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Submitted via email: [climatereportingconsultation@treasury.gov.au](mailto:climatereportingconsultation@treasury.gov.au)

EY Submission on Climate-related financial disclosure Consultation Paper

Dear Climate Disclosure Unit,

Ernst & Young ("EY") welcomes the opportunity to comment on the Government's climate-related financial disclosure Consultation Paper. We are pleased to have the opportunity to contribute to the future of climate-related financial disclosures in Australia and support the Government's commitment to develop a broad sustainable finance framework for Australia.

This submission is informed by EY's extensive experience in supporting the growth of climate and sustainability-related reporting, climate risk and financed emissions analysis and reporting, sustainable finance products, framework and labelling support as well as our strong expertise in providing audit and assurance.

EY supports the introduction of a national framework for climate-related financial disclosure which seeks to align with internationally recognised reporting standards and frameworks, already widely adopted across industry and the market.

EY is supportive of Australia's commitment to the International Sustainability Standards Board ("ISSB") exposure drafts (Exposure Draft IFRS S1 and Exposure Draft IFRS S2) and believe this demonstrates Australia's leadership on the importance of disclosures related to Environmental, Social and Governance ("ESG").

We hope that our submission will provide a useful perspective and valuable insights. Should you wish to discuss our comments further, please contact [REDACTED] at [REDACTED] or on [REDACTED].

Yours sincerely

Ernst and Young

## SUBMISSION

### Question 1:

What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)?

In particular:

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

EY supports the Government's commitment to introduce standardised, internationally aligned climate disclosure requirements for Australian businesses. The introduction of a framework for mandatory climate disclosures will allow the market to benefit by providing access to consistent, comparable and reliable information.

Better disclosure, undertaken more consistently, will help strengthen and inform assessments and pricing of risk, inform investment decision-making, build capability across industry for managing climate risks and support increased capital flows into climate and decarbonisation solutions.

Integrating climate related disclosures into financial reporting will reduce the burden of reporting expectations that companies are currently experiencing across a multitude of voluntary and multi-jurisdictional reporting frameworks by providing a consolidated and harmonised framework which both meets current corporate regulatory disclosure requirements and aligns to international frameworks.

EY notes and supports the Government's intent to develop a climate-related disclosure framework alongside a broader sustainable finance architecture and sustainable finance taxonomy. EY has supported the Australian Sustainable Finance Institute ("ASFI") in developing a proposed approach to an Australian sustainable finance taxonomy over the course of 2022-23. Importantly, a mandatory climate disclosure framework will support Australian companies to identify and report on their progress in achieving decarbonisation goals and targets.

EY further supports the Government's intent to align with current and emerging international standards in designing new disclosure requirements. Given the momentum and widespread adoption of the Taskforce on Climate-Related Financial Disclosures ("TCFD") recommendations globally, many investors and Australian businesses are familiar with these existing frameworks, which are commonly used by companies that voluntarily provide climate-related disclosures in sustainability reports.

Alignment with international standards such as the TCFD recommendations, and the draft ISSB S2 Climate-related disclosures which draw on the TCFD framework, will minimise the costs associated with disclosure as many entities are familiar with the requirements, have supporting processes in place or are moving to align with global standards which are internationally consistent and comparable for global markets and investors. In addition, alignment with international standards will have the added benefit of having one international standards and governance body that can focus on and update specific issues in a consistent and comparable manner.

It should be noted that some entities may be at different stages of their disclosure maturity. In particular, areas such as disclosing the medium and long-term anticipated effects of climate-related

risks and opportunities on an entity's financial position and financial performance or undertaking detailed climate-related scenario analysis, are likely to be challenging to implement in terms of the cost of resources required for high quality disclosures.

Further, the medium- and long-term financial effects of climate impacts will be difficult to assess quantitatively, given that there is not always a direct relationship between a significant climate-related risk or opportunity and the financial position, and it may be challenging to clearly distinguish the climate-related effect(s) from all other effects on an entity's financial position. This could potentially impact the reliability of information and the ability to verify future-oriented information.

EY suggests that the Government could consider options to help minimise costs in introducing reporting requirements by investing in capacity building, for example by providing detailed guidance, illustrative examples addressing reporting requirements or by convening workshops for first time reporters to allow them to better understand the reporting implications.

There will be some additional costs for those entities that currently do not undertake any reporting. It is worth noting that existing disclosure requirements under the Corporations Act already require companies to report on material climate risks, but without clear guidance this may drive additional compliance costs.

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?

EY supports a phased approach to climate disclosure with the first report for initially covered entities being financial year 2024-2025.

