Insurance Council of Australia

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Climate Disclosure Unit, Treasury

By email: climatereportingconsultation@treasury.gov.au

To whom it may concern,

Climate-related financial disclosure: consultation paper

The Insurance Council of Australia (**Insurance Council**) thanks the Australian Government for the opportunity to provide a submission in response to the climate-related financial disclosure consultation paper. We appreciate the collaborative approach the government has taken to welcome submissions from the business community, civil society, government bodies and other interested stakeholders.

The Insurance Council is the representative body of the general insurance industry in Australia and represents approximately 89% of private sector general insurers. As a foundational component of the Australian economy, the general insurance industry employs approximately 60,000 people, generates gross written premiums of $60.2 billion per annum and on average pays out $150.6 million in claims each working day, totalling $37.5 billion per year.

The ICA welcomes the alignment and harmonisation of existing and future climate and sustainability frameworks across jurisdictions globally. Clear and comparable disclosure of sustainability and climate related information is one of the foundational building blocks of a well-functioning global financial system. It is essential that Australia's climate disclosure regime also aligns.

The ICA and its members are supportive of the mandatory nature of climate and sustainability disclosures, with some members already completing voluntary reporting. However, the cost and capability burden, as well as the existing data gaps, require a phased-in approach for these disclosures. There are a range of mechanisms that can assist in mitigating risks associated with making these forward-looking statements whilst climate data and capability gaps persist. These include applying safe harbour provisions to forward-looking statements, applying safe harbour for specific categories of Scope 3 emissions and/or public enforceability only. The ICA and its members stand ready to collaborate with the AASB, Treasury, relevant government departments, regulators, and key peak bodies to determine the most appropriate mechanisms, noting the solution must strike the balance of mitigating these material risks for preparers, whilst enabling an appropriate amount of information to be provided to investors to inform their decision making.

The mandatory disclosure framework should initially apply to large listed for-profit Australian entities (including global companies with large Australian subsidiaries) as well as large pension funds/ superannuation providers. The regime should then phase in medium and smaller entities overtime. An effective date should be a minimum of two years from the release of the final standards, making 2025 the effective date for large entities. This aligns with both the development of the audit standard that the International Auditing & Assurance Standards Board is developing for sustainability reporting assurance and allows time for the development of required measurement methodologies, data collection processes and adequate resourcing. Whilst 2025 is an appropriate effective date for mandatory disclosure, early adoption of the standards should be encouraged, noting urgent action is required to transition to a sustainable economy and limit the impacts of global warming. For example, a number of ICA members are members of the Net Zero Insurance Alliance (NZIA), so will be putting in place the resourcing and capability to measure and disclose some categories of Scope 3 emissions as a priority. As a result, they may be in a position to disclose sooner than smaller insurers who do not have the resources or capability.

Further detail is provided below.

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)?

It is essential that Australia's climate related financial disclosure aligns and harmonises with existing and future climate and sustainability disclosure frameworks across jurisdictions and at the international level (for example, alignment with International Financial Reporting Standards (IFRS) will be critical).[1] If reporting frameworks in Australia align with other jurisdictions, this will streamline transparency of the potential financial impacts to an organisation's sustainability risks and opportunities, as well as accelerating the adoption of consistent, comprehensive sustainability-related disclosures. Alignment with existing standards will not only streamline climate disclosure for preparers (including for entities with operations in multiple jurisdictions), it will also improve comparability of results for consumers and investors. If Australia fails to align with international sustainability standards there is a risk that reinsurance and international capital inflows become harder to attain, as a result it is critical that Australia continues to align with best practice. Both reinsurers and investors are under pressure to demonstrate alignment to Environmental, Social and Governance (ESG) themes and misalignment of standards puts Australian companies at risk.

