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Climate Disclosures Unit
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To Whom it may Concern

Consultation Paper: Climate-related financial disclosure (December 2022)

Thank-you for the opportunity to provide feedback on the consultation paper *Climate-related financial disclosures.*

Moore Australia is a network of independent accounting firms, with 14 offices and 500+ staff across Australia's capital cities and regional centres. We work with smaller listed clients along with large private companies and are well placed to comment on the implications of these proposals on the mid-tier of Australian organisations. Our feedback in this letter is the outcome of discussions across our network.

The national discussion to date appears to have been focussed on the impacts of climate-related disclosures on the largest listed companies, and we encourage you to also ensure sufficient consideration is given to the needs and implications for the mid-tier of Australian companies, who make up a large proportion of the Australian corporate landscape in absolute number of entity terms.

Overall, we are supportive of the introduction of sustainability and climate-related financial disclosures into the Australian marketplace and see it as an essential step for the Australian economy to stay globally competitive as other jurisdictions move ahead with similar disclosure requirements. The reporting on sustainability and climate-related data will focus investors and therefore organisations' attention on this important area and the natural development will be an increased focus on improving the matrices reported an important step in any progression to a net zero future.

Please see our detailed responses to selected questions from the Consultation in the Appendix.

If you wish to discuss our responses in more detail, please contact me via email ([redacted]).

Yours Sincerely,

[redacted]

National Head of Technical Accounting

Moore Australia

Appendix

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?

The existing disclosure requirements are minimal on the mid-tier of Australian organisations. Whilst the largest listed companies have been voluntarily preparing these disclosures for some time, there is almost no reporting done at the mid-market level. Accordingly, it is our understanding that there is minimal cost associated with meeting current expectations. It is unlikely that any mid-market organisation will prepare climate-related financial disclosures unless there is a mandate to do so.

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

We believe that, if as a country we are serious about tackling climate change, it is essential that Australia introduces mandatory sustainability linked disclosures. For the majority of companies, it is going to be the existence of reporting requirements that will ensure they focus on their sustainability practices. The increased investor focus, and just the existence of having a tracked number, is what will drive companies to enhance their sustainability credentials. This directed focus by organisations is the only way that Australia can hope to progress to a net zero by 2050.

If we are to adopt sustainability-related disclosures, it is essential that these are based on a global base-line standard, to maximise the global comparability and efficiency of application. See response to question 4 below.

In addition, due to the increase in investor demand, if Australia fails to introduce sustainability and climate-linked disclosures, there is potential that sophisticated investors will look to other capital markets to invest, where this data is available.

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

Yes. Whilst the largest Australian listed companies have been providing voluntary disclosure for a number of years, and the incremental step to any mandatory disclosures may not be significant, for smaller organisations that have not previously provided this information, the ability to present these disclosures for June 2025 would be significantly challenging. Allowing a phased approach to transition would be beneficial as it would:

- Give smaller organisations longer to implement systems to capture and monitor this information, including developing governance and risk management strategies for sustainability
- Allow those smaller organisations to benefit from the learning of the larger organisations who are leading the way and to benefit from the tools and resources that are developed for those largest organisations
- Resource constraints in the Australian market mean that having sufficient advisors, assurance providers etc in a position to mandatorily adopt these sustainability-linked financial disclosures all at one time would be challenging and may end in sub-optimal implementation and disclosures. Allowing a staggered approach would alleviate this pressure.

2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

Any second phase of mandatory disclosures should occur soon after the initial application, ideally within 1 – 2 years. Such a short time frame will maximise the efficiencies that can be gained from following on from the largest organisations and ensure that the resources created for the first cohort of companies are still relevant.

See question 3 regarding who should be included in a subsequent phase.

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?

We believe there is little benefit in restricting mandatory disclosures to just large, listed entities in the initial phase. Given that many of the large listed entities area already providing voluntary disclosures, usually in line with the TCFD requirements, which were the basis of the ISSB's draft standards, limiting mandatory application to these largest listed companies is unlikely to increase the number of entities providing these disclosures. If the aim is to increase the number of entities providing these disclosures, then it would be appropriate to increase the pool of entities that are required to disclose even in the first phase. It may be appropriate that this is extended to all listed entities or all disclosing entities under the *Corporations Act (2001)*.

