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24 February 2023

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

Dear Sir / Madam,

Invitation to Comment: Climate-related financial disclosure Consultation Paper.

Thank you for the invitation to provide views on the key considerations for the disclosure of climate-related financial risks and opportunities in Australia.

Deloitte Touche Tohmatsu (Deloitte) is pleased to respond to Treasury's *Invitation to Comment - Climate-related financial disclosure Consultation Paper* (hereinafter – the Disclosure CP).

Deloitte commends Treasury for its work in establishing legal requirements for climate-related disclosure and initiating the development of an internationally aligned climate-related financial disclosure standard for Australia. We support the six guiding principles to reform in establishing legislation in reporting and found them to be relevant and robust in testing our response.

Deloitte acknowledges that climate change is an urgent existential issue that can be material to companies in all sectors and across all jurisdictions. Consistent and comparable information on risks and opportunities to business is vital to investors and other stakeholders, including how companies are managing the transition to a low-carbon economy.

We welcome the approach Treasury has adopted to consult on its commitment to ensuring large businesses provide Australians and investors with greater transparency and accountability when it comes to their climate-related plans, financial risks, and opportunities. We look forward to supporting standardised and internationally aligned reporting requirements for businesses, in full and without amendment, in relation to future climate-related financial disclosures.

A summary of Deloitte's key feedback to the Disclosure CP is provided below:

- We support the alignment of Australia with international practice on climate-related financial disclosure. We believe that adoption of the International Sustainability Standards Board's (ISSB), International Financial Reporting Standards (IFRS) S1 General requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosure standard in full and without amendment is in the best interest of Australia and the participants in its economy and will aid Australian businesses' economic competitiveness. Sustainability information is critical to support efficient capital markets and to understand business resilience. It is also essential to help address climate change and understand entities' wider impacts to stakeholders. As a result, investors and other users of corporate information are increasingly demanding comparable and reliable sustainability metrics from companies.

- We support the initial adoption to climate-related financial disclosure for the 2024-25 financial year. This aligns to the expectations of the International Organization of Securities Commissions (IOSCO). We believe that a phased approach should be considered, given the costs associated with adoption and the need for businesses to prepare, upskill and adequately resource their teams. This would firstly focus on larger listed entities, financial institutions, and government business enterprises. Followed by smaller listed entities and large private entities, and in time, smaller private companies, not-for-profits, and general government entities. Furthermore, there is an opportunity to drive iterative improvements through learnings obtained from a phased approach.

- We believe there is an opportunity for the Clean Energy Regulator (CER) to:
  - harmonise Australia's Greenhouse Gas (GHG) disclosure requirements with the proposed ISSB Standards including reporting requirements, terminology, methodology, industry classifications and boundaries and;
  - agree that Australian entities should be required to disclose Scope 3 GHG emissions, subject to an appropriate transition period, guidance and safeguards and aligning with the latest ISSB guidance on this subject.

- We support that climate-related financial disclosures in companies' annual reports should be reviewed by independent assurance practitioners to ensure that they are materially consistent with the financial statements as well as provide confidence to investors and stakeholders. We believe that the level of assurance provided should be phased over time, moving from preparing for assurance, to limited assurance and then reasonable assurance.

We note that Treasury is seeking comments on 19 Questions within the document 'Climate-related financial disclosure Consultation Paper'. Our detailed response to the 19 Questions can be found in Appendix A.

Thank you again, for the opportunity to provide our views. Should you wish to discuss our responses in our submission, please reach out to us on [redacted] or [redacted]

Deloitte.

Yours sincerely,

[redacted]

Managing Partner, Audit & Assurance

Deloitte Touche Tohmatsu

[redacted]

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Deloitte.

APPENDIX A

DETAILED RESPONSES TO THE TREASURY CLIMATE-RELATED FINANCIAL DISCLOSURE CONSULTATION PAPER

<u>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:</u>

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

We recognise and acknowledge the importance of assessing the policy impact but have not quantified the costs and benefits of meeting existing climate reporting expectations at this time.

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

Deloitte strongly supports the alignment of Australia with international practice on climate-related financial disclosure. We believe that the adoption, without supplementation, of the International Sustainability Standards Board's (ISSB) International Financial Reporting Standards (IFRS) Exposure Draft S1 General requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft IFRS S2 Climate-related Disclosure standard is in the best interest of Australia and the participants in its economy and will aid Australian businesses' economic competitiveness. This position is consistent with the global baseline envisaged by the ISSB and endorsed by G7, G20 and International Organization of Securities Commissions (IOSCO).