There will also be significant financial costs of implementation for some organisations in terms of the collection and disclosure of robust, consistent, and reliable industry-specific information, as well as costs more specific to different standards, such as obtaining climate related scenario analysis. In addition to cost, there are also methodology and data gaps which prevent the accurate measurement and reporting of some Scope 3 greenhouse gas (GHG) emissions across underwriting portfolios, supply chains and some investment asset classes (i.e., sovereign bonds, exchange traded funds, derivatives etc.) Some of these gaps are set to be addressed over the next few years through the Partnership for Carbon Accounting Financials (PCAF) and the Net-Zero Insurance Alliance (NZIA). Requiring the disclosure of Scope 3 GHG emissions in the near-term could impose significant costs, particularly on smaller entities that do not have the requisite resources or capabilities.

Whilst the ICA and its members are supportive of the mandatory nature of climate and sustainability disclosures, the cost burden and existing data gaps require a phased approach for these disclosures.

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

Yes, a phased approach is required to allow time for companies to develop measurement methodologies, data collection processes and adequate resourcing, as well as to ensure alignment with a range of other standards being developed at the international level, such as IFRS S1 and S2 (see Q1 response).

Feedback from ICA members indicated that an effective date should be a minimum of two years from the release of the final standards, making 2025 the effective date for large entities, depending on the size

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[1] Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ([Draft] IFRS S1) and Exposure Draft on IFRS S2 Climate-related Disclosure ([Draft] IFRS S2).

and capability of the entity disclosing. It should also be noted that the effective commencement date for covered entities should take into consideration that some entities will report to financial year end, whilst others report to calendar year end. As a result, a timing leeway may need to be provided to accommodate this discrepancy and to allow climate disclosure to align with an entities' other reporting.

In addition, 2025 is an appropriate effective date as it aligns with the audit standard that the International Auditing & Assurance Standards Board is developing for sustainability reporting assurance.[2] The final approved standard is slated for finalisation in March 2025. Given the extent of the required climate disclosures, aligning with the auditing profession will be important to provide confidence to both boards and users. This approach will also support consistent application of the standards. If international standards are delayed in their development, this should be reflected in the timeline for mandatory disclosure in Australia.

Whilst 2025 is an appropriate effective date for mandatory disclosure, early adoption of the standards should be encouraged, noting urgent action is required to transition to a sustainable economy and limit the impacts of global warming. For example, a number of ICA members are members of the Net Zero Insurance Alliance (NZIA), so will be putting in place the resourcing and capability to measure and disclose some categories of Scope 3 emissions as a priority. As a result, they may be able to disclose sooner than smaller insurers who do not have the resources or capability. Re/insurers with Australian operations, but headquarters in a different jurisdiction may find that at the group level reporting and disclosure is also further progressed because of the differing regulatory environments, potentially enabling the Australian operations to provide reporting sooner.

The AASB, in partnership with international bodies such as the International Sustainability Standards Board (ISSB), also have important roles to play in educating organisations on disclosing in accordance with the proposed standards. We note that the Task force on Climate-related Financial Disclosures (TCFD) provided a similar role upon the release of its recommendations and maintains a resources database named the TCFD Knowledge Hub.

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

Disclosing will come with significant financial costs of implementation for some organisations in terms of the collection and disclosure of robust, consistent, and reliable industry-specific information. The size and capacity of the organisation to resource disclosure should be considered when applying a phased approach. As a result, the ICA and its members recommend that initially the framework applies to large listed for-profit Australian entities (including global companies with large Australian subsidiaries), and it should then bring in medium and smaller entities overtime to enable them to develop measurement methodologies and data collection processes. The Australian Sustainable Finance Institute (ASFI) Roadmap recommended the ASX 300 and financial institutions with more than $100 million in consolidated annual revenue report in line with the TCFD recommendations. To ensure the requirements are not overly onerous on smaller providers, there should be some threshold of assets under management (across multiple asset classes) to ensure reporting obligations don't impede basic fiduciary obligations.

In addition to large, listed entities and financial institutions (which should comprise listed banks, as well as unlisted branches or subsidiaries of large globally listed insurers), the initial reporting should be extended to large pension funds/ superannuation providers. The bulk of listed and unlisted investable assets are held by public offer superannuation, pension funds, and collective investment scheme

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[2] https://www.iaasb.org/consultations-projects/assurance-sustainability-reporting

operators (i.e. mutual fund, unit linked, UCIT/ ICAV/SICAV structures) – so it would make sense to include asset owners/fiduciaries in the reporting obligations.

