CREATE. CONNECT. CONVINCE

http://www.cpd.org.au

24 July 2023

Climate Disclosure Unit
Market Conduct and Digital Division
The Treasury
by email: climatereportingconsultation@treasury.gov.au

Dear Climate Disclosure Unit,

Feedback on 'climate-related financial disclosure: second consultation'

The Centre for Policy Development welcomes the reform principles and the proposed framework in the Treasury's second consultation paper.

CPD is an independent policy institute that focuses on critical long-term policy challenges, including impacts of climate change. For several years, CPD has been proposing solutions to reflect the cross-cutting impacts of climate change across corporate governance, the economy and Australia's financial system.

The Treasury's proposed mandatory disclosure framework is an important step towards better economy-wide responses to climate risk, and an important part of the system to avoid a disorderly transition. CPD is grateful for this opportunity to provide further input into the design of this disclosure scheme.

Coverage

CPD commends the Treasury's proposal to apply the mandatory disclosure framework to all entities required to report under Chapter 2M of the *Corporations Act 2001*. This whole-of-economy coverage is an important feature of the scheme, as we articulated in our first submission.

We would like to raise three further points of feedback on the proposed framework:

- To meet the intended goal of providing information flows to markets, there should be **no exemption** for small publicly listed companies.
    - We recommend Group 3 should include all ASX listed companies regardless of size. To reflect proportionality, listed companies below the current Group 3 thresholds could be required only to report scope 1 and 2 emissions (not scope 3 emissions or transition plans).
- Automatic inclusion of carbon-exposed entities in Group 1 should **go beyond NGER controlling corporations** – the important point is not direct emissions but rather economic exposure to carbon-intensive businesses.
    - We recommend that Group 1 automatically include any entity that fulfils both criteria: (a) a significant proportion of revenue or inputs (say, over 20%) coming from NGER controlling corporations, and (b) meets the thresholds for final inclusion in Group 3.

- (Recognising that this is not the Treasury's role) We reiterate our recommendation to the Finance Department that public authorities be leaders in the disclosure of climate-related risk, starting with entities with tier 1 reporting requirements under the PGPA Act.

Scenario analysis and transition plans

The Treasury's proposal that scenario analysis (and transition plan targets) must be benchmarked to the global temperature goal in the *Climate Change Act 2022* is a valuable inclusion. But this could go further to achieve the principles of better information that is well-understood (ie. consistency between disclosures).

- At minimum, the Treasury should recommend (if not mandate) the use of **established scenarios** such as the NGFS scenarios, the IEA Net Zero scenario, or the UN PRI forecast policy scenario (FPS).
    - The Treasury's second consultation paper notes that mandating a scenario could introduce systematic risk if the mandated scenario is wrong about the future. This would be mitigated by allowing firms to disclose against other scenarios as well.
    - The countervailing risk is that by not providing any guidance, firms cherry-pick and tailor their forward scenario to create flattering results, and investors are unable to compare plans between firms.
- If the only guidance given is that one scenario must be consistent with temperature rises "well below 2°C", then an entity's second chosen scenario should be **materially different** (not marginally different, eg. "a scenario reflecting the Government's commitment to reduce emissions by 43 per cent by 2030").
    - A materially different scenario could be something like a sudden disorderly transition, or a world of 3°+ average temperature rises.
    - For instance, the New Zealand XRB requires disclosures to analyse a 1.5° world, a 3° world, and a third scenario of the entity's choosing.

Timing

The Treasury's proposed sequencing into three groups, with assurance requirements ramping up for each group over a number of years, is a suitable approach to allow the framework to mature.

Our only feedback is that the two-year gap between the commencement of Group 1 and Group 2 is unnecessary. Group 2 should **commence in 2025-26** with Group 3 commencing in 2026-27. This would mean it still takes 6 years for the mandatory disclosure scheme to reach full maturity, which is long enough (and longer than our original recommendation of 3-5 years).

Once again, we thank the Treasury for the opportunity to provide comment on the proposed framework for mandatory disclosure of climate-related financial risks. The Centre for Policy Development would be happy to discuss any of these points – or those from our submission to the first consultation – further with the team at the Treasury.

Regards,

[redacted]

Program Director
Centre for Policy Development