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Consultation on Climate-related financial disclosure

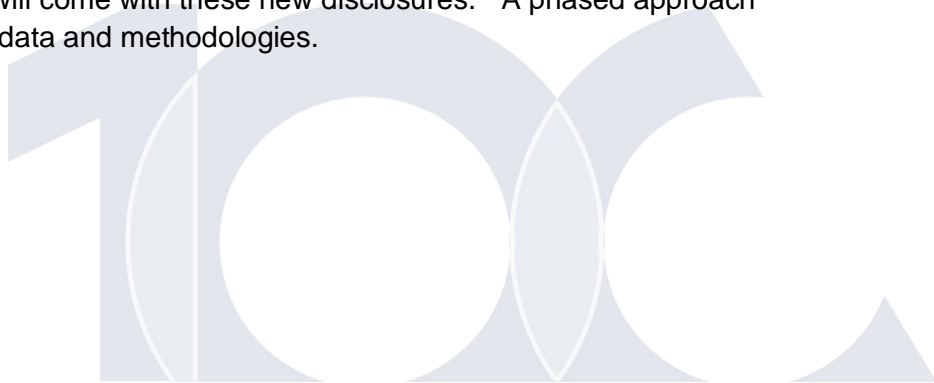
Thank you for the invitation to provide initial views on the key considerations for the design and implementation of standardised, internationally aligned requirements for the disclosure of climate-related financial risks and opportunities in Australia.

The G100 is Australia's peak body for CFOs and senior finance professionals. Our purpose is to create better businesses for tomorrow, and part of how we deliver this is to proactively contribute on a business-to-government level on matters affecting business regulation, financial reporting, corporate governance, capital markets, taxation, and financial management.

The G100 acknowledges the material risk that climate change poses to global financial markets and supports the disclosure of robust, comparable and decision useful information as part of this urgent response to mitigate climate change. We welcome the approach the Australian government has taken to consult on its ambition to have large businesses provide Australians and investors with greater transparency and accountability when it comes to their climate-related plans, financial risks, and opportunities. We look forward to supporting the government create a principles-based framework for climate-related financial disclosures, one that will provide concise, consistent, useful, understandable information, and able to flex to accommodate further sustainability disclosures in years to come.

With respect to the to the questions posed in the consultation paper, we make the following high-level observations:

- The six reform principles outlined in the consultation paper: *Support climate goals; Improve information flows; Well-understood; Internationally aligned; Scalable and flexible; and Proportional to risk* are appropriate. These should be maintained throughout the development of legislation and standards as they balance the urgency and appetite for reform against the practical challenges associated with implementing one of the biggest changes in reporting that we have seen in decades.
- Whilst there has been overwhelming support for climate change to be the first priority for sustainability reporting under the ISSB banner, we acknowledge that there is enormous demand for further sustainability reporting standards, in particular for themes such as biodiversity, human capital, and engagement with indigenous communities. In our view, the government should consider, as part of its response to this consultation, how it will implement a wider flexible framework for all types of sustainability themes and measures. It would be inefficient, and introduce complexity, if the government considered this level of detailed consultation each time a new sustainability theme of was introduced.
- Our members include leaders of some of the biggest finance and company reporting functions in Australia. They are accurately aware of the impacts that additional reporting requirements can have on a business, along with the need for new systems, data, internal controls, and training. This reality should not distract from the importance of promoting these new disclosures; but do need to be taken into account as part of the implementation.
- We support commencing with the financial year end 2024-25. This aligns to the expectations of the International Organization of Securities Commissions (IOSCO), the global standard setter for securities markets regulation. We agree with the proposal outlined in the consultation paper that the initial application of climate-related financial disclosure be only mandatory for a selected group of entities, then gradually applied to a wider group of entities as climate reporting is institutionalised in Australia. Further, we believe a phased approach to disclosure types and assurance is the most appropriate path for implementation. This would allow for preparers and auditors to scale up steadily to meet the economy-wide demands that will come with these new disclosures. A phased approach would also reflect evolution in data and methodologies.



