Friday, 17 February 2023

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600
Via email: climatereportingconsultation@treasury.gov.au

To whom it may concern,

Climate-related financial disclosure

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide feedback on Treasury's consultation paper on climate related financial disclosure (consultation paper).

A robust and workable climate-related disclosures framework will help to channel more capital into activities consistent with Australia's national emissions reduction goals. As noted in our joint submission on *Empowering the AASB to deliver sustainability standards*, it is our opinion that sustainability standards, in due course, will hold the equivalent standing as accounting and auditing standards.

We consider the consultation paper to be a positive milestone in Australia's progress to align with international advancements in high-quality, consistent sustainability reporting more broadly. This perspective is important as climate is just the first of a number of critical sustainability issues which affect how a company maintains its resources and manages impacts and interdependencies across the business ecosystem over time. A range of external stakeholders, including investors, are also interested in information on material sustainability issues beyond just climate. The International Sustainability Standards Board (ISSB) will be consulting on its future workplan in early 2023 and will be considering topics such as biodiversity and ecosystems, human capital and human rights.

In the Appendix to this letter, we provide responses to the specific questions raised in the consultation paper.

Key Points:

We:

- recommend that the Government clearly articulates upfront the pathway for adoption for all entities both initially and ultimately captured under the reporting framework to allow impacted entities sufficient time to prepare.
- are of the view that Australia should align its climate-related disclosure framework with international developments, in particular the ISSB's global baseline. That baseline should be flexible enough to extend to reporting beyond just climate.

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- recommend that an appropriate licencing regime for assurance practitioners be established Assurance over climate-related disclosures is critical to ensure users can rely on the reported information for decision making.
- encourage the Government to establish an adequately resourced standalone Australian Sustainability Standards Board to oversee the development and publication of sustainability standards.

If you have any questions about our submission, please contact [redacted] (CA ANZ) at [redacted] or [redacted] (CPA Australia) at [redacted]

Sincerely,

[redacted]

[redacted]
Group Executive – Advocacy and International
Chartered Accountants Australia and New Zealand

[redacted]

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Executive General Manager, Policy and Advocacy
CPA Australia

Appendix

Consultation Questions

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?

Australian law already requires directors of listed entities to disclose material environmental, social and governance (ESG) related risks in the Operating and Financial Review (OFR). This includes climate-related risks. Many Australian corporations and financial institutions are already reporting using the Taskforce for Climate-related Disclosures (TCFD) recommendations. In 2021, more than half of the Australian Securities Exchange (ASX) 200 (103 organisations) aligned their climate disclosures with the TCFD recommendations, with two thirds of the ASX 200 flagging their commitment to implement the TCFD recommendations in the near term.[1]

To minimise regulatory burden and to streamline implementation, it will be important to better understand the current reporting practices of those organisations outside the ASX 200 and seek to align requirements with existing frameworks and practices where practical.

However, we note that understanding of the climate-related risks and opportunities by entities outside of the largest listed entities is generally significantly lower. Several entities consider climate-related risks to be immaterial and therefore are of the view that no disclosures are required. For example, research has shown that over 25% of ASX listed entities do not have material social or environmental exposures, despite sector-specific reporting identifying instances of those entities being out of step with their same sector peers.[2]

There are costs for investors and preparers of the current approach as investors have incomplete information and current reporters are being compared to entities that do not report. Additionally, existing stakeholder expectations are typically focused on larger listed entities despite climate-related risks and opportunities being material to a much wider range of entities.

Specific costs for preparers can potentially be classified along three dimensions:

- Costs, both initial and ongoing, relating to analysis and incorporation of climate-related risks and opportunities into an entity's strategy and business model (including consulting fees, specific data sets and modelling).
- Costs relating to salaries and wages, and publication and design for producing disclosures and reports, as well as meeting regulatory requirements (e.g., National Greenhouse and Energy Reporting Scheme (NGERS)).
- Costs relating to obtaining assurance over climate-related and sustainability-related reporting more broadly.

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[1] Promises, pathways & performance – climate change disclosure in the ASX200
[2] ASX Corporate Governance Council - Adoption of Recommendation 7.1: Reporting on Environmental and Social Exposures

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We view the benefits of meeting current expectations as:

- A longer-term competitive advantage for businesses who identify and address climate-related risks and opportunities earlier.
- Greater ability to address potential reputational risk relating to the failure to provide transparency to a range of stakeholders.
- Benefits when securing or maintaining capital flows from investors for organisations that are more transparent around their climate-related risks and opportunities.
- Organisational level greenhouse gas (GHG) emissions reporting enables government to better understand Australia's emissions profile.

