February 16, 2023

Response to the: Climate-related financial disclosure Consultation Paper (December 2022), The Treasury, Australian Government

Reference: https://treasury.gov.au/consultation/c2022-314397

The authors, [redacted], and [redacted] are researchers at EDHEC Infrastructure Institute (EDHECinfra) a research group based at EDHECinfra, a venture of the renowned international EDHEC Business School. EDHECinfra is an index data, benchmarks, analytics, and research provider for investors in the unlisted infrastructure universe. We have built the largest, most representative database of underlying infrastructure investments in the world. The indices we provide help investors measure the risk-adjusted performance of private infrastructure debt and equity within their portfolios. Our indices use the latest market information to measure the fair value of thousands of unlisted infrastructure debt and equity investments in 25 countries. We can also create customized benchmarks for individual investors who require specific TICCS® tilts in their portfolio benchmark. Our research hub, a team of experts who create and maintain our indices, is based in Singapore. We also have a business center in London to serve the financial community in Europe and North America. For more information about EDHECinfra, please visit http://edhec.infrastructure.institute

In this contribution to the Climate-related financial disclosure Consultation, we do not comment on all the questions, but rather focus on a subset of questions on the applicability and reporting format of suggested disclosures.

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?

When formalizing thresholds that determine what is identified as “large” a multi-dimensional approach such as that followed by the CSDR in the EU should be used wherein two of the following criteria have to be exceeded

- More than 250 employees,
- A turnover of more than €40 million (equivalent AUD); or
- Total assets of 20 million€ (equivalent AUD)

This is to ensure that private assets more specifically unlisted infrastructure assets are accounted for thus accounting for their considerable emissions.

[1] https://www.dcceew.gov.au/climate-change/publications/national-greenhouse-gas-inventory-quarterly-update-december-2021

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?

In the "Other entities" being proposed in the consultation, there should be the inclusion of infrastructure companies and special purpose vehicles (SPVs).

In Australia, the energy production and transportation sectors are the largest carbon emitters. In 2021, emissions from electricity production accounted for 33%, emissions from stationary energy sources (including manufacturing, mining, residential, and commercial fuel use) accounted for 21%, and transportation accounted for 18.6% of all Australian emissions[1].

Such emissions of the energy and transport sector are directly or indirectly facilitated by infrastructure assets, for example, power plants burning fossil fuels produce Scope 1 emissions while roads, trains, and airports facilitate Scope 3 emissions from vehicles, trains, and planes, respectively.

In total, in Australia, EDHECinfra has identified 155 investable unlisted infrastructure assets with total assets of more than AUD$350 billion.

Tools and standards such as this, that are being put in place to manage individual and systemic climate-related financial risks must give due importance to companies/sectors responsible for carbon emissions. Else the purpose of the exercise may be misplaced, and the intended impact may not be realized.

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

The implementation of Digital Reporting represents a critical step in organizing unstructured data. Although presenting data in various formats in company reports and websites can be encouraged as additional channels for companies to publicize their efforts to investors, digital reporting, especially on quantitative data that is reported, will need to be mandatory. Digital reporting will facilitate benchmarking, aggregating sectoral performance, and regulatory reviews in a timely manner. Such ease in accessing the data will allow investors to discriminate easily between companies with different sustainability performances, thus helping the policy achieve its stated objectives. The lack of digital reporting will add inefficiency to the system and only delay the positive externalities that these policies can bring to climate change and Australian capital markets.

As it currently stands, digital financial reporting in Australia remains voluntary. While these reports are digitized for use by vendors, which although inefficient, still is easier due to relatively well-established standards and structures and large and established financial data vendors. Given the nature of sustainability information, it will not be reported in a similar uniform format making digitization and further use by third parties challenging. As reporting sustainability information will come with its sets of methodological nuances and materiality disclosures, it is best if the reporting entity reports the number and context themselves without the need for subjective interpretation.

However, if the additional reporting requirements and digital onboarding are deemed to be challenging, there needs to be a key roadmap on digitization including past reports within a phased and committed timeframe.