- We would encourage the government to:
 - Leverage thresholds, definitions and methodologies that already exist, for example the National Greenhouse and Energy Reporting (NGER) requirements. In our view, this will facilitate consistency when it comes to the measurement and disclosure of results and achievement of emissions and renewable electricity targets.
 - Align climate-related disclosures to financial reporting. In this respect, consideration should be given to the practical application of:
 - Segment reporting may be a better approach than industry-based reporting as it can allow for consistent and comparable information between companies while minimising the compliance burden.
 - disclosing forward looking estimates, or quantitative assessment of future financial impact of climate-related risks. This might not align to the financial reporting approach and could have a negative impact on the continuous disclosure requirements of entities.

Our detailed response to each question is included in Attachment 1.

Thank you again for the opportunity to provide our views. Should you have any further questions on our submission, please do not hesitate to contact me on [REDACTED].

Yours faithfully

[REDACTED]

[REDACTED]
Chair, Group of 100
Group CFO, Ramsay health Care
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CEO + Executive Director
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Attachment 1: Detailed responses

Question	G100 response
<p>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:</p> <p>1.1 What are the costs and benefits of meeting existing climate reporting expectations?</p> <p>1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?</p>	<p>Benefits</p> <ul style="list-style-type: none"> ● Australian capital markets and corporations will be impacted by the physical risks of climate change and the transition risks associated with policy, regulatory and technological change that will be introduced to mitigate climate change. By actively addressing these risks, including through adopting climate related financial risk disclosures, Australia will become a more resilient and more prosperous part of the carbon neutral global economy. ● ‘Greenwashing’ remains a significant threat to investor and community confidence in the Australian contribution to mitigating the global threat posed by climate change. By introducing a comprehensive and robust reporting regime, greater trust in reporting will likely follow. ● Internationally aligned standards will ensure disclosures are consistent and comparable with those made in other countries. This would, among other things, help: <ul style="list-style-type: none"> ○ 1. clearer and more transparent information for investors and stakeholders to support their decision making reduce confusion for entities and regulators ○ 2. reduce overhead costs of international trade finance arrangements and ensure Australia’s access to global markets ○ 3. avoid costs associated with preparing, setting, and publishing multiple sets of reporting ○ 4. assisting regulators to identify and combat greenwashing ○ 5. assisting businesses to identify and manage sustainability related risks and opportunities ○ 6. reduce the risk of arbitrage minimise complexity in any extra-territoriality application and conflict of laws.

Question	G100 response
	<p>Costs</p> <ul style="list-style-type: none"> ● Australia has a strong demand for foreign capital. A failure to align to international reporting standards may impede our ability to attract and retain capital. ● If we do not adopt an internationally recognised standards, reporting entities may face multiple reporting requirements, imposing additional administrative burden to entities. ● More disclosure requirements will result in a number of one-off costs for Australian businesses, for example new systems & data governance frameworks and training for staff, and ongoing costs such as system maintenance and assurance. Some of our members have noted that there is currently a substantial cost to aligning with current TCFD reporting requirements. ● Methodology and data gaps will prevent accurate measurement and reporting of some Scope 3 greenhouse gas (GHG) emissions across financed emissions and supply chains. Some of these gaps are set to be addressed over the next few years through the Partnership for Carbon Accounting Financials (PCAF) and other global alliances. ● The costs of the scheme could be minimised via a principles-based approach to disclosure.
<p>Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?</p> <p>2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?</p>	<p>Question 2:</p> <ul style="list-style-type: none"> ● We support commencing with the financial year end 2024-25. This aligns to the expectations of the International Organization of Securities Commissions (IOSCO), the global standard setter for securities markets regulation. ● We support a phased approach as it not only reflects the approach taken internationally, but also allows for preparers and auditors to scale up steadily to meet the economy wide demands that will come with these new disclosures.

