Heads of Treasuries Accounting and Reporting Advisory Committee

Secretariat: NSW Treasury

C/-GPO Box 5469, Sydney NSW 2001

Submission Ref: CRFDCP-Dec22-HoTARAC

Contact Member for Submission [redacted]

24 February 2023

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: climatereportingconsultation@treasury.gov.au

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee is comprised of the senior accounting policy representatives of Australian States, Territories and the Australian Government.

HoTARAC welcomes the opportunity to submit the following response to the Climate-related financial disclosure Consultation paper (December 2022) and highlight particular aspects of relevance from the public-sector perspective. **Appendix A contains our detailed responses to the 19 questions outlined in the consultation paper.**

HoTARAC has provided comments on both the matters in the Consultation paper as they relate to all reporting entities, and on matters of particular relevance to the public sector. The ISSB is focused on the needs of investors and other capital market participants and the AASB will initially consider the private for-profit sector. However, HoTARAC anticipates the public sector may need to consider the information needs of users beyond the scope of the ISSB standards. We hope our comments on the public sector can inform the development of standards in Australia and any potential adaptation to the public and not-for-profit sectors.

If you require any further information or explanations, please, in the first instance, contact [redacted] from Queensland Treasury on [redacted]

Yours sincerely

Heads of Treasuries Accounting and Reporting Advisory Committee

APPENDIX A – HOTARAC RESPONSE TO CONSULTATION PAPER QUESTIONS

The following acronyms are referred to frequently within this submission:

AASB – Australian Accounting Standards Board

AuASB – Australian Auditing and Assurance Standards Board

HoTARAC – Heads of Treasuries Accounting and Reporting Advisory Committee

ISSB – International Sustainability Standards Board

IFRS – International Financial Reporting Standards

Draft IFRS S1 – ISSB [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Draft IFRS S2 – ISSB [Draft] IFRS S2 Climate-related Disclosures

TCFD – Taskforce on Climate-Related Financial Disclosures

Introduction

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?

HoTARAC would reference the joint AASB and AUASB submission to the ISSB which outlined costs associated with climate-related disclosures under the ISSB's proposed draft IFRS S1 and S2 Standards[1]. In summary, the AASB and AuASB highlight that the costs of implementation will likely be significant.

Many of the benefits will be difficult to measure, or identifiable as intangible in nature, recognising that climate-related reporting is increasingly featuring in the capital allocation decisions made by global financial market participants. The 2022 TCFD Status Update found that 90% of the respondents used climate-related financial disclosures in making financial decisions. To this end, and as outlined in this submission, a measured, practical and stepped implementation is required to balance the compliance costs while ensuring access to capital is available.

A significant factor for public sector entities, particularly at the Commonwealth, State and Territory level, is achievement of government policy objectives seeking to optimise economic benefits, rather than maximising financial returns on invested capital. The public sector (and some other not-for-profit entities) have different objectives to be achieved from sustainability reporting to those of the private sector.

Consequently, HoTARAC's view (as reflected in this submission) is that climate-related reporting standards should not be mandated for the not-for-profit public and not-for-profit private sectors until the requirements of such standards can be implemented in a cost effective and meaningful manner, or requirements have been appropriately tailored for a not-for-profit context.

[1] Refer to Appendix A, Question 16 (Page 30) and Appendix B, Question 12 (Page 50) in the AASB/AUASB submission dated 28 July 2022 *"ISSB Exposure Drafts on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures"* available at https://aasb.gov.au/media/qjpbq5xr/issb_submission_ifrs_s1_and_s2a.pdf

APPENDIX A – HOTARAC RESPONSE TO CONSULTATION PAPER QUESTIONS

Covered entities and timing (Q.2 – Q.3)

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?

HoTARAC supports a phased approach to the introduction of climate-related disclosures across the Australian economy, commencing with the for-profit private sector initially.

Subsequent phases should only include the public sector once all significant sector-specific issues have been sufficiently addressed. Excluding the not-for-profit public sector as part of any initial mandate reflects the view of HoTARAC members.

This phased introduction for the public sector at a later date is consistent with the AASB's current position outlined in Exposure Draft ED321 around the initial application of proposed ISSB standards to the for-profit sector only[2].

