Submission to *Climate-related Financial Disclosure Consultation Paper*

Thanks for opportunity to make a submission in relation to the Australian Government's considerations relating to climate-related financial disclosure. I am a consultant and micro-producer in a small business economy (Tasmania) with a PhD and expertise in social-economics of policy reform. I have been following the response of the reinsurance industry to climate change since 2010, in recognition that the investment sector underpinned global dependence on security of insurance against extreme events. While it has been difficult to access information, the general issues are easy to realise via cashflows and systemic implications. The knowledge hub managed by TCFD is helpful for fostering a common international language across scales of business.

Climate-related financial disclosure inherently involves a lot of resources and politics across all scales of decision-making and administration, in every industry and jurisdiction. Thank you for releasing a public consultation paper. I am happy to be contacted in relation to this submission, which is based on my interests in regional futures.

Comments on the consultation paper questions:

Q1. Should Australia align with international practices?

International trade will require Australian companies to align with international market expectations of disclosure. This alignment will be driven 'top-down' by the global investor market, and is happening already. The Australian Government has a small window of opportunity to regulate for consistency within our domestic market. As a small business with multiple client and service relationships, domestic regulation and consistency is critical: small businesses cannot afford to have every provider (eg bank, insurer) and buyer (distributors, buyers) asking for the same information in slightly different ways. Small to medium businesses will need to

- know there will be some consistency of information required,
- know there is public data and tools to assist and standardise reporting requirements,
- be able distinguish what information is legally required from what information is being sought for commercial advantage.

As already evident in international trade, the easiest way for large companies to recruit the necessary information is to ask anyone those do business with to report. Reporting requirements are already trickling down some sectors. The risk is that small operators will be unable to meet the demands for information from multiple sectors in a range of different formats. It is therefore critical that small operators are engaged in the design of regulation, even though the intent is to design for the big companies/industries first.

Q2. Should Australia adopt a phased approach?

Yes. This is consistent with other countries and respects that everyone anticipates a steep learning/evolutionary pathway. The risk to a phased approach is that 'seats at the table' are inevitably used to ensure regulations prevent competition (company directors are contractually obliged to do what is good for their company). All players will relay what overheads they can; the big players will design such that smaller parties shoulder risk; the little players need to be able to shoulder it. For this reason we need viable mechanisms to ensure small business have a place at the table will get their perspectives accounted.

Q3. Which entities should be included from the start?

The global economic drivers behind creation of the TCFD pretty much require a 'top-down' approach to national roll-out of reporting. Small business has to be considered throughout the process for roll-out to be viable because sectors will specialise and diversify. This leads to small business being subject to a mass of disconnected, seemingly inconsistent requests for information from all sides. Engaging small businesses from the start will help sectors streamline. This serves the government, regulation, and businesses who only directly trade within the domestic market.

Q4. Should Australia seek to align climate reporting requirements with baseline envisaged by international sustainability boards?

Yes. The challenge is if/how international standards translate (through scales of economy) to businesses on the ground. Businesses on the ground are best able to advise on what is viable and what is not. This is particularly important as requests for information are more likely to be decentralised to smaller parties than opportunities are (i.e. small and medium companies will receive sticks but no carrots!).

Q5. Key considerations to informing roll-out

The socio-economics of scaling down the domestic economy need to be integrated into design of roll-out as early as possible. This should include:

- Robust and grounded insight into flow-on implications for small businesses, particularly for base producers (primary production, manufacturing) with multiple products/clients who may have different sector reporting needs.
- Resourcing 'bottom-up' approaches to plan for climate-related financial disclosure. This is important for ensuring small and medium players have access to opportunities to counter-balance the demand for information requirements. At the moment there is very very very little on-ground recognition of 'climate-related financial disclosure', so the small end of the economy is extremely disadvantaged in terms of knowing the context, implications for services they rely on, implications for future reporting, capacity planning, etc etc.

Q6. Should climate reporting be integrated or separated from annual operational and financial reviews?

Global investors are the primary client for this reporting, so a climate report summary should be profiled alongside operational and financial overviews within the annual report. Investors are primarily concerned with financial risk; they need climate-related financial disclosure to be reported in that context.

Q7. Reference points for materiality judgements

No comment (insufficient time to understand nuances)

Q8. What level of assurance is required and who should provide it?