A materiality threshold should also apply, for example omitting subsidiaries and joint ventures if they do not comprise a material part of activities within the reporting entity's financial or operational control. There are complexities regarding joint ventures and subsidiaries and the degree of operational control parent companies have to then enable emissions reduction and implement just procurement practices. Additional guidance would be welcomed to assist in the standardisation of approach to joint ventures, noting the application of a materiality threshold. Examples of how sustainability-related risks and opportunities effect value chains by key industry (manufacturing, extracting, financial services etc.) would also be useful

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

Yes, it is essential that Australia's climate related financial disclosure aligns and harmonises with existing and future climate and sustainability disclosure frameworks across jurisdictions and at the international level (see response to Q1).

We welcome the consolidation of existing standards such as the Climate Disclosure Standards Board (CDSB) and Value Reporting Foundation (VRF) into one overarching ISSB framework. We also recommend that the ISSB provide guidance on how emerging standards such as the Taskforce for Nature-Related Financial Disclosures (TNFD) will be accommodated over time as practices continue to evolve. We also recommend guidance on how the ISSB intends to work and align with other leading, internationally recognised sustainability standards, such as the Global Reporting Initiative (GRI).

The ICA and its members believe that the climate and sustainability disclosure standards issued by the ISSB are the most appropriate for entities in Australia, however interoperability of the ISSB Exposure Drafts with local laws and regulations will be important to ensure that organisations such as the AASB can leverage the disclosure requirements and apply them within a national context. Notably, New Zealand requires mandatory reporting in accordance with the TCFD, aligned to [Draft] IFRS S2 requirements and the AASB should aim to harmonise approaches across jurisdictions where possible, noting many members have operations across both Australia and New Zealand.

ICA member' with operations in Europe have noted challenges with the Sustainable Finance Disclosure Regulation (SFDR) that can be avoided in Australia. The SFDR process resulted in significant variance in reported metrics for the same legal entity depending on the data supplier being used. Data suppliers are using different methodologies because of the lack of specificity in the guidance provided in SFDR. This has also led to unintended consequences in the context of managed funds subject to Article 6, 8, 9 collective investment scheme reporting obligations. A considerable number of fund providers have wound back their product classifications to less onerous classifications, because of ambiguous reporting requirements. According to Bloomberg, during the final months of 2022 approximately $140 billion (US) of assets were reclassified to less onerous ratings.

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?

There are many aspects of the proposed international standards that require estimation of impacts of risks and opportunities which are inherently uncertain and may be deemed misleading under existing

Australian law. Specifically, this creates challenges under s.769C of the *Australian Corporations Act*, s12BB of the *ASIC Act 2001* and s.4 of the *Australian Consumer Law.*

Unlike certain other jurisdictions, reporting entities in Australia (as well as directors and officers) are exposed to the risks relating to forward-looking statements because there is no safe harbour exemption that allows for the exclusion of liability in specific contained circumstances.[3] To assist in mitigating these risks a range of mechanisms may be appropriate including; applying safe harbour provisions to forward-looking statements, safe harbour for specific categories of Scope 3 emissions and/or public enforceability only. Mechanisms like this have assisted in mitigating liability risk in Australia previously, however provisions would need to be reviewed as scenario forecasting methodologies evolve and improve. Initially, transparent disclosure could be encouraged on a best endeavour basis.

Importantly, these mechanisms must strike the balance of mitigating these material risks for preparers, whilst enabling an appropriate amount of information to be provided to investors to inform their decision making. The ICA and its members stand ready to collaborate with the AASB, Treasury, relevant government departments, regulators and key peak bodies to determine the most appropriate mechanisms that assist in further mitigating the uncertainty in forward looking statements, driven by challenges such as the lack of agreed climate scenarios and data in Australia.

Any AASB sustainability standards should also require the disclosure of Scope 3 GHG emissions as required under [Draft] IFRS S2. This is consistent with the requirements of the GHG Protocol Standards and an important disclosure for insurers given that significant sustainability risks and opportunities are likely to occur in investment and underwriting portfolios (i.e. Scope 3 value chain emissions).

