Level 27, 35 Collins St,
Melbourne VIC 3000

P: +61 3 9902 0741

info@climateworkscentre.org

climateworkscentre.org

28 July 2023

The Treasury

Lodged electronically

To whom it may concern,

Climateworks Centre welcomes the opportunity to respond to the Treasury on its second Consultation Paper on Climate-related Financial Disclosure. Climateworks specialises in accelerated climate transitions for Australia, Southeast Asia and the Pacific in line with a 1.5 degrees Celsius limit. An independent non-profit organisation within the Monash Sustainable Development Institute, Climateworks was co-founded by philanthropy and Monash University.

Climateworks has worked with a variety of corporations and business associations to encourage effective business reporting on climate risks, opportunities and credible transition plans. In the past few years, our work has included frameworks for meeting the Task Force on Climate-Related Financial Disclosure (TCFD) guidance, advising on and assisting with the delivery of climate scenarios and emissions reductions actions. In 2022, Climateworks supported the Australian Council of Superannuation Investors (ACSI) to assess transition planning and climate risk in ASX200 companies (ACSI 2022).

Climateworks is currently engaging with leading Australian corporations, national public and third sector stakeholders, and international initiatives involved in the development and assessment of credible net zero emissions transition plan frameworks, in order to investigate their operationalisation in the Australian context. Climateworks supports the expansion and improvement of sustainable finance as a related key system shift. Climateworks' CEO, Anna Skarbek, is a member of the Advisory Committee of Australian Sustainable Finance Initiative (ASFI), Glasgow Financial Alliance for Net Zero (GFANZ) Asia-Pacific Advisory Board and the Net Zero Economy Agency advisory board.

Climateworks strongly supports the Treasury's initiative to mandate climate-related financial disclosure for corporations in Australia. Many aspects of the current proposal are key to drive transparency, rigour and comparability. In particular, the alignment with the International Sustainability Standards Board (ISSB). Climateworks recommends several amendments to the proposals, including: full alignment with ISSB's recommendations as a minimum; a more ambitious phased approach associated with more support and flexibility; the use of country and sector-specific scenarios; and stronger disclosures of credible transition plans.

Climateworks also highlights that the direct connection between climate and nature has resulted in some corporations and financial institutions considering a wider number of environmental factors when assessing financial risks and opportunities. Mandatory climate-related financial disclosure is a non-to-be-missed opportunity to prepare corporations for the anticipated arrival of nature-related financial disclosure.

Thank you for taking the time to consider our submission. We would welcome the opportunity to brief your team should you wish to explore our responses in further detail.

Yours sincerely,

Tom Wainwright
System Lead, Sustainable Corporates
Climateworks Centre
tom.wainwright@climateworkscentre.org

Climateworks Centre's submission

Australia can achieve rapid and comprehensive emissions reductions in most sectors of the economy. Climateworks modelling shows that, for a least-cost transition to net zero, different economic sectors need to decarbonise at different rates (Climateworks Centre 2020). Significant emissions reductions can be achieved in most sectors before 2035 using known technologies alongside major changes in energy infrastructure.

There is an economic advantage to moving quickly in order to capture market share in the net zero global economy. But Australia will have to move fast. Other countries – including the United States, China and members of the European Union – are already taking rapid action and investing more strongly in the economic transformation needed. And aiming higher can actually make change more possible – because key actors in the system recognise that they will have to go beyond incremental change.

Australia's net zero transition needs corporate climate-related financial disclosures, driven by an ambitious timeline and underpinned by government guidance and support.

Recommendations:

- Climateworks supports the Treasury's proposal for mandatory corporate climate-related financial disclosure that is: internationally-aligned; includes scope 3 emissions reporting, scenario analysis and transition plans disclosures; and is implemented through a phased approach.
- Climateworks recommends the full alignment of climate-related financial disclosure with ISSB's recommendations, as a minimum requirement.
- Climateworks recommends that the Treasury review its final implementation timeline so that the phase-in occurs over the next three years (instead of four as proposed currently) for all corporations.
- Climateworks recommends that the Treasury review its proposed requirement for corporations' reported scope 1 and 2 emissions to be consistent with the National Greenhouse and Energy Reporting (NGER) scheme methods, so that corporations are able to use broader boundary settings if more relevant for their climate-related disclosures.
- Climateworks also recommends the government provide additional guidance and capability building support to corporations, and consider more flexibility for small-to-medium enterprises (SMEs).
- Climateworks encourages the government to ensure all agencies associated with the design of the information architecture supporting the sustainable finance system are properly resourced.

