17 February 2023

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: climatereportingconsultation@treasury.gov.au

Dear Sir/ Madam

Subject: WTW submission: Climate-related financial disclosure

We are pleased to provide this submission to the Australian Government's consultation process on Climate-related financial disclosure (Consultation paper, dated December 2022).

WTW is a leading global advisory, broking and solutions company that helps clients turn risk into a path for growth. Globally, WTW has 45,000 employees in more than 140 countries. In Australia, we provide actuarial, communication, technology, superannuation and investment services to a broad range of institutions, including asset owners such as superannuation funds, insurers, public sector funds, not-for-profit entities and others.

We believe that sustainable investment is central to successful long-term outcomes for asset owners. In particular, we believe that climate change is a systemic and urgent global challenge that necessitates specific risk management, opportunity identification and collective action.

WTW is a member of the Investor Group on Climate Change (IGCC)[1]. IGCC has submitted a detailed response to the Treasury's consultation process, which we endorse and support. In our role as advisor to asset owners in Australia, we provide some additional general comments below, as well as comments on some of the questions outlined in the Consultation paper.

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[1] IGCC is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments

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General comments

WTW is supportive of the introduction of mandatory climate-related financial disclosure for asset owners in Australia, as it is an important aspect of how the investment industry can appropriately address climate-related risks and opportunities. It is also consistent with approaches being adopted in other regions. We understand that the International Sustainability Standards Board (ISSB) is developing a framework that builds on existing reporting frameworks (such as the Task Force on Climate-Related Financial Disclosures) and which is intended to be the global baseline for reporting on sustainability issues. We support the adoption of a mandatory reporting framework in Australia that aligns with these ISSB standards, given that they will be globally applicable and also because they will apply to a broader range of sustainability issues than just climate.

We believe that there is value to be gained by adopting an engaged approach to climate-related financial reporting, but we also believe that this requires a significant investment of time and resources, which may include the use of third parties, in order to ensure that these benefits are realised. If a minimum cost / compliance-style approach to reporting is adopted, then there is a significant risk that it will act merely as an added regulatory burden, which would be a poor outcome for all stakeholders.

We therefore believe that an over-arching ambition for the climate-related financial disclosure framework should be to encourage and enable reporting entities to obtain a significant net benefit from compliance.

Comments on specific questions

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

- We support the use of a phased approach to the introduction to climate-related financial disclosure, with the 2024/25 financial year a practical first reporting period.

Question 3: To which entities should mandatory climate disclosures apply initially?
Question 3.1: What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?

- Large asset owners such as superannuation funds invest broadly across the entire economy. Given that climate change represents a systemic risk, we believe that it is important that mandatory disclosure requirements apply to entities operating across the entire economy.
- As such, and in line with IGCC's submission, we support the application of mandatory reporting being applied to large asset owners (such as superannuation funds and insurers) and asset managers.
- We also support the introduction of a size threshold for asset owners and asset managers, as size acts as a proxy for governance, which in our view is the most significant determinant of effective engagement on the issue of climate change. It will also help to ensure that smaller entities are not disproportionately impacted by incurring costs of compliance that are high relative to their assets under management or revenue.
- We note that IGCC has proposed a size threshold (in terms of assets under management) for asset owners of at least $5 billion. We support this size threshold in the initial phase of reporting but suggest that consideration be given to reducing it after the phase-in period.

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

- We believe that there is merit in having a common baseline (or set) of metrics, to facilitate comparisons across entities.
- In line with guidance from the Climate Financial Risk Forum[1], we believe that there is merit in adopting a number of metrics, that consider both the impact of the reporting entity on climate change, as well as the impact of climate change on the reporting entity. We therefore recommend the adoption of a "dashboard" or balanced scorecard approach that uses a number of different metrics.
- In particular, recognising the weaknesses of backward looking and lagged measures such as carbon intensity, we believe that the baseline metrics should include forward-looking measures that cover the extent of alignment with the Paris Agreement, as well as exposure to financial (transition) risk.
- We suggest alignment with recognised standards and frameworks that have large-scale adoption and industry support. In addition to the metrics suggested above, we would highlight the EU Technical Expert Group, the Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI) as three sources for metrics.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

- As noted previously, we believe that the production of ISSB-aligned reporting requires a significant investment of time and resources, if the reporting is to be done in a meaningful and engaged way that supports better decision making.
- In terms of the application of mandatory reporting for asset owners, we note the experience of UK pension funds (where mandatory TCFD reporting was introduced for large schemes in 2021), which suggests that most pension funds are not yet using such reporting to inform their investment strategies[2].
- This does support the use of a phased approach to the introduction of mandatory reporting, with suitable size thresholds so that it initially only applies to the larger asset owners.
- Based on our experience with Australian and overseas asset owners, specific data challenges that we have observed are:
  - Availability of and access to the relevant data for unlisted assets (e.g. real estate, infrastructure) and for strategies that provide lower levels of transparency (e.g. hedge funds);
  - Consistency of underlying methodology (e.g. emissions measurement approach) across counterparties and data providers;
  - Geolocation data for the underlying operating assets of corporates to support physical risk analysis;
  - Duplication of data requests (often in different formats) to the same outsourced providers from different asset owners.

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[1] See https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2021-data-metrics.pdf

[2] See https://www.pensionsforpurpose.com/knowledge-centre/thought-leadership/2023/02/01/One-year-on-TCFD-reporting-for-pension-funds-Pensions-for-Purpose/

We would be pleased to discuss this submission with you, or to provide any further information required.

Yours sincerely

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