



Climate-related Financial Disclosure: Exposure Draft Legislation

Treasury

February 2024

National Retail Association

Contents

About the National Retail Association 3

Introduction..... 4

 About us 4

 Our submission..... 4

General Comments 5

Specific Comments 5

 1. Retail Industry-Specific Considerations 5

 2. Franchise Arrangements..... 6

 3. National Green House and Energy Reporting alignment..... 6

 4. Casual Employees..... 6

 5. Auditing and assurances 7

 6. Industry preparedness and timing 7

 7. Government guidance resources 7

 8. International Alignment of legislation..... 8

Conclusions 9

About the National Retail Association



The National Retail Association is a not-for-profit organisation that represents the interests of retailers across Australia.



We exist to support, inform, protect and represent the interests of retailers and fast food businesses. We understand the issues and opportunities facing retailers every day.



Our members can expect to receive the latest industry information, the fastest news updates and the best range of industry insights to help their business grow and succeed



The retail industry plays a huge role in Australia's economy, employment and greater livelihood and we are dedicated to helping unite retailers and stakeholders for the success of the industry now, and for the future.

Introduction

About us

The National Retail Association is the most diverse retail industry association in Australia, representing over 60,000 retail outlets of all sizes and from all categories, including food retailers which are under-represented in other industry bodies. The National Retail Association not only leverages off the strength of its existing member network and existing communication channels, but we are one of the few industry associations which actively engages with retailers beyond its membership base. We do not discriminate between members or non-members in our engagement programs. Our inclusive approach allows us to engage across the entire industry, providing unparalleled access to our project partners.

The National Retail Association has a strong track record of bringing industry, government and community together, including for projects that protect our environment and deliver beneficial outcomes for all. Over recent years, we have been instrumental in some of the most significant environmental reforms in Australia, from lightweight plastic bags bans, to collaborating on key taskforces responsible for rolling out container deposit schemes, environmental legislation, and voluntary product stewardship schemes.

Our submission

The National Retail Association (National Retail) welcomes the opportunity to participate in the *Climate-related Financial Disclosure: Exposure Draft (ED)* consultation.

This Submission has been prepared with input from the diverse National Retail membership which includes a variety of businesses, from large supermarkets, to franchises, to small single store retailers across many categories.

National Retail recognises the significant implications that climate change poses to the Australian economy and the individual businesses that constitute it in the coming decades. These impacts may manifest directly through the escalating frequency and intensity of extreme weather events, or through the adjustments businesses will need to undertake as the economy transitions to mitigate and adapt to climate change effects.

National Retail supports the Government's policy position which seeks to help regulators assess and manage financial system risks resulting from climate change impacts on the business sector.

This Submission includes sections with:

- General comments about the Climate-Related Financial Disclosures, and
- Specific comments on particular issues for the retail sector which have been identified.

General Comments

Extending mandatory financial disclosure requirements under the Corporations Act 2001 (Cth) and related legislation to encompass climate-related business risks and opportunities will have the benefit of providing:

- enhanced transparency and information to investors regarding the implications of climate change effects and associated government policies on individual companies, and industry sectors
- data to government on transitioning the economy to net zero allowing the effectiveness of climate-change policies to be assessed and, if necessary, adjusted
- information needed to demonstrate/showcase Australia's progress towards climate-change commitments made under international agreements, and
- assurances to the wider community that appropriate climate-related policies are in place to address the existential threats to the country's well-being posed by climate change.

Nevertheless, it is crucial to acknowledge the formidable challenge of understanding and predicting the impact of climate change on businesses in the coming decades. Identifying and quantifying the financial impacts (direct and indirect) will require extensive data collection and analysis with methodologies which are still being developed. This is not to downplay the urgency with which climate-change needs to be addressed, but rather it highlights the importance of flexibility in implementing legislative approaches.

The complexity of gathering and analysing the data to prepare meaningful climate-related financial disclosure statements of material risks and opportunity will require substantial, and specialised staff resources.

National Retail acknowledges the support material available to companies to assist businesses with the preparation of statements but suggests more guidance may be necessary for specific industry sectors such as the retail sector. National Retail is ready to assist The Treasury to develop such sector specific guidance.

Further detail is provided on these issues below.

Specific Comments

1. Retail Industry-Specific Considerations

The current legislation proposed for climate-related financial disclosure adopts a 'one-size fits all approach' encompassing all business sectors. Although limited to larger entities for reporting purposes, its impact (and costs) will cascade down to smaller businesses that serve as suppliers of goods and services (and so contributors to the carbon footprint/climate risk profile) to the larger businesses. This recognition is evident through the intention to capture Scope 3 emissions. However, there is a risk of double counting across the economy, which could undermine the system's integrity. An example is the sale of fuel from the retail sector. It is unclear whether this should be included in the retailer's assessment, in which case it might risk double counting, given the alternative methodologies employed by the Government for assessing transport-related carbon emissions. This is one example of an issue which the retail sector will need to address; others are likely to be discovered during implementation.