However, the challenge of implementing new climate-related financial disclosures will vary depending on the size, maturity and capability of the entity. The proposed disclosure requirements will be challenging for many entities because they may not yet have the knowledge, systems and processes to incorporate climate-related financial disclosures. However, we acknowledge there is an urgency to reporting due to the need for action to combat climate change.

We consider that Australian entities which are Public Interest Entities should be subject to the same effective date as the ISSB's proposed effective date. This would align with ASX Recommendation 7.4 of the ASX Corporate Governance Principles and Recommendations which notes that a listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks. Since Public Interest Entities should already be disclosing climate related matters, their ability to adopt climate-related financial disclosures would be a less burdensome compared to entities which have not been required to disclose such matters historically.

Notwithstanding this point, we recommend consideration be made on the size of the Public Interest Entities (for e.g., assets, revenue and/or employee size metrics) and whether they would have the appropriate processes and capability within the entity to accurately report climate-related financial disclosures once they become effective. The same consideration could also be applied to non-listed Public Interest Entities which might also be characterised by the same initial challenges. For these entities, it may be appropriate to implement a one-year deferral so that these entities have time to prepare for the inclusion of climate-related financial disclosures, however voluntary disclosure at the time the climate-related financial disclosures become effective should still be encouraged.

Consideration should also be given to businesses that are not Public Interest Entities but have significant Greenhouse Gas ("GHG") emissions inventories. Due to the potential vulnerabilities in these businesses and the potential implications for other value chains, it is recommended that large emitters also be subject to the same effective date as the ISSB. Many of these organisations are already required to report under NGERs, and this could be the threshold applied.

Finally, consideration should be made as to the timing of the US SEC climate-related disclosures rule and the European Corporate Sustainability Reporting Directive ("CSRD") as these will impact affected companies' Australian subsidiaries. Since these Australian subsidiaries will be required to prepare and share climate-related information for the purposes of their parent entity's reporting obligations, consideration should be made to phase-in the effective date of mandatory disclosure for these Australian subsidiaries.

Whilst these entities may have established processes and capabilities to include climate-related financial disclosures for the purpose of their overseas reporting obligations, applying a phased-in approach (for e.g., initially disclosing in accordance with the Australian subsidiaries parent's global

framework) will ensure climate-related disclosures are still presented initially, but also give the entity time to appropriately implement and prepare their processes and disclosures in line with the Australian market.

Similarly, where foreign subsidiaries of Australian companies have climate related financial disclosure requirements within their respective local jurisdiction (but may be able to phase the implementation within the Australian market), consideration should be made as to whether these Australian parents should be required to apply the mandatory disclosures for climate related financial disclosures so that Australian investors will have access to this information that is already being reported in overseas markets.

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

- 3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?**
- 3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?**

We believe Australia's existing financial reporting framework should be consistently applied to sustainability related reporting. Therefore, the concept of whether for-profit entities are Public Interest Entities should drive the need for disclosure. We believe that all for-profit entities that are Public Interest Entities should be within scope. The Australian Accounting Standards Board ("AASB") may wish to consider "simplified disclosure" requirements for non-Public Interest Entities (which are preparing General Purpose Financial Statements Tier 2 under the current financial reporting framework).

As an initial phase, we believe mandatory climate disclosures should only apply to large listed for-profit Australian entities as outlined in Question 2. We note that the Australian Sustainable Finance Institute ("AFSI") recommended that the ASX 300 and financial institutions with more than \$100m in consolidated annual revenue should report in line with TCFD recommendations. For the New Zealand market, financial institutions with assets of more than \$1 billion and listed issuers with a market capitalisation or quoted debt in excess of \$60 million are required to produce climate-related disclosures. Whilst the New Zealand Government has established these thresholds to identify entities that are required to produce climate-related disclosures, we believe the New Zealand levels are too low and considering the size of the Australian market.

For financial institutions, there is arguably greater demand for climate reporting where the respective entity has a larger financed emissions footprint. Accordingly, we would also support coverage for financial institutions with consolidated revenue of more than \$100 million or assets under management of more than \$5 billion.

In addition to large-listed entities, we recommend mandatory disclosure should apply to entities that already have some form of Australian climate-related reporting requirements (for e.g., NGERs reporting) since these entities would already have adequate measurement methodologies and data collection processes to enable adequate disclosure. For large proprietary companies, we believe mandatory disclosure should apply utilising a phased approach to allow time for these entities to develop measurement methodologies and data collection processes.

For foreign owned Australian subsidiaries, we refer to our response in Question 2 which suggests that where Australian subsidiaries are required to prepare and share climate-related information for the purposes of their parent entity's reporting obligations, consideration should be made to phase-in the effective date of mandatory disclosure for these Australian subsidiaries.

