21/07/2023

Submission to the consultation on climate-related financial disclosure

The Australian Conservation Foundation (ACF) welcomes the opportunity to provide a submission to the Treasury's second consultation on the design and implementation of standardised, internationally aligned requirements for disclosure of climate-related financial risks in Australia.

ACF is Australia's national environment organisation. We are over half a million people who speak out for the air we breathe, the water we drink, and the places and wildlife we love. We are proudly independent, non-partisan and funded by donations from our community.

ACF would like to commend the Treasury for presenting, what it believes to be, a set of robust proposals for the design of mandatory requirements for climate-related financial disclosures. Overall, ACF supports the proposals outlined in the consultation paper in relation to timing, entities covered and integration of transition relief. With this submission, ACF has chosen to focus on a few areas where it believes the Treasury should consider an alternative approach.

Summary of Key Recommendations

1. **Double materiality:** ACF recommends that the Treasury allow flexibility for future amendments to the Corporations Act to ensure that a double materiality approach can be applied for the subsequent disclosure of sustainability-related financial information such as nature-related disclosures. ACF also recommends that the Treasury promotes the use of double materiality in climate-related disclosures to build knowledge and acceptance for the method and encourage entities to take a long-term view of their impacts.
2. **Reporting of scope 3 emissions:** ACF recommends that entities be required to report their complete scope 3 emissions, rather than 'material' scope 3 emissions.
3. **Scenario analysis:** ACF recommends that the Treasury aligns requirements for scenario analysis with the level of ambition set by the ISSB standards and provides standardised resources to support the implementation of quantitative scenario analysis.
4. **Transition plans:** ACF recommends the government to provide best practice standards which establish an overarching directive for transition plans to align with the temperature goal of the Paris Agreement. Additionally, over time, transition plans should also be required to detail corporate strategy to address biodiversity risks, reduce adverse impacts and enhance positive impacts on biodiversity in alignment with relevant global and national goals.

Double materiality

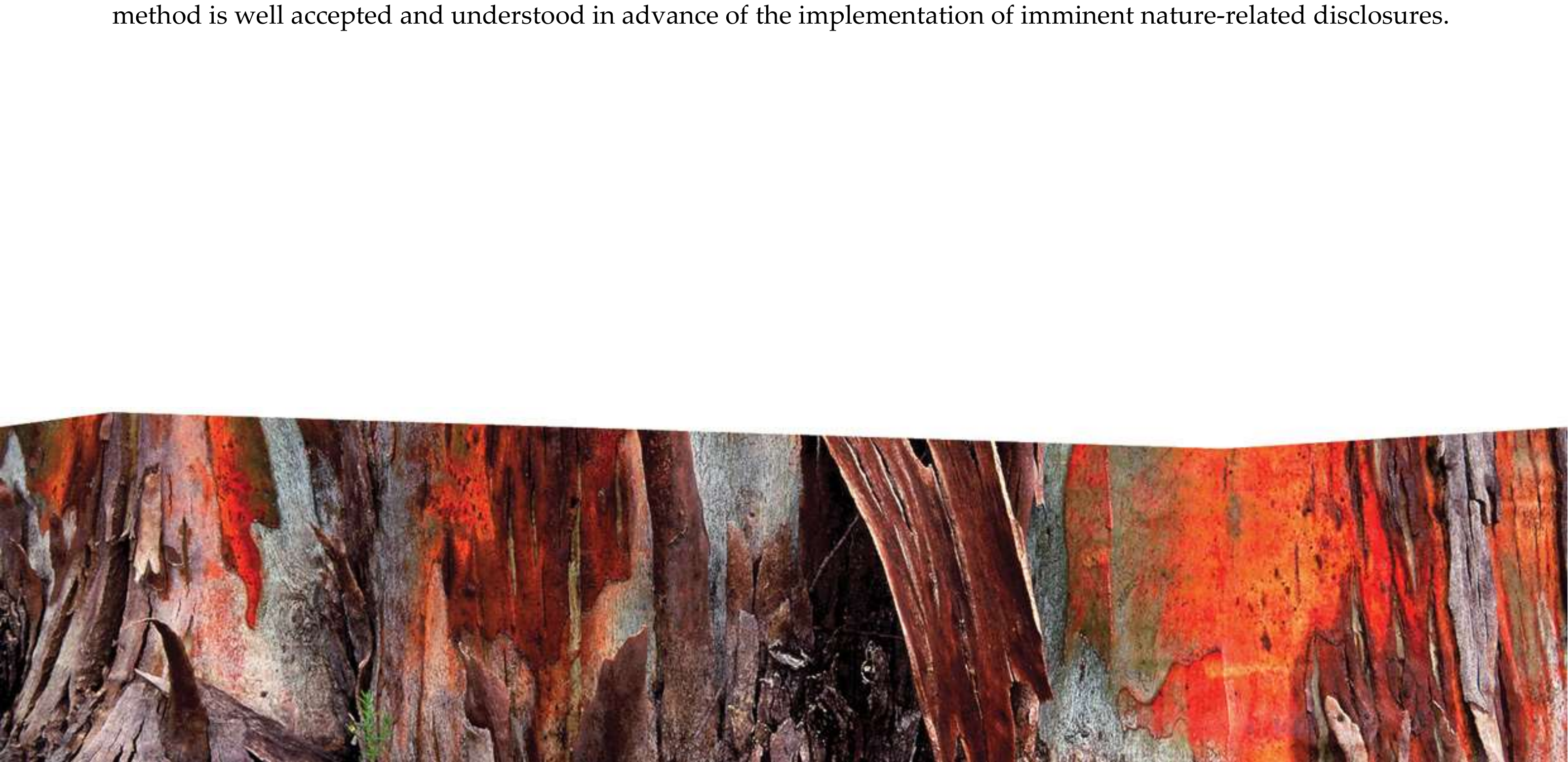
Treasury's proposal: Principles of financial materiality would apply.

