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February 16, 2023

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600
Submitted electronically to: climatereportingconsultation@treasury.gov.au

RE: The Treasury Consultation on Climate-related Financial Disclosure

Dear Sir or Madam,

The Investment Company Institute (ICI) and ICI Global[1] appreciate the opportunity to provide feedback on the Australian Treasury (Treasury) consultation on the development of a climate-related financial disclosure framework in Australia ("Consultation Paper").[2]

As the trade association representing regulated funds globally, ICI Global has a significant interest in how sustainability reporting standards, including climate-related disclosure, for corporate issuers evolve. Asset managers analyze material information on companies' exposures to sustainability-related risks and opportunities, and how these are managed, to support investment decisions and enterprise valuations. In addition, they use the information to pursue a range of investment strategies on behalf of millions of retail investors around the world investing for retirement, education, and to achieve other important financial goals.

ICI Global welcomes the Treasury's goal of improving the consistency, comparability, and reliability of climate-related financial disclosure for the benefit of investors. In particular, we appreciate the Treasury's recognition of international interoperability as one of the guiding principles in developing the disclosure framework.

We support the Treasury's proposal to leverage common global baseline standards, as are being developed by the International Sustainability Standards Board (ISSB), in its new climate-related financial disclosure framework. Consistent with our response to the ISSB's July 2022 consultation, this approach should allow jurisdictions, including Australia, to build on a common foundation while facilitating interoperability of local initiatives, thereby

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[1] ICI Global carries out the international work of the Investment Company Institute, the leading association representing regulated investment funds. With total assets of $35.7 trillion, ICI's membership includes mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in Europe, Asia and other jurisdictions. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. ICI Global has offices in Brussels, London, Hong Kong, and Washington, DC.

[2] Climate-related financial disclosure Consultation paper ("Consultation Paper"), December 2022, available at https://treasury.gov.au/sites/default/files/2022-12/c2022-314397_0.pdf.

increasing comparability and reducing complexity for investors worldwide.[3] In this regard, we suggest the Treasury incorporate the ISSB's approach to materiality assessments.

To ensure the consistency, comparability, and reliability of disclosure, we recommend the Treasury take into account two key considerations when designing the reporting obligations of Australia's climate-related financial disclosure framework:

- *Significant data challenges in Scope 3 greenhouse gas (GHG) emissions.* We recommend the Treasury not require Scope 3 GHG emissions disclosure at this time, given the significant data gaps and the absence of agreed-upon methodologies for all 15 categories of Scope 3 emissions. The limited circumstance in which we would support Scope 3 reporting at this time is in the case of a large, listed company that has publicly announced a target or goal to reduce its Scope 3 emissions. In this case, the company should be required to disclose its Scope 3 emissions.

- *Considerations specific to asset managers as reporting entities.* We recommend the Treasury clarify whether and to what extent the proposed framework may be applicable to asset managers. Where an asset manager is subject to the climate-related financial disclosure requirements as either a large, listed company, or as a financial institution, the Treasury should carefully calibrate the requirements to better serve the respective intended audiences and purposes of the disclosures. In this regard, to the extent that the Treasury is considering requiring disclosures by asset managers—either as listed companies or as financial institutions, and at either the firm or the fund level—we encourage the Treasury to conduct a separate consultation regarding such potential reporting requirements of asset managers.

We also welcome the proposed phased approach towards any climate-related financial disclosure obligations for smaller entities. Finally, we would encourage the Treasury to continue examining the extent to which large, non-listed companies may become subject to climate-related financial disclosures, and to consult further on any specific proposals or mechanisms to implement such requirements.

I. Leveraging the Global Baseline of Sustainability Reporting Standards

The Treasury should take a "building blocks" approach to the global baseline of ISSB standards, and incorporate the ISSB's approach to materiality, to enable consistent and comparable disclosure for investors.

ICI Global supports the Treasury's proposal to leverage the ISSB standards in its new climate disclosure requirements, with the exception of Scope 3 reporting requirements (*see Section II below regarding Scope 3 reporting*). We appreciate the Treasury's recognition of the importance of interoperability with international reporting practices. Interoperability is especially important given the significant number of jurisdictions conducting parallel policy initiatives relating to the measurement and disclosure of sustainability-related financial information.

The ISSB standards, which incorporate the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) and the standards of the Sustainability Accounting

[3] ICI Global does not support the ISSB approach to requiring Scope 3 disclosures at this time. *See* ICI Global comment letter responding to the ISSB Exposure Drafts for IFRS S1 "General Requirement for Disclosure of Sustainability-related Financial Information," and IFRS S2 "Climate-related Disclosures," dated July 29, 2022, available at https://www.ici.org/system/files/2022-07/22-icig-cl-issb.pdf.

Standards Board (SASB), are intended to provide investors with a robust global baseline of consistent, comparable information. Using a common set of standards as the starting point would facilitate better climate disclosure while limiting unnecessary reporting burdens on entities. This approach ultimately provides global investors with greater comparability and confidence in the reported information.