While ISSB standards may provide a suitable starting base for climate reporting by governments, HoTARAC expects future work by other bodies such as the International Public Sector Accounting Standards Board (IPSASB) [3] and the Global Reporting Initiative (GRI) [4] will also inform additional reporting considerations specific to the public sector. A phased approach will further allow such developments to inform public sector sustainability reporting initiatives.

Some HoTARAC members remain concerned about the readiness of Australian entities generally for initial adoption in the 2024-25 financial year while certain key aspects of reporting under the draft ISSB protocols are still unclear or guidance is being developed (for example: scope 3 emissions reporting and climate scenario analysis modelling). Public sector considerations in these areas are discussed in a later section.

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?

Regarding Q3.1, HoTARAC does not express a view on what "size thresholds" would be appropriate.

Regarding Q3.2, as stated in our response to Question 2, **individual public-sector entities (including departments and statutory bodies) should be excluded from the initial phase, with individual Commonwealth, State and Territory jurisdictions retaining flexibility to align climate reporting for individual agencies with their whole-of-government disclosures.**

Climate (and sustainability reporting more broadly) by the public sector involves different objectives and reporting considerations to the private sector depending upon whether reporting is completed at an individual agency level, a whole-of-Government level, or even a whole-of-State (i.e. geographical jurisdiction) level.

[2] Page (v) of the Introductory Request for Comment to Exposure Draft ED321 (https //aasb gov.au/admin/file/content105/c9/ACCED321-04-21.pdf)
[3] https //www ipsasb org/news-events/2022-12/ipsasb-confirms-its-role-advancing-public-sector-sustainability-reporting
[4] https //www ifrs.org/news-and-events/news/2022/06/issb-and-gri-provide-update-on-ongoing-collaboration/

Further, the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) divides the public sector into the General Government Sector (GGS), the Public Non-Financial Corporations (PNFC) sector and Public Financial Corporations (PFC) Sector. All 3 sectors combined comprise what is known as the Total State Sector (TSS).

A key consideration within the public sector is that climate risks and disclosures for GGS, PNFC and PFC entities are interrelated with Government as a whole. Individual agency disclosures therefore require a whole-of-government context for users to make a fully informed and complete assessment of individual agency climate-related financial and non-financial disclosures.

Maturing whole-of-Government climate-related disclosures is therefore the first step to effective public-sector reporting, meeting capital market participants needs and establishing the government context in which future climate disclosures will be made.

For this reason, **Treasury Corporations and Government Insurance bodies classified as Public Financial Corporations should not** be included in any initial climate disclosure mandate for financial institutions (including with prudentially regulated financial entities). Climate-related disclosures for central treasuries and captive Government insurers can only be properly understood in the context of the whole-of-government on whose behalf they raise capital or insure risk. Their disclosures should be aligned to any whole-of-Government reporting as they do not operate unilaterally but within the confines of Government policy directives.

Similarly, climate-related disclosures by Government owned companies/enterprises in the PNFC Sector also need to be considered in the context of each jurisdiction's whole-of-Government climate disclosures, rather than in isolation. HoTARAC would therefore support excluding these entities from any initial mandate, allowing individual Commonwealth, State and Territory jurisdictions to align climate related disclosure for all Government entities across all sectors with their whole-of-Government disclosures.

Australian State and Territory jurisdictions are currently working through the implications of climate-related risk disclosures and sustainability reporting at these various levels with key financial stakeholders. Initial steps have already commenced in these jurisdictions towards developing appropriate whole-of-government sustainability reports applicable to that jurisdiction's unique circumstances.

International Alignment of Disclosures (Q.4)

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?

Regarding 4.1, HoTARAC does not express a view on this question, other than to note the ISSB framework builds on the TCFD principles. If Australian standards are based on ISSB standards, these should be suitably tailored for the public sector. We understand that many organisations, including in the public sector, have used the TCFD Recommendations as a basis for climate related disclosures to date. Therefore, consistency with TCFD and will assist in transition to ISSB-based standards.

Regarding 4.2, consistent with our response to Question 2, the public-sector will need to consider the work being undertaken by IPSASB, Global Sustainability Standards Board (GSSB) and other bodies on public sector specific sustainability reporting frameworks. HoTaRAC sees the merit in having a coherent reporting framework for the public sector taking into account ISSB's standards (once developed) and public sector specific frameworks.