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

Many comparable jurisdictions have already taken steps to introduce mandatory climate-related disclosures for specific entities in their regions. With global ESG assets predicted to surpass $50 trillion by 2025,[3] it will be critical that Australia aligns with international practice to support Australian companies to remain competitive in the global market and attract capital investment.

Further, entities in other jurisdictions subject to these requirements will expect and require similar information from Australian entities within their value chain to inform their own disclosures. Alignment with global baseline standards for climate reporting will avoid potential unnecessary complexities, costs and reporting duplication both for reporting entities and investors who seek to analyse the information.

Should Australia not align to international practice and global baseline standards for climate reporting this would also create a substantial cost and resourcing burden for domestic standard-setters, such as the Australian Accounting Standards Board (AASB).

Additionally, these costs of not aligning with international practice would likely increase over time.

Mandatory internationally aligned climate-related disclosure will support better consistency and comparability of disclosures and establish an economy-wide baseline standard. This would provide a level playing field and better enable regulators to combat greenwashing and other misleading claims. It would also better position the Australian market globally as stable, transparent and in line with leading international practice.

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

We support a phased approach commencing in FY2024-25. However, we recommend that the Government clearly articulates, upfront, the pathway for adoption for all entities both initially and ultimately captured under the reporting framework to allow impacted entities sufficient time to prepare.

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[3] ESG May Surpass $41 Trillion Assets in 2022, But Not Without Challenges, Finds Bloomberg Intelligence

We also note that there are likely to be unintended consequences for entities outside of those mandated by a legal requirement to provide information. That is, other entities needing to provide information to reporting entities to inform their disclosures. For example, we are aware of small and medium-sized entities (SMEs) being asked to provide Scope 1 and 2 GHG emissions data to a larger entity to enable it to publish its disclosures; to apply for a tender; and/or access finance. We suggest that the Government looks at how the provision of this information could be streamlined and centralised to support these specific disclosure requirements, without smaller entities being burdened with multiple requests or unnecessary complex reporting. Government should also consider how SMEs can be supported and educated on climate-related risks and GHG emissions reporting, as many will not have the knowledge or resources required to meet this disclosure demand.

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

A number of considerations should apply, including analysis of entities within each proposed cohort that are currently reporting in line with the TCFD or similar; investor expectations; sectors with the most significant exposure to transition risk (and/or physical risk) and those entities that rely on information from others to prepare their disclosures. Specifically, we recommend that cohorts are aligned with existing thresholds, as much as possible, to avoid unnecessary complexity. In particular, we draw attention to the existing financial reporting tiers as outlined in *AASB 1053 Application of Tiers of Australian Accounting Standards*[4] paragraphs 11, 12 and 13.

We suggest that the cohorts could be determined using the following categories and which should consider both size and impact:

- Size of entity, i.e., by revenue. This could align with *Corporations Act 2001* thresholds such as entities required to provide financial statements in line with Section 319. Large businesses are already required to report under several different schemes and Acts in Australia. The large entity threshold could also be aligned to these existing reporting regimes for consistency. For example, large entities (with $100m revenue) are required to report under the *Commonwealth Modern Slavery Act 2018* (the Modern Slavery Act), the Payment Times Reporting Scheme. Entities employing with more than 100 employees are required to report under the proposed *Workplace Gender Equality Amendment (Closing the Gender Pay Gap) Bill 2023*.
- Listed entities - Entities listed on the ASX range considerably in size and complexity. Some listed entities are smaller than the threshold for large companies.
- Unlisted entities - Feedback has indicated the importance of certain unlisted entities being included because:
    - the exposure to climate-related transition and physical risks is not specific to listed entities;
    - unlisted entities form part of the value chain of listed entities required to report and will therefore need information to inform their own disclosures; and
    - to avoid unintended consequences of significant climate-related risks being transferred from listed to unlisted entities, in order to avoid the disclosures.

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[4] AASB 1053 Application of Tiers of Australian Accounting Standards

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- Intensive GHG emissions organisations, such as those entities that already report under the NGERs Act and are subject to the safeguard mechanism, the thresholds of which are directly linked to emissions. We note that this threshold would be specific to phasing for climate-related disclosures and not appropriate for broader sustainability reporting.
- Specific sectors such as:
  - Large financial institutions as defined by the Australian Prudential Regulation Authority (APRA) including APRA regulated super funds other than small APRA funds,
  - National, state and territory critical infrastructure, which may be subject to material physical climate-related risks.

