

ACCC/AER Regulatory Conference

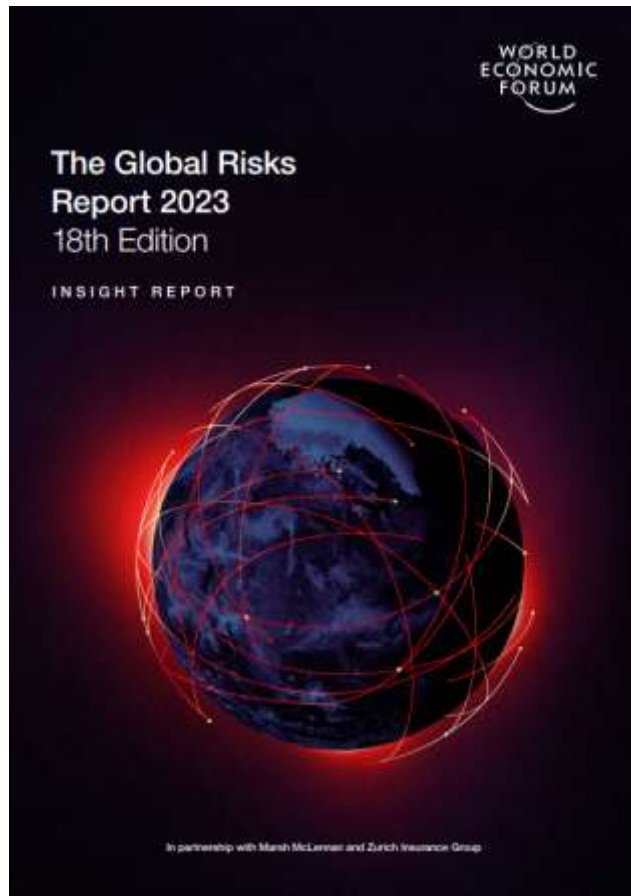
Climate change as a competition and disclosure regulatory issue

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Climate change is not just an environmental issue...
It's an economic one



Global Risks Report 2023



Top 10 Risks

“Please estimate the likely impact (severity) of the following risks over a 2-year and 10-year period”

2 years



10 years



Risk categories

■ Economic
 ■ Environmental
 ■ Geopolitical
 ■ Societal
 ■ Technological

Source: World Economic Forum, Global Risks Perception Survey 2022-2023

Three categories of financial risk associated with climate change



Physical

Acute and gradual onset to the natural and built environment



Economic transition

The response of governments, capital markets & the real economy

Policy/regulatory, technological & shifts in stakeholder preferences



Legal & liability

Government, corporate, and directors/officers

When do greenwashing risks commonly arise in practice?

1

**Greenhouse gas
emissions reduction
targets**



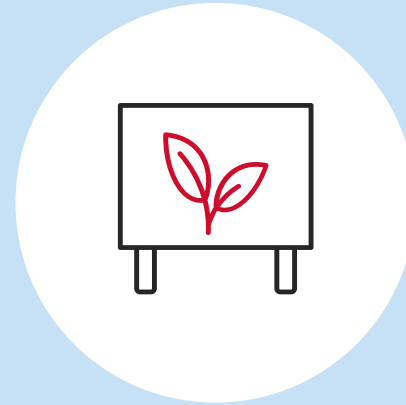
2

'Truth to label'



3

Enterprise branding



4

**Annual reports
*Narrative and
financial statements***



Annual reports

Annual reports *Narrative and financial statements*



- Financial statements must provide **true and fair view** of financial position and performance (s297)
- Compliance with accounting standards required (s296), but additional information must go in the notes if necessary to provide a 'true and fair view' (note to s297)
- Directors report must contain **information reasonably required** by members to make an **informed assessment** of operations, financial **position**, business **strategies** and **prospects** for future financial years (s299A)

- Elevating regulatory & investor expectations inform what is 'material' – *including stress-testing and scenario-planning by reference to the TCFD*
- *Now need to consider both narrative and financial reports (and notes thereto)*



ISSB – IFRS S1 & IFRS S2 and Second Treasury Consultation

- Disclose information about climate-related risks and opportunities that could reasonably be expected to affect cash-flows, access to finance or cost of capital over short-, medium or long-term
- Categories of disclosure
 - Governance
 - Strategy
 - Climate-related risks and opportunities
 - Current and anticipated effects on business model and value-chain
 - Effects on financial position and performance (qualitative minimum, quantitative increasingly expected)
 - Scenario analysis and climate resilience
 - Metrics (all scopes)
 - Targets
- *Note – Treasury has flagged that actual accounting standards draft to be released by AASB later in the year*



ISSB – IFRS S1 & IFRS S2 and Second Treasury Consultation

- Key trap: assumptions around *materiality*
 - Decision-usefulness to an investor is not the same as $\pm 5\%$ revenue!
- Financial position / valuation: items ripe for consideration *regardless of new prescription*:
 - Asset fair valuation and impairment;
 - Changes in useful life of assets;
 - Increased costs and/or reduced demand for products and services affecting impairment calculations and/or requiring recognition of provisions for onerous contracts;
 - Potential provisions and contingent liabilities arising from fines and penalties;
 - Changes in expected credit losses for loans and other financial assets



Key considerations for regulators

1

Radical dynamics demand significant, constant capacity uplift



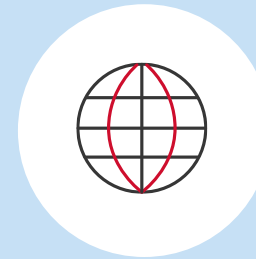
2

To what extent is specific guidance useful and desirable?



3

Do economy-wide market failures require more than exception-based allowances?



For more information



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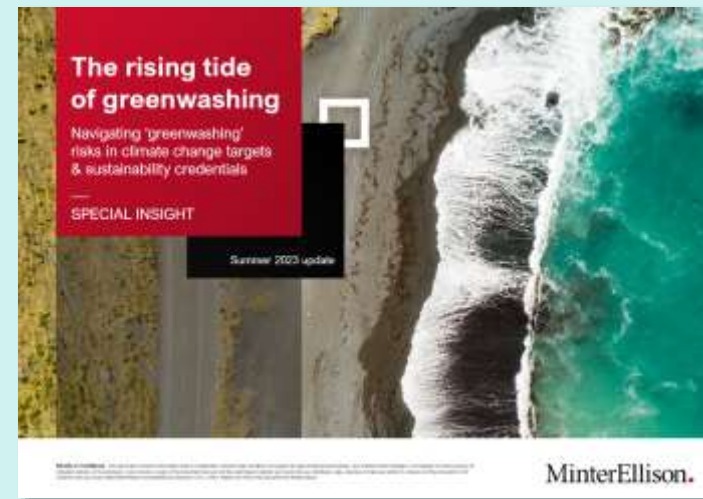
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