Where existing Australian reporting requirements are more stringent than, ISSB requirements, consideration should be given to such requirements being available as a credible alternative or proxy.

By way of example, reporting under the *National Greenhouse and Energy Reporting Act 2007* could potentially be utilised if its requirements meet or exceed ISSB requirements. This point was identified in the AASB and AUASB joint submission on ISSB Exposure Drafts on *[Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures*[5] *reproduced as follows:*

"The AASB and AUASB agree that the IFRS Sustainability Disclosure Standards should reference the GHG Protocol as a global baseline. However, to the extent possible, entities should be permitted to apply the jurisdictional GHG protocols or standards relevant to their operations. Many jurisdictions, including Australia, already legislate and regulate the regular reporting of GHG emissions. In the case of Australia, the National Greenhouse and Energy Reporting Act 2007 (NGER Act) is more stringent and accompanied by more guidance and support than the GHG Protocol. In particular, we are concerned that should such optionality not be permitted, entities would be required to report their GHG emissions under two different protocols depending on where those disclosures are being made. Consequently, we recommend that entities be permitted to use relevant jurisdictional GHG protocols or standards so long as they align with the GHG Protocol or are not of a lower quality than the GHG Protocol."

Finally, the consultation paper asked about the appropriateness of the use of the Climate Active's Carbon Neutral Standards as a possible framework for use in Australia. HoTARAC members note that these standards have not yet been subject to formal review or testing regarding their suitability to the public-sector context.

Regulatory framework for required climate disclosures (Q.5)

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?

The design of any new regulatory framework will require flexibility to accommodate future standards around natural and social capital, in addition to the proposed climate-related disclosure standards.
It also needs to operate in an effective and flexible manner.

HoTARAC considers an approach similar to that which applies for the accounting and auditing standards would be appropriate, whereby legislation enforces the obligation with the subordinate standards providing all the detailed requirements and applicable guidance.

This approach also allows the governing body responsible for oversighting the framework to accommodate the unique needs of not-for-profit and public sector along with the for-profit private sector.

[5] Refer to the section titled "Permitting the application of jurisdictional legislation relating to greenhouse gas emissions disclosures" in the AASB/AUASB submission dated 28 July 2022 *"ISSB Exposure Drafts on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures" available at* https://aasb.gov.au/media/gjpbq5xr/issb_submission_ifrs_s1_and_s2a.pdf

Periodic reporting requirements (Q.6)

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?

HoTARAC are mindful of distinguishing between financial and non-financial climate related disclosures, notwithstanding an observed tendency for the terminology to be used interchangeably when referring to climate reporting in its entirety.

HoTARAC's consensus view is that a separate report for climate-related disclosures is the preferred approach for both preparers and users, and particularly in the public-sector. Preparers should, however, retain flexibility as to where climate-related financial disclosures are presented, particularly if information is already disclosed in financial statements or budget papers, to avoid duplicating disclosures. Preparers should cross-reference to other sources of relevant disclosures in this separate report where appropriate.

A separate sustainability report does not preclude an executive summary being included in the annual report or directors report, with suitable cross references to the full sustainability report.

In the public-sector, initial approaches to sustainability reporting by State and Territory jurisdictions have been focused on publishing a stand-alone, whole-of-Government sustainability report, with appropriate linkages to other financial and non-financial information (e.g. financial reports, budget documents and other statistical information) where applicable.

Additional benefits of a separate sustainability report include:

- additional sustainability related topics can be easily added in future years to ensure ongoing alignment with international sustainability reporting frameworks; and
- avoids an exponential increase in the length of financial statements or the operating/financial review section of the directors' report.

Materiality of climate risks (Q.7)

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)?

The concept of enterprise value in the public-sector (and for the broader not-for-profit sector) is not relevant. Consequently, we welcome the outcome of the ISSB's October 2022 Board meeting where they now plan to remove the existing definition of 'enterprise value' and the words 'to assess enterprise value' from the objective and description of materiality in the proposed Exposure Draft IFRS S1: *General Requirements for Disclosure of Sustainability-related Financial Information.*

A further consequence of this action is that the ISSB have now agreed to fully align its description of materiality with IFRS Accounting Standards.

