

21 July 2023

Mr James Kelly
Climate Disclosure Unit
Market Conduct and Digital Division
Treasury
Langton Cres
Parkes ACT 2600

Via email: climatereportingconsultation@treasury.gov.au

Dear James,

Re: Climate-related financial disclosure: Second consultation

The Council of Australian Life Insurers (CALI) is the trusted voice of life insurance in Australia. We support Australians to make informed choices about their future and help them live in a healthy, confident and secure way over their lifetime.

Our mission is to ensure Australians view life insurance and the industry as accessible, understandable and trusted. We do this by supporting our members to deliver the protection and certainty Australians need on their best and worst days. This includes advocating for national policy settings that expand their access to the life insurance protection that suits them when they need it most.

Thank you for the opportunity to provide a submission on the Climate-related financial disclosure: Second consultation.

Australia's life insurance industry supports strong action on climate change. We are very supportive of the Government's emissions reduction commitments of 43 per cent by 2030 and net zero by 2050.

Overall, CALI supports the proposals in this consultation and the end goal of organisations reporting their climate-related strategy, risks and emissions data. To enhance the overall effectiveness of the framework, we believe some elements would benefit from further consideration and amendment, including:

- reporting at consolidated group level rather than individual organisation level;
- the phasing of the framework being based on the NGER emissions metrics with a focus on large emitters rather than financial metrics;
- a clearer understanding of who the end user of the reports will be to ensure appropriate data is provided; and

- the creation of a public climate-related financial disclosure regime for companies that don't have public financial reporting obligations.

CALI has also provided observations in relation to the assurance and penalty proposals Treasury may wish to consider further.

Thank you for the opportunity to contribute to this consultation. CALI would welcome the opportunity to discuss the recommendations we have made in our submission below. If you would like any further information or to organise a follow up meeting, please contact Benjamin Marshan at ben.marshan@cali.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Christine Cupitt', followed by a long horizontal line extending to the right.

Christine Cupitt
Chief Executive Officer

COUNCIL OF AUSTRALIAN LIFE INSURERS

SUBMISSION IN RESPONSE TO TREASURY CONSULTATION PAPER ON CLIMATE-RELATED FINANCIAL DISCLOSURE: SECOND CONSULTATION

BACKGROUND

The Council of Australia Life Insurers (**CALI**) and the life insurance industry support strong action on climate change. CALI supports the Government's emissions reduction commitments of 43% by 2030 and net zero by 2050. CALI also supports in principle the proposed reforms on Climate-related financial disclosure.

We welcome the opportunity for consultation on the design and implementation of standardised, internationally aligned, requirements for disclosure of climate-related financial risks, and specifically whether the coverage, content, framework and liability are workable.

CALI recognises climate change is one of the most pressing issues facing Australia, presenting a wide-ranging risk to all sectors, including the global financial system. We also recognise the importance of transparency and accountability for large businesses and financial institutions and support the approach towards an internationally aligned disclosure framework. We particularly note the importance of this in relation to large institutions and businesses who are directly impacted by climate events, climate-related risks, the transition to a low carbon economy, or who are involved in climate-challenged industries.

For this reason, CALI supports an appropriate transition to a fit for purpose climate-related financial disclosure framework in Australia. The focus of our response recommends a risk-based approach to determining the nature of that transition and implementation of the reforms. CALI has also provided comment on specific consultation areas outlined below.

REPORTING ENTITIES

Overall, CALI supports the goal of widespread reporting of emissions, climate-related financial risks and opportunities by companies. We also support and agree that the proposed risks and metrics data will offer a clear, transparent and comparable framework for users of the reported data.

We note the Government's position on including entities based on their size as an indicator of proportional risk, as well as the Government's decision to discount materiality of climate risks to determine reporting thresholds in favour of quantitative thresholds. However, one of the key reform principles of the disclosure regime is "proportional to risk". This includes addressing the costs reporting entities will incur, data or capability the entities will require and liability. Where the threshold for reporting is based on size alone, rather than the materiality of climate risk exposure, the regime risks compromising this reform principle.

