

24 February 2023

The Treasury

To whom it may concern,

### **Climateworks Centre submission on Climate-Related Financial Disclosure**

Climateworks Centre welcomes the opportunity to respond to the Treasury Consultation Paper on Climate-related financial disclosure. Climateworks specialises in accelerated climate transitions for Australia, Southeast Asia and the Pacific in line with a 1.5°C limit. An independent non-profit organisation, Climateworks was co-founded in 2009 by the Myer Foundation and Monash University and works within the Monash Sustainable Development Institute.

Climateworks has worked with a variety of corporates and business associations to encourage effective business reporting on climate risks, opportunities and transition plans. This has included frameworks for meeting TCFD guidance, advising companies on scenario analysis and assisting with delivery of this analysis. For example, in 2018 we contributed to the Centre for Policy Development's report *Climate Horizon*<sup>1</sup> leading on the section *Understanding deep uncertainty through exploratory scenario analysis*. In 2022 Climateworks supported ACSI to assess transition planning and risk in ASX200 companies. In addition, Climateworks continues to be active in expanding and improving the related area of sustainable finance. Climateworks' CEO, Anna Skarbek, is a member of the Advisory Committee of Australian Sustainable Finance Initiative (ASFI) and Glasgow Financial Alliance for Net Zero (GFANZ) Asia-Pacific Advisory Board.

### **High quality climate risk disclosure and net zero transition plans are an essential part of good business management and corporate oversight**

Climateworks is a long-term advocate of standards and requirements for businesses reporting on their climate risk and opportunities. In our view, good reporting includes:

- physical and transitional impacts
- emissions arising from their operations, energy purchases and supply chains
- a transition plan to get to net zero emissions, including clear ambition for decarbonisation in the interim and long term.

There are two overall objectives of business disclosure of climate risks and plans. Firstly, disclosure and planning will help mitigate against material risks to businesses and investors from climate change, and the transitional impacts of climate change on the economy and the operating environment of businesses. In our view, understanding, disclosing and addressing climate risks is part of business and investor duties to ensure good management and meeting fiduciary duties. The business and investor community now widely recognise this, particularly since the work of the Taskforce for Climate-related Financial Disclosure (TCFD). Secondly, transition plans demonstrate to shareholders, investors and government how the business intends to reduce emissions in line with

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<sup>1</sup> <https://cpd.org.au/wp-content/uploads/2018/06/Climate-Horizons-report-2018.pdf>

national and global emissions reductions goals. This helps other entities to understand and act on their own climate risks and opportunities - and shows governments how businesses are contributing to national and state targets, which can assist in developing and revising climate policy. Good reporting can help all entities along a supply chain to understand risks and opportunities. The reports from one business or link in the supply chain are essential for the identification and mitigation of risk for other businesses in the chain; and therefore the ability to reduce scope 3 emissions from their customers and suppliers.

### **Businesses are already facing pressures and requirements to report on climate risk, so Australian government action can reduce uncertainty**

Climateworks' supports government standards for climate risk disclosure and mandatory reporting for certain entities - based on their size and exposure to risk. Climateworks supports this action both because of the usefulness of climate risk disclosure and because of the prevalence of international pressure and mandatory regimes for climate risk disclosure in comparable countries.

Many Australian businesses - particularly larger organisations - are highly exposed to international markets and finance. This, combined with shareholder and customer pressures and expectations, means that businesses are already reporting on climate risk disclosure. More major companies are also putting in place net zero emissions transition plans: Climateworks analysis through the Net Zero Momentum Tracker<sup>2</sup> shows that the number of major businesses making and reporting on their net zero commitments - including through net zero emissions transition plans - has increased rapidly over the last three years.

In the absence of federal government standards and guidance for reporting on disclosure and transition plans, it is harder for businesses to decide how to report and what to include when they do. In our view, this increases the costs to businesses of such reporting and reduces the effectiveness of disclosure for shareholders, investors and customers. Climateworks has noted that businesses support mandatory disclosure and government standards in this area because these will reduce the burden of reporting - given many are already having to report.

Climateworks supports Australian standards being aligned with emerging work by the International Sustainability Standards Board (ISSB) to ensure that our standards are broadly accepted. Government can build on existing work by the business and finance community and facilitate inputs into ISSB processes to ensure that international standards are relevant for Australia. In addition, active government involvement in this process will help provide guidance to Australian businesses on how to apply international standards.

