

Climate-Related Financial Disclosure

ACCI Submission

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Introduction

The Australian Chamber of Commerce and Industry (ACCI) appreciates the opportunity to provide comment to the Treasury on Climate-Related Financial Disclosure and the implementation of standardised, internationally-aligned requirements for disclosure of climate-related financial risk and opportunities in Australia.

On an international level, more sophisticated regulation surrounding climate-related disclosure is being introduced. New Zealand recently introduced mandatory Environmental, Social and Governance (ESG) disclosure for some financial institutions (large publicly listed companies, insurers, banks and investment managers) requiring them to make climate-related disclosures, largely based on recommendations made by the Task Force on Climate-Related Financial Disclosure (TCFD). The United Kingdom has passed similar legislation and the European Union's newly-formed Corporate Sustainability Reporting Directive requires investment firms and fund companies to fully disclose sustainability risks, regulate and mandate ESG disclosure.

In Australia, the Commonwealth is committed to a greenhouse gas emissions abatement task of 43 per cent below 2005 levels by 2030 and net-zero by 2050. This ambitious goal was supported by businesses, investors and consumers, and represents the Australia's commitment to take a leadership role in the global emissions reduction challenge.

Australian businesses recognise the importance of meeting our climate commitments, with many businesses further ahead in voluntarily disclosing climate-related finances. For example, PwC reports that 70 per cent of companies have a sustainability strategy¹, whilst a report by the Australian Council of Superannuation Investors (ACSI) on ESG reporting trends among the ASX200 found 70 per cent of companies disclosed a 'detailed' or 'comprehensive' amount of ESG data. The level of non-reporting has been steadily declining since 2019.²

Acknowledging that this is a continually evolving area, we recognise there are some gaps in disclosure, participation and credibility of climate-related disclosure. Currently, Australia has no overarching climate-related regulation, rather there is a patchwork of regulatory regimes operating at the Commonwealth, and state and territory, levels. This has caused significant variation in disclosure, with less than half of ASX200 companies disclosing a net-zero target and only 55 per cent identifying climate change as a current and emerging risk.³ There is no standardised way of defining and measuring climate-related risks and, as such, there is no way for comparison between companies. Improving the consistency of these metrics has the capacity to contribute to the appropriate valuation of business engagement in climate-responsible practices.

However, we caution that the benefits of standardised reporting frameworks need to be appropriately weighed against the deterrence and barriers placed upon stakeholders engaging in the Australian marketplace, and the regulatory burden placed on business.

Businesses in Australia are already heavily regulated. The introduction of climate-related financial disclosure requirements adds to the administrative burden and compliance costs for entities. Australia needs a regulatory environment that enables our industries to compete in the international market and make Australia a more attractive destination for foreign business to engage with, and invest in. As such, the processes of climate-related disclosures need to be streamlined to minimise any risk of disproportionate regulatory burden and avoid disrupting business as usual. A threshold on the size of the

¹ PwC, ESG Reporting in Australia – the full story, or just the good story?, 2021

² ACSI, ESG reporting trends in the ASX200, June 2022

³ PwC, ESG Reporting in Australia – Change afoot, but are companies ready?, 2022

business involved in the initial phase should also be set, acknowledging the relevance of reporting to certain businesses and their ability to resource disclosure processes.

International Alignment

The Australian market is increasingly attracting global investors, and many Australian companies operate and invest internationally. International alignment of climate-related reporting can be useful in providing consistency and comparability for companies operating and investing internationally. To avoid fragmentation and overburdening business with administrative and compliance costs it is necessary for Australia to align with international baselines.

Furthermore, the information disclosed cannot be compared when the data is misaligned. This undermines and undervalues the climate-related investments and practices that a company engages in, ultimately disincentivising progress. For these reasons, ensuring that the reporting requirements in Australia are aligned to international standards is important.

The TCFD recommendations on climate-related financial disclosure are being adopted by many countries when legislating their disclosure requirements. ASIC has prepared draft temporary guidelines, adapting the TCFD for the Australian environment.

Acknowledging that the International Sustainability Standards Board (ISSB) are in the process of developing a comprehensive standardised climate disclosure framework, it is important that their framework and the TCFD's recommendations are tailored to the Australian context. It is of great importance that the reporting requirements are suitable for Australian business, and are unified across states and territories.