Financial size alone is an unsophisticated metric and therefore may diminish the effectiveness of this framework and its admirable goals. While some organisations may be financially large, they may have less intensive climate-related financial risks and emission profiles. Therefore, the proposed reporting obligations will create a greater compliance burden on financial organisations, such as life insurers in Australia, who are “financially large” but with much lower emissions impacts to the environment and lower exposure to climate-related risks than smaller, high-emitting organisations or than other insurance industries.

CALI also notes, where entities are owned by foreign parent entities, climate and emissions strategy may be driven at global group level, not at the Australian company level. Reporting emissions and the financial information proposed has the potential to distort the picture at the local (Australian) level to ignore global emissions of group and at an extreme, risks being conceived as greenwashing. For example the Australian level emissions may be higher or lower than at the global organisation level based on the global strategy even when the Australian company is working towards the global strategy. Given the intent of this framework is to align local reporting with international reporting obligations, alignment of reporting to the group level will reduce the compliance burden on the Australian entity and therefore provide efficiency gains in the Australian economy.

CALI recommends that the reporting framework should be consolidated into a global organisation level reporting obligation.

PHASED APPROACH

CALI notes that NGER reporting entities will be prepared for reporting commencement because they have already aligned their data collection and reporting processes, and will therefore be able to easily assist Treasury, ASIC and the AASB iron out reporting issues before the obligations roll out to the broader economy.

As such, entities with emissions below a certain threshold would benefit from more time to phase in the requirements, given the reduced risk of those entities contribution to Australia’s emission profile and the reform principle of proportional risk. Further, the disclosure obligations need to account for the companies climate risk assessment and scenario analysis and the impact these risks have on the companies strategy (including investments in other companies) and risk management. Understanding the impacts of NGER reporting entities will have a large bearing on the ability of low emitting companies to accurately report.

Treasury has assumed that Group 1 entities already have reporting capability in place due to the financial size of the organisation. This is likely the case where the Group 1 entities are already captured under other mandatory schemes, including NGER Reporting, as mentioned above. However, not all large financial entities have the same scale and materiality of exposure to climate-related risks and, in the life insurance industry, have such limited Scope 1 and Scope 2 emissions profile so have not had any exposure to previous mandatory reporting obligations.

Due to this limited emissions profile, Group 1 entities in financial services, while definitionally “financially large” may be comparatively small in terms of climate reporting resources within the

organisation to date. Moreover, these resources may be scarce and costly to obtain in the period leading up to reporting commencement.

Further, given that there are still many details of the Framework that are not finalised, there has been no consultation on the specifics of the Australian Standards to date, and the ISSB has only released the final IFRS S1 Standards at the end of June, CALI is concerned that the lack of capacity internally for many organisations captured in the current financial thresholds for Group 1, will be further compounded by a lack of capacity in external support and assurance providers to fulfil demand on this timeframe. This again challenges the principle of proportional risk regarding costs an entity will incur. There are challenges with receiving consulting advice on implementing effective climate risk assessments and scenario analysis from a consultancy/assurance provided that is also the financial auditor of a business. As such, additional implementation time should be considered for organisations that are in-scope for the disclosure scheme but which are not currently exposed to any form of mandatory reporting.

CALI recommends the phasing of reporting criteria should be aligned to NGER reporting thresholds in the first instance, rather than the proposed financial metrics.

For instance, Group 1 (and potentially Group 2 and 3) could be split into two timelines:

- 2024/25 reporting for financial threshold Group 1 entities who have previously reported under NGERS
- 2025/26 reporting for financial threshold Group 1 entities who have not previously reported under NGERS

CALI would also welcome clarification from Treasury about how entities with non-June year-end (for example, organisations that report on a calendar year basis) will fall into the reporting time frames proposed by Treasury. For example, if a Group 1 organisation is on a calendar year reporting schedule, would their first 2024/25 report be required in January 2025 (on January to December 2024) or in January 2026 (for January to December 2025)?