As subsequent phases come into effect, the requirements will bring in entities who have less resources and are more likely to be new to such disclosures. Therefore, this should be recognised within any transition arrangements and the timing of future cohorts. We also recommend that the relevant standard setting body considers whether exemptions from certain particularly complex disclosures, such as scenario analysis and scope 3 GHG emissions, would be appropriate for a subset of entities at the lower end of the thresholds.

As noted above, international alignment will be critical to better position the Australian market globally as stable, transparent and in line with leading international practice. Decisions on subsequent phases in Australia should consider developments internationally. For example, the European Union's (EU) Corporate Sustainability Reporting Directive (CSRD) has outlined a phased approach which will impact approximately 50,000 companies from 2024 to 2028 (5-year period) with a 4-stage phased transition and will apply from:

- 1 January 2024 to companies already reporting under the non-financial reporting directive (NFRD);
- 1 January 2025 to large companies (not currently reporting under NFRD with an annual turnover of above €150 million in the EU);
- 1 January 2026 to listed SMEs, small and non-complex credit institutions and captive insurance undertakings; and
- 1 January 2028 to third country undertakings with new turnover above €150 million in the EU (with at least one subsidiary or branch in EU based on certain thresholds)[5].

[5] Directive (EU) 2022/2464

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

As noted in our cover letter, climate is just the initial focus. Disclosures are expected to expand in the future to cover broader sustainability matters. We therefore consider it critical that Australia creates the right framework now, one that is flexible enough to enable more streamlined incorporation of other sustainability issues and lead to broader sustainability reporting in the future. This flexibility is important in relation to both the scope of these disclosures as well as how they, and any phasing, is incorporated into legislation, regulations and standards. For example, transitional arrangements (refer to Q 11) and phasing may be best handled through standards.

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

As noted earlier, to minimise the complexity for reporting entities, we suggest that size thresholds are considered in conjunction with current Australian reporting thresholds. The current reporting thresholds within New Zealand and the United Kingdom for climate-related disclosures also provide a helpful comparison.

In New Zealand it is mandatory for listed issuers (with a market capitalisation or quoted debt value of more than $60 million); registered banks, licensed insurers, credit unions, building societies, and managers of investment schemes with more than $1 billion in assets; and some Crown financial institutions (via letters of expectation) to report climate-related disclosures.

In the United Kingdom, reporting thresholds are a combination of turnover and employee headcount - UK registered companies which have more than 500 employees and a turnover of more than £500m.

We suggest a starting point for the first cohort could be broadly in line with Australian Sustainable Finance Roadmap[6] recommendations 11 and 12):

- Large, listed entities: companies in the S&P/ASX 300.
- Large financial institutions: banks, credit unions, insurers, superannuation funds and managed funds with annual consolidated revenue of more than $100 million.

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 consider that entities in substantial emitting industries, government entities, national, state and territory critical infrastructure and those entities already reporting under existing frameworks (NGERS and safeguard mechanism) could be included in the initial phase.

We note that questions 2 and 3 do not specifically ask which entities should be subject to the disclosure obligations at the end of the phased approach. As stated in our response to question 2, we consider that it is vital for the phased approach to be clear from the commencement of the disclosure obligations. We recommend that a roadmap, which illustrates the phased approach, be developed to provide clarity for entities that will be required to report. By providing certainty around timeframes in a clear (and practical) roadmap, it will enable entities to prepare accordingly. In addition, Government

[6] Australian Sustainable finance roadmap: A plan for aligning Australia's financial system with a sustainable, resilient, and prosperous future for all Australians

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will have the opportunity to utilise the roadmap to provide education and support for entities as they prepare to report on climate and beyond.

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

Yes, we consider alignment with the global baseline envisaged by the ISSB is currently the most appropriate starting point for Australia. Whilst we note the ISSB standards are currently incomplete, it expects to issue final standards in June 2023 and receive endorsement from the International Organisation of Securities Commissions (IOSCO) later this year.

The ISSB is taking a building blocks approach and is liaising with other jurisdictional approaches (e.g., European Union and United States) and other reporting frameworks such as Global Reporting Initiative (GRI) and the Taskforce for Nature-related Disclosures (TNFD). This approach focuses on the interoperability of ISSB standards with these other frameworks and developments.

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?

The ISSB standards are intended to represent a high-quality, comprehensive global baseline. We consider it important than any Australian specific considerations build on that baseline rather than amend the baseline.

