



energy efficiency
COUNCIL

**Submission to the
Climate-related Financial
Disclosures discussion paper**

17 February 2023

Overview

The Energy Efficiency Council (EEC) welcomes the opportunity to make a submission to the discussion paper on climate-related financial disclosures. The EEC is Australia's peak body for energy efficiency and energy management, and counts business, universities, NGOs and governments among its members. The EEC advocates for policies that deliver healthy, comfortable buildings; productive and competitive businesses, and an affordable and reliable energy system for Australia. The EEC is strongly committed to helping Australia deliver its emissions reduction commitments and transition to a prosperous, net zero economy.

The EEC supports the Government's intention to introduce mandatory climate-related financial disclosure. Corporate engagement with climate risks is critical to support an orderly and rapid transition to a net zero economy, and mandatory disclosure is a proven policy instrument for driving engagement and active management of these issues.

The EEC supports the principles for reform outlined in the consultation paper. The EEC strongly encourages the Government to align as closely as possible with emerging international standards for climate risk disclosure to minimise the costs and maximise the benefits of disclosure.

The EEC further urges the Government to go beyond disclosure of climate risks, to consider disclosure of transition plans that are consistent with the recommendations of the UK Transition Plan Taskforce and the United Nations High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Actors. The UK Government has committed to implementing transition plan disclosure, and Australia could leverage the UK's experience to rapidly adopt transition plan disclosure here. It is clear that substantial and rapid action from governments and businesses will be needed to avoid the worst impacts of climate change and keep alive any prospect of limiting global heating to 1.5°C in the medium term. Encouraging detailed planning for the transition to (and beyond) the net zero economy is a critical tool to catalyse that action.

Leveraging international experience and capability

Australia is a relatively sophisticated participant in global financial markets, and has historically been heavily reliant on international capital investment. Further, a large number of significantly emissions-intensive businesses that operate in Australia are headquartered internationally. Using internationally-consistent frameworks will help Australia remain an attractive investment destination, while supporting long-term climate goals.

There is no compelling reason for Australia to develop its own bespoke climate disclosure framework, but there are clear benefits to being involved in the development of an international standard. Australia should aim to be an enthusiastic, early adopter of international standards for climate disclosure to help investors regard Australia as a safe, responsible destination for investment.

Further, there are many Australian enterprises that will require significant capital support to decarbonise their operations. Some of this finance could be expected to come from abroad. Alignment with international disclosure norms will make such capital easier to access, as investors will have understandable climate risk and management information about Australian enterprises, enabling them to make informed investment decisions.

Include net zero transition plans in disclosure as soon as possible

Climate risk disclosure is an important part of ensuring that financial markets are informed about the potential impacts of climate change on investments, and an important tool to drive corporate attention to managing those risks. However, there is growing consensus that development of a credible net zero transition plan is an essential tool for understanding not only how a business will manage risks, but also understanding how it will operate through and after the transition to a net zero economy. Development of transition plans will also help businesses identify - and address - immediate opportunities for decarbonisation, catalysing accelerated emissions reduction.

It is becoming clear that while an expanding number of businesses are making commitments to achieve, or make progress towards, net zero emissions, there is a very significant disparity in the quality and credibility of plans to achieve those commitments. Implementing high-quality transition plan reporting – such as that being developed by the United Kingdom through the Transition Plan Taskforce Disclosure Framework – ensures that the corporate sector remains accountable to capital markets, supply chains and citizens about their contribution to economy-wide efforts to achieve net zero.

Implementing a net zero pledge remains a difficult task for many businesses, with generally poor understanding of the requirements of a genuine and credible net zero transition plan. Future financial guidance and regulation to ensure disclosure of plans, in accordance with internationally standardised frameworks, will ensure a rapid engagement with the net zero transition. This will help support both the competitiveness and sustainability of businesses in the long term, as well as help achieve Australia's emission reduction targets.

Consider stakeholders beyond investors and financial markets

Ensuring that investors and capital markets have access to accurate information about the climate risks facing companies is an important lever for driving action to address climate change from corporate entities. However, there are a broader range of stakeholders that have a valid interest in the performance of companies against emissions reduction targets.

For example, governments at all levels have an interest in access to information about how companies and other entities plan to decarbonise, which will help inform policy and programs to support decarbonisation. Employees have an interest in understanding how their company will undertake its transition, and what impacts those changes may have for them and their livelihoods. Suppliers and customers may make their own investment decisions that could be impacted by the strategies that

other companies may have for managing physical and transition risks of net zero. And lastly, citizens have a legitimate interest in understanding how the climate – which is an asset shared by all – is being impacted by the activities of large corporate entities.

This points to a broader public interest in disclosure of both climate risks and transition plans. While the involvement of investors and capital markets is crucial, there are broader implications that arise for the economy and society from a disorderly transition to a net zero economy. Ensuring that companies have engaged with climate risks and net zero transition through disclosure is a relatively light-touch regulatory intervention that could help ensure Australia is well-prepared for the transformation that will occur in the decades ahead.

