Australia Government – The Treasury

Climate-related Financial Disclosure: Exposure Draft Legislation

Consultation Paper Feedback

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1. Introduction

On behalf of TCS Sustainable Banking, Finance & Investments thank you for the invitation to provide our feedback on Climate-related Financial Disclosure: Exposure Draft Legislation. TCS is pleased to respond to Treasury's invitation to provide feedback on the Climate-related Financial Disclosure: Exposure Draft Legislation.

TCS is a global IT services, consulting, and business solutions leader, partnering with the world's leading businesses in their transformation journeys for over 50 years. TCS is a part of the Tata group, India's largest multi-national business group. At TCS, we believe in making a difference through technology. Leading the way in innovation for over 50 years, we build greater futures for businesses across multiple industries and 46 countries. TCS is among the top 3 IT services companies by revenue, net profit, employees, and market cap.

TCS has invested in Foundational Research in computing sciences and its intersections with physical sciences, life sciences, behavioural sciences, and mathematical sciences. Our community of more than 6500 researchers, inventors and innovators invent primarily for Purposeful AI, Digital Sciences, Computing and Sustainable Futures. Among these, TCS research is investing ahead of the curve in areas such as energy transition, circularity, transparency, and development.

TCS commends Australian Government's commitment to develop internationally aligned, mandatory climate-related financial disclosure requirements for Australia. TCS also understands that the recommendations are facilitated through amendments made to Australian Securities and Investments Commission Act 2001 and the Corporations Act 2001.

We noted the amendments are being proposed into four parts.
Part 1—Sustainability reporting: Sustainability reporting as a strategic tool presents significant risks and opportunities for enterprises and sovereign alike. While there is a positive trend seen in the number of companies reporting climate risks and opportunities, issues such as access to data, transparency, consistency persist. The guidelines issued will be seen as an ideal moment to support companies in disclosing data and beginning to assimilate the reporting process into all aspects of operations. Amends should clearly help understand topics such as materiality, accuracy, clarity, timeliness while being comparable and reliable.

Part 2—Audit and assurance: sustainability audit is a powerful tool that enables enterprises to assess climate risks, mitigate the risks and identify opportunities to improve their sustainability practices. However, systems of audit are in an evolving phase and there is a need to create an exclusive climate risk audit practice and not be part of mainstream activities.

Part 3—Sustainability and auditing standards:
Climate Risk being a global topic, aligning with international standards of reporting is a welcome step. There has been a constant urge from different strata of the business ecosystem to obtain a common standard developed for reporting. Treasury Policy's alignment with

International Financial Reporting Standards (IFRS) is largely consistent with other geographies, especially Europe. Australia's proposed disclosures are in line with international trends and TCFD recommendations, a valuable reference point for all jurisdictions, promoting consistency and comparability.

Part 4—Application: a well-covered policy should provide for clarity on applicability of requirements to all entities that meet the size and activity thresholds, regardless of their industry or sector.

We would like to highlight TCS' efforts in providing feedback on Treasury's Sustainable Finance Strategy paper during Dec 2023. TCS is keen to support Treasury's efforts on Climate-related Financial Disclosure and ecosystem partners on the aligned efforts. Given TCS's exposure to relevant global regulations, EU regulations in specific, deep understanding on the subject and our global expertise on data & digital technologies we endeavor to share our experience.

2. TCS' key feedback to the exposure draft legislation

This section outlines TCS views on Government's policy positions related to - the scope of the reform, assurance requirements for disclosures, implementation, and standards for disclosures. The section aims to provide a comparative view learnings from our observation of the dynamics in the domain.

Scope:

EU: The coverage provided by EU in enforcing climate related disclosures is quite extensive. Consistency and comparability across different sectors and sub-sectors are a point to be noted. Coverage of social topics is quite extensive, and possibly an area of consideration.

US (SEC): As of now, the US does not have mandatory climate related rules in place. The SEC has publicly expressed interest in adopting recommendations from the TCFD. However, no concrete regulations have been finalized, and the timeline for potential implementation is underway. Opportunity to consider incorporating Scope 3 emissions guidance while avoiding the lack of mandatory regulations.

ISSB: A split of standards into S1- covering broader disclosure requirements and S2 – covering climate related disclosure will keep the larger sustainability related disclosures separate from climate related disclosures. They are complimentary in nature.

Assurance:

EU: Gradually implement mandatory assurance like the EU to build trust and data quality. Encourages companies to obtain external assurance for non-financial information to enhance credibility.

US: Avoid the lack of assurance requirements in the US, ensuring data reliability and accountability.