Extending it in the initial phase to all listed entities, would also provide much greater simplicity of application rather than adding additional complexities into regulatory landscape with additional hurdles and subsets of entities that need to be identified. Using existing thresholds that preparers, advisors and assurance providers already understand, will reduce the effort and resources that may need to be committed to identifying whether an entity is in or out of the disclosure regime.

After the initial phase we believe that is essential that large proprietary companies and unlisted public companies also provide these disclosures in a subsequent phase. Although we acknowledge that this may be burdensome for some of these companies, large private companies do represent some significant GHG emitters and other industries impacted by climate such as some of the large private pastural companies. Accordingly, if the intention of requiring these sustainability-related financial disclosures is to ensure that companies and investors focus on these issues, and to support the nation to reach net zero by 2050, it is essential that these large companies also be included.

We believe that like financial reporting requirements, large proprietary companies should be identified on a consolidated basis, so that structuring operations into separate entities does not mitigate companies reporting obligations. There are costs and benefits of saying that all large proprietary companies should be providing these disclosures. As noted above, the use of existing thresholds is well understood and would reduce the complexity of identifying the entities in scope of the requirements. We do acknowledge, however, that these disclosures may be too burdensome for the smaller 'large proprietary' companies as identified under the *Corporations Act (2001)* and adding another higher threshold, or a threshold based on some sort of climate related indicator may be more appropriate.

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?

The requirements to disclose Scope 3 emissions will prove challenging if key suppliers of those organisations scoped into the requirements have no mandated disclosures or incentive to voluntarily disclose. An example of the trickledown effect on reporting requirements was seen in South Africa on the introduction of Broad Based Black Economic Empowerment scorecards and reporting. As the Larger companies required their suppliers to provide data regarding their black employment etc, a broad range of companies had to adopt reporting requirements to ensure that they remained suppliers of choice. It may be that a similar outcome arises in Australia, if companies in the initial phase require information from other companies in their value chains. Ultimately a larger proportion of companies may need to collate the disclosure information from the initial phase even if they are not scoped in. This may be particularly wide reaching for financial institutions if they require information from their lending clients, especially any that are large GHG emitters.

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

Yes. It is essential that our climate reporting requirements are aligned with a global baseline, so that we remain globally competitive and consistent with the emerging requirements around the world. For Australia's largest companies, it will be essential that there is global comparability. Whilst global comparability is not essential for mid-sized companies, preparers, advisors, and auditors have already seen the benefits that have arisen from applying the global International Financial Reporting Standards (IFRS). It would be inconsistent to not adopt these global standards issued by the sister board to the International Accounting Standards Board (IASB) on sustainability to take benefit of similar benefits.

The use of IFRS sees Australian preparers, advisors and auditors having access to a broad range of resources and knowledge pooled from around the world on the IFRS standards. The use of the ISSB's proposed standards will also allow for similar efficiencies. Due to the volume of resources being invested in developing software packages, guidance, assurance programs etc in relation to these global standards which will be benefited by preparers of these disclosures as well as advisors and assurance providers over the disclosures. If Australia was to develop separate disclosure requirements, the ability to leverage of these global resources would be limited, increasing the complexity of implementation and potentially the quality of the final disclosures. The time to develop such disclosure requirements would also unduly delay any implementation of the requirements as well.

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?

No Specific comments

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?

Yes – see the answer to question 4 above. The ISSB's baseline standards and their focus working with jurisdictions who are looking at implementing their own disclosure requirements, to ensure the interoperability will mean that the ISSB's proposals will be the best source of truly global baseline of sustainability related disclosures.

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)?

Climate and sustainability-linked financial disclosures should be given the same level of prominence as financial information. Accordingly, it would be appropriate that, similar to the legislation in chapter 3M of the *Corporations Act (2001)* which requires financial reporting by companies, similar legislation should be put in place to mandate climate and sustainability-linked financial disclosures as well.

