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19 July 2023

Climate Disclosure Unit
Market Conduct and Digital Division
Treasury
Langton Cres
Parkes ACT 2600
Submitted electronically to: climatereportingconsultation@treasury.gov.au

RE: The Treasury Consultation on Climate-related financial disclosure: Second consultation

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 implementation and reporting contents of the climate-related financial disclosure framework in Australia ("Consultation Paper"),[2] as a follow up to our response to the Treasury's Discovery Consultation launched in December 2022.[3]

As the trade association representing regulated funds globally, we have 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.

The Treasury proposes to incorporate the climate disclosure standard developed by the International Sustainability Standards Board (ISSB) into its climate-related financial disclosure. We believe that including certain aspects of the ISSB climate standard into the Australian reporting framework could facilitate interoperability with international reporting practices and potentially mitigate reporting burdens on entities. Interoperability among local and global reporting standards reduces complexity and enhances comparability. However,

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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 $38.9 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"), June 2023, available at https://treasury.gov.au/consultation/c2023-402245.

[3] Climate-related financial disclosure Consultation paper ("Discovery Consultation"), December 2022, available at https://treasury.gov.au/consultation/c2022-314397. *See* ICI Global comment letter responding to the Discovery Consultation, dated 16 February 2023, available at https://www.ici.org/system/files/2023-02/34966a.pdf.

consistent with our responses to the ISSB's July 2022 consultation and the Treasury's Discovery Consultation, **we do not support**:[4]

- Requiring Scope 3 greenhouse gas (GHG) emissions disclosure at this time, except in limited circumstances;

- Requiring asset managers to include managed assets in any mandatory entity-level Scope 3 reporting, nor requiring disclosure of Scopes 1, 2, and 3 GHG emissions attributed to assets under management in any sector-specific requirements.

To ensure the consistency, comparability, and reliability of disclosure, we recommend the Treasury and the Australian Accounting Standards Board (AASB) take into account three key considerations when developing the reporting standards for Australia's climate-related financial disclosure framework:

Significant data challenges in Scope 3 GHG emissions. Given the significant data gaps and the absence of agreed-upon methodologies for all 15 categories of Scope 3 emissions, we recommend against mandatory Scope 3 emissions disclosure at this time. The limited circumstance in which we would support mandatory Scope 3 reporting is in the case of a 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.

Exclusion of Managed Assets from GHG emissions disclosure. We recommend carefully calibrating the reporting standards for asset managers as reporting entities under the climate-related financial disclosure framework. To better address the intended purpose, i.e., facilitate understanding of enterprise-level risks and opportunities of the asset manager as a reporting entity, any mandatory GHG reporting (Scopes 1, 2, and 3) should exclude assets managed on behalf of clients.

Alignment with Future Global Sustainability Assurance Framework. Given that the Treasury intends to incorporate the ISSB standards in its climate-related financial disclosure framework as far as possible, we caution against moving forward with the proposed timeline to reasonable assurance at this time. The Treasury should repropose its phased approach to reasonable assurance once the International Auditing and Assurance Standards Board (IAASB) has finalized its assurance standards.

I. Limit Mandatory Scope 3 GHG Emissions Disclosure to Certain Circumstances

The Treasury should not require Scope 3 GHG emissions disclosure at this time, given the significant data gaps and the absence of agreed-upon measurement methodologies, except for companies who have publicly announced a target or goal to reduce Scope 3 emissions.

[4] *See id.* ICI Global comment letter responding to the Discovery Consultation. *See Also* 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 29 July 2022, available at https://www.ici.org/system/files/2022-07/22-icig-cl-issb.pdf.

As discussed in our response to the Discovery Consultation, ICI Global recommends the Treasury not require mandatory disclosure of Scope 3 GHG emissions at this time,[5] except in certain limited circumstances. We recognize the Treasury intends to provide a temporary one-year exemption from reporting Scope 3 emissions. However, significant data gaps and the absence of agreed-upon measurement methodologies present unique challenges that cannot be easily resolved over a short transition relief period.

As the Treasury noted in the Consultation Paper, the disclosure of Scope 3 GHG emissions involves a number of challenges, including limited accessible information, and the lack of internal capability to undertake highly sophisticated Scope 3 estimation. These deficiencies seriously undermine the ability of most companies to report consistent, comparable, and reliable data.

