Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

Grant Thornton Australia Limited
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW 1230

T +61 2 8297 2400

17 February 2023

Grant Thornton Australia Submission – Climate-related financial disclosure

To whom it may concern

We welcome this opportunity to provide our views on the Consultation Paper for Climate-related financial disclosure. Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations and are the leading business advisor to mid-market business internationally. Grant Thornton belong to an international affiliation and are structured as a public company within Australia.

Broadly, we support the goals in the Consultation paper, noting that the goals identified will assist in both the continued access to capital for Australian entities and the provision of meaningful information desired by a broad range of stakeholders. Primarily, our cautions raised relate to the key concerns of the clients we service – a clarity of guidance, objectives, and future-path are key to ensure that mid-market entities within Australia can adequately plan and resource implementation projects over a period of time.

As an entity which has responsibility to others as a core value, the core concepts of sustainability reporting align with our own measures of success. We encourage Treasury to consider broadening the scope of sustainability reporting frameworks to be proposed to allow for future development.

Should you have any queries related to our submission, please contact me via email at [redacted]

Yours sincerely

[redacted]

[redacted]

National Managing Partner – ESG

Answers to specific and general matters for comment in the Consultation paper

In this section, Grant Thornton Australia offers feedback on the specific and general matters for comment requested by the Treasury in its Consultation paper.

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?

1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting? 1.1

In the Australian marketplace, existing climate disclosures are defined only in the context of the financial statements and required disclosure to comply with the general disclosure requirements of Australian Accounting Standards, as issued by the Australian Accounting Standards Board. As a consequence, costs are generally incurred only by market sectors specifically impacted by potential changes to climate or otherwise exposed to climate-related risks that are significant to the reporting entity. Generally, the cost of meeting current climate reporting expectations is low as inputs are captured within models which are well-established. Disclosure of additional climate-related, or more broadly sustainability-related, information is at the option of the reporting entity.

The optionality of detailed disclosures results in a risk of Australian entities becoming less attractive to certain classes of investor, particularly in an increasingly less-hypothetical future where 'green' credentials are required throughout a chain of investments. Acquisitions of Australian entities may slow where parent-investor expectations are not met, or where foreign regulatory oversight requires reporting of foreign investments.

The benefits are therefore relative – it is possible that financial reporting cost savings will occur at the reporting entity-level if presentation of climate information in accordance with a global baseline standard is not required, with a potential increase in the cost of capital due to a reduction of total capital available to the marketplace. If international practice is not aligned with and an Australia-specific framework is defined, it is likely that the total cost of development and establishment will be significant.

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

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

There is a general lack of availability of appropriately-skilled resources, access to reliable data, and mature systems designed to identify, monitor and report on sustainability matters in the marketplace. In a large-scale adoption, compliance is therefore most likely to be achieved by those entities capable of funding compliance – i.e., those with significant financial capacity to hire and develop systems to access such information – and many entities would not have the financial capacity to conform. It would therefore be appropriate to adopt a 'phased' approach to adoption of climate disclosure.

Cohorts included in future phases should be considered in the context of financial capacity to comply with climate disclosure requirements, potential significance of climate disclosures to users, and the general expected availability of appropriately skilled resources in the marketplace.

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?

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?

As noted in Question 2, a phased approach should consider the availability of qualified resources and availability of capital to fund adoption of processes and controls to support additional disclosure. This query has been responded to by assuming that a 'large, listed entity' is a reference to a listed entity that may be considered 'large'.

In our experience, the relative size of a listed entity is best measured by reference to market capitalisation. As of the date of drafting this letter (10 February 2023), the following information is correct, adjusted for rounding. For toe approximately 2,327 entities listed in the ASX:

- The largest 50 entities have a market capitalisation of at least AUD 10 billion;
- The largest 100 entities have a market capitalisation of at least AUD 5 billion;
- The largest 300 entities have a market capitalisation of at least AUD 1 billion; and
- The largest 1000 entities have a market capitalisation of at least AUD 100 million.

Comparable phased reporting obligations have been implemented in other markets. European regulators have indicated that total assets of EUR 20 million and total revenues of EUR 40 million would be considered 'large'; this is broadly comparable to the definition of a 'large proprietary company' as defined by the *Corporations Act 2001.* When implementing the *Sarbanes-Oxley Act* of 2002 ("SOX"), the United States determined that an entity with a market capitalisation of USD 75 million (approx. AUD 100 million) would be required to report on internal controls over financial reporting due to their significance to the marketplace – and thus comparable to a 'large' definition.

We would therefore encourage a definition that is linked to market capitalisation, with thresholds being required to be met for a sustained measurement period (for instance, two years).

In the letter, 'financial institution' is given a broad definition and includes entities that are generally considered 'investment entities' when applying Australian Accounting Standards, including entities that are prohibited from issuing equities. The definition generally captures those entities that generate returns from investment of capital in third parties – whether by the provision of capital in the form of loans or through acquisition of equity instruments (or other financial instruments). As a result, an appropriate measure, as a secondary consideration to an available market capitalisation, may be total assets that reasonably varies by reference to industry:

- General insurers: Assets greater than AUD 10 billion
- Private health insurers Assets greater than AUD 5 billion
- Australian Depository Institutions Assets greater than AUD 30 billion
- Funds managers: Assets under management in excess of AUD 30 billion
- Superannuation funds Assets greater than AUD 30 billion

Certain industry sectors may be more subject to climate-related scrutiny than others by users of the financial statements and other available information. It may therefore be appropriate to consider entities that meet some or all of the following characteristics:

- Entities operating within non-corporate structures that would otherwise meet the above criteria; for instance, by levelling obligations on corporate trustees; and
- Entities meeting certain operational criteria such as market sector or high-emission concentration industries, to be determined by the regulator.