Corporate action is crucial to Australia's net zero transition, with the majority of Australia's emissions coming from the corporate sector. We therefore welcome the Treasury's initiative on climate-related financial disclosure. Requiring companies to track and disclose carbon emissions and credible transition plans is an area where government action can be particularly impactful. Mandatory climate-related financial disclosure, and the carefully designed information architecture to support it, can accelerate corporate decarbonisation. The Treasury's proposed disclosure policy will improve transparency, accountability, comparability and ultimately contribute to progress towards Australia's net zero target.

Aligning climate-related financial disclosures with the International Sustainability Standards Board (ISSB) is critical to the Treasury's reform principle to be 'internationally aligned'. Many overseas jurisdictions have signalled that they will adopt the ISSB standards, and Australia risks being misaligned with global markets if it does not do the same. In addition, failing to adopt internationally-aligned mandatory disclosure requirements would increase the reporting burden for companies reporting against the standards for their overseas operations.

Climateworks also welcomes the inclusion of mandatory scope 3 disclosures from a broad range of companies. Scope 3 emissions represent the largest source of emissions for most companies. These emissions might be beyond a company's direct control and harder to measure and address, but rapid progress towards system-wide transparency can be achieved once mandatory reporting is introduced. Many leading Australian corporations have already demonstrated they are able to influence the emissions along their value chain (Climate Leaders Coalition 2022). Mandatory disclosure of scope 3 emissions also encourages collaborative ways of working across supply chains, which are required to rapidly and comprehensively reduce emissions. Large corporations can support the development of emerging data solutions to enable measuring and addressing these emissions, as well as building capacity across their wider value chains. In a developed economy with existing TCFD reporting capabilities and data maturity, Australia's corporations can be expected to report scope 3 emissions sooner than their partners in other markets.

Climateworks supports the phased implementation approach for climate-related mandatory disclosure proposed by the Treasury. Early decarbonisation action from large corporations can drive the short- and medium-term emissions reduction required for Australia to meet its nationally determined contribution (NDC; (Climateworks Centre 2022). Prioritising the mandatory disclosures from both large and high-emitting corporations is key to influencing other corporations and driving sector-wide emissions reductions. The phased approach proposed will have flow-on benefits for smaller corporations who will have more time to prepare, and can learn from larger corporations who are more equipped to report. It will also enable the government to progressively put the processes and additional guidance in place to support disclosure.

Climateworks recommends the Treasury review the implementation timeline so that the phase in occurs over the first three years of this process (i.e. by 2027). Early corporate action is needed for Australia to reach its climate targets and corporate transparency is a key enabler for engagement and action. This more condensed timeline would build momentum around disclosure for all corporations, making long-awaited key disclosures available for stakeholders. It would also ensure that every reporting company, including those from Group 3, benefits from the first 3-year Transitional Liability Relief. This change in the timeline should consider the capacity and capabilities of assurance services and, if needed, be balanced by delaying mandatory assurance for the smaller entities. Many global and local initiatives are already exploring the automation of gathering and sharing environmental, social and governance (ESG) data at scale. Managing ESG data should soon become more achievable for SMEs once the information landscape is more mature, if the government and larger organisations demonstrate top-down leadership.

Regarding greenhouse gas emissions, Climateworks recommends the Treasury review its proposed requirement for corporations' scope 1 and 2 reported emissions to be consistent with the NGER scheme methods. Different approaches can be used to determine the organisational boundaries and the greenhouse gas (GHG) emissions accounted for by a company. In some cases, it might be relevant for companies to establish targets and plans on carbon emissions that are calculated with broader boundaries than the emissions reported under the NGER scheme methods. Climateworks recommends the Treasury to allow more flexibility in the approach selected by companies, to make sure their emissions reporting is meaningful for their climate targets and transition plan settings.

Climateworks also recommends the government focus on providing the necessary guidance and capability building support to all actors, including corporations and assurance services. Specific support and additional flexibility should be considered for SMEs, as their resources and current internal capabilities might be limited.

