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Australian Government | Treasury

Climate-related financial disclosure - Consultation

Due: 17 February 2023

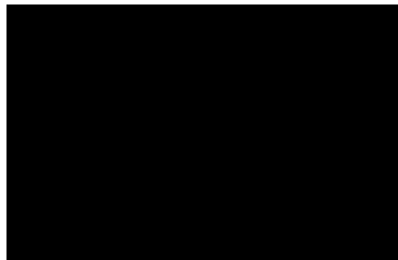
We are pleased to have the opportunity to contribute to Treasury's Consultation Paper on Climate-related financial disclosure. We welcome and strongly support the Government's commitment to standardised, internationally-aligned requirements for climate-related disclosures in Australia.

SLR is a global leader in end-to-end sustainability solutions; providing clients with strategic advice and on the ground support, partnering with them in Making Sustainability Happen. Founded in 1994, we have over 20 years' experience in sustainability.

Climate-related financial disclosure in Australia is integral to ensuring that the private sector rapidly transitions to net-zero. Proper and accessible climate-related information is a useful signal to investors to ensure that investments are made to entities aware of their climate risk and importantly, provides companies the information they need to mitigate and adapt to both changing climate, and to the emerging risks and opportunities as the global economy shifts towards net-zero.

In the context of ensuring that the TCFD recommendations are realised, we are primarily concerned with three facets of mandatory climate-related financial disclosures:

- Protection from greenwashing
- Ensuring proper governance mechanisms
- Enabling future reporting growth



Regional Manager – Asia Pacific

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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?

As climate-related disclosure requirements are becoming the norm in many countries, including in the Asia-Pacific region, lack of or delayed adoption of similar standard requirements in Australia would lead to negative effects and costs, including:

- *Lack of credibility: by not aligning with international practices and standards, Australia may be perceived as not being fully committed to addressing climate change, which could harm its reputation globally;*
- *Missed opportunities: Australia might not attract international investment;*
- *Unclear policy picture: it may be difficult for businesses and investors to understand the country's climate policy landscape, which could discourage investment;*
- *Inefficient use of resources: the Australian economy may not allocate resources effectively and efficiently, which would increase the cost of addressing climate change over time.*

The majority of ASX200 companies are now adopting and disclosing against the TCFD, with 103 companies either fully or partially aligning their disclosure to the framework. However, there is still lack of cohesive, comparable disclosures for Australian companies, which could make Australian entities less attractive investments for institutional shareholders. Beyond the potential for less share growth, Australia could suffer delayed climate action from the private sector which may impact the ability to achieve international commitments and in turn exacerbating climate damage.

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

Yes. A phased approach has yielded positive results in other jurisdictions, as it allowed sufficient time for companies to develop the skills and resources to better understand risks and opportunities, improve data quality and produce reliable disclosures.

This approach encourages companies to establish high quality analysis, management capabilities, metrics, and reporting, which gives investors meaningful insight into their climate-related risks and opportunities. Enforcing a mandate too soon may diminish report quality and limit the value of requiring climate-related disclosures. Many large, listed Australian entities are already reporting on climate-related disclosures and according to the TCFD Status Report 2022, Australia ranks among the top five countries by number of respondents. However, there are

maturity differences in the depth and quality of reports. In our experience with clients in other regions captured by mandatory reporting requirements, it has taken approximately a year and a half to adequately conduct the foundational work required to report in line with TCFD recommendations. Therefore, a start date of 2024-25 is suitable for these large, listed entities, and would help ensure more complete and reliable disclosures.

A 2025-26 start date would be more appropriate for smaller listed entities and selected non-listed entities, allowing time to establish the required processes.

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

Company size and sector should be considered to determine the cohorts covered in subsequent phases of mandatory disclosure. Large, listed entities & financial institutions should be required to report climate-related disclosures from the initial phase, with smaller entities required later. Non-listed companies in emissions intensive industries should also be required to report their emissions initially, with less emissions intensive sectors required to report later.

Importantly, we suggest a clear and binding definition of which cohorts are covered in each phase, and for this to be communicated as early as possible to give companies adequate time to prepare 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?

Thresholds for inclusion should be comparable to other jurisdictions and utilise both financial information and headcount to ensure organisations with the relevant resources are captured in the initial disclosures.

The UK requires all listed companies with over 500 employees to disclose climate related financial information. New Zealand has set a threshold of $60 million NZD combined market price.

A combination of these two metrics, capturing companies over 500 employees and/or greater than $50 million market value would ensure appropriate coverage.

For financial institutions, a threshold based on asset value is more appropriate, to ensure asset heavy, low headcount institutions are captured. A threshold similar to that set in New Zealand of $1billion in assets, owned or under management, would be appropriate.

> 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?

Large privately owned companies should be required to report. A threshold of 500 employees and $1billion revenue, in line with the equivalent thresholds set in other jurisdictions, such as in the UK, would be appropriate.

Australia could also consider a phased approach targeting high emitting sectors initially, eventually expanding to all sectors in future years. According to CSIRO, energy production is the largest contributor to Australia's carbon emissions, followed by transport, agriculture and industrial processes. The initial phase of disclosure should cover these high emitting sectors.

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

Yes. Common language for sustainability information is integral to ensure that capital markets reflect the reality of company value. In aligning with ISSB, Australia ensures that its companies remain globally relevant and attractive for institutional investors.

> 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?

In the Australian context, we suggest referring to section 180(1) of the Corporations Act 2001 (Cth) on Directors' duties, to formalise climate-related disclosures as a duty of care that a 'reasonable person' would exercise.

> 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?