Sustainability information is critical to support efficient capital markets and to understand business resilience. It is also essential to help address climate change and understand entities' wider impacts to stakeholders.

Climate change is an urgent existential issue that can be material to companies in all sectors and across all jurisdictions. Consistent and comparable information on risks and opportunities to business is vital to investors and other stakeholders, including how companies are managing the transition to a low-carbon economy.

There is also demand from investors and stakeholders for comparable and reliable climate related financial information and a need for businesses to have clarity over which standards they should apply for reporting on sustainability information. This clarity should enable businesses to invest with certainty in implementing or updating appropriate systems and controls, as they do today in respect of financial reporting.

From the work we have performed with companies that have adopted the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') to date, we have observed significant investment in upskilling and analysis to understand the impacts of climate-related risks and opportunities. We therefore recognise that there is likely to be additional costs for entities who are yet to progress or are at an early stage in their climate-related reporting maturity. As with the introduction of any new standard, we would expect costs to be higher in the first couple of years, as businesses put in place the necessary systems, resources and controls and familiarise themselves with the standards.

Cost of inaction could be significantly higher for the Australian economy since it might affect the ability of organisations to raise capital. An absence of transparent and comparable climate disclosure might also result in Australian companies being less attractive for global investors given the global value chain. Furthermore, climate considerations are directly relevant to a company's resilience and ability to create and sustain long-term value, and therefore companies should be measuring and managing climate-related issues.

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?

Deloitte supports the initial adoption of climate-related financial disclosures, with the first reports for initial covered entities being required for financial years 2024-25. This aligns to the expectations of the International Organization of Securities Commissions (IOSCO), the global standard setter for securities markets regulation.

We are supportive of a phased approach, given the costs associated with adoption as outlined in response to Question 1.2 at an entity level. This would focus firstly on the larger listed entities, financial institutions, and government business enterprises, who are more likely to be mature in their reporting approach, followed by large private entities and in time, smaller and not-for-profit, and general government entities. This will give other entities time to prepare, upskill and adequately resource their teams, where necessary. In addition, it is important that the adoption of sustainability standards should be aligned with major markets and where possible there should be consistency with regards to the thresholds applied to phasing in.

Factoring in the costs associated with adoption and consideration of thresholds of major markets the following cohorts should ideally be included in the initial mandatory phase of adoption:

- Listed entities with over 500 employees or more and AUD$1 billion or more in consolidated revenue;
- Significant financial institutions as defined in The Australian Prudential Regulation Authority (APRA) framework;
- Asset Managers and Investment Banks with more than AUD$1 billion in assets;
- Facilities, within a group, which are covered by the Safeguard Mechanism to report and disclose climate-related disclosures at the ultimate Australian parent level; and
- Government business enterprises (including Government Business Enterprises (GBEs) Commonwealth Entities and Commonwealth Companies as listed[1]).

In the subsequent phases these requirements should reach all publicly accountable entities (as defined in the Australian Accounting Standard Board (AASB) 1053 *Application of Tiers in Australian Accounting Standards)*, and large private entities.

The timings of implementation in Australia should also pay heed to the developments in key markets such as United Kingdom (UK), European Union (EU), United States of America (US), New Zealand, Singapore, and Canada to ensure that Australia is aligned with global developments. This is important for Australia's competitiveness acknowledging that entities have global value chains, face global risks and access capital from global investors.

[1] https://www.finance.gov.au/government/government-business-enterprises

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 determination of thresholds for the covered entities should ideally align with international approaches to mandatory climate-related disclosures. Parameters that should be considered are those that indicate the size of the entity (for example, consolidated revenue, turnover, number of employees, total assets, etc.) and the volume of greenhouse gases emissions to reflect the significance and impact of the business for the Australian economy and the environment.