APPENDIX A – HOTARAC RESPONSE TO CONSULTATION PAPER QUESTIONS

Whilst HoTARAC members are supportive of aligning materiality concepts to those used for financial reporting purposes, there remains considerable concern over how materiality will actually be applied in practice. HoTARAC strongly believes this area requires additional guidance from sustainability standard setters. Matters of primary concern include:

- The extent to which materiality judgements will differ between stakeholders, such as management, assurers, and users.
- The lack of practical guidance assessing cumulative materiality for entities as a whole based on aggregating different non-financial and/or qualitative measures.
- The role of 'double-materiality' versus 'single materiality'. Notwithstanding the ISSB's October 2022 Board meeting outcome, it is not yet clear whether the ISSB's revised definitions actually excludes elements of 'double materiality' in practice. The staff of ISSB have indicated that focus on 'financial materiality' does not exclude the consideration of sustainability related impacts in general. Clarity on the application of 'materiality' judgements could assist with consideration of sustainability risks and disclosure qualitatively in the public-sector, when the AASB adapts ISSB standards for the public sector.
- Double materiality is potentially much more extensive and complex to apply, but given the nature of climate and sustainability-related risks and disclosures, some double-materiality considerations may be appropriate, either on an optional basis or through additional guidance, to overcome materiality challenges in these areas.

Assurance of climate risks (Q.8)

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?

HoTARAC does not express a view on who should provide the assurance other than to identify that, in the public-sector, auditors-general have specific jurisdictional audit mandates that must be considered. Sufficient time for the public-sector to work through how these assurance mandates interact with climate-related assurance requirements will be required.

Assurance over climate (and sustainability disclosures more broadly) is a critical issue. Consistent with our feedback to the AASB in July 2022 on the draft ISSB proposals, assurance requirements for climate disclosures that are fully compliant with the proposed IFRS S1 and IFRS S2 may be difficult to apply in the early years because preparers will need time to fully implement up to the evidential standard required. This will be even more so if a level of audit ('reasonable assurance') is required. Further, some of our members have identified the need for a sufficiently knowledgeable and skilled base among assurance providers.

Consequently, we believe it will take a period of time for the auditing and assurance capabilities and skill sets to be developed by assurance practitioners, in addition to the development of datasets and systems, to ensure consistent and credible levels of assurance across the Australian economy.

HoTARAC believes it is worth considering an initial exemption from having climate-related disclosures audited, and rather than impose mandatory assurance from day 1, examine a transitional (or phased) approach to assurance for climate-related disclosures (especially for the not-for-profit and public sectors).

Some HoTARAC members consider limited level assurance reviews early in the adoption phase can help entities better align disclosures with climate-disclosure frameworks they report under. However, it is also acknowledged in the absence of recognised assurance baselines, such reviews may not achieve consistency for users.

A transitional pathway would seek to gradually increase the level of assurance provided over time, and include a period of limited assurance (i.e. a review) before moving to a higher level of assurance as assurance capabilities mature. An initial exemption from the requirement for assurance need not restrict entities from voluntary electing to have their disclosures independently assured.

We acknowledge a trade-off exists between delaying mandatory assurance for the reasons outlined above and the concern over disclosure credibility and the ability for users to rely on such disclosures. However, adequately established and recognised assurance frameworks are also necessary to address concerns over credibility and reliance. In the medium to longer term, we agree with the view that providing assurance over sustainability reports would enhance the confidence of users in the report contents.

We note the work undertaken by the International Auditing and Assurance Standards Board (IAASB) and the Australian Auditing and Assurance Standards Board) to address assurance issues. However, this work is not yet complete, and we support both ongoing work in this field and further liaison between sustainability standard-setters and assurance standard-setters.

Reporting of metrics (including emissions), offsets and transition plans (Q.9 – Q.12)

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 emissions reporting is a challenging and complex undertaking. HOTARAC welcomes the ISSB's commitment at their October 2022 Board meeting to develop relief provisions around scope 3 emission disclosure requirements using the Greenhouse Gas (GHG) Protocol. The ISSB has also indicated a temporary exemption from scope 3 emission disclosures for a minimum 12-month period following their December 2022 board meeting.