For smaller proprietary companies which are not foreign owned, a phased approach for mandatory climate disclosure should be considered so that these companies have adequate time to implement these disclosures as well as avoid significant costs and effort as part of the implementation process.

We would also encourage the application of these rules to Registered Financial Corporations ("RFC") entities, which traditionally may not be identified as a financial institution, insofar as they are not regulated by the Australian Prudential Regulation Authority ("APRA"). In addition, since RFCs provide a range of funding and investment support, their inclusion would follow a similar basis to financial institutions. That said, some sort of analysis may be required against the RFC data submitted to the Agencies (APRA/RBA/ABC) to identify thresholds for inclusion.

Question 4:

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

- 4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?
- 4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

EY supports the proposal to align Australia's disclosure approach with international standards including the TCFD and the ISSB.

We further support the ISSB's efforts to leverage the framework developed by the TCFD recommendations under the four core themes - governance, strategy, risk management and metrics and targets - because, as stated in the Basis for Conclusions, "they are widely understood, accepted and practiced in numerous jurisdictions", and they provide a useful structure for the information required to be disclosed.

Adopting an approach aligned to international standards, can help to minimise implementation costs and contribute towards a more comprehensive and efficient uptake of the reporting requirements.

We further recognise that investor confidence in the reliability, consistency and comparability of climate-related disclosures is critical to capital markets and the broader investor community, and therefore support that a global baseline standard for climate reporting envisaged by the ISSB as the most appropriate.

Linkages and intersection to other regulatory frameworks and voluntary standards adopted in Australia such as the NGER, Safeguard Mechanism, Taskforce on Nature related Financial Disclosure ("TNFD") and Climate Active initiatives should all be considered in the implementation of the climate reporting requirements. This will help ensure that current and future approaches to emissions calculations are coherent and consistent.

Consideration should be given to the role and intersection of the proposed climate disclosure framework and sustainable finance taxonomy and should be addressed and considered from both an information needs perspective, as well as governance decisions.

Finally, the requirements for certain Australian entities that are listed or have significant operations in other jurisdictions and could be subjected to more than one set of climate disclosure requirements should be considered and addressed to promote interoperability (e.g., US SEC registrants would report under the proposals issued by the SEC and entities that are regulated in Europe would report under the CSRD).

Question 5:

What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

We believe that the following key considerations should inform the design of a new regulatory framework:

- The relationship with existing reporting and disclosure requirements under the Corporations Act and the Superannuation Industry (Supervision) Act and other market disclosure provisions as regulated by ASIC and the Council of Financial Regulators.
- Consistency with international regulatory frameworks to promote interoperability.
- Consideration of reporting requirements in other countries and how these are impacting Australian companies that are dual listed and/or Australian subsidiaries. Where appropriate, the subsidiaries may have the ability to leverage from their global parents for their local reporting requirements.
- Plans for future integration of existing corporate reporting and disclosure requirements with climate disclosure obligations, including anticipated broader sustainability reporting.
- Potential future centralisation of regulatory regime, including regulatory bodies, so that supervision and enforcement can be carried out expediently and consistently.



**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?**

Climate related financial disclosures should sit within the annual report and represent a separate section of the annual report, similar to how an operating and financial review, remuneration report and the financial statements are currently presented in an annual report.

However, as part of the introduction of the disclosure requirements allowance should be made for entities maintaining the flexibility to elect where the new climate reporting requirements should be situated in relation to other period reporting requirements.

This flexibility will give entities the ability to communicate the information in the most effective manner and allow for easier jurisdictional adoption. This proposal also takes into consideration the fact that a number of entities are already providing sustainability-related disclosures in various locations within their general-purpose financial reports, so being non-prescriptive about the location of the information will mean that these entities are not required to make significant changes to their existing reporting.

Ultimately, entities should assess the materiality of the disclosure and where there is a material financial impact for a climate-related disclosure, then those matters should be incorporated within the Annual Report.

Question 7:

What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

We believe that materiality judgements should be at the heart of climate related disclosures and that disclosures about climate-related risks and related metrics should be required if the information is material to users of the annual report.

With reference to the ISSB guidance on materiality, while we understand that the definition of materiality is based on the definitions in the Conceptual Framework and IAS 1 of IFRS accounting standards, its application in the context of sustainability-related risks and opportunities is not sufficiently clear. In particular, sustainability-related risks and opportunities are fundamentally different from the financial information that preparers are used to identifying and disclosing as material within IFRS accounting standards.

