

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600
climatereportingconsultation@treasury.gov.au

Climate-related financial disclosure

The Climate Change Authority (the Authority) welcomes the opportunity to provide a submission on this very important reform proposal.

As the Authority has previously stated, Australia needs to lower emissions in all sectors of the economy as quickly as we can, to contribute to the global response to climate change and for our economy to be competitive as the world decarbonises. This includes addressing emissions by large industrial emitters. Progress to date has largely been concentrated in reducing emissions in electricity generation and through reducing land clearing.

The Authority welcomes announcements of emissions reduction and net zero targets by Australian entities. These announcements are an encouraging start and indicate that early thinking is being put into how to make the transition to net zero emissions. However, the Authority is of the view that these goals need to be backed up by detailed practical plans which show how these organisations propose to reach these goals. Specifically, investors should be informed of the investment decisions companies are making in new low- and zero-emitting production processes, when these new technologies will be implemented in production systems, and the quantity and type of offsets, if any, they are planning on using as part of their plans to address their emissions.

With the above observations in mind, the Authority offers the following comments on issues raised in the Climate-related Financial Disclosure consultation paper.

[REDACTED]

Yours sincerely

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Chief Executive Officer

24 February 2023

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Question 1: What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular:

- 1.1 What are the costs and benefits of meeting existing climate reporting expectations?
- 1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

Response

It is in Australia's interests to align with international practice on climate-related financial risk disclosure. As the world strives to meet the Paris Agreement goals, industries will need to navigate the transition to a decarbonised global economy. These transition pathways in some cases will require foreign capital. Alignment with international best practice on climate-related financial risk disclosure will be important for providing foreign investors with consistent information and greater confidence to support their decisions to invest in Australia.

Planning for these opportunities must be comprehensive to be most effective, however there is currently no universal framework or language for companies and industries to plan and implement roadmaps for a low carbon transition. The climate-related financial disclosure framework proposed by the Treasury, based on the common pillars of the Taskforce on Climate-related Financial Disclosures recommendations and the International Sustainability Standard Board draft standard, provides an opportunity for Australia to build a strong framework which facilitates these changes and enables transparency.

An Australian climate disclosure framework presents an opportunity to promote consistent and effective planning through removing barriers to information and facilitating accounting for climate risks.

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

- 2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

Response

A phased approach to implementing compulsory climate disclosure, covering larger entities first, is a sensible approach. A plan for the first reporting year of the Australian climate-disclosure framework to be 2024-25 is a practical step, however, it is noteworthy that these reports are not likely to be published until late 2025, only 5 years before the end of the 2030 target period.

The approach used to select entities to be included in subsequent cohorts should ensure that all listed companies who own or have a financial interest in a facility covered by the Safeguard Mechanism, including companies who own or have a controlling financial interest in fossil fuel-based electricity power stations, report under the climate disclosure framework.

In subsequent years this could be widened so that all listed companies which own or have a controlling financial interest in a facility which exceeds the emissions reporting threshold under

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the National Greenhouse and Energy Reporting (NGER) scheme also report under these arrangements.

The Government should also consider how entities that are not listed companies, but which trigger the Safeguard threshold and subsequently NGERs emissions threshold for reporting, can also be required to make climate disclosures. We welcome the Government's commitment that comparable Commonwealth entities will also disclose their exposure to climate-related risk.

Bringing all these entities into the climate reporting system will build on the information that is available on the emissions of these entities to inform investors and the community of the practical and specific emissions reduction plans of these entities.

The climate disclosure framework may result in multiple companies reporting emissions from the same facilities. This would not be a deficiency of the scheme. The purpose of the climate-risk disclosure framework is to inform investors and the community of the climate-risk exposure of Australian companies rather than to provide the basis for an inventory of Australia's industrial sector greenhouse gas emissions. The NGER scheme already fulfils this role.

Question 3: To which entities should mandatory climate disclosures apply initially?

- 3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?
- 3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

Response

In addition to large, listed entities and financial institutions, mandatory climate-related financial disclosures should be required of companies who own or control facilities reporting under the Safeguard mechanism and/or the NGER scheme, to ensure companies responsible for the majority of Australia's emissions are captured.