Whilst the exact nature of all relief provisions is still to be determined, HoTARAC members broadly support a period of initial relief from mandatory scope 3 emissions reporting followed by a phased/transition that provides sufficient time for data collection, system changes and capability uplifting appropriate to Australia. Question remains as in whether a 12 month relief will be sufficient to develop this capability, methodology and system requirements to an adequate level.

Some HoTARAC members consider the extent and relevance of scope 3 emissions reporting in the public-sector requires further analysis before its introduction, to reduce the administrative burden and ensure meaningful information is conveyed to stakeholders without undue cost or effort.

By way of example, Commonwealth, State and Territory governments will potentially be reporting scope 3 emissions for individual agencies then for the whole-of-government (i.e. controlled entities and associates comprising the General Government Sector/Total State Sector). Also, the public sector will need to consider reporting for whole-of-state as a geographical jurisdiction. Consequently, assessing what constitutes the most meaningful reporting of emissions data for Government should be examined, in addition to avenues to streamline reporting of scope 3 emissions, minimise any duplication, and the need to eliminate/reconcile "internal-to-government" emissions for reporting purposes.

Finally, scope 3 emissions disclosures under the ISSB are currently proposed using the GHG protocol. Much of the GHG protocol supporting materials and emissions factor resources are highly US centric, or rely on international jurisdictions outside Australia. At times these standards are inconsistent in some respects with the *National Greenhouse and Energy Reporting Act* 2007. Some parties have concerns about how well these standards apply to sector-specific guidance.

As an alternative methodology, further consideration should be given to expanding the Australian National Greenhouse Accounts Factors (https://www.dcceew.gov.au/sites/default/files/documents/national-greenhouse-accounts-factors-2021.pdf) published by the Australian Government's Department of Climate Change, Energy, the Environment and Water, in consultation with other State and Territory jurisdictions.

Developing this capability would help build a reliable, comparable and comprehensive dataset for scope 3 emissions factors in Australia, further reducing any impediments to its adoption.

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

HoTARAC would refer to the concerns raised by the AASB and AUASB in their joint submission to the ISSB, particularly in relation to the appropriateness of the proposed industry descriptions, industry-based requirements and industry specific metrics in a public sector context.[6]

Consideration should be given to industry-specific metrics being adopted at a later date or phase. We observe that industry-specific metrics within the draft IFRS S2 are heavily 'US-centric' which makes direct application in Australia problematic without comparable local metrics.

Further, as they are not applicable, or readily applicable, to the public-sector, the feasibility of developing a baseline of relevant public-sector metrics for use in Australia requires further consideration. HoTARAC believes this could be undertaken as part of evaluating "service performance reporting" in the public sector by the AASB.

[6] Refer to Appendix A, Question 16 (Page 30) and Appendix B, Question 12 (Page 50) in the AASB/AUASB submission dated 28 July 2022 *"ISSB Exposure Drafts on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures" available at* *https://aasb.gov.au/media/gjpbq5xr/issb_submission_ifrs_s1_and_s2a.pdf*

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?

In general, the phased introduction of climate reporting will aid efforts to improve transparency and quality of disclosures.

Providing certainty around the sustainability framework and standards to be applied, developing practical guidance around scope 3 emissions reporting for Australia and addressing how climate scenario modelling to international agreements can be practically applied will help reduce uncertainty and confusion amongst preparers. This would be expected to improve the transparency and quality of information disclosed and may help minimise the occurrence of 'greenwashing' to fill any perceived reporting gaps.

Finally, climate-related disclosures (and sustainability disclosures more broadly) require a sufficient understanding of the theoretical concepts and how they apply in practice. The increasing level of demand for the expertise required for these disclosures, including future nature and social sustainability areas, will exacerbate existing skill shortages in the accounting, auditing and environmental professions.

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

Refer to responses in Question 2, Question 8, Question 9 and Question 11 regarding our support for a phase in of reporting and auditing/assurance requirements.

Data and capability to support climate reporting (Q.13)

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?