We note the importance of the long history and knowledge that First Nations people have with respect to managing the land and seascapes. Continued consideration of First Nations people is therefore fundamental in the Australian context. We understand that the ISSB has recently appointed a special advisor to provide strategic counsel on issues important to indigenous peoples, including a just transition. This may reduce the need for Australian specific additions to the standards.

We also note that the ISSB has indicated its intention to research incremental enhancements that will complement its Climate-related Disclosures Standard (IFRS S2). Furthermore, we are also aware of the ISSB's positioning of the SASB standards in Appendix B of IFRS S2 as voluntary, on an initial basis, and for a review to be conducted to ensure industry classifications are more internationally appropriate.

Alignment with the existing NGERS framework is also an important consideration for application in the Australian context, although we note that NGERS is focused on GHG emissions measurement to inform Australia's GHG emissions reporting. Therefore, entities reporting GHG emissions under both IFRS S2 and NGERS will be likely to have different outcomes.

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?

Yes. We believe that the climate disclosure standards being issued by the ISSB are the most appropriate for entities in Australia. We do not believe any alternative standards should be considered.

IFRS S2 aligns with the TCFD recommendations, which as noted earlier, are already used by many of the ASX 200. Additionally, as noted in our response to question 1, there are additional costs for Australia associated with not aligning to the expected global baseline for climate disclosures.

We believe that IFRS S1 and S2 should be implemented together. If implemented together, IFRS S1 would provide the foundation for broader sustainability disclosures by Australian companies, with specific requirements for climate-related disclosures. If IFRS S2 were to be implemented as a standalone standard, given it has been written to be applied in conjunction with IFRS S1, there is uncertainty as to how determinations such as materiality would apply.

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?

We suggest that the regulatory framework needs to be durable and flexible to allow for the future introduction, in line with international developments, of comprehensive sustainability-related reporting beyond climate disclosure obligations. We envisage this stage of regulatory design as an opportunity to forward plan and set up the framework to allow sufficient flexibility to capture climate disclosure obligations now, as well as future sustainability reporting as we progress into other areas such as biodiversity and the connectivity between areas with financial disclosures.

The framework should have a legislative basis, promote accountability by entities and be enforceable by regulators.

In order to minimise the regulatory burden and maximise efficiency, existing/upcoming legislative requirements should be considered to determine how key requirements can be aligned and streamlined through the design of the new regulatory framework, for example, the OFR and the Modern Slavery Act.

To align with international practice, overarching climate-disclosure obligations should align with the TCFD recommendations and the four pillars of strategy, governance, risk management, and metrics and targets. Further, the ISSB and the TNFD are both using these four pillars as the basis for their standards beyond climate.

The disclosure framework should enable quality disclosure by companies even in the absence of complete data. The framework should require entities to be transparent about (i.e., report information on) the data they are using, including any limitations and the level of uncertainty inherent in the data and any assumptions that have been made.

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?

The ISSB Standards are intended to form part of General Purpose Financial Reporting (GPFR). The disclosures should therefore be included within an entity's annual report but outside of the financial statements. For listed entities, the OFR within the directors' report appears to be an appropriate location, however, we suggest that refinement to the criteria of the OFR is needed to avoid disclosure duplication.

However, we note that this would require entities to report information at the same time as their annual report. Whilst we consider this to be the ultimate aim, we suggest short-term adoption provisions may be required to provide entities with the flexibility to report the information separately, at a later time to annual reports, whilst reporting processes and controls mature. We also note that the ISSB is considering the location of reporting and the timing of reporting, which may be relevant to this question.

Regardless, in order to maintain conciseness of annual reports, many entities may need to produce supplementary information to provide greater detail around assumptions and approaches in relation to climate-related disclosures.

Many Australian entities already produce consolidated reports, that encompass both financial, non-financial and sustainability-related disclosures. A review of current reporting could inform best practice, for example, integrated reporting.

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)?

The ISSB has recently revised its definition of materiality in IFRS S1 to align with the definition used in International Financial Reporting Standards. That is: '*information material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of' that reporting'.* The ISSB has removed reference to enterprise value. In our opinion, this revised definition is an appropriate starting point.

It is also important to note that this definition of materiality relates to determining the disclosures to be included and not the identification of sustainability issues. The ISSB has recently decided to expand and clarify aspects of its draft IFRS S1 illustrative guidance to clarify that the identification of sustainability-related risks and opportunities would involve a wider stakeholder engagement process and connection.

Many Australian entities currently use the GRI framework and its definition of materiality in the Australian context, which focuses on a broader set of impacts. This could result in a list of material risks that may differ from those proposed by the ISSB. It would be important therefore to understand such nuances, to appreciate where differences may exist and how these can be clearly addressed by reporting entities.