ISSB: assurance guidelines (planned) to help companies provide accurate and reliable information and completeness of disclosures. It also encourages companies to engage independent assurance providers to perform assurance engagements.

Implementation and Phasing.

EU: Timelines have been aggressive and are influenced by combination of existing regulations and legislative developments. The regulations are, however, largely carved out as separate regulations as against amendments to existing regulations.

US: Similar to EU, timelines are influenced by combination of existing regulations, industry standards and voluntary reporting initiatives. Avoidance observed in lack of concrete regulations and timelines in the US to provide certainty for businesses.

ISSB: Consider a phased implementation by entity size, sector, or materiality to manage cost and allow entities to build capacity.

Interaction with Standards:

EU: Standards are evolving rapidly and driven by regulatory developments, international framework, and market dynamics. Standards such as ISSB S1 S2 aim to ensure consistency and comparability, which is a welcome development. The role of AASB will be crucial.

US: Stay informed about potential SEC regulations and ensure compatibility with future standards.

ISSB: Maintain alignment with ISSB while remaining open to adopting more comprehensive future standards.

Other Challenges:

Data Availability and Standardization: Address challenges in collecting and standardizing climate-related data.

Consistency and Comparability: Ensure consistency and comparability across disclosed information for effective comparison and analysis.

Capacity Building: Provide support and resources to companies, especially smaller ones, for complying with reporting requirements.

Regulatory Burden: Balance comprehensiveness with minimizing unnecessary regulatory burden on businesses.

By carefully considering the experiences and challenges of other jurisdictions, the Australian Treasury can refine its implementation plan for climate-related financial disclosures. Focusing on robust scoping, phased implementation, assurance requirements, and alignment with evolving standards will contribute to a successful and effective system for fostering transparency and accountability on climate risks and opportunities.

3. Asks of the Australian treasury in Exposure Draft explanatory document

Whether the background and policy context are sufficiently comprehensive to support understanding of the policy intent and outcomes of the new law?

The ED provides a good overview of the background and policy context of the new law. It discusses the increased risk of climate change to the financial system. It also discusses the need for better climate related risk and opportunities. However, the ED draft could be improved by providing more details on the specific objectives of the new law. It could also be improved by providing more information on the potential impacts of the new law on businesses and investors. The depth of background information and analysis may vary depending on the specific sections of the explanatory material.

The inclusion of NGERA entities within Groups 1 and 2 will likely capture smaller entities that do not meet any of the other sustainability reporting thresholds. This may present challenges for some smaller NGERA entities that need to comply with the proposed sustainability reporting requirements from 1 Jul 2024.

Any other matters affecting the readability or presentation of the explanatory material:

The ED explanatory material is well-written and easy to understand. However, there are a few areas where it could be improved. For example, the use of jargon could be reduced. The use of more subheadings and headings also could make the material more scannable.

1. In Pg 20, Line 7 of the ED: 'However, the review is only required to cover contents of the sustainability report that are climate statements relating to scope 1 emissions or scope 2 emissions of greenhouse gases' – the wording of this can be misconstrued to mean either scope 1 emissions or scope 2 emissions when they intend to refer to both scope 1 and 2.
2. In Pg 27, line 25 of the ED: 'the standards must not be inconsistent with this Act, the regulations or a legislative instrument made under this Act' – The double negative of 'not be inconsistent' can be replaced with 'be consistent' to improve clarity and coherence of the directive.

4. Exposure Draft Document and their consistency with the policy statement

Coverage

- Policy Statement: The Policy Statement outlines the government's intention to introduce mandatory climate-related financial disclosures for large entities and some asset owners. The Policy Impact Analysis considers three options for implementing mandatory disclosures, with Option 1 requiring disclosures from large companies beginning in 2024.
- Exposure Draft: The Exposure Draft requires disclosures from entities that meet the size and activity thresholds set out in the Corporations Act 2001. This is consistent with the Policy Statement.

Phasing

- Policy Statement: The Policy Statement states that the disclosures will start in 2024 and be phased in over four years.
- Exposure Draft: The Exposure Draft proposes a phased implementation, with the first disclosures due in 2025. This is not entirely consistent with the Policy Statement, but the difference is minor.

Content

- Policy Statement: The Policy Statement specifies that the disclosures will include information about governance, strategy, risk management, and metrics. The Analysis outlines potential disclosure requirements, including governance, risks, opportunities, and emissions.
- Exposure Draft: The Exposure Draft requires disclosures to be made in accordance with the AASB standards, which cover these topics. However, the Exposure Draft does not specify the exact content of the disclosures. This is a potential inconsistency, as it could lead to a lack of comparability between disclosures.

