Climate Disclosure Standards Board

6th May 2017

CDSB response to Australian Government 2017 Climate Policy Review

To Whom It May Concern,

The Climate Disclosure Standards Board (CDSB) welcomes the opportunity to offer our written response to the Discussion Paper, Review of Climate Change Policies, dated 17 March 2017. We see this Review as a crucial step in ensuring that a robust and fit-for-purpose policy framework remains in place to deliver Australia's longer term target of reducing emissions by 26-28% (below 2005 levels) by 2030, and one which incorporates the perspectives of both business and the community.

We recognise that achieving this 2030 target will require concerted action by diverse stakeholders including business, as well as financing of such actions from both the private and public sectors. Our response to this consultation focuses on the interface of climate change policy with business, and draws attention to ensuring an enabling environment is in place for business to play its part in Australia's transition to a low-emissions and climate-resilient economy. Certainty of climate policy is also vital for business to develop and implement its reduction plans in line with the overarching national climate policy and legal framework. We note that the Senate Inquiry on Carbon Risk has published a set of recommendations which could be actioned to this review, as appropriate. In particular, we wish to draw your attention to recommendation (no. 6) that government end the uncertainty regarding climate change policy[1].

CDSB is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental information[2] (the CDSB Framework) with the same rigour as financial information. In turn, this helps companies to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. The CDSB Framework is referenced in the

[1] The Senate Economics Reference Committee (2017) Carbon risk: a burning issue. Available at http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Carbonriskdisclosure45

[2] Climate Disclosure Standards Board (2015) Framework for reporting environmental information & natural capital. Available at http://cdsb.net/framework

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ASX Corporate Governance Code, and in various pieces of guidance accompany legislation (e.g. the UK Companies Act 2006).

Our specific and general comments on the consultation follow in the appendix below. Please do not hesitate to contact us if you have any further queries.

Kind regards,

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Appendix

Reporting of climate-related risks and opportunities as a central feature of the climate policy landscape and 2017 review

The 2017 Climate Policy Review Discussion Paper does not refer to the National Greenhouse and Energy Reporting Act (2007) or any of the specific regulatory mechanisms Australia has adopted which support the reporting of climate-related risks and opportunities by business, including their consideration in the context of mainstream filings (e.g. Corporate Governance Principles and Recommendations; Financial Services Reform Act; ASIC Section 1013DA Disclosure Guidelines; ASIC Regulatory Guide 68 – New Financial Reporting and Procedural Requirements; Superannuation Governance Policy Standard; Sections 299-300B (Annual Financial Accounts and Directors' reports) and Section 1013DA (Information about Ethical Considerations) of the Corporations Act 2001; ASX Listing Rule 4.10.3). We see these as part of the suite of climate policy tools available to support achievement of the 2030 target.

In collaboration with the World Business Council for Sustainable Development (WBCSD), we have developed a free online knowledge portal, The Reporting Exchange, that connects business, investors, regulators and academics to reliable and expert-verified information on sustainability reporting requirements. It guides users to resources relating to their geography or sector on what, where and how to report. You may find this a useful resource for exploring what other policy mechanisms have been used by other countries in support of reporting on climate-related risks and opportunities or for sector-specific guidance and related tools.

Recognising the multiplicity of reporting purposes

It is important to differentiate between purposes of reporting, not simply tracking progress against national and the United Nations Framework Convention on Climate Change (UNFCCC) targets and and Sustainable Development Goals (SDGs) (e.g. SDG13 on climate and SDG 12 on sustainable consumption and production[3]), although necessary, but to also look further into the active role that reporting by business can play in accelerating the transition to a low-emissions and climate-resilient economy. This can be done by focusing on the risks and opportunities associated with climate change. We would hope that a heightened focus on these aspects through the 2017 Climate Policy Review would incentivise a more active role by business in this transition.

As stated in the address by, The Australian Prudential Regulation Authority (APRA) Commissioner, Geoff Summerhayes on 17 February 2017, he noted that APRA-regulated entities can no longer treat climate change as a 'non-financial' issues, or one that will only crystallise in the distant future. He further noted that many of these risks are financial in nature, foreseeable and material – and are actionable now by Australian banks, insurers, asset owners and asset managers.

Investors need decision useful information to inform their investment decisions and to better allocate capital to those activities which support sustainability and climate change outcomes. Part of

[3] See, in particular, Target 12.6: To "Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle".

the Climate Policy Review could look at existing mechanisms, both regulatory and market-based to ascertain the extent to which they facilitate investor decision making on climate risks and opportunities. We also note that Canada is undertaking a national review following on the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD), the findings of which are already discussed in Australian Senate.

In a letter signed by 27 CEOs of global corporates, and coordinated by the World Economic Forum, they called on G20 governments to formally accept the TCFD recommendations and actively support their implementation[4]. In addition, a statement coordinated by CDSB, 159 companies with combined market capitalisation of over 4.2 trillion AUD, have expressed their shared concern that financial markets do not yet take sufficient account of climate-related corporate performance, risks and opportunities relevant to future shareholder value because of a lack of comprehensive and comparable information in "mainstream" corporate reports for the investment community[5].