The Treasury has proposed to apply the principles of financial materiality, as opposed to double materiality, for climate-related financial disclosures. Whilst the current round of consultation is focused solely on climate-related disclosures, ACF encourages the Treasury to allow flexibility for the inclusion, and distinct treatment, of nature-related financial disclosures in the coming year. Global nature-related frameworks will be issued in the near future with the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations to be finalised in September 2023 and IFRS having indicated that it plans to incorporate TNFD recommendations into future iterations of the ISSB standards.

While a double materiality approach may be beneficial in fostering a long-term view, the reporting of a company's full scope of emissions captures the entity's climate impacts. When taking a double materiality approach, companies must report the impacts of the company on the environment and society, as well as the impacts of environmental and social issues on business value (financial materiality). In regard to climate-related disclosures, it is noted that a double materiality approach may not identify significantly additional material impacts when compared to a financial materiality approach. This is because the greenhouse gas emissions of each company contribute cumulatively to the increase in overall atmospheric carbon dioxide emissions.

However, a double materiality approach is essential for nature-related financial disclosures. Nature-related impacts are heavily dependent on the location and type of activity. Therefore, each company will have a set of unique impacts on the environment and society in which it operates. Given that prolonged and unmitigated environmental and social impacts are expected to become financially material over time, the use of a financial materiality approach alone would fail to comprehensively manage the financial risk of nature-related impacts.

Therefore, ACF strongly recommends that the Treasury allows flexibility for future amendments to the Corporations Act to ensure that a double materiality approach can be applied for the subsequent disclosure of sustainability-related financial information such as nature-related disclosures. ACF also recommends that the Treasury promotes the application of a double materiality method in climate-related disclosures to encourage entities to take a long-term view of their business' impacts. Promotion of a double materiality approach now, will also ensure that the method is well accepted and understood in advance of the implementation of imminent nature-related disclosures.



