



Australian Government



Australian  
**Small Business and  
Family Enterprise**  
Ombudsman

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Climate-related financial disclosure

The Treasury

Langton Crescent

Parkes ACT 2600

*via email:* [climatereportingconsultation@treasury.gov.au](mailto:climatereportingconsultation@treasury.gov.au)

Dear Sir/Madam,

### **Climate-related financial disclosure: Consultation paper**

The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) recognises that developing a standard and internationally consistent framework for climate-related financial disclosures will improve reporting by large businesses on the risks and opportunities of climate change, as well as on mitigation efforts. However, it is vital that the design and implementation of these disclosure requirements does not result in the unintended adverse consequence of imposing ‘flow-through’ obligations from reporting entities to small businesses. The same challenge has arisen with the *Modern Slavery Act 2018*, small businesses facing the risk of disproportionate and unfeasible expectations being placed on them by larger reporting entities.

- 1. The Australian Government should ensure that climate-related disclosure requirements on large businesses do not result in unnecessary, onerous, or impractical reporting burdens on small business customers or suppliers. Small businesses should only be required to provide information to reporting entities and regulators in instances where they cannot obtain it any other way; and these obligations should be ‘right-sized’ to reflect both the materiality of the small business to the climate-related financial risk, and its capacity to report.**

Many areas of public policy appreciate that a small business is not a ‘mini’ big business. Small and family businesses have many distinct characteristics, complexities, and challenges. For example, small businesses are often run by a single operator, who is responsible for many areas in the business including compliance, advertising, human resources, and running day-to-day operations. Small businesses are disproportionately burdened by regulation, lacking the resources of their larger counterparts to manage onerous, overlapping, or duplicative requirements.

It should also be borne in mind that while many small businesses remain optimistic and reporting a growth mindset, they are nonetheless:

- struggling to make rosters work and keep doors open owing to labour and skills shortages
- grappling with supply troubles that mean critical inputs, goods and services are not always available
- baffled about what to do about steep rises in energy costs
- on edge about cyber security fears
- adjusting to inflation which is higher than many running a business have ever experienced



- absorbing nine consecutive increases in interest rates and remaining alert to statements about further increases.

The presence of these factors reinforces the case for minimum effective intervention.

**2. The government should create simple, targeted and voluntary guidelines and supporting tools for small businesses to help promote understanding of their existing emissions intensity and exposure to climate-related risks, implementation of guidelines and practical action steps to improve performance, as well as communicate efforts to improve their sustainability.**

Assisting small and family businesses to evaluate, improve and communicate their environmental impact and sustainability performance will advance the interests of both small and large businesses. The provision of clear, proportionate, and consistent climate-risk guidelines and supporting tools for small businesses would help them objectively measure, pursue practical opportunities for improvement, robustly compare, credibly communicate and promote their environmental credentials to customers, including large companies who have their own sustainability reporting requirements to customers, shareholders and regulators. The Australian Government may wish to follow the European Union's example of a simplified set of voluntary reporting guidelines for small and medium-sized enterprises (Box 1). In the absence of right sized and relevant guidance and tools suitable for small business, we will continue to see a plethora of proprietary reporting models being promoted by service providers that do not readily support comparisons being made, the impact of interventions and the drawing out of policy insights.

**Box 1: The EU's voluntary corporate sustainability reporting standards for SMEs**

In 2021 the European Commission adopted the Corporate Sustainability Reporting Directive (CSRD) which expanded existing reporting requirements and brought in a set of simplified standards that small and medium enterprises (SMEs) can voluntarily report against.

The proposed simplified standards consist of:

- *'greenhouse gas emissions,*
- *energy intensity,*
- *information concerning activities and use of resources linked to heightened risks of impacts on climate, biodiversity and deforestation,*
- *clear guidance for reporting on climate transition plans and sustainable activities,*
- *human rights due diligence,*
- *and meaningful workforce indicators.'*

The creation of these voluntary standards was prompted by a finding of the Global Reporting Initiative that only 10% to 15% of EU companies using its standards are SMEs. The EU subsequently found that the provision of simplified standards helped many SMEs take their first step in reporting their climate impact.<sup>1</sup>

On 28 November 2022, the European Union Council approved the European Parliament legislative CSRD that mandates that small and medium enterprises (and non-complex credit institutions) will have to start reporting for financial year 2026.

<sup>1</sup> Global Reporting. (2014). Ready to Report? Introducing sustainability reporting for SMEs.



**3. Recognise strong environmental performance by small businesses through a system of micro-credentialling and rewarding pathfinders.**

We recommend that the government promote greater awareness and use of sustainability certifications, such as the Climate Active certification, among small businesses. Climate Active is an ongoing partnership between the Australian Government and Australian businesses to drive voluntary climate action. Sector-specific green certifications and green labels have been demonstrated to increase demand amongst consumers for environmentally friendly businesses.<sup>2</sup> These labels (for the retail industry) and certifications (for service providers and hospitality businesses) derive their value from the level of trust the consumer has in the certifying body – note ASIC has previously expressed concern over the role of greenwashing in environmental certifications.<sup>3</sup> However, the current certification mechanism is complicated, expensive, and relies on third party consultants – meaning it may not be easily accessible to small businesses. It is critical that these certifications are accessible and affordable for small businesses to improve the sector’s sustainability performance.

Improved performance could be further encouraged via recognition through awards, such as to small businesses that have demonstrated outstanding sustainability leadership. Recognising small businesses that act as ‘pathfinders’ for sustainable business practices will inspire and inform other small businesses and lift the overall performance of the sector (Box 2). While the government’s Climate Active program does certify businesses that have bought offsets for products, processes, or services, increasing the profile of these certifications and the impact purchasing from a certified business can do for the environment would greatly increase the return for small businesses who reduce and off-set their emissions.

**Box 2: Environmental certification of SMEs in Norway**

The ‘Eco-Lighthouse Program’ is an environmental certification scheme for SMEs in Norway. The program, supported by the Norwegian Ministry of the Environment, encourages companies to reduce their impact on the environment and promote their progress to consumers. The Eco-Lighthouse Office is responsible for marketing the program at the national level and raising consumer awareness of what relevant certifications mean. While audits and certifications are carried out by consultants and local government staff, the Eco-Lighthouse Office is responsible for training auditors and certifiers to ensure a nationally consistent approach.<sup>4</sup>

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact [redacted] on [redacted] or at [redacted]

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[redacted]

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<sup>2</sup> OECD. (2015). Environmental Policy Toolkit for Greening SMEs in the EU Eastern Partnership countries.  
<sup>3</sup> ASIC (Commissioner Cathie Armour). (2021). What is "greenwashing" and what are its potential threats? Available at <https://asic.gov.au/about-asic/news-centre/articles/what-is-greenwashing-and-what-are-its-potential-threats/>.  
<sup>4</sup> OECD. (2015). Environmental Policy Toolkit for Greening SMEs in the EU Eastern Partnership countries.