Threshold

ACCI recommends small businesses are not subject to the administrative burden and costs of climate-related financial disclosure in the initial stage. Smaller businesses should be afforded adequate time to adopt the necessary procedures and develop the requisite skills to meet mandatory disclosure requirements, recognising they face proportionately higher administrative burdens due to their limited finances and resources. As such, the initial phase of mandatory disclosure requirements should only apply to large companies covered by the *Corporations Act 2001*.

We recommend Treasury consider the use of the Australian Securities and Investments Commission's (ASIC) definition of small proprietary companies⁴ as the threshold to exclude smaller entities from the initial phase of mandatory disclosure requirements. This being that any entity that satisfies at least two of the following criteria are excluded from mandatory disclosures, but may participate in voluntary disclosures:

- an annual revenue of the company and any of its controlling entities is less than \$50 million
- consolidated gross assets of the company and any of its controlling entities is less than \$25 million
- the company and any of its controlling entities employs less than 100 employees

⁴ ASIC, *Are you a large or small proprietary company?* <https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/preparers-of-financial-reports/are-you-a-large-or-small-proprietary-company/>

Once mandatory disclosure requirements have been applied to larger entities, Treasury should then consider gradual phasing, progressively applying the disclosure requirements to medium and then smaller entities. However, the considered expansion must be done in a manner which is proportionate, recognises the challenges facing smaller entities and allows appropriate lead times for smaller entities to adopt the relevant procedures and develop the requisite skill sets to meet the reporting requirements.

It is essential the inclusion of smaller businesses in the later phases on the disclosure requirements allows ample preparation time and access to additional government support so they can meet the climate-related reporting requirements at minimal costs.

Design of Regulatory Framework

The development of the regulatory framework for climate-related financial disclosure should adopt a proportionate approach, in line with Treasury's reform principles set out in the consultation paper. Businesses in Australia currently face various challenges to ensure their compliance with regulations. It is crucial that the proposed requirements are introduced in a proportionate and phased manner to avoid causing any major disruptions or risk of uncertainty in the business community.

The design of the regulatory framework should build upon existing requirements to disclose any material risk. Redesigning the regulatory framework causes significant changes to the flow of business operations, disrupting productivity, output, and confidence. Adapting existing disclosure requirements to include climate-related finance, whilst still adding to the administrative task, would provide a least-burdensome approach that aims to avoid major disruptions to business.

Currently, climate-related risks are incorporated into annual operating and financial reviews. The framework for climate-related financial disclosure should use this pre-existing framework. Establishing a separate report solely on climate risks and opportunities would place further burden onto business.

Assurances of Climate Risks

A lack of transparency, and the potential for false and misleading claims, is a barrier to business investment in climate-related practices. Greenwashing is present in the market and can significantly derail the effectiveness of the proposed mandatory climate disclosures. If claims are unverified by independent sources, or accompanied by no assurances then the trust stakeholders and investors place on ESG and climate-related disclosure is jeopardised. This would risk undermining and undervaluing honest climate-related governance, strategy and risk management investments made by business. Whilst still adopting a least-burdensome approach, disclosures should be subject to assurances to establish integrity in the information being released.

Reporting of Metrics

To ensure the effectiveness of the requirements, it is important there is consistency in reporting across businesses and industry. The development of a common baseline of metrics supports the need for reliability and comparability of disclosure to stakeholders and, if clearly communicated, provides businesses with a framework and methodology to follow when reporting their climate-related risks. If businesses are left to determine their own metrics to report their climate impact, this will significantly limit comparability and, contribute to inaccurate valuation of business investments.

The development of common baseline metrics allows business to simply follow a framework, reducing associated administrative costs. ACCI supports the notion of pre-set baseline metrics determined through consultation with industry. It is crucial that the businesses involved in the disclosure requirements are engaged with and any findings are clearly communicated so as not to disrupt their operations and reporting more than necessary.

When consulting with industry, the focus should also be on avoiding the duplication of disclosure requirements. Any duplication of reporting places undue burden on business and their day-to-day operations.

ACCI is open to the delayed inclusion of Scope 3 emissions in the mandatory climate-related financial disclosure regime. Any future extension of this scheme must apply appropriate lead times, so entities can adjust their processes as necessary and develop the relevant skills. A phase transition period would permit data-gathering capacities to be developed. It would also allow time for the development of better data and methodologies relating to Scope 3 emissions which are currently difficult to accurately report.

Further, ACCI stipulates that consideration to gradually and progressively applying Scope 3 reporting requirements should follow a detailed review after the first phase of the scheme. Its phased introduction should start with larger entities, then expand to medium and smaller entities allowing for necessary warning and preparatory times.