This should also ensure coverage of companies who are exporting goods from Australia with domestic supply chains that are emissions intensive. Australia's trade partners will be increasingly seeking to reduce their exposure to climate risks, including emissions intensive goods. Australia has an opportunity, now, to reposition our exports as premium low emissions products to shore up our trading position over the decades to come.

Many of these firms have announced plans or roadmaps to decarbonise and will have a requirement to decarbonise under the Safeguard mechanism. The extent to which these roadmaps represent practical plans for achieving real emissions reductions in line with the Paris Agreement goals is critical to the success of national and global emissions reduction efforts.

The Authority recommends that the climate disclosure framework as proposed by the Treasury requires the mandatory publication and transparency of practical plans showing how these firms plan to meet their compulsory and voluntary emissions reduction goals.

Such reporting requirements would bring several benefits.

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- 1) The reported information would send valuable signals to the market, for example about future demand for low emissions technologies and alternatives to high-emissions energy sources, and for carbon offsets.
- 2) It would also provide information and confidence in relation to expected outcomes under the Safeguard mechanism reforms, and enhance the credibility of the emissions reduction targets and plans announced by companies.

The Authority's submission is informed by an evaluation it has undertaken of the climate strategy and risk reporting by industry associations which collectively represent organisations that account for most of Australia's greenhouse gas emissions.

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

- 4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?
- 4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

Response

One purpose of the International Sustainability Standards Board (ISSB) is to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. To become a true global baseline, the standards must be developed and applied in a comprehensive way such that, as used across the world, they are comparable and applied consistently over time and between countries. In developing its system of standardised reporting requirements for climate-related financial disclosures Australia should contribute to the development of a global baseline by adopting the broad reporting pillars of the TCFD and ISSB which are becoming a global norm and are supported by the Government:

- Governance
- Strategy
- Risk management
- Targets and metrics.

This framework provides good coverage of topics to support transparency of the climate goals and risk exposure of the reporting entities. Using these criteria within the Australian framework will build consistency and comparability with reporting in other countries and may also be more efficient for firms which operate within as well as outside of Australia.

There are several frameworks which have developed around the world that are supporting entities report or develop strategies to transition, including:

- The Corporate Emissions Reduction Transparency (CERT) framework,
- the Leadership Group for Industry Transition (LeadIT) through its Roadmap planner,
- The Carbon Disclosure Project (CDP) through its climate transition plan discussion paper,
- the Science Based Targets initiative,

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- the Taskforce on Climate-related Financial Disclosures (TCFD) through its final recommendations report,
- the Assessing the Low-Carbon Transition (ACT) framework,
- the Climate Action 100+ Initiative's Net Zero Company Benchmark,
- the Transform to Net Zero initiative,
- the Climate Pledge, and
- the UN Race to Zero.

The proliferation of frameworks can create uncertainty for both reporting entities and investors. For example, many Australian companies have announced that they have ambitious emissions reduction and/or net zero targets but have not published a detailed plan of how they will meet these targets. This approach may be consistent with meeting one or more of the standards listed above, however, this level of disclosure is not adequate. The development of a single Australian approach to mandatory climate disclosure can address this issue.

These approaches vary in their treatment of various issues, for example under some frameworks reporting of scope 3 emissions is not required, while under others the use of offsets is not recognised as a legitimate option.

It is important to get these settings right for transition planning to prevent greenwashing. For example, there is a risk of ineffective climate action if industries can publicise they meet certain planning requirements if these requirements do not truly articulate effective plans to reduce emissions and transition to net zero.

Question 5: What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

Response

The ISSB standards are likely to provide an appropriate framework for the Australian climate disclosure system, however the Authority proposes that there be further work by Treasury and the Australian Accounting Standards Board (AASB) to ensure that the Australian system is comprehensive, fit for purpose in Australia, and sets a high standard and provides a basis for consistent and comparable reporting of climate disclosures.

The draft ISSB standard proposes requiring disclosure of information, including an entity's transition plans. As explained in the draft standard 'This includes information about how it plans to achieve any climate-related targets that it has set (this includes information about the use of carbon offsets); its plans and critical assumptions for legacy assets; and quantitative and qualitative information about the progress of plans previously disclosed by the entity.'

