



# Design Consultations

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## Climate-related financial disclosures

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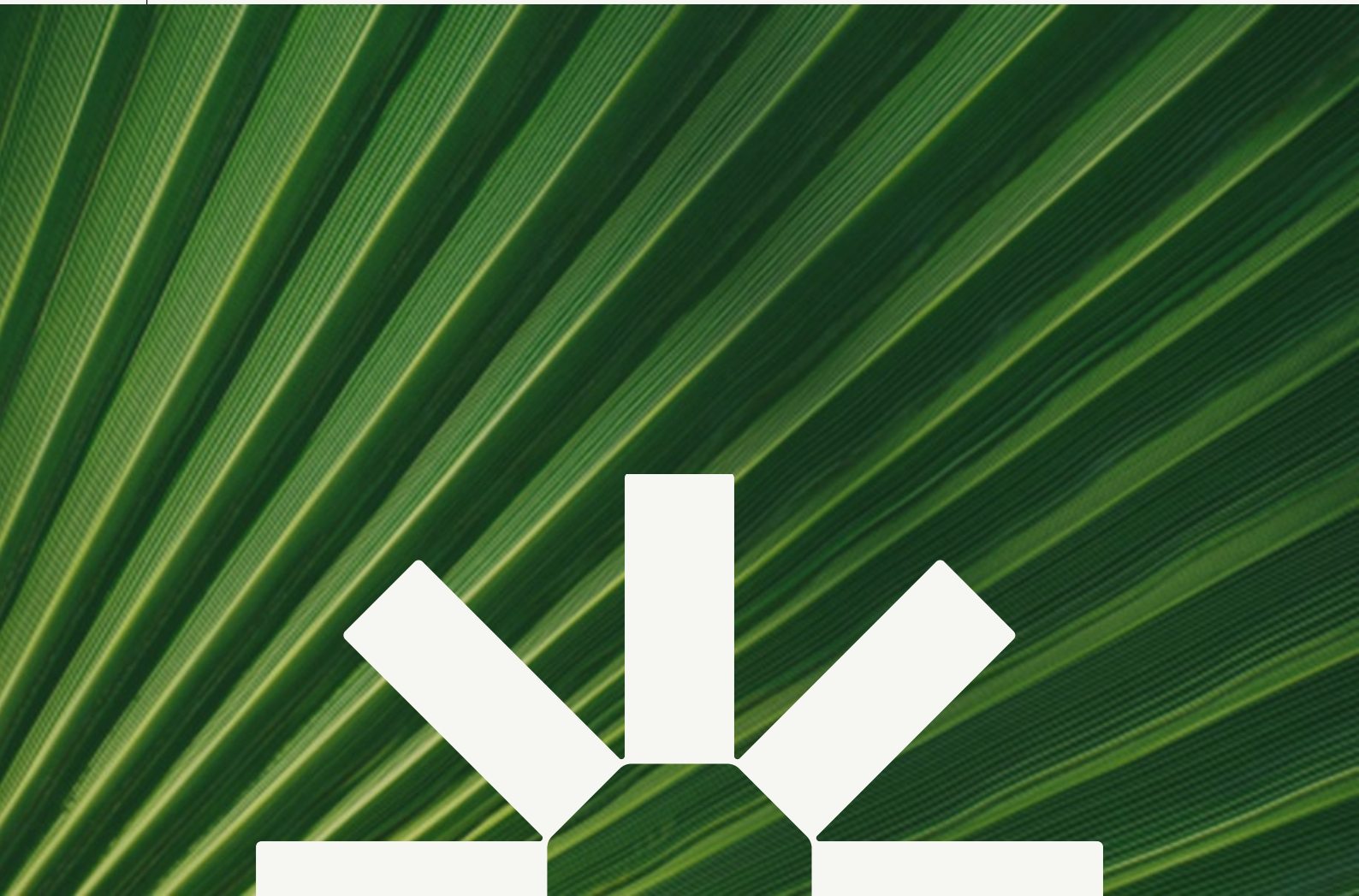
**FOR:** Australian Government | Treasury

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**Prepared by:** SLR Consulting Australia

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21 July 2023



## Statement from Paul Gardiner

At SLR we are pleased to see the ambition and comprehensive nature of the proposed Climate Related Financial Disclosure requirements. Businesses in Australia have been slow to adopt the TCFD recommendations, despite potential exposure to some of the most acute climate risks globally. These reporting requirements will form the basis of understanding required for business and the wider Australian economy to begin managing those emerging risks, as well as to put in place robust mitigation and adaptation measures.



Paul Gardiner



**Proposal: that all entities that meet prescribed size thresholds and that are required to lodge financial reports under Chapter 2M of the *Corporations Act 2001* (Cth) (*Corporations Act*) would be required to make climate-related financial disclosures.**

SLR agrees that entities which meet prescribed size thresholds required to lodge financial reports should be required to make climate-related financial disclosures. SLR also agrees with the proposed roadmap for mandatory disclosure requirements, including entities with more than 100 employees, \$25m turnover and/or \$50m revenue by 2027/28 onwards.

