General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

30 July 2021

Email: PolicyDevelopment@apra.gov.au

Consultation on draft Prudential Practice Guide on Climate Change Financial Risks

Cbus welcomes the opportunity to comment on the *draft Prudential Practice Guide CPG 229 Climate Change Financial Risks (CPG 229)* in relation to guidance to assist managing climate-related risks and opportunities.

About Cbus

Cbus has the proud history of being one of Australia's first industry super funds. Cbus was formed in 1984, when building and construction workers won the right to superannuation. Today, we have grown into a leading industry super fund, open to all while maintaining a focus on the industries that build Australia. We work hard to make sure that the super system is delivering for our members. Our members include workers and retirees, their families and employers.

Cbus, with more than 779,000 members, is one of the best performing funds, with investment performance for our Growth (Cbus MySuper) option of 9.25% per annum since inception in 1984 to 30 June 2021. The Growth (Cbus MySuper) option has returned 19.34% for one year to June 30, 2021 the highest returns in the fund's 37 year history. Average annual returns for the Growth (Cbus MySuper) option over 5 years was 9.81% per annum, 7 years was 9.21% per annum and 10 years was 9.55% per annum (to 30 June 2021). Funds under management total $65.6 billion as at June 30 2021.

Background to submission

Cbus believes that climate change presents long-term investment risk and opportunities and is one of the most pressing issues of our time. The global economy faces major disruption and for many of our current members, the effects of climate change will be increasing when they are starting to retire. Following the Paris Agreement, the Cbus Board outlined their views on climate change which set the course for action by Management.

The aim is to enhance long-term value creation and minimise risk. Cbus has committed to net zero emissions by 2050 and a 45% reduction in absolute emissions by 2030. We have been reporting against the Taskforce on Climate-related financial disclosures (TCFD) since it was first released in 2017. Consistent with the sole purpose test, and members' best financial interests, our approach aims to protect and enhance the long-term value of the portfolio. Ultimately, we want to generate sustainable returns for our members so they can retire with dignity.

We welcome the CPG 229 which provides further clarity that will help Cbus, and other institutions, continue to evolve and deepen our response to climate change. Whilst our view is that the draft guidance is sound, our aim in responding is to provide further practical insights. These are drawn from on our own experience of navigating this complex challenge.

To support institutions meeting expectations under CPG 229, Cbus would encourage APRA to continue collaborating with other Australian regulators and the global *Networking for the Greening of the Financial Systems (NGFS)* initiative. The ability of financial institutions to successfully transition to net zero emissions requires tools and guidance from these types of initiatives, it also requires the broader economy (listed entities, private companies and fund managers) to undertake similar actions outlined in CPG 229 and report in alignment with the TCFD.

A key challenge remains, however, for super funds to meet expectations under CPG 229 with other regulatory obligations. The performance benchmarking requirements under *Your Future, Your Super* requires funds to meet backward looking, climate-unaware performance test over a fixed period which can be misaligned with a forward-looking investment strategy that takes account of climate risk over a different time horizon. Cbus would welcome the opportunity to understand the expectations of APRA on this matter. Cbus is a high performing fund over the long term and supports relevant performance benchmarking of all products in the system.

Overall, we commend APRA on this draft CPG 229 and look forward to the release of the final guidance.

Yours sincerely

[redacted]
Chief Executive Officer

1. Governance

Cbus supports the draft CPG 229 approach to governance with the strong focus on oversight at the board level and clarity between roles and responsibilities with senior management.

Cbus approach

The Paris Agreement catalysed global action on climate change. In 2016, Cbus implemented a governance framework on climate change that included our first Climate Change Position Statement (https://www.cbussuper.com.au/content/dam/cbus/files/governance/policies/Climate-Change-Position-Statement.pdf) approved by the Cbus Board. Our Position Statement guides Cbus to apply resources and effort to understand the future risks and opportunities climate change poses for investing Cbus members' monies. Following that, a Climate Change Roadmap (https://www.cbussuper.com.au/content/dam/cbus/files/governance/reporting/Climate-Change-Roadmap.pdf) was developed which identifies the key actions for Cbus over short- and longer-term timeframes. This includes both long term and interim targets for the portfolio. This is a living strategy that continues to evolve in response to policy and global initiatives in order to protect and enhance our members' retirement savings.

The Board, through our Investment Committee, are regularly informed and educated on topics of climate related matters. This is both through regular reporting on progress on the Climate Change Roadmap, investment team updates and strategic investment committee information and education sessions on climate change.

Cbus also reports qualitative information on climate change, to reflect the importance of this matter, within its audited Annual Financial Statements - https://www.cbussuper.com.au/content/dam/cbus/files/governance/reporting/Cbus-Annual-Financial-Statements-June-2020.pdf

Further enhancements

- APRA should encourage institutions to set science-based targets that align with achieving the Paris Agreement. This could be captured under paragraph 16(d) with an additional sentence:
    - 'taking both a short-and long-term view (which may be beyond the institution's regular business planning horizon) when assessing the impact of climate risks and opportunities. *This would include setting science-based Paris aligned long term and interim targets relevant to their institution'*

  The IPCC Special Report 2018 clearly articulated the need to meet a 45% absolute emissions reduction by 2030 and net zero emissions by 2050 if the global economy has any hope of achieving the Paris Agreement. Following this, many countries, Australian States[1], businesses and investors are setting climate reduction targets.[2] Setting targets provides an anchor point to guide institutions towards net zero emissions and help focus on the desired goal, measure the effectiveness of actions and to ensure accountability for the commitments.

