

# Mandatory climate-related financial disclosure

## AT A GLANCE

### What is this paper about?

This paper is part of Commonwealth Treasury Consultation on mandatory climate-related financial disclosure. It is produced by the Centre For Policy Development's Sustainable Economy Program submission.

### What's the situation?

Australia's major trade partners are moving towards a net zero economy - more than three quarters have already committed to net zero emissions by 2050.

A mandatory disclosure system can standardise how Australia tracks climate risk and transition in a way that is clear and consistent to the public, investors and trading partners.

Consistency attracts low-carbon investment by enabling comparisons with international markets.

### What is climate-related financial disclosure?

Climate change creates risks and opportunities for businesses, governments and nations. Directors of companies and other organisations often have duties to discover, disclose and address these, especially if they are financial.

### Why does it need to be mandatory?

There is no current requirement to disclose climate-related risks and opportunities in a standard way. This makes it harder for leaders to know what to disclose, for investors and policymakers to compare one organisation with another. A mandatory regime sets clear requirements for who needs to make disclosures, and how they should be made.

### Why should government and private companies be included?

**A single rule across the economy provides clarity, fairness and comparability.**

Government is a quarter of GDP and invests on behalf of citizens. A swift, just and orderly transition benefits from a complete national and sectoral picture of climate risk and opportunity.

Private companies inhabit the supply chains of listed companies. Listed companies required to disclose should not be forced into guesswork about their supply chain emissions. Investors should not be able to privatise (de-list) companies to avoid disclosure.

**Read our submission on *Mandatory climate-related financial disclosure* at [cpd.org.au](https://cpd.org.au)**



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## Schedule of recommendations

- Australia should align with international disclosure frameworks, such as the TCFD and the ISSB standards.
- The mandatory disclosure framework should go beyond large, listed entities and financial institutions and eventually apply to all organisations with current reporting requirements under section 292 of the Corporations Act 2001 (Cth), as well as any carbon-exposed entities not covered by s292.
  - The framework should first be applied to large or carbon-exposed entities.
  - Any size thresholds should align with existing regulatory thresholds, such as from the Corporations Act 2001 (Cth) or the Modern Slavery Act 2018 (Cth).
  - For all organisations covered by s292 of the Corporations Act, the government should set a timeline of 3-5 years to make climate-related financial disclosures a part of the standard financial disclosures.
- The framework should also apply to public authorities. For public authorities established under the Corporations Act 2001 (Cth), the roll-out of the disclosure framework should follow the same timeline as for the private sector with the same thresholds being applied (e.g. starting with large entities). Eventually, the framework should apply to all Corporations Act public authorities.
- For public sector entities covered by the PGPA Financial Reporting Rule, the roll-out should advance in three stages
- “Full” disclosure should include scope 1, 2 and 3 emissions as well as transition plans. Scope 1 and 2 emissions could form a common baseline framework, or a “floor”, for mandatory disclosure.
- As we have proposed very broad eventual coverage, the requirement for disclosure of scope 3 emissions and transition plans could be restricted to large or carbon-exposed entities.
- The framework should require that organisations clarify how much of any reduction in its reported emissions is due to purchased offsets; ideally the framework would specify how this is to be presented.
- Given the ongoing revision of the definition of “materiality” by the International Sustainability Standards Board, the Commonwealth Government should signal its intent to align with any final ISSB guidance, but develop its own interim definition of “materiality” that takes enterprise value as a starting point and builds upon it by also considering non-financial considerations.
- The government should publish at least one central scenario that reporting organisations must disclose against.