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To: Climate Reporting
Subject: Climate-related financial disclosure feedback
Date: Wednesday, 1 February 2023 1:52:33 PM

I have attempted to provide some feedback to the paper below in Blue with the original questions in Black.

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?

I believe that using the existing standards makes the most sense due to:

- Many corporations in Australia have related entities in Eu or US, or are headquartered in these countries.
- Au companies will be required to report scope 3 at some date, and if these scope 3 emissions come from an Eu/US company then the same standard will make implementation easier
- Investors looking at information will want to be able to compare companies using the same standards

1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

- As above

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?
Scope 3 for the ASX200 will require thousands of suppliers to the ASX200 to also report emissions for which they will require a few years to prepare.

2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?
Scope 1, 2 are quite easy to report any implementation should focus on including as many companies as possible without causing financial strain, this will help pave the way for the smaller companies to start reporting at a much lower cost, once all listed companies are reporting scope 1,2 we should implement scope 3 this trickle down effect will enact the biggest benefit to the environment at the lowest cost to small business.

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?
Covered above.

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?
Government bodies and regulators, if the entities that are enforcing these rules are in the initial batch it will help them understand the issues, and help refine this legislation over time, in addition government at all levels is huge emitter.

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?
Again a large number of entities are multinational, having different regulations in Australia will make it harder for them to do business here, or they will be more reluctant to open Australian entities resulting in the loss of tax revenue.
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? Australia should attempt to get a seat at the table for influencing global standards rather than modifying them for Australian usage.

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)?
I think we need to look at who should be reporting, if we eventually want all companies registered for GST to report then ASIC makes the most sense. ASX would only cover listed companies on the ASX and there are a few other exchanges in Australia NSX, etc.

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?
Directors' reports make the most sense, but one consideration here is that this will often be tracked in real time as large companies build out the technology infrastructure to do so; as such it will become more and more sensitive to the market, opening up a whole new vector of insider trading. e.g. BHP reports carbon emissions are up, the market can deduce that they have increased iron ore extraction, and trade. The number of people inside a company who have access to this information will be higher than the financials, perhaps reporting it more often would reduce this?

Additionally as BHP will be required to report scope 3, it will ask its supplies to provide their emissions, this will mean some BHP employees will have access to all the suppliers emissions opening up a "semi insider" trading gold rush, perhaps real time or weekly reporting makes sense to avoid such trading.

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)?
Any of this reporting is material due to the green ETF's we already see, in addition to the risks described in Q6 I think any climate reporting is going to be deemed to be material sooner or later, so why not start with that position.

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?
Directors should be validating this, that is their role enforcing the use of consulting companies to do this will drive up implementation costs, and as we push for scope 3, the smaller companies that supply the bigger companies will not be able to afford this financial burden. The larger companies will still rely on the big 4 for these reports, but lets give flexibility to the smaller organisations.

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 implementation will force a lot of supplies to the larger companies to report, so

this should be phased and initially excluded from assurance/audit, until the data quality is up to standards for financial markets.

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, this information should be standardised so that a layman can understand and compare data between companies, the alternative will ensure quants analyse this data and find a trading edge to exploit over common australian shareholders and super funds.

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?
This is the kind of information most are already providing, the market is demanding it, no need to legislate.

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?
I think directors already have a duty to disclose this accurately as these are material, if there is a need for auditing these we are creating additional expenses for business and this will prevent the expansion of these requirements to all GST registered businesses which I think should be the end goal.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?
Not to my knowledge

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? I think for scenario modelling the methodology needs to be published along with the data, pushing for scientific bodies to do this work will ensure additional cost especially to smaller businesses. But this is an area to watch and refine.

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?
If the methodology is reported as per Q14 then safe harbour for scope 3 makes sense, but I worry that without the methodology being provided we are allowing greenwashing to occur.

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?
My question here is how is BHP going to report scope 3 if it is waiting on its suppliers to report, BHP will have the negotiating power to enforce supplies to provide this data, but how will the small powerless suppliers report? I think we need to look at some kind of data exchange here, to prevent insider trading based on climate reports, keep the small businesses that supply the larger ones (BHP in my example) to not be squeezed out by larger suppliers.

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?
Activist shareholders and green ETF's are pushing this currently, I think this is another area to watch and introduce legislation after we have scope 3 reporting implemented.

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?
I think the NZ model here with XRB works best, there are a few downsides but through these answers my common theme is how does a small supplier to a large company compete with a larger supplier to a large company without standardisation, we will not get software vendors building tools that are easy to use for the smaller companies.
If we go with the XRB model we will get standards and hopefully an API to allow the as yet unbuilt software to report this to both the XRB type entity and to customers, allowing small business to remain competitive with larger businesses.

Regards,
Ben King