Quality assurance of climate-related financial disclosure of international companies will come from global investor pressures. Australia's public (service) need not shoulder international investors' responsibilities (doing so may carry legal risk). The Australian Government's role is clearer in relation to ensuring the expectations, standards and design of roll-out is viable for all scales of business within the domestic economy. This includes:

- Designing roll-out that accounts the viability of all scales of operation the national economy relies on,
- Establishing national standards and metrics,
- Providing publicly and freely available tools that meet the national standards and metrics,
- Quality assurance, extension and maintenance of those tools.

Q9 – Q12

Small to medium businesses will not be able to meet reporting demands of climate-related disclosure requirements if language and requirements diversify in each sector. If businesses on the ground cannot meet the reporting requirements and also do not have help accessing opportunities, they will be unable to transition with the global economy. This will have significant implications for Australia's national (regulated) economy and social structure. I would like to create a trial 'local community of interest' around climate related financial disclosure to help identify how to bridge globally driven transition with locally viable change.

Q13. Capability/data challenges that ought be considered

The first means of dealing with data gaps should be to identify them. It is the responsibility of investors to know how companies are identifying and managing risk. The Government does not have a logical role in worrying about big companies. However, demand for data will flow to medium and small businesses. There will be a need to ensure those players have access to data that allows them to report 'up and out' (see response to Q12).

Public data custodians (e.g. Bureau of Meteorology) must be directly involved in how climate-related financial disclosure is rolled out. If public data doesn't exist or cannot be accessed, then requirements for disclosure cannot flow through the economy.

The Bureau of Meteorology and CSIRO have a joint project (funded via DAWE Future Drought Fund) that pools climate data called *Climate Services for Agriculture*. As a past project employee responsible for identifying relevant services required by the finance sector, my recommendation was the project look to enable primary producers to auto-generate climate risk reports for their production on their farm. The project platform could then host branded information templates that enabled farmers to input their location/product/risk management. Climate-related risk information could then be auto-generated and sent to both the farmer (for planning etc) and the relevant buyer/financier (ideally meeting climate-related financial disclosure standards in a manner that could be aggregated, but was also useful to the farmer). At the time, project management had no awareness of climate-related financial disclosure and/or no confidence to consider building these services. Nonetheless, the project demonstrates that data custodians within government are already creating the sorts of projects with the right sort of potential – they need to be given the context, delegations, resources and confidence to get on and test/demonstrate what is possible.

Q14. Is there a case for an entity or entities to provide information necessary to meet the disclosures (e.g. climate scenarios)?

There must be a public standard of data which is publicly accessible and designed to ensure small to medium businesses can provide information in the format and standard required by their buyers/service providers (i.e. bigger companies). Climate-related financial disclosure has to be rolled out 'top-down', but the integrity/value of disclosure is very heavily dependent on the economy being able to report 'bottom-up'. Data providers and small business must be represented in the design from the outset and through the roll-out.

Q15. How suitable is 'reasonable grounds' as a standard for disclosure?

'Reasonable grounds' will compromise the aggregation of risk and result in fairly meaningless reporting. For example: in broadacre agriculture, climate is a chronic risk not an operational priority. So every farmer has reasonable grounds not to give climate priority in annual reporting. However, if farmers don't (or under) report climate-related financial risk, then food distributors can deny there is cumulative risk … even if they know it exists.

'Reasonable grounds' needs to be accepted as a starting point that will become better defined as disclosure is rolled out. This tightening of definition is already happening at the international level of discussion.

Q16. Interaction with other reporting obligations?

The biggest concern is administrative capacity of small and medium businesses to respond to diverse demands for information from multiple sectors. Climate reporting has to be streamlined across sectors. The best way to do this is to provide tools which allow easy reporting and use public data. Then regulation and auditors can focus on the integrity of the tools, rather than having to assess the quality of each individual report.

Q17. Flexibility to incorporate growth of sustainability reporting.

If the data sources are essentially the same (location, climate scenario risks, business management) then the focus should be on developing standard tools

Q18. Digital reporting.

People in rural and regional areas put a very high value on autonomy. If things move towards digital reporting, there are social and cultural implications that ought be considered. This also applies to public data being used to independently assess properties (not many farmers know this is already done by insurance, finance, distributors, and various other sectors).