Responses to consultation questions:

Question 1: *What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular:*

1.1 What are the costs and benefits of meeting existing climate reporting expectations?

1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

There are a range of benefits that arise from implementing a climate-related financial disclosure. The benefits accrue to a range of stakeholders – most directly investors and financial markets – but also to a range of other stakeholders including supply chains, governments, the businesses themselves, and the community at large.

Financial benefits

Investors and **financial markets** can make informed decisions about the allocation of capital based on the disclosures of companies. As the transition to a net zero economy takes place, allocators of capital will have a strong interest in ensuring that their investments do not entail unacceptable risk posed by the impacts of climate change as well as the changes brought about by economic transformation. The allocation of capital has an important role in guiding business behaviour and norms, presenting an opportunity to ensure that addressing climate change is deeply embedded within corporate governance structures.

The presence of climate-related financial disclosures, preferably accompanied by disclosure of transition plans, should preferentially direct finance flows to those companies that are well engaged with their climate risks and have a robust, credible and ambitious plan to prosper in a net zero economy. There are many opportunities for Australian business to create sustainable, long-term value that is compatible with a trajectory to achievement of Australia’s emissions reduction targets, and climate risk disclosure frameworks will be an important prerequisite to attracting capital from a wide range of sources.

Climate-related financial disclosures also direct financial benefit to other stakeholders. Many Australians are indirect investors in companies through their superannuation fund, and the case of *McVeigh vs Retail Employees Superannuation Trust* highlighted that ordinary Australians have a clear interest in understanding the climate-related financial risks that they are indirectly exposed to. Increasingly, businesses will also have interests in how their supply chain is exposed to, and is managing, climate risks, and clear information on how suppliers and customers plan to deal with long-term climate risks to their business enables these stakeholders to plan accordingly.

Emissions reduction benefits

Corporate climate risk disclosure also has significant role to play in achieving national emissions reduction targets. Disclosure of climate risks and transition plans has several benefits:

- Mandatory disclosure requires companies to measure and monitor their emissions and climate risks. Measurement and monitoring is the critical prerequisite to *management* of emissions and risks, which will help build the case for companies to reduce emissions.
- Mandatory disclosure provides a rich data set of climate risks and performance, which enables companies to benchmark their performance against others. This can provide clear guidance to companies on whether their efforts to address their climate risks are sufficient.
- Properly addressing climate risks involves engaging with a company's Scope 3 emissions. Australia has policies in place to require measurement and management of scope 1 and 2 emissions, but it is difficult for government to regulate scope 3 emissions. Climate risk and transition plan disclosure helps companies understand and manage their scope 3 emissions, which will become increasingly large proportions of the emissions of Australian entities.
- Climate risk and transition plan disclosure will help governments understand how corporations are addressing and managing the transition to a net zero economy, and will help inform policy development to bridge gaps in our response to climate change.

However, the greatest single benefit of climate related financial disclosure, beyond ensuring that investors and financial markets are well-informed about the climate risks inherent in their investments, is to drive attention and engagement within companies and corporate governance structures towards their climate risks and the plans to address and ameliorate those risks. This engagement is likely to be a substantial driver of action to reduce emissions in Australia as companies seek to reduce and manage their exposure to climate risks.

There is strong precedent for disclosure as a way to shift markets. The National Australian Built Environment Rating System, in combination with the Commercial Buildings Disclosure program has been driving substantial and measurable improvements in energy use among commercial buildings for over a decade now, delivering benefits of more than \$44 million in just its first three years, and was reducing emissions by more than 0.6 Mt CO₂-e per year in 2018-19.¹ Appliance

regulation and performance disclosure through the Greenhouse and Energy Minimum Standards program regime is estimated to save consumers up to \$19 billion between 2000 and 2020, as well as 79 Mt CO₂-e. The Energy Efficiency Opportunities Program, which required mandatory disclosure of energy efficiency opportunities and management by large energy users, delivered \$808 million in net financial benefits and 8.21 Mt in emissions reduction in its first five years.²

Costs

It is undeniable that climate related financial disclosure will impose compliance costs on businesses. However, it is likely that such costs will be relatively minor compared to the long-term benefits that will accrue from financial disclosure. By way of comparison, the Energy Efficiency Opportunities program had a cost-benefit ratio of 3.67:1.³

Costs associated with the reform could be minimised by:

- Aligning as far as possible with international standards;
- Harnessing a 'report once, use multiple' approach;
- Exploring synergies with other policies, such as the National Greenhouse and Energy Reporting Scheme;
- Ensuring a high degree of standardisation in the scenarios that companies evaluate risks against; and
- Provide clear guidance to covered entities on the level of detail required.

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

A phased approach to implementation is reasonable, and large listed companies should certainly be the first covered entities. Over time, the range of covered entities should be expanded, as there is a wider range of stakeholders that have an interest in climate risk disclosure than investors and financial markets.