As outlined in Question 9, capacity to measure and account for scope 3 emissions will be a particular challenge for the public sector and non-for-profit sector. We reiterate our comments around developing comprehensive scope 3 emissions factors for Australia using the National Greenhouse Account Factors as a starting point.

Governance of supporting information for disclosures (Q.14)

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?

Paragraph 23 of the ISSB S2: *Climate-related disclosures* Exposure Draft and subsequent ISSB decisions propose that an entity be required to disclose information about its emission-reduction targets, including the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives), as well as information about how the entity's targets are informed by those prescribed in the latest international agreement on climate change.

HoTARAC is aware that several international bodies have developed (or are further developing) scientifically recognised climate scenario modelling including, but not limited to, the Intergovernmental Panel on Climate Change (IPCC), International Energy Agency (IEA) and Network for Greening the Financial System (NGFS).

There are currently significant challenges, and a lack of practical guidance, in adapting these climate scenarios for the purpose of reporting to meet the proposed ISSB requirements. In HoTARAC's view:

- Any single scenario analysis model should not be mandatorily applied to all entities for the purpose of meeting any climate disclosure requirements. However, acknowledging the benefit of consistency to support comparability, guidance around a standardised approach to scenario selection and analysis would be beneficial.

- from a public-sector perspective, each jurisdiction will need to adopt scenario modelling analysis consistent with its geographical location(s) and specific to its own climate-related risks. Ultimately, public-sector jurisdictions will require flexibility and discretion in the scenario analysis modelling they adopt.

- further engagement with the public-sector is required to determine the appropriate reporting level at which scenario modelling should be applied within Government. As noted above, guidance in adapting climate scenarios to smaller geographic regions or even to an 'entity level' that would result in reliable and meaningful disclosure requires further development. Current efforts within HoTARAC jurisdictions are focused upon examining how scenario modelling could be undertaken at the whole-of-government level, which is necessary before it is applied to a lower level of reporting within Government.

Subject to the above points, HoTARAC supports further work being undertaken to identify scientifically recognised climate modelling frameworks that are appropriate to the Australian economy and the development of guidance to facilitate application to Australian entities in the interests of consistency, reliability and stability for such disclosures.

Proportionate application of liability (Q.15)

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?

It is impractical for HoTARAC to express a view on this question.

Interaction with other reporting obligations (Q.16)

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?

It is impractical for HoTARAC to express a view on this question.

Other implementation issues (Q.17 - Q.19)

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?

In HoTARAC's view, it is critical that the structural reforms to accommodate sustainability-related reporting should be sufficiently flexible to incorporate current developments in climate disclosure and anticipated future topics in the areas of natural capital, human capital and social capital/development.

It is imperative that any design or re-design of such reforms must consider how sustainability reporting policy and guidelines specific to the not-for-profit and public-sector are incorporated.

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

It is HoTARAC's view that digital reporting should not be mandated in the initial years of sustainability reporting. HoTARAC notes that digital financial reporting is currently voluntary and does not yet have widespread adoption in Australia.

Digital reporting of sustainability information could be considered once sustainability reporting has matured and generally recognised baselines have been established. However, we question the need for it to be mandatory, particularly for small and medium entities in the not-for-profit private and public sectors, where the costs of implementation would be likely excessive compared to the resulting benefits, and the rationale for digital reporting is unclear.

Aside from sustainability reporting disclosures being in their relative infancy, potential barriers and costs to digital reporting for the not-for-profit public and private sectors include: the adoption of new technologies, the interaction with legacy systems, training and developing capabilities in new fields digital reporting, and establishing a genuine need from users for digital reporting rather than it simply being a legislative requirement.

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?

HoTARAC does not express a view on which of the preferred structures in the CP would 'best improve' the effectiveness and efficiency of the financial reporting system.

Irrespective of the structure adopted, it is essential that sufficient resources and capabilities to address both accounting and sustainability issues exist. For the public-sector, sufficient capacity must exist to facilitate consultation with the Australian Bureau of Statistics (ABS) / International Monetary Fund (IMF) - who administer the Government Financial Statistics (GFS) framework - and the IPSASB.

As public-sector sustainability reporting further progresses, we anticipate significant liaison between the public sector, sustainability standard setters and the ABS to determine whether any alignment is required between sustainability reporting and GFS in the future.