

17 February 2023

The Treasury
Langton Crescent
Parkes ACT 2600

Submission to the consultation on climate-related financial disclosure

The Australian Conservation Foundation (ACF) welcomes the opportunity to provide a submission to The Treasury's consultation into the design and implementation of standardised, internationally aligned requirements for disclosure of climate-related financial risks and opportunities in Australia.

ACF is Australia's national environment organisation. We are over half a million people who speak out for the air we breathe, the water we drink, and the places and wildlife we love. We are proudly independent, non-partisan and funded by donations from our community.

The introduction of mandatory disclosure of climate-related financial risks is a critical step towards ensuring that Australia's economy is prepared to not only meet the challenges presented by the transition to a net-zero economy, but to seize the opportunities of the transformation. Notably, mandatory disclosures will (i) improve organisational and investor resilience to climate-related risks, (ii) increase transparency around climate-related strategies and emissions reduction targets, (iii) improve monetary policy, supervision, and financial stability, and (iv) increase foreign capital investment due to greater alignment of Australian reporting requirements with international practice. However, the extent of positive influence will be highly dependent on the Government's selection of reporting framework criteria, decision on scope of entities covered and the timeliness of its implementation.

ACF has provided responses to questions which it has deemed most applicable and has grouped questions where there was considerable overlap in the contents of its response.



Summary of Key Recommendations

1. **Timing:** The Government should adopt a standardised reporting framework with the first phase of reporting required no later than financial year 2024-25.
2. **Coverage:** The initial phase of reporting should cover ASX300 companies, large unlisted companies, and large financial institutions (including banking, superannuation, asset management and insurance). ACF recommends that large unlisted companies and financial institutions should be identified as organisations which have more than \$1 billion in total assets under management.
3. **Reporting framework:** ACF supports the adoption of the ISSB standards for mandatory disclosure requirements in Australia. The ISSB standards are consistent with the TCFD recommendations and are more rigorous than the TCFD recommendations given the inclusion of scope 3 emissions and sector-specific metrics for reporting.
4. **Flexibility for future inclusions:** It is evident that nature-risk reporting frameworks will be adopted in the near future with the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations to be finalised in September 2023 and Target 15 of the post-2020 global biodiversity framework adopted in December, 2022. The IFRS has indicated that it plans to incorporate TNFD recommendations into future iterations of the ISSB standards. The Government should allow flexibility for inclusion of nature-related risk, impact, and dependency reporting in the near future.
5. **Invitational draft reporting:** The Government should consider a draft reporting period in line with the draft ISSB standards for the financial year 2023-24. This would provide a mechanism through which the Government could provide guidance on reporting criteria through engagement with covered entities and promote greater preparedness for mandatory reporting in financial year 2024-25.



Response to Key Consultation Questions

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)?

The risks that arise as a result of unabated emissions and climate change represent a significant threat to society, nature and the Australian economy. The Australian Government has relied on industry-led management of climate related risks and emissions reduction for too long. Australia's alignment with international practice will provide the necessary economic and regulatory stability for businesses and investors to accurately measure and address climate-related risks, as well as attract the international capital required for Australia to seize the economic opportunities within the transition to a net-zero economy.

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

and

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

and

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

In line with the urgent need for regulatory guidance and greater clarity around organisational and investor exposure to climate-related risks, it is critical that the Government adopts a standardised reporting framework with the first phase of reporting required no later than financial year 2024-25.

