

Submission on the Australian Government's Climate-related Disclosures Consultation

Australian Sustainable Finance Institute | February 17, 2023



Introduction

The Australian Sustainable Finance Institute (ASFI) welcomes this opportunity to make a submission on the Government's proposed Climate-Related Risk Disclosure Framework.

ASFI represents Australian financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms – that are working to align the Australian financial system with a sustainable, resilient, and inclusive Australia. ASFI members collectively hold over AU\$18 trillion in assets under management and are committed to allocating capital in a way that supports positive social and environmental outcomes.

ASFI supports the introduction of mandatory climate disclosures for the Australian market. A robust and workable climate disclosures framework will help to channel more capital into activities consistent with Australia's national emissions reduction goals. It will form an important pillar of Australia's broader sustainable finance architecture alongside a sustainable finance taxonomy, science-based sector decarbonisation pathways, strong targets and policies to reach those targets. ASFI's responses to specific questions posed in the Consultation Paper are set out below.

2 Recommendations and Key Considerations

Q1 Costs and Benefits of aligning with international disclosure practice

A mandatory climate disclosure framework will promote relevant, consistent, verifiable and comparable disclosure of climate-related risks, opportunities, strategies and impacts by companies and financial institutions. This serves several important functions:

- helps investors, financiers, insurers and customers understand and assess the climate credentials of firms and make better decisions;
- supports businesses to institutionalise the practice of identifying and addressing climate risk (both physical and transition);
- better enables regulators to combat greenwashing and other misleading claims;
- clear, mandatory requirements help to clarify reporting expectations, which supports more efficient (and therefore lower cost) reporting practices.

There will be cost and resource implications for those entities which currently do not report. This can be mitigated in part through a phased approach to introduction of the disclosure framework. Costs to preparers need to be considered against the costs to the Australian economy of failing to align and keep pace with international disclosure trends and approaches.

It is also important to recognise that Australian law already requires Directors to disclose material risks – including climate risks – and many Australian corporations and financial institutions are already reporting using TCFD guidance. These entities are already spending considerable efforts to source the right data and assess climate related risks across multiple frameworks. Introducing mandatory disclosure requirements will drive efficiencies in this process, standardising reporting requirements for market participants and reducing costs to individual entities. Mandatory disclosure will support better consistency and comparability of disclosures and establish a baseline standard helping to level the playing field for companies.

Q2 Coverage, commencement date and transition arrangements

ASFI considers that there should be a staged approach to mandatory implementation to allow entities with fewer resources the opportunity to build capabilities and prepare, and to allow the market to develop (in particular for assurance providers). The first report for initially covered entities should be for financial year 2024-25.

The Government should clearly signal the proposed ultimate coverage of the disclosure framework in advance, and the phased approach it will adopt to get there, so that reporting entities can prepare accordingly.

Financial institutions have broad exposure to entities across the economy and therefore have an interest in high quality, standardised reporting from a broad range of entities. The climate risk of unlisted assets or clients is just as material as that of listed entities. The disclosure framework should therefore apply to both. ASFI supports the proposal for disclosure rules to also apply to Government entities including financing vehicles such as the Future Fund, Export Finance Australia, etc.

Other considerations for ultimate coverage of the disclosure framework include: relative level of risk exposure of reporting entities (e.g. are they large emitters and/or exposed to significant physical risk); and level of sophistication and resources of reporting entities.

Q3 Initial Coverage

ASFI considers that large listed and unlisted companies and financial institutions, as well as Government entities including financing vehicles such as the Future Fund and Export Finance Australia, should be included in the first phase. A reasonable definition of 'large' could be:

- Companies (listed and unlisted) with annual consolidated revenue above \$100 million.
- Financial institutions with annual consolidated revenue above \$100 million or assets under management of more than \$5 billion.

Disclosure rules should apply to all entities on a voluntary basis from day 1. This provides strong incentive for firms to begin reporting early and develop capabilities.

