



Australian Government

Australian Government response to the
Senate Economics Reference Committee report:

Carbon risk: a burning issue

MARCH 2018

Senate Economics Reference Committee

Carbon risk: a burning issue

Government's Response to Committee's Recommendations:

Recommendation 1

That the Australian Securities and Investments Commission review its guidance to directors to ensure that it provides a proper understanding of the manifestations of carbon risk, and reflects evolving asset measurement implications of carbon risk.

The Government **agrees in principle** with this recommendation.

The Government encourages the Australian Securities and Investments Commission (ASIC) to review its guidance material to ensure that it continues to provide appropriate principles and high level guidance that stakeholders can apply in meeting their disclosure obligations under the *Corporations Act 2001*.

Recommendation 2

That the Australian Stock Exchange provide guidance regarding the circumstances in which a listed entity's exposure to carbon risk requires disclosure under Recommendation 7.4 of the Australian Stock Exchange Corporate Governance Principles and Recommendations.

The Government **agrees in principle** with this recommendation.

The Government notes however that responsibility for the Corporate Governance Principles and Recommendations ('the Principles and Recommendations') rests with the ASX Corporate Governance Council (the Council). The Council brings together a wide range of business, shareholder industry groups who have developed and issued the Principles and Recommendations.

The Government encourages the Council to continue to keep the Principles and Recommendations and the guidance material under review to ensure it provides an appropriate framework to ensure the corporate governance of ASX listed entities remains best practice.

Recommendation 3

That the government nominate a single government entity to have primary responsibility for coordinating the response to the recommendations of the Financial Stability Board Task Force on Climate-related Financial Disclosures.

The Government **notes** this recommendation.

Refer to the Government response to recommendation 4.

Recommendation 4

That the government commit to implementing the recommendations of the Financial Stability Board Task Force on Climate-related Financial Disclosures where appropriate, and undertaking the necessary law reform to give them effect.

The Government **notes** this recommendation.

The Government welcomes the release of the Final Report of the Taskforce, which provides a framework for investors and companies to appropriately assess and price climate-related risk and opportunities.

The Government encourages all stakeholders to carefully consider the recommendations of the Taskforce.

The Government does not consider further law reform is required however, as the disclosure requirements in the *Corporations Act 2001* are principles-based and do not impede the implementation of the Taskforce's recommendations by stakeholders.

Recommendation 5

That the government review the *Corporations Act 2001* to consider whether the obligations for financial disclosure should require holistic consideration of a company's prospects, including the viability of its business model.

The Government **notes** this recommendation.

The financial disclosure requirements contained in the *Corporations Act 2001* are principles-based and provide a flexible framework for financial disclosure.

On this basis the Government believes that the current requirements are sufficient and do not require further review at this time.

Recommendation 6

That the government end the uncertainty regarding climate change policy, and develop a stable and consistent policy (such as an emissions intensity scheme for the electricity sector).

The Government **notes** this recommendation.

The Government has a policy toolkit that is reducing Australia's emissions. This includes the Emissions Reduction Fund and its Safeguard mechanism, the Renewable Energy Target, the National Energy Productivity Plan, the Ministerial Forum on Vehicle Emissions, and the phase-down of hydrofluorocarbons.

The Emissions Reduction Fund has contracted 192 million tonnes of emissions reductions at an average price of just \$11.90 a tonne. The Renewable Energy Target will increase renewable energy to around 23 per cent of Australia's electricity by 2020. The National Energy Productivity Plan will improve Australia's energy productivity by 40 per cent by 2030. The Ministerial Forum on Vehicle Emissions is considering proposals to reduce emissions from vehicles while saving consumers money on fuel. Under the Montreal Protocol, Australia is phasing down imports of hydrofluorocarbons to reach a reduction of 85 per cent on 2011-2013 levels by 2036.

The Government intends to introduce a National Energy Guarantee, consisting of dual requirements that will require energy retailers and some large energy users across the National Electricity Market to deliver reliable and lower emissions energy generation each year.

Additional recommendations by the Australian Greens – Government response

Recommendation 1

The government reintroduce a price on carbon pollution.

The Government **does not agree** with this recommendation.

The Government has been clear it will not introduce a carbon pricing mechanism such as a carbon tax, an emissions trading scheme or an emissions intensity scheme.

Recommendation 2

The government require that annual public reporting by Australian companies include the price paid for carbon pollution and the associated greenhouse gas emissions, including from global operations and interests.

The Government **does not agree** with this recommendation.

The Government does not consider further legislative requirements are required as the current disclosure requirements in the *Corporations Act 2001* are principles-based and do not impede any inclusion of such information in public reporting.

Recommendation 3

The government commit to bringing into effect the recommendations of the Financial Systems Board Task Force on Climate Related Financial Disclosure without exception.

The Government **does not agree** with this recommendation.

Refer to the Government response to Recommendation 4 in the main report.

Recommendation 4

The Council of Financial Regulators develop a standard definition of 'carbon risk' for the purposes of disclosure that incorporates policy, technological, market and physical risk dimensions.

The Government **does not agree** with this recommendation.

The Government believes that the current requirements in the *Corporations Act 2001* provide an adequate and flexible framework for such disclosure to evolve according to the development of the market.

For example, the Financial Stability Board Task Force on Climate-related Financial Disclosures provides a framework for investors and companies to appropriately assess and price climate-related risk and opportunities.

Recommendation 5

The Council of Financial Regulators develop guidelines for mandatory annual public reporting of carbon risk by Australian public companies and by proprietary companies with financially material carbon risk exposures.

The Government **does not agree** with this recommendation.

Refer to the Government response to Recommendation 2 by the Australian Greens.

Recommendation 6

Amend the National Greenhouse and Energy Reporting Scheme to include public disclosure of equity exposures above a materiality threshold.

The Government **does not agree** with this recommendation.

Such an amendment would not be consistent with the Scheme's existing objectives and design.

The Scheme was introduced primarily to support Australia's international greenhouse gas emissions reporting obligations. It discharges this objective through a single national framework for the reporting and dissemination of data on greenhouse gas emissions, energy consumption and production from corporations that meet legislated emissions and energy thresholds. The Scheme's data estimation and reporting requirements align with internationally agreed rules and guidelines to ensure Australia's compliance with its international obligations.

As a result, it would be a significant deviation from the Scheme's original purpose to accommodate this recommendation.

The Government agrees with the Senate Economics References Committee's assessment (section 4.23 refers) that, "Accounting for the risk arising from carbon is categorically different from the accounting of carbon emissions themselves".

Recommendation 7

Amend the National Greenhouse and Energy Reporting Scheme to increase Scope 3 emissions reporting and disclosure where they are a financially material component of a company's carbon risk.

The Government **does not agree** with this recommendation.

For the same reasons provided in response to Recommendation 6, such an amendment would not be consistent with the Scheme's existing objectives and design. The Scheme does not include a requirement to report Scope 3 emissions, only Scope 1 and 2 emissions. The requirement to report is based on legislated emissions and energy thresholds and the determination of operational control, rather than financial considerations.

Also as stated in the response to Recommendation 6, it would be a significant deviation from the Scheme's original purpose to accommodate this recommendation.

Recommendation 8

Require industry and financial regulators to develop guidelines for stress testing scenarios for different levels of global warming.

The Government **does not agree** with this recommendation.

The Government welcomes the release of the Final Report of the Taskforce, including the Technical Supplement on the use of scenario analysis in disclosure of climate-related risks and opportunities. The Government considers that the information provided in the Supplement could assist organisations to develop their own stress testing scenarios, should they choose to do so.