We would highlight that there may be some significant skills gaps in auditors with sufficient technical expertise to implement the program, and staged implementation with signposting of future intentions should facilitate development of the workforce to carry out the disclosure task.

As Australia is a latecomer in implementing climate related financial disclosure standards, the EEC would recommend that we look to include transition plans in disclosures as soon as possible, adopting work undertaken by the UK Transition Plan Taskforce.

Question 3: *To which entities should mandatory climate disclosures apply initially?*

3.1 *What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?*

3.2 *Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?*

Over time, coverage should expand beyond large, listed enterprises. We believe that companies included under the NGER scheme regime are prime candidates for coverage in the requirements, with a medium-term ambition to have medium-size companies reporting. We also recommend that requirements to disclose a transition plan are included in the initial cohort as soon as possible.

While there are valid reasons to stage implementation, we strongly recommend that the Government signpost future intentions in expanding coverage to prepare other entities for future disclosure requirements.

Question 4: *Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?*

4.1 *Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?*

4.2 *Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?*

The EEC strongly recommends that the Government seek to align Australia's climate reporting framework with international efforts as far as possible, to reduce costs and maximise opportunities that will arise from the reform. Capital flows are highly internationalised, and creating bespoke Australian systems will increase transaction costs and make Australia less attractive as an investment destination.

The standards proposed by the ISSB are an appropriate minimum baseline set of requirements for Australian entities, and would support international comparability of Australian companies. However, the EEC strongly suggests that we seek to complement ISSB requirements with transition plan requirements, and support increasing ambition over time.

The Government should seek to ensure that Australia is well-represented and engaged with the development of international standards. There are clear opportunities for cost reduction and performance improvement if Australia is a fast adopter of international standards, and close engagement will ensure that international standards developed are suitable for Australian implementation.

Question 5: *What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?*

The impact of disclosure of climate risks and associated governance measures on directing capital towards investment compatible with a net zero economy will be substantially strengthened through disclosure of net zero transition plans. The EEC strongly recommends that the new regulatory framework be compatible with transition planning disclosure, if transition plan disclosure is not introduced simultaneously.

Question 6: *Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?*

Question 7: *What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?*

Question 8: *What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?*

The EEC has no comments on these questions at this time.

Question 9: *What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?*

Question 10: *Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?*

The EEC believes that as far as possible, international standardisation and integration with existing reporting frameworks is highly desirable. To that end, the EEC suggests the following matters for consideration:

- Development of standardised climate scenarios for companies to report against;
- Integration and/or interoperability with the National Greenhouse and Energy Reporting scheme; and
- Harmonisation with international standards as far as possible.

Using standardised scenarios and reporting requirements as far as possible will help drive down compliance costs, as well as maximise the application of the disclosure.

Question 11: What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

The EEC strongly recommends that a requirement to disclose a transition plan, taking on the recommendations of the UK Transition Plan Taskforce, as soon as possible. While disclosure of climate risks is important and useful, the requirement to create a long-term net zero transition plan is likely to provide clear signals to businesses to engage meaningfully with decarbonisation and transitioning their business to a model that is compatible with a net zero economy.

The EEC further recommends that a requirement to include a transition plan is incorporated in mandatory climate related financial disclosure as soon as possible, as the need for businesses to engage with transition planning is pressing. It is likely that the world will move quickly in the next decade to implement significant parts of the economic transformation that is required to deliver a net zero economy. Businesses – and countries – that do not have credible, rigorous and ambitious transition plans in place, supported by meaningful accountability and governance structures, are likely to face substantial hurdles in accessing capital and continuing to prosper.

These measures represent a relatively low-cost avenue to driving wider engagement with the delivery of net zero by 2050, and should be implemented as soon as possible.

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

The EEC has no comment at this time.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

13.1 How and by whom might any data gaps be addressed?

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

It is likely that there will be a need to rapidly skill up a workforce of auditors and advisors initially to carry out the necessary tasks to enable disclosure. We recommend that this reform is complemented by initiatives to increase the skill level of auditors, advisors and other required professions, and link in with initiatives in other areas, such as the Clean Energy Capacity Study being undertaken by Jobs and Skills Australia.

Question 14: Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

While the EEC does not have a preference on the entity providing climate scenarios, it is important that scenarios are standardised across all entities to ensure comparability of disclosures. The EEC notes there are a range of organisations, both inside and outside of government, who would be well equipped to generate these scenarios.

Question 15: How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

Question 16: Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed?

Question 17: While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

Question 19: Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

The EEC does not have a comment on these questions at this time.

¹ ACIL Allen (2015), [*Commercial building disclosure program review*](#), p.ii; Centre for International Economics (2019), [*Independent review of the commercial building disclosure program*](#), p.6

² ACIL Tasman (2013), [*Energy efficiency opportunities program review*](#), p.ii

³ Ibid.