However, any framework must also acknowledge that there are methodology and data gaps which prevent the accurate measurement and reporting of some Scope 3 GHG emissions across underwriting portfolios, supply chains and some investment asset classes (i.e. sovereign bonds, exchange traded funds, derivatives etc.). Some of these gaps are set to be addressed over the next few years through the Science-Based Target Initiative (SBTI), the Partnership for Carbon Accounting Financials (PCAF) and the Net-Zero Insurance Alliance (NZIA). Requiring the disclosure of Scope 3 GHG emissions in the near-term could impose significant costs, particularly on smaller entities that do not have the requisite resources or capabilities. Therefore, we recommend a phased approach for these disclosures to support entities in improving disclosures whilst accounting for initial data unavailability.

Reflecting these challenges, the IFRS Dec 2022 deliberations on climate-related disclosures for Scope 3 GHG emissions have proposed relief for Scope 3 GHG emissions. IFRS has proposed to:

> *(A) introduce relief for Scope 3 GHG emissions disclosures. Specifically:*
>
> *(i) a temporary exemption from the proposed requirement to disclose Scope 3 GHG emissions for a minimum of one year following the effective date of IFRS S2*
>
> *(ii) relief so that an entity's measurement of Scope 3 GHG emissions can include GHG emissions information that is not aligned with its reporting period when the GHG emission information is obtained from entities in its value chain with a reporting cycle that is not aligned to that of the preparer, subject to specific conditions*

[3] AICD-Submission-AASB-ISSB-Standards-July 2022, p 32.

(B) *introduce a framework for how an entity measures its Scope 3 GHG emissions, with accompanying requirements for an entity to disclose information that enables users of general purpose financial reporting to understand how the entity measured its Scope 3 GHG emissions (paragraphs 29–57).*[4]

The ICA and its members are supportive of a relief approach for Scope 3 GHG emissions in Australian climate disclosure standards. Rather than a time bound minimum, members suggest that relief be tied to the successful development of key methodologies and data for Scope 3 emissions reporting. For example, it would be more appropriate to propose that following the completion of the PCAF/NZIA methodology for measuring Scope 3 emissions across commercial lines and personal motor, full disclosure of this emissions category is required, as this would then align with global best practice and allow insurers to report and disclose this data clearly and consistently. In other jurisdictions this approach has not been taken and as a result companies are utilising different approaches to measure and report emissions, this has hampered the comparability of disclosures and led to a fragmented rather than standardised approach. There is currently no global process to establish a measurement methodology for GHG emissions in supply chains, including insurers' claims supply chains, however a similar phased approach could apply to these emissions categories too. It is also important to note that reinsurers are reliant on the disclosure of insurers, and this should be considered when requiring reinsurers to disclose.

The ICA and its members would also be supportive of a voluntary framework for disclosure of Scope 3 GHG emissions in the absence of an agreed international methodology (for example for insurer's supply chain emissions). However, once an agreed methodology is developed this should supersede the provided framework. Members are also supportive of the ISSB guidance that divides Scope 3 emissions into different categories and recommends clarity from reporting entities on which categories there is sufficient data to report against, and which categories require improved data and reporting methodologies.

In addition, we note that financial position, financial performance and cash flows associated with climate-related risks and opportunities over the short, medium and long term are inherently uncertain. Standardised wording for a disclaimer should be included to reflect the uncertainty in forward looking statements disclosed to avoid legal risks associated with material misstatement. For example, potential liability exists for misleading and deceptive disclosure under s1041H of the *Corporations Act 2001* and s18 of the *Australian Consumer Law.*

Guidance should also be provided on preferred climate scenarios aligned to the TCFD and/or Network for Greening the Financial System scenarios. A phased approach to reporting requirements should be used to allow entities time to prepare for any detailed scenario analysis requirements.

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?

Re/insurers in the ICA membership have different reporting rhythms and procedures, for example some entities disclose via public annual reports, whilst others only disclose via group reporting or don't produce an annual report at all.