ACCI also recommends the Government prepare and release guidelines for reporting Scope 3 emissions in the near term, to both facilitate voluntary disclosure and help prepare entities for the potential inclusion of Scope 3 emissions disclosure as the scheme evolves.

Proportionate Application of Liability

The removal of greenwashing should be a hallmark of this legislation. The promotion of false and misleading climate-related claims has the potential to undervalue true and accurate business investment, unfairly sway investor decisions and ultimately discredit business investment in climate-friendly practices.

Nonetheless, the penalties that apply to businesses that have made forward-looking statements and disclosures of uncertainties and assumptions that are subsequently found to be erroneous needs to be proportionate. In particular it would be disproportionate to heavily penalise businesses for disclosures on potential future outcomes and uncertainties that end up inaccurate as a result of factors beyond their control. Furthermore, if Scope 3 emissions disclosure were to be implemented into later phases, safe-harbour provisions and liability protections should be established as data for this metric is evolving but at present largely unreliable. These provisions should apply to all entities, but particularly to small and medium-sized entities, limiting their liability when they are making good faith attempts to meet their disclosure requirements. ACCI recommends that each disclosure's liability is determined on its merit and context, installing ASIC's existing 'reasonable grounds' advice for forward-looking statements.

Sustainability and Digital Sustainability Reporting

The expansion of other nature-related sustainability reporting should be omitted in the initial stages of development of the framework of the climate-related financial disclosure design. However, businesses can voluntarily disclose this information. The additional regulatory burden of reporting on other sustainability metrics, such as biodiversity or water, is likely to be very high and would, in most cases, outweigh the benefit. The incorporation of further sustainability disclosure needs to be left at the discretion of a business.

Digital reporting of sustainability practices should also remain voluntary, with the cost of enforcing this requirement upon business outweighing its benefit. A telling indicator of business disinterest in digital reporting are the zero lodgements that have been made since digital financial reporting options were made available in 2010.⁵

Financial Reporting Frameworks

ACCI advocates strongly for a financial reporting system that operates efficiently and in an easy-to-use manner for business that does not complicate reporting processes nor the administrative burden. For this reason, ACCI supports in principle the proposed 'Potential Structure 1' that establishes the role of developing, making and monitoring climate and sustainability related standards into the Australian Accounting Standards Board (AASB).

Businesses are already familiar with the AASB processes, making it easier for them to comply with the disclosure requirements. The AASB, which brings experience and industry credibility, has already commenced groundwork to incorporate climate and sustainability related risk disclosure into their functions.

The alternative, to establish a separated sustainability board, should be avoided as it fragments and potentially duplicates some reporting requirements.

Recommendations

Recommendation 1

The reporting requirements, whilst closely aligned to international standards, be tailored to the Australian context and consistent across states and territories

Recommendation 2

The climate-related financial disclosure requirements should be aligned with the international TCFD recommendations

Recommendation 3

Small and medium-sized businesses should be excluded from the initial phase of the disclosure requirements. They should be phased in following ample preparatory time and with additional government support

Recommendation 4

The design of the regulatory framework takes a proportionate approach and builds upon existing disclosure requirements

⁵ The Treasury, *Climate-related Financial Disclosure*, Consultation Paper, December 2022. [p.16]

Recommendation 5

The periodic reporting requirements of climate-related financial disclosure continue to be incorporated into annual operating and financial reviews to avoid duplication

Recommendation 6

In consultation with industry, a common baseline of metrics be established to provide consistency to data reported and a guideline for business to follow

Recommendation 7

Scope 3 emissions be included in the later phases of climate-related disclosure following a review of the initial phase and further consultation with industry. Its inclusion should be phased to apply to larger entities first, then subsequently medium-sized and smaller entities, granting appropriate lead times.

Recommendation 8

Any penalties relating to inaccurate but unintentionally misleading claims or assumptions are proportionate, taking into account good faith reporting

Recommendation 9

The climate-related financial disclosure framework should remain flexible for voluntary business participation in other nature-related sustainability disclosures

Recommendation 10

Digital reporting of sustainability disclosure should remain voluntary

Recommendation 11

'Potential Structure 1,' establishing the AASB as responsible for developing, making and monitoring climate and sustainability related standards, offers the most efficient method to incorporate climate risk disclosures into the financial reporting system

About ACCI

The Australian Chamber of Commerce and Industry represents hundreds of thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people.

ACCI strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

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