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Consultation on climate-related financial disclosures

The Minerals Council of Australia (MCA) representing Australia's minerals exploration, mining and processing industry welcomes Treasury's consultation on the climate-related financial disclosures.

The mining industry recognises the need to reduce emissions globally, nationally and at the sites and facilities driving Australia's resources industry. The MCA supports an industry ambition to achieve net zero emissions by 2050 in support of the goals of the Paris Agreement.

In June 2020, the MCA and members launched the [Climate Action Plan](#) as a clear commitment to do the work needed to achieve net zero emissions. As part of the industry's actions, the MCA supports the Taskforce on Climate-related Financial Disclosure. Further, the MCA and member companies continue to invest in research and technical development to better understand the technologies and practices that will be necessary to achieve decarbonisation across the sector.

Maintaining and growing investment in mining that supports its decarbonisation pathways is critical to achieving the federal government's 2030 target and the 2050 net zero target. The climate-related financial disclosures framework should support continued investment in mining during and beyond the transition to net zero.

The MCA supports the establishment of an Australian climate-related financial disclosure reporting framework that:

- Aligns with international standards such as the Taskforce on Climate-related Financial Disclosures (TCFD)
- Mitigates regulatory burden for Australian companies by leveraging off Australia's transparent and high integrity National Greenhouse and Energy Reporting (NGER) scheme
- Ensures efficiency by minimising duplications and overlap of national and state and territory-based climate-related reporting requirements
- Recognises the challenges involved in implementation by providing realistic implementation time frames appropriate for all companies and
- Assists companies with the complexity and variability of estimating Scope 3 emissions that are outside of Australia's Nationally Determined Contribution target by providing staggered implementation timeframes.

The MCA acknowledges changes under consideration involve international standards bodies, and that their disclosure guidelines are yet to be finalised. It is therefore prudent to ensure sufficient time and flexibility is allowed throughout the consultation to include the outcomes of this work.

Australia needs a strong mining industry. In FY22, Australia's exports of minerals, metals and energy commodities was worth \$413 billion and accounted for 69 per cent of the nation's export revenue.

Over the last decade the industry has paid \$254 billion in taxes and royalties. These contributions support stronger communities by helping to fund hospitals, schools, doctors, nurses, police, teachers and other essential services and infrastructure.

The industry is also critical in supporting regions and communities, including providing 1.1 million jobs in Australia supported by the mining, mining equipment, technology and services sectors.

Australia must manage this transition in a manner which reflects technology readiness and cost.

The pathway will not be linear for all industries, but great progress is being made across the mining sector.

Achievement of both the 2030 target and the 2050 net zero target will require close consultation and collaboration with all stakeholders.

The MCA looks forward to continuing to work with government on the development of a climate-related financial disclosure framework.

We thank you again for the opportunity to provide comment. Responses to questions relevant to our industry are provided herein.

Yours sincerely,



CHIEF EXECUTIVE OFFICER

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?

A disclosure framework that aligns with international standards will provide transparency and efficiency for Australian businesses competing for investment against their international peers.

Aligned climate-related financial disclosure (CFD) regimes provide investment transparency, enables consistent approaches for companies operating across (or planning to operate across) multiple jurisdictions, minimising compliance costs that would otherwise arise from different climate disclosure requirements.

For these reasons, it is crucial to appropriately position industry through the establishment of a reporting framework that aligns with international standards, mitigates regulatory burden for Australian companies, and ensures efficient processes. Consistently applied disclosure standards, overseen by regulators, are key to ensuring complete and transparent reporting.

The current practice includes a number of standards and interpretations, creating a global disclosure system that is difficult for both companies and investors to navigate and is potentially unreliable. MCA member companies support efforts to establish a common set of standards for public companies.

Any new regime should align with international standards such as the Taskforce on Climate-related Financial Disclosures (TCFD)

There remains a significant amount of work to achieve this regulatory environment. The complexity of the proposals in the draft [International Sustainability Standards Board](#) (ISSB) standard should not be underestimated.