For example:

- the concept of assessing materiality based on "high impact" may not be widely familiar to preparers of IFRS financial information.
- the concept of "dynamic materiality" is not something that preparers of IFRS accounting standards have previously had to consider to the same extent as would be required under the ISSB Exposure Drafts.
- the concept of "enterprise value" - which should 'reflect expectations of the amount, timing and certainty of future cash flows over the short, medium and long term' raises the question as to how "long term" expectations are to be reflected in assessments. It is also unclear whether the assessments should relate to today's enterprise value by embedding forward-looking expectations or if it relates to the enterprise value in the future.
- the concept of "reasonability" appears to be linked with materiality assessments. 'Reasonably' is widely used in financial information, usually with the intention to ease assessments and avoid extensive judgements. However, the use of "reasonably" in sustainability-related information could be misinterpreted and confused with 'material' or "significant".

With respect to aligning with ISSB guidance, we believe that the Illustrative Guidance in the identification of material sustainability-related financial information provides a helpful basis for preparers. However, as there is a global lack of experience and established practice in determining materiality for sustainability-related information, we have recommended in our comment letter to the ISSB on the S1 and S2 Exposure Drafts that the ISSB provide more guidance on the determination and application of materiality for identifying and reporting sustainability-related information and to build further on what has been included in the Illustrative Guidance. Notwithstanding this point, we note that the ISSB have already decided to provide more guidance and the concept of materiality is likely to change to closer align to the concepts of value creation as included in the Integrated Reporting Framework.

Ultimately, since the ISSB is still deliberating on the final wording of the final standard based on responses to the Exposure Drafts, there is still a level of uncertainty regarding the concept of materiality for climate-related financial disclosures. As a result, further consideration will need to be made once this area of the standard has been finalised.

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?

EY recommends that as a starting point, limited assurance be adopted as the assurance level for all disclosures against the standard with a transition towards reasonable assurance. Other relevant material disclosures such as scope 3 GHG emissions and scenario analysis emissions should also be subject to limited assurance to elevate confidence in both historical performance and future decarbonisation efforts. We believe this is an appropriate level of assurance to provide transparency and accountability to stakeholders, as well as assurance to management and those charged with governance over the quality of the information provided.

While reasonable assurance is feasible over GHG emissions metrics, limited assurance is a suitable starting level for mandatory assurance requirements, with a forward commitment to move towards reasonable assurance at a later stage once the regime has been in force for an appropriate period of time.

Limited assurance is also an appropriate level of assurance over other disclosures, such as forward-looking information in the first instance, with a move to reasonable assurance at a later date. We also note that it will take additional time for many organisations to develop the processes necessary to support obtaining reasonable assurance over emissions data, and for that reason, we propose a delayed implementation of this higher level of assurance.

With regards to who should provide assurance, we believe that entities required to disclose climate-related financial disclosures should be able to appoint one firm to provide assurance over both the financial statements and climate-related financial disclosures, provided they have the appropriate specialists to support the audit teams. This would enhance the implementation of mandatory disclosures as the existing auditor will have existing knowledge of the business and its processes and systems to be able to assure climate-related information.

However, as noted above, we recommend the assurance practitioner should be supported by appropriate subject matter experts where required (e.g., assurance practitioner expert) which can either be an individual or organisation possessing expertise in a field other than assurance, whose work in that field is used by the assurance practitioner to assist the assurance practitioner in obtaining sufficient appropriate evidence. The assurance practitioner's expert may be either an assurance practitioner's internal expert (who is a partner or staff, including temporary staff, of the assurance practitioner's firm or a network firm), or an assurance practitioner's external expert.

We recommend that independent assurance practitioners should have a similar level of independence and quality management standards as those who provide financial statement audits. This includes compliance with relevant requirements of the Code of Ethics for Professional Accountants ("the Ethics Code") issued by the Accounting Professional and Ethical Standards Board ("APESB").

The International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) sets out high quality standards of ethical behaviour expected of professional accountants for adoption by professional accountancy organisations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. APESB adopts the IESBA Code in the development of APES 110, which applies to all Members (including Firms) of Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants. In December 2022, IESBA confirmed they are undertaking a project to develop independence standards for use by all sustainability assurance practitioners and specific ethics provisions relevant to sustainability

reporting and assurance, with the intention for these to be adopted and applied by assurance providers from any profession.

We recommend that assurance providers are subject to quality management requirements as set by the Australian Auditing Standards Board ("AUASB") which should be in accordance with *ASQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements and ASA 2021-1 Amendments to Australian Auditing Standards* ("ASQM 1") or equivalent. ASQM 1 introduces a quality management approach that is focused on proactively identifying and responding to risks to quality. This new quality management standard improves the robustness of firms' systems of quality management (e.g., enhanced requirements and focus on governance and leadership, monitoring and remediation, and circumstances when a firm belongs to a network). The essence of the new approach is to focus firms' attention on risks that may have an impact on engagement quality. The new approach requires a firm to customise the design, implementation and operation of its system of quality management based on the nature and circumstances of the firm and the engagements it performs.