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?

The International Sustainability Standards Board is currently drafting standards that are proposed to address multiple sustainability-related issues. The Consultation paper is specific to climate reporting. We therefore will restrict our response to climate reporting.

The ISSB has issued initial exposure drafts of multiple sustainability reporting standards as of the date of this letter, specifically IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. Our primary concern is that a focus on climate reporting (and thus the adoption of IFRS S2) in the absence of a wider framework (described, in part, by IFRS S1) may require specific frameworks to be implemented such that IFRS S2 may be adopted without application of IFRS S1 or other proposed sustainability-related standards.

In our opinion, the framework provided by the ISSB is one which, through its principles-based approach, is most likely to provide a useable, pragmatic framework that may be adopted without undue cost. The ongoing expansion of standards issued by the ISSB will allow entities to expand disclosure as appropriate, allowing for an iterative approach to adoption of a wider framework addressing issues outside the scope of this Consultation paper.

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?

The regulatory framework should consider:

- The relative maturity of risk management and frameworks in certain sections, particularly the private sector;
- Comparability to other defined frameworks, particularly those in the United States of America, the European Union, and New Zealand; and
- The identified users of the information (whether they are investors and other providers of capital, government agencies, or the broader public).

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?

Currently information is required to presented as a component of the operating and financial review which is not subject to assurance. Inclusion of this information within the financial statements, although identified as allowed in IFRS S1 and IFRS S2 would likely give rise to complexity in the provision of assurance.

It is our opinion that options of form of reporting be provided to those charged with governance of each reporting entity, such that the information provided is able to be clearly identified and the level of assurance provided by external parties is able to be identified and understood. We note that in the current framework, assurance is able to be delivered as it relates to remuneration reports prepared by an entity where that remuneration report is included as a component of the directors' report. A similar framework may be considered as effective as including a separate report as a component of the broader annual report.

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)?

Where proposed standards are expected to be those as issued by the ISSB as modified by an Australian regulator, we would encourage the use of definitions defined by the ISSB.

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?

The framework for registered company auditors to utilise appropriately qualified experts when providing assurance currently exists. In the absence of a desire to establish another, separate regulatory framework relating to the qualification of auditors that are not auditors of financial information, the RCA framework will continue to provide value and meet the needs of all stakeholders. The nature of audit engagements necessitates the application of ethical standards, including those relating to independence, and quality management remains a core principle in providing assurance over information provided to stakeholders.

The level of assurance relating to climate disclosures may, by the nature of the information being provided, be required to be of a reduced level of assurance than financial information. We note that it may be appropriate to allow entities to utilise different professionals or firms to provide assurance over the financial statements and climate reporting.

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?

In the current frameworks, the greatest challenges exist in measuring and reporting Scope 3 emissions. We agree with the approach of requiring disclosure of these emissions but recommend the development of additional frameworks and agreed measurement methods prior to mandating such disclosure. We have no comment as it relates to reporting of Scope 1 or Scope 2 emissions.

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

The utilisation of baseline metrics may result in excessive investment in disclosures that are presumed to be 'material' rather than providing meaningful comparable information. The provision of a defined listing may also result in 'boiler plate' disclosures being prepared which, in conjunction with the previous item, will result in information being presented that may not meet the needs of users.

As reporting develops, it may reasonably be determined that significant disparity exists, and we would recommend that the issue be addressed once an appropriately broad data set has been developed.

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?

Adoption of an appropriate framework, such as the proposed framework as being developed by the ISSB, will assist in ensuring that appropriate transparent information is presented. Where additional needs are identified, we would encourage the appointed regulator to engage with standard-setters, first internationally but also with Australian standard-setters where the needs of the Australian market are not being met by the internationally established reporting standards.

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

As discussed at Question 9, Scope 3 emissions present the greatest challenges to measure and obtain assurance over. As a result, we recommend a phased approach such that assurance over Scope 3 emissions is deferred beyond the commencement date of assurance over Scope 1 and Scope 2 emissions.

We are also of the opinion that it would be appropriate to allow self-certified climate disclosures for initial periods post adoption. This will allow entities to establish processes and controls over the information presented and engage with professionals to refine these processes and controls prior to assurance being required.

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

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

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

The Australian market for the requisite skills is relatively small and underdeveloped. We recommend that the implementation of any reporting requirements be made in the context of this limited resource pool. The challenges associated with expanding this pool are significant, with global skills shortages identified. We recommend that a broader, whole-of-government approach be implemented such that the skills required to prepare the proposed information are included during the education-phase of future professionals.

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?

No comment provided.

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?

The 'reasonable grounds' requirements are onerous and serve a specific purpose in reporting to investors. As the nature of information presented in a climate-context have different implications to the users of report, including investors, it may be appropriate to consider the relative skill sets of directors, including whether it is appropriate to require, at the current stage of development of climate reporting frameworks and expertise globally, that directors be subject to the same level of risk as they are for more traditional units of measure.

As a result, it may be more reasonable to reframe the level of responsibility to be aligned with the currently expected competence of directors, including that of establishment and oversight of control and governance frameworks. Where climate disclosures are made, it may be more appropriate to limit directors' exposure where they have, in good faith, established appropriate internal control frameworks addressing climate reporting. This may be achieved via safeharbour provisions or via other means.

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?

No comment provided.

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?

Globally, climate reporting is considered an element of a wider sustainability framework. We strongly recommend the expansion of the project to consider sustainability as a whole in order to meet the needs of the Australian market to have access to a broad range of inexpensive capital.

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

We encourage and support the exploration of digital reporting in the Australian marketplace. We encourage the readers to engage with other regulators in order to access broader experiences as it relates to digital reporting.

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?

No comment provided.