Application to disclosures

- Policy Statement: The Policy Statement does not specify how the disclosures will be applied to different types of entities.
- Exposure Draft: The Exposure Draft applies the disclosure requirements to all entities that meet the size and activity thresholds, regardless of their industry or sector. This is consistent with the Policy Statement.

Interactions with climate disclosure standards

- Policy Statement: The Policy Statement states that the government is committed to mandatory disclosures aligned with the ISSB standards.
- Exposure Draft: The Exposure Draft requires disclosures to be made in accordance with the AASB standards, which are aligned with the ISSB standards. This is consistent with the Policy Statement.

Overall, the Exposure Draft is largely consistent with the Policy Statement. However, there are a few potential inconsistencies, such as the timing of the phased implementation and the lack of specificity in the content requirements.

5. Comparative Analysis of Climate-Related Disclosure Regulations: EU and US

Comparative analysis of the coverage, phasing, content, application, assurance, and interaction with standards for climate-related financial disclosures in the EU (EFRAG), US (SEC), and TCFD:

Scope:
Australia: Aligns with International Financial Reporting Standards (IFRS) and adopts the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Requires disclosure of Scope 1, 2, and 3 greenhouse gas emissions.

> Alignment: Adopts TCFD recommendations and aligns with IFRS standards. Greenhouse Gas (GHG) Emissions: Requires disclosure of Scope 1 (direct), Scope 2 (purchased energy), and Scope 3 (value chain) emissions. Financial Impacts: Focuses on financial risks and opportunities arising from climate change, considering physical, transition, and reputational risks.

EU (EFRAG): Currently developing two new European Sustainability Reporting Standards (ESRS) with a broader scope than TCFD, including social and environmental impacts. Requires reporting of Scope 1, 2, and 3 emissions by 2026.

US (SEC): No mandatory climate disclosure rules yet, but SEC has signaled openness to adopting TCFD recommendations. Voluntary guidelines encourage Scope 1 and 2 disclosures.

Level of Detail:
Australia: Follows TCFD recommendations, requiring disclosures on governance, strategy, risk management, and metrics/targets. Specific content aligned with IFRS standards.

EU (EFRAG): Expected to be more detailed than TCFD, requiring additional information on sustainability impacts and transition plans.

US (SEC): No specific rules, but likely to be similar to TCFD recommendations if implemented.

Timeline:
Australia: Phased implementation starting July 2024 for large, listed entities and financial institutions, expanding to all reporting entities by 2027/28. Scope 3 disclosures are expected to kick off from 2028.

EU (EFRAG): Draft standards expected in June 2023, mandatory reporting for large companies from 2026.

US (SEC): No timeline for potential regulations.

Overall:

Australia's proposed disclosures are in line with international trends and TCFD recommendations. Compared to the EU, they may be less detailed initially but still cover Scope 3 emissions. Compared to the US, they are more advanced in terms of mandatory implementation. TCFD remains a valuable reference point for all jurisdictions, promoting consistency and comparability.

Interaction with Climate Disclosure Standards – additional views

- Australia: Follows TCFD's four pillars: governance, strategy, risk management, and metrics/targets. Specifying Details: IFRS standards provide additional details on specific content requirements. Qualitative and Quantitative Information: Combines qualitative narratives explaining approaches and quantitative data such as emissions figures and financial impacts.
- EU: Aligned with EFRAG standards under development, which are based on ISSB standards.
- US: Proposed rule allows for consideration of existing frameworks like TCFD, but specific standards are not mandated.

Overall:

- Entity Coverage: Initially targeting large-listed entities and financial institutions, expanding to all reporting entities.
- Materiality Principle: Disclosures required if climate change poses material risks or opportunities for the entity.
- Phased Approach: Limited assurance for Scope 1&2 emissions and reasonable assurance for government disclosures from July 2024.
- Roadmap: Gradual increase towards reasonable assurance for all climate disclosures by 2030/31.

- **Interaction with Climate Disclosure Standards – additional views**
- The EU regulation is the most comprehensive, covering a wider range of entities, content, and assurance.
- The US proposal leans towards financial materiality and may lack detail compared to the EU.
- The TCFD offers a flexible framework encouraging voluntary adoption and integration with other standards.

Coverage:

- Australia: Applicable to entities meeting size and activity thresholds under the Corporations Act 2001 (estimated 1,400 entities). Phased implementation starting in 2025. Requires disclosures based on AASB standards aligned with ISSB, covering governance, strategy, risk management, and metrics. Specific content not explicitly defined in the Exposure Draft. Start Date: July 2024 for large, listed entities and financial institutions. Phased rollout, eventually applying to all reporting entities by 2027/28.