Q4 Alignment with ISSB Standard

ASFI supports aligning the Australian disclosure framework with the ISSB standard so that the Australian approach is consistent with that of other major markets. This also reduces reporting burden across jurisdictions. Australia should look to develop bespoke or supplementary guidance where appropriate. Three areas where we anticipate further work will be required for the Australian disclosure framework are:

1. Considering how the disclosure rules interact with the Australian sustainable finance taxonomy as this is developed.
2. As international practice and policy moves toward comprehensive sustainability disclosure that includes reporting on environmental and social elements, the Australian framework should follow suit. Guidance may need to be developed that is specific to the Australian context – for example with respect to First Nations engagement and perspectives.
3. Requirements and guidance for entities' transition plans. Given the critical role that transition plans play in supporting and channelling investment for the net zero transition, this guidance should be developed by Government as a priority in 2023, building off existing international examples such as the UK Transition Plan Taskforce and Glasgow Financial Alliance for Net Zero guidance.

Q5 Key Considerations for design of regulatory framework

The regulatory framework should be:

- **Robust:**
 - solicits decision-useful, consistent, verifiable, and comparable information about an entity's exposure to and management of climate risk and opportunities;
 - has a legislative basis and is enforceable.
- **Internationally inter-operable:** Aligns with internationally accepted approaches, using the ISSB global baseline as the basis.
- **Workable:** Minimises burden and maximises efficiency including by syncing with existing reporting in terms of timing, format and channels.
- **Durable and adaptable:**
 - The framework should be established such that it can facilitate the introduction of comprehensive sustainability-related reporting in future years as these standards are developed through the ISSB.
 - It should accommodate initial data and capability gaps recognising that these will be less important over time.

Q6 Where should information be reported?

Ultimately, sustainability reporting should be integrated with financial reporting and be published in an entity's annual report. This would enable users to access decision-relevant information in one place and promote an integrated approach to reporting and consideration of risks. In the initial years, it may be more practical to publish climate reporting separately (with cross references) as experience with reporting approaches develop and while rules apply differently to different entities.

Q7 Materiality

It is important to have a definition of materiality that is internationally aligned, investor-focused and recognises that sustainability risks are financial risks over the long-term. ASFI considers that Australia should adopt the ISSB approach to materiality.

Q8 Assurance

Assurance is important to maintaining the integrity of the disclosure framework. It should be carried out by experts with relevant qualifications and expertise who are subject to independence and quality management standards. Governance and oversight arrangements should be in place to a similar level as for financial reporting.

Q9 Reporting of Scope 1, 2 and 3

In general, scope 1, 2 and 3 emissions should be reported, consistent with the ISSB approach. This is important in order to understand an entities' climate risk exposure throughout its operations including in its supply chains. There may be flexibility needed (particularly for scope 3) for entities at the lower end of the reporting threshold. This is

under consideration in the ISSB and in general we recommend Australia align with that approach.

The disclosure framework should also be aligned to the extent possible with other Australian reporting frameworks (for example, reporting under the National Greenhouse Emissions Reporting Scheme) so that entities are not required to report the same or slightly different information in multiple different formats and channels or with respect to differing time periods.

Q10 Common metrics including industry specific metrics

To promote consistency and comparability, the climate disclosure framework should define industry specific consistent metrics in addition to absolute emissions, for Australia. These metrics should align with international approaches, using the ISSB global baseline guidance as the basis.

Q11 Transition plans and use of offsets

Transition plans are a key tool for the finance sector and for firms. Entities should be required to disclose transition plans, including use of offsets, in line with guidance produced by the Government that reflects a science-based approach and is consistent with international frameworks including the ISSB standard. The Government should prioritise the development of this guidance in 2023. Work by the UK Transition Plan Taskforce and the Glasgow Financial Alliance for Net Zero provide a strong basis for Australian guidance.