Yes. We believe that ISSB's standards are the most appropriate for Australian entities seeking to remain relevant in the global economy.

It may also be appropriate to consider EU Regulations, such as CSRD & the EU taxonomy for sustainable activities, in addition to ISSB. This could include a broader view of defining material climate risks.

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)?

The overarching climate disclosure obligations should be set in legislation, and the detail included in standards and guidance. This will balance the need for certainty for businesses with flexibility to update standards and guidance to keep in line with international best practice, including the work of the ISSB. In addition, having specific supporting standards as guidance, for example, emission reduction targets or aligning with science-based targets, would allow flexibility to easily include more stringent requirements in future without a lengthy legislative process.

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?

We suggest that climate-related disclosures should be integrated into mainstream financial reporting as a minimum requirement. Companies may wish to publish additional information in supplementary reporting, but the core information should be published with the annual report.

We suggest that non-listed companies publish a separate report outlining their climate-related financial disclosures.

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)?

We believe that it would be worthwhile to have more guidance on how companies should define material risks. The metrics and assumptions used to outline materiality should be clearly defined and narrow.

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?

We believe that climate disclosures should ultimately be subject to the same level of assurance as other financial statements. The purpose of this reporting is to integrate climate-related financial disclosures into mainstream reporting, and therefore climate disclosures should be subject to the same standards. However, we understand that it will take time to develop an assurance ready response, and that reasonable assurance audits will not be possible in the near-term.

Consequently, a phased approach to assurance is recommended, with no required assurance in the first year of reporting, phasing to limited assurance in subsequent years. When the approach and maturity of climate-risk disclosures have developed, a requirement for reasonable assurance should be considered, however it is difficult to suggest a timeline for this increase.

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?

NGER is already mandatory for scope 1 and 2 and voluntary for scope 3 emissions. We believe that companies should also be required to disclose scope 3 emissions. At a minimum companies should undertake a scope 3 screening to assess which emissions categories will be relevant, and they should report annually on the material emissions categories.

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

Yes. A consistent set of metrics is important to ensuring comparability between disclosures. Both set of cross-industry metrics for all companies, as well as industry specific metrics should be defined. However, we believe there should be flexibility for companies to omit certain metrics, if they are not relevant to the organisation, as long as a clear rational is provided.

The TCFD guidance on metrics & targets is a useful reference for these metrics.

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?

We suggest following the guidance that has been established by the Transition Plan Taskforce (TPT) in the UK around transition plans and reporting on risks. This ensures companies cover the assessment of climate impacts on the business, appropriate decarbonisation plans, and the resultant strategic information as to how the business will adapt in the transitioning economy.

As part of this guidance companies should be required to develop emissions reduction targets, and corresponding emissions reduction plans, in line with a science-based approach, ideally following already established methodologies such as the Science-Based Targets initiative.

The guidance should also consider social implications within these plans and how companies are responsible for enabling a just transition.

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

Yes. We suggest that disclosure of some metrics, such as quantification of financial impact from risks, should be introduced on a "comply or explain" basis in the first year of reporting and mandated in the second year. This will allow companies to begin working towards these disclosures in the first year and to provide information on their progress.

A phased approach to mandated disclosure of transition plans should be implemented, as companies cannot reliably report on mitigation and adaption until they have assessed risks and quantified potential impacts.

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

It should be noted that there are different levels of company maturity when it comes to disclosing climate-related financial information. Having a phased approach to disclosure that requires more mature reporting entities, such as financial institutions, to report initially, ensures that other companies are able to increase capability prior to them being mandated.

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There are also data challenges in regard to modelling climate data. This information is often costly and complex and requires reasonable level of skill to interpret. We believe that CSIRO has a role to play democratising and interpreting this information for companies.

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

Please refer to our answer in Question 13.

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

Yes. In New Zealand, the National Institute of Water and Atmospheric Research established their own versions of the IPCC Shared Socioeconomic Pathways (SSPs), 'SPAs', which are New Zealand specific. This is an example of the role that CSIRO could play in interpreting climate scenarios for the Australian context to assist companies in assessing their exposure to climate-related risk.

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?

Yes. We believe that the RBA, as a member of the NGFS, has a role to play in providing access to scenario data, translated into an Australia specific context. This would give a readily available common source for climate scenario data, should companies choose to use it. Both New Zealand and the UK have undertaken assessments to interpret and localise the data from the SSP's into a local context. We suggest that the RBA and CSIRO collaborate to localise the SSP's to the Australian context.

However, companies should be free to determine the most appropriate data sources for their specific situation, so whilst data should be made available, its use should not be mandated. Clear guidance on what data is appropriate and necessary is essential, as well as a requirement for companies to clearly state the sources of information.

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?

We believe that the 'reasonable grounds' requirement of disclosure is too broad to reasonably ensure that companies in Australia are providing adequate climate-related financial information. We suggest that instead of a 'reasonable grounds' requirement, Australia should follow the SEC and adopt a Scope 3 Safe Harbor. This would limit the number of 'reasonable grounds' unsubstantiated assumptions that companies could make in regard to climate-related disclosures, improving the reliability and consistency of disclosure.

We also suggest that there be guidance for companies to produce restatements of climate-related information. As companies' capabilities increase and data becomes more reliable and accessible, there may be instances of producing restatements of disclosures.

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?

No comment.

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?

Flexibility to incorporate the growth of other sustainability reporting should be a high priority in the practical design of these reforms.

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

Yes. Sustainability risk should be integrated into existing mainstream financial reporting and should be mandated for large, listed companies to enable bulk analysis of TCFD disclosures. Timelines for mandating digital reporting should follow those for other mainstream financial reporting.

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?

No comment.

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