Mandatory climate-related disclosure should be aligned with major international markets that have already introduced mandatory climate-related disclosures (e.g., New Zealand and the UK) and should consider the following:

- Listed entities with 500 employees or more and AUD$1 billion or more in consolidated revenue;
- Significant financial institutions as defined in APRA framework:

  a) not a foreign Authorised deposit-taking institution (ADI), a Category C insurer or an Equitable Financial Life Insurance Company (EFLIC), and has total assets greater than:

    i. AUD$20 billion in the case of an ADI;
    ii. AUD$10 billion in the case of a general insurer or life company;
    iii. AUD$3 billion in the case of a private health insurer; and
    iv. AUD$30 billion in the case of a single Registrable Superannuation Entity (RSE) operated by an RSE licensee, or if the RSE licensee operates more than one RSE where the combined total assets of all RSEs exceeds this amount; or

  b) determined as such by APRA, having regard to matters such as the complexity in its operations or its membership of a group.

- Asset Managers and Investment Banks with assets more than AUD$1 billion;
- Facilities, within a group, covered by the Safeguard Mechanism to report and disclose climate-related disclosures at ultimate Australian parent level; and
- Government business enterprises (GBEs), (including GBEs Corporate Commonwealth Entities and GBEs Commonwealth Companies as listed)2.

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?

Please see our comments to Question 3.1.

[2] https://www.finance.gov.au/government/government-business-enterprises

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

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?

We believe there are no unique considerations in the Australian context that would outweigh the benefits of international alignment. This will need to be reassessed against the six guiding principles as additional sustainability standards are developed and issued by the ISSB.

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?

In our experience we have not identified any Australian-specific climate-related matters that require addressing and consider that the adoption of the ISSB (IFRS Sustainability Disclosure Standards) Exposure Draft IFRS S1 general requirements for disclosure of sustainability-related financial information and Exposure Draft IFRS S2 Climate-related Disclosure standard is in the best interest of Australia and the participants in its economy. The implementation of the ISSB standards in Australia without supplementation is consistent with the aim to create a global baseline of climate-related information which will provide capital markets with consistent and comparable climate disclosures on a timely basis.

Alignment of existing Australian local climate reporting requirements with the global baseline is important. As the NGER (National Greenhouse and Energy Reporting) (Measurement) Determination 2008 is regularly updated, there is an opportunity for the Clean Energy Regulator (CER) to harmonise Australia's Greenhouse Gas (GHG) disclosure requirements with the proposed ISSB Standards including reporting requirements, terminology, methodology, industry classifications and boundaries. This would also allow for minimal duplication in effort and reporting and facilitate increased comparability.

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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)?

Investors and other stakeholders will benefit from a common language as a result of adopting sustainability standards and methodologies, making comparisons easier. The most effective disclosures are those that are clear, concise, and focused on matters that are both material to users of corporate reporting and are specific to the entity. We welcome the proposal that climate-related disclosures leverage existing framework and support the proposal of implementation of the second option stated in the Consultation paper – building on existing requirements to disclose any material risks. This disclosure should form part of existing requirements as part of an operating and financial review, with overarching obligations for climate-related financial disclosures set through regulatory guidance or standards.

To ensure that the standards are flexible enough to incorporate other aspects of sustainability in the future, Treasury should include a reference to broader sustainability standards that can cover climate as well as a range of potential sustainability areas. With initiatives like the Taskforce on Natural-related Financial Disclosures (TNFD) on the horizon, preparations should be made for their adoption of ISSB standards on other topics, such as biodiversity when issued. This will avoid multiple reports and encourage integration of information for the benefit of all stakeholders.

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<u>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?</u>

Deloitte supports the proposal that climate related financial information should be provided at the same time and as part of the same reporting package as the financial statements in the context of annual reporting. We believe it is important for the standards to specify that *climate-related financial disclosures should be presented within general purpose financial reporting,* as it helps to minimise duplication, integrate information, and accommodates different jurisdictional requirements. Investors in particular want to see connectivity between narrative on climate-related matters and financial statements, integration into the annual report facilitates this connectivity.

Therefore, we agree with the proposal to include climate reporting requirements in the annual report but structuring it as a part of the Directors' report.

We acknowledge that this may be challenging for some Australian entities that currently rely on NGER data, for example, that may not be aligned with annual reporting. Therefore, we believe Treasury should work with the CER in harmonising Australia's Greenhouse Gas (GHG) disclosure requirements with the proposed ISSB Standards including reporting requirements, terminology, methodology, industry classifications and boundaries and allow for flexibility to account for availability of key sustainability data that does not always align with financial reporting cycles. We note that the ISSB has also given some relief to allow an entity to measure GHG emissions using information for reporting periods that are different from the entity's own reporting period when that information arises from entities in its value chain with reporting periods that are different from the entity's own.