Consideration should also be given however, to whether additional legislation should be put in place to require disclosures from large partnerships and other unincorporated structures not captured by the *Corporations Act (2001)* to be captured and required to provide these disclosures as well.

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?

We consider that the main driver of the location of the sustainability-related disclosures is going to be the need for an assurance opinion over the disclosures, which we support (See question 8 below). Accordingly, we believe a separate Sustainability Report, similar to the Remuneration Report, is the most appropriate place to put climate (and other sustainability information). Unlike the existing requirements for the Remuneration Report which have it as a subset of the Directors' Report, it would be better to have the Sustainability as a separate standalone report, so that it is not obscured by the other Directors' Report disclosures

In order to be able to provide an assurance opinion it is going to have to be in a discrete location, and having it located in a separate Sustainability Report will allow it to have its own specific assurance requirements.

We do not think that the inclusion of sustainability-related disclosures in the financial report is a viable option as firstly there is already criticism of the length of financial reports and including the sustainability-related disclosure in there will do nothing to alleviate the length. Inclusion in the financial report will also require it to be subject to the same level of assurance as financial information which may not be optimal (see question 8 below).

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)?

As we support the adoption of the ISSB draft standards, we also consider that the materiality judgements should be consistent with those in the ISSB standards. As has been seen historically with the adoption of the International Financial Reporting Standards, diverting from the global standards, creates unnecessary complexity and confusion for preparers and users.

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?

What level of assurance should be required?

We believe that assurance should be provided over sustainability information. Given ASICs focus on Greenwashing, an important feature of any sustainability reporting regime should be to have an independent verification of sustainability disclosures.

Due to the nature of the climate-related financial disclosures which consists predominately of forward looking information, or information out of the direct control of the entity preparing the disclosures (such as scope 3 GHG emissions) we consider the ability to obtain sufficient appropriate audit evidence to be able to provide reasonable assurance (an audit opinion) would be extremely challenging. Accordingly, we think that it would be more appropriate to require limited assurance (a review opinion) over the sustainability information.

If audit opinions were required, it is likely that at least in the short term, there would be numerous scope exemptions or disclaimers in relation to different elements, that it may reduce the readability and value of the assurance being provided in the first place.

Who should provide the assurance?

We believe that Registered Company Auditors are the best placed to provide assurance opinions. By becoming a Registered Company Auditor, they have demonstrated that they have the skills and training to provide assurance services which is a unique skill set. Over time we do believe that Registered Company Auditors will start to build the skill sets to complete these assurance engagements. However, there will always be need for them to use expertise of others, which will be more pronounced in the early years. Registered Company Auditors, have processes and checks in place for the use of experts, such that it would ensure that the experts in climate-risks and modelling are still involved in the process and will appropriately integrate the assurance and climate risk expertise.

Should Assurance providers be subject to independence and quality management standards?

Yes. Even if it is determined that individuals other than Registered Company Auditors are appropriate to provide these assurance opinions, we do believe that to ensure the quality and reliability of the assurance opinions and therefore the underlying reports, it is essential that the assurance providers be subject to independence and quality management standards.

This should be a combination of the pronouncements by the Australian Accounting Professional & Ethical Standards Board (APESB) and the Australian Auditing and Assurance Standards Board (AUASB).

The AUASB's standards already apply to other assurance engagements, and have guidance in place to deal with assurance over non-financial information. The AUASB standards are already being applied to some assurance engagements of voluntary climate and sustainability related disclosures. In addition the AUASB along with their international counterpart the International Audit & Assurance Board (IAASB) are working to further tailor these requirements so that they will be fit for purpose for sustainability related disclosures.

Given the maturity of the guidance and regulations issued by the Australian Accounting Professional & Ethical Standards Board, we think this would be the most appropriate quality standards for the Assurance providers to have to adhere to. These ethical standards already contemplate a broad range of services offered by accountants and are best placed to ensure that appropriate independence and ethical standards are upheld without which, the quality of the assurance opinions may not be able to be relied on.