CONTENT

CALI notes the reporting standards are to be developed over the coming year by the AASB. We look forward to contributing to the consultation on these standards.

However, it is important to consider and build reporting obligations based on who the proposed end users of the report will be. CALI would welcome clarity around the proposed end user, as the proposed end user referenced in the consultation paper is quite broad. The reform principles note that the user of the report could be regulators (to assess and manage systemic risk and risks to investors), investors, businesses (otherwise undefined) and the public.

CALI recommends that Treasury clearly define the intended audience of the report.

CALI seeks further clarity in relation to the following principles of disclosure to help reporting entities understand what is in and out of scope for reporting.

In relation to quantitative scenario analysis, we note that quantitative scenario analysis by end state can give a false sense of security that there is comfort with the scenarios. Where there is volatility in the nature of the scenario analysis being tested and therefore its ultimate impact, this can run the risk of turning into green washing. CALI therefore believes clarity on how the disclosure framework accommodates the scenario uncertainties (including what criteria can be used to determine when an 'end-state' is reached) should be provided as the standards are developed and consulted on.

In relation to Scope 3 emissions reporting, CALI supports the observation Treasury has made regarding the feasibility of assuring scope 3 emissions. To add to this, it is still unclear and more clarity is required to understand the approach an organisation should undertake to determine the categories of emissions to be included in this reporting. This may assist in determining whether there may or may not be reporting issues or uncertainty. Further, in some categories, there is concern as to whether there is sufficient data/methodologies available at this point, and it is possible estimates would need to be used given the lack of developed methodologies. For this reason, we support phasing in this requirement as methodologies are developed, but question whether further phasing may be required at this point. While we welcome the inclusion of a proposed 3 year relief period, this could be arbitrary if the required methodologies have not been developed during this time frame.

As noted above, many life insurers are part of global conglomerates or have international parent companies with subsidiaries in a number of international jurisdictions. Often parent organisations are both setting and reporting strategy at a global level. If local standards differ from global standards or the jurisdiction in which the parent reports, this creates risk in reporting locally being misaligned from the actual strategy, risks or emissions for the global impact of the group. For this reason, there should be an alignment between global and local reporting where it exists. As an example, some life insurers in Australia are as little as 0.5% of global business, so limiting reporting to the Australian business can lead to missing 99.5% of global impact.

Finally, CALI supports the Governments commitment to Australian standards being based on the ISSB IFRS S2 standards and therefore being a principled based reporting framework developed for the Australian market.

REPORTING FRAMEWORK

While publicly listed companies have clear reporting obligations for their financial reports, CALI notes that private organisations do not have these same obligations but will be required to publicly comply with the climate-related financial disclosure framework. Given the success of the framework will depend on consistent reporting and the ability to obtain information (and compare strategies and results) about other companies, consideration should be given to creating a central lodgement and repository for all reporting.

CALI recommends for both reporting consistency, consistency for the end user of the data, and for regulatory oversight, all reporting for private organisations captured in the reporting thresholds should be done via ASIC and made available by ASIC.

ASSURANCE

As noted above, CALI has a concern with capacity in the assurance space in relation to climate-related financial disclosures. At present there are very few “reasonable assurance” providers in Australia. As we highlighted above, while phasing is welcome, there are many organisations that will be required to report, and therefore undertake independent assurance. Reasonable assurance as proposed is a big step up in this reporting space and we note a lot of management and data controls will be required to be implemented in a short time to allow appropriate reporting to be completed. Consideration should therefore be given to the timing of each phase being required to achieve reasonable assurance (including for scope 3 emissions) to ensure assurance standards have been developed and sufficient capacity is available.

LIABILITY AND ENFORCEMENT

CALI welcomes the approach proposed in this consultation to liability and enforcement, however we note that the proposed penalty regime has not yet been revealed at this point. We would also encourage the regime to be developed with safeguards which ensure prospective improvements in data and reporting over time and should not lead to retrospective penalties for organisations which were complying with current obligations, data standards and reporting requirements.