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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)?

Aassessing materiality of climate reporting is an evolving area. In our view, drawing on the relevant materiality principles as defined in IFRS Practice Statement 2: *Making Material Judgements*, AASB's *Conceptual Framework*, AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* is an appropriate foundation for identifying and reporting on climate-related matters. Further, it supports connectivity with financial information, which is a priority for investors.

We also support the alignment of Australian materiality principles with the ISSB's guidance on materiality, once finalised.

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<u>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?</u>

Deloitte believes that assurance over sustainability-related disclosures (including climate-related disclosures) should become mandatory in time, starting with an assessment on whether data is able to be assured, then limited assurance and then ultimately moving to reasonable assurance. Such an approach would be consistent with proposals in the US and the European Law and helps build further trust and credibility in the disclosure.

Climate-related disclosures elsewhere in companies' annual reports should be reviewed by independent assurance practitioners in conjunction with the financial statement auditor to ensure that they are materially consistent with the financial statements as well as provide comfort to investors and stakeholders.

Certain climate-related disclosures may be more easily assured than others. For instance, metrics and targets are typically subject to clearer measurement protocols which provide suitable criteria for assurance. Whereas assurance over forward-looking and narrative information, which by its nature is more subjective, would not necessarily be straightforward, being associated with high degrees of uncertainty, estimates, and judgement. Reporting systems, processes and internal controls over sustainability-related data are also often less mature than those for financial data. We understand that the AASB is working closely with the Australian Auditing and Assurance Standards Board (AUASB) in respect of developing further guidance on assurance of sustainability reporting and we strongly encourage this continued collaboration and with the global International Auditing and Assurance Standards Board. There is a need for enhanced guidance for limited assurance engagements performed under ASAE 3000 (Revised) and the development of ISSA 5000 series on assurance for sustainability information. It would be helpful for the AUASB to clarify the expectations, extent of procedures and evidence required for the consistent execution of limited assurance engagements, while keeping in mind that the transition to reasonable assurance will likely be a predominant practice in the future.

Appropriate expertise will be required to support assurance in the form of Internal Specialists, specifically when more thematic standards are issued, for example nature and biodiversity. There is a need to educate and upskill assurance professionals in the Australian market on some of the broader sustainability-related topics to provide high quality assurance. We encourage the AUASB, the CER (which maintains a register of auditors for greenhouse gas and energy assurance), the professional bodies and universities to develop educational material and conduct training to bridge the gap.

Accordingly, it is important that the AUASB proactively advocate for usage of ASAE standards to provide limited assurance. The AUASB should continue to require that when the assurance report is issued, the practitioner state that they and their firm are subject to appropriate quality control and ethical standards, which includes applicable requirements such as International Standard on Quality Management (ISQM) 1, and ethical requirements such as those issued by the International Ethics Standards Board for Accountants (IESBA) and Corporations Act 2001.

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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?

Entities have global value chains, face global risks and access capital from global investors. Business is familiar with reporting Scope 1 and Scope 2 emissions under the NGER Act. This would also allow for minimal duplication in effort and reporting and facilitate increased comparability.

To assist Australian entities in transitioning and remaining competitive in a low carbon economy, we agree that Australian entities should be required to disclose Scope 3 GHG emissions, subject to an appropriate transition period, guidance and safeguards and aligning with the latest ISSB guidance on this subject. We also support the latest guidance from the ISSB proposing relief with respect to Scope 3 emissions disclosures, including a temporary exemption for a minimum of one year following the effective date of ISSB IFRS S2 Climate-related Disclosure. This temporary exemption is designed to give time for entities to implement their processes as well as allowing entities to include information that is not aligned with its reporting period, when that information is obtained from entities in its value chain with a different reporting cycle. The proposal to include disclosure of Scope 3 emissions also reflect moves by international regulators, including the U.S[3] Securities Exchange Commission (SEC), to require a registrant to disclose information about its direct GHG emissions (Scope 1), indirect emissions from purchased electricity or other forms of energy (Scope 2), and disclose GHG emissions from upstream and downstream activities in its value chain (Scope 3) if material or if the registrant has set a GHG emissions target or goal that includes Scope 3 emissions[4].

