Submission 36 – Sustainable Business Australia

Sustainable Business Australia made submission 32 to the inquiry into carbon risk disclosure in the 44th Parliament.

This document is intended as a supplementary submission to the original submission 32.

All submissions received in the 44th Parliament can be accessed via the following link:
http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Carbon_Risk_Disclosure/Submissions

Sustainable Business Australia Ltd
ABN 48 052 135 609
Legion House,
Lvl 2, 161 Castlereagh St,
SYDNEY NSW 2000
+ 61 2 8267 5782
sba@sba.asn.au
www.sba.asn.au

Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

19 December 2016

By Email: economics.sen@aph.gov.au

Dear Committee Secretary,

INQUIRY INTO CARBON RISK DISCLOSURE

Sustainable Business Australia (SBA) thanks the Committee for making available further opportunity to make a Submission to this Inquiry.

Since our 6 April 2016 submission the FSB Task Force for Climate-related Financial Disclosure (TCFD) has released its draft recommendations to help companies and financial actors disclose their climate-related financial risks and opportunities.

In September 2015, Mark Carney, Governor of the Bank of England, issued a clear warning about the Tragedy of the Horizon, stating that by the time climate change impacts financial stability, it will already be too late. Taking immediate action, the G20 formulated the Task Force - led by captains of industry and financial institutions - to help business compile and organize the information needed to understand and reduce climate-related financial risk.

The FSB's paper and draft recommendations are the second report from the Task Force and provide the main recommendations for better disclosure. After the consultation period, the recommendations are expected to be discussed at the G20 (of which Australia is a member) and will aim to inspire changes in corporate governance towards more transparent and uniform disclosure standards.

The Task Force's four main recommendations are built around specific disclosures that organizations should include in their filings. The belief is that these will help provide useful information on climate-related risk:

- Governance: Disclose governance around climate-related risk and opportunities
- Strategy: Disclose potential impacts of climate risks and opportunities
- Risk Management: Disclose how the organization manages climate-related risks
- Metrics and targets: Disclose key indicators to assess relevant risks and opportunities

Businesses embrace a new governance norm

As part of SBA / WBCSD's Redefining Value work program, we are already seeing companies who wish to see their boards get a better grip on the risks and opportunities that climate change poses to their strategies and operations.

By disclosing this information to the investor community in a comparable way, capital allocation and valuation decisions can be more informed. This combination of better decision making in companies, combined with better information for investors, will lead to an acceleration of the move towards a low, and ultimately net zero, carbon economy.

Companies will have an important role to play in making the recommendations and guidance relevant, applicable and meaningful to businesses everywhere. This Committee's findings and recommendations to embrace this new governance framework will go to strengthen and increase their likely uptake by the FSB and G20.

Specifically, we welcome the FSB Task Force's decision to:

- **Recommend** reporters integrate climate-related information in their mainstream financial reports. This will bring climate change further into the boardroom as every board must consider and sign off on their mainstream filings. It will ensure climate risk information is disclosed with the same rigour as financial information and allow investors to hold these boards to account for their management of climate risk;
- **Recommend** all companies describe the potential impact of different scenarios, including a 2 °C pathway and disclose the potential impacts, bringing the "future" of climate risk into the present.
- **Encourage** both financial and non-financial organizations to adopt the recommendations. We recognize the crucial role they have in ensuring a transition to a low-carbon economy, as their leadership will drive the development of more sustainable economic systems.

What do the Task Force recommendations do

Similar to the task of this Committee, according to Mary Schapiro, Special Advisor to the TCFD Chair and Former Chair of the U.S. Securities and Exchange Commission, the Task Force is broadly focused on solving three problems:

1. **Addressing highly variable methods for disclosing climate change risk** - Public companies are already required to disclose material risk, including climate risk. But, until now, there hasn't been an effective or uniform way to do it. Creating a framework that fits easily into current methods for financial risk disclosure will help companies understand and report on their climate risks in a more useful way;
2. **Increasing clarity for investors, bankers and insurance underwriters** - Investors want information on climate-related financial risks so they can make better informed decisions. The same is true for banks and insurance underwriters. Historically, climate risk has not been disclosed or articulated with a financial focus. Task Force recommendations and guidance aim to solve this problem;
3. **Understanding the growing impact of climate change and predicting risk intervention for society**
   - Regulators need to understand the potential impact of climate change on the financial system because they need to predict and prepare for regulatory interventions in the future. Understanding climate-related financial risk across various scenarios helps them see where and how best to intervene.

What makes this set of recommendations so relevant?
There are three-fold reasons:

- **They are positioned in terms of financial stability**. Many companies already produce sustainability reports because of shareholder recommendations, and these may be written with investors in mind. However, few sustainability reports translate their sustainability information into financial terms. The Task Force recommendations and guidance aim to help fill that gap;
- **They have been developed by business leaders and industry experts from all over the world**. The result of their work is a flexible framework that can be used by any business anywhere of any size;
- **Climate change issues are more mainstream now than ever before**. The scientific evidence is indisputable, and the global community is engaged and aligned.

With hundreds of frameworks and sustainability standards available to business, it may be tempting to think of these recommendations as just another set of reporting and disclosure "boxes" to tick, but they are much more than that. Because the standards are voluntary, Task Force members needed them to be decision useful, cost effective and compatible with the existing disclosure structure.

And the appetite for such a framework is palpable. There were over 1000 participants in Phase I – and Task Force members expect strong uptake during the public consultation period of Phase II.

Critical to their success will be their ease of implementation.

The FSB Task Force is setting a new corporate governance norm. It is saying that in the 21st century a well-governed company must **regularly** test its business strategy against climate change-related risks and report on management's strategy in this respect in the mainstream report. This framework has the potential to inspire a "race to the top" as companies compete to gain control over sustainable products, markets and services; spurred innovation - as companies are pushed to address new and previously unknown risks; and progress in addressing climate change as the "biggest market failure the world has ever seen.

This added rigour and accountability to shareholders will compel the attention of CFOs, CEOs and Boards of Directors. That is ultimately what has been needed to factor in climate risk in corporate capital expenditures and investor asset allocations.

We urge the Committee to work towards creating best practice in reporting, and we look forward to helping the Parliament to make the Task Force's recommendations common practice.

Should you require any clarification or have further questions please feel free to contact me.

Yours faithfully,

Andrew Petersen
CEO
Sustainable Business Australia I wbcsd Australian network partner I GRI Australian Community Leader I

About SBA

SBA was established in Australia in 1991, and is the peak body for support and advocacy for sustainable business activities in Australia. In 2014 SBA was appointed Australia's Global Partner for World Business Council for Sustainable Development. Its members include leading Australian businesses, from all sectors, who share a commitment to economic, environmental and social development. SBA represents member companies, public sector enterprises and institutions, BINGOs and community organisations, which in turn represent 100,000 + Australian employees. www.sba.asn.au.

SBA is the Australian Network Partner of the World Business Council for Sustainable Development (WBCSD) and the Australian Community Leader of the Global Reporting Initiative (GRI)

About GRI

GRI is an international independent organization that has pioneered corporate sustainability reporting since 1997. GRI's mission is to empower decision-makers everywhere, through its sustainability reporting standards and multi-stakeholder network, to take action towards a more sustainable economy and world. www.globalreporting.org

About WBCSD

The World Business Council for Sustainable Development (WBCSD) is committed to galvanising the global business community to create a sustainable future for business, society and the environment. The WBCSD provides a forum for its 200 member companies to scale up business solutions that change the status quo. www.wbcsd.org