The Hon Josh Frydenberg MP
Australian Parliament House
Parliament Dr
Canberra ACT 2600
via email

Philip Lowe, Governor
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001
via email

6 October 2021

Aligning with international markets and disclosure requirements in line with the Task Force for Climate-Related Financial Disclosure (TCFD) framework

Dear Treasurer Frydenberg and Governor Lowe,

We are writing ahead of the 4th Finance Ministers and Central Banks Governors Meeting on 12-13 October to propose the Australian Government take steps to promote its objectives of supporting financial stability and achieving net zero emissions. Specifically, we urge the Australian Government to join global efforts to implement internationally consistent mandatory TCFD-aligned disclosure requirements to avoid market fragmentation and help unlock global capital investment in zero emissions opportunities.

We welcome your recent comments on how climate change risks and opportunities are now being factored into global capital markets. As organisations collectively representing over two-thirds of Australia's investment industry and over AU$100 trillion in assets under management (AUM) globally, we engage with these issues daily and we support a comprehensive suite of measures to address these climate-related priorities.

As six of the founding members of the Investor Agenda, our organisations recently issued the 2021 Global Investor Statement to Governments. This is the strongest ever call by global investors for governments to raise their climate ambition and implement meaningful policies to support investment in climate change solutions. To date, around 40 per cent of global assets under management, 587 institutional investors with US$46 trillion AUM, have called on all governments to undertake five priority actions[i] in 2021.

Among these, the call to implement requirements for globally consistent, comparable and decision-useful public disclosures by firms of their climate-related financial risks is a critical priority for investors, and the primary focus of this letter.

Climate-related disclosures are impacting on investment decisions

A combination of climate risk management and emerging investment opportunities means global capital markets are rapidly mainstreaming Paris-aligned, net zero emissions investment. Countries that are not matching comparable global ambition, nor seeking to mitigate the climate risk in their economy with clear policy signals and action, will become less competitive in attracting international investment.

Across our organisations our members report that intensifying trends across climate policy and financial markets are driving the institutional investor response to climate risk disclosure frameworks in Australia:

- **Voluntary disclosure frameworks have promoted increased climate-related risk disclosures.** However, investors report that voluntary approaches are insufficient in delivering the transparency, consistency and comparability of disclosures that are required for informed and efficient asset allocation. This lack of visibility is already impacting investment decisions in Australia, such as investors seeking shorter pay-back on large scale capital decisions and the exclusion of Australian companies and infrastructure assets from portfolios due to a lack of credible disclosures. The quality issues in current climate risk reporting practices over time could present issues for regulators to fully acquit their financial stability mandates.
- **Australian firms are also being confronted with higher expectations for climate-related disclosure from investors, customers and authorities in key export markets to provide the necessary transparency in line with the TCFD framework.** This extends across entire global supply chains. For example, when international lithium suppliers seek to access the EU market they are being required to address their climate risk disclosure standards. If there is less transparency of climate risks in Australia, these suppliers will seek materials from markets that have clearer visibility of climate risks. Consequently, this may undermine the Australian government's objective of supporting low emissions technologies as detailed in its Technology Investment Roadmap.
- **The gap between what investors need on climate risk disclosures and the visibility of climate risks in the Australian market is expected to grow as other jurisdictions implement mandatory climate risk frameworks.** G7 Finance Ministers and Central Bank Governors have stated their support for mandatory TCFD reporting requirements. Governments and financial regulators are already moving to consider and implement mandatory TCFD-aligned requirements including in Brazil, the European Union, Japan, Hong Kong, New Zealand, Singapore, Switzerland, the United Kingdom and the United States.
- **Companies and investors are unnecessarily expending significant resources on climate-related risk disclosures due to lack of clarity.** There is a significant advantage to more precise guidance on climate-related disclosures in Australia. The purpose of climate-related disclosures is to improve market functioning. Currently, companies and investor directors and trustees are spending excessive resources going back and forth trying to reach best practice in companies' disclosure. Mandatory standards and expectations will ultimately cut red tape and lower the reporting burden, along with litigation and regulatory compliance risk, by removing uncertainty and offering necessary guidance on practice.
- **Strong industry support for moving to a mandatory climate-related risk regime in Australia.** In Australia, investor groups representing the majority of Australian and global AUM released a Plan supporting the implementation of mandatory TCFD in Australia, which built on the Australian Sustainable Finance Roadmap recommendations. In a recent consultation in the United States, three out of every four responses to the Securities and Exchange Commission's statement on climate disclosures supported mandatory climate disclosure rules.