The adoption of the current industry-based metrics proposed by the draft ISSB standard should be subject to broad public consultation to ensure they apply in the domestic context.

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

Implementation of a CFD regime should recognise the scope and scale of the undertaking being asked of business and provide time for implementation. This would recognise that not all companies have in place the systems and reporting capability of larger business that have already invested significant time, effort and capital in designing and implementing systems for CFD reporting.

A phased implementation offers several benefits including time to:

- Develop robust and accurate climate reporting systems
- Address the types of implementation issues that occur in all new systems
- Manage complexity associated with CFD requirements such as the difficulty in estimating and inherent uncertainty in Scope 3 emissions and
- Ensure comparability of the information disclosed, allowing stakeholders to compare the performance of different companies.

The MCA notes that the United Kingdom commenced its CFD reporting requirements from April 2022. In New Zealand, the External Reporting Board (XRB) is still in consultation around the required legislation.¹ As such, no date to commence CFD reporting has been set for that jurisdiction.

¹ NZ ministry for the Environment, [Mandatory climate-related disclosures](#), viewed 18 October 2023

There is a global shift towards such reporting obligations, and Australia should ensure that its regime is aligned in terms of requirements. This would maintain Australia's reputation as a modern, appropriately regulated jurisdiction that can meet the expectations of investors.

It will take some time for organisations to implement the required reporting systems and processes. As such, the MCA supports an effective date of climate-related reporting of, at minimum, two to three years after date of issue of the final requirements to provide sufficient time for companies to develop their internal capacity and expertise and implement appropriate and cost-effective systems and processes.

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

Deciding on the cohorts to be covered in subsequent phases of disclosure, and the timing of future phases largely depends on the makeup and capacity of the companies in the sector to implement meaningful CFD requirements. This needs to be balanced by equity considerations and companies implementing CFD requirements early in the roll out of CFD should not be competitively disadvantaged.

Mining sits at the beginning of the value chain. Any impost for this sector should be applicable to other comparable sectors.

While Scope 1 and 2 emissions are captured under NGERs, there appears to be insufficient detail for mandatory Scope 3 reporting by 2024-25.

The MCA recommends that the ISSB issues a clear definition of Scope 3 emissions for disclosure purposes, and demonstrates the value of such disclosures for investors.

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 MCA does not have a specific view on the appropriate threshold for Australian financial institutions to be initially included from 2024-25. However, for large, listed entities, it should be consistent with the models used in New Zealand and the UK, where the majority of organisations captured under their legislation are involved in the financial industry.

With regard to the key principle of international alignment, across all sectors Australia should require CFD reporting for, at a minimum:

- Companies that have more than 500 employees and have either transferable securities admitted to trading on the Australian Stock Exchange and a turnover of more than A\$1 billion
- Registered companies not included in the category above, which have more than 500 employees and a turnover of more than A\$1 billion
- Proprietary limited companies, which are not traded or banking entities, and have more than 500 employees and a turnover of more than A\$1 billion

Over time, as reporting processes are revised and refined, the threshold for reporting might be lowered via a staggered process, with support made available to bring entities with limited resources to ensure the integrity of CFD data for government and investors.

Regardless of where the initial threshold is set, government must recognise the challenges involved in implementation by providing realistic implementation time frames appropriate for all companies.

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?

MCA supports the principle of competitiveness neutrality. Companies implementing CFD requirements should not be competitively disadvantaged. It is therefore important to include private (non-listed) Australian companies with annual turnover greater than \$1 billion within the initial phase.

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

It would be beneficial for Australia to generally align its climate reporting requirements with the global baseline set by the ISSB. This would provide consistency and comparability in reporting – particularly across global portfolios – allowing for more accurate assessments of progress towards sustainability goals and more effective decision-making.

As stated, the complexity of the proposals in the draft ISSB standard should not be underestimated – and this should be subject to broad public consultation to ensure they apply in the domestic context, including the adoption of the current industry-based metrics.

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?