Scope 3 emissions

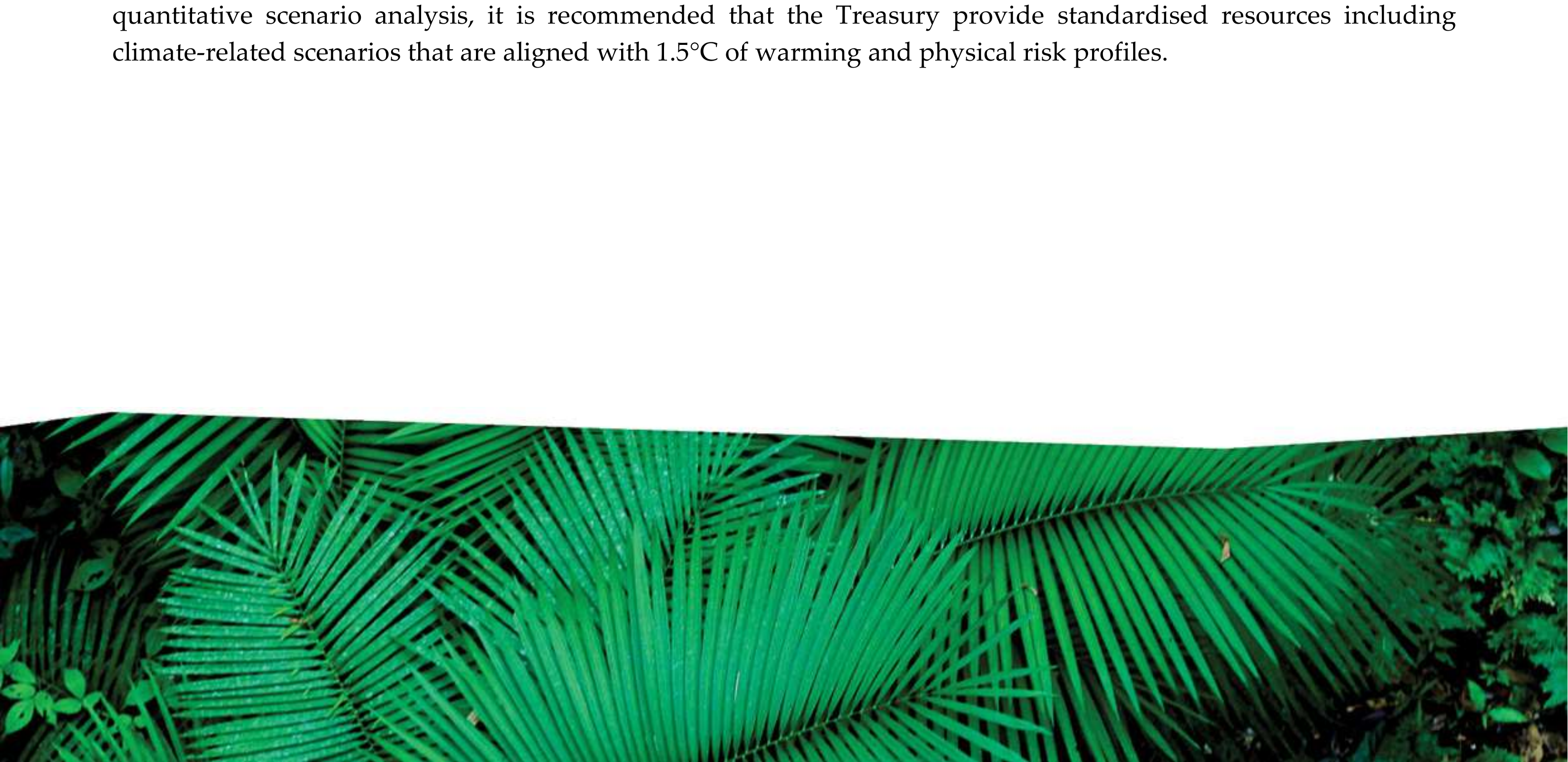
Treasury's proposal: Disclosure of material scope 3 emissions would be required for all reporting entities from their second reporting year onwards. Scope 3 emissions disclosures made could be in relation to any one-year period that ended up to 12 months prior to the current reporting period.

ACF notes that the word 'material' has been included in the Treasury's proposal for the disclosure of scope 3 emissions. Whilst Treasury's proposal is in line with TCFD recommendations, this is a significant diversion from the ISSB standards, which recommends the disclosure of all scopes of emissions. The complete disclosure of scope 3 emissions is essential since scope 3 emissions often account for the largest share of an entity's total emissions. Furthermore, a comprehensive understanding of an entity's scope 3 emissions is necessary to inform business management and investor decisions. It is essential that the mandatory disclosure requirements are designed to promote consistency. The phrasing of 'material' scope 3 emissions allows room for interpretation and could result in inconsistent reporting across the economy. ACF strongly recommends that entities be required to report their complete scope 3 emissions.

Scenario analysis

Treasury's proposal: From commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state.

The Treasury has proposed that from the outset, entities will be required to conduct qualitative scenario analysis to inform their disclosures. This is a deviation from the ISSB standards which recommends the use of quantitative scenario analysis and the disclosure of information as a single amount or a range. The ISSB standards also recommends entities to disclose details such as the scenarios used, use of a variety of scenarios and inclusion of a scenario aligned with the latest international agreement on climate change. Quantitative scenario analysis is important in the management of climate-related risks as it enhances long-term planning by assessing vulnerabilities, evaluating impacts, and informing adaptation strategies. ACF recommends that the Treasury aligns requirements for the use of scenario analysis with the level of ambition set by the ISSB standards. To support entities to implement quantitative scenario analysis, it is recommended that the Treasury provide standardised resources including climate-related scenarios that are aligned with 1.5°C of warming and physical risk profiles.



Transition plans

Proposal: From commencement, transition plans would need to be disclosed, including information about offsets, target setting and mitigation strategies.

ACF supports the Treasury's proposal to mandate the disclosure of transition plans, including information on offsets, targets and mitigation strategies. The Treasury's proposal is aligned with the ISSB standards which have a focus on transparency, rather than prescribing a level of ambition that firms should meet. At present, the lack of a mandatory disclosure framework and standardised sector decarbonisation pathways inhibits transparency on the disclosure of transition plans and impedes the verification by third-party bodies. Therefore, ACF encourages the government to provide best practice standards, including sector decarbonisation pathways, which establish an overarching directive for transition plans to align with the temperature goal of the Paris Agreement. Additionally, over time, transition plans should also be required to detail corporate strategy to address biodiversity risks, reduce adverse impacts and enhance positive impacts on biodiversity in alignment with relevant global and national goals.