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[4] https://www.ifrs.org/content/dam/ifrs/meetings/2022/december/issb/ap4b-climate-related-disclosures-scope-3-greenhouse-gas-emissions.pdf

As a result, there should be flexibility for reporting entities to integrate their climate disclosure into their existing reporting structures and all cases reporting should be made publicly available.

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 ICA and its members recommend alignment with GRI, which requires companies to disclose sustainability information that relates to both financial value creation *and* their impacts on the economy, environment, and people.

Focusing on enterprise value is an important approach when considering both climate and sustainability-related financial reporting and will likely create both costs and opportunities for essential industries that are more exposed to short-term climate impacts (i.e. insurance, agriculture).

Regarding materiality, in the interim alignment with GRI in the short term makes the most sense as GRI is global best practice. However, as the ISSB framework is developed it will then be useful to align with the ISSB to support global comparability of disclosures.

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?

There are significant challenges associated with assurance of scenario models and Scope 3 emissions, given the quantum of inputs, level of estimation and variability in assumptions.

A phased approach to reflect evolution in data and methodologies, Scope 3 relief and safe harbour are all important considerations when determining the level of assurance required (see Q 5). Reasonable assurance across climate and sustainability related content isn't practical whilst applicable accounting/reporting best practices aren't yet clearly defined. As a result, it is recommended that limited assurance is provided, and this is progressed to reasonable assurance in a phased manner, allowing time for relevant auditing standards to be developed.

There is a critical role for independent external assurance to lend credibility to climate and sustainability information. The view of the ICA and its members is that the goal should be for investors and other stakeholders to rely on the assurance performed and the integrity of the information provided, similar to how they rely on audited financial statements. A consistent baseline is needed for there to be trust and confidence in the information provided and to avoid confusion or misunderstanding amongst investors and other stakeholders.

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?

Any standards developed need to operate alongside existing Australian Accounting Standards, using the International Sustainability Standards Board S1 and S2 Exposure Drafts as a starting point and align with methodologies provided by the Science Based Target Initiative (SBTi) which incorporate the GHG Protocol Standards.

AASB, in partnership with ISSB, could also form agreements with key independent data and indices organisations such as the Carbon Disclosure Project (CDP), Dow Jones Sustainability Index (DJSI), Sustainalytics and Morgan Stanley Capital International (MSCI), to streamline citation and digital tagging

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of disclosures, reducing the reporting burden while delivering better disclosures and sustainability outcomes

Australian entities should be required to apply the GHGC Standard given it is the leading international standard for GHG emissions disclosures and assists in harmonisation across jurisdictions. In addition, Australian entities' emissions reporting should be harmonised with existing National Greenhouse and Energy Reporting scheme (NGER) emissions measurement requirements for the Australian region.

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

Yes. This can be achieved by drawing on the guidelines proposed by ISSB, i.e. leveraging the industry-specific standards developed by the Sustainability Accounting Standards Board (SASB). Common metrics for consistency across broader ESG reporting (not just climate) would also be welcomed

We recommend that these are phased in and initially issued as guidance at least until practice is sufficiently developed.

In addition, we recommend field testing of ISSB baseline metrics with large Australian entities to ensure the metrics are appropriate for Australia and the report users, with a focus on insurance industry specific metrics.

Finally, it should be noted that mutuals, co-operatives, and other collective scheme operators have different business models that may implicate different risks and opportunities for their stakeholders. Whilst a consistent baseline is crucial, there should be room for companies to add additional relevant metrics.

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?

Australia's standards should align to ISSB and TCFD requirements to provide transparent information about transition plans, climate risks and opportunities. Ensuring entities provide transparent information about how they are managing climate-related risks should be achieved through the independent assurance assessment process in place, which should assess key factors such as whether targets are science-based and whether transition plans achieve net zero rather than carbon neutral.

Guidance is required on whether transition plans (e.g. net zero roadmaps, portfolio decarbonisation strategies etc.) should support the transition to a low-carbon economy more broadly (aligned to Nationally Determined Contributions and implied decarbonisation pathways) or targets with clear transparency on assumed decarbonisation trajectories. The ICA and its members recommend that transition plans align to broader jurisdictional requirements and the Paris Agreement (setting science-based targets aligned with 1.5C of warming), but that early achievement of targets and increased ambition be encouraged, noting that urgent action is required to facilitate an orderly transition to a low carbon economy.

