To: Commonwealth Treasury

Re: Climate-related financial disclosure

17 February 2023

Introduction

AMEC appreciates the opportunity to comment on the consultation paper for Climate-related financial disclosure. As Australian businesses make the transition towards net-zero emissions by 2050, Government standardisation of climate-related disclosures will support increasing the certainty transparency of reporting.

About AMEC

The Association of Mining and Exploration Companies (AMEC) is a national peak industry body representing over 530 mining and mineral exploration companies across Australia. Our members are mineral explorers, emerging miners, producers, and a wide range of businesses working in and for the industry. Collectively, AMEC's member companies account for over $100 billion of the mineral exploration and mining sector's capital value.

Mineral exploration and mining make a critical contribution to Australia's economy, directly employing over 274,00 people. In 2020/21 Industry generated a record high $301 billion in mining exports, invested $3.2 billion in exploration expenditure to discover the mines of the future, and collectively paid over $39.3 billion in royalties and taxes.

General Remarks

The Australian Government's commitment to lowering emissions to 43% below 2005 levels by 2030 and net-zero by 2050, has resulted in the need for clarity around climate-related financial disclosures. Many companies in the mining and mineral exploration industry are already providing to the market robust Environment, Social and Governance (ESG) reports, underlining the Industry's commitment to maintaining a social licence to operate.

The Commonwealth Government must make a concerted effort to engage and educate the wider community of these coming reforms. Issuing a consultation over December and January, a traditional holiday period in Australia, means many in Industry have not had time to fulsomely engage. The consultation contemplates serious changes to reporting and substantial impositions on the cost of doing business.

Question 1: What are the costs and benefits of Australian 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?

Some companies in the mining and mineral exploration industry are voluntarily measuring and reporting their $C0_2$-e beyond regulated expectations. These companies have followed market incentives of cheaper financing or have done so to exceed community and activist shareholder expectations. There remains a marketing benefit to being perceived as exceeding climate reporting initiatives, however this advantage is diminishing as more companies introduce net zero targets.

The costs of reporting $C0_2$-e are the difficulties in quantifying data, the diversity of standards, the lack of community and investor understanding (and appreciation) of the challenges and costs of doing so.

Measuring what $C0_2$-e an organisation produces for Scope 1, 2, and 3 can be challenging, and the challenge is difference dependent on sectors and scale of operations. Small developing mining companies will face inordinate difficulties quantifying accurately the Scope 3 produced with their minerals. They will face an even greater challenge encouraging the purchaser of their offtake in another jurisdiction and of a scale several orders of magnitude larger that they should adjust their $C0_2$-e emissions.

There is a wide diversity of standards, that cause substantial confusion in Industry. AMEC has developed a resource for members to explain the difference between 15 different rating and reporting frameworks[1]. We expect that this confusion and lack of understanding of the distinctive methodologies and metrics for each framework would also affect consumers, investors and the wider community.

Identifying your $C0_2$-e is a monetarily costly exercise for an organisation, demanding the engagement of specialists (usually a consultant), and the performance of necessary data collection both internally and with external stakeholders (who may or may not be cooperative). There is also an administrative commitment to the establishment of a new reporting framework within the organisation.

The National Greenhouse and Energy Reporting Act 2007 (NGER Act) introduced a single national framework for reporting and disseminating company information about greenhouse gas emissions, energy production and energy consumption.

The Commonwealth Government has already made a clear policy decision through the National Greenhouse Emissions Reporting Scheme based, in part, on an assessment of the cost of reporting.

As per the National Greenhouse Emissions Reporting Scheme:

The facility threshold is:

- 25 kt or more of greenhouse gases (CO2-e) (scope 1 and scope 2 emissions)
- production of 100 TJ or more of energy, or
- consumption of 100 TJ or more of energy.

---

[1] www.amec.org.au/environment

1300 738 184
Follow us on
www.amec.org.au

The corporate group thresholds are:

- 50 kt or more of greenhouse gases (CO2-e) (scope 1 and scope 2 emissions)
- production of 200 TJ or more of energy, or
- consumption of 200 TJ or more of energy.

The Commonwealth Government has legislated based on their determination that companies above that threshold have a corresponding corporate structure and a revenue stream of a scale that can support the costs and burden of measurement. Noting that the Commonwealth Government has taken the policy position to not report Scope 3.

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

Adoption of the proposed international practices will increase the number of businesses reporting their $C0_2$-e. The costs and benefits of aligning are in part determined by the proposed transition period. A rapid transition will be more costly, a gradual transition that allows the dissemination of understanding in the accounting community of how to meet these standards would be less so. Are there enough practitioners with the necessary skill set(s) to undertake this reporting?

Adoption of international (and standardised) practices would also help investors and businesses to better quantify the financial impacts of their exposure to climate change. It would mean the market could price climate-related risks more accurately.

