Climate-related financial disclosure – consultation paper

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Mint Asset Management supports climate-related disclosures being made mandatory in Australia, as they have been in New Zealand. Our submission stresses the importance of aligning Australia's climate-related disclosures with the work of the TCFD and ISSB. These are the frameworks being adopted globally, and Australia risks being an outlier if a different approach is adopted. We expand on these points below.

Mint's position as a New Zealand-based fund manager does not allow us to have a full and informed view on certain points. Therefore, we have not answered all questions in the consultation.

Thank you for the opportunity to submit on this topic. We welcome ongoing discussion.

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)? 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?

The TCFD is the most widely accepted framework for climate-related disclosures. Adoption continues to increase, as observed by Treasury in the consultation paper. As is also observed, the ISSB work is building on the TCFD. Alignment with both should therefore occur.

The increasing uptake of the TCFD and ISSB work globally results in several advantages that Australia stands to benefit from if alignment occurs. The collection, completeness and accuracy of climate-related risk data continues to improve. Systems and tools for analysis continue to be enhanced. Guidance and learnings continue to be shared. Best-practice reporting continues to develop. If Australia chooses not to align with international practice, they risk missing out on all these benefits. The costs of not aligning could include a failure for Australian businesses to be viewed credibly, an increase in compliance costs, and decreased access to capital.

We cannot comment on the costs and benefits of meeting existing climate reporting expectations in Australia.

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

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

A phased approach is preferential. A transition period allows the collection, coverage and accuracy of data to improve, and appropriate resources to be budgeted for. Currently, analysis tools and services to assist with implementation of climate-related disclosure reporting are of considerable cost. A phased approach might allow these costs to come down.

Reporting by some entities relies on disclosures from other entities. Consideration could be given to delaying reporting requirements for entities dependent on the disclosure of others, such as financial intermediaries.

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

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?

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?

Alignment with the TCFD and the ISSB baseline work is crucial to access all benefits of an increasingly global system – see our answer to question 1. We do not believe the Australian context requires a different implementation.

A departure from following the ISSB would likely result in a failure to achieve several of the reform principles. It would also increase associated costs for Australian entities, as they could not leverage off the work developing globally. No alternative standards should be considered.

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?

In order to achieve the considerations outlined in the Treasury paper with regard to design, we suggest the overarching obligations are set through regulatory guidance or standards, rather than in legislation. The New Zealand regime has been set in this way and it has enabled a more comprehensive consultation on setting the standards than incorporation into legislation would allow. To promote flexibility for any future developments made by the TCFD and ISSB, inclusion in guidance or standards is more appropriate.

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?

We cannot provide a fully informed view on this point given we are not subject to Australian reporting requirements. However, we agree with the approach here to minimise any additional regulatory burden and costs.

We note the Task Force, in their Final Report[1], recommend most preparers of climate-related financial disclosures provide these in their public annual financial filings. However, they also recognised that reporting by asset managers and asset owners to their clients and beneficiaries generally occurs outside of mainstream financial filings. Therefore, they recommend asset managers and asset owners should use their existing channels of financial reporting to their clients and beneficiaries where relevant and feasible (with a consideration for materiality). Best-practice for asset managers and asset owners now dictates that any stand-alone sustainability reporting is referred to in public financial filings, to ensure end-users can access them easily.

Referring to the Treasury's discussion on further sustainability reporting potentially being adopted in future (question 17), whichever format permits the most flexibility to allow for this future incorporation is recommended. For example, any documents with word or length limits would not be appropriate for any type of sustainability reporting.

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?

We cannot make specific comments here given we are not familiar enough with existing emissions reporting frameworks in Australia. However, as a general comment, it would be prudent to avoid being too prescriptive when implementing reforms, to allow for best-practice offshore to continue to develop and dictate the metrics, targets, disclosures etc that Australia and Australian companies should make.

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Any action that follows the recommendations of the TCFD and ISSB is acceptable. If the ISSB's final standard includes an appendix of industry-specific metrics, this should be followed in Australia. To depart from this would mean a failure to achieve several of the reform principles.

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?

As the TCFD and ISSB have included coverage of offsets and transition plans in their frameworks, the prudent action is again to follow these as closely as possible. It is not recommended to be overly prescriptive beyond this, as it risks departure from the global frameworks.

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

In New Zealand, the External Reporting Board recognised it takes time to develop the capability to produce high-quality climate-related disclosures.[2] As a result, they have mandated assurance of greenhouse gas emissions disclosures from the third anniversary of the Act obtaining Royal Ascent (i.e., October 2024). Organisations can undertake voluntary assurance before this, but the delay in

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[1] https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf
[2] https://www.xrb.govt.nz/standards/climate-related-disclosures/aotearoa-new-zealand-climate-standards/aotearoa-new-zealand-climate-standard-2/

mandated assurance recognises the data quality and capabilities will evolve over time. This could be considered by Treasury for the Australian context.

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

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?

We can't provide a view on specific capability or data challenges in the Australian context. However, data gaps are an inherent feature of all non-financial risk assessments, especially those in their relative infancy like climate-related disclosures are. This should not be a deterrent to implementing a framework that is aligned with the TCFD and ISSB. Data gaps will continue to be improved upon as the services and systems for implementation of climate-related disclosures continue to improve.

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?

Particularly from the perspective of asset managers, centralisation of data from third party providers would be considerably helpful. The substantial cost barrier mentioned previously would also be removed, allowing for the regime to be applied across a wider cohort of entities from the beginning.

As is the case in New Zealand, Australian industries may come together to develop climate scenarios and identify risks for use by climate-reporting entities.

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?

Forward-looking analysis is essentially an educated guess as to what the future of a company might look like. But it is still a crucial part of the journey to a 1.5-degree world. Within the metrics and targets section of the TCFD, companies must provide a "point in time" snapshot of their carbon footprint. Future snapshots are a test of the accuracy of the company's forward-looking analysis (albeit delayed). The TCFD recognise in their Final Report that the assessment of climate-related issues and potential financial implications is a recent practice. They expect reporting to improve and evolve over time as investors, organisations and others contribute to the quality and consistency of the information disclosed.

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?

While climate reporting is a recent development, it arguably has come significantly later than it should have to tackle climate change. With a globally accepted framework for climate reporting now well established, this can form as a template to facilitate the development of other types of sustainability reporting. Indeed, the establishment of the Task Force for Nature-Related Financial Disclosures (TNFD), as Treasury has recognised, is one such development. The implementation of the TNFD and other sustainability reporting should be considered in the implementation of a climate-related reporting regime – that is without question. The extent to which these are considered is where the question lies.

We would suggest looking offshore and particularly in Europe to see if and how a wider range of sustainability reporting has been collated. See also the discussion around question 6. Consideration should be given now to a format of reporting that allows future sustainability reporting to also be incorporated. This will help to keep costs down too.