The Treasury: Climate-Related Financial Disclosure: Comments from an Independent Auditor

17th February 2023

climatereportingconsultation@treasury.gov.au

Introduction

Bureau Veritas Australia. ("Bureau Veritas") welcomes The Treasury's proposal to establish mandatory assurance and reporting on Climate Related Financial Disclosures. It has the potential to accelerate responsible change and create transparency in helping transition to a net zero economy by 2050. Its principles enable innovation towards climate-change mitigation and will undoubtedly contribute to the achievement of Australia's decarbonisation targets and enables Australian businesses to access capital.

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?

The science is clear to avoid the worst impacts of climate change, business, government, and society need to work together to transition to a net zero economy by 2050. A mandatory Climate related Financial Disclosure process requires businesses to develop an understanding of the climate related risks and opportunities they face, fundamentally improving their ability to mitigate and adapt to those risks. It also supports more efficient allocation of capital to create a more orderly transition, through improved information and shifting investment flows in line with climate risks.

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?

We support a phased adoption that is aligned to international proposals such as the EU's Corporate Sustainability Reporting Directive (which incorporates climate related financial disclosures in the European Reporting Standard E1 Climate Change).

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?

Given the proportionality approach applied by other countries – we suggest Australia follows a similar approach. This is typically a function of 2 out of 3 criteria: more than 250 employees, a turnover of over 40M€, and over 20M€ assets. This threshold criteria is from the EU is a good example using a phased timeline for different thresholds and is based on focusing on 75% of the overall economy initially.

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?

Sustainability is a global endeavour that requires cooperation on an international scale. Most countries which have announced related regulations are aligned to the ISSB. Australia should do the same.

The EU sustainability standards are written using terminology that makes it easier to interpret for different stakeholders, which is important when considering the need for consistent application and interpretation. This should be considered by the Australian government to support scalability and adoption by Australian companies.

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)?

No response.

<u>Question 6:</u> 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?

No response.

<u>Question 7:</u> 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)?

No response.

<u>Question 8:</u> 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?

Bureau Veritas welcomes the introduction of mandatory requirements on the assurance of climate related disclosures. The reliability and accuracy of information is crucial – as they are used by the company, and external stakeholders to judge the credibility of transition plans and assess their level of alignment to the Paris Agreement and international conventions. Assurance is required to restore confidence and avoid greenwashing.

Independent certification bodies provide sustainability assurance in other jurisdictions, bring many advantages to companies: strong technical expertise, rigour, independence, absence of conflict of interest and better rates.

Risks of conflict of interest arise both from the influence of consulting activities on the audit, and from the influence of financial issues on sustainability. In corporate strategy, financial and sustainable performance can sometimes be contradictory. Therefore, how can we ensure a real independence of the sustainability elements within the company if the sustainability audit becomes an accessory of the financial audit?

A separation of financial and non-financial audits, or even a separation of technical analysis and control of sustainability reporting, even partial, would provide guarantees in terms of expertise and independence. The certification sector would bring in addition to the technical expertise of its engineers and scientists, its international coverage, and its practice of on-site audits to verify, beyond the indicators presented in the reports, the adequacy and effectiveness on the ground of the actions implemented to achieve environmental objectives.

It would also lead to relaunching calls for tenders and opening the market to independent third-party bodies that will provide their quality of service and lead to more competitive prices. This policy of contract renewal should satisfy purchasing services and benefit companies. Conversely, if the market remains locked, independent service providers will not be able to make the necessary investments to engage in it. The Australian audit market will then remain in the hands of a few large groups.

We recommend accreditation to ISO 17029: Conformity assessment — General principles and requirements for validation and verification bodies (VVBs). This standard provides general principles and requirements for the competence of auditors which is equivalent to ISQM 1&2, and their consistent operation within an impartiality framework. ISO 17029 is already used by verification bodies to offer their services to assure the quality of GHG inventories (or will be by 2024 as the scheme is currently transitioning from ISO 14065:2013) at the organisation level and of carbon credits flowing from emissions avoidance and removal projects on the voluntary carbon markets. It is now more broadly applicable to validation and verification of all kinds of claims or attestations regarding planned projects to reduce emissions or improve performance in other Environmental, Social, and Governance (ESG) impacts and to verify the actual achievement – providing flexibility for emerging international disclosure requirements.

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?

Scope 3 is required to align to international requirements. Currently the NGER focuses on scope 1 and 2 – additional consultation papers prepared by the government on Hydrogen GoO and REGO by the clean energy regulator all indicate the need to include scope 3. International proposals in jurisdictions such as UK, Europe, USA all incorporate scope 3.

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

Yes. It is commonly acknowledged internationally via several standards such as GHG Protocol, GRI, ISSB and the recently published draft ESRS in Europe, and UK Government documentation – carbon intensity and Co2 equivalent should be reported.

Our recommendation would be to align to ESRS E1 – Climate change which provides strong basis of operation and detail on accepted methodologies and units of reporting to enable clear, traceable, and comparable data for stakeholders. It uses the same terminology as the TCFD and essentially has turned the voluntary framework into a regulation but enhanced it by providing clear units and expectations on disclosures.

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?

The UK PPN/06 Decarbonisation plans (which is a requirement of the public procurement process) provides a simple framework aligned to its plan for a climate-neutral economy and limiting global warming to 1.5C in line with the Paris Agreement.

It is essential absolute emissions (Scope 1, 2, and 3 and offsets) are reported so it is clear the level of offsetting and due diligence applied to any being used.

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

A progressive approach is required moving from limited to reasonable assurance. Starting with a limited level of assurance represents a significant improvement on the current situation (of voluntary reporting and assurance). This is less costly for companies, and better corresponds to the current capacity and technical ability of the audit assurance market. This same approach has been proposed in other international jurisdictions.

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?

No response.

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?

No response.

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?

No response.

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?

No response.

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?

Scalability is important. Other international jurisdictions are already incorporating this into their regulations.

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

Given requirement to disclose on an annual basis, digital solutions help create more efficiency, and ability to be machine readable. This is in line with other international jurisdictions following extensive stakeholder feedback.

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 proposal #2 – To Establish a separate Sustainability Board. This aligns to the ISSB approach and will give credibility for Australian companies internationally. It also recognizes the key technical and subject matter expertise that is required for sustainability standard setting which is different from financial standard setting.

Conclusion

Over the course of almost a 200-year history, Bureau Veritas has established a reputation for being a reliable and impartial 3rd party in the areas of quality, health, safety, environment and sustainability across every industry. Additionally, we have 15 years of experience in the following independent assurance

- Regulatory (non-financial reporting directive, companies act, climate related financial disclosure regulation) (e.g.: schemes including the EU ETS, CORSIA, CDM/JI, ISAE 3000, ASAE 3000, and ISAE 3410 as an example)
- voluntary emissions verification (e.g.: GHG Protocol, ISO 14064-1, ISO 14064-- 2, CDP, Smart Energy Council Zero Carbon Certification Scheme, VCS, Gold Standard, AA 1000) validation and verification

This type of profile and experience would benefit the credibility of the assessments related to this proposed scheme.

We hope these views are helpful inputs for further consideration and we look forward to actively engage in further dialogue together on the evolution of standard setting for ESG topics. If you have any questions on this letter, please contact.

Sincerely,

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Vice President – Industry & Facilities Division,

Bureau Veritas Australia & New Zealand