Climateworks encourages the Treasury to continue exploring limitations that can affect the disclosure process and need to be addressed with specific requirements. Clearly defined timelines and roles, as well as proper resourcing for the associated agencies, will be critical to the design and delivery of information architecture that supports the sustainable finance system. During this process we suggest the Treasury promote consultation and direct engagement with stakeholders on a regular basis to guarantee solutions that are fit for purpose.

Selecting appropriate scenarios and pathways will better inform businesses and investors' decisions.

Recommendation:

- Climateworks largely supports the Treasury's position on scenario analysis and recommends that the Treasury encourage corporations to use 1.5°C-aligned scenarios, and country and sector-specific scenarios when available.

Climateworks largely supports the Treasury's position on scenario analysis in the mandatory climate-related disclosure, specifically regarding the inclusion of at least one scenario which aligns with the Climate Change Act 2022. Climateworks, like many leading climate organisations and institutions, regards limiting warming to 1.5°C as vital to preserving a safe and prosperous planet. Traditional finance, energy and business institutions, both globally and in Australia, are also starting to converge on the importance of climate action in line with 1.5°C (Intergovernmental Panel on Climate Change [IPCC] 2022). Climateworks believes that the use of a 1.5°C-aligned scenario in corporate scenario analysis is best practice – as well as being in line with GFANZ and other international expectations – and therefore should be encouraged by the Treasury.

We also support the Treasury's approach to encourage corporations to select at least one other scenario that reflects different climate future(s), so the users of financial reporting can better assess the company's resilience. However, Climateworks recommends the Treasury encourage corporations to use country and sector-specific trajectories and pathways in corporate scenario analysis, where appropriate and as they become available. Country and sector-specific pathways provide useful information on the rate, sequence and timing of decarbonisation activities such as fuel switching and technology implementation, which may vary significantly across sectors and regions. Undertaking appropriate and country and sector-specific scenario analysis will help companies and investors understand the varying risks and opportunities associated with their specific business, and include them in their decision-making and planning processes.

Existing tools are available to support quantitative scenario analysis adapted to the Australian and sectoral context.[1] Climateworks also understands the government intends to develop sectoral decarbonisation plans which will guide sectoral decarbonisation and provide investor confidence.

Robust and credible corporate transition plans are key to corporate decarbonisation.

Recommendations:

- Climateworks broadly supports the Treasury's proposal regarding climate strategy disclosure but recommends that companies are required to disclose the temperature alignment of their targets and transition plans, as well as the methodology and data sources that underpin the temperature assessment.
- Climateworks strongly encourages that the Treasury requires transition plans to be 'credible', in line with emerging international criteria.

[1] For example, Climateworks' Decarbonisation Futures (2020) explores a set of alternative scenarios on how Australia can reach net zero emissions. We have also modelled, in partnership with AEMO, scenarios that demonstrate the grid can decarbonise by early 2030s (Australian Energy Market Operator 2022).

- Climateworks recommends the Treasury request corporations to clearly disclose their planned and actual use of carbon offsets and how these are intended to achieve progress towards their climate strategy.
- Climateworks recommends the Treasury mandate companies to provide an explanation of why mandatory disclosure could not be provided, as per the ‘disclose or explain’ principle used globally.

Climateworks welcomes the Treasury’s proposal to mandate the disclosure of corporate transition plans, given the growing recognition, nationally and internationally, of their importance to drive reliability and rigour of climate-related disclosures. Climateworks notes that the Treasury will consider transition plan disclosure in more detail in the government’s upcoming Sustainable Finance Strategy consultation, and we look forward to submitting our inputs. For now, Climateworks’ position is that Australia needs to align with international best practice (including the Transition Plan Taskforce) and expectations around these disclosures.

Climateworks research has demonstrated that corporate action in Australia is not yet aligned with a cost-effective pathway to net zero emissions in line with 1.5°C global warming (Climateworks Centre 2022; Australian Industry ETI 2023). Climateworks recommends the Treasury require companies to disclose the temperature alignment of their targets and transition plan. That is, companies should disclose the implied level of global warming their transition plan will contribute to, as well as explaining methodology and data sources underpinning this temperature assessment, e.g. Science Based Targets initiative (SBTi). These additional requirements are crucial to provide the market with sufficient information regarding the ambition of corporate climate strategy. Transparency and comparability are essential for users of the transition plan disclosures, particularly financial market participants, to tailor their corporate engagement and inform their investment decisions. For this reason, we also recommend that quantitative information, where possible, is encouraged from commencement in transition plan disclosures.