We recommend that the relevant standard setter in Australia be responsible for reviewing the appropriateness of the materiality definition in the future.

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?

Investors have indicated that they intend to rely on climate-related disclosures, and broader sustainability information, for decision making in the same way they do with financial information. The accompanying assurance framework is therefore critical for establishing trust and reliability, with a view to producing investment grade information. We recommend that there is sufficient flexibility in the assurance framework developed for climate disclosures to enable it to be readily extended to broader sustainability reporting in the future.

Level of assurance

Ultimately, climate-related financial disclosures should be subject to reasonable assurance. Reasonable assurance involves the practitioner expressing an opinion on the subject matter in positive terms, as distinct from limited assurance, where opinions are expressed in the form of a negative statement, such as 'based on our work described in this report, nothing has come to our attention…'. However, we acknowledge that due to practical constraints, reasonable assurance is unlikely to occur in line with the adoption of mandatory disclosures with a proposed start date of financial year 2024/25.

As a starting point, we believe that limited assurance should be required for climate disclosures. As reporting matures, different levels of assurance (appropriate to the level of reporting) can be phased in. Similar to providing clarity over the timing of the phased adoption of climate disclosures to subsequent cohorts, the government should clearly articulate the roadmap toward reasonable assurance, as many other comparable jurisdictions have done. In determining the level of assurance required, the Government will need to consider balancing the degree of confidence that intended users of these disclosures can take from the assurance practitioner's opinion, versus the practical challenges impacting the preparers of these disclosures.

In our view, 'no assurance' is unlikely to meet investor demands, nor the expectations of the Australian community. Further, the absence of an assurance requirement could increase the risk of 'greenwashing'.

Assurance practitioners

Assurance practitioners should be independent and apply relevant quality management and Australian assurance standards.

To embed quality assurance for climate-related disclosures in the same way as for financial reporting, a licensing regime should be established such that assurance practitioners are registered and regulated. For example, in the same way that auditors are recognised under the NGERS on the register of GHG auditors. This is important to enable entities to identify appropriately skilled and qualified assurance practitioners and to provide comfort to users of the information about the quality of the assurance.

Ideally, to ensure that appropriate safeguards exist, such a licencing regime should be in place before assurance is required over climate disclosures, and certainly before the reporting is extended to broader sustainability disclosures.

Appropriately qualified and experienced financial auditors should be able to assure climate-disclosures. Whilst we acknowledge that not all financial auditors will have the specialised technical knowledge that is required for certain climate-related disclosures, such as transition plans or GHG emissions calculations, many have the skills, expertise and quality control processes in place to engage appropriate experts to support the assurance engagement. For example, currently, a financial auditor may engage an actuary to analyse forecasts as a part of an insurance company's financial statement audit. In the same way, a lead auditor on an assurance engagement for an entity's TCFD disclosures may engage with a climate scientist to test the assumptions in and entity's scenario analysis.

According to a report from the International Federation of Accountants (IFAC), the American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA), '*The State of Play in Reporting and Assurance of Sustainable Information*'[7] there is already a great deal of assurance over sustainability disclosures, and the majority of those assurance engagements are undertaken by existing audit firms. The key findings, from the review of 1,400 companies across 22 jurisdictions in 2020, was that 92% of companies reported some ESG information and 58% obtained some form of assurance on their ESG disclosures. In Australia, all companies in the sample had that assurance provided by audit firms.

Based on this existing practice, we suggest entities should be able to appoint the same audit firm to undertake both the financial statement audit and the climate-related disclosures assurance engagement. There may be synergies and benefits for entities with this approach which would increase the integrity of information being assured. For example, if an audit firm was to undertake both the financial statement audit and assurance over climate related disclosures, they would be able to rely on procedures carried out in relation to process controls and governance and apply these to both assurance engagements. We also note that if financial and climate-related disclosures are assured by separate firms, there are potential risks, including a lack of synergy, accountability and gaps in understanding business processes.

[7] The State of Play in Reporting and Assurance of Sustainability Information: Update 2019-2020 Data & Analysis

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Assurance standards

The standards for assurance over climate-related financial disclosures and broader sustainability information should be aligned with the globally recognised International Standards on Assurance Engagements (ISAE) issued by the International Auditing and Assurance Standards Board (IAASB). In Australia, these are issued domestically by the Australian Auditing and Assurance Standards Board (AUASB).

