Investor Group on Climate Change

11 April 2024

Submission: Inquiry into Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 [Provisions].

The Investor Group on Climate Change (IGCC) welcomes the opportunity to provide feedback to the Senate Economics Legislation Committee on the *Treasury Laws Amendment Bill 2024* (henceforth, the Bill). We would welcome the opportunity to present to the Committee.

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. Our members manage more than $35 trillion in assets under management (AUM), with beneficiaries including more than 14 million Australians and New Zealanders. Members include our countries' largest superannuation and retail funds, specialist investors and advisory groups.

Investors use climate-related disclosures to inform decision making on a daily basis. As major markets move to mandate climate-related financial disclosures, these new requirements will help Australia remain a competitive destination for investment capital. These reforms are a natural evolution of Australia's strong corporate governance framework to promote efficient and resilient markets.

Mandating high quality, useful and internationally aligned climate-related disclosures can:

- Enable superannuation funds and investment managers to prudently manage the climate-related risks and opportunities affecting the retirement savings of Australians,
- Support efficient investment in companies and projects aligned with net zero emissions,
- Help Australian companies stay attractive in global capital markets,
- Help investors, regulators, and other stakeholders form a comprehensive, reliable understanding of the economy's overall climate risks and opportunities,
- Avoid market fragmentation and reduce the reporting burden for companies that need to disclose into multiple jurisdictions, and,
- Help protect against greenwashing.

Overall comments

IGCC welcomes the introduction of the Bill as a significant milestone towards internationally aligned climate-related financial risk disclosure requirements in Australia. IAccess to consistent and comparable disclosures will enhance investors' financial analysis, risk assessment, stewardship, and due diligence. The inclusion of corporate scope 3 emissions data is a critical element for assessing material risk and opportunity across the value chain.

Physical damages and financial risks

IGCC would like to emphasise the importance of managing the physical risks to assets of climate impacts, and how climate related financial disclosures can play a key role in mitigating such risk and build national resilience. The inaugural National Climate Risk Assessment identified 56 nationally significant climate risks, including a cross-cutting systemic risk to the real economy from acute and chronic climate change impacts, climate-related financial system shocks and volatility.[1]

Institutional investors invest in assets across the entire economy. It is important that companies have a good understanding of what physical risks they are exposed to and how best to prepare against them depending on various future states of warming. Climate-related financial disclosures are a tool that investors can use to better understand the risks their investee companies are exposed to, providing them avenues to engage in stewardship activities that will assist companies in addressing these risks and build resilience.

Assessing the largest systemic risks from climate change should not be optional. The latest scenarios by a group of 127 central banks and financial supervisors estimate that even if warming is limited to 1.5˚C, the costs of physical climate impacts to the global economy are (conservatively) five times higher than the cost of reducing emissions[2] and around double the cost of other global events like COVID-19. Under current policies, economic costs of climate change are more than 10 times the cost of achieving 1.5˚C emissions pathway.

IGCC recommends that the Government commits to expand provisions for the use of scenario analysis to include a "current policies" (3˚C or higher) scenario to assess physical climate risks[3]

This would provide clarity to companies that a 3˚C or more scenario should form part a company's approach to assessing its exposure and resilience to material physical risks. It does not limit a company's discretion to apply other scenarios relevant to its business activities, and is consistent with the intention that they take an approach proportionate and relevant to their circumstances.

Conclusions

IGCC recognises that the move towards internationally aligned standards will not be easy – it is a once-in-a-generation change to corporate reporting, which will require significant investment and upskilling across the Australian market. It will also take time, as organisations mature their disclosure practices.

Overall, IGCC considers that the Bill strikes a sensible and pragmatic balance. It is critical to business certainty and continued Australian competitiveness for the Bill to be passed in a timely manner. We urge passage without undue delay.

IGCC looks forward to working with the Australian Government, national standard setters and other stakeholders to support the implementation of high quality, useful and internationally aligned climate-related disclosures.

For more information on this submission, please contact Bethany Richards, Junior Policy Manager at IGCC ([redacted]).

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[1] National Climate Risk Assessment, 2024: https://www.acs.gov.au/pages/national-climate-risk-assessment
[2] Explore the NGFS scenarios here: https://www.ngfs.net/ngfs-scenarios-portal/explore/ ; see further IMF, December 2023: https://www.imf.org/en/Blogs/Articles/2023/12/05/benefits-of-accelerating-the-climate-transition-outweigh-the-costs
[3] Current global policies in place would result in around 3ºC global warming by 2100.