Many major mining companies operating in Australia have a multinational footprint. As such, there is a preference for a streamlined reporting process, providing a regulatory environment that allows a consistent and transparent reporting process across jurisdictions.

As the global baseline envisaged by the ISSB has not yet been finalised and subject to further change, any decision to align Australia's climate reporting requirements with this baseline should be subject to further public consultation, allowing sufficient time for stakeholders to consider and respond to the ISSB standard.

Following resolution of the ISSB standard, adaptation may be necessary for the Australian context. This may include (but is not limited to) various requirements for governance, risk management, and metrics and targets. This work could be undertaken through the next phase of consultation - expected later in 2023.

The reporting of greenhouse gas emissions data in particular should consider compliance obligations under the Safeguard Mechanism Reform and the reporting of carbon offsets.

4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

The ISSB standards potentially provide a robust and comprehensive framework for entities to report on their sustainability performance. The ISSB's climate disclosure standards provide a framework for entities to report on their greenhouse gas emissions, climate risks, and climate-related governance, strategy and targets, but may need adjustment to meet conditions for reporting within Australia.

This position is consistent with that taken by the UK:²

The government has strongly backed the creation of (ISSB) by the International Financial Reporting Standards (IFRS) Foundation. The ISSB is expected to issue disclosure standards on a range of environmental, social and governance topics, with the first standard being on climate. The climate standard is expected to be substantially based on the TCFD recommendations, and therefore the disclosure obligations introduced by these regulations are expected to be largely consistent with the international standard.

² [Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs \(publishing.service.gov.uk\)](https://publishing.service.gov.uk), p.21. Viewed 14 February 2023

The benefit of utilising global standards as a basis for reporting is to align new requirements with processes potentially established in other jurisdictions – therefore facilitating capital investment via consistent and transparent reporting regimes.

However, as the global baseline envisaged by the ISSB has not yet been finalised and subject to further change, any decision to align Australia’s climate reporting requirements with this baseline should be subject to further public consultation, allowing sufficient time for stakeholders to consider and respond to the ISSB standard.

Once resolved, reporting requirements should either align with Australia’s existing guidelines for sustainability reporting, or streamline multiple reporting requirements to manage the regulatory burden.

Therefore, the MCA recommends that legislation in Australia focusses on minimising regulatory burden for reporting in the domestic context, while harmonising with international processes – preferably using the ISSB standards – to maintain consistency and comparability, and to ensure efficiency by minimising duplication and overlap.

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)?

Designing a new regulatory framework for climate disclosure in Australia should, where possible, utilise existing guidelines or streamline new and existing reporting mechanisms into a singular process.

Similar to the UK Government, the disclosures should be based on the recommendations from the TCFD and be adapted so that they are suitable for inclusion in Australian legislation.

To achieve this, Treasury should ensure the framework:

1. Aligns with internationally recognised standards, such as the recommendations of the TCFD and the framework provided by the ISSB.
2. Takes into account the existing legal and regulatory frameworks in Australia, such as the *Corporations Act 2001* and the Australian Securities and Investments Commission (ASIC) reporting guidelines.
3. Takes into account sector-specific considerations, such as the unique challenges and opportunities facing different industries in Australia, particularly in mining, and the impact of climate change on these industries.
4. Includes robust governance requirements, including the identification of key decision-makers and the roles and responsibilities of different stakeholders within the organisation. As an example, existing processes to report against NGERs obligations could be utilised for CFD reporting.
5. Utilises existing risk management standards (such as [ISO 31000](#)), including the identification and assessment of climate-related risks and the actions that the organisation is taking to mitigate these risks.

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?

In principle, timing for CFD reporting would align with other major requirements as required by Australia's *Corporations Act 2001*.³

With regard to CFD, the placement of reporting requirements in relation to other periodic reporting requirements will depend on the specific regulatory framework and the goals of the reporting. In general, there are a few options for where new climate reporting requirements could be situated:

Option 1 - Included in the operating and financial review or management discussion and analysis section

This would be a logical place for climate reporting requirements as it would provide a narrative of the company's overall performance, including its financial performance, operational performance, and its climate-related risks and opportunities.