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

Refer to questions 3 and 10.

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

Any framework must acknowledge that there are methodology and data gaps which prevent the accurate measurement and reporting of some Scope 3 GHG emissions across underwriting portfolios, supply chains and some investment asset classes (i.e. sovereign bonds, exchange traded funds, derivatives etc.). See Q5 for full response.

New technical knowledge and human resources are required across sectors to implement climate disclosure, particularly in small to medium businesses and not-for-profit. In-house capability is limited for quantitative analysis of climate risks. Capacity sits in universities and consultancies and need to be transferred. This requires significant investments

It is also critical to establish robust, national hazard data that streamlines existing datasets, is accessible to the Australian public, financial services sector and all levels of government. This will play a critical role in improving and standardising our understanding of climate risk and how we prepare for it. It is also crucial to streamline disaster mitigation and response across federal government departments.

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

Industry engagement and pilot testing with key industries (for e.g. high risk sectors, manufacturing, financial services etc) will assist in testing and addressing data gaps. These gaps should be addressed at the industry-level and also allow entities to continue to evolve their measurements and data improvements.

Any gaps should be transparently addressed in disclosure reports, with a clear roadmap on how to address them.

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

Existing initiatives such as the UN-Convened Net Zero Asset Owner Alliance; and Net Zero Insurance Alliance. These alliances brought together major players to solve methodologies and data gaps at industry level by providing specific guidance on data and measurements.

There are also existing frameworks, standards and projections that could assist preparers such as the GHG Protocol, SBTi and Climate Measurement Standard Initiative (CSMI).

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?

This is addressed by ISSB requirements for disclosures related to climate scenarios. Therefore, aligning to ISSB standards would address this question.

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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?

Refer to question 5

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?

This is a complex area for climate reporting. The ICA recommends that there is a build out of the continuous disclosure requirements to clarify what information would be market sensitive.

Climate disclosure, particularly climate scenarios, are forward looking over the next 20-30 years. Any refresh of measurements and/or climate scenarios is more likely to be performed annually. Therefore, at minimum, an annual climate disclosure would be required as part of continuous disclosure. However, the application of the continuous disclosure requirement would differ in comparison to financial disclosure. It would not be practical to treat climate disclosure in the same way as financial disclosures in terms of disclosing to the market (at any point in time during the year) if the information is market sensitive information.

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?

It should be considered, refer to question 6.

This framework should also be expanded to include the ISSB S1 and nature-based reporting in line with the development of global frameworks such as TNFD. There is a critical opportunity to design reporting that recognises the interlinkage between climate and nature-based risks and opportunities. Particularly following the context of the COP15 global commitment to nature protection by 2030.

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

We are supportive of digital reporting and would further suggest linkage with external ESG assessments. For example, there is an opportunity to harmonise AASB-aligned reports with CDP, DJSI, Sustainalytics and MSCI (etc.) questionnaires by using digital tagging. This would reduce the volume of sustainability reporting and improve consistency across various reporting frameworks. There could also be value in including NGERS as a local digital reporting scheme.

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

Members had a range of views on which structure may be the most effective and look forward to being provided with further detail on how the structures will operate in order to make a full assessment. Regardless of the structure chosen there are some key principles to note:

- The sustainability reporting standards could be governed by the AASB or a separate board, but in either case, the governing body should comprise of a mix of sustainability and financial reporting expertise and requirements should be streamlined through a single entity.
- The development of climate related and sustainability related disclosure standards should utilise the existing standard setting within the AASB and AUASB to allow coordination between financial reporting and auditing of the sustainability/climate disclosures.
- Adequate resources and expertise will need to be provided to build capability in the sector to be able to take on the new and complex reporting framework.

Conclusion

We trust that our initial observations are of assistance. If you have any questions or comments in relation to our submission please contact [redacted], Senior Manager Climate Action and Resilience [redacted]

Yours sincerely

[redacted]

[redacted]
Executive Director and CEO