SUBMISSION

Submission to APRA — Draft *Prudential Practice Guide CPG 229 Climate Change Financial Risks*

31 July 2021

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General Manager, Policy Development
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Via email: PolicyDevelopment@apra.gov.au

31 July 2021

Dear Sir/Madam

Draft *Prudential Practice Guide on Climate Change Financial Risks CPG 229*

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the draft *Prudential Practice Guide on Climate Change Financial Risks CPG 229*.

About ASFA

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $3 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing almost 90 per cent of the 16.5 million Australians with superannuation.

If you have any queries or comments in relation to the content of our submission, please contact [redacted] Senior Policy Advisor, on [redacted] or by emai [redacted].

Yours sincerely

[redacted]

[redacted]
Director - Policy Operations, Member Engagement & External Relations

Specific comments

Overall, ASFA is pleased to see APRA providing its first formal guidance dedicated entirely to climate change risks. There are some concerns, however, about the level of guidance provided in CPG 229. It would be useful for the industry to have additional detail in order to ensure there is clarity about APRA's expectations.

Global regulation, climate change & APRA

Internationally, there has been much progress in how climate related financial risk is considered and measured. Of relevance is the Financial Stability Board's (FSB) recent release of a roadmap to address climate-related financial risks. The roadmap was prepared in consultation with standard-setting bodies and other international bodies. To help ensure consistency between Australian practices and international practices, ASFA recommends CPG 229 align with the FSB's roadmap as much as possible.

Mandatory framework-aligned disclosure on climate change risk

While CPG 229 notes that the framework established by the FSB's Task Force on Climate-related Financial Disclosures (TCFD) is a 'sound basis for producing information that is useful for an institution's stakeholders', it does not make clear exactly what APRA's expectations are in relation to entities' disclosure of climate change risks and whether these expectations are aligned (or not) with a particular disclosure framework (e.g. TCFD). Additionally, climate change risk disclosure is not mandatory.

ASIC also strongly encourages listed companies with material exposure to climate change to consider reporting voluntarily under the TCFD framework but does not make it mandatory.

RSE licensees are responsible for holding and investing the assets of superannuation members to secure and maximise their retirement savings. Part of that responsibility includes understanding risks, including climate change risk, associated with particular investments and managing that risk. Although RSE licensees must understand and manage climate change risk in order to protect the long-term value of superannuation fund members' retirement savings, this task is made more difficult if there are inconsistencies and gaps in what businesses disclose in relation to climate change risk. These inconsistencies are due, in part, to the lack of mandatory framework for climate change risk disclosure.

ASFA also notes that APRA's February 2020 letter to all APRA-regulated entities in relation to understanding and managing the financial risks of climate change stated that there was a 'need to address the climate change data deficit' that needs to be tackled through, amongst other things, 'disclosure of market-useful information'.

If TCFD is the disclosure framework that regulators identify as having the most value in relation to understanding climate change risk, it would be worthwhile considering making the transition to a mandatory TCFD-aligned disclosure framework for Australian businesses. Having mandatory reporting expectations that are consistent with international practice will help create administrative and compliance efficiencies both for organisations that need to disclose climate change risks, but also organisations that use these disclosures to make decisions (such as RSE licensees).

Governance and RSE licensees

Although CPG 229 makes mention of prudential standards CPS 220, SPS 220, CPS 510 and SPS 510, no mention is made of SPS 530 Investment Governance. While ASFA understands that APRA will be consulting on proposed changes to SPS 530 and SPG 530, SPS 530 is a cornerstone for RSE licensees' when making investment decisions, as well as managing and monitoring these investments on an ongoing basis. Climate change risk can be a consideration during the investment decision making process.

The *Superannuation Industry (Supervision) Act 1993* (SIS Act) also requires RSE licensees to have regard to risks involved in making, holding and realising, and the likely return from, the investments covered by its investment strategy.

As such, both APRA's proposed changes to SPS and SPG 530, as well as CPG 229, should have regard to what investment governance measures RSE licensees should have in place to manage climate financial risks as identified by APRA. Ideally, CPG 229 should align with and compliment SPS and SPG 530.

CPG 229 and relevant prudential standards

Although CPG 229 makes reference to risk management prudential standards (CPS 220, SPS 220), there is no direct link to these prudential standards in CPG 229. ASFA recommends APRA specifies how CPG 229 should interact with relevant prudential standards such as CPS 220, SPS 220, SPS 530 and SPS 520.

Climate change scenario analysis

CPG 229 notes that monitoring climate risks can include modelling the impact of climate scenarios on project returns and/or quantifying the impact of adaptation measures. This is intended to help APRA-regulated institutions understand current and future impacts of climate risks on customers, counterparties and organisations that an institution has exposure to.

There are, however, no specific metrics that should/could be used in an organisation's scenario analysis mentioned in CPG 229. There is also no mention of the types/number of assumptions and methodologies that should/could be used for scenario analysis and whether these need to be disclosed and/or documented in some way. ASFA recommends CPG 229 further clarify APRA's expectations in relation to scenario analysis, as providing specific metrics would help the industry undertake consistent scenario analysis.

APRA's supervision of climate change financial risks

CPG 229 does not make clear how APRA intends to supervise APRA-regulated entities' approach to climate change financial risks. Although the stated intention of CPG 229 is to 'outline prudent practices in relation to climate change financial risk management', it would beneficial to understand particular points APRA will be focusing its supervisory practices on in relation to climate change financial risks.