Additionally, Climateworks strongly encourages that, as part of the Treasury’s consultation on the government’s Sustainable Finance Strategy, the Treasury requires transition plans to be ‘credible’. We advocate for the Treasury to encourage transition plans to meet emerging criteria that follow global best practices, including those highlighted by international agencies (UN High-level Expert Group 2022; *Climate Bonds Initiative* 2018). More details on the ‘credible transition plans’ criteria are provided in Climateworks' response to the Climate Change Authority consultation (Climateworks Centre 2023).

As well as requiring transparency of verification against recognised standards, Climateworks recommends the Treasury request corporations to separately disclose their planned and actual use of carbon offsets in corporate strategy. Offset-use disclosed needs to be distinct from emissions reductions so users of financial reporting can properly understand a company's climate-related strategy and the associated financial risks. This supports the current consensus on best practice, that offsets should be reserved for unavoidable emissions only (following the mitigation hierarchy) and offsets should not be counted towards achieving emissions reduction targets (Science Based Targets initiative 2023). This aligns with international guidance on the integrity of offset-use (Voluntary Carbon Market Initiative 2023)C(Carbon Market Institute 2021); (Integrity Council for the Voluntary Carbon Market 2023); (Voluntary Carbon Market Initiative 2023)). Australian entities adhering to these offset-use integrity standards, as well as the integrity of the nation’s carbon offsets schemes, will be crucial for Australia’s involvement in any international article 6 measures as part of the Paris Agreement.

Climateworks welcomes the proposal to require companies to state that they have not disclosed the required information when they are not able to meet the mandatory disclosure requirements (e.g. if an entity does not have a transition plan, the disclosure requirement could be met by stating this). Climateworks recommends the Treasury mandate companies to provide an explanation of why the information could not be provided, as per the ‘disclose or explain’ principle used globally. This would encourage transparency and allow for flexibility when required, while reducing the risk of greenwashing. In addition, detailed justifications for the lack of disclosures could be used by the finance sector for engagement, and provide valuable insights to the government about where additional support is needed. These explanations could be summarised in the ‘index table’ suggested by the Treasury.

Climate-related financial disclosures should be adopted now to align with international standards then broadened to sustainability-related financial disclosures in the future.

Recommendations:

- Climateworks recommends the Treasury consider the ISSB’s IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, to ensure general provisions intended to underpin climate-related reporting are incorporated in Australian standards.
- Climateworks recommends the Treasury send an early signal to corporations to prepare for the arrival of nature-related financial disclosures, including encouraging companies to conduct a double-materiality assessment.

In addition to Standard 2 of the International Financial Reporting Standards (IFRS S2; Climate-related Disclosures) which outlines mandatory climate-related financial disclosures, Climateworks recommends the Treasury consider the general provisions set in the Standard 1 (IFRS S1; General Requirements for Disclosure of Sustainability-related Financial Information) (IFRS 2023a; 2023b). IFRS S2 has been specifically designed to be used along IFRS S1 (IFRS 2023a). IFRS S1 sets a comprehensive baseline of the sustainability-related financial information corporations must disclose in alignment with investors’ needs. Therefore, referencing IFRS S1 would help ensure companies benefit from the core content set in this standard and enable comparability across corporate sustainability-related financial disclosures globally.

Climateworks strongly recommends that the Treasury use this opportunity to also prepare for increasing international expectations that nature-related financial disclosures will be required in the near-term, notably the Taskforce on Nature-related Financial Disclosure (TNFD). Examples of government programs exploring the implementation of the TNFD are already occurring. One example is Financing Solutions for Nature, a pilot program to ensure that the framework has been properly adapted to an Australian context led by the Department of Climate Change, Energy, the Environment and Water (DCCEEW) in partnership with EY and Responsible Investment Association of Australasia (RIAA; DCCEEW 2023). The direct connection between climate and nature has resulted in some leading financial institutions and corporations considering a wider number of environmental factors when assessing financial risks and opportunities. This connection is being increasingly reflected in international expectations of companies to report on broader social and environmental impacts. For example, the Transition Plan Taskforce (TPT) recommends corporations analyse all material interdependencies, including nature, workers, value chain and consumers. Developments such as these are expected to impact Australian businesses in the near-term.

