



OWNERSHIP MATTERS

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Climate Disclosure Unit
Market Conduct Division
The Treasury
Email: climatereportingconsultation@treasury.gov.au

RE: Consultation on climate-related financial disclosure

Dear Treasury,

Thank you for the opportunity to comment on Treasury's *Climate-related financial disclosure* consultation paper. Ownership Matters (OM), formed in 2011, is an Australian owned governance advisory firm serving institutional investors. This submission represents the views of OM and not those of its clients.

Given the critical and increasing importance of climate change to society, markets and investors, OM supports the Commonwealth Government's intention to standardise climate disclosures for reporting entities. As OM's work is focused on listed entities, this submission is from the perspective of investors in listed entities where investor demand for reliable and standardised climate disclosures is increasing alongside the risk to Australian listed entities of reduced access to capital from investors outside Australia with expectations of reliable and standardised disclosure.

In overview, OM supports the Australian Government acting to introduce internationally-aligned climate disclosure requirements for reporting entities as swiftly as is practicable. For this reason OM supports incorporating such disclosures into Australia's existing financial reporting infrastructure rather than reforming the existing structure and also supports a narrow focus on climate disclosures rather than expanding the scope of any changes to encompass broader 'sustainability reporting'. In relation to specific questions posed by the consultation paper:

- **Questions 2-3:** The consultation paper contemplates a "phased approach" to introducing standardised climate disclosure requirements in Australia with "certain listed entities covered by the *Corporations Act 2001* ... with views sought on the size thresholds that could be applied to determine the mandatory application of new requirements (for instance market capitalisation, turnover, and/or number of employees" and also notes whether climate disclosure requirements should also apply to "listed schemes".
- The existing reporting regime contained within Chapter 2M of the Act imposes different requirements for listed and unlisted entities (for example, the contents of a directors' report) but does not then impose different requirements depending on the size of the entity. Section 111AE of the Act defines any listed entity as being a 'disclosing entity' for the purposes of Australia's legislative reporting framework. Introducing a differential disclosure framework, even on a temporary basis, as contemplated under a 'phase-in'

- approach, runs the risk of creating a legislative template for further reporting exemptions to be granted to classes of listed entities on the basis of cost, efficiency, encouraging more listings or other similar arguments. In addition there is no effective basis on which to create a viable threshold for imposing differential climate reporting frameworks as market capitalisation is volatile, and other metrics such as employee numbers, assets and turnover may bear minimal relationship to climate risk exposure.
- An alternate way of exempting smaller or less emissions intensive entities from reporting under new climate standards, as a transitional measure, would be to specify that the requirements of the standard apply only to those entities with emissions above a threshold which could be aligned with the existing NGERs group reporting thresholds.
 - **Question 4:** Any legislative requirement for climate disclosures by listed entities should seek to align with international standards to ensure Australian investors have access to globally comparable information and international investors can have confidence Australian entities are reporting on the same basis as offshore peers. As Australia already uses IFRS as its financial reporting regime and the ISSB is part of the IFRS framework and has already developed a draft climate reporting standard, adopting the ISSB's proposed IFRS S2 *Climate-related disclosures* will allow for Australian disclosures aligned with those used internationally and more rapid implementation given ISSB's development of a climate reporting framework is already well advanced.
 - **Questions 5 & potential structures:** The regulatory framework for climate reporting should be closely aligned with the existing financial reporting framework under the Corporations Act and Corporations Regulations. This should speed adoption and minimise confusion and allow existing concepts – such as 'disclosing entities' to be retained. The requirement for disclosing entities to report climate information under ISSB could be added reasonably simply into the Corporations Act's financial reporting requirements.
 - For similar reasons, as noted above, the existing financial reporting framework should be retained (potential structure 1 in the consultation paper) although this will require additional resources for AASB, AUASB and ASIC. In addition to reviewing the budget of AASB, OM is in favour of making an appointment to the AASB Board with specialist knowledge of climate-related financial disclosure. Existing bodies such as AASB are already involved in the ISSB process. Creation of specialist bodies with a specialist framework to oversee the climate disclosure requirements is likely to lead to delay, regulatory gaps between new and existing bodies, higher costs and more confusion.
 - **Question 6:** In keeping with OM's preference for climate reporting to be incorporated into existing frameworks, periodic reporting should be incorporated into the existing operating & financial review requirements within annual reports.
 - **Question 7:** As materiality is a well understood concept already in use in financial reporting OM recommends the same concept of materiality should be retained in climate reporting. This would have the benefit of further aligning with the ISSB's intended approach based on disclosures to date and avoiding the need for creating a new concept of materiality for climate reporting differing from the materiality concepts used in financial reporting. This will enhance the usefulness of climate disclosures to investors and other users of financial statements.
 - **Question 8:** The requirement for climate reports to be subject to external assurance (and be made on 'reasonable grounds') is essential if such disclosures are to be credible to investors. This is likely to create additional costs for listed entities although

