Australia: Climate-related financial disclosure consultation

Question 1: What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular:

1.1 What are the costs and benefits of meeting existing climate reporting expectations?

We would encourage Australia's climate-related financial disclosures to be designed to align with other existing climate related reporting requirements (eg. TCFD, ISSB and CSRD), as this would deliver important efficiencies for reporting entities during the production of such reporting and legislative compliance.

Consistency of standards and reporting is also more efficient for those consuming the information as it establishes standard climate related definitions, measurement and metrics.
Additionally, given that the key existing climate reporting frameworks, such as TCFD, have already worked through the development and implementation process, aligning to these would allow Australia's work to leverage these global effort and learnings. Moreover, on an ongoing basis, aligning with existing reporting frameworks and regulations would enable Australian regulation to benefit from further developments to these disclosure frameworks, as they are revised and refined. Harmonisation of global standards also provide important underpinning for Australian companies to be competitive against global peers.

On the other hand, simply aligning with existing disclosure frameworks, would not allow Australia to tailor its climate-related financial disclosure to the Australian context. We suggest that existing reporting frameworks should be adopted as a starting point and then adapted to take into account the Australian context as and where is most relevant. Therefore, we would encourage aligning with existing reporting frameworks as much as possible (such as ISSB, TCFD, CSRD). We would also strongly suggest that any differences between Australian climate-related financial disclosures and existing disclosures are clearly outlined, so that the interoperability of different frameworks is made very clear to entities producing and consuming such reporting.

1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

The costs and benefits to not aligning with international practices are basically the reverse of the costs and benefits we have noted above. A benefit for Australia not aligning with international practice, is that it would have the freedom to design a reporting regulation completely tailored to the national context. However, as noted above this would not enable Australia to leverage the past and future work that has already been put into developing existing standards on climate reporting. It would also place an additional burden on reporting entities that need to comply with international reporting frameworks. This would also be a cost for entities consuming the reporting, as they would have to become familiar and understand another reporting framework. Allowing a global audience a streamlined understanding of climate risk and opportunities of Australian companies is critical for their competitive position in global trades and financing. International harmonisation of standards is an important foundation for Australian companies on the global stage to ensure they attract global funding.

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

If Australian climate related disclosure regulation is fully or in large part aligned with existing disclosure frameworks, then it would be worth considering whether a phased approach is necessary. Given that major disclosure frameworks have been implemented for several years now, both large and small entities would have sufficient examples available to follow so a phased approach may not be necessary. A decision on whether to take a phased approach should be made with consideration to the urgency of implementing climate-related financial disclosure frameworks.

2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

If a phased approach is taken, then applying the regulation to larger entities first to maximise the utility of such reporting and provide sufficient time for smaller entities to learn from initial reporting rounds and prepare for their own reporting, sounds like a sensible approach.

Question 3: To which entities should mandatory climate disclosures apply initially?

3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?

No comments.

3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

We would suggest extending the reporting requirements to large private entities, as this would have important transparency benefits and would support reporting from financial institutions and asset managers that invest in such entities.

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?

4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

This response applies to 4.1 and 4.2. We would suggest that Australian climate related disclosures cover, at a minimum, the requirements from the ISSB standards when these become available for adoption. The ISSB is intended to be a global baseline therefore aligning supports that intention and will have important interoperability benefits. Beyond these, further requirements specific to the Australian context could be added if and where relevant.

Question 5: What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets?

A key consideration when designing the regulatory framework is that all requirements should be open and flexible enough to allow reporting entities to justify the approach they are taking to reporting. Additionally, the availability of data needed to satisfy the reporting requirements is

important to take into consideration. Finally, each reporting requirement should be backed by a strong rationale for its inclusion, to avoid including requirements that are not essential or value adding.

Question 6: Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

We do not have a strong preference on where climate related reporting is covered in relation to other existing reporting requirements, as long as all climate related reporting can be found in one place and that this is consistent across entities. We agree that building on established reporting practices in Australia would likely be the most streamlined approach to take. We think entities should be encouraged to report climate and sustainability-related disclosures on a similar time frame to annual reporting so that it is not seen as two totally separate activities and so that information comes out in as timely a manner as possible.

Question 7: What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

Aligning with the ISSB's definition of materiality is a good starting point, however as highlighted in the consultation text and by TCFD recommendations, we agree that certain climate related information should be included in reporting regardless of materiality. We suggest reporting at a minimum aligns with current TCFD recommendations, including recommendations on climate related metrics. It should be taken into consideration that materiality of climate-related information is likely to evolve over time. Hence, the materiality definition should include for that fact.

Question 8: What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?

We suggest that auditing of climate-related disclosures is phased in gradually to allow reporting entities time to adjust to reporting requirements. The audit should be provided by assurance providers who have expertise in climate related disclosure. Establishing assurance management standards would be beneficial to safeguard the quality and credibility of such audits.

Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

We suggest that emission reporting requirements align with international best practices, e.g. align with the Greenhouse Gas Protocol's guidance. Scope 3 emissions should be included in reporting. However, recognising the current challenges related to gathering scope 3 data, scope 3 emissions estimations should be acceptable.

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Defining a common baseline of metrics, particularly sector and industry specific metrics (such as emission intensity) would be beneficial, particularly for entities that have set sectoral

decarbonization goals. When developing these baselines of metrics, it is important to refer to established standards for such metrics (e.g. the Science Based Targets Initiative).

Question 11: What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

Entities should clearly disclose any decarbonization targets, to which business activities and emission scopes they apply to and to what extent (if any) they plan to achieve these goals through the use of offsets. Decarbonization targets should ideally cover both interim as well as longer term targets and should include any industry-specific sub-targets, where these are relevant. Entities should also clearly state alignment of their targets to science-based climate scenarios, referencing industry-specific trajectories where possible. Any third-party verifications of the set targets should also be disclosed. Where offsets are to be used, entities should disclose how they will ensure these are from credible offsetting schemes. Transition plan disclosures should also cover the levers that will enable the entity to achieve the overall and any interim and sub-targets set, as well as current and forecasted investment plans, including R&D and capex plans, required to achieve these goals.

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

Given the challenges in collecting data and estimating scope 3 emissions, it will be worth considering whether scope 3 emission reporting requirements are phased in to give sufficient time to entities to prepare for this reporting.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

The data challenges that we see in other jurisdictions, are relevant in the Australian context too. Namely:

- Availability of data is a challenge. Particularly for metrics that show environmental performance on metrics other than carbon emissions (e.g. biodiversity metrics) and availability of metrics on an entities social performance
- The lag between metrics becoming available and current performance. This becomes particularly important when entities are implementing transition strategies and therefore their performance on certain metrics could be changing substantially year-to-year
- Include metrics relevant to past performance and forward looking metrics.

13.1 How and by whom might any data gaps be addressed?

Addressing data gaps needs to be the responsibility of the reporting entity so that they provide complete reporting on their performance. If the reporting entity addresses this, it allows users of the data (e.g. financial institutions, data providers and investors) to reduce the data gaps they have in their reporting.

Estimations and calculations can be used, but there is a preference for measured data where it is reporting on past data. It should be clear whether metrics are measured or estimated. Estimations / modelling will have to be used for forward looking metrics. It will also be important for entities to clearly state what share of activities each metrics cover, to ensure transparency around whether a metric reflects performance of only part or all of business activities. For financial institutions, it will

be important to disclose coverage ratios for each disclosed metric to highlight what share of the portfolio disclosure applies to.

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

ISSB, TCFD and CSRD are the predominant frameworks to look at for what metrics entities should report. They will all have supporting documentation.

Collaborative investor groups are a useful source of market recommendations so it would be worth reviewing their recommendations and incorporating those into the work on climate-related financial disclosures. These include the Global Impact Investing Network (GIIN), the Institutional Investors Group on Climate Change (IIGCC), the Investor Group on Climate Change (IGCC), Climate Action 100+ and the work PRI has done on climate.

Question 14: Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

We believe it is critical for Australian regulation to reference methodologies and scenarios that are globally considered robust. The predominant examples of these are the IPCC and IEA's climate scenarios and the GHG protocols methodologies.

Question 15: How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

No comment

Question 16: Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed?

We do not have a strong preference as to whether the climate reporting sits within the annual report or in a separate report. Either way, it should be made freely and easily available and preferably come out at the same time as annual reports to reduce the lag in receiving sustainability related information by as much as possible.

Question 17: While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

We believe sustainability reporting should be a part of the considerations of the design of climate related reporting. It would be more efficient and streamlined if climate reporting and sustainability reporting can be addressed through a similar design and format. Proliferation of reporting requirements and formats ends up being very costly from a time point of view for all involved – producers and consumers of the data.

Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

Digital reporting has the potential to be extremely useful in terms of standardising the way metrics are reported and making them more easily useable for analysis and aggregation. However, we are cautious in recommending that is should be mandated for sustainability reporting. Given the introduction of climate-related and sustainability reporting will result in additional time and financial costs to those implementing it and given the take up of digital reporting is currently low, our view is that it is too early to mandate digital reporting for sustainability. We would suggest facilitating digital reporting for sustainability but not mandating it at this stage.

Question 19: Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

We would suggest selecting the structure that leads to the most efficient governance framework. Option one would seem like an effective way to keep consistency with the current structure of financial reporting bodies. However, if broader reforms off financial reporting bodies is being considered, then option 3 would also seem like a potentially effective option.