

### **CLIMATE-RELATED FINANCIAL DISCLOSURE CONSULTATION**

### **HESTA submission – February 2024**

HESTA welcomes the opportunity to make a submission to Treasury on the <u>Climate-related financial disclosure: exposure draft legislation</u>, which seeks views on the Exposure Draft legislation and accompanying explanatory materials. HESTA previously made submissions to Treasury's <u>first</u> and <u>second</u> consultations on climate-related financial disclosure.

This submission reflects our perspective as an investor in Australian equities, who seeks to analyse climate-related data disclosed by Australian companies as part of its investment decision-making process. We believe that climate-related disclosure should support the transition of the Australian economy to net zero emissions and help facilitate efficient allocation of the required investment.

HESTA supports the introduction of a mandatory, internationally-aligned framework for disclosure of climate-related financial information. HESTA was an early advocate for, and adopter of, climate disclosure frameworks. Climate disclosures are an important tool for investors, supporting delivery of strong, long-term financial outcomes for members by providing transparent and consistent information to enable assessment and management of climate-related risks and opportunities across the investment portfolio. Furthermore, climate-related disclosure by companies allows investors to better assess and communicate climate risk within portfolios to members and other stakeholders. HESTA supports the extension of the climate disclosure framework to other areas of sustainability risk over time, where these areas are material to companies' financial performance and/or broader economic outcomes that impact our members' financial wellbeing.

HESTA is largely supportive of the Exposure Draft legislation and accompanying explanatory materials. In particular, we agree that:

 Mandatory climate-related financial disclosures will provide greater transparency and more comparable information about an entity's exposure to climate-related financial risks and opportunities and climate-related plans and strategies to investors.

- A rigorous, internationally-aligned and credible climate disclosure regime will support Australia's reputation as an attractive destination for international capital and help draw the investment required for the transition to net zero emissions.
- Inclusion of scope 3 emissions as a mandated disclosure requirement is required to comprehensively analyse the quantum of the systemic impact of emissions from material sectors.
- Inclusion of a 1.5°C aligned pathway as a minimum within all scenario analysis disclosure supports alignment with Australia's commitment to the goals of the Paris Agreement.

Additional feedback and recommendations in relation to other sections set out in the Policy Position Statement and application of the Exposure Draft legislation is provided below.

#### Ensuring global comparability of Australian climate-related disclosures

HESTA is supportive of the Government endorsing the adoption of the ISSB's IFRS S2 Climate-related Disclosures standard in Australia. However, the Government should ensure any modifications to the ISSB standard do not compromise Australia's ability to draw domestic and international investment required for the transition to net zero. International comparability for investors with global portfolios will support capital allocation alignment with the Government's net zero target. Modifications should be limited to those essential for Australian applicability and should be additive to the ISSB standards.

# <u>Supporting the extension of the climate disclosure framework to other areas of sustainability risk over time</u>

HESTA notes that the Government supports adoption of ISSB's IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, where required to give effect to climate disclosure standards.

The Policy Position Statement references a rigorous, internationally-aligned and credible climate disclosure regime that will support Australia's reputation as an attractive destination for international capital and help draw the investment required for the transition to net zero. Limiting the adoption of ISSB's IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information to only climate-related disclosures could be in contradiction to the Policy Position Statement. This is because meaningful transition to net zero intersects with other sustainability issues beyond climate, including but not limited to nature and biodiversity loss, gender equity, decent

work, and human rights more broadly. As a large and diversified asset owner HESTA recognises these factors can present a material financial risk to businesses, shareholders, and the global economy and therefore seeks to mitigate these risks in line with members' best financial interests. Holistic disclosure would enable Government, investors and other stakeholders to support an equitable transition that avoids unintended consequences on Australia's natural and human capital.

HESTA encourages the Government to support the extension of the climate disclosure framework to other areas of sustainability risk over time, where these areas are material to companies' financial performance and/or broader economic outcomes through the adoption of ISSB's IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information beyond climate-related disclosures.

# <u>Inclusion of taxonomy-aligned climate-related opportunity disclosure as an industry-based metric</u>

Introducing climate-related opportunity disclosure would assist the reporting regime to support Australia's reputation as an attractive destination for international capital and help draw the investment required for the transition to net zero. HESTA believes that climate-related opportunity disclosure aligned with the Australian sustainable finance taxonomy (currently under development) should be included in industry-based metrics in accordance with pre-defined guidelines and frameworks.

HESTA encourages the Government to support climate-related opportunity disclosure aligned with agreed taxonomies as an appropriate industry-based metric to align mandatory disclosure to domestic climate objectives. This would provide investors the confidence of being able to consistently assess climate-related opportunities and align capital investment toward achievement of the Government's commitment to net zero. Furthermore, establishment of an Australian sustainable finance taxonomy aligned disclosure requirement would enable recommendations for climate-related disclosures to remain futureproof.