



4 April 2016

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

Via email: [economics.csen@aph.gov.au](mailto:economics.csen@aph.gov.au)

Dear Ms Dermody

### **Inquiry into carbon risk disclosure**

Chartered Accountants Australia and New Zealand welcomes the opportunity to provide a submission to the Senate Economics Legislation Committee on their Inquiry into carbon risk disclosure. Our key points are below and Appendix A provides our detailed submission on the terms of reference. Appendix B includes more information about Chartered Accountants Australia and New Zealand.

### **Key points**

- There are a number of existing frameworks which cover climate related risk disclosures. Therefore no additional framework should be developed.
- Australia should closely follow the activities of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD), providing input to consultations and adopting its recommendations.
- Awareness of climate-related risks among investors, government organisations and businesses should be increased.

Should you have any queries concerning the matters discussed above or wish to discuss them in further detail, please contact me via email at: \_\_\_\_\_ ; or telephone \_\_\_\_\_ or Karen McWilliams via email at \_\_\_\_\_ or phone \_\_\_\_\_ .

Yours sincerely

**Rob Ward AM FCA**  
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## Appendix A

### Carbon risk disclosure in regard to:

#### a. Current and emerging international carbon risk disclosure frameworks;

There are a number of international frameworks which encompass climate risk disclosure.

Integrated Reporting or <IR> is an overarching strategic focused, long-term reporting framework. It connects the financial and non-financial information and highlights the key role that materiality has to play in reporting disclosures. <IR> has overarching principles including connectivity of information, materiality and comparability.

[Mark Carney has previously noted](#) *'By Improving reporting requirements for organisations, Integrated Reporting can bring additional information, in particular about the longer-term costs of climate change, to feed into markets and inform decision making and policy formulation by institutions. If achieved, it will lead to better-informed and more sustainable long-term investment, for the benefit of society.'*

The Climate Change Reporting Framework from the Climate Disclosure Standards Board is focused on climate disclosures within existing reporting. [The framework is used by 341 companies in 32 countries including Australia.](#)

Further non-financial reporting frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) also cover carbon risk disclosures as part of their broader non-financial reporting frameworks. These can be used to draw specific KPIs for comparable reporting.

We note that the OECD together with the CDSB have produced [a report on Climate Change disclosure in OECD countries](#).

#### b. Current carbon risk disclosure practices within corporate Australia;

The current operating and financial review requires disclosures of risks which will affect the achievement of the company's *financial* prospects. ASIC's regulatory guide 247 states that:

*An OFR should include a discussion of environmental and other sustainability risks where those risks could affect the entity's achievement of its financial performance or outcomes disclosed, taking into account the nature and business of the entity and its business strategy.*

However, we note that corporate reporting may sometimes be disconnected from board decisions on risk or consideration of the business model. There may also be organisations who have not fully assessed the financial risks posed by climate change, particularly given the frequent changes and uncertainty in the related policy frameworks in Australia.

Furthermore, the National Greenhouse Energy Reporting Scheme (NGERS) requires large companies to report their greenhouse gas emissions, energy use and production on an annual basis. This is for the purposes of measuring national emissions and is not linked to the entities financial position.

In July 2015, the Climate Institute produced a discussion paper on [Australia's financial system and climate risk](#). The report looks at where the Australian financial system may intersect with identified risks relating to climate change and highlights areas where existing financial system safeguards may

not address these specific and unique risks. The Committee may find its content helpful in the context of this Inquiry.

**c. Australian involvement in the G20 Financial Stability Board discussions on carbon risk impacts for financial stability;**

We consider it very important for Australia to be involved in the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD). The Taskforce members have been identified but Australia's role will be to follow the TCFD's progress and provide input to its consultations. Also, to adopt recommendations when they are made.

We note the following in relation to the scope and mission of the TCFD:

*The FSB's background note (9 November 2015) noted the intention to create a taskforce for climate-related financial disclosures and identified 3 types of climate-related financial risks potentially needing greater corporate disclosure. They are:*

- *physical risks (physical impact of climate change and extent to which it may destroy economic value),*
- *transition risks (carbon asset risk – changes in policy and markets associated with the transition to a low-carbon economy) and*
- *legal risk (risk of environmental liabilities or corporate mismanagement).*

*The FSB's Task Force on Climate-related Financial Disclosures (TCFD) mission is to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. It will consider the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries. The work and recommendations of the Task Force will help organisations understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors' needs.*

We do not recommend the TCFD nor the Australian government to develop a new standard for climate related risk disclosures. We consider that the value of the TCFD will be greater if it focuses on awareness-raising for climate-related topics among investors, government organisations and businesses. We recommend that the relevance of climate-related financial disclosures (for financial capital market stability and/or investors) should be elaborated upon.

We recommend that the TCFD focuses on bridging climate risk disclosure gaps, when they exist for example in capital and R&D current & planned expenditure.

Further, as we noted in the earlier section, some organisations may not have fully recognised the impact of climate risks on their organisation. Mark Carney has been reported as saying:

*It is not just about what is your strategy for dealing with climate change, but how does climate change impact your strategy and value creation?*

Therefore, we recommend that guidance issued by the TCFD should emphasize the need for internal management of material climate-related topics as external reporting alone is not sufficient.

**d. Current regulatory and policy oversight of carbon risk disclosure across government agencies; and**

Oversight of NGRS rests with the department of the Environment and ASIC have regulatory oversight of content of companies' Operating and Financial reviews.

**e. Any other related matters.**

None noted

## Appendix B

### **Chartered Accountants Australia and New Zealand**

Chartered Accountants Australia and New Zealand is a professional body comprised of over 115,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international capital markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.