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?

The Australian climate reporting framework should recommend that the NGER legislation is utilised for reporting of Scope 1 and 2 emissions – in order to meet the required disclosure of metrics per the ISSB.

The NGER Scheme provides a consistent basis for establishing methods, criteria and measurement standards for calculating GHG emissions and energy data which covers scope 1 and scope 2 emissions.

In our submission to the ISSB, we suggested the ISSB defaults to the “control” concept as described in IFRS accounting standards, but allows the broader control concept, such as when the GHG Protocol is applied, by exception. This is because we acknowledge that entities, in certain cases, are already using boundaries as defined in the GHG Protocol as a more relevant concept (i.e., the financial control, the operational control or the equity share approach). We note that the ISSB has recently clarified that for the consolidated accounting group, reporting should be aligned with the reporting approach in the financial statements and for the unconsolidated investees (i.e., associates, joint ventures, unconsolidated subsidiaries or Affiliates) they can choose any of the methods in the GHG Protocol.

We, therefore, believe that the financial control approach should be included as an option for entities as per the GHG Protocol guidance. As an addition to the comment on the difference between reporting entity and reporting boundary, we suggest providing illustrative guidance on how to include, for example, leasing arrangements and outsourced operations. The GHG Protocol also includes the approach for franchises and affiliated companies for which there is significant influence, but not financial control. However, this is not currently addressed in S2 and we think it would be a useful addition. Refer to [EY’s submission to the ISSB Exposure Draft S2](#) for further details.

Refer to question 12 for considerations that should apply to Scope 3 GHG emissions.

Question 10:

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

We support the proposed requirements of the Government defining a common baseline set of metrics aligned to the ISSB, including industry-specific metrics as this has the potential to improve the relevance and comparability of disclosures.

In our submission to the ISSB, we suggested that improvements are made to the structure and contents of Appendix B of the Exposure Draft S2 (herein referred to "Appendix B") before it can be considered as a mandatory disclosure requirement alongside the proposed cross- industry metric categories. We see value in entities being able to refer to Appendix B in its current form as a source of illustrative guidance that entities can consult and leverage from as a basis for identifying significant risks and opportunities and we suggest that the ISSB make this a clear option in the wording of the S2 standard. However, additional improvements to Appendix B are still warranted in order to elicit more complete and consistent information from entities.

Furthermore, we recommend for industry-specific targets and that clarity should be provided on what implications the proposals will have for an entity that is not specifically in one of the industries, or for an entity that may fit into multiple industries.

We appreciate that the ISSB has revised the existing Sustainability Accounting Standards Board ("SASB") Standards to improve their international applicability for climate disclosures. However, we believe that the application of the requirements will remain challenging for entities, especially given regional and industry variation and the ongoing evolution and refinement of metrics across different industries and geographies. This should be a key consideration when the Government aims to define a common baseline set of metrics going forward.

While there is a ISSB Exposure Draft on Climate (S2), there may be industry-specific requirements which are not as relevant in Australian geographies especially given regional and industry variation and the ongoing evolution and refinement of metrics. We therefore believe the current contents of Appendix B are not yet suitable as a mandatory requirement for disclosure of material climate-related financial information at this time. Notwithstanding this point, we note that the ISSB has already decided to maintain the requirement that entities provide industry-specific disclosures and classify the content in Appendix B as illustrative examples, while stating its intention to make Appendix B mandatory in the future, subject to further consultation.

**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?

We support providing guidance on the form and format of a company level Climate Transition Plan which is aligned to the work underway in the United Kingdom as a solid basis for developing something similar in Australia.

An entity's climate disclosure should enable users to evaluate an entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities. We would expect that an entity would need to describe its transition plan to reach its climate-related targets and to refer to its climate resilience.

If no targets have been set by an entity, we suggest that the entity describe its rationale for not setting climate-related targets and, if applicable, a timeframe over which the entity expects to set such targets in the future. Entities that undertake regular and/or frequent reviews of the progress towards reaching their climate-related targets may well enhance and strengthen their ability to adapt.

In order to assess the relative importance that the entity has placed on climate-related matters in its transition plans, we also suggest including a requirement to disclose any trade-offs management has made, or envisages making, between climate-related objectives and other parts of the business. For example, action towards certain aspects of climate change may have impacts on other parts of the business including the extent of financial planning and budget allocation process, the workforce or wider sustainability factors (which are also relevant to an understanding of the impact on enterprise value).

Where offsets, renewable energy certificates, or other market-based mechanisms are used by an entity, there should be a requirement to report their use, if applicable – this aligns with the ISSB's decision to require the use of a location-based method (reflecting the average emissions intensity of its local grid) along with relevant information about contractual instruments related to managing energy it has purchased.

