

29 June 2021

Investors release plan to establish mandatory financial disclosure on climate risk in Australia

A plan for Australia to adopt a mandatory financial disclosure for climate change risks over the next four years has been released by major investor networks to help cut red tape for business and protect national economic stability.

The roadmap details the actions Australian financial regulators and the Federal Government can take to build on existing work and further ensure there is clear and consistent reporting from companies, investors, banks and insurers that will produce investable disclosure and ensure financial markets can properly price and act on the physical and transitional risks of climate change.

The plan, *Confusion to clarity: A plan for mandatory TCFD-aligned disclosure in Australia*, has been developed by three founding partners of the Investor Agenda: CDP, the Investor Group on Climate Change (IGCC) and the Principles for Responsible Investment.

The final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and growing expectations by Australian regulators has resulted in a significant increase in voluntary disclosures by companies and financial institutions, with 60 companies in the ASX200 adopting the TCFD framework.

However, institutional investors have reported that the quality and consistency of these company disclosures is severely lacking, leading to the under-pricing of climate risks in the market. At the same time companies and financial organisations have been left to navigate the complex and technical elements of such reporting, creating significant business burden.

Many jurisdictions have been addressing the gaps in voluntary disclosure, and removing the complexity for business, by moving to robust and comprehensive mandatory regimes, including New Zealand, the United Kingdom and Hong Kong among others. Failure to align Australian reporting expectations with other major jurisdictions implementing mandatory regimes would leave Australian companies and investors subject to multiple regulatory frameworks further increasing regulatory complexity and confusion.

Steps to move Australia to mandatory climate disclosure include:

- The Australian Prudential Regulatory Authority, Australian Securities and Investments Commission, Commonwealth Treasury and the ASX Corporate Governance Council issuing strengthened guidance and taking other regulatory and legislative steps to establish a clear TCFD-aligned mandatory disclosure signal to market participants.
- Progressively extend coverage across all major financial institutions and companies over time, starting with the ASX300 and large unlisted entities as a priority.
- Increasing the minimum expectations for climate-related reporting over time through the regime on issues like scenario use and reporting metrics, backed by additional regulator guidance on specific aspects and ongoing review.



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Under the investor plan, this regime would be established under an initial “if not, why not” approach moving to a strict mandatory system by 2024.

The implementation would be guided by a joint taskforce including representatives from investors, business and the major accounting bodies under the oversight of the Council of Financial Regulators, consistent with the recommendations of the Climate Change Authority.

Paul Simpson, CDP CEO said: “Many of the world’s major economies are moving to mandatory climate risk disclosure to ensure their financial systems are resilient to climate change. The CDP environmental disclosure mechanism, fully aligned with the TCFD, has shown that disclosing entities recognize climate risk as a financial risk and aim to raise ambition around achieving net-zero. Regulatory certainty is key in accelerating the ability of the real economy and the financial sector to understand and address the inevitable and rising risks caused by the climate emergency. To ensure the ongoing stability of the financial system and to remain competitive with global counterparts, Australia should be developing its own mandatory regime as a matter of priority.”

Erwin Jackson, IGCC Director, Policy said: “Australian and global institutional investors are seeking to make multi-billion-dollar investments in the transition to net zero emissions today. The capital is available for new technologies, new industries and a just transition to net zero emissions by 2050. The phased implementation of climate risk disclosures in Australia, in coordination with allies and trading partners, is an opportunity for the Government and regulators to cut red tape for business and support investment across Australia.”

Fiona Reynolds, PRI CEO said: “A lot has been achieved through voluntary climate risk disclosure, however this system is reaching the limits of what it can deliver, and significant gaps remain. Establishing a mandatory regime would provide much needed clarity for companies and financial organisations, while at the same time ensuring Australian regulators and governments will have the data they need to maintain the stability of the Australian financial system in the face of growing and more frequent shocks from worsening climate change.”

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About The Investor Agenda

The Investor Agenda is a common leadership agenda on the climate crisis that is unifying, comprehensive, and focused on accelerating investor action for a net-zero emissions economy. The agenda has been developed by Asia Investor Group on Climate Change, CDP, Ceres, Investor Group on Climate Change, Institutional Investors Group on Climate Change, Principles for Responsible Investment and UNEP Finance Initiative.
<https://theinvestoragenda.org/>

About CDP

CDP is a global non-profit that runs the world’s environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 590 investors with over \$110 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce



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greenhouse gas emissions, safeguard water resources and protect forests. Over 10,000 organizations around the world disclosed data through CDP in 2020, including more than 9,600 companies worth over 50% of global market capitalization, and over 940 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. Visit [cdp.net](https://www.cdp.net) or follow us @CDP to find out more.

<https://www.cdp.net/en>

About IGCC

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand investors focused on the impact that climate change has on the financial value of investments and the opportunities created by the transition to net zero emissions. IGCC represents institutional investors with total funds under management of over \$2 trillion, and others in the investment community interested in the impact of climate change. IGCC members cover over 7.5 million people in Australia and New Zealand.

<https://igcc.org.au/>

About PRI

The PRI works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole. Launched in New York in 2006, the PRI has grown to more than 4,000 signatories, managing over \$103 trillion AUM.

<https://www.unpri.org/>