However, there can be significant challenges in sourcing reliable data, a high degree of estimation, lack of controls, and gaps in methodologies for calculating Scope 3 emissions. Currently the usefulness to investors could be impacted by implementation challenges faced by entities, especially given the level of detail and timeframe contemplated in the proposal. In the proposed SEC rules, safe harbour for liability from Scope 3 emissions disclosure requirement for smaller reporting entities is given. [5] We believe that Australia should consider adopting similar provisions until these implementation challenges have been addressed.

We also encourage considering initial voluntary disclosure of Scope 3 emissions to ensure due implementation of climate-related financial disclosures without any delays. We also note that some larger organisations already report Scope 3 data on a voluntary basis, and this can be encouraged. However, additional guidance, resources, and tools would be needed to assist Australian entities in preparing, calculating, and disclosing their Scope 3 emissions. Case studies and examples of how entities have then presented this information in their reporting would also be beneficial.

[4] SEC.gov | SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors
[5] SEC.gov | SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors

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

Deloitte welcomes the ISSB's inclusion of industry-specific disclosure requirements using the Sustainability Accounting Standards Board (SASB) Standards as a starting point. Following the ISSB Standards will allow for increased consistency and alignment globally and reduce additional burden on Australian entities.

As mentioned earlier, we recommend that the ISSB standards are implemented in Australia without supplementation to allow for creation of a global baseline of climate-related information so that capital markets have consistent and comparable climate disclosure on a timely basis. Thus, no specific metrics for disclosures, including either economy wide or industry-specific metrics, should be defined on an Australian local level.

The most effective disclosures are those that are clear, concise, and focused on matters that are both material to investors and stakeholders and are specific to the entity. We recognise that globally, SASB metrics have been found to be of value to investors. While we consider that the SASB standards provide a good starting point for industry-based content within the architecture of ISSB standards, in Australia SASB reporting is less widely adopted and we support the work underway to ensure that the SASB Standards are appropriately internationalised.

<u>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?</u>

We would encourage Treasury to provide transition guidance to promote greater specificity of expectations, requirements, and definitions, this should support consistency among Australian entities.

Where possible, this should leverage from existing frameworks (e.g., TCFD and the ISSB Standards and Glasgow Finance Alliance for Net Zero (GFANZ)) on the details required on targets and how goals are set and met to be disclosed, as well as information about the use of greenhouse gas emissions offsets.

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

All climate-related financial disclosures should ultimately be subject to reasonable assurance. At the same time, we acknowledge that reasonable assurance is unlikely to occur in line with the adoption of mandatory disclosures with a proposed start date of the financial year 2024-25.

In conjunction with the response to Question 9, we believe that the approach should prioritise the ISSB Exposure Draft IFRS S1 General requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-relate Disclosure in full. IFRS S1 provides a foundation for reporting on all relevant sustainability matters, which will help companies put in place the essential thinking, governance, systems, and processes. This would aid companies to be ready to adopt other topical standards that will be issued by ISSB in the future. Phasing in the level of expected assurance with respect to specific disclosures (e.g., Scope 3 emissions) may be implemented starting with defining the information for initial mandatory climate disclosures that can be assured. Independent assurance over climate-related disclosures should become mandatory in time, starting with an assessment of whether information is ready to be assured followed by limited assurance and then moving to reasonable assurance.

Over time, the ISSB may also consider the need for a reduced disclosure standard or ‘light’ standard for small and medium entities (SMEs), similar to IFRS for SMEs, as this would increase the capacity of smaller entities to meet the requirements and, in turn, help large entities with greater visibility of their Scope 3 emissions. For this to be done in a streamlined manner, it will require trust and the sharing of data and tools through a community of practice.

The execution of existing and prospective assurance standards to address climate-related financial disclosures could be enhanced through alignment with existing guidance for corresponding audit standards (e.g., risk assessment, sampling, materiality, controls around data, group scoping, communications with those charged with governance, and use of Internal Specialists). As an example, when comparing the similar concepts of greenwashing and fraud, the assurance guidance available related to greenwashing is extremely limited compared to audit guidance available related to fraud.

Specific guidance on different metrics and suitable criteria for specific climate-related financial disclosure when assuring sustainability information will be increasingly important as certain areas of sustainability reporting will describe company policies and processes and therefore may be more difficult to measure and assure.

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

Given that climate-related data and wider sustainability information is derived from a wide range of sources and historically has not been scrutinised to a similar level as financial statement information, there are challenges that are universal and will not only impact Australian companies but those internationally.