The Treasury should acknowledge these shortcomings, and limit mandating disclosure of Scope 3 emissions to companies that have publicly announced a target or goal to reduce their Scope 3 emissions. This approach could assist investors in tracking a company's progress toward reaching its particular target or goal, and, at the same time, encourage companies to carefully calibrate any such targets or goals. Looking ahead, the Treasury should also continue to explore ways to address the above-mentioned challenges over time, including whether Scope 3 emissions disclosures should focus on categories of emissions that are material to the company, rather than across all 15 categories under the Greenhouse Gas Protocol (GHG Protocol).

II. Exclude Managed Assets from GHG Emissions Disclosure

With respect to the case in which an asset manager is a reporting entity, the Treasury should exclude assets managed on behalf of clients from any GHG emissions disclosure requirements.

Where an asset manager is subject to the climate-related financial disclosure framework in Australia, it will be reporting to facilitate understanding of enterprise-level risks and opportunities of the asset manager as a reporting entity. Disclosure standards should be calibrated to accurately focus on this purpose. We therefore strongly recommend the Treasury exclude GHG emissions attributable to assets managed on behalf of clients, such as regulated funds, in any mandatory GHG emissions reporting (Scopes 1, 2, and 3) by asset managers.

As it relates to Scope 3, in particular, this approach would also be consistent with the 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."[6]

[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.

[6] 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.

III. Align with Future Global Sustainability Assurance Framework

The Treasury should require limited assurance for Scopes 1 and 2 GHG emissions data, and reconsider the timeline for transitioning from limited to reasonable assurance once the IAASB assurance standards are completed. The Treasury should also ensure the independence and transparency of third-party assurance providers.

ICI Global supports the Treasury's proposal to align its climate disclosure assurance standards over time with the global sustainability assurance standards being developed by the IAASB. Third-party assurance will eventually provide investors with confidence that companies' disclosures comply with the sustainability reporting standards and that the metrics disclosed are not materially misstated. A globally consistent assurance framework for sustainability information would support the consistency, comparability, and reliability of sustainability-related information provided to the market. It would thereby allow investors and other stakeholders to place greater reliance on a company's disclosure, thus, increasing the utility of the information provided. Should Australia move forward with a disclosure framework based on the ISSB reporting standards, utilizing the IAASB assurance standards will enable assurance on sustainability reporting to be prepared in accordance with the ISSB standards.

We support subjecting Scope 1 and Scope 2 GHG emissions disclosures to limited assurance. We believe that limited assurance will be sufficient to ensure the reliability and accuracy of the data by requiring that a company maintain appropriate processes for collecting and communicating the necessary information by which to formulate the climate-related disclosures.

At this time, it is premature to consider an appropriate timeline for transitioning from limited to reasonable assurance. The IAASB's assurance standards are in an early stage of development and have not yet been released for public consultation.[7] To facilitate alignment with the IAASB's sustainability assurance standards over time, we encourage the Treasury to repropose its phased approach to reasonable assurance once the IAASB assurance standards have been finalized.

We support the proposed independence requirement for third-party assurance providers. It is particularly important to ensure that the provider cannot concurrently consult or advise on emissions reduction strategies and provide assurance on the company's emissions. We recommend the Treasury require companies to provide disclosure about the assurance provider and their qualifications, including: (i) any licensing or accreditation standards; (ii) any record-keeping obligations and their duration; and (iii) whether the assurance provider is subject to any oversight inspection program and, if so, which program. The information describing the assurance provider's qualifications would enable investors to evaluate each provider, and the proposed independence and expertise requirements would ensure that the assurance provider is free from conflicts and sufficiently qualified to perform the engagement.

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[7] "The IAASB is hoping to have the proposed new sustainability assurance standards ready for public comment during the second half of 2023." Balancing Urgency and Effectiveness in International Sustainability Assurance Standards, statement of IAASB Chair Tom Seidenstein, dated 8 June 2022, available at https://www.iaasb.org/news-events/2022-06/balancing-urgency-and-effectiveness-international-sustainability-assurance-standards.

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 at matthew.mohlenkamp@ici.org.

Sincerely,
/s/ Matthew Mohlenkamp

Matthew Mohlenkamp
Managing Director, Asia and Global Analytics
ICI Global