The development by a credible agency of indicative sectoral transition pathways and interim targets for the Australian economy would support entities to produce high quality transition plans, and facilitate assessment of those transition plans by investors, financiers and others. ASFI recommends the Government task the Climate Change Authority to develop science-based sector pathways by the end of 2023.

Q12 Phasing of requirements and assurance

To allow the market to mature and build capability in the initial years, phasing of requirements is appropriate. The ISSB is closely considering this question and is building relief and timing provisions into its standards, including for scope 3 emissions. While these details are yet to be confirmed, in general we recommend adopting the ISSB approach in order to promote international alignment and consistency. One area where phasing may be appropriate is for assurance which could be voluntary (for some or all entities) in the initial one or two years of the scheme. This would allow time for capacity building for both preparers and auditors, and allow sufficient time for assurance frameworks to be established.

Q13 Capability and data challenges

There are genuine data gaps and capability gaps and these will persist to some extent in the early years of the disclosure scheme. The disclosure framework should facilitate quality disclosure by companies even in the absence of complete data. It should require reporting entities to be transparent about (ie report information on) the data they are using – including any limitations and the level of uncertainty inherent in the data and any assumptions that have been made.

There are opportunities for Government to proactively support better data availability and governance through regulating key issues of data standards and quality, accessibility and transparency, and to streamline and aggregate data-sets across different government agencies. There are several data-sets that government could make accessible and available that will assist with climate-and other-sustainability related reporting including:

- **NGERS reporting data.** This data is very relevant to the climate-reporting obligations of financial institutions. The current approach to reporting of emissions under the National Greenhouse Emissions Reporting Scheme (NGERS) lacks transparency and makes it difficult to ascertain how facility level emissions relate to corporate performance. The Government's proposed Safeguard Mechanism reforms should address this issue, making information more readily available and understandable to investors and the public. Facility information should be linked to responsible entities, and entities should be required to report aggregate facility information. There is also a strong rationale for expanding reporting obligations under NGERs to cover equity holdings and scope 3.
- **Climate and environmental data.** A centralised platform to enable access to climate and bio-physical environmental data sets held by the Bureau of Meteorology, CSIRO and the Department of Climate Change, Energy, the Environment and Water. This would be used by the market to provide meaningful Australia-and sub-regional specific analysis and reporting on climate and nature-related risk and more granular scenario analysis.

Regulation and guidance around data governance and access to nationally relevant databases will enable higher quality, comparable and meaningful disclosures and accelerate market investment in data capability in response to the signal provided by the introduction of a mandatory disclosure framework.

Q14 Climate scenarios

Government has an important role in providing accessible and quality data, particularly on physical climate risks, to support entities to scenario analysis.

To promote consistency and comparability, and to support reporting entities (particularly those with fewer resources), Government should build on the ISSB baseline to develop more detailed guidance and standards for scenario analysis. This should include development by Government of a set of default climate scenarios based on internationally accepted scenarios adapted as appropriate for the Australian context. Reporting entities that elect not to use the default scenarios should be required to disclose their rationale for doing so.

Q15 Reasonable grounds challenges & disclosure of uncertainty/assumptions

In general, we expect a fulsome and transparent approach to reporting – particularly reporting of assumptions and any limitations or gaps in data – will adequately protect against potential liability for disclosures of uncertain information.

Q16 Interaction with continuous disclosure and fundraising disclosure requirements?

[No response provided]

Q17 Should climate disclosure regime be designed to accommodate growth of other sustainability reporting?

Internationally there is a trend towards comprehensive sustainability reporting in recognition that financial risks extend beyond climate to include nature and social issues. The disclosure framework should be established to accommodate an expansion to broader sustainability disclosure regime in coming years.

Q18 Mandate digital reporting

Reporting should be digital to facilitate efficient submission and capturing of data. Government would be required to play a role in education and support to enable this, as well as developing the necessary information technology infrastructure.

Q19 Governance and institutional arrangements

Processes and institutional arrangements for the climate disclosure regime should ensure that sustainability-reporting is afforded the same status as financial reporting.