In addition to contributing to an entity's reduction of emissions, carbon offset projects also produce co-benefits which are often considered by entities when selecting projects. The co-benefits are typically associated with issues that broadly align with climate, but also relate to an entity's wider ESG strategy (e.g., Sustainable Development Goals), such as biodiversity, education or health. We would ask the Government to consider including disclosure requirements for how the intended use of carbon offsets contribute more broadly to climate-related goals and targets. This will include referencing the Corporate Emissions Reduction Transparency (CERT) guidance on company reporting on the use of renewable electricity and carbon offsets as a useful starting point.

Question 12:

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

We support the recommendation of including different phases (for not only size or nature of entity that will dictate commencement year) but also within the standard disclosure requirements which is consistent with the proposed US SEC climate rule and one-year delay also being considered by the ISSB. In particular, Scope 3 GHG emission disclosure may benefit from a phased-in approach, due to practical challenges such as data quality, reliability and, therefore, comparability remain key challenges.

As such, we would recommend that Scope 3 emission disclosure requirements are considered as part of a phased-in approach to provide certain entities additional time to strengthen their internal processes and to collect the necessary data to improve the quality of Scope 3 disclosures – this is consistent with the ISSB who have decided to a phased in approach for one year from the effective date of S2. We also recommend requiring entities to provide disclosure of their progress regarding data collection and internal controls.

That said, we encourage the Government to consider the type of entities for which a phased-in approach would be best suited (i.e., we recognise there are some industries for which Scope 3 emissions are inherently unavoidable to the functioning of their business, e.g., the inclusion of financed emissions for financial institutions) and there is an urgency for businesses with significant exposure to Scope 3 emissions to be reporting this information to investors. Therefore, we recommend that where Scope 3 emissions are particularly material for an entity that it be required in the first phase of mandated reporting.

We encourage the Government to provide more guidance on how to address instances where an entity relies on external sources and/or reporting for Scope 3 emissions data, for example, the requirement to disclose data sources used and estimates made based on best available data. The disclosure of the uncertainty related to the data sources used can also enable a user to determine the reliability of the reported information.

Notwithstanding this point, we recognise that the market will understand there is “imperfection” with regards to Scope 3 and that we expect to see advancements in an entity’s data and reporting processes over time. We expect entities will improve their methodology for Scope 3 reporting (e.g., moving from an assumptions-based approach to utilisation of primary sources of information to facilitate direct measurement of emissions). While data quality will improve over time, it is still important to establish a reasonable baseline sooner rather than later in order to create opportunities to capture better data and build better models.



**Question 13:**

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

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

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

We recognise that data quality, reliability and, therefore, comparability remain key challenges and should be considered when implementing new requirements. In addition to data, we believe that the broader market skills required to implement accurate and effective climate related disclosures will need some time to develop in order for entities to appropriately respond to climate-related disclosures.

For this reason, entities may require external support, procurement of third-party technology, assurance readiness assessments and the establishment of processes and controls in order respond to data and capability challenges during the initial phase.

This may be particularly important for areas such as Scope 3 disclosures. In some industries, data used to determine Scope 3 emissions is derived from external sources/reporting such as annual reports. For this reason, we encourage more guidance on how to address instances where an entity relies on external sources and/or reporting for Scope 3 emissions data, for example, the requirement to disclose data sources used and estimates made based on best available data. The disclosure of the uncertainty related to the data sources used can also enable a user to determine the reliability of the reported information. We would recommend that Scope 3 requirements are considered as part of a phased-in approach to provide certain entities additional time to strengthen their internal processes and to collect the necessary data to improve the quality of Scope 3 disclosures. We also recommend that entities are required to provide disclosure of their progress regarding data collection and internal controls.

With regards to specific initiatives in comparable jurisdictions we would like to refer to New Zealand where the Government passed legislation making climate-related disclosures mandatory for large-listed issuers and large financial institutions. Since required reporting against climate standards issued by the External Reporting Board ("XRB") are based on recommendations on the TCFD, this requirement ensures a consistent framework is used when compiling and reporting data for climate-related financial disclosures.

In addition, the XRB has issued a number of resources for companies (for e.g., "Scenario Analysis: Getting started at the sector level" and "Director Preparation Guide") to assist users and preparers with implementing climate-related financial disclosures. In other jurisdictions like Singapore, disclosure platforms like "SGX ESGenome" have been developed which is a Software-as-a-Service ("SaaS") provided to listed Singaporean companies (at no cost) to support them with ESG-related disclosures, data collection, tracking and reporting.

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?

