Climate-related financial disclosure

If you haven't heard of climate-related financial disclosure, it is time you did.

On 12 December 2022, the Australian Government Treasury released the *Climate-related Financial Disclosure Consultation Paper*. This was open for public comment until 17 February 2023. Many people have no idea what this is about, though it has been some time coming.

In 2015, concerns about the impact of climate change on the stability of the global financial system led the G20 Finance Ministers and Central Bank Governors to ask the Financial Stability Board (FSB) how the global financial sector could best account climate-related issues. The FSB established the Task Force for Climate-related Financial Disclosure (TCFD). The TCFD, led by Michael Bloomberg, released its recommendations in 2017. The disclosures are a financial industry and G20 effort to safely transition the global economy as climate changes by

a) promoting more informed investment, credit, and insurance underwriting decisions; and

b) enabling stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial systems exposures to climate-related risks.

Creation of the TCFD accelerated financial sector interest in the risks and opportunities associated with climate change. In Australia this is evident in the development national policies around carbon and renewable energy. Indeed, global financial interest has underpinned the consistent profile of climate change as a global priority despite the ebb and flow of political beliefs and interest. By 2020, voluntary reporting of climate-related financial disclosures was already ramping up as companies competed to woo investor favour.

The G20 and G7 pledged promotion of implementation of TCFD recommendations in 2021. New Zealand became the first country to introduce legislation making climate-related financial disclosure compulsory for large (listed) companies on 13 April 2021. The United Kingdom introduced similar legislation in 2022, and a range of other countries including Switzerland and US are progressing to the same end. In all instances mandatory reporting has been introduced over a period of years to allow for the evolution of relevant international and national standards.

The relevant financial risks and opportunities TCFD has identified as warranting disclosure are:

Risks	Opportunities
Transition • **Policy and legal** o Carbon pricing and reporting o Mandates and regulations of existing products and services o Exposure to litigation • **Technology** o Substitution of existing products and services with lower emissions options o Unsuccessful investment in new technologies • **Market** o Changing customer behaviour o Uncertainty in market signals o Increased cost of raw materials • **Reputation** o Shift in consumer preferences o Increased stakeholder concern/ negative feedback o Stigmatization of sector **Physical** o Acute: extreme weather events o Chronic: changing weather patterns and rising mean temperature and sea levels	**Resource efficiencies** • Use of more efficient modes of transport and production and distribution processes • Use of recycling • Move to more efficient buildings • Reduced water usage and consumption **Energy source** • Use of lower-emission sources of energy • Use of supportive policy incentives • Use of new technologies • Participation in carbon market **Products & services** • Development and/or expansion of low emissions goods and services • Development of climate adaption and insurance risk solutions • Development of new products or services through R&D and innovation **Markets** • Access to new markets • Use of public-sector incentives • Access to new assets and locations needing insurance coverage **Resilience** • Participation in renewable energy programs and adoption of energy-efficiency measures • Resource substitutes/ diversification

Disclosure by an organisation involves annual reporting on management of these risks and opportunities via governance, strategy, risk management, and disclosure of metrics and data. The TCFD provides additional guidance for climate-related disclosure of non-financial sectors of energy; transport; materials and building; and agriculture, food and forest products.

While simple in concept, designing this with standards that align to the plethora of existing reporting requirements is not. The Australian Government is looking to make the reporting mandatory for largest organisations first. The most efficient way for these companies to aggregate climate-related financial disclosure is to require their providers to report accordingly. In this way disclosure is already having a trickle-down influence on information that corporate clients and financial/insurance services ask of us. Opportunities are inherently less likely to trickle-down. As yet there is no information planned to advise local companies and communities how to 'reach up' to claim, own and develop opportunities

On-ground awareness of the design and evolution of climate-related financial disclosure is currently minimal across all sectors (including insurance and finance). As communities, we need to prepare to source and exchange information that we may not have previously used.

The Australian Government's Climate-related Financial Disclosure Consultation Paper can be found via https://treasury.gov.au/consultation/c2022-314397 .

If you would like to learn more about climate-related financial disclosure or be part of a Tasmanian network of interest in building a shared awareness, please contact me at ifullagar@weatheringchange.com.au or 0423 149 497.

(About the author: Dr Imogen Fullagar is an independent Hobart-based social economist specialising in regional sustainability. She has been following the impact of climate on insurance underwriters since 2012 and is keen to ensure Tasmanians have opportunity to know what is coming and why.)