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	<ul style="list-style-type: none"> This timeframe also provides Australia with the advantage of being able to learn from jurisdictions such as the UK, New Zealand, Canada, and Switzerland who are mandating disclosures prior to 2024-25. <p>Question 2.1</p> <ul style="list-style-type: none"> In line with the principles of <i>Scalable and Flexible</i> and <i>Proportional to Risk</i> outlined in the consultation paper, we believe that consideration should be given to prioritising mandatory disclosure to those that are best prepared, for example large globally connected entities, and those that are the heaviest emitters.
<p>Question 3: To which entities should mandatory climate disclosures apply initially?</p> <p>3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?</p> <p>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?</p>	<p>Emission intensity is an important fact to consider a when considering the entities who are required to mandatorily apply these disclosures first.</p> <p>We are passionate about supporting the overall principle of mandatory reporting on climate-related financial disclosures as it is clear that both investors and other intended users of financial reports are increasing demanding this information, but we also recognise the important role that businesses need to play in addressing the risks posed by climate change.</p> <p>As the Australia’s peak body for CFOs and senior finance professionals we are also accurately aware of the impacts that additional reporting requirements have on a business. New reporting requirements bring with it a need for new systems, data, internal controls, and training, which can be both expensive and time consuming. This reality should not distract from the importance of promoting these new disclosures but do need to be taken into account as part of the implementation. As such, we agree with the proposal outlined in the consultation paper that the initial application of climate-related financial disclosure be only mandatory for a selected group of entities, then gradually applied to a wider group of entities as climate reporting is institutionalised in Australia.</p>

Question	G100 response
	<p>In applying Treasury's reform principle <i>Proportional to risk</i>, we would recommend that the government consider:</p> <ul style="list-style-type: none"> • a subset of the ASX listed companies (for example The Australian Sustainable Finance Institute (ASFI) Roadmap recommends the ASX 300 and financial institutions with more than \$100 million in consolidated annual revenue report in line with the TCFD recommendations). • all large financial institutions, for example, significant financial institutions as defined in APRA's Prudential framework: <ul style="list-style-type: none"> ○ a) not a foreign ADI, a Category C insurer or an EFLIC, and has total assets in excess of: <ul style="list-style-type: none"> ■ (i) AUD \$20 billion in the case of an ADI; ■ (ii) AUD \$10 billion in the case of a general insurer or life company; ■ (iii) AUD \$3 billion in the case of a private health insurer; or ■ (iv) AUD \$30 billion in the case of a single RSE operated by an RSE licensee, or if the RSE licensee operates more than one RSE where the combined total assets of all RSEs exceeds this amount; or ○ determined as such by APRA, having regard to matters such as the complexity in its operations or its membership of a group. • Those who are high emitters not captured by the other definitions. This could include facilities, within a group, covered by the safeguard mechanism to report and disclose climate-related disclosures at ultimate Australian parent level and/or Asset Managers and Investment Banks assets more than AUD 1 billion in turnover.

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	<p>We would also ask that the government consider additional guidance on Joint Ventures. This would be welcomed to assist in the standardisation of approach to joint ventures, noting the application of a materiality threshold. It can be complex when considering joint ventures and subsidiaries and the degree of operational control parent companies have to enable missions' reduction and implement just procurement practices.</p>
<p>Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?</p> <p>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?</p> <p>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?</p>	<p>In line with Australia's approach to adopting international accounting standards set by the International Accounting Standards Board (IASB), we believe Australia would be well served by adopting ISSB standards. The ISSB standard is consistent with the recommendations of the Task force on Climate-Related Financial Disclosure and has been used to guide reporting requirements in New Zealand and the United Kingdom.</p> <p>We would encourage the Treasury to continue to acknowledge, and consider, the international reporting obligations that many Australia entities will have due to non-ISSB aligned reporting structures such as the EU.</p> <p>Some considerations within the Australian context include:</p> <ul style="list-style-type: none"> ● The need to source Australia-specific data to perform scenario analysis and quantify financial risk and opportunity, including how the Government would support that through the NGER scheme or other regulation. ● There is a proposed metric in ISSB S2 requiring disclosure of how an entity is applying an internal carbon price in decision-making. Any proposed Australian carbon pricing mechanisms would need to be aligned.
<p>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?)</p>	<p>In our view, we believe a principles-based framework should be applied using similar principles to financial reporting and applying a financial lens to sustainability related information.</p>