2. Franchise Arrangements

In Australia, numerous franchise operations exist some of which due to their scale, will be required to issue climate-related financial disclosures. Typically, franchisor companies provide various operational inputs to their franchisees, such as standardised products and services (e.g., marketing), which must be considered when preparing climate-related financial disclosures. Some franchisee businesses that operate multiple outlets may also need to issue disclosure statements. This risks 'double counting' of certain aspects of the overall franchise operation.

National Retail has found no mention of franchise operations in the Exposure Draft or other materials available on The Treasury's website concerning climate-related financial disclosures. It would be beneficial if specific guidance were provided on how franchise operations should fulfill their climate-related financial disclosure obligations.

National Retail recommends that for franchise businesses, franchisee obligations regarding climate-related financial disclosure be met by referencing their franchisor's disclosure statements.

3. National Green House and Energy Reporting alignment

The data collected to comply with the National Green House and Energy Reporting (NGER) legislation (i.e. carbon emissions and energy production and consumption) will be a key component of companies' material risk and opportunity assessments in their climate-related financial disclosures statements. The NGER reporting cycle commences on 1 July each year.

Not all companies align their financial disclosures, including future climate-related financial disclosures, with the financial year. Some choose to lodge them on 1 January, particularly multinational companies whose reporting year aligns with that of their parent company overseas. This misalignment could necessitate companies reporting two sets of carbon emissions data each year, potentially resulting in discrepancies related to phasing. A simple solution would be to permit companies reporting under the NGER to be permitted to utilise that data for climate-related financial disclosures.

This approach would alleviate the regulatory burden on companies whilst upholding the integrity of both the NGER legislation and the climate-related financial disclosure legislation.

National Retail recommends datasets collected to comply with National Greenhouse and Energy Reporting be permitted specifically for use in compiling climate-related financial disclosures.

4. Casual Employees

To National Retail's knowledge, the Exposure Draft and accompanying documentation make no reference to classes of employee's, such a casual employees and contractors. Part-time employees are explicitly mentioned with the intent that they should be included *pro-rata* in the FTE (full-time equivalent) head count.

National Retail recommends that the climate-related financial disclosure legislation and/or supporting advisory material provides guidance on the treatment of casual employees and contractors within the workforce.

5. Auditing and assurances

National Retail has some concerns regarding the capability and capacity of financial auditors to meet the increased auditing demands anticipated by the climate-related financial disclosure legislation. Regarding capability, understanding the complexity of carbon accounting inherent in goods and services along the retail sector's supply chains will prove significantly more challenging than tracking monetary flows. This task lies beyond the experience and formal training of many, if not most, financial auditors. Furthermore, the capacity of auditors to take on the additional work in the short term may be limited.

Fortunately, specialised expertise in carbon accounting and auditing is rapidly expanding as the market responds to community concerns around climate change. Numerous companies offer stand-alone specialist services in this area that are distinct from financial auditing. It would be appropriate for their expertise to be utilised to aid companies in preparing climate-related financial disclosures and to provide assurances regarding their accuracy.

National Retail recommends accredited specialists with expertise in carbon reporting and accounting be recognised as being qualified to provide formal assurance of climate-related financial disclosure statements.

6. Industry preparedness and timing

National Retail acknowledges the urgency with which climate change challenges need to be addressed, and the potential impacts of climate change have been known for at least two decades. However, in recent years business sectors, including retail, and the wider economy have grappled with a series of economic shocks such as the Global Financial Crisis, COVID-19, and supply chain disruptions, which have strained companies' resources. In addition, there has been some uncertainty regarding policy priorities and directions due to changes in governments, including at the state and territory levels.

Nevertheless, companies have increasingly allocated resources to address the issue of climate change in response to both community concerns and shareholder demands. This includes conducting Life Cycle Analysis (LCA) across their business operations (inputs and supply chains) with the aim of reducing their carbon footprint. Larger companies tend to be more advanced in their preparedness than smaller ones.

Estimating Scope 3 emissions is likely to stretch the resources of many companies, large and small, to the extent that meeting the 2027 start for Scope 3 reporting may be problematic. The retail sector, including smaller companies, presents a much more complex and variable Scope 3 landscape compared to many other sectors.

National Retail recommends that the Government reconsider the phased timing with a view to incorporating more flexibility in reporting requirements for companies experiencing difficulties gathering Scope 3 emissions data.

7. Government guidance resources

There is evidently a need for increased guidance from government regarding the tracking and reporting of Scope 3 emissions, along with supporting resource materials to aid companies in training their staff in this domain.

