



SUBMISSION

## Senate Inquiry into Carbon Risk Disclosure

APRIL 2016

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economic, social  
and environmental  
goals that will benefit  
Australians now and  
into the future*

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The Business Council of Australia (Business Council) is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

## About this submission

This is the Business Council's submission to the Senate Inquiry into Carbon Risk Disclosure. The Business Council welcomes the Senate's investigation of this emerging issue and notes that this is an area that will continue to develop over the medium to long term.

The Senate should carefully consider existing mandatory and voluntary regimes and requirements, in the context of a broader integrated energy and climate change policy framework, and avoid making any policy recommendations, which may impose additional compliance obligations on reporting entities, without a clear net benefit.

## Key recommendations

- Given the spectrum of companies already reporting carbon risk and its increasing frequency, the most effective carbon risk disclosure efforts will continue to be voluntary and industry-led.
- There are an extensive number of existing mandatory and voluntary carbon risk reporting initiatives and there is no need to mandate further carbon risk disclosure at this time.
- A voluntary framework could be reviewed again in future, once the work currently being undertaken by the Financial Stability Board has been concluded, if there is clear evidence that mandating disclosure would yield benefits that outweigh the additional costs of compliance.
- Consistent with best-practice regulation, any disclosure requirements should be:
  - voluntary
  - principles-based
  - appropriate for the needs of the audience: whether governments, investors or the broader community
  - not additional to existing mechanisms
  - accompanied by practical guidance for implementation
  - coordinated with international practice and existing practice in Australia
  - not prescriptive about methodologies or metrics.

## Existing mechanisms

The Business Council recognises that governments, shareholders and the community are increasingly focused on climate change data and the associated risks to businesses. However, it is also clear that companies are responding to the desires of their shareholders and investor groups by voluntarily increasing the reporting of carbon risk.

A number of the Business Council's member companies are already reporting on the variety of metrics in this policy space, in various formats. In fact, an Australian Council of Superannuation Investors report in 2015 found that companies' sustainability reporting

has continued to improve, with 82 per cent of ASX top 200 companies by market capitalisation now reporting on sustainability.<sup>1</sup>

The availability of carbon data performs a dual role of assisting policymakers to develop policies to reduce emissions and providing information to companies' shareholders and the broader community. There are significant benefits from this transparency but there needs to be an appropriate balance between the provision of information which is fit for purpose and duplicative reporting, or reporting data for reporting's sake. For example, a financial institution briefing has identified that if carbon risk disclosure data is reported at too quantitative or 'granular' a level, the figures become less robust and comparison between companies becomes meaningless.<sup>2</sup>

Existing mechanisms capture both quantitative and qualitative data, and are used for varying purposes and audiences. A brief description of the current mechanisms for climate change reporting are below.

### **Australia: National Greenhouse and Energy Reporting Scheme (NGERS)**

Since 2007, companies that meet a defined threshold (currently set at 25 000t for a single facility or 50 000t of CO<sub>2</sub>-e for a corporate group) have been reporting greenhouse gas emissions under a single national legislated framework. NGERS requires greenhouse gas emissions (Scope 1 and Scope 2)<sup>3</sup>, energy production and energy consumption data to be published. The most recent NGERS data for the 2014-15 reporting year was released on 26 February 2016 and captured approximately 60 per cent of Australia's total emissions<sup>4</sup> (emissions from agriculture, forestry, private vehicles and residences are not captured).

### **Australia: Corporations Act: section 299**

The *Corporations Act 2001* requirements apply to companies' Annual Reports and under this section, Australian companies must disclose any environmental and sustainability risks within the entity's operations for future financial years and provide analysis of whether these risks could adversely affect the achievement of the entity's financial prospects. This includes whether the entity's operations are subject to any particular or significant Commonwealth/state environmental regulation against which their organisational performance is measured. While this requirement is very broad, an exemption is permitted if it would give competitors or suppliers a commercial advantage.

