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Submitted by email

General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
PolicyDevelopment@apra.gov.au

Re: Bloomberg feedback to Draft "Prudential Practice Guide CPG 229 Climate Change Financial Risks"

30 July 2021

Dear Sir/Madam,

Bloomberg appreciates the opportunity to provide feedback to the Australian Prudential Regulation Authority's (APRA) draft "Prudential Practice Guide CPG 229 Climate Change Financial Risks" (CPG 229). Bloomberg also welcomes the APRA's continued leadership in the wider sustainable finance agenda – from the climate change survey in 2018, to the information paper in 2019 and letter to all APRA regulated entities in 2020 on the financial risks of climate change. CPG 229 is a timely next step to progress from generating awareness to a call for action in the financial industry and address the strategic business challenges from climate change.

Please find below our comments to CPG 229. We have also separately attached an Annex for APRA consumption only to complement our response.

In the meantime, if there is any way in which I or Bloomberg can be of assistance going forward, please do not hesitate to get in touch.

Yours sincerely,

[redacted]
Head of APAC Government and Regulatory Affairs
Bloomberg LP

Attached:
Annex 1 – Climate-related analysis on the Bloomberg Terminal

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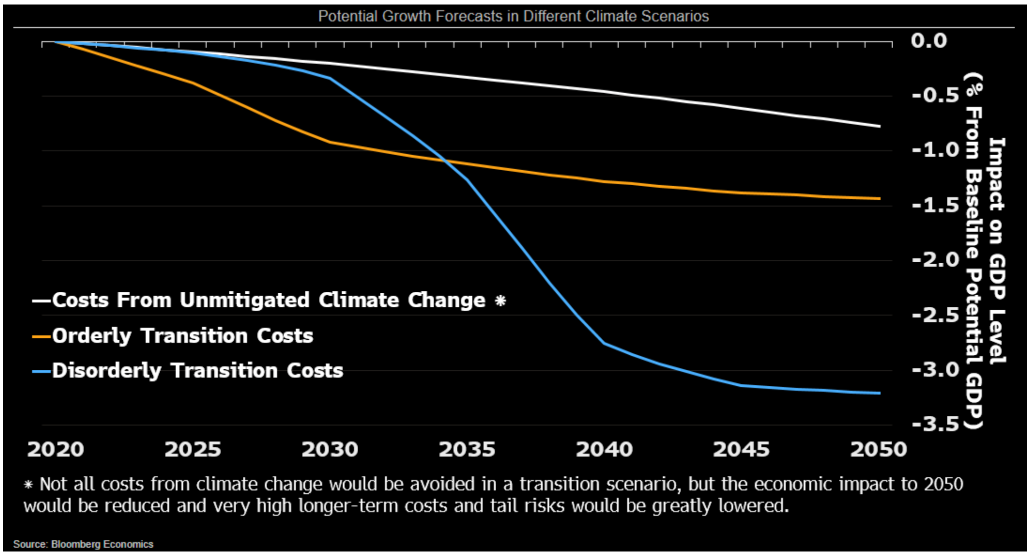
Bloomberg is at the forefront of promoting and implementing a sustainable financial system globally, working with investors, cities, policymakers, regulators, and international institutions to drive the sustainable finance agenda. Bloomberg is a member of multiple sustainable finance expert groups, including in the European Union (EU), Hong Kong, Singapore, and the United Kingdom (UK).[1] At the international level, Bloomberg chairs and provides the Secretariat for the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We would be very happy to provide any additional information on any of the points raised in this letter.

I. General comments

Bloomberg welcomes the APRA's publication of CPG 229; this marks an important step in further cementing the central role that climate-related risk management plays in financial markets as the risks of climate change continue to grow and reach all sectors of the economy. Australia's economy may be increasingly vulnerable to the impact of climate change as the region's variable rainfall and drought continue to intensify and disrupt its economy. BI (Bloomberg Intelligence) Economics estimates that a disorderly transition to carbon neutrality by 2040 could shave an average of 0.2 ppt off Australia's annual GDP growth compared with an orderly transition. Moreover, Australian wildfires over the past two years have contributed to an estimated loss of 0.2-0.3 ppt off annual GDP, with broader, non-fire risks – which include disruption to economic activity and reduced consumer sentiment – presenting a loss of up to 1.6 ppt.



As financiers, banks especially have a fundamental role to play to ensure an orderly transition and help reach net-zero targets. Their role as green capital mobilisers should be encouraged as they allocate capital into different sustainable lending activities. Australian banks should also take precautionary steps when it comes to climate-related financial risks, given the growing impacts of these risks to properties and assets.

It is crucial for banks and other APRA-regulated institutions to have an appropriate risk management and governance framework in place, as well as effective disclosure practices, to recognise the various risks and opportunities arising from climate change. We recognise many firms are at the infancy of their climate risk journey, but more must be done to meet the pace and urgency of the climate crisis and forge a more resilient world economy. Bloomberg would therefore recommend CPG 229 to be placed on mandatory footing to ensure that APRA-regulated institutions are embedding approaches to

[1] Bloomberg is a member of the: EU Platform on Sustainable Finance; UK Green Technical Advisory Group (GTAG); Hong Kong's Centre for Green and Sustainable Finance, launched by the Green and Sustainable Finance Cross-Agency Steering Group; Hong Kong Securities and Futures Commission (SFC) Climate Change Technical Expert Group (TEG); and the Green Finance Industry Taskforce (GFIT), convened by the Monetary Authority of Singapore (MAS).