It is critically important that Scope 1, 2 and 3 assessment skill levels are enhanced across the retail sector and its suppliers. As previously described, smaller companies are often suppliers to

larger companies, thus comprehensive training throughout the entire retail supply chain will be critical to comply with the climate-related financial disclosure requirements.

National Retail would welcome the opportunity to work with Government to assist the preparation of Scope 1, 2 and particularly Scope 3 methodologies and training material.

Moreover, the development of additional resources, such as government-endorsed carbon calculation tools and databases, is imperative to ensure the robustness of climate-related financial disclosure statements. This would enhance stakeholders' confidence in the accuracy of the statements and any subsequent analyses conducted.

National Retail considers that Government-developed disclosure statement templates and models would assist smaller companies in gathering and collating the carbon emissions data required for climate-related disclosure statements. Furthermore, National Retail would welcome the opportunity to assist Government with developing resources tailored to the retail sector.

National Retail recommends the Government develop:

- standardised methodologies and training material for assessing retail sector emissions
- carbon calculation tools and databases, and
- templates and models for climate-related financial disclosure statements

particularly for Scope 3 emissions, and partner with industry to roll-out training programs based on these resources.

8. International Alignment of legislation

National Retail applauds the Government's commitment to aligning the proposed Australian Accounting Standards Board sustainability standards with the International Standards Setting Board, making modifications only where necessary to suit Australia's context.

Just as carbon emissions and the impacts of climate change transcend national borders, so too legislative approaches to addressing these challenges strive for international consistency. This approach is crucial for maintaining the integrity of capital flows, as investors seek markets where carbon emissions are demonstrably decreasing. Such consistency will, in turn, bolster Australia's attractiveness to international investment funds.

Furthermore, global operations by many companies benefit from harmonised regulatory requirements, easing compliance burdens and fostering expertise sharing across jurisdictions.

Conclusion

The Exposure Draft legislation for climate-related financial disclosure confirms the Government's to commitment to:

1. ensuring material risks of climate change are assessed, appropriately verified, and reported as part of the good governance requirements of companies in Australia. This is critical to the transparency of investment markets, efficient capital flows and strength of the Australian economy,
2. supporting the transition of the Australian economy to net zero carbon emissions by encouraging more investment in companies with lower carbon emissions, as high emissions would represent a material risk of loss of investor confidence.

National Retail supports this commitment but restates the substantial regulatory burden that the requirements will impose on companies in the retail sector, particularly for small and medium-sized enterprises (SMEs), and specifically in relation to Scope 3 emissions. The Government acknowledges this challenge through the proposed staged implementation framework. National Retail has suggested that some additional flexibility in implementation for smaller companies should be considered.

Timely industry compliance and the quality of disclosure statements can be significantly improved through the Government's preparation and dissemination of guidance materials, carbon calculation tools, and disclosure templates. National Retail is well-positioned to contribute to the development and promotion of such resources across the retail sector.

The National Retail Association stands ready to provide further information on the proposed amendments to the *Corporations Act 2001 (Cth)* and related legislation, as well as associated sustainability and assurance standards to be established by the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board.

The National Retail Association has considered the perspectives of both the Australian Chamber of Commerce and Industry and the Australian Food and Grocery Council, and endorses the positions of both organisations regarding the Climate-related Financial Disclosure Exposure Draft.



info@nationalretail.org.au
1800 RETAIL (738 245)

OFFICE

Turrbal Country
Lvl 3/67 St Pauls Tce
Spring Hill QLD 4000

MAIL

Turrbal Country
PO Box 48
Spring Hill QLD 4004

ABN

44 009 664 073

9 February 2024

Director
Climate Disclosure Unit
Climate and Energy Division
Treasury
Langton Cres
Parkes ACT 2600

Dear Director,

The National Retail Association is respond to the consultation on Exposure Draft legislation amending parts of the *Australian Securities and Investment Commission Act 2001* and the *Corporations Act 2001 (Cth)*.

National Retail supports the overall purpose of the proposed amendments but has serious concerns regarding the preparedness of industry and the practicalities of reporting Scope 3 emissions. Scope 3 emissions are the most challenging to identify, are problematic to accurately measure, and standardised measurement methodologies are yet finalised.

If the difficulties in assessing Scope 3 emissions are not rectified there is a high likelihood of substantial inaccuracies being reported in climate-related financial disclosures from 2027 onwards.

National Retail has been liaising with the Australian Food and Grocery Council (AFGC) on this issue. The AFGC submission to the consultation details shared concerns with Scope 3 emissions and recommends delaying the Scope 3 reporting start date.

Accordingly, National Retail fully endorses the AFGC recommendation.

Please do not hesitate to contact the National Retail Association for clarification of any of the information provide in its submission.

Sincerely,

David Stout

Director Policy

0409 926 066 | d.stout@nationalretail.org.au