Thursday 16 February, 2023

Climate-related financial disclosure – request for consultation

Addressing what scope and timelines Australia's climate risk (and preferably sustainability reporting) disclosures should take, is a critical decision for Australia, its inhabitants, and global citizens of the planet. It is our view that not only should Australia align with international best practice but examine where a leadership position could be taken.

We speak from a position of interest as a small, Perth-based sustainability consultancy with clients from both the east and west coast, large and small, listed and private. We guide clients on materiality, reporting standards and frameworks, strategy and communication. We recognise the challenges currently facing corporate reporters and have no wish to increase complexity for them. However Australia is now a laggard in this space and needs to move quickly to ensure we keep pace with international partners, not to mention fulfilling our responsibility under the Paris agreement and the negative trends we currently see in the natural world.

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)?

Costs are certainly, time, resource and budget. Benefits are retaining a pristine environment, healing our precious natural treasures like the Barrier Reef, supporting communities and helping them prosper in the long term. Another benefit is being able to direct capital to where it will provide shared value.

In particular:

1.1 What are the costs and benefits of meeting existing climate reporting expectations?

1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

Australian businesses being disadvantaged in international markets and paying higher than average rates for business loans.

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

Yes, a phased approach is appropriate, however we purport that initial entities being covered are most likely already fulfilling 90% of requirements through current, voluntary TCFD reporting, therefore the first cohort could be brought a year forward to FY24.

2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

Our preference would be for cohorts in order:

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1 Any financial or listed organisations with over 1000 employees (FY24)
2 Any financial or listed organisations with over 500 employees or private organisations with over 1000 employees (FY25)
3 Any financial or listed organisations with over 100 employees or private organisations with over 500 employees (FY26)
4 Any private organisations with over 100 employees (FY27)

Question 3: To which entities should mandatory climate disclosures apply initially?
Any financial or listed organisations with over 1000 employees

3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?
1000 employees

3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?
No

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?
Yes, but also include other key standard setters like GRI and then at a later stage report how they are aligned to Australia's national reduction targets, Paris commitments and net-zero.

4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?
No these fit with developed country status that Australia occupies.

4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?
National targets, particularly commitments of those to the Paris agreement and net-zero should be included at a later stage.

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)?

Question 6: Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?
Must be annually reported, where (Sustainability Report or Annual Report) is at the discretion of the company but it must be publicly available.

Question 7: What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?
No, it should not just align with ISSB and should consider double and impact materiality as outlined by GRI and other standard setters. Enterprise value is not an acceptable materiality determinant. The 'Context-based sustainability' materiality process is also an authentic and helpful tool. I cannot overemphasise the importance of this. Society demands that this should cover more than outside in impacts. It should absolutely look at impacts the business has on stakeholders and ecosystem wellbeing.

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?
Not an urgent first issue. Assurance should come in the second reporting year and can be carried out by any organisation who conforms to independence and quality management standards. This should not be limited to current auditing firms.

Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?
Scope 1 and 2 in year one, Scope 3 in year two. Methodology should be guided by GHG protocol and refined by the regulatory body.

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?
Absolutely yes, though this can be a challenge for hard to measure indicators like Scope 3.

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?
Determined by legal precedent and ASIC/APRA greenwashing parameters.

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?
Yes, as this is a new, immature and evolving field, companies need time to build their capacity. However, this shouldn't be interpreted as companies being able to kick it down the road indefinitely. There are planetary boundaries and international commitments (Paris) that Australia needs to contribute to on a specific timeline. Phase timings should be the minimum possible to develop the capacity.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?
Scenario analysis and Scope 3 calculations are the two possible challenges

13.1 How and by whom might any data gaps be addressed?
13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?
Granular guidance in methodology for both Scope 3 calculations and Scenarios for business to use. However, there is benefit in companies doing Scope 3 calculations and developing the scenarios themselves, as this will lead to greater understanding of the macro context and will likely provide more relevant and detailed disclosures.

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?
See above. No it does not need to be a specific entity, but it would benefit from scientific input from a body like CSIRO.

Question 15: How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?
If businesses make claims, there should be assumptions, ideally science-based ones, behind it. If there are genuine mistakes, which will happen, the regulating entities should work with businesses to guide them to the correct path.

Question 16: Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements and how should these interactions be addressed?

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?
So essential. There are many, many years of experience in full sustainability reporting and climate should be the first step in this journey. There are numerous other sustainability aspects that warrant coverage like diversity and inclusion, nature and biodiversity, water and modern slavery. All of those current regulations (NGERS, NPI, WGEA, Modern Slavery) could be brought under the one umbrella. Climate is an excellent starting point but I can't stress how important it is for sustainability to be looked at holistically.

Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

It isn't essential, this would be beneficial but can be brought in at a later date. The most important thing is for this to start as soon as possible.

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?

Sincerely,

[redacted]

[redacted] – Futurepoof Managing Director
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