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managing climate-related financial risk throughout their organisations as fully as possible. These approaches should be proportionate to the nature, scale, and complexity of the business, and take into account whether it operates in a carbon-intensive industry.

To ensure a level playing field is reached across financial market participants, and that APRA-regulated institutions have the data needed to properly assess climate-related risks and opportunities, Bloomberg encourages the APRA to work with other regulators and Government to set similar obligations to other financial market participants, such as corporates and asset managers. The lack of regulation with respect to climate-related reporting for corporates, for example, creates significant data quality and availability issues for the end-investment community reliant on reported data to quantify the impact of their investments, further inhibiting financial flows to activities that address the climate change crisis.

Ultimately, setting a nation-wide strategic direction for climate risk management would improve the level of availability of consistent and comparable climate-related data across all economic sectors in the market. While data challenge is a concern globally and as strategies evolve to help develop data repositories, it is also important to have analytics capability to help with the risk identification process so that stakeholders can use to assess climate-related risk and prepare TCFD-style financial disclosures. Over time this would help ensure that all financial actors are adequately integrating climate into their wider risk management and governance practices.

Importance of setting mandatory reporting requirements

As highlighted above, Bloomberg welcomes the APRA's publication of CPG 229, and we believe the recommendations of the internationally-recognised Task Force on Climate-related Financial Disclosures (TCFD) should serve as a foundation for the APRA's work in this area. In this regard, we welcome the APRA's recommendation for banks, insurance companies, and superannuation trustees to incorporate the TCFD framework into their reporting. We also support initiatives by the G20, G7, the Financial Stability Board, and others to develop a baseline of global sustainability reporting standards that would build on the work of the TCFD.

Through widespread adoption of the TCFD Recommendations, climate-related risks and opportunities will become a natural part of companies' risk management and strategic planning processes. As this occurs, firms' and investors' understanding of the implications associated with climate change will grow, information will become more useful for decision making, and risks and opportunities will be more accurately priced, allowing for the more efficient allocation of capital and contributing to a more orderly transition to a sustainable economy.

Because of the many benefits of consistent climate-related disclosure, we would strongly urge the APRA to set mandatory reporting requirements. As a key financial services regulator, the APRA is in a unique position to support regulated entities in their endeavours to incorporate climate-related risk into their broader risk management and decision-making processes. Bloomberg believes the most efficient way to do this is by setting reporting requirements through policy and/or regulation. The climate elements of such requirements should subsequently be based on the TCFD framework. If there is a concern with the preparedness of firms to implement reporting requirements, Bloomberg would suggest a timetabled approach with priority based on the size of the reporting firm, and whether it operates in a more carbon intensive industry. Ultimately, if the scope and reporting standards are prescriptive, well-designed, and clear, then climate-related reporting should eventually become streamlined into a firm's risk management and decision-making processes.

Furthermore, Bloomberg would highlight that key jurisdictions globally have moved beyond voluntary and are setting mandatory TCFD-aligned disclosures, some of which include Hong Kong, New Zealand, Switzerland, and the UK. The European Commission has also published its Corporate Sustainability Reporting Directive (CSRD) to set mandatory sustainability reporting standards for all listed companies on an EU-regulated market (except 'micro' firms) and all large EU undertakings, including third country firms; these standards will build on the TCFD framework. The United States' Securities and Exchanges Commission (SEC) also recently held a public consultation on mandatory climate-related disclosure requirements. To ensure consistency with international developments and reduce fragmentation in reporting requirements, it is crucial for the APRA – along with Government and other Australian financial

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services regulators – to incorporate climate risk into their supervisory and regulatory frameworks and set mandatory disclosure rules, accompanied by sufficient, detailed guidance for firms.

Lastly, it is important to note that a number of Australian regulated entities will be subject to the extraterritorial scope of ESG regulation in other jurisdictions, such as the EU's Taxonomy Regulation, Sustainable Finance Disclosure Regulation (SFDR), and recent CSRD proposal. It is therefore key that Australian financial services regulators like the APRA take into account and seek to converge to the extent possible with the wider ESG regulatory agenda to avoid the complexity of multiple reporting regimes and aid regulated entities meet their other compliance obligations.

Prescriptive requirements for firms

Bloomberg believes that CPG 229 would benefit from containing more detailed disclosure requirements to help APRA-regulated entities understand how to effectively manage climate risks relevant to their business. APRA should consider the Task Force's four overarching recommendations and 11 supporting recommended disclosures, as well as its guidance for financial industries in developing disclosure requirements that provide end-users with higher quality and more granular information. If in-scope entities only have to disclose at the four-pillar level (Governance, Strategy, Risk Management, Metrics and Targets) there is a risk that disclosures would vary significantly across entities and lack the level of specificity needed to effectively compare firms' climate risks and opportunities.

On top of TCFD disclosure, it is important for the APRA to establish mandatory disclosures of ESG indicators applicable to financial market participants to improve the quality of quantitative and science-based ESG data. As an example of this we would refer to some elements of SFDR, in particular, the principal adverse impact (PAI) disclosure regime and detailed set of PAI indicators.

It is also very important that disclosures are digital, contain machine-readable information that is common and comparable, in addition to binary or metrics-based answers. This will improve the quantity and value of quantitative information which is key in assessing companies' considerations of climate risks. The location of disclosures should be consistent across entities, and be part of existing, mainstream financial filings (such as annual reports) to ensure the information has gone through a rigorous review process.

Thank you again for the opportunity to provide comments. In the meantime, if there is any way in which Bloomberg can be of assistance going forward, please do not hesitate to get in touch.