Climate Disclosure Unit
Market Conduct Division
The Treasury
Email: climatereportingconsultation@treasury.gov.au

**Re: Preliminary submission to the Treasury Climate Disclosure Unit, responding to the Consultation Paper on Climate-related financial disclosure from 12th January 2024.**

**Introduction**

1. As members of the Sustainable Development Reform Hub (SDR Hub) at the University of New South Wales with relevant subject matter expertise, we welcome the opportunity to contribute views regarding designing and implementing a standardized disclosure framework in Australia for climate-related financial risks, opportunities, and antecedent matters.

2. The shift towards enhanced sustainability reporting and climate risk assessment, as outlined in the draft legislation, marks a transformative step forward in aligning financial practices with environmental stewardship. Incorporating detailed requirements for sustainability reporting, including the Scope 3 emissions, amplifies transparency and fosters a deeper understanding of the relationship between corporate activities and climate impacts. Including Scope 3 emissions is significant for understanding the full impact of a company's activities on climate change.

3. The approach encourages entities to adopt more sustainable practices and ultimately steers investor decision-making to prioritize long-term environmental sustainability. By mandating disclosures on climate-related risks in sectors such as fishing and shipping, the legislation is also expected to influence ocean conservation and encourage sustainable practices positively.

4. The draft legislation could influence investor decisions toward more environmentally sustainable practices by providing more detailed, standardized information on climate risks.

5. Our submission aims to examine the effectiveness of the explanatory materials provided in the exposure draft of the proposed legislation on sustainability reporting and climate risk assessment. It aims to examine the clarity with which these materials clarify the policy context, operational mechanics, and intended outcomes of the new law. This feedback focuses on the adequacy of the background information, the employment of illustrative aids, and any other elements that impact the comprehensibility and presentation of the draft:

6. Incorporate a more standardized approach for climate risk assessment:

    - More detailed guidance or frameworks for how entities should assess and report on climate-related risks, such as the TCFD 1 (Taskforce on Climate-related financial disclosures), could be integrated to help investors make better-informed decisions.

    - The TCFD also emphasizes the importance of principles for effective disclosure, such as relevance, specificity, clarity, consistency, comparability, reliability, and timeliness. Additionally, scenario analysis is recommended for organizations to describe the resilience of their strategy, considering different climate-related scenarios, including a two °C or lower scenario.

    - The TCFD provides comprehensive guidelines that could be integrated into the legislation. The TCFD recommendations are designed to be widely adoptable across various organizations and jurisdictions, offering decision-useful, forward-looking information that can be included in mainstream financial filings. The framework is structured around four core elements: governance, strategy, risk management, and metrics and targets, each with specific recommended disclosures.

- For example, under governance, organizations are advised to disclose their governance around climate-related risks and opportunities, including the board's oversight and management's role in assessing and managing these risks. Regarding strategy, disclosures about the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning are suggested. Risk management involves describing how the organization identifies, assesses, and manages climate-related risk metrics and targets; organizations should disclose the metrics and targets used to assess and manage relevant risks and opportunities.
- Compared to other approaches, such as the European one, sustainability reporting in Europe is broader, integrating a more comprehensive range of environmental concerns. In contrast, the Australian approach is less regulatory and more focused on encouraging disclosures rather than mandating them.

7. Greater recognition of sector-specificness:

    - Recognizing that the different industries have varied impacts and risks related to climate change, an example would be the SFDR (sustainable finance disclosure regulation), which requires financial market participants to provide sector-specific sustainability disclosures.

    - Developing tailored climate risk metrics and performance indicators for different sectors could be beneficial. This would involve creating industry-specific benchmarks and targets that reflect each sector's unique environmental impact and sustainability challenges. By doing so, the legislation can ensure more accurate and meaningful sustainability reporting, enabling stakeholders to assess better and compare the climate resilience and sustainability efforts of companies within the same industry. This approach enhances transparency and drives sector-specific innovation and sustainability improvements.

8. Introduce additional mechanisms to reward entities that actively engage in sustainable practices.

    - While the draft encourages early reporting, it may be beneficial to introduce additional mechanisms to reward entities that actively engage in sustainable practices. These incentives could be tax breaks, grants, or other financial benefits. Such measures would foster a proactive approach to environmental responsibility and broaden the scope of sustainability beyond climate change, encompassing critical areas like biodiversity conservation, exemplified by initiatives like Natura 2000[1]. This holistic approach would enrich the legislation, making it more comprehensive and effective in addressing the multifaceted nature of environmental sustainability.

9. Utilise technology and data management.

[1] https://www.eea.europa.eu/themes/biodiversity/natura-2000

- The role of technology and data management in facilitating disclosures could be an area for further exploration, ensuring an efficient and effective process. Mainly, increased administrative and reporting burdens on businesses (primarily smaller entities) should be considered. The balance between comprehensive disclosure and practical feasibility for firms of different sizes and sectors is crucial.

10. Alignment with other international frameworks.

    - An alignment of the sustainability disclosure framework with the International Sustainability Standards Board (ISSB) standards is recommended. The ISSB standards, which build on the TCFD recommendations, aim to provide comprehensive guidelines on sustainability reporting, including detailed climate-related disclosures and broader sustainability issues. This alignment would ensure that Australian businesses are at the forefront of global sustainability practices, enhancing transparency and comparability of disclosures on an international scale. The integration of ISSB standards could occur initially or through subsequent updates to the national framework, depending on these standards' release and adoption readiness.

We welcome opportunities to participate in further discussion, as appropriate, regarding the matters raised in this preliminary submission. Should you have any further questions or comments, please contact us.

Dr Ben Milligan
Director, Sustainable Development Reform Hub
University of New South Wales
Email: b.milligan@unsw.edu.au

Eliza Northrop
Director, Sustainable Development Reform Hub
University of New South Wales
Email: e.northrop@unsw.edu.au

Dr Philip James
Director, Sustainable Development Reform Hub
University of New South Wales
Email: phil.james@unsw.edu.au

Arlette Schramm
Research Officer, Sustainable Development Reform Hub
University of New South Wales
Email: a.schramm@unsw.edu.au