Given that climate scenario analysis is an evolving and complex exercise, it would be helpful if the new requirements were sufficiently clear to facilitate preparation of the information, and to ensure greater comparability between entities. This could be supported by guidance materials which leverage existing guidance, methodologies, and publicly available data sources (for example, widely accepted carbon price assumptions to ensure consistency of reporting).

It would be beneficial to provide specific examples of what would be regarded as leading practice of the granularity and methodology of climate scenario analysis. This should enhance the understanding of how scenario analysis should be conducted and ensure strategic decision-making is well-informed.

Providing industry specific educational materials would assist smaller entities to adopt a compliance-based or least-cost approach to scenario analysis, and thereby better manage their risks, while allowing larger institutions wanting to carve out a competitive advantage to undertake more tailored scenario analysis to inform their strategy and financial planning.

It would be beneficial for a government entity to leverage these global scenarios (e.g., Intergovernmental Panel on Climate Change, International Energy Agency and Network of Central Banks and Supervisors for Greening the Financial System) and provide Australia specific/downscaled assumptions where it makes sense to do so.

As scenario analysis disclosures for financial reporting is well established, similar principles should be applied for reporting entities so that disclosure on climate related scenarios and assumptions is in sufficient detail.

**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?

Forward-looking statements as envisaged by S1 and S2 may give rise to liability for misleading and deceptive disclosures. This may mean that under existing domestic laws and arrangements, Australian directors and entities are likely to be exposed to higher liability risk than other jurisdictions if the ISSB Standards are adopted in their current form. We recommend that the Government consider whether a "safe harbour" mechanism should be introduced, clarify what "reasonable grounds" means for S1 and S2 and/or determine whether an alternative to the concept of "reasonable grounds" is applied for climate-related financial disclosures.

In the specific Australian context, there is a material risk that the forward-looking statements required to comply with S1 and S2 will give rise to liability for misleading and deceptive conduct under Australian law (for example, s1041H of the Corporations Act and s18 of the Australian Consumer Law). If a person makes a representation as to a future matter and the person does not have reasonable grounds for making the representation, the representation is taken to be misleading (Corporations Act s769C and Australian Consumer Law s4). In the case of Australian Consumer Law, the maker of the representation is deemed not to have reasonable grounds unless they cite evidence to the contrary. The risk arises because of the drafting of various provisions of S1 and S2. For example, S1, paragraph 79 requires disclosure even when metrics can only be estimated. In practice, this would require a company to acknowledge that the forward-looking statement does not have a reasonable basis.

In addition, it is likely to be challenging for a reporting entity to establish reasonable grounds with respect to the required disclosure of the "anticipated effects of sustainability related risks over the short, medium and long term". To illustrate, in the area of climate change, those short, medium and long-term impacts are highly contingent on developments such as technology and global and domestic policy setting.

Compared to their counterparts in certain peer jurisdictions, reporting entities and officers in Australia are particularly exposed to this risk because there is no Australian "safe harbour" exemption which allows for the exclusion of liability by identifying a statement as a forward-looking statement and including a proximate cautionary statement. There is also heightened regulatory risk for directors because the Australian securities regulator, (ASIC), can, and has, pursued directors for alleged breaches of their directors' duties, including fiduciary obligations such as the duty of care and diligence. This contrasts to similar jurisdictions such as the UK and US where enforcement of such duties is largely left to private litigants.

Finally, Australia has a uniquely facilitative class actions regime. The Directors of Australian companies listed on the ASX are faced with higher reputational and personal liability risks from disclosure-based shareholder class actions than boards in many of the world's other major capital markets, including the UK and US and higher insurance costs accordingly. Another point of uncertainty at present is whether (and if so, how) the scope of directors' duties in relation to financial reporting might adjust to encompass sustainability- and climate reporting.

**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?

Since the Corporations Act 2001 already has requirements for listed entities to disclose material price sensitive information on a timely basis and comply with listing rules of the relevant market, listed entities will need to ensure these continuous reporting obligations continue to be met. Further, ASIC has communicated to the market core messages on climate change-related matters which include continual reassessment of climate risk (physical and transitional), develop and maintain strong and effective corporate governance, compliance with the law (e.g., continuous disclosure) and disclose useful information to investors.

In addition, and as outlined in Question 15, due to the forward-looking nature of the climate-related financial disclosures in conjunction with other reporting obligations an entity may have, the Government should consider whether it is appropriate to introduce a "safe-harbour" mechanism to respond to the heightened risk of estimating metrics and risks in the future.

As these considerations are not new and are fundamental to maintaining the integrity of the market, the new climate-related financial disclosures should follow the same requirements to ensure transparency and equal access to 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?