There are current challenges on the completeness and accuracy of data. Therefore, entities will need to be transparent about how confident they are in the completeness and accuracy of the data underlying any climate-related metrics and targets. Certain metrics and targets are typically subject to more defined measurement protocols resulting in higher levels of confidence. However, confidence in the completeness and accuracy of data over forward-looking and narrative information, which is inherently more subjective, may be low. Data quality could also prove to be a challenge, given the reliance on manual processes and controls in data capture and retention, as well as the use of spreadsheets.

Capability challenges may impact data and governance aspects due to the extensive use of and reliance on third-party experts and limited internal expertise in initial stages for some entities. As a result, entities will need to be transparent on their governance of supervision, oversight, and challenge.

Treasury could help mitigate data gaps by facilitating greater consistency in reported data, using agreed taxonomies, and making data readily available online. This will allow information to be easily searched, filtered, and aggregated, and integrated into end-user technologies.

For both limited and reasonable assurance engagements, guidance around the additional procedures required to rely on data and controls that are part of the sustainability processes would also be helpful, especially as information provided by the entity tends not to be derived from the financial reporting system and therefore is not subject to financial reporting controls.

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

We support the role of an Australian authority or body to be responsible for collecting and aggregating information for the use in climate-related financial disclosures in Australia, and the governance of that information. This body would be responsible for climate-related disclosures with the representation from scientific community as appropriate.

We note that Australian businesses and entities operate globally so there is a need to ensure that the climate information is global and is drawn from the leading global sources and supplemented as appropriate from leading Australian sources. The information collated should be the best available and updated in a timely manner with appropriate guidance on metrics, targets, scenarios, and other information to ensure global comparability and transparency.

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?

Climate disclosures involve substantial use of forward-looking information and may depend upon external parameters that are subject to uncertainty.

An appropriate safe harbour regime should be introduced for all entities during the initial years of mandatory climate-related financial disclosures to mitigate potential disproportionate liability risk. An example of such a safe harbour regime would be for only an appropriate regulator, such as ASIC, to be allowed to take enforcement action for a specified time period. In other words, the law would not allow class actions or litigation to take place until the regulator has deemed such action to be appropriate, for example, in the face of manifest negligence by the directors of a company in their oversight and supervision of the required climate-related disclosures. We also believe that it would be appropriate that such a safe harbour regime be linked to requirements for mandatory assurance such that the end of the safe harbour regime coincides with the introduction of mandatory limited and reasonable assurance. We believe that this would ensure that entities have appropriate incentives to provide comprehensive, transparent, and timely disclosures without taking on disproportionate liability risk while criteria for misconduct are not yet established.

Once the necessary systems, processes, and resources become mature enough, and the regulator has an available database of information for the assessment of what parameters can already be assured, the regulator may wish to update the definition of 'reasonable grounds' and define the criteria for misconduct that should be penalised.

We also note that the existing definition of 'reasonable grounds' of the Corporation Act (with reference to s769C and s728(2) of the Corporation Act) is subject to certain level of interpretation that could be difficult to apply with respect to forward-looking statements resulting in an even higher level of uncertainty. Additional guidance, resources, and tools would be needed to assist Australian entities in preparing and disclosing climate-related financial information. Case studies and examples of how companies have then presented this information in their reporting would also be beneficial.

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

We note that for entities preparing reporting in accordance with other reporting obligations, including fundraising documents, there is an increased demand to include sustainability and climate-related information. We believe that entities that either give undue prominence to non-IFRS (including non-ISSB sustainability standards) information or present it without an accompanying reconciliation to a statutory measure, are much more likely to mislead users. Therefore, it is important that entities comply with ASIC's issued Regulatory Guide 230 - *Disclosing non-IFRS financial information ('RG 230')* and take guidance from Information Sheet 271- *How to avoid greenwashing when offering or promoting sustainability-related products ('INFO 271')*. These documents should be further enhanced to include TCFD and reference the ISSB standards once issued.

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<u>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?</u>

Treasury should ensure that there is reference to sustainability standards and that any climate-related disclosures form part of broader sustainability standards, as this would provide flexibility within the regulatory framework to incorporate other sustainability-related reporting in the future. It is important to recognise that Exposure Draft IFRS S1 General requirements for Disclosure of Sustainability-related Financial Information already addresses sustainability matters more broadly and provides the foundation for reporting on relevant sustainability issues. By adopting ISSB, this ensures that Australia is on the pathway to introducing standards that comprehensively address sustainability matters as ISSB issues new material.