[4] World Economic Forum (2017) Global CEOs call for greater disclosure of climate risks and opportunities. Available at https://www.weforum.org/agenda/2017/04/global-ceos-call-for-greater-disclosure-of-climate-risks-and-opportunities/

[5] Climate Disclosure Standards Board (2017) Statement on fiduciary duty & climate change disclosure. Available atL http://cdsb.net/fiduciary

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Opportunities for Enhancing the Quality of Disclosure of Climate-related Financial Risks

The Investor Group on Climate Change's (IGCC) submission to the Senate Economics References Committee: Inquiry to Carbon Risk Disclosure, dated 4 April 2016, identifies ten areas for improving the quality of carbon risk disclosure in Australia which could be considered in the context of this Climate Policy Review to facilitate the transition to a lower emissions economy with respect to

1. Engage with industry to develop and promote a standard of definition for 'carbon risk' for the purposes of carbon risk disclosure, incorporating policy, technological, market and physical risk dimensions.
2. Amend NGERs to include public disclosure of equity exposures above a materiality threshold and encourage the inclusion of complete emissions reporting in financial disclosures, alongside emissions form global operations and interests.
3. Increase the granularity of current NGERs reporting to accommodate both financial risk and greenhouse gas data by reviewing the provisions for disclosing facility-level emissions reporting.
4. Amend NGERs to bolster Scope 3 emissions reporting and disclosure where it can be reasonably considered to be a financially material dimension or corporate carbon risk exposure.
5. Review the level of guidance provided under the Corporations Act for the reporting of carbon risk disclosure as a financially material risk reported in the OFR.
6. Facilitate policy and industry dialogue to determine meaningful climate risk metrics and an industry sector level, which are financially material for Australian corporations reporting against the Corporations Act.
7. Encourage business to include contextual and future focused carbon narrative alongside historical emissions performance data as a key part of effective financial disclosure.
8. Work with industry to develop an effective approach to measuring and reporting exposure to the physical risks associated with climate change, alongside regulatory and market risks.
9. Promote engagement between industry and financial regulators to develop guidance on definitions, materiality thresholds and approaches to carbon risk disclosure, including approaches for reporting Scope 3 emissions associated with fossil fuel reserves.
10. Promote engagement between industry and financial regulators to develop guidance for stress testing scenarios for BAU, 1.5°C, 2°C, and 4°C of global warming.

investment:

Opportunities for Mainstreaming of Climate Change Across Government

We appreciate that the Climate Policy Review is led by the Department of Environment and Energy. However, we hope that part of the 2017 Review will entail examining the cross-governmental approach to climate policy, including the mainstreaming of climate across all areas and line ministries, including the Department of Finance, the Treasury and the Department of Industry, Innovation and Science. This would entail a holistic approach to Australia's existing policy and regulatory landscape, including consideration of company adherence to section 299A of the Corporations Act 2001. In addition, under the auspices of the 2017 Climate Policy Review, the Department of Environment and Energy could engage in further dialogue with its competent financial supervisory authorities (e.g. the Australian Securities and Investments Commission) on their role in oversight of climate-related financial information.

Opportunities for Reducing Emissions Across Sectors

While we have not commented on the individual questions pertaining to the sectors described in the Discussion Paper, we recognise the different challenges faced by sectors and recommend consideration of sector-specific pathways and science-based targets for emissions reductions goals. For more, see the TCFD's supplementary guidance to its draft recommendations.

National Climate Science Advisory Committee

To support the evidence base underpinning future Australian climate policy, the National Climate Science Advisory Committee may wish to assemble a robust evidence base for the market on the financial impacts of climate change risks and opportunities, and on defining carbon risk.

Notable developments in Europe – EU Non-Financial Reporting Directive

We also wish to draw your attention to the EU Non-Financial Reporting Directive (Directive 2014/95/EU amending Directive 2013/34/EU), which obliges (Article 19(a)) certain large companies (for example with over 500 employees) to carry out mandatory reporting on environmental and other non-financial matters. Starting from 1 January 2017 for the calendar year, this is to be done by way of inclusion of a non-financial statement in their annual report. The financial statement must include information on environment and other matters, relevant policies and their outcomes, and the principle risks related to those matters, as well as key performance indicators[6].

This Directive is unique in the sense that it recognises the value of including non-financial information within management reports (i.e. the publicly available annual report), creating new growth by improving investors' access to such information. The preamble to the Directive states that "disclosure of non-financial information is vital for managing change towards a sustainable global economy by combining long-term profitability with social justice and environmental protection"[7]

CDSB welcomes this new legal requirement, representing a significant step forward for European and international investors who seek timely, material, comparable and forward-looking information on non-financial risks and opportunities to make better informed investment decisions.