Existing assurance standards already enable assurance engagements over TCFD disclosures and NGERS GHG emissions reporting. The IAASB is developing a specific standard for assurance over sustainability reporting, which is due to be released as an exposure draft in September 2023. Given that this new standard will be aligned with existing standards, the timing of its release will not affect the capability of assurance practitioners to undertake assurance engagements over climate-related information.

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?

As noted above, it will be important that Australia's requirements are consistent with minimum expectations globally. We note that the ISSB will require disclosure of scope 1, 2 and 3 GHG emissions (including first year relief). This represents current global best practice and aligns with the latest guidance from the TCFD. In order to fully understand an entity's impact on the climate, particularly through its value chain, scope 3 GHG emissions are key.

The NGERS already provides a robust reporting framework for large emitters of scope 1 and 2 GHG emissions in Australia. We are also aware of current work to enhance the Corporate Emissions Reduction Transparency (CERT) reporting mechanisms. Australia's existing legal and reporting frameworks therefore provide a solid foundation for reporting Scope 1 and 2 GHG emissions, that is subject to assurance.

As noted previously, one of the unintended consequences of including scope 3 GHG emissions is the effect on SMEs outside of the scope of reporting requirements, but within the value chain of entities captured by the new reporting framework. These SMEs are unlikely to fall within the existing scope of NGERS and would therefore require additional support to comply with requests for information. We suggest that the Government has a role to play in helping to aggregate and centralise such data, to reduce the individual demands on SMEs by standardising GHG emissions reporting between businesses and improving access to information on GHG emissions from electricity usage.

An important consideration is that the ISSB standard requires the use of the GHG Protocol (with some additional relief). Given the robust and developed nature of NGERS, its interaction with the GHG Protocol for Australian companies should be considered. For example, the existing NGERS reporting period (as at 30 June) and deadline (31 October) should be reviewed in light of these new reporting requirements.

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

We note that the TCFD, proposed IFRS S2 and NZ Climate Standards specify the disclosure of cross industry metrics. We consider these necessary to align with expectations and international jurisdictions.

At this stage, we suggest entities should be encouraged to include industry specific metrics in their disclosures, in line with the ISSB recommendation. This is likely to include consideration of the industry metrics within Appendix B of IFRS S2. The ISSB's recent deliberations indicate that Appendix B of IFRS S2 will initially be positioned as voluntary, whilst the industry-specific metrics are reviewed with the intention of improving their international applicability.

Once finalised, these international industry-based requirements (metrics) will need to be reviewed to determine whether they capture important Australian specific aspects relating to a just transition and engagement with First Nations people. This review should also determine whether the industry classification is appropriate for Australian entities.

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 be required to disclose transition plans, including separate disclosure of their use of offsets. Given the current variation in the approach and quality of transition plans, we suggest that they should be based on best practice guidance developed by the Government.

International developments, including the UK Transition Plan Taskforce (TPT) disclosure framework[8] and the Glasgow Financial-Alliance for Net zero (GFANZ)[9], provide a strong basis for Australian guidance. The TPT aims to provide a standard to assist preparers (including management teams and boards of directors) in producing credible, useful and consistent transition plans and to encourage the creation of standardised and comparable disclosures. GFANZ has been developing recommendations and guidance for ambitious and creditable net-zero transition plans.

We note the recent review of the Australian Carbon Credit Units (ACCU) market that validated its approach and functioning. However, we advise against incorporating too much flexibility in the reporting requirements of transition plans that may encourage using a GHG emissions offsetting approach that is out of step with current expectations.

In our opinion, offsets should be disclosed separately to promote transparency for users. Moreover, best practice dictates that offsets should only be used once all other possible actions have been implemented to reduce GHG emissions resulting from an entity's business operations. It is thus critical to evidence the use of offsets in a transparent, clear and understandable fashion.

[8] The Transition Plan Taskforce Disclosure Framework
[9] Glasgow Financial Alliance for Net Zero

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

Disclosure requirements

Yes, a phased approach to particular disclosure requirements should be considered to allow entities to implement appropriate procedures and upskill teams to ensure that disclosures are of high quality and supported by data. The disclosure requirements where this may be needed are particularly in relation to scenario analysis and scope 3 GHG emissions.

In New Zealand, adoption provisions have been clearly outlined as a part transitional arrangement. For example, adoption provision 4: Scope 3 GHG emissions provides an exemption from disclosure within an entity's first reporting period. However, an entity may choose to apply the adoption provision in this paragraph either to all of its scope 3 GHG emissions sources, or a selected subset. If an entity discloses a selected subset of its scope 3 GHG emission sources, it must identify which sources it has not disclosed.