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

We acknowledge the benefits of a digital reporting taxonomy and encourage phased in implementation of digital sustainability reporting, in conjunction with digital reporting of financial information.

Digital sustainability reporting refers to the use of digital technologies and platforms to collect, analyse, and report sustainability (and financial) used to assess a company's performance. This involves using standardised topologies, data formats and reporting frameworks to ensure consistency and comparability of data across companies and industries. One example of such a standardised data format is iXBRL (Inline Extensible Business Reporting Language). iXBRL is a digital format that combines human-readable and machine-readable data in a single document. It enables companies to include sustainability-related information in their financial and non-financial reports, making it easier for stakeholders (such as investors and analysts) to better understand a company's performance and compare it against industry benchmarks and competitors.

Digital reporting would likely increase the availability and accessibility of sustainability-related data, making it easier for stakeholders access, analyse and engage on topics of importance - for example, collation of Scope 3 three emissions data.

Digital reporting would also enable companies to better manage their sustainability-related risks and opportunities by providing real-time data on performance and also enable companies to demonstrate their commitment and progress to investors and other stakeholders, which could help to attract new investment and increase brand loyalty.

We acknowledge that digital reporting of sustainability metrics is an emerging area, however digital reporting of financial information has been standard practice in several countries.[2] Research reviewing the benefits of digital reporting has found evidence for its impact on improving efficiency and transparency for auditors, investors, and regulators.[3]

Implementing digital reporting for sustainability (including climate) risks requires investments from businesses, governments, and report users to upskill professionals, set up digital infrastructure, update relevant policies and standards, and adjust relevant operational processes.[5] The experience of implementing digital reporting in other countries suggests that the mandate of digital reporting should be phased in for businesses to become comfortable with the software and processes required.

For the benefits of digital reporting to outweigh the costs, there needs to be coordinated and systemic changes, which government is well placed to lead.[6] Creating a central repository that collates data and makes it accessible to stakeholders has been instrumental to the success of digital financial reporting in other countries, and it is likely that Australia will need to develop a similar repository.

Mandating digital reporting has potential to result in a net benefit to Australia. Deloitte Access Economics' is currently preparing a report which will be finalised in May, into the value of Digital Corporate Reporting which will assess the costs, benefits, and transition considerations. Deloitte would be pleased to share the results of this study with Treasury upon completion.

[1] XBRL International 2021 'ESG Reporting has joined the mainstream as standards setting begins,' <https://www.xbrl.org/news/esg-reporting-has-joined-the-mainstream-as-standards-setting-begins/>

[2] Troshani, Indrit and Nick Rowbottom 2022, ‘Digital Corporate Reporting: Global Experiences from the G20 and Implications for Policy Formulation’.

[3] Australian Accounting Standards Board 2022, ‘Dialogue Series, Digital Financial Reporting: Why does it matter?’ <https://www.youtube.com/watch?v=JUYJzBfMCA0>.

[4] Troshani, Indrit and Nick Rowbottom 2022, ‘Digital Corporate Reporting: Global Experiences from the G20 and Implications for Policy Formulation’.

[5] Hannon, Neal 2006, ‘Does XBRL Cost Too Much?’; Errico and Zakriya 2022, ‘The Non-Financial Spillovers of Financial Information Processing Costs: Evidence from the U.S. XBRL Mandate’ Social Science Research Network.

[6] In The Black, CPA Australia 2022, ‘Why digital financial reporting should be mandatory,’ <https://intheblack.cpaaustralia.com.au/ethics-and-governance/why-digital-financial-reporting-should-be-mandatory>

<u>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?</u>

We support the establishment of a separate Australian Sustainability Standards Board under the oversight of the Financial Reporting Council as proposed under Option 2, consistent with the arrangements currently in place for the Australian Accounting Standards Board and the Australian Auditing and Assurance Standards Board. There is an urgent need for standard-setting for climate-related disclosures and the establishment of a separate standard-setting board may, in our view, be considered a more practical and pragmatic response in the context of the first step reform of existing financial systems to incorporate climate and sustainability-related financial disclosures.

We believe that in the longer term it would be beneficial to work towards the proposed Option 3, i.e., creating single flexible body that will have greater independence and flexibility to respond to current and future financial reporting developments (including climate and sustainability developments).