### **Many major businesses are already reporting, so a rapid and reasonably broad introduction of mandatory reporting is possible and will be more effective**

Climateworks supports a rapid roll out for mandatory reporting of climate-risk disclosure and net zero emissions transition plans and that the business community will be able to comply. There is reasonable understanding and technical support available for such reporting and many major businesses are already submitting reports.

Climateworks supports the inclusion of large, listed entities; major financial institutions (including superannuation funds and institutional investors) and should go beyond publicly-listed companies within mandatory reporting. For instance, non-publicly listed companies could include entities covered by NGERs legislation and any comparable climate policies that are introduced.

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<sup>2</sup> For further details see: <https://www.climateworkscentre.org/net-zero-momentum-tracker/>

## **International expectations on climate risk disclosure and net zero transition plans cover all emissions and scenarios that include meeting a 1.5 C limit**

Climateworks has developed best practice guidelines for business reporting on climate disclosure and planning arising from our work with businesses advising on their climate reporting and the Net Zero Momentum Tracker - which tracks Australian businesses climate commitments.

In Climateworks view, high quality reporting includes meeting TCFD requirements on climate disclosure across all scopes - i.e. covering operations emissions and direct energy use, as well as customer and supplier emissions (scope 3). Climateworks also advocates for businesses to design and implement their net zero emissions transition plan which addresses four areas:

- a commitment to net zero emissions in line with Paris Agreement temperature goals - and at a minimum Australia's long-term goal of net zero by 2050
- medium-term targets that are appropriate and ambitious for the sectors
- tangible actions to support achieving these
- commitments that cover all emissions, such as value chain, customer and financed emissions – and not just operational emissions.

Climateworks is currently exploring international examples of net zero emissions transition plans - including and how international best practices that are developing could be applied to the Australian context. While this work is not yet completed, we would be happy to explore emerging insights with Treasury. These international examples are already considering and integrating with work by the ISSB.

Government setting mandatory standards for disclosure and for net zero emissions transition plans helps not only with standardisation as mentioned above, but also for comparability. Reporting based on transparent, credible and comparable data and frameworks will assist investors and consumers to make informed decisions around climate risk and opportunities.

## **Government can support businesses to report, especially for small and medium businesses outside the mandatory regime, which may be asked for additional information from financiers and customers**

Climateworks supports a new regulatory framework that covers all aspects of disclosure obligation the discussion paper mentions - strategy, governance, risk management and targets. Climateworks recognises that scope 3 emissions are harder to measure, with complexity around setting boundaries for inclusion and harder for companies to control. However these difficulties are balanced by the importance of shareholders and financial organisations understanding the risks associated with scope 3 emissions.

We therefore see an additional role for the government to support businesses to measure and report on emissions across the supply chains. We note that small and medium businesses that are not directly covered by mandatory reporting regimes may be expected by their customers and financial institutions to report on emissions. This has happened with the introduction of safety regimes - e.g. food standards - and the government could apply lessons learned from support to businesses in the rollout of such standards, to help Australian businesses maintain access to markets.

Climateworks also notes that regulators in Australia and in other jurisdictions are beginning to prosecute or fine companies for greenwashing. Climateworks suggests that a mandatory regime would increase confidence and support businesses to both understand expectations and avoid litigation. The government could also assist with standardisation for reporting and for the scenarios an entity uses, when implementing mandatory reporting.

**Given fast emerging expectations around nature-related risk disclosure, it will be more effective if the government factors these expectations into a mandatory regime**

The Taskforce on Nature-related Financial Disclosures is developing a risk management and disclosure framework to enable organisations to report and act on evolving nature-related risks. Both the framework and the guidance that surrounds it are advancing rapidly. This work remains at an earlier stage than the TCFD, but Climateworks suggests that the government acts now to design requirements and guidance on climate risk disclosure and net zero emissions transitions planning, in order to be able to incorporate these future expectations around nature-related risks. Climateworks recognises there are additional challenges around credible, robust and accurate reporting for nature-related disclosures. The character of this reporting, including expectations, frameworks and timings, is therefore likely to be more flexible.

Climateworks is part of the Natural Capital Investment Initiative. This initiative is creating a comprehensive set of natural capital measures and options for incentivising natural capital measurement at the property level. The work of this project to create tools and resources to support farmers and land managers across Australia to efficiently measure their natural capital, is likely to provide useful insights for the wider area of nature-related risk disclosure. We would be happy to discuss this work with the Department.

Thank you for taking the time to consider our submission. We would welcome the opportunity to brief your team should you wish to explore our responses in further detail.

Yours sincerely,

  
Head of Strategy,  
Climateworks Centre  