A guide by the Australian Securities and Investments Commission (ASIC) provides assistance to companies on the material required to be disclosed under this section, advising that the disclosures should include a description of 'the material business risks,

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<sup>1</sup> ACSI: 'Disclosure of Sustainability Risks among S&P/ASX 200 Companies', April 2015, p. 5.

<sup>2</sup> Citi Research, Deep Dive Equities, Portfolio Carbon Footprinting: Another Catalyst for Debate, 29 February 2016, p. 1.

<sup>3</sup> Scope 1 emissions are defined as 'the release of greenhouse gas into the atmosphere as a direct result of an activity that constitutes the facility.' Scope 2 emissions are defined as 'the release of greenhouse gas as a direct result of an activity or activities that generate electricity, heating, cooling or steam that is consumed by the facility but that do not form part of the facility.'

<sup>4</sup> <http://www.cleanenergyregulator.gov.au/NGER/Published-information/Data-highlights/2014-15-published-data-highlights>, accessed 22 March 2016.

including environmental and other sustainability risks that could affect the entity's achievement of its financial performance or outcomes disclosed.'

### **Australia: ASX Corporate Governance Council: Principles and Recommendations**

This framework requires companies to report on disclosures on an 'opt out' basis. For example, '*A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.*'

That is, if a company determines that a particular recommended disclosure is not appropriate to its particular circumstances, it is entitled not to adopt it but must explain why it has not done so.

### ***International reporting***

Similar requirements exist in the UK and the USA that apply to Australian companies listed overseas. The *UK Companies Act 2006* places requirements on companies to report on greenhouse gases and in the USA, the Securities Exchange Commission and federal laws also require certain disclosures by companies for the benefit of investors.

### **Australia: Sustainability Reporting**

A number of companies voluntarily produce sustainability reports to publicly disclose performance information, often on an integrated reporting basis under the Global Reporting Initiative (GRI). For example, BHP Billiton has produced a comprehensive portfolio analysis document that provides information about how climate risk affects its portfolio; it sets out BHP's approach to scenario planning to transition to a 2-degree world and discloses its internal carbon pricing.

### **International: Carbon Disclosure Project (CDP)**

This is the biggest international voluntary program for companies to report on climate change risk and management actions. In 2015, 322 Australian companies responded to the annual questionnaire on benchmarks such as greenhouse gas emissions, water management and climate change strategies. Whether or not a company has responded to the questionnaire is made public, as well as companies' responses.

### **International: Global Reporting Initiative**

GRI is an international, independent organisation that helps businesses manage their sustainability reporting. While this is voluntary, GRI may be a more useful mechanism for understanding carbon risk reporting as, rather than standard questions, GRI reporting is done through guidelines based on standards developed by the GRI. A number of BCA member companies have implemented sustainability reporting under the GRI 4 framework.

### **International: CERES database**

Ceres is an international investor group that advocates for sustainability leadership and publishes a database that shows that companies are increasingly driven to focus on climate change and energy and sustainability reporting by shareholders, as part of broader investor efforts to encourage companies to address the full range of environmental, social and governance (ESG) issues.

### **International: Financial Stability Board (FSB)**

The FSB is an independent, not-for-profit body formed in April 2009. Its key role is to promote the reform of international financial regulation and global stability by coordinating the development of regulatory, supervisory and other financial sector policies. While the FSB has a close relationship with the G20, and its work program is often endorsed by the G20, it is not run by this body.

On 26 February 2016 the FSB advised the G20 that in light of the structural challenges affecting the expected medium-term growth of the world economy, authorities need to remain vigilant to new risks and vulnerabilities and to ensure markets are supported by robust financial infrastructure. The letter set out the FSB's priorities for 2016 which include addressing emerging vulnerabilities in the financial system, including potential risks associated with climate change. This component of the work program will develop voluntary, consistent climate-related financial disclosures for use by companies in providing information to lenders, insurers, investors and other stakeholders. It is due to present its recommendations in December 2016.

### **Analysis**

Carbon risk disclosure is an issue that will continue to evolve for Australian companies. Since its emergence in Europe in 2005, there has been a proliferation of reporting mechanisms and a strong appetite for knowledge from some investor groups, including at the COP 21 in Paris in December 2015.

