

Climate Disclosure Unit
Market Conduct Division
The Treasury
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PARKES ACT 2600

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Dear Sir/ Madam

Submission to *Climate-related financial disclosure: second consultation*

Weathering Change makes this submission on the basis of socio-economic expertise, particularly in translating national policy concepts to on-ground behavioural change in regional Australia. We have been proactively and closely following global financial concerns leading to climate-related financial disclosure (CFD) since 2009.

Weathering Change commends the approach and design that The Treasury proposed to regulate CFD in Australia, including the exclusion of small to medium businesses from the proposed regulated CFD reporting requirements.

This submission seeks to ensure the significant impact that CFD regulation will have on economic transition within the small to medium business sector (via supply/business chains) is recognised and addressed.

CONTEXT AND CHALLENGE

The Australian Government is seeking to introduce regulation of CFD for companies (with at least 100 employees or \$25 million in assets over 2024-2028). CFD regulation is the primary tool identified by TCFD and adopted by G20 for enabling global investors to avoid financial risks posed by climate change. CFD encourages companies and investors to assess their risks and opportunities through a climate lens. Reporting of CFD considers a company's exposure to climate risks through 'in-house' activities and cumulative supply chain securities. By leveraging better informed investment decisions, CFD aims to meet the objective of transitioning the global economy towards activities and markets that are 'climate-viable'.

Within Australia (and for reasons that Weathering Change supports), Treasury's proposal is to stagger the introduction of regulation, starting with the largest companies. Explicitly, there will be no regulation requirement for small to medium businesses (i.e. businesses with less than 100 employees and assets less than \$25m) to provide CFD reporting.

Estimates for how much of the domestic economy will not be directly captured by CFD reporting requirements varies significantly depending on how it is calculated. As a guide: at least 50% of employment in Australia is via small to medium businesses who will not be directly affected by the

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proposed CFD regulation. It is not possible to transition Australia's economy without transitioning these small to medium businesses.

CFD is affected by value chains, so CFD regulation relies on two data flows:

1. CFD itself (generation of regulated reporting, which is the delegation which Treasury is pursuing via the consultation paper)
2. Unregulated data requirements of business supply chains (this is not directly regulated, but will be required by companies who report CFD).

Under proposed CFD amendments to the Corporations Act, engagement of small to medium businesses in this transition will be through unregulated data recruitment of or via value chains. Quantitative currencies and standards for CFD reporting will evolve over the coming years in accordance with market and policy complexities across international and domestic economies. In the interim, small to medium business engagement in CFD via business supply chain reporting will be characterised by:

- Evolving data requests linked to multiple explicit products or services;
- Multiple requests for CFD data in different formats for different clients/providers;
- An increased level of remote scrutiny by big companies, without the small to medium businesses awareness or engagement in that scrutiny or logic to it;
- Inability to distinguish supply chain requests for CFD data from competitive requests for 'commercial-in-confidence' data.

In these ways, the proposed regulation of CFD will expose Australia's small to medium business sector to significant administrative overheads and business risk.

Failure to anticipate and manage small to medium business transition risks:

- a) A 'two speed' CFD economy transition, marked by a benchmark loss of small and medium businesses; and/or
- b) Poor quality of data within regulated CFD reporting that has been sourced from small and medium businesses value chains.

It is imperative to value chain business confidence that introduction of CFD regulation be accompanied by a national strategy and information package outlining how small and medium businesses will be engaged in the economic transition that CFD is designed to achieve.

Recommendation 1: The Treasury prepare a national strategy and information package outlining how small and medium businesses will be engaged in the economic transition that CFD is designed to achieve.

INCLUSIONS

The consultation papers for CFD regulation help clarify what a national strategy for climate transition of small and medium businesses needs to include. Focus must be on 'whole of economy' transition with clear, well-supported and proactive measures that ensure small and medium businesses have transparent, early and equal opportunity to participate. It should include the following elements:

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1. Information about global drivers, national regulation, processes and timeframes

Information is the difference between whether small business perceives commercial competition or a collaborative international effort to protect the whole economy as climate changes. The strategy of Recommendation 1 (above) should include a fast and consistent channel of government information to small and medium businesses that supports an informed understanding of CFD such that the language and concepts are familiar across the domestic economy before they diversify through the sectors¹.

Recommendation 2: Direct, up-to-speed information channels on the national purpose and implementation of CFD be created via Regional Development Australia and put into immediate effect².

2. Representation in national design of economic transition, specifically in relation to data management.

Small to medium businesses will need to know how they will be represented in and across government efforts to transition the domestic economy (i.e. where their 'voice' is in the Australian Government's transition design). Specific requirements of small to medium businesses will include:

- commercial protection
 - bounding of data that supply chains may be allowed to seek, including advice of what data small to medium businesses may fairly ask of their supply chains;
 - early and simple interim standards that streamline provision of information from small businesses to diverse business supply chain requests for CFD information.
- awareness of how existing data and data generated to enable CFD will be used to assist transition³;
- clarity and timeframes of what 'open access' will be supported for tools and datasets that could help small and medium businesses meet data requests and plan their own transition,
- soft guidance on 'how to engage' via case study illustrations of what climate transition could look like for different small to medium businesses.

Recommendation 3: A national framework of how small to medium businesses will be represented, supported and integrated into the transition of the economy that is consistent to transition developments across the Australian Government.

¹ Diversification through the sectors will challenge capacity of small to medium businesses that work across sectors.

² Weathering Change has no affiliation with Regional Development Australia; we consider RDA to be the simplest, quickest, and direct pathway for getting Australian Government CFD information and support to diffuse 'on-ground' business networks.

³ Accelerated access and capacity to use and respond to large datasets is a competitive advantage of large businesses that small to medium businesses will need to manage around.

3. *Specific mechanisms to help small and medium businesses proactively engage in economic transition*

Climate-related financial risks are unlimited; climate-related risk mitigation and growth opportunities are intrinsically limited. CFD regulation will accelerate competition for financially viable transition. Competition will occur across and between scales of economy and business.

Small to medium businesses will need clear and fair opportunity to anticipate, plan and manage 'climate competitive' transition. There are a number of national mechanisms by which this could be achieved, including:

- Government-funded developments that are reserved for progressive privatization through small to medium business investment;
- Providing mechanisms via Regional Development Australia for local business economies to identify and develop local and regional opportunities in a manner that allows those sectors opportunity to develop local solar/wind/carbon opportunities before they are sold to multi-nationals or large companies.

Recommendation 4: Regional Development Australia be supported to work across regions and the Australian Government to identify locally collaborative/inclusive opportunities that align with transition of the domestic economy, and support the opportunity of small and medium business economies to recognize and own those opportunities.

4. *Measures of the impact of CFD on small and medium business sectors of the economy, including administrative loading, and transition opportunities and uptake.*

The impact of CFD on small and medium business sectors of the economy must be measure if it is to be known. This includes understanding how effectively the small and medium business sector is transitioning. It is imperative that methods to nationally measure the impact of CFD on the small and medium business sector are identified and benchmarked. The significance of the small to medium business sector in domestic economies makes this of international interest.

Recommendation 5: The Australian Government demonstrate its interest in transition of the domestic economy by establishing measures and benchmarking the impact of CFD on the small to medium business sector of the economy.

Weathering Change is strongly supportive of the intent and roll-out of CFD. Weathering Change would be pleased to participate further where this may assist effective implementation of CFD across the Australian economy.