JANA

DEPTH WITH DIFFERENCE

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Sent to: PolicyDevelopment@apra.gov.au

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

To whom it may concern,

CONSULTATION ON DRAFT PRUDENTIAL PRACTICE GUIDE ON CLIMATE CHANGE FINANCIAL RISKS

JANA Investment Advisers was established in 1987 and today is one of Australia's leading and largest investment advisory and research firms with over 30 years of experience, ~110 staff and $850bn in funds under advice.

JANA advises a wide range of clients covering superannuation funds, universities, foundations, endowments, charitable trusts, insurers, corporate clients, long service leave funds and family offices.

The majority of our assets under advice is associated with APRA regulated entities, and our response is based from an asset owner/investor viewpoint.

JANA applauds the release of a draft Prudential Practice Guide (PPG) on Climate Change Financial Risk ("CPG229").

JANA has previously publicly outlined our view that climate change presents an emerging systemic financial risk that is likely to impact the risk and return of assets. We believe it is very unlikely that the financial implications of climate change will be efficiently priced by markets, and that the inevitable transition towards a less carbon intensive global economy will present intermediate term and longer-term financial risks and opportunities for asset owners.

Climate change has been an area that asset owners have increasingly sought regulatory guidance from JANA, and we believe that the current draft CPG229 removes doubt, and reinforces that Trustees and Directors need to adequately consider climate change financial risk as part of their risk management framework.

JANA will continue to work with our clients, as well as investment managers, on the continued integration of climate change financial risks into overall advice and reporting, and ensuring that evolving regulatory expectations are met.

JANA is supportive of APRA's guidance to asset owners on climate change financial risk – which in our view largely revolves around current industry best practice. Though we do wish to share some observations and insights which may be helpful in shaping the final version of CPG229.

We are happy to sit down with APRA to discuss any of this in further detail.

The following are some observations and comments we wish to share:

- Overall approach
    - Practically we would anticipate many asset owners would look to replicate everything outlined, despite there being clear guidance that en*tities will retain the flexibility to configure their approaches to climate risk management in a manner best suited to their particular risk profile and business model and not all of the guidance will be relevant to all entities.*
    - Hence one of the key questions we would seek guidance on is around how APRA expects asset owners to determine what approach is best suited to them. In our observations, the risks around climate change are quite different depending on the type of APRA-regulated institution – e.g. domestic bank largely exposed to Australia, and an investor with a global portfolio.
    - We would be happy to assist APRA is providing additional guidance as to what may be best practice and relevant for different cohorts of regulated entities.
- Governance & Risk Management Pillars
    - JANA is of the view that this removes any remaining doubt for asset owners that climate change is a key risk that requires board oversight.
    - The phrase 'should be managed within an institution's overall business strategy and risk appetite' does provide comfort that it should be integrated into existing (and potentially updated) frameworks rather than sitting separately.
    - Whilst this is positive and provides asset owners with flexibility, the challenge could be that there remains a high degree of variability as to how this risk is considered.
    - Hence the key point, in our view, for asset owners is that they will need to be able to 'evidence its ongoing oversight'.
    - There are three key conclusions in our view:
        1. Make sure climate change financial risks are appropriately integrated into processes and documentation via an appropriate risk management framework;
        2. Ensuring roles, responsibilities and accountabilities are clearly documented, and aligned to the organisations risk management framework, will be critical; and
        3. Be able to demonstrate and disclose adequate consideration of this risk, including interactions amongst all other risks.
    - The above is likely to further increase reporting and disclosure requirements across the investment value chain.
    - This will impact all levels of the investment value chain – companies, investment managers, advisors/consultants and investment teams – in order for the requisite information to be able to provided to trustees/directors and to give them comfort.
    - Understanding how to manage and synthesise more information will be something that needs to be worked through.

- Scenario Analysis Pillar
  - From a bottom up perspective the impact of climate change will differ across individual assets and companies, and regions, and therefore any analysis would be asset specific. Though for asset owners that are global investors, top down modelling is critical.
  - JANA fully supports the use of scenario analysis – as we use with our clients. Whilst CPG229 has provided guidance on the scenarios at the high level, it also notes that this is an emerging field. From our research it is clear that there is no standard view as to the impact of these scenarios on key economic metrics, let alone investment outcomes. Hence staying abreast of developments, from a modelling perspective, science perspective and policy perspective, will be critical over time.
  - Additionally, the current industry mixed approach to scenario analysis presents an apples and oranges issue. We do believe it would be far better, over time, if there were consistent scenarios and metrics used, which in turn could help the regulator understand which entities may be more or less exposed to certain scenarios.
  - <u>JANA is willing to work with APRA to understand whether the JANA macroeconomic scenario analysis could be utilised by APRA, to assist with achieving this like-for-like comparison.</u>
- Disclosure Pillar
  - Transparency and disclosure requirements will continue to increase – with APRA clearly stating that the lack of certainty around future impacts is not a reason to avoid disclosure.
  - In JANA's view, the above reinforces the trajectory of the current trend and industry best practice.
- Other topics to consider
  - A number of APRA-regulated entities, including many institutions that would typically be viewed as leaders in climate change risk management, have made a net zero commitment. It could be useful for APRA to provide clarity on its view of these commitments in the context of CPG229.

[redacted]
Head of Responsible Investment

[redacted]
Head of Sustainability

JANA contact details
Any question about this submission can be directed to:

[redacted]
Head of Responsible Investment
JANA Investment Advisors Pty Ltd
Level 9, 530 Collins Street
Melbourne
VIC 3000

[redacted]