- requiring assurance to be provided to a similar level – where practicable – as audits of financial reports may require a period of transition given the need for assurance standards to be developed.
- The swiftest way to introduce assurance requirements for climate disclosures would be to incorporate these into the existing audit oversight regime, and make the existing external auditor of an entity responsible for assurance (or, if they do not have sufficient expertise, responsible for an external party able to provide assurance to a satisfactory level). The major potential downside of this approach is it is likely to lead to further concentration of external audit work in the 'Big Four' accounting firms given their greater resources and therefore greater capacity to adapt to a new assurance requirement. Dominance of the audit & assurance market by these four firms is however a broader problem requiring separate focus and policy initiatives.
 - **Questions 9 – 12:** From an investor perspective, especially from the perspective of an international investor, it is critical that Australian emissions reporting standards (and reporting against other metrics) should align with those used internationally. This is why Australia should align proposed climate reporting requirements with those proposed by the ISSB to ensure consistency. Similarly, the draft ISSB climate standard also includes industry-based requirements by sector.
 - Disclosures relating to how climate risks are managed are necessary for investors to be able to assess how management teams are managing (or failing to manage) climate risks. This type of disclosure is however the most likely to provide less useful, boilerplate disclosures and difficulties for investors in verifying whether stated plans are being put into practice - for example, a number of fossil fuel entities in their disclosures on managing climate risk currently note ambitious plans to develop low carbon energy but provide minimal detail on actual expenditure on such plans. The ISSB's draft climate standard does however provide a framework for disclosing such information, including the use of offsets.
 - **Question 14:** The concept of requiring reporting against a standardised set of climate scenarios is attractive but rather than legislating for the creation of a specify body to oversee these requirements a similar outcome could be achieved by ASIC issuing guidance as to what it considers acceptable scenarios for use in scenario analysis. As noted above, while integrating climate reporting into Australia's existing financial reporting framework is likely to be the quickest and most efficient way of introducing such disclosure requirements it will however require an increase in resourcing for the entities involved, such as ASIC.
 - **Questions 15&16:** The current 'reasonable grounds' advice provides an existing framework for climate-related disclosures and ASIC's existing advice could be amended to ensure it would be applicable to climate disclosures including areas where currently significant levels of uncertainty exist such as the extent of an entity's scope 3 emissions.
 - Similarly, reporting obligations outside of periodic reporting (such as those relating to fundraising) should be reviewed to ensure climate-related disclosures fall within their remit. For listed entities, the existing continuous disclosure framework would require minimal alteration given its focus on material price sensitive information.
 - OM opposes the introduction of any "safe harbour" provisions for climate-related disclosures as it will diminish the level of oversight given to these disclosures by boards.

- **Question 17:** Given the materiality of climate change as an issue the focus of the current reform should remain on implementing workable climate reporting standards for Australian entities as swiftly and efficiently as possible that align with international standards.
- Future governments would be able to consider whether it would be desirable for reporting on other sustainability related issues to be introduced. A potential area for future investigation would be standardised safety reporting standards across listed entities. There is significant investor interest in this area and listed entities have widely differing approaches in terms of data disclosed and the definitions underpinning such disclosures (for example, definitions of fatalities and the scope of safety reporting).

Please feel free to contact us concerning any aspect of our submission. For the avoidance of doubt we are happy for our submission to be made public.

Yours sincerely,



Ownership Matters Pty Ltd