The Authority supports this requirement and proposes that the Australian framework requires that entities specify their practical plans, investments they are making, and technologies they are implementing to achieve their targets.

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Question 6: Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

Response

As outlined in the consultation paper, existing practice of Australian listed entities is to report climate risks through the directors' report or a separate sustainability report. As proposed in the consultation paper, any additional regulatory burden and costs of the standardised Australian climate reporting requirements should be minimised by aligning reporting requirements with existing practice. Having said this, in whichever document the new disclosures are made, it should be made clear to the public where the climate disclosure report can be found, and the disclosure report itself should be clearly identifiable.

Question 7: What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

Response

As used in the consultation paper, the term materiality refers to reporting entities assessing their own climate risks and disclosing those that they determine are material. This is consistent with the discussion of the issue provided in the ISSB IFRS S2 Climate-related Disclosures Exposure draft: *...the responsibility for making materiality judgements and determinations rests with the reporting entity for all requirements in IFRS Sustainability Disclosure Standards, including this Standard.*

The transparency, consistency and comparability of climate related disclosures that are made applying the Australian standardised reporting requirements will be greatly enhanced by the inclusion of mandatory reporting items.

The Authority recommends that there be mandatory reporting components of the Australian climate disclosure system, including but not limited to:

- A requirement for companies to publish a plan or roadmap for addressing climate change related risks and transitioning to net zero emissions. This document should include:
 - short term and long-term emissions reduction targets
 - specific plans and investments being made to meet those targets
 - reporting on the use of offsets and forecasts for the procurement and use of offsets
 - annual reporting of total scope 1, 2 and 3 emissions in absolute terms
 - assessment of climate risk exposure and associated risk mitigation plans and strategies

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Question 8: What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?

Response

The level of assurance required for climate-related disclosure should be consistent with the assurance requirements of entities' financial disclosure reporting. Setting a lower level of assurance for climate-related disclosures than other components is not consistent with the seriousness and urgency of addressing climate change issues.

A suitably qualified auditor should undertake auditing of disclosed information on an entities' greenhouse gas emissions. The Clean Energy Regulator (CER) maintains a register of auditors qualified to undertake greenhouse and energy audits for the purpose of reporting under the NGER scheme. Consideration should be given to requiring the climate-related disclosures audit team to include an auditor drawn from the CER's register. The register of emissions and energy auditors is available on the CER website:

<https://www.cleanenergyregulator.gov.au/Infohub/Audits/register-of-auditors>

Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

Response

The NGER scheme provides a suitable and well-established basis for the reporting of scope 1 and 2 emissions. Some of the entities that will be subject to the proposed standardised climate-related reporting requirements already report emissions for facilities under their operational control or for their corporate group under this scheme.

In its Paris Plus and Trade and Investment reports the Authority found that there is an emerging need for the reporting of scope 3 emissions. These reports found that as global supply chains decarbonise, consumers will value low carbon products. In this context, upstream, embedded emissions, and downstream emissions from product use should all be included in climate-related reporting as all are relevant to considerations of an industry's exposure to climate risks.

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Response

At the very least, the Authority recommends that there be mandatory reporting components of the Australian climate disclosure system, including but not limited to:

- A requirement for companies to publish a plan or roadmap for addressing climate change related risks and transitioning to net zero emissions. This document should include:
 - short term and long-term emissions reduction targets
 - specific plans and investments being made to meet those targets

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- reporting on the use of offsets and forecasts for the procurement and use of offsets
- annual reporting of total scope 1, 2 and 3 emissions in absolute terms
- assessment of climate risk exposure and associated risk mitigation plans and strategies

Question 11: What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

Response

This is a key concern for the Authority. Australia’s transition to net zero emissions will require actions by the owners and managers of large emitting facilities in Australia to reduce their emissions.

The Authority welcomes announcements of emissions reduction and net zero targets by Australian entities. These announcements are an encouraging start and indicate that early thinking is being put into how to make the transition to net zero emissions. However, the Authority is of the view that these goals need to be backed up by detailed practical plans which show how these organisations propose to reach these goals. Specifically, investors should be informed of the investment decisions companies are making in new low- and zero-emitting production processes, when these new technologies will be implemented in production systems, and the quantity and type of offsets, if any, they are planning on using as part of their plans to address their emissions.