Alignment with the ISSB's decision to provide first year relief through a temporary exemption for scope 3 GHG emissions, following the effective date of IFRS S2, should be considered in Australia. This is intended to give time for companies to implement their processes, which we consider to be important.

Assurance requirements

As noted in our response to question 8 above, an appropriate licencing regime for assurance practitioners should be established in the first instance before mandatory assurance requirements commence.

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

A key concern which has been raised by our members is the availability of sufficiently detailed reliable data, particularly for use in scenario analysis, including the application of climate modelling to a business and for measuring scope 3 GHG emissions. In Australia, some data in relation to scope 1 and 2 GHG emissions is publicly available but is limited to entities covered by NGERS and those voluntarily reporting under the Corporate Emissions Reduction Transparency (CERT) report.

As reporting evolves and matures under the disclosure framework, we anticipate that the quality and quantity of reliable data will follow. However, particularly in these formative years, entities should be allowed appropriate flexibility to enable quality disclosures in the absence of complete data.

Government has a role to play in proactively supporting and facilitating better data availability. We encourage Government to review relevant current data collection (and sharing) requirements and consider how these may be leveraged to better support climate-related disclosure.

There is also a clear capability and skills gap that exists in Australia and overseas, which may have a direct impact on the availability of quality data.

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

There are opportunities for Government to support better data availability and help solve some of the data challenges – particularly through streamlining/aggregating datasets and making these more accessible/available. As noted in our response to question 9, SMEs, in particular, will need additional support to comply with information requests for information from entities captured by the new reporting framework. Insufficient data exists in relation to scope 3 emissions, particularly financed/insured emissions. As these gaps are reduced over the next few years, we see Government's role, to be to centralise data used for reporting through developments with the Partnership for Carbon Accounting Financials (PCAF) and other global alliances.

As seen with other reporting regimes, for example modern slavery reporting, the lack of Government involvement in centralising data has resulted in entities requesting the same information from suppliers (which can often result in duplicate requests if an entity is a supplier to multiple entities). This has inadvertently increased burden for suppliers who do not report under the regime. A centralised mechanism which allows suppliers, such as energy companies, to supply data directly to Government would enable this information to be linked/matched to entities. For example, banks currently submit to the ATO interest earned by customers for tax purposes.

As noted in our response to question 9, the NGERS is an existing robust GHG emissions reporting framework in Australia and provides a solid foundation for scope 1 and 2 GHG emissions data. The existing NGERS reporting portal may provide a useful starting point for centralised GHG emissions information, which could be expanded to a wider range of entities.

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

We encourage Government to consider engaging with international initiatives which aim to streamline access to comparable and consistent data, and which may assist users and preparers. One example is the Climate Action Data Trust[10], which is focused on decentralised digital infrastructure to enhance the transparency of carbon markets.

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?

Some reporting entities will require more support than others, particularly entities at the lower end of reporting thresholds, who may have more limited resources. It would be valuable for a suitable government-endorsed scientific body to provide specific climate scenarios to help support these entities and limit regulatory burden. The provision of centrally developed climate scenarios will also allow for consistency and comparability of supporting information.

[10] Climate Action Data Trust

Reporting entities should be allowed flexibility to determine if these climate scenarios or internally developed alternatives would be best suited to represent their disclosure requirements.

An important issue to aid understanding at an entity level would be the identification of systemic climate-related risks at the industry level. Such risks can then be utilised by entities to gauge the resilience of their own strategies and business models.

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?

There is a need to balance strong accountability frameworks that produce investment-grade information with directors' liability risks. It will be important that liability risks (whether perceived or actual) do not undermine comprehensive and good faith implementation of climate-related disclosures and appropriate accountability for disclosure.

Government will need to continue to build capability and understanding for directors, particularly in areas where there is a high degree of uncertainty and a lack of maturity in the data collection, processes, analysis and disclosure.

We suggest clear practical guidance be provided by regulators, along with regulatory support as necessary, to indicate its expectations as to what would constitute reasonable grounds for forward looking statements, such as those required in relation to scenario analysis. Likewise, regulatory and standard-setters guidance on suitable bases for assumptions and estimates with respect to disclosures such as scope 3 GHG emissions as reporting practices mature, would be valuable.

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?

As interactions between existing reporting obligations and climate reporting are being considered, it will be important that sufficient regulatory guidance is available to support entities to understand their existing obligations relative to these new disclosure areas.