Assessment of Materiality. We strongly recommend the Treasury incorporate the ISSB approach to assessing materiality in order to reduce reporting burdens on entities and provide investors with the most relevant information.[4] Keeping Australia's climate-related financial reporting requirements compatible with the ISSB standards in this manner will help promote a consistent application of financial materiality across reporting entities.

II. Phasing in Scope 3 GHG Emissions Disclosure

The Treasury should not require Scope 3 GHG emissions disclosure at this time given the significant data gaps and the absence of agreed-upon methodologies to measure Scope 3 emissions.

ICI Global supports required disclosure of Scope 1 and 2 GHG emissions for large, listed companies, which would make more consistent, comparable, and reliable data available for investors. However, we recommend the Treasury not require mandatory disclosure of Scope 3 GHG emissions at this time,[5] except in certain limited circumstances.

Whereas the measurement and reporting of Scope 1 and Scope 2 GHG emissions are now sufficiently developed to provide investors, including asset managers, with reliable, consistent, and comparable information, the same is not yet true for Scope 3 emissions. The lack of widely accepted methodologies and frameworks, as well as control of and transparency into companies' value chains, can make Scope 3 emissions disclosure challenging to produce and verify today. The significant data gaps and the absence of agreed-upon methodologies to measure all 15 categories of Scope 3 emissions undermine the ability of most companies to report consistent, comparable, and reliable data.

Some of the Scope 3 data challenges will resolve over time. As more companies make their Scope 1 and Scope 2 emissions data publicly available, these data can serve as the input for other companies' Scope 3 calculations. We therefore recommend that, rather than requiring

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[4] "An entity shall apply judgement to identify material sustainability-related financial information. Materiality judgements shall be reassessed at each reporting date to take account of changed circumstances and assumptions. An entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from that disclosure is not material. This is the case even if the IFRS Sustainability Disclosure Standard contains a list of specific requirements or describes them as minimum requirements." *See* ISSB General Sustainability-related Disclosures exposure draft (July 29, 2022), at p.34, paragraphs 59 and 60, available at: https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf. Moreover, ISSB has confirmed it will use the same definition of materiality as is used in IFRS Accounting Standards and will provide additional guidance on how to determine what is material information. *See also* ISSB unanimously confirms Scope 3 GHG emissions disclosure requirements with strong application support, among key decisions, dated October 21, 2022, available at https://www.ifrs.org/news-and-events/news/2022/10/issb-unanimously-confirms-scope-3-ghg-emissions-disclosure-requirements-with-strong-application-support-among-key-decisions/#3; and ISSB Update December 2022, available at https://www.ifrs.org/news-and-events/updates/issb/2022/issb-update-december-2022/.

[5] There is a minority view among ICI members that larger public companies should be required to disclose Scope 3 emissions if the emissions are material. These members would prefer to have the opportunity to evaluate any such information as part of their respective investment processes, despite the data gaps and absence of agreed-upon methodologies.

companies to report Scope 3 emissions at this time, the Treasury promote the development of reporting practices, including assumptions, models, and methodologies. Mandating Scope 3 emissions only after companies and investors gain experience with Scopes 1 and 2 reporting will lead to more accurate reporting for the benefit of investors.

We note that although the ISSB has indicated its intention to include Scope 3 GHG emissions disclosure in its standards, it has also stated that it will develop relief provisions to help companies apply the Scope 3 requirements, which will include a minimum of one year exemption after the effective date of the ISSB climate standard.[6]

The limited circumstance in which we would support Scope 3 reporting at this time is in the case of a large, listed company that has publicly disclosed a GHG emission reduction target or goal that includes its Scope 3 emissions. In that case, the company should be required to disclose its Scope 3 emissions. This information could assist investors in tracking the company's progress toward reaching its particular target or goal, and, at the same time, encourage companies to carefully calibrate any such target or goals.

III. Considerations Specific to Asset Managers as Reporting Entities

The Treasury should clarify whether and to what extent the proposed climate-related financial disclosure framework may be applicable to asset managers.

We note that the Consultation Paper does not explicitly scope in asset managers, but we think it would be beneficial for the Treasury to clarify whether and to what extent asset managers may fall into scope as either large, listed companies, or as financial institutions.[7]

To the extent that asset managers do end up within the scope of the climate-related financial disclosure framework, we ask the Treasury to carefully calibrate requirements for the asset management industry to better serve the respective intended audiences and purposes of the disclosures. In this regard, to the extent that the Treasury is considering requiring disclosures by asset managers—either as listed companies or as financial institutions, and at either the firm or the fund level—we encourage the Treasury to conduct a separate consultation regarding such potential reporting requirements. We highlight several issues in this regard on a preliminary basis.