Core to the ISSB standards is consideration of future reporting developments for new sustainability topics such as human capital, human rights, biodiversity, water etc. Flexibility will be essential to enable fast and early adoption whilst at the same time ensure entities report what is material. It is important that structures put in place now anticipate expansion of sustainability standards, as opposed to being solely focused on climate reporting. We support this expansion but recognise the challenges beyond climate-related topics.

Notwithstanding this point, given the relative maturity of GHG emissions and climate risk reporting in Australia, we support the intent to focus on climate reporting first. We also agree with the intent to retain flexibility to incorporate reporting on other sustainability topics in future.

We support the ISSB's efforts to respond to the demand for global sustainability reporting standards by developing these requirements on disclosure of sustainability-related financial information. In addition, the way in which it has leveraged the TCFD framework and recommended disclosures related to governance, strategy, risk management, and metrics and targets provides a strong foundation for reporting on a range of sustainability risks. These same areas are reflected in the TCFD framework and ISSB. We suggest that the Government considers incrementally expanding sustainability reporting requirements as international practice evolves in alignment with the ISSB.

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 for sustainability risks but acknowledge there are challenges that need to be considered.

Given the evolving landscape of sustainability-related disclosures, and the various initiatives currently underway across geographies to further align requirements to a global baseline, the establishment (and consensus) of clearly defined terminology is critically important.

Furthermore, the qualitative and evolving nature of data/information on aspects such as transition risks, climate-related opportunities and climate resilience (to name a few), could prove problematic in terms of digital reporting. We believe that a digital Taxonomy could help provide users as well as entities with a much-needed source of consistent and clear data/information by defining key terms for transition, adaptation and resilience. Similar to the work of the EU on the Green Taxonomy where it has undertaken a lengthy exercise to define climate/sustainability terms, the ISSB may also wish to focus on facilitating digital tagging of information. However, without clear definitions for some of the disclosures included in the Exposure Drafts, high-quality and comparable disclosures may remain elusive, and the risk of greenwashing will remain.

We believe that it is important to thoroughly consider how to ensure the usefulness of digital sustainability-related financial information. This is particularly important given that quantitative information (such as a metric or specific measure) is often understood in the context of explanatory qualitative information and it will be important to ensure the link between quantitative and qualitative information such that the accessibility and useability of digital information is maximised. The linking of information is also relevant in the context of broader integration of sustainability information and reporting.

We also note a potential challenge for digital reporting in the building block approach. For example, if the digital format required by the ISSB is different from the format required by the EU Sustainability Reporting Standards ("ESRS"), entities will have to issue two digital documents. This would seem to contradict the intent of the building block approach that entities would only be required to issue one report to meet both requirements. As stated above, close alignment with the EU taxonomy/digital tagging requirements under the ESRS could be extremely valuable to both entities and users alike, and we have encouraged the ISSB to work closely with the European Financial Reporting Advisory Group and other jurisdictions to facilitate greater alignment. This could also help facilitate reducing the reporting burden that entities face when aligning to multiple reporting frameworks/initiatives (e.g., TCFD, Principles for Responsible Investment, Carbon Disclosure Project) that, over time, may well be replaced or consolidated and where digital tagging could enable the use of data for multiple purposes (as well as multiple users such as ESG rating providers).

**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?**

We support potential Structure 1, which confirms the AASB as the entity responsible for developing, making and monitoring climate and sustainability related standards. Our view is further supported by the preparatory steps undertaken by the AASB for the introduction of climate and sustainability disclosure in Australia. This structure would take less time to set up given existing processes have been established to support and reduce time for implementation such as processes specific to the appointment of Board members with appropriate climate related skills and expertise.

Furthermore, the AASB's standards experience and industry credibility, particularly with respect to its comprehensive consultation process and approach to international harmonisation, will assist in identifying leading practice, building awareness and drawing a link to the financial reporting requirements.

The AASB's relationships with key regulators would also make it well-placed to influence the implementation of climate and sustainability standards. The key regulators who enforce the AASB and the AUASB standards include ASIC, APRA and other Australian regulatory agencies such as the ATO, Australian Charities and Not for Profit Commissions and the Clean Energy Regulator. The perception of the AASB and the AUASB's performance is affected not only by their actions, but also how well their standards and guidance are implemented and enforced by other regulators. This gives the AASB a unique position to influence and drive implementation of climate related disclosure.

Whilst the proposed structure is not aligned to the international structure, we believe that the benefits will outweigh the costs, since the AASB would remain focused on harmonisation of accounting and sustainability standards with a common objective in mind.

In addition, an important statutory function of the AASB in its current form is to advance and promote the main objects of Part 12 of the ASIC Act, which include reducing the cost of capital, enabling Australian entities to compete effectively overseas and maintaining investor confidence in the Australian economy. This will further support our view that the AASB should be the responsible standard-setter.