Climate reporting practices and models are continually being refined and updated, which could result in material changes to estimates and assumptions within climate disclosures. Listed entities will need to have a clear framework for determining when such information should be disclosed to the market.

It is also essential that standard-setters and regulators ensure that climate reporting requirements and financial reporting requirements are complementary.

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?

As noted above, we support the adoption of the ISSB climate standards and future ISSB standards in line with international developments towards more comprehensive sustainability-related reporting.

We believe that there should be flexibility in the durable framework design for requirements to adapt to future areas of sustainability which considers existing sustainability reporting in Australia, such as modern slavery, gender pay gap and tax transparency, as well as how these frameworks could be aligned and harmonised in a domestic setting. This exercise should be considered as an initial step in future proofing Australia's comprehensive sustainability reporting framework to make it adaptable and able to incorporate emerging areas, such as biodiversity, without the need to create new frameworks.

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

As stakeholders demand broader information, financial reports continue to increase in complexity. We believe that digital reporting represents the opportunity to re-shape how information is publicly reported and used by stakeholders in their investment decisions.[11]

Australia is one of the few countries that does not have a mandated approach to digital reporting. This is out of step with many of our global peers in both financial and climate reporting (with some extending to ESG reporting).[12] Recognising this gap, there is a need for a significant uplift in the adoption of eXtensible Business Reporting Language (XBRL) and accompanying education and skillsets to practically implement digital reporting, coupled with an appropriate time frame for adoption.

We support mandatory adoption of digital reporting as a part of the broader pathway for implementing sustainability reporting. However, such as pathway must acknowledge the time and resources required to close the current gap in Australia. As a first logical step, digital reporting could be mandated for financial reporting, which is a well-established practice. Following successful implementation, digital reporting could be phased in for climate reporting and then for wider sustainability reporting.

We believe that climate reporting in Australia represents an opportunity to "catch up" to the current international digital reporting practices which capture financial and climate reporting, and beyond.

[11] The future of financial reporting: what size do you want?

[12] Digital corporate reporting: Global experiences from the G20 and implications for policy formulation

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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?

Investors have indicated that they view sustainability-related disclosures to be as important to their decision-making as financial disclosures. Processes and institutional arrangements for the climate disclosure regime do not necessarily need to be identical to the financial reporting framework, but they should ensure that sustainability-reporting is afforded the same status as financial reporting.

We endorse potential structure 2, that is, to establish a separate sustainability standards board, as the best option to improve the effectiveness and efficiency of the financial reporting system. The establishment of a sustainability board, which sits alongside the AASB and AUASB under the Financial Reporting Council (FRC), would provide a strong foundation for sustainability standards and would enable such standards to hold the equivalent standing to accounting and audit standards, both in Australia and internationally.

As noted in our joint submission on *Comment 48: Extended External Reporting*[13], the establishment of the ISSB, which sits alongside the International Accounting Standards Board (IASB) and operates under the IFRS Foundation, ensures the impartiality of the ISSB, but also ensures that expertise and resources are allocated appropriately. We recommend mirroring the international structure adopted by the IFRS Foundation.

The creation of a separate board will ensure appropriate capability of board members and minimise capacity constraints – given the establishment of two boards internationally and the fast pace of developments. We also consider it critical, particularly given the building block approach and the likely extension of such disclosures beyond climate, that these standards and the board issuing them in Australia are perceived to be distinct from financial reporting.

However, we also consider connectivity between the new board and the AASB as fundamental. We note that the AASB and the AUASB have already utilised synergies through co-location and are already working together on sustainability reporting and assurance. We support this continued collaboration and its extension to a third board.

In our opinion, potential structure 1 is suitable as a short-term solution. This enables Australia to move fast, as already contemplated in last year's consultation *Empowering the AASB to deliver sustainability standards*[14].

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[13] Joint submission on invitation to comment 48: Extended External Reporting
[14] Joint submission on empowering the AASB to deliver sustainability standards

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Potential structure 3, which in our view is outside the scope of this consultation, represents the most significant change and would affect wider financial reporting and assurance stakeholders who may not be engaged with this consultation. This structure would also involve additional consultation and engagement and hence take longer to implement. The narrative and analysis surrounding this proposal appears to overlook the extensive connectivity and synergies already existing between the AASB, AUASB and FRC. In doing so, this also appears to overlook the risk that potential structure 3 would, in fact, add to the overall cost and complexity of the model, compared with potential structure 2 or the existing structure.

Critically, any model that is chosen for adoption of sustainability standards in Australia needs to be appropriately funded and resourced to ensure the best chance of success.

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