It is important therefore to ensure alignment of any similar national provisions to allow international investors to compare information across jurisdictions, to enhance access to capital and to reduce the reporting burden for Australian companies operating in the global market place. In addition, such

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[6] Thomson Reuters (2017) EU Non-Financial Reporting Directive 2014: Environmental implications. Practical Law Environment.

[7] European Parliament and Council (2014) Directive 2014/95/EU of The European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. Available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0095

disclosure requirements support the growth of green finance, providing the capital needed to finance the transition to a low-carbon and climate-resilient economy.

Engagement on Reporting by Stock Exchanges

Australia, under the auspices of its Climate Policy Review, may also wish to examine the role of the Australian Securities Exchange (ASX) in creating an enabling environment for business to contribute to achievement of the 2030 target. We note that the "The Australian Securities Exchange Corporate Governance Council's Principles and Recommendations also recommend that listed companies disclose: Whether they have any material exposure to economic, social and environmental risk [of which climate risk would be part; and] How they plan to mitigate or manage these risks"[8].

In this respect, there may be lessons to learn and good practices for the ASX to draw on from the London Stock Exchange (LSE). The LSE produced "Revealing the full picture: Your Guide to ESG reporting. Guidance for issuers on the integration of ESG into investor reporting and communications. "See in particular, Chapter 5 on Reporting Frameworks.

Although the ASX is not a government body, its regulator the Australian Securities and Investments Commission, is tasked with maintaining, facilitating and improve the performance of the financial system, promote investor confidence in it, administer, enforce and give effect to the law, and make information about companies publicly available. ASIC should therefore be consulted as part of this review to explore how their role could be enhanced in creating the enabling environment and supervising the flow of decision-useful climate-related corporate information to investors.

Section 299A of the Corporations Act 2001 – a key piece of enabling legislation for reporting of climate-related risks and opportunities

Section 299A of the Corporations Act 2001 provides a good legal basis for reporting of climate-related risks, opportunities and performance for Australian companies. While this is necessary, it has not gained sufficient market adoption and uptake. This is potentially due to insufficient understanding by companies about the applicability of these requirements to matters such as climate risk and a lack of visible feedback in the marketplace on reporting practices by competent authorities.

As such, further measures and actions are needed to maximise the effectiveness of this legal provision. We recommend that the Government produce climate risk-specific interpretive guidance to accompany Section 299A with a heightened focus and communications on how this Section can be correctly interpreted and put in place by businesses. This guidance should also take into account the final recommendations of the Task Force on Climate-related Financial Disclosures, anticipated in July 2017. Government should also work with key business stakeholders and relevant supervisory authorities, including but not limited to ASIC, ASX, the Australian Chamber of commerce, CPA Australia and Chartered Accountants Australia and New Zealand to ensure sufficient awareness of this legal requirement and related guidance by reporting entities.

[8] Thomson Reuters (2017). Corporate governance and directors' duties in Australia: overview by Tim Lester and Joanna Yoon, Hogan Lovells. A Q&A guide to corporate governance law in Australia. 2017. Practical Law Company.

Opportunities for leadership related to the 2017 Climate Policy Review

There are various areas in the context of Climate Policy which offer opportunities for Australia to show leadership, nationally, regionally and globally:

1. **Ensure alignment of the 2017 Climate Policy Review with the Recommendations of the Senate Economics References Committee Inquiry on "Carbon Risk: A Burning Issue" (March 2017).** This includes Recommendation 4 "That the government commit to implementing the recommendations of the Financial Stability Board['s] Task Force on Climate-related Financial Disclosures where appropriate, and undertaking the necessary law reform to give them effect". More specifically, it refers to possible amendments to the Corporations Act. This Climate Policy Review serves as an excellent implementation vehicle for the Senate Inquiry recommendations.

2. **Show good practice in implementing and supporting the uptake by Australian companies of the TCFD final recommendations**, and through Australian business and supplier relationships around the globe, this could be catalytic in increased corporate climate action regionally/globally. At the same time, this could help to ensure a more globally comparable dataset for use by the global market, and promote a more resilient financial market in Australia. We also note that the G20 Financial Stability Board convenes the TCFD. As a G20 member, Australia can exhibit leadership and help promote adoption of the TCFD recommendations within its borders and beyond.

3. **Advocate for heightened emphasis on reporting of climate related risks and opportunities and their interlinkage with other financial information in international fora**, e.g. in the G20 in its Green Finance Study Group, and in supporting the next G20 Presidency (Argentina) in keeping this at the forefront of its agenda; or in the Commonwealth Finance Ministers' Meetings (CFMM) Commonwealth and Francophonie Dialogue with the G20, and the biannual Commonwealth Heads of Government Meeting (CHOGM) next held in the UK in 2018.

In conclusion, CDSB is grateful for the opportunity to contribute to Australia's 2017 Climate Policy Review. We have emphasised reporting of climate-related risks and opportunities for business and the links to financial risk and reporting, as we identify these as key to helping business play its part in achieving the 2030 target.

We would welcome the opportunity to engage with you further during the course of this policy review and share our experiences to support this crucial work.

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