There is a longer-term potential cost if Australia chose to not align with international practice. With a loss of confidence from foreign investors in regard to Australian businesses and their commitment to combat climate change. Industry reports that investors are increasingly applying non-financial factors as part of their analysis of material risk and growth opportunities in foreign jurisdictions.

Covered entities and timing:

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

Australia must adopt a phased approach to climate disclosure allowing for companies to prepare, similar to other international jurisdictions such as the UK, New Zealand, Canada and Switzerland.

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

The Treasury should implement guidance material for subsequent phases, learning from any issues which may arise from the initial phase of implementation. This should allow for other companies to better understand their reporting requirements prior to reporting. Future phases should be rolled out over the financial year, allowing at a minimum one year of initial implementation to learn from the experience.

The first cohort should be the very largest emitters under the NGER Act and the Top 100 firms as deemed by the ATO. Those that have already crossed the thresholds of NGERS reporting, will benefit from at least having the data. The Top 100 firms will benefit from their scale, and the robust governance that such an ATO identification suggests.

1300 738 184
Follow us on
www.amec.org.au

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?

The consultation paper ignores that the NGER Scheme is already requiring large emitters to report.

The initial reporting should be done by the Top 100 as defined by the Australian Tax Office (ATO). The ATO considers that the top 100 consists of public and multinational businesses and super funds that each have substantial economic activity related to Australia. From a tax perspective they are the largest contributors to corporate income tax, excise, and petroleum resource rent tax (PRRT) collections. They each have developed high assurance tax practices, and are organisations that have been identified and partnered with by the ATO to ensure their practices are best practice. This is the group that have the embedded staff and governance frameworks to embrace the proposed requirements.

The next phase should be to the ATO Top 1,000 programme after a year of implementation with the largest firms in the Top 100. Consideration must be given to the scale of reporting needed to achieve compliance with the ISSB climate disclosures, the associated cost, and importantly the proportionality of the benefit to the cost.

The United Kingdom has identified the threshold as having over 500 employees and over £500 million (A$872 million) in turnover. This means 1,300 of the largest UK-registered companies and financial institutions will have to disclose climate-related financial information on a mandatory basis.

International alignment of disclosures:

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

In the long term there are advantages to aligning how our climate reporting requirements with the global baseline standards set out by the International Sustainability Boards. This will ensure that Australian businesses have the same opportunities for foreign investment, particularly from the European Union.

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?

In regard to the metrics and targets established by the ISSB climate related disclosures, AMEC believes that particular considerations should apply to Scope 3 emissions reporting. Currently, Australian companies are not required nor expected to disclose Scope 3 emissions in any ESG reporting or other relevant Australian emissions reporting frameworks. The ISSB itself has decided to introduce reliefs for companies to report on their Scope 3 emissions, phasing in the disclosure of Scope 3 emissions one year after the new IFRS S2 Climate-related Disclosures are implemented. This ‘ phase in’ would need to be far longer in Australia, as reporting of Scope 3 is not a requirement.

1300 738 184
Follow us on
www.amec.org.au

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 Commonwealth and the Australian Accounting Standards Board have already been working towards the adoption of the ISSB. As this would be consistent with other Australian trading partners it would appear sensible.

Regulatory framework for required climate disclosures:

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)?

AMEC recommends that the Treasury builds on existing requirements to disclose any material risks as part of an operating and financial review rather than incorporating the overarching obligations into legislation. Not legislating the overarching climate disclosure obligations allows for flexibility and changes in the future as ISSB and TCFD continue to adapt their standards to evolving global conditions. It would also smooth the introduction.

Periodic reporting 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?

AMEC recommends that the climate-related financial disclosures be included as part of the company's annual reports. ASIC, APRA and the ASX Corporate Governance Council, have all issued guidance emphasising the importance of considering climate change – not just as a matter of corporate sustainability reported outside of annual reports, but as a matter that should be considered as part of the preparation of the annual reports.

Materiality of climate risks and Assurance of climate risks:

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 clarified its definition of materiality in relation to climate-related disclosures to match that of the IFRS International Accounting Standards, meaning "*could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements*."

The challenge faced by materiality considerations is the lack of comprehension by the market of what materiality means in the context of climate change. Enterprise value is clearly understood by the market because relevant financial materiality is in the same unit measure – dollars. A quantification of climate risk to dollars is beholden to the accuracy of the data collected and the methodology applied.

The concept of materiality is similar to that of significant environmental risk. No legislation in Australia quantifies 'significance', and the guidance often refers to a multi-factorial matrix, as significance

(materiality) in the environmental context is a value judgment by the regulator based on a mosaic of considerations.