The Government should seek to align entity coverage for mandatory disclosures with international best practice to the greatest extent which is feasible. The UK and Switzerland will require all public companies, banks and insurance companies with 500 or more employees to report in line with the TCFD recommendations.^{1,2} In New Zealand, climate-related disclosures will be mandatory for large, listed

¹ ICAEW, "TCFD and related UK reporting regulations", (2023), at: <https://www.icaew.com/technical/non-financial-reporting/tcf-and-related-uk-reporting-regulations#:~:text=The%20FCA%20listing%20rules%20require,comply%20or%20explain%20basis.>

² The Federal Council, "Federal Council brings ordinance on mandatory climate disclosures for large companies into force as of 1 January 2024", (2022), at: <https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-91859.html>



companies with a market capitalisation of more than NZD \$60 million, as well as large banks, insurers, credit unions and building societies with more than NZD \$1 billion in assets.³

As of 2022, more than half of ASX200 companies had either fully or partially aligned their climate-risk reporting with the TCFD framework.⁴ Moreover, according to the Financial Stability Board, Australia had the fourth largest number of TCFD supporting organisations by jurisdiction in 2021.⁵ Given the strong appetite for climate-risk reporting in Australia and the level of ambition recognized internationally, the first phase of reporting should cover ASX300 companies, large unlisted companies, and large financial institutions (including banking, superannuation, asset management and insurance). ACF recommends that large unlisted companies and financial institutions should be identified as organisations which have more than \$1 billion in total assets under management.

ACF supports a phased approach to the introduction of mandatory climate disclosures. However, in order to create meaningful momentum around the disclosure of climate-related risks, it is vital that a comprehensive scope of entities is captured in the initial phase of reporting and that coverage is expanded over time. To ensure that climate-related risks are adequately managed across the entire financial system, the coverage of entities should be as far reaching as possible. Therefore, the transition from ASX300 companies to all ASX-listed companies should occur in relatively quick succession.

In order to support the readiness of Australian organisations, the Government could invite covered entities to partake in draft reporting in line with the draft ISSB standards in financial year 2023-24. This approach was taken by the Dutch National Bank, the central bank of the Netherlands, during the introduction of mandatory climate scenario analysis within its supervisory process. As part of informal reporting, the Australian Government could provide guidance on reporting criteria through engagement with covered entities which would result in greater preparedness for mandatory reporting in financial year 2024-25.

³ Ministry for the Environment, "Mandatory climate-related disclosures", (2023) at: <https://environment.govt.nz/what-government-is-doing/areas-of-work/climate-change/mandatory-climate-related-financial-disclosures/>

⁴ ACSI, "Promises, pathways & performance", (2022), at: <https://acsi.org.au/wp-content/uploads/2022/08/WEBSITE-VERSION-ACSI-Climate-Change-Disclosure-in-ASX200-designed-1.pdf>

⁵ FSB, "Status Report", (2021), at: <https://www.fsb.org/wp-content/uploads/P141021-1.pdf>



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

and

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

ACF supports the adoption of the ISSB standards for mandatory disclosure requirements in Australia. The ISSB standards are more valuable than the TCFD recommendations in the following four areas: (i) use of transition scenarios, (ii) disclosure of industry-based metrics, (iii) different disclosure treatment of GHG emissions, particularly the inclusion of Scope 3 emissions and (iv) how emissions reduction targets compare against international agreements, utilise a decarbonisation pathway and have been validated by a third party.⁶ ISSB plans to publish the final version of the recommendations in the first half of 2023.

ACF is of the opinion that the ISSB standards will promote transparency, comparability and greater climate accountability due to the additional disclosure requirements proposed under the ‘Metrics and Targets’ category. The ISSB standards require Scope 3 emissions to be included and requires disclosure of industry-based metrics relevant to an entity’s industry and activities. However, ACF encourages the Government to consider the inclusion of a “double materiality” approach that recognizes environmental and social impacts alongside financial ones (as proposed in the European Commission’s draft ESRS).

Reporting of Scope 3 emissions is becoming increasingly important internationally and domestically. Reporting of Scope 3 emissions is critical because it provides a complete picture of an organisation’s carbon footprint by providing an understanding of emissions from the organisation’s supply chain. Without this information, organisations will not be able to identify, mitigate or manage potential risks or identify areas for potential emissions reduction. Additionally, the inclusion of Scope 3 emissions in disclosures is needed to maintain investor confidence and avoid accusation of greenwashing given the rising number of ‘carbon neutral’ claims.