Building on Australia's strong foundations – a natural evolution

Australia has thrived by embracing export markets and international capital to deliver economic growth and prosperity. The Australian Government and regulators have welcomed the TCFD recommendations and encouraged stakeholders to carefully consider them.

Australia has an enviable legal framework and track record for corporate governance and public disclosures. This provides a solid foundation for integrating new requirements and standards to ensure Australian firms produce decision-useful disclosures on climate-related risk and opportunity, which are consistent across regions to promote efficient global capital decisions, avoid market fragmentation, and support strong governance and market discipline.

Australian financial regulators have undertaken positive steps to build awareness of climate risks in Australia. However, investors observe a growing gap between the disclosure needs of investors in Australia and emerging global best practice. Unless addressed this gap will continue to grow, creating greater sovereign and investment risks and impact on investors' ability to support delivering net zero emissions.

Phasing in TCFD-aligned disclosure requirements in Australia

Investors with trillions of dollars in assets are seeking to manage risk and impacts and invest in low and zero carbon investments solutions in globally competitive markets. This is informed by climate-related risk disclosures. Without an international approach and commitments from nations to integrate and build on international baseline standards in domestic legal frameworks, we risk market fragmentation that could impede the flow of global capital. Australia will benefit from proactively considering its approach to integrating new disclosure standards and any additional requirements and guidance into existing legal frameworks, rather than taking a wait and see approach.

Integrating requirements for TCFD-aligned disclosures would be a natural evolution of Australia's existing legal framework, considering market developments and industry expectations. A public commitment to implementing climate risk disclosure requirements will send an important market signal to prepare companies and financial institutions. We urge the Australian Government to phase in an internationally consistent mandatory TCFD economy-wide framework by 2024 (starting earlier for listed companies and large financial institutions) as part of its policy response to address climate risk and mobilise sustainable finance. This should be accompanied by a commitment, ahead of COP26, to implement TCFD-aligned requirements and pathways to do so.

We would be pleased to meet with you or your office at any time to discuss the contents of this letter and other relevant matters. Please have your office contact Erwin Jackson, Director, Policy at IGCC at erwin.jackson@igcc.org.au or 0411 358 939 if you would like to arrange.

Sincerely,

Rebecca Mikula-Wright

CEO, Investor Group on Climate Change and Asia Investor Group on Climate Change

Paul Simpson

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[i] The five priority actions for governments under the 2021 Global Investor Statement are:

1. Strengthen their Nationally Determined Contributions for 2030 before COP26, to align with limiting warming to 1.5 degrees Celsius and ensuring a planned transition to net-zero emissions by 2050 or sooner.
2. Commit to a domestic mid-century, net-zero emissions target and outline a pathway with ambitious interim targets including clear decarbonization roadmaps for each carbon-intensive sector.
3. Implement domestic policies to deliver these targets, incentivize private investments in zero-emissions solutions and ensure ambitious pre-2030 action through: robust carbon pricing, the removal of fossil fuel subsidies by set deadlines, the phase out of thermal coal-based electricity generation by set deadlines in line with credible 1.5 degrees Celsius temperature pathways, the avoidance of new carbon-intensive infrastructure (e.g. no new coal power plants) and the development of just transition plans for affected workers and communities.
4. Ensure COVID-19 economic recovery plans support the transition to net-zero emissions and enhance resilience. This includes facilitating investment in zero- emissions energy and transport infrastructure, avoiding public investment in new carbon-intensive infrastructure and requiring carbon-intensive companies that receive government support to enact climate change transition plans consistent with the Paris Agreement.
5. Commit to implementing mandatory climate risk disclosure requirements aligned with the TCFD recommendations, ensuring comprehensive disclosures that are consistent, comparable, and decision-useful.