2. Risk Management

[1] Each Australian state and territory government has made either aspirational or legislated commitments toward zero GHG emissions by 2050; Victoria has legislated a net zero GHG emissions by 2050 with interim targets by 2025 and 2030; ACT has legislated a net zero GHG target by 2045 with interim targets.

[2] 59 countries, representing 54% of global GHG emissions; more than 20% of the world's largest corporates, worth sales of more than $14trn, have now committed to net-zero targets, $43 trillion of asset managers; $6.6 trillion of asset owners.

Cbus supports the draft CPG 229 approach to risk management that is integrated to the overall risk management framework of the institution.

Cbus approach

Cbus considers the impacts of climate change a key risk to achieving its investment objectives. At an enterprise level, environmental, social and governance (ESG) risk is captured as a material risk with a defined Risk Appetite Statement as part of the overall Risk Management Framework. The risk of failing to appropriately factor climate change into the investment decision-making process may result in a negative impact on an investment's long-term viability, sustainability or performance.

Climate change is a sub-risk of the ESG material risk with a number of key risk indicators and controls that support identification, assessment and monitoring. Reporting occurs primarily through formal internal investment risk meetings and the Cbus Board, Risk and Investment Committees.

Further enhancements

Cbus has no additional suggestions for enhancements of this section.

3. Scenario analysis

Cbus supports the draft CPG 229 approach to scenario analysis and the detailed approach outlined in this section of the guidance.

Cbus approach

Scenario analysis is a complex undertaking and in its infancy. Cbus has explored various scenarios:

- As input into the annual strategy review process for strategic asset allocation (SAA)
- To test portfolio level target assumptions of 45% reduction in absolute emissions by 2030 and net zero emissions by 2050.

The annual strategy review explicitly incorporated the impact of transition risks into the macroeconomic assumptions underpinning our expected returns. This was based on the NGFS reference scenario SSP2 (disorderly scenario), which resulted in an estimation of the forecast GDP impact from transition risks by 2050. This assumption led to us applying a p.a. detraction to growth related asset classes in the long term.

Cbus has undertaken detailed scenario analysis work to determine the feasibility and implications of the portfolio transitioning to net zero emissions by 2050 and, the target of 45% absolute emissions reduction by 2030 in accordance with the current science[3]. The outcomes continue to inform ongoing work under the Climate Change Roadmap.

A range of below 2 degree and 1.5 degree Paris aligned scenarios were used to perform the analysis. Results show the importance of using different scenarios given variations from multiple 1.5 degree scenarios.

Further enhancements

- Cbus would encourage APRA, under paragraph 40(b), to clarify that a Paris aligned 1.5 degree scenario *must* or *should* be used. Given the acknowledgement by APRA on a number of occasions

[3] IPCC Special Report 2018 https://www.ipcc.ch/sr15/

of this important issue[4], we would expect APRA to be guided by the science and require that institutions include a 1.5 degree scenario.

- If an institution identifies climate as a material risk, it should be included in the financial statements. Suggest wording can be enhanced in paragraph 44:
    - 'Where material, the results would be communicated to senior management, *incorporated into the financial statements*, and used to inform business planning and strategy setting…'

  This could also be included under the governance section for a prudent board (paragraph 16).
- Whilst outside of this guidance, Cbus would encourage APRA to continue its strong commitment and support of the development of relevant scenarios for financial institutions. Given the complexity of this area and variety of outcomes from the Cbus work on scenarios analysis, it is critical that appropriate tools are developed to support implementation of CGS 229 for APRA regulated entities.

4. Disclosure

Cbus supports the draft CPG 229 approach to disclosure and support alignment with the Taskforce on Climate-related Financial Disclosures (TCFD).

Cbus approach

Cbus has been reporting under the TCFD since inception and uses the Integrated Reporting <IR> Framework for its annual reporting https://www.cbussuper.com.au/about-us/annual-report and Responsible Investment Supplement https://www.cbussuper.com.au/content/dam/cbus/files/governance/reporting/Responsible-Investment-Supplement-2020.pdf. Certain contents of these reports undergo independent assurance. For the forthcoming FY21 Responsible Investment Supplement this will include independent assurance of climate change related disclosures.

Cbus also requests its fund managers and encourages companies in which we invest to use the TCFD for climate-related reporting.

Further enhancements

- Cbus would support mandatory TCFD disclosure for institutions bringing Australia into alignment with other global jurisdictions. Disclosure of climate related financial information underpins a successful transition to a net zero economy. The TCFD was created to ensure this information was provided in a clear and relevant manner for financial institutions. Financial institutions require disclosures to both communicate to their relevant stakeholders and also drive the necessary change across other market participants.
- The section could also be enhanced by including wording on independent assurance. As climate reporting increases over time, there is likely to be increased scrutiny by stakeholders on quality and credibility of information being disclosed. This would also enhance governance and risk management for institutions and reduce 'greenwashing'. The section could include additional wording in paragraph 49:
    - 'APRA considers that a prudent institution would continually look to evolve its own disclosure practices, and to regularly review disclosures for comprehensiveness, relevance and clarity, to ensure it is well prepared to respond to evolving expectations in relation to climate-related disclosures. *This could include formal approaches to reviewing disclosures,*

[4] https://www.apra.gov.au/apra%E2%80%99s-response-to-climate-related-financial-risks

such as assurance.'

- APRA could consider remuneration as a reporting matter for institutions to disclose. This would align to similar international requirements, such as the increased transparency required by the European Sustainable Finance Disclosures Regulation for financial market participants.[5]
    - This could include understanding:
        - if remuneration includes climate-related components and,
        - the extent to which the remuneration is consistent with climate related risks and objectives set by the institution

[5] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32019R2088