Concluding remarks

Climateworks believes this is an important opportunity to align the Australian economy with international developments that reflect how climate risk is now perceived as a financial risk. International expectation is converging on limiting warming to 1.5 degrees Celsius as a best practice goal. Further clarifying this shared goal could help make climate-related disclosures more transparent, consistent, comparable and interoperable, and thus better support certainty of decision-making in the finance community. The government can support the smooth adoption and implementation of climate-related financial disclosure by providing additional guidance and clarity on topics where consensus may not yet be established, as well as building capacity across the system.

Climateworks advises that the Treasury take a long-term view when shaping this legislation. We look forward to further engaging on the government's upcoming Sustainable Finance Strategy, which should help clarify the required level of climate ambition for corporations and the orchestration of an overall sustainable finance system (of which these initial mandatory disclosures are but one part). This work should also lay the foundations for future developments such as: transition plan disclosure standards, transition plan credibility criteria, the sustainable finance taxonomy, national and sectoral decarbonisation pathways, and an equivalent system architecture for nature and other important 'do no harm' considerations.

References

ACSI (2022) *Chasing 1.5°C The ASX200 – on the right trajectory?*, https://acsi.org.au/wp-content/uploads/2022/11/ACSI-Chasing-1.5C-PUBLIC-FINAL.pdf.

Australian Energy Market Operator (2022) *2022 Integrated System Plan For the National Electricity Market*, https://aemo.com.au/en/energy-systems/major-publications/integrated-system-plan-isp/2022-integrated-system-plan-isp, accessed 28 July 2023.

Australian Industry ETI (2023) *Pathways to industrial decarbonisation*, https://energytransitionsinitiative.org/wp-content/uploads/2023/02/Pathways-to-Industrial-Decarbonisation-report-February-2023-Australian-Industry-ETI.pdf.

Carbon Market Institute (2021) *Markets*, *Carbon Market Institute*, https://carbonmarketinstitute.org/markets/, accessed 28 July 2023.

Climate Bonds Initiative (2018) *Climate Bonds Initiative*, https://www.climatebonds.net/certification, accessed 23 June 2023.

Climate Leaders Coalition (2022) *Scope 3 Roadmap: Practical Steps to Address Scope 3 Emissions - Written by CEOs for CEOs*, https://www.climateleaders.org.au/publications/scope-3-roadmap/, accessed 28 June 2023.

Climateworks Centre (2020) *Decarbonisation Futures*, https://www.climateworkscentre.org/resource/decarbonisation-futures-solutions-actions-and-benchmarks-for-a-net-zero-emissions-australia/.

—— (2022) *1.5°C climate goal: How does the ASX200 stack up in 2022?*, *Climateworks Centre*, https://www.climateworkscentre.org/resource/1-5c-climate-goal-how-does-the-asx200-stack-up-in-2022/, accessed 23 June 2023.

—— (2023) *Submission to the Climate Change Authority's consultation on setting, tracking and achieving Australia's emissions reduction targets*, *Climateworks Centre*, https://www.climateworkscentre.org/resource/submission-to-the-climate-change-authoritys-consultation-on-setting-tracking-and-achieving-australias-emissions-reduction-targets/, accessed 21 July 2023.

Integrity Council for the Voluntary Carbon Market (2023) *The Core Carbon Principles*, *ICVCM*, https://icvcm.org/the-core-carbon-principles/, accessed 28 July 2023.

Science Based Targets initiative (2023) *FAQs*, *Science Based Targets*, https://sciencebasedtargets.org/faqs, accessed 21 July 2023.

UN High-level Expert Group (2022) *Integrity Matters: Net zero commitments by businesses, financial institutions, cities and regions*, https://www.un.org/sites/un2.un.org/files/high-levelexpertgroupupdate7.pdf.

Voluntary Carbon Market Initiative (2023) *Claims Code of Practice*, https://vcmintegrity.org/vcmi-claims-code-of-practice/, accessed 28 July 2023.