Industry-based reporting metrics are greatly needed in Australia due to the current lack of comparability of greenhouse gas accounting and reporting. This lack of comparability has resulted in the diminished credibility of climate targets and has created loopholes for accountability. Industry-based metrics are beneficial because they: (i) provide consistent ways for companies to report emissions

⁶ IFRS, “ Comparison [Draft] IFRS S2 Climate-related Disclosures with the TCFD Recommendations”, (2022), at: <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/comparison-draft-ifrs-s2-climate-related-disclosures-with-the-tcf-recommendations.pdf>



which allows for benchmarking across the industry, (ii) improves ease of enforcing compliance within industries, (iii) provides clarity around stakeholder expectations, and (iv) can help drive innovation as organisations are incentivised to develop new ways to mitigate emissions.

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?

There is an increasing need for awareness and transparency around the extent to which organisations are relying on carbon offsets to fulfil transition plans. The UN’s Integrity Matters report outlines the need to reduce reliance on carbon dioxide removal and offsets to meet net zero commitments and fulfil decarbonisation plans.⁷ In light of this, mandatory disclosure of the use of carbon offsets to reach net zero operations, accompanied by allowable thresholds for certain industries, is required to ensure that entities are managing climate-related risks appropriately.

Furthermore, there is a strong need for the Government to establish a taskforce with the primary objective of providing regulatory guidance on credible transition plans. Internationally, the UK has established the Transition Plan Taskforce to develop a gold standard for private sector climate transition plans. A similar body is needed in Australia to ensure that emissions reduction plans are credible and that capital flows are directed towards entities that are truly aligned with a net zero future.

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?

Use of scenario analysis is essential to support organisations in setting meaningful climate change strategies and targets. Moreover, standardised climate scenarios are vital to achieve consistency in reporting across organisations which will allow for greater comparability and benchmarking. ACF supports the governance of climate scenarios used by entities in managing climate related risks and opportunities.

⁷ United Nations, “Integrity Matters: Net zero commitments by businesses, financial institutions, regions and cities”, at: https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf



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?

ACF recommends that the government allows for flexibility to incorporate future sustainability reporting frameworks such as the reporting of nature-related risks. Climate-related risks and nature-related risks should be considered jointly as their impacts are interrelated and have the potential to amplify the consequences for both society and the environment. Moreover, the inclusion of nature-related risks within climate-risk disclosure allows for solutions to be developed that address the impacts jointly.

The Taskforce for Nature-related Financial Disclosures (TNFD) final recommendations for disclosure will be released in September 2023. The TNFD recommendations emulate the existing structure and language of the TCFD and have been designed with reporting compatibility in mind. Moreover, the ISSB standards aim to implement incremental enhancements that complement the climate-related disclosures standards relating to natural ecosystems and has assured stakeholders that it will consider the work of the TNFD recommendations.⁸ Ultimately, whether mandatory disclosures in Australia are based on the TCFD recommendations or the ISSB standards, both bodies will include nature-related disclosures. Evidently, the Government should allow for flexibility to incorporate the inclusion of other sustainability reporting in the design of its reform.

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?

ACF supports the confirmation of the AASB as the entity responsible for developing, making and monitoring climate and sustainability related standards ('Potential structure 1'). It is evident that the AASB has dedicated considerable time and resources to building the capacity and capability of the organisation regarding climate-related financial reporting. Utilising this existing expertise and experience, and drawing upon these existing resources, is not only the most efficient option of the structures presented but will allow for the smoothest and most timely transition to a mandatory reporting framework.

⁸ FRS, "ISSB describes the concept of sustainability and its articulation with financial value creation, and announces plans to advance work on natural ecosystems and just transition", (2022), at: <https://www.ifrs.org/news-and-events/news/2022/12/issb-describes-the-concept-of-sustainability/>



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