Option 2 - Included in the annual report:

Climate reporting requirements could be included in the annual report in a separate section dedicated to sustainability and climate-related reporting. This would allow companies to provide a more detailed and comprehensive report on their climate-related activities, risks and opportunities.

Option 3 – As a separate report:

Climate reporting requirements could be included as a separate report, which would be made available to stakeholders on a regular basis. This would allow companies to provide a more detailed and comprehensive report on their climate-related activities, risks and opportunities.

The MCA recommends that climate-related reporting and location of disclosures should continue to provide companies with flexibility as to where this information is reported and allow cross-referencing of disclosures in a separate report such as a Sustainability Report.

In terms of timing, Government should implement transitional relief that would permit entities to report sustainability-related financial disclosures after its financial statements for a period of at a minimum, two years.

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)?

Clarity regarding materiality requirements will be essential in any legislation which is proposed to give effect to any new climate-related disclosure requirements to ensure that companies are not required to disclose significant amounts of information that, due to its financially immaterial nature, is not decision-useful and would risk diluting the effectiveness of the disclosures.

In the Australian context, materiality judgements should, where possible, take into account:

1. Internationally recognised standards such as the recommendations of the TCFD and the guidance provided by the ISSB.
2. Existing legal and regulatory frameworks in Australia, such as the *Corporations Act 2001* and the ASIC reporting guidelines.
3. Sector-specific considerations, such as the unique challenges and opportunities facing different industries in Australia, such as mining, and the impact of climate change on these industries.

³ [Corporations Act 2001 \(legislation.gov.au\)](https://www.legislation.gov.au), viewed 18 January 2023

4. Views and concerns of key stakeholders, including shareholders, employees, customers and the community.
5. The impact of climate-related risks and opportunities on the long-term value of a company should be taken into account when determining what information is material to disclose.

ISSB guidance recommends that materiality should be determined on a case-by-case basis, taking into account the specific context and circumstances of the reporting entity. The ISSB also states that the determination of materiality should be based on the financial and non-financial impacts of sustainability matters on the reporting entity, including impacts on the financial performance, reputation, license to operate, and on the entity's ability to create value in the short and long term.

It is also important to note that the TCFD recommends companies should consider the materiality of climate-related risks and opportunities by assessing their potential impact on the company's business strategy, financial planning, and financial condition.

To avoid international divergence, government should closely monitor the development of the materiality concept by the ISSB and, as best as reasonably possible within the Australian context, align with that standard.

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?

In general, the following considerations should be taken into account when determining the level of assurance required for climate disclosures:

1. The level of assurance required for climate disclosures should be aligned with internationally recognised standards such as the recommendations of the TCFD and the guidance provided by the ISSB.
2. The level of assurance required for climate disclosures should take into account the existing legal and regulatory frameworks in Australia, such as the *Corporations Act 2001* and the ASIC reporting guidelines.
3. The level of assurance required for climate disclosures should be commensurate with the level of materiality of the information being reported. Information that is considered more material and that is within the company's operational control (e.g. Scope 1 and 2 emissions and energy data) should require a higher level of assurance.
4. The assurance provider should have relevant expertise and experience in providing assurance on climate-related information. This could include the auditor of the financial report or other experts with relevant knowledge and experience in climate-related issues.
5. Assurance providers should be subject to independence and quality management standards. This will ensure that assurance providers have no conflicts of interest and that the assurance provided is of high quality.

Importantly for the Australian mining sector, there are aspects of climate disclosure that are quite different from traditional financial reporting (which are largely directed at past events/performance). Therefore, the Government should carefully consider appropriate assurance requirements for different aspects of climate disclosure.

It is worth noting that a suitably-qualified workforce to provide assurance services will take some time to develop, and may not be available for the government's commencement in 2024-25.

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?

Matters such as Scope 1 and Scope 2 are reasonably well understood and ascertainable (though not always straightforward). These matters may be capable of meeting reasonable assurance standard.