However, carbon risk continues to be difficult to assess. To date, Australian climate change policies have been largely uncoordinated and inconsistent with broader energy policy; poorly costed; and, at times, have operated in conflict with each other. At the height of this policy flux, there were over 200 government programs aimed at addressing climate change.<sup>5</sup>

This policy instability has created a volatile investment environment that hinders transformational change in Australia's greenhouse gas emissions. Competing climate change policies have also created complexity, cost and unintended consequences at a sectoral level, leaving an enduring dysfunction in sectors such as electricity.

Carbon risk reporting must be considered in the broader context of developing a suite of durable, national, integrated energy and climate change policies.

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<sup>5</sup> R Wilkins AO, *Strategic Review of Australian Government Climate Change Programs*, Department of Finance and Deregulation, Canberra, July 2008.

Transparency of greenhouse gas emissions data on a qualitative and quantitative basis is important for companies, governments and investors to understand companies' past and future carbon exposure and consider risks and opportunities in a carbon constrained world.

The Business Council supports transparency in business reporting but this must be balanced against the need to minimise the reporting burden being placed on business. The Business Council supports a principles-based approach to reporting that allows businesses to report on issues relevant to them and does not prescribe matters that may not be of relevance to each and every business. This is important to minimise the compliance burden on business and account for variable factors across businesses.

This inquiry presents a useful opportunity to review the current disclosure mechanisms under which many Australian companies already report.

The rapid and sustained growth in the voluntary reporting of sustainability issues demonstrates that Australian companies are actively seeking to grow their businesses in a more sustainable fashion and to meet the appetite of their stakeholders for information. It is not clear that there has been a failure in this reporting which would require a new mandated system for carbon risk disclosure.

This view was supported back in 2006 by a previous Joint Parliamentary Committee inquiry into corporate social responsibility. The committee found that: '*... a "tick the box" culture would be an undesirable outcome ... the Committee is of the view that it is important for companies to be strongly encouraged to engage voluntarily in sustainability reporting rather than being forced to do so.*'<sup>6</sup>

The key to assessing what, if any, additional reporting requirements may/may not be appropriate rests on the development of a clear and thorough framework that assesses existing mechanisms but outlines the intended purpose and recipients of future information and the costs of collecting and disclosing this information. However, it would be beneficial to wait and undertake this analysis in light of any recommendations from the FSB in December 2016.

Any new Australian regulations must be subject to a comprehensive Regulatory Impact Statement process before they are implemented, and any benefits must be demonstrated to outweigh the costs. To minimise costs, any additional reporting requirements should be consistent with existing mechanisms, but also provide flexibility for businesses in submitting this information while protecting their commercial interests.

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<sup>6</sup> Parliamentary Joint Committee on Corporations and Financial Services, *Corporate Responsibility: Managing Risk and Creating Value*, June 2006, p. xv.

## Recommendation

In November 2013 the Business Council released a paper that included principles that should be adhered to when considering new regulations. These principles state:

- The problem to be solved is well understood.
- New regulation should be subject to cost-benefit analysis.
- The regulation should achieve its objectives at least cost.
- Regulation is constantly reviewed.

Given the existing mechanisms relating to carbon risk disclosure, some risks in measurement, and the significant body of work (both voluntary and mandatory) that companies are already producing, the Business Council does not consider that a problem exists that could be solved by further regulation.

Reporting of carbon risk should be voluntary, industry-led and suited to the needs of specific stakeholders. There is no demonstrated need to mandate further disclosure at this time. Should the Economics References Committee consider that additional mandatory reporting of carbon risk disclosure is warranted and would deliver a net benefit, this recommendation should be deferred until after the FSB has completed its work.

Furthermore, consistent with best-practice regulation, any disclosure requirements should be:

- voluntary
- principles-based
- appropriate for the needs of the audience: whether governments, investors or the broader community
- not additional to existing mechanisms
- accompanied by practical guidance for implementation
- coordinated with international practice and existing practice in Australia
- not prescriptive about methodologies or metrics.

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