to management.

Risk management frameworks should explicitly address climate-related risks broadly and the climate-related risks associated with operational emissions, integrating these into broader enterprise risk management. This includes evaluating potential reputational, regulatory, and financial risks arising from carbon-neutral risks and the carbon reduction commitments and ensuring adequate controls are in place to mitigate these risks.

Transparency and accountability are essential to maintaining member and stakeholder trust. Governance frameworks should mandate robust reporting practices, including annual disclosures on emissions, reductions achieved, and offsets used. Third-party verification of emissions data and carbon-neutral claims enhances credibility and compliance with regulatory guidelines.

Finally, a culture of sustainability within the organisation helps to build long-term success. This includes employee training, stakeholder engagement, and promoting awareness of carbon-neutral initiatives across all levels of operations.

Example for funds seeking to be certified carbon neutral

Sample Fund Example

Super Sample Fund has a Head Office in Sydney and satellite offices in Melbourne, Perth, Brisbane and Tasmania.

Sample Fund has been considering how to demonstrate their organisational commitment to Net Zero.

They analyse the pathway for a commitment, noting that as a financial product provider there are regulatory matters to consider, they would like to strike the balance between ambition and achievability.

The enterprise risk register of Sample Fund notes that the effects of climate change present a risk for the members of the fund. The risk statement says:

Risk Category: Environmental, Social, and Governance (ESG)

Risk Title: Impact of Climate Change on Investment Performance, Reputation, Legal Compliance, and Fund Operations

Risk Description: Climate change presents multifaceted risks to the Sample Fund's investment portfolio, reputation, legal compliance, and operational continuity.

Physical risks include asset damage from extreme weather events, while transition risks involve regulatory changes, market shifts, and technological advancements toward a low-carbon economy.

Reputational risks arise from stakeholder scrutiny if the fund is perceived as neglecting climate-related issues. This extends to the operations of the fund. Legal risks stem from non-compliance with regulatory expectations, such as those outlined by the Australian Prudential Regulation Authority (APRA) in Prudential Practice Guide CPG 229, which emphasises the importance of managing climate-related financial risks. Operational risks involve potential disruptions to fund administration and member services due to climate impacts.

Likelihood: High

Impact: High

Risk Owner: Chief Investment Officer (CIO), Chief Operating Officer (COO), and Chief Risk Officer (CRO)

Controls/Mitigation Measures:

1. **Investment Strategy:**
    a. Integrate climate-related factors into investment decisions and asset allocation.
    b. Perform regular climate scenario analyses to evaluate potential financial impacts under various climate pathways.
2. **Reputation Management:**
    a. Develop and disclose a Climate Risk Policy and Net-Zero Strategy to demonstrate commitment to addressing climate-related risks within the portfolio and
    b. Extend this to actions addressing climate risks within the operations.
3. **Legal Compliance:**
    a. Align risk management practices with APRA's Prudential Practice Guide CPG 229, which outlines prudent practices for managing climate change financial risks.
    b. Monitor and adhere to evolving climate-related regulations and disclosure requirements.
4. **Operational Resilience:**
    a. Assess and strengthen the fund's operational vulnerabilities to climate events, including data centres, IT systems, and supply chains.
    b. Implement business continuity plans to ensure uninterrupted member services during climate-related disruptions.
5. **Engagement and Advocacy:**
    a. Actively engage with investee companies to promote alignment with net-zero emissions targets.
    b. Advocate for climate-resilient policy frameworks within the superannuation sector.

Residual Risk: Moderate (post-controls)

Sample Fund makes a public statement to aim for net zero portfolio emissions by 2050, with an interim target of a 50% reduction in Scope 1 and 2 emissions by 2030. This is detailed in their portfolio-related governance and disclosure documentation.

Sample Fund also makes a decision to reduce the carbon in their operations and to use an offset arrangement to meet a carbon neutral position that is certified by an external agency.

Using the Climate Active methodology, Sample Fund sets the emission boundaries:

Scope 1	Scope 2	Scope 3
All direct emissions from sources that are within the organisation's control boundary. These could be emissions from fuel use (e.g., petrol in vehicles), refrigerants and on-site electricity generation.	Emissions include purchased electricity, heat, cooling and steam (i.e. energy produced outside the organisation's control boundary but used within the organisation).	All indirect emissions that occur as a result of the activities of the organisation, but occur from sources outside the organisation's control boundary. For instance, air travel, data centre activity, electricity and petrol indirect emissions, natural gas and diesel oil (base building), paper, staff commuting, waste, and taxis.

Sample Fund implements a comprehensive strategy to reduce emissions across its business operations, focusing on energy, waste, and process efficiency. They undertake the following measures over a number of years to collectively contribute to lower operational emissions.

- Transitioning office operations to high-efficiency designs
- Full transition of energy contracts to green power.
- Conducted energy education programs for staff.
- Implementing responsible procurement processes.
- Conducted a waste reduction program

Emission offsetting

Sample Fund states that they are committed to reduction of emissions, for those that are still produced in the course of business, Fund A selects high-impact, community-oriented projects that align with their member base. Sample Fund chooses the carbon offset programs that align with the Australian Carbon Credit Unit (ACCU) standards, ensuring verifiable outcomes. Alignment with the sole purpose test

Sample Fund has determined that its actions align with the best financial interest of members in terms of cost efficiency, reputation, regulatory compliance, and climate risk mitigation:

- Cost Efficiency: Operational emission reductions, such as energy savings and digitalisation, reduce long-term costs, enabling more resources to be allocated toward member returns.
- Risk Mitigation: Reducing operational emissions and aligning with net-zero targets minimises exposure to regulatory and market risks associated with climate change.
- Brand Reputation and Member Engagement: Promoting sustainability strengthens member trust, enhancing fund growth.

Conclusion

This paper explores the pathway to carbon neutrality (i.e., net zero emission) for the trustee operations of Australian superannuation funds in the broader context of Australia's National Determined Contribution to emission reduction under the Paris Agreement.

It is intended as a guide for funds wishing to explore carbon neutrality in the trustee operations. By examining the principles of carbon neutrality and the Climate Active Carbon Neutral Standard, it outlines the steps organisations may take to be certified carbon neutral and to maintain the status, including establishing emission boundaries, implementing reduction strategies, and purchasing high-quality carbon offset units.

The information outlined reveal a range of strategies employed to reduce emissions in business operations and to offset residual carbon emissions while being aligned with the sole purpose test requirement. Key measures include transitioning to renewable energy sources, increasing operational efficiencies, reducing waste, and investing in community-oriented carbon offset projects. Importantly, this paper demonstrates each fund's alignment with the sole purpose test, showcasing how sustainable practices can deliver financial benefits, mitigate climate risks, and enhance member trust and engagement.

References

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