Question	G100 response
<p>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?</p>	<p>Climate information should be provided at the same time as part of the same reporting package as the financial statements in the content of annual reporting. The standards should specify that climate disclosures should be presented within general purpose financial reporting, as it helps to minimise duplication, integrate the information as much as possible and accommodates different jurisdictional requirements.</p> <p>A connected reporting framework for investor-focused reporting linking sustainability and financial information that links sustainability factors and financial information will highlight how the risks and opportunities faced by business drive enterprise value over time and how they relate to shorter-term financial performance.</p>
<p>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)?</p>	<p>We welcome the ISSB recent proposal to utilise the same definition as in the IFRS accounting standards. This will support a consistent application by preparers across accounting and sustainability standards.</p>
<p>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?</p>	<ul style="list-style-type: none"> ● There is a critical role for independent external assurance to provide credibility to sustainability information and support demands from investors. To support the aim of providing investment grade information, it is critical that assurance providers are subject to the same level of independence and quality management standards as those who provide financial statement audits. ● Assurance over sustainability-related disclosures (including climate-related disclosures) should become mandatory in time, starting with readiness for assurance following by limited assurance and then moving to reasonable assurance.

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	<ul style="list-style-type: none"> • Appropriate expertise may be required for assurance in the form of subject matter experts, to cover the topic specific disclosures, especially when more thematic standards are issued, for example nature and biodiversity and standards in respect of social matters such as workforce and communities. There is a need to educate and upskill assurance professionals in the Australian market on some of the sustainability related topics (including climate) to provide high quality assurance. We encourage the Australian Auditing and Assurance Standards Board (AUASB), professional bodies and universities to develop education material and conduct training to bridge the gap in addition to considering macro-economic measures. We also encourage the AUASB to consult with the Clean Energy Regulator who has developed a greenhouse gas assurance standard (NGER Audit Determination) and register of Greenhouse and Energy Auditors as part of the NGERs schemes and look to leverage and integrate this into any proposals. • In our view, further consultation would be required before extending reasonable assurance to scope 3 reporting. • As reporting by Australian entities expands to include sustainability disclosures, entities should be able to utilise their financial statement auditors. Existing audit firms are currently required to comply with extensive independence requirements contained in The Code of Ethics for Professional Accountants (the Ethics Code) issued by the Accounting Professional and Ethical Standards Board (APESB), and the Corporations Act 2001. We see these requirements as being easily adapted to account for assurance over climate-related financial disclosures, and other sustainability reporting.

Question	G100 response
<p>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?</p>	<ul style="list-style-type: none"> • Many organisations are familiar with reporting Scope 1 and 2 under the NGER’s framework. Given the significant amount of change Australian entities will have to manage in coming years in response to these changes, the government should consider allowing relevant Australian entities to continue to report under the NGER framework instead of, or alongside, the Greenhouse Gas Protocol (GHGP) approach preferred by the ISSB. Given the NGER framework is more comprehensive than the GHGP, there would be no detrimental impact on the value of information reported. • We support the reporting of scope 3 emissions but would request that the Treasury consider the practical issues associated with disclosure and assurance given the inherent limitations that will likely come with this reporting given the assumptions, estimations, and proxies as well as input from a variety of internal and external sources. This might include delaying Scope 3 reporting obligations until a reporting period after 2024-25.
<p>Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?</p>	<ul style="list-style-type: none"> • Overall, we believe frameworks supporting reporting regimes should be principles-based, with minimum reporting requirements. We do support industry-specific reporting requirements and a common baseline, but we remain concerned with the volume and usefulness of the detailed SASB based industry metrics included in the ISSB’s [Draft] IFRS S2 Climate-related Disclosures. • Industry-based reporting is not required within the financial reporting framework, instead segment reporting is used which allows the business to report at a more granular level segmented logically. This ensures information is still comparable and consistent without the need for prescriptive disclosure.

Question	G100 response
<p>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?</p>	<p>Greater specificity of expectations, requirements, and definitions could help guide entities to prepare transparent disclosure of information. To ensure flexibility, this could be provided in the form of guidance documents, rather than regulation.</p> <p>Consideration could be given to:</p> <ul style="list-style-type: none"> • Glasgow Finance Alliance for Net Zero (GFANZ) guidance on credible transition plans: <ul style="list-style-type: none"> ○ https://assets.bbhub.io/company/sites/63/2022/09/Expectations-for-Real-economy-Transition-Plans-September-2022.pdf ○ https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf • New Zealand requirements around transition plans: https://chapmantripp.com/trends-insights/an-overview-of-xrb-s-final-climate-related-disclosure-standards/ • UK Transition plan taskforce disclosures guidelines: https://transitiontaskforce.net/wp-content/uploads/2022/11/TPT-Disclosure-Framework.pdf
<p>Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?</p>	<p>We support a phased-in approach in disclosure and assurance requirements as it would allow for preparers and auditors to scale up steadily to meet the economy-wide demands that will come with these new disclosures. A phased approach would also reflect evolution in data and methodologies.</p> <p>The cost and complexity of scenario analysis might be prohibitive for small to medium sized entities. As such, consideration should be given to a staged requirement of scenario analysis and scope 3 reporting for medium and smaller entities.</p>