- EU: Applicable to large companies (250+ employees, €40M+ revenue, €20M+ balance sheet) and all listed companies (estimated 11,700 entities). Phased implementation starting in 2024, full implementation by 2026. Based on double materiality, considering financial impacts of climate change and the company's environmental and social impact. Specific requirements for various elements aligned with EFRAG standards.
- US: Applicable to public companies filing with the SEC (approximately 7,000). Proposed rule with estimated timeline of 1-2 years for implementation after finalization. Focuses on financial materiality, requiring disclosure of climate-related risks, opportunities, and financial impacts. Specific content to be determined through rulemaking.

Data nuancing:

Australia adopts a principles-based approach with less prescriptive content requirements compared to the EU. This might offer flexibility for companies but could also lead to less standardized and comparable data. The US approach is still under development, making it difficult to compare data specificity at this stage.

Assurance Requirement:

- Australia: No mandatory assurance requirement at present.
- EU: No mandatory assurance at present, but potential for future development.
- US: Proposed rule allows for optional third-party verification.

Data robustness:

Mandatory assurance in all three jurisdictions raises concerns about data quality and verifiability. This could limit the reliability of the disclosed information for investors and other stakeholders.

Interaction with Climate Disclosure Standards – additional views:

- Australia: Aligned with AASB standards under development, which are based on ISSB standards.
- EU: Aligned with EFRAG standards under development, which are based on ISSB standards.
- US: Proposed rule allows for consideration of existing frameworks like TCFD, but specific standards are not mandated.

Data comparability:

Alignment with ISSB standards offers a foundation for international comparability. However, differences in national implementation details and mandatory assurance could still hinder seamless data comparison across jurisdictions.

Additional Considerations:

- Data availability: The phased implementation timelines in Australia and the EU will result in a gradual increase in available data over time. The US timeline is uncertain, but the initial focus on public companies might limit initial data availability compared to broader coverage in other regions.
- Data accessibility: Clear and accessible disclosure requirements are crucial for enabling stakeholders to utilize the data effectively. The specific mechanisms for data presentation and dissemination need to be carefully considered in all jurisdictions.

Australia's climate-related disclosure policy aligns with the emerging global trend of mandatory disclosures but presents some nuances in its coverage, content, and assurance requirements. While the use of ISSB-aligned standards promotes comparability, mandatory assurance, and potential variations in implementation details across jurisdictions pose challenges for ensuring robust and comparable data for investors and other stakeholders. Careful consideration of data availability, accessibility, and quality will be essential for maximizing the effectiveness of these disclosure regulations.

6. How TCS can support the cause

Tata Consultancy Services as an IT services, consulting and business solutions organization that has been partnering with many of the world's largest businesses in their transformation journeys for over five decades. Its customer-centric business model has helped it spot trends early, build business opportunities by making the right investments and mitigating risks, while discharging its social and environmental responsibilities. The superior growth and sustained market share gains resulting from this strategy have made TCS one of the largest IT service providers globally, with business operations spread across continents. In its endeavor, TCS can support treasury in many ways highlighted below.

- Consulting and Advisory services in the areas of climate risk assessments and disclosures
- Pre-implementation assessments: Help companies assess their readiness for the new requirements, identify gaps and develop compliance strategies.
- Data management and Analytics: Assist companies in collecting, analyzing, and reporting climate related data in a consistent and reliable manner.
- Scenario analysis and Risk Management: Support companies in conducting scenario analysis to assess climate-related data in a consistent and reliable manner.
- Assurance and Auditing: Capacity and domain expertise in making them understand.
- Technology solutions: Sustainability Reporting Platforms; Develop or implement software solutions to streamline data collection, reporting and assurance process.
- Data integration and Management solutions: help companies integrate climate-related data from various sources into their existing systems.
- Artificial Intelligence and Machine Learning: Leverage GenAI, AI and ML to automate data analysis, generate insights from climate data, and improve scenario analysis accuracy.
- Training and Capacity Building:
  - Develop and deliver training programs for companies and their employees on the new disclosure requirements, best practices, and relevant tools and technologies.
  - Create online learning resources and communities to share knowledge and best practices among stakeholders.
  - Partner with educational institutions to develop specialized courses and programs in climate-related finance and reporting.
- Research and Development:
  - Contribute to the development of industry standards and best practices for climate-related disclosures.
  - Conduct research on emerging technologies and their potential applications in climate-related reporting and risk management.
  - Collaborate with universities and research institutions on climate-related finance and disclosure issues.

Who we are:

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