To the extent that an asset manager becomes subject to mandatory reporting as a financial institution (i.e., for the benefit of its clients), the Treasury should ensure that any mandatory reporting obligations are appropriately sequenced. The Treasury also should permit asset managers to use group-wide policies and disclosures that are subject to similar or higher standards than Australia's climate reporting requirements.

Asset managers invest in a wide range of assets across every jurisdiction, and as such have faced significant challenges in reporting climate-related and other ESG data on portfolio holdings where the required data is dependent on information being reported by underlying

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[6] The ISSB will grant a temporary exemption from the Scope 3 GHG emission disclosures for a minimum of one year following the effective date of its Climate-related Disclosure Standard, in order to give time for companies to implement their processes. *See* ISSB announces guidance and reliefs to support Scope 3 GHG emission disclosure, dated December 15, 2022, available at https://www.ifrs.org/news-and-events/news/2022/12/issb-announces-guidance-and-reliefs-to-support-scope-3-ghg-emiss/.

[7] The Treasury proposes the climate-related financial risk disclosure requirements would also apply to large financial institutions, citing banks, insurers, credit unions, and superannuation funds as examples. *See* Consultation Paper, *supra* note 2 at p.8, Covered entities and timing.

investee companies, in the case of equities, or simply not available for some asset classes altogether. Appropriate sequencing of climate-related financial disclosure obligations is key to reliable, consistent, and comparable disclosure across the reporting ecosystem. We encourage the Treasury to consider these unique challenges for the asset management industry and ensure that any mandatory reporting obligations for asset managers reporting as financial institutions are appropriately sequenced. In particular, we recommend the Treasury ensure that corporate disclosure is implemented and widely available before considering any measures to expand the framework to mandate reporting by asset managers and investment funds, the accuracy of whose disclosure is in many cases dependent on data reported by the underlying investee companies.

Further, the integration of material climate-related risk is not necessarily a separate process, and may be part of an asset manager's existing processes and related governance and oversight structures used to manage investment risks more broadly. It is therefore essential that global asset managers have the flexibility to implement global processes, where relevant, to be able to satisfy any climate-related reporting requirements. To the extent that the Treasury considers reporting requirements for asset managers, it will be important to allow asset managers the option to leverage group resources and staff, and to rely on group disclosures to satisfy Australia's reporting requirements as appropriate, provided that they are subject to similar or higher standards than Australia's requirements.

To the extent that an asset manager becomes subject to mandatory reporting as a listed company (i.e., for the benefit of its shareholders), the Treasury should exclude assets managed on behalf of clients from any GHG emissions disclosure requirements.

In order to accurately address the information need of the intended audience in this case, *i.e.,* shareholders of asset management companies, we strongly recommend the Treasury exclude GHG emissions attributable to assets managed on behalf of clients, such as regulated funds, in any mandatory reporting by the asset manager of its own Scopes 1, 2, or 3 emissions.

As it relates to Scope 3, in particular, this approach would also be consistent with the Greenhouse Gas Protocol (GHG Protocol) approach to value chain reporting. Under the GHG Protocol, asset owners investing their own capital are required to report emissions from equity investments, but asset managers, who are investing clients' capital, "may optionally report on emissions from equity investments managed on behalf of clients (*e.g.,* mutual funds)."[8]

IV. Phased Implementation for Smaller Reporting Entities

The Treasury should adopt a phased approach to climate-related financial disclosure, allowing smaller entities additional time to comply with any final disclosure rules.

ICI Global welcomes the Treasury's proposed phased approach to climate-related financial disclosure, initially focusing on large, listed companies and large financial institutions, while providing smaller entities additional time. This could mitigate the potential compliance burden for smaller entities by giving these entities more time to allocate the resources necessary to prepare climate-related disclosures.

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[8] GHG Protocol, Technical Guidance for Calculating Scope 3 Emissions (version 1.0); Supplement to the Corporate Value Chain (Scope 3) Accounting & Reporting Standard, at 141, Box 15.1, available at https://ghgprotocol.org/sites/default/files/standards/Scope3_Calculation_Guidance_0.pdf.

V. Consideration of Reporting by Large, Non-Listed Companies

ICI Global would encourage the Treasury to continue examining the extent to which large, non-listed companies may become subject to climate-related financial disclosures, and consult further on any specific proposals or mechanisms to implement such requirements. Comparable disclosure requirements for large, non-listed companies, could in some cases be a means to allow investors to better understand the broader investment landscape. However, it will be critical to understand the specific details of such a potential disclosure framework for these companies in order to fully evaluate the implications for the activities of asset managers and the investors that they serve.

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Thank you again for the opportunity to provide feedback on the Consultation Paper. We welcome continuing this dialogue with you. If you have any questions, please contact me at michael.pedroni@ici.org or Matthew Mohlenkamp at matthew.mohlenkamp@ici.org.

Sincerely,
/s/ Michael Pedroni

Michael N. Pedroni
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