The reporting of climate related risks for entities should be based on the publication and annual update of a climate change plan or roadmap. In this document entities should publish their long term and short-term emissions reductions goals and their plans to achieve these goals.

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

Response

Phased reporting will be needed to allow time for the preparation of a methodology for reporting of upstream and/or downstream scope 3 emissions. The reporting of scope 1 and scope 2 emissions has a long-established framework in Australia through the NGER system and so should be a mandatory requirement in the initial phase of reporting.

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Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

13.1 How and by whom might any data gaps be addressed?

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

Response

The Authority has identified two broad capability or data challenges for climate-related disclosures in the Australian context:

- 1) data and methods to support the calculation of scope 3 greenhouse gas emissions; and
- 2) data to support scenario analysis of the physical and economic impacts of climate change.

In its 2022 Climate Vulnerability Assessments Results report APRA also identified challenges with identifying and accessing data sets to support scenario analysis. APRA's findings on the topic of data gaps were:

- Economic impacts (transition risks) – inputs and estimates essential to modelling a transition to a lower emissions economy scenario remain a significant challenge
- Physical risks – future climatic data modelling remains an area for improvement

The proposed ISSB standard for climate-related disclosures requires companies to disclose Scope 3 emissions applying the current GHG Protocol Corporate Standard, and requires companies to use climate-related scenario analysis to report on climate resilience and to identify climate-related risks and opportunities to support their disclosures, and will refer to materials developed by the Task Force for Climate-Related Financial Disclosures (TCFD) to provide guidance to preparers on how to undertake scenario analysis.

The Authority's view is that the framework for Australia should provide requirements for Scope 3 emissions reporting and climate scenario analysis. This would allow reporting entities to select a suitable approach to calculating scope 3 emissions and selecting climate scenarios within these overarching requirements. The framework should also require that companies disclose their approach to reporting. Nevertheless, there is a case for a body, such as the Treasury, to provide default datasets. This body could convene a group of expert advisors whose role it would be to identify and approve default scenarios, datasets and methods that entities could choose to use.

Question 14: Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

Response

The framework should allow reporting entities to select an approach to calculating scope 3 emissions and the climate change scenarios to use in scenario analysis within a framework which sets minimum requirements, aligning with the ISSB proposed standard. The framework should also require that companies disclose their rationale for making these choices. Nevertheless, there is a case for a body, such as the Treasury or other organisation, to provide default datasets for

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entities to use. This body could convene a group of expert advisors whose role it would be to identify and approve default scenarios, datasets and methods that entities could choose to use.

Question 15: How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

Response

The consultation paper raises the question of how to balance the inherent uncertainty of forward-looking climate disclosures with incentives to make accurate, comprehensive and timely disclosures.

The Australia climate-disclosure framework should be developed to enable accurate, consistent, and comparable climate disclosures based on advice from an agency, such as Treasury, with relevant expertise regarding default scenarios.

Question 16: Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed?

Response

The main interaction that the Authority observes between the proposed new reporting framework and existing frameworks is that with the NGER scheme. The new reporting framework being proposed by the Treasury should draw upon and potentially use the same reporting approaches as NGERs for scope 1 and 2 data and could also draw upon the new Corporate Emissions Reduction Transparency (CERT) framework, to facilitate participation by reporting entities and limit the need to report the same data and information more than once.

Question 17: While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

Response

The consultation paper asks for views on the level of prioritisation that should be given to developing climate reporting requirements that are adaptable enough to accommodate other sustainability reporting.

The Authority's view is that sustainability reporting is important and that specific reporting frameworks should be developed for the purpose of sustainability reporting. The climate reporting requirements that are developed by the Treasury through the current consultation process should be specific to climate issues so that the framework supports complete and consistent reporting of climate related information.

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The Taskforce on Nature-related Financial Disclosures is an example of a specific framework that is under development which is designed to capture nature-related risks in a complementary way to the climate reporting framework.

Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

Response

The Authority's view is that the transparency of reporting is enhanced when information is available digitally and so digital reporting should be mandated in Australia's climate-related disclosure framework.

Question 19: Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

Response

The Authority is not in a position to respond to this question regarding the broader arrangements for financial reporting in Australia.