However, matters such as Scope 3, scenario analysis, targets & goals are more challenging. It may be that there is diminishing return on effort required to apply reasonable assurance standard to such matters.

In some cases, it may be appropriate to assure the process rather than the output.

The Government should issue clear guidance on how reasonable and limited assurance standards may be satisfied for climate disclosure.

There are well-established processes for reporting Scope 1 and Scope 2 emissions under the NGER Act. Therefore, the Government should carefully consider appropriate assurance requirements for different aspects of climate disclosure.

Given the complexity, data availability and estimation issues of reporting Scope 3 emissions, the MCA recommends that Scope 3 emissions reporting is encouraged only where practicable.

A disclosure framework for Scope 3 emissions should also provide guidance on how covered entities can calculate/estimate Scope 3 emissions when they are unable to source the required data.

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

It would be beneficial to define a common baseline of metrics for climate disclosures to ensure a degree of consistency and facilitate comparability across companies and industries.

A common baseline of metrics would allow for a more accurate assessment of progress towards sustainability goals and more effective decision-making. Additionally, a common baseline of metrics would demonstrate Australia's commitment to international efforts to address climate change and would also be in line with global standards such as the TCFD recommendations.

It would also be beneficial to include industry-specific metrics in order to take into account the unique challenges and opportunities facing different industries in Australia, particularly mining, and the impact of climate change on these industries.

Industry-specific metrics would allow for a more accurate assessment of the performance of companies in different sectors and would also help to identify specific areas of improvement and best practices, subject to further consultation with respective industries.

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?

There are several considerations that should be taken into account to ensure that covered entities provide transparent information about how they are managing climate-related risks, including:

1. Climate-related risks disclosure should be aligned with internationally recognised standards such as the recommendations of the TCFD and the guidance provided by ISSB.
2. Climate-related risks disclosure should take into account the existing legal and regulatory frameworks in Australia, such as the *Corporations Act 2001* and ASIC reporting guidelines.

3. Climate-related risks disclosure should take into account sector-specific considerations, such as the unique challenges and opportunities facing different industries in Australia, such as mining and agriculture, and the impact of climate change on these industries.
4. Covered entities should provide transparent information about the specific climate-related risks that they face, and how they are managing these risks, including providing information on the potential financial and non-financial impacts.
5. Covered entities should provide information about their transition plans, including their strategies and actions for transitioning to a low-carbon economy and achieving their emissions reduction targets, as well as any milestones and targets for achieving these plans.
6. Covered entities should provide information about their use of greenhouse gas emissions offsets, including the types of offset projects they are using, the emissions reductions achieved, and the assurance that the offsets are verified and meet quality standards. A materiality test could apply to offsets so that covered entities are not compelled to disclose offsets below the materiality threshold.
7. Covered entities should engage with key stakeholders, including shareholders, employees, customers, and the community, to understand their views and concerns about the company's climate-related risks and actions.

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

The government should consider which climate disclosures should be subjected to reasonable assurance; which should be subjected to limited assurance; and which do not require assurance.

There may be some disclosures which are either incapable of being assured or the marginal benefit is immaterial or outweighed by the cost and resource burden.

Once established, it would be beneficial to implement disclosure requirements and assurance of those requirements in different phases. One reason for this is that companies may need time to adapt to the new requirements and develop the necessary systems, processes and expertise for compliance. It could also be beneficial to give companies time to understand the implications of the new requirements and to develop effective strategies for managing climate-related risks and opportunities.

Additionally, implementing the requirements in different phases could allow for a more gradual and incremental transition for companies, and also for regulators to monitor the impact of the new requirements and make any necessary adjustments.

Another reason for phased implementation is that some sectors may face more challenges and need more time to implement the new disclosure requirements than others. For example, sectors such as mining have more complex emissions and supply chain to monitor and report on.

It's also worth noting that phased implementation will also allow for better engagement with stakeholders, including investors, shareholders, employees, customers, and the community.

Finally, it is worth repeating that a suitably-qualified workforce to provide assurance services will take some time to develop, and may not be available for the government's commencement in 2024-25.