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 Organisation for Economic Co-operation and Development (OECD) recommends that climate-related disclosure should be regularly disclosed and third-party verified to ensure targets are met. The consultation paper mentions that in the New Zealand regime, elements of disclosures relating to greenhouse gas emissions will be required to have independent assurance. The Transition finance report released by the Platform on Sustainable Finance (EU) recommends that companies are to be encouraged for forward looking disclosure and on a voluntary basis.

Assurance should only occur after multiple periods of reporting. The costs and the disruption of this introduction will be largely determined by the length of the transition. AMEC recommends a long and slow transition so that those companies with the internal capacity to do so, begin the process first. Does Australia have the necessary data and staff to undertake an assurance requirement?

Reporting of metrics (including emissions), offsets and transition plans:

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?

Specifically in response to the disclosure of Scope 3 emissions, the ISSB has recommended that companies disclose Scope 3 emissions starting in 2023. However, the question is raised around the ability of issuers to accurately report information on Scope 3 emissions. Disclosing Scope 3 emissions accurately relies on a third party having the relevant GHG information and not the issuer itself. The NGER Act does not currently demand the reporting of Scope 3.

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

AMEC recommends that a common baseline of metrics be defined to ensure a level of consistency for Australian entities to follow when reporting. The common baseline of metrics should align with the ISSB climate disclosures if the Australian government decides to international align itself with such disclosure standards.

Industry specific metrics can be problematic due to the lack of homogeneity between businesses. In mining an underground gold mine has a different emissions profile to a rare earths operation and an open cut iron ore mine. Mineral exploration is completely different to mining and should not be included in such a metric.

1300 738 184
Follow us on
www.amec.org.au

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?

Many companies have started to include transition plans into their ESG reporting to show to investors and stakeholders that they have a strategy to deal with their climate footprint. The covered entities in the initial implementation of climate-related disclosures, most likely fall under the Safeguard Mechanism. Australia's largest producers of $CO_{2\text{-}e}$ will be required to reduce their emissions by 4.9% per year to 2030, if Australia is to reduce its emissions by 43% below 2005 levels. The reporting required of these companies to the Safeguard Mechanism should provide enough transparent information regarding transition plans and greenhouse gas emissions offsets.

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

As mentioned in question 9, AMEC recommends that Scope 3 emissions not be included in the initial phase of implementation as disclosing Scope 3 emissions accurately relies on third party having the relevant GHG information and not the issuer itself.

Governance of supporting information for disclosures:

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?

To remove uncertainty and create more clarity for reporting entities AMEC is in favour of a particular entity or entities to provide standards for that information and governance over supporting information (e.g., climate scenarios). This will allow for standardisation and consistency in the Government's approach. It would also allow a central point for the dissemination of educational materials and guidance. They would need to be appropriately resourced and skilled for this new role.

Interaction with other reporting obligations:

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?

It is AMEC's position that the new climate-related reporting requirements would have a staggered start.

The ASX continuous disclosure requirements should be initially excluded. The ASX is not resourced to regulate continuous disclosure obligations for climate change nor is their sufficient capacity in the wider industry to support companies reporting. It is currently unrealistic but should be reconsidered in five to ten years' time, once Industry has adopted the framework.

Similarly, fund raising documents are already complex, the introduction of further climate related documentation will increase their volume and complexity. The introduction of climate change reporting requirements into fund raising documents should be staggered and delayed to a later date.

1300 738 184
Follow us on
www.amec.org.au

Digital sustainability reporting:

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

The current barrier for mandating digital reporting is that it is not currently enforced on companies by ASIC. While ASIC has been accepting digital reporting since 2010 it is not mandatory and zero have been lodged, therefore by mandating it for the new climate-related disclosures would cause additional issues. Therefore, AMEC believes that digital reporting should not be mandated but should be accepted as a form of reporting. However, in the longer term digital reporting has obvious advantages.

Ensuring the financial reporting framework is fit for purpose to support climate risk disclosures:

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?

AMEC recommends potential structure 1, which would see the AASB as the entity responsible for developing, making, and monitoring climate and sustainability related standards. The AASB has made considerable contributions to the international standards and have an established role in maintaining standards of reporting.

AASB's experience in this area positions them to facilitate the implementation of climate-related financial disclosure standards. AMEC agrees with the assumption that AASB's relationship with international standard-setting bodies could have potential influence in the development of global and sustainability standards.

Concluding remarks

The wider business community is not prepared for the introduction of climate related financial disclosures. While not necessarily unwilling to do so, the systematic difficulties of introducing new reporting, a lack of resources and specialist skills and most importantly the lack of comprehensive environmental data are considerable hurdles.

For further information contact:

Director of WA, NT, and Commonwealth Policy

Policy Advisor WA, NT, SA

1300 738 184
Follow us on
www.amec.org.au