**Proposal: Principles of financial materiality would apply.**

Approaching materiality through a narrow, financial lens may not adequately ensure that all financial risks are captured. SLR believes that external impacts on broader social and environmental conditions can, and often do, develop into financial risks over time, which is material to companies. A 'double' materiality approach would ensure that the Australian reporting ecosystem stays in accordance with developing best-practice and that climate-related financial disclosures are observed before they reach a significant financial threshold, enabling an entity and its shareholders to better assess the risk or opportunity.

**Proposal: From commencement, companies would be required to disclose information about governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities.**

SLR agrees that from commencement, companies should disclose their governance mechanisms to monitor and manage climate-related financial risks and opportunities. SLR believes that Treasury should clearly define the public-reporting governance expectations on entities. For instance, there should be guidance on the level of sign-off required when disclosing climate-related financial risks and opportunities.

**Proposal: From commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state.**

SLR agrees that reporting on scenario analysis should be phased from exclusively qualitative to a combination of both qualitative and quantitative by end state. SLR suggests that there should be further clarity on the requirements for reporting entities in groups 2 and 3 for mandatory disclosures. SLR suggests that entities in groups 2 and 3 should have at least the same amount of transition time as group 1 entities to move from qualitative to quantitative scenario analysis.

**Proposal: From commencement, reporting entities would be required to disclose climate resilience assessments against at least two possible future states, one of which must be consistent with the global temperature goal set out in the *Climate Change Act 2022*.**

SLR agrees that entities should disclose climate resilience assessments against at least two possible future states, although we suggest that both future states be mandated – one consistent with the temperature goal set out in the *Climate Change Act 2022* and one consistent with a 3+ degree scenario. The rationale for ensuring two polar scenarios is to ensure that entities are reasonably aware of their exposure to the spectrum of climate-related risks and opportunities across the spectrum of possible climate futures.



In addition, companies should be required to disclose the assumptions, methodologies and data sources they have used when conducting their scenario analysis.

**Proposal: From commencement, transition plans would need to be disclosed, including information about offsets, target setting and mitigation strategies.**

SLR agrees that from commencement, transition plans should be disclosed. However, we believe that the expectations on entity disclosures of transition plans should be made more specific. For example, would entities be expected to disclose how they will shift their business model to suit a low-carbon economy, or include the social implications of transition and how they are demonstrating responsibility for enabling a just transition? To provide a guide on requirements within transition plans, SLR suggests referring to the UK's [TPT guidance](#), which covers five disclosure elements: foundation, implementation strategy, engagement strategy, metrics and targets, and governance. SLR also suggests that emission reduction plans should be in accordance with a science-based approach.

**Proposal: From commencement, all entities would be required to disclose information about any climate-related targets (if they have them) and progress towards these targets.**

SLR disagrees that companies should only be required to disclose targets “if they have them”. We suggest that entities disclosing climate-related financial information must also be mandated to have climate-related reduction targets aligned with the global temperature goal specified in the Climate Change Act 2022, as this will ensure their alignment with national targets and foster the necessary transition towards a low-carbon economy. The requirement for development of these targets can be phased, but there should not be an indefinite amnesty from setting them.

**Proposal: From commencement, entities would be required to disclose information about material climate-related risks and opportunities to their business, as well as how the entity identifies, assesses and manages risk and opportunities.**

SLR agrees that entities should be required to disclose information about material climate-related risks and opportunities to their business, as well as how the entity identifies, assesses and manages risk and opportunities. SLR suggests that material should be defined through a ‘double’ materiality lens in accordance with global best practice.

SLR also suggests that by end state, where there is alignment on typical risks within a sector, companies should report on those risks regardless of materiality.

**Proposal: From commencement, scope 1 and 2 emissions for the reporting period would be required to be disclosed.**

SLR agrees that from commencement, scope 1 and 2 emissions would be required to be disclosed. SLR suggests that by end state, entities should have established reduction pathways for both scope 1 and 2 emissions in accordance with the Climate Change Act 2022 and a science-based approach.



**Proposal: Disclosure of material scope 3 emissions would be required for all reporting entities from their second reporting year onwards. Scope 3 emissions disclosures made could be in relation to any one-year period that ended up to 12 months prior to the current reporting period.**

SLR supports the mandatory disclosure of scope 3 emissions for all reporting entities starting from their second reporting year and recommends that Treasury offer a more precise definition of "material" emissions, which considers the relative size of the emissions source.

Furthermore, SLR proposes the implementation of a requirement to screen (and to publish information on the screening) all scope 3 emissions in accordance with the GHG Protocol, to ensure consistency in reporting between companies.

**Proposal: By end state, reporting entities would be required to have regard to disclosing industry-based metrics, where there are well-established and understood metrics available for the reporting entity.**

SLR agrees that by end state, reporting entities should be required to report alongside industry-based metrics that are well-established. SLR suggests alignment with the ISSB standards to ensure best practice.

**Proposal: Climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three years.**

SLR agrees that climate-related financial disclosure requirements should be drafted as civil penalty provisions in the Corporations Act.

In terms of assurance, SLR believes that the existing statement, "It is proposed that financial auditors would lead climate disclosure assurance engagements, supported by technical climate and sustainability experts, when required," lacks adequacy. SLR suggests expanding this statement to allow for climate experts to conduct audits of information, or alternatively, making it mandatory to include climate expertise in any auditing team for climate disclosure assurance engagements.





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Making Sustainability Happen

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