Terrascope

terrascope.com

21 July 2023

TO
Climate Disclosure Unit
Market Conduct and Digital Division
The Treasury
Langton Crescent
PARKES ACT 2600
Australia
climatereportingconsultation@treasury.gov.au

Re: Terrascope's Response to the Australian Treasury Climate-related Financial Disclosure: Second Consultation

Dear Treasury,

Terrascope welcomes this opportunity to provide our views as the Australian Treasury designs and implements standardised and internationally aligned climate-related financial disclosures.

About Terrascope. We are an end-to-end decarbonisation SaaS platform that enables enterprises to measure and reduce their Scope 1, 2 and 3 greenhouse gas emissions – an essential input for corporations to assess and disclose their climate transition risks and opportunities. Headquartered in Singapore and serving large enterprises across Asia-Pacific, Japan and Europe, our data science and machine learning platform is designed to bring speed and accuracy to carbon accounting for companies in real economy sectors – in particular, the agriculture, food & beverages value chain. We empower companies to measure and reduce their Scope 3 supply chain emissions. Our client base includes multinational corporations in the Australian market.

We welcome the Treasury's initiative to join other jurisdictions to introduce mandatory climate disclosure requirements for large businesses, with a view to producing better quality and internationally comparable disclosures.

We are pleased to communicate the following key points:

- **Reporting entities**
    - Terrascope supports the Treasury's proposal to require all entities that meet prescribed size thresholds and that have to report under Chapter 2M of the Corporations Act to make climate-related financial disclosures. We are confident that the Treasury's proposed thresholds would meet the policy intent to ensure that large businesses and financial institutions provide Australians and investors with greater transparency and accountability.
    - Notwithstanding this, Terrascope suggests requiring all companies which are publicly listed in Australia to make climate-related financial disclosures, even if they do not meet the above-mentioned thresholds. Doing so would be consistent with the EU's Corporate Sustainability Reporting Directive, as well as proposed regimes in the US, Hong Kong, and Singapore, which require listed companies to do so.

- Terrascope supports the Treasury's proposal to not use materiality or solely turnover to determine corporate reporting obligations.

- **Phased implementation approach**
  - Terrascope supports the Treasury's proposal to take a phased approach to coverage over time. Notwithstanding this, we believe that companies should begin reporting as soon as possible. In this regard, we suggest subjecting Group 2 entities to the mandatory requirements from an earlier date, i.e. to commence from 2025-2026, and for Group 3 entities to commence from 2026-2027. This would enable entities to respond more urgently to climate change risk management, while still providing sufficient lead time to build capability.
  - Some Group 2 and 3 entities may not have been reporting on a voluntary basis, so the Treasury's mandatory climate disclosure reforms will make these entities undertake their first reporting cycle. Our experience shows that it takes at least one reporting cycle for companies to identify and fill critical data gaps. Our suggested accelerated timeline will still provide sufficient time for these entities to do so.
  - Entities may find quantitative fields such as emissions disclosure to be particularly challenging, but the use of carbon software which incorporates robust data science and machine learning can help. For instance, Terrascope's software has helped entities accomplish their Scopes 1, 2 and 3 emissions accounting five times faster (compared to manual methods), thus saving significant time.

- **Reporting content: Materiality**
  - Terrascope notes that the Treasury is proposing to apply the principles of financial materiality across all aspects of reporting content, with the "exception of Scope 1 and Scope 2 emissions disclosure". Given that Scope 3 is not explicitly mentioned, it is not clear if this means that entities can avoid Scope 3 emissions disclosure if they deem these to be not financially material. Having more clarity on this issue would be useful. Terrascope stresses the need to subject Scope 3 emissions to the same principles of financial materiality as Scope 1 and Scope 2 emissions in order for large companies to more accurately understand their exposure to transition risk.
  - Mandating Scope 3 is essential for managing systemic transition risks. Scope 3 typically contributes ~85% of an enterprise's overall corporate carbon emissions footprint and offers the biggest opportunity for climate action and decarbonisation that can be influenced by the company. For example, identifying an emissions hotspot in Scope 3, Category 1 (purchased goods and services) led one of Terrascope's clients to begin redesigning its manufacturing process, reducing input material required by 20%, as a precursor to the company's targeted engagement with priority supply chain stakeholders for this hotspot. As mentioned above, tech-enabled solutions can help reporting entities overcome barriers to measuring Scope 3 emissions with greater speed and accuracy.

- **Reporting content: Governance, strategy, risks and opportunities**
  - Terrascope supports the Treasury's proposals regarding governance, strategy (including scenario analysis and transition planning and climate-related targets), as well as risks and opportunities.

- **Reporting content: Metrics and targets**
    - Terrascope supports the Treasury's proposal to require all reporting entities to disclose Scope 1 and 2 emissions for the reporting period.
    - Terrascope also supports the Treasury's proposal to require all reporting entities to disclose material Scope 3 emissions. Terrascope supports allowing reporting entities to disclose Scope 3 emissions in relation to any one-year period that ended up to 12 months prior to the current reporting period.
    - We note that the Treasury's guidance on the definition on "material Scope 3" emissions remains ambiguous. More clarity is required on this issue to ensure that the regulations achieve the intended impact of managing transition risks and opportunities.
    - We encourage alignment of the reporting content and methodologies with international GHG accounting standards in order to reduce the reporting burden on global companies and to enhance corporate comparability across jurisdictions. For example, the ISSB's recent climate disclosure standards refer to the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004), and retain the right to review new versions of the standard when published, while aligning with global best practice.
    - The NGER Scheme does not provide methods for the estimation of emissions from agricultural sources or land use, land use change and forestry. We encourage the Government of Australia to consider utilising the Greenhouse Gas Protocol's draft Land Sector and Removals Guidance, which will be finalised in 2024.

- **Reporting location, frequency, and timing**
    - Terrascope supports the Treasury's proposals regarding location, timing of lodgement, requirement to publish reports, as well as continuous disclosure and fundraising documents.

- **Assurance**
    - Terrascope supports the Treasury's proposals regarding assurance, including the proposal to assure Scope 3 calculation methodologies at a minimum while capability is being developed. Terrascope is committed to help reporting entities provide reliable information to the market and we have designed our software platform to facilitate the assurance process.

- **Modified liability approach**
    - Terrascope supports the Treasury's proposals to draft climate-related financial disclosure requirements as civil penalty provisions in the Corporations Act, and to limit the application of misleading and deceptive conduct provisions to Scope 3 emissions and forward-looking statements to regulator-only actions for a fixed period of three years.

Terrascope remains available to discuss our comments or answer any specific questions that the Treasury or its staff may have. Please contact [redacted] Climate Regulations and Reporting Specialist, at [redacted] in this regard.

Sincerely,

[redacted]
Head of Sustainability