Question	G100 response
<p>Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?</p> <p>13.1 How and by whom might any data gaps be addressed?</p> <p>13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?</p>	<ul style="list-style-type: none"> • Preparers are currently developing the systems and processes required to produce relevant and transparent climate related disclosures. However, they are doing so in the absence of agreed standards, guidance, and timeframes, although many are being guided by the draft ISSB standards and the TCFD reporting framework. Finalising the standards and timeframes for application will assist many preparers design and implement the necessary systems and processes, and upskilling teams. • The government may wish to consider: <ul style="list-style-type: none"> ○ scenario preparation, including the narrative, prepared by an Australian body (e.g., CSIRO). This would element the use of multiple scenarios and reduce the compliance burden. ○ An open-source scope 3 factor library for the initial phase. Over time, preparers could move to supplier and customer specific factors over time.
<p>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?</p>	<p>Given the inherent limitations and extensive work involved in the development of scenario analysis to support climate disclosures, conceptually it makes sense for a particular authority to provide that information and the governance of that information. Further consultation on who that authority would be is required.</p>

Question	G100 response
<p>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?</p>	<p>Overall, it is important that liability risks that might come with disclosures based substantially on forward looking information do not undermine the approach or transparency in reporting.</p> <p>As such we would encourage the government to consider that for forward-looking statements that are required, that there be consideration of specific safe harbour from liability to encourage good faith disclosure. Without safe harbour or similar protections, there is a risk that disclosers provide overly cautious disclosures that do not meet the needs of the market or investors. In applying a safe harbour, we believe clear regulatory guidance should be produced to articulate what constitutes reasonable grounds to provide a clear basis for directors to support the disclosure of uncertain and forward-looking information.</p> <p>Finally, disclosures relating to Scope 3 emissions rely on data obtained from third parties and may require reliance on assumptions, estimates or proxies where that data is not available or incomplete. We consider that a specific safe harbour for Scope 3 emissions may be required to protect parties who make good faith disclosures in reliance on such information.</p>
<p>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?</p>	<p>No answer provided.</p>

Question	G100 response
<p>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?</p>	<p>There has been overwhelming support for climate change to be the first priority for sustainability reporting under the ISSB banner. Adopting climate change disclosures will involve an enormous amount of effort from preparers, auditors, regulators, and professional bodies. We acknowledge that there is demand for further sustainability reporting standards, in particular biodiversity, human capital, and engagement with indigenous communities. In our view, the government should consider, as part of its response to this consultation, how it will implement a wider flexible framework for all types of sustainability themes and measures. It would be inefficient, and introduce complexity, if the government considered this level of detailed consultation each time a new sustainability theme of was introduced.</p>
<p>Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?</p>	<p>While we agree there could be some benefits to stakeholders in digital reporting, we note that mandating Australian digital reporting will only allow comparisons between Australian entities subject to the regime.</p> <p>For Australian entities operating globally, mandating digital reporting might also mean that two or more different types of reports might have to be prepared to report unless a global agreement on digital reporting is reached. We also consider that costs and time to implement data sets and reporting processes to enable digital reporting would be imposed that do not exist today. Given that financial reporting has been able to be digitally reported since 2010 but has not, we suggest further investigation into the reasons behind this should be explored.</p> <p>The costs and benefits of digital reporting, in the context of financial statements, were discussed at length during the Joint Parliamentary Committee on Corporations and Financial Services Inquiry in the Regulation of Auditing in Australia (2019-2020). The committee recommended that the Australian Government take appropriate action to make digital financial reporting standard practice in Australia. We see no fundamental difference in this discussion with climate related financial disclosures, and as such we support finding a long terms solution to mandate digital reporting.</p>

Question	G100 response
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?	No response.



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