

# BMT Submission

## *Climate-related financial disclosure: Consultation paper*

*February 2023*

### *Introduction*

BMT welcomes the opportunity to respond to the Treasury's Consultation Paper on climate-related financial disclosure.

### *About BMT*

BMT is a maritime-oriented high-end design house and technical consulting firm driven by an objective for solving complex, real-world problems.

We deliver design, engineering and consulting excellence in a world of ever-increasing change: growing compliance, new global competitors, the pressure to do more with less, ever-faster innovation cycles and less time to exploit market positions or new technologies.

We operate in 25 countries, employing more than 1300 people.

In Australia, BMT focus on environment and climate solutions assisting our clients to undertake climate risk assessments as well as auditing emissions sources and broader ethical, sustainability and governance (ESG) advice.

Working across both the private and public sector, we also assist our clients to develop practical resilience and adaptation plans to address physical risks from natural hazards as well as broader implementation strategies for progressive decarbonisation. Our services are underpinned by a strong technical capability in natural hazard numerical modelling and mapping for relevant issues such as flooding, erosion, and sea level rise, which are fundamental considerations to understanding what increasingly unavoidable future impacts from climate change will be.

Therefore, we have a strong interest in the future climate disclosure reporting framework and the underlying risk and opportunity assessment that is embedded in the Taskforce on Climate – Related Financial Disclosure (TCFD) guidance and advice (2017).

### *BMT Response*

Climate risk financial disclosure is an important tool to drive greater attention and responsibility by companies and organisations to understand exposure to risks from climate-related transition (decarbonisation) and physical risks; but also to commence more detailed planning around solutions. These can be setting and achievement of carbon reduction targets but also building resilience to ameliorate the impacts from physical risks.

However, it should be recognised that financial disclosure is a limited frame to address a risk of lack of planning and foresight that should be part of the fiduciary duties of the company directors or due diligence responsibilities of public/civil employees. In this context, disclosure needs to contribute to a much broader goal around Australian businesses and organisations being secure in a changed climate, and that in doing so they make themselves and their investors aware of the risks posed by climate change. A key benefit therefore is ensuring Australian business and organisations use disclosure to develop a clear pathway forward in a changing climate.

In accordance with this preamble, our response is focussed on responses to the following specific questions posed in the consultation paper:

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

As with implementation that has been undertaken in other national jurisdictions such as New Zealand and the UK, we believe a phased approach to climate related disclosure should be implemented. This should start with large publicly listed finance companies (many of which are already on their TCFD transition) and then moving to other publicly listed companies in other sectors. This should include extension to the energy and mining sectors as well as transport sector who will be affected by both transition and physical risks as land owners and built asset operators.

However, there is also an opportunity to use regulation and underlying guidance to encourage smaller enterprises as well as public sector organisations to undertake a climate risk and opportunity assessment in accordance with TCFD guidance. This would have a more voluntary requirement for financial disclosure underpinned by a code of practice. In addition, it would ensure a level of consistent consideration of climate risk and opportunities for all organisations that could build toward disclosure in future once risks are better understood and quantifiable.

**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)?**

We fully support regulations and/or underlying guidance to incorporate broader obligations and strategies for climate disclosure that relate to the guidance in TCFD (2017) around setting appropriate governance, strategy, risk management, and targets and metrics. These concepts and practices have been in place and publicly available since the original guidance was promulgated by the Financial Stability Board (FSB 2017) and most organisations globally are already using this framework in their initial response and strategies for climate risk and resilience. Enshrining these concepts from TCFD into Australian laws and/or applicable codes of practice will legitimise and ensure consistency across sectors rather than be driven specifically from a financial risk perspective.

**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?**

In our experience, it is critical that the climate risk and opportunity assessment (as per TCFD advice) that sits behind climate related financial disclosure is based on the latest climate science and has a degree of technical rigour that is transparent and defensible. This needs to focus on both transition risk and opportunities related to decarbonisation but also to physical risk to assets, operations, workforces and supply chains that could affect business revenue, profit and sustainability. In this context, the ability of accounting and auditing financial firms to provide detailed technical advice about climate risk – particularly for physical risks - is limited and further guidance, quality management standards and accreditation processes need to be explored for the technical risk and opportunity assessment process with inputs from relevant science and engineering sectors.

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