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?

Whilst we acknowledge the importance and value of tracking GHG emissions, we do consider that Scope 3 emissions will be one of the most complex areas for all reporters to provide data on, due to the Scope 3 emissions being outside the entities control, as they are output by other entities in their value chain. Due to the complexities in this area, we recommend that consideration be given as to whether scope 3 emissions should only be required by a subset of preparers, such as listed entities, or the entities are captured in the first phase of adoption, but not by large proprietary companies or other smaller entities.

Due to the lack of control that these companies will have over the other entities in their value chain, the cost and effort for them to provide Scope 3 emissions, may out way the benefits that users of private companies sustainability reports can actually get from the Scope 3 emissions disclosures. It may be appropriate to instead consider whether simpler qualitative disclosures, which may just identify known large emitters that are key members of an organisations value chain may be more appropriate for those smaller entities to disclose.

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

As noted in question 14 below, Mid-tier companies generally will tend to revert to a standardised disclosure, even if not specifically mandated. Accordingly, setting a baseline of mandated disclosures allows more control over what those standardised disclosures may look like. However, the long detailed industry-specific disclosures included in appendix B of the ISSB's Draft IFRS S2 is not helpful and not the approach of standard setting that we would like to see in Australia. The current principles based approach financial reporting in the Australian Accounting Standards allows for sufficient clarity in the disclosure requirements, whilst giving entities enough scope to tell their own story based on their particular facts and circumstances.

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?

No specific comments

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

A number of these disclosure requirements, such as Scope 3 GHG emissions are going to be challenging for businesses to provide even in the largest organisations. However, the value of these disclosures are such that it is still essential that they be provided. It should be expected that the quality of these disclosures, and the estimates that are used to determine them, will improve over time and any initial estimations are likely to be relatively rudimentary. Assurance providers and Regulators will need to be mindful and accepting of this and work to educate the industry to improve these over time.

If it is determined that the ISSB Draft Standards are the appropriate disclosure standards, any delay in implementing specific elements of the disclosures would stop Australian entities from being able to claim compliance with the International Standards which could be detrimental to our largest companies that operate in the global capital markets.

If it is determined that the appropriate level of assurance is limited assurance (review opinion), then we consider it appropriate that assurance be required as soon as the disclosure requirements are required. However, if it is determined that reasonable assurance (audit opinion) is required, then we consider that it may be necessary to require a stepped approached phasing in first limited assurance and then reasonable assurance at a later date, once the skills of both preparers and assurance providers have improved, potentially 5 years after the initial application of the disclosure requirements.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

The majority of mid-tier companies in Australia are not yet collecting the data required by the ISSB draft S2. Accordingly, even if there are programs and systems available in the Australian market place, the capability of individual organisations to collect this data is currently very limited. Accordingly, there will need to be significant investment by these organisations to be able to start collecting and analysing this data.

Scope 3 emissions is an area where sufficient data may be lacking in the Australian market place, and will require high levels of estimation to provide this data. Efficiencies and additional higher quality information will be available the more entities have to compile Scope 1 & 2 emissions data. This may provide other entities within their value chain the opportunity to request this data to improve their Scope 3 emissions reporting. See our observations on what happened in South Africa with their Broad Based

Black Economic Empowerment Scorecards in question 3.2. If this approach was to be taken a potential framework for sharing this data should be considered.

Climate-linked financial disclosures as proposed by the ISSB, require a marriage of the financial reporting knowledge held by traditional accountants and the environment and climate knowledge more closely associated with environmental scientists. Accordingly, there is currently a significant knowledge gap in many preparers, advisors and assurance providers who are typically coming from either an accounting background, who need to get up to speed on climate science or scientist who are not familiar with the financial reporting landscape. In addition, the Australian Accounting industry is suffering a shortage of workers. Although engaging in sustainability reporting may entice more people to stay in the industry, it does increase the workload on an already stretched industry.

13.1 How and by whom might any data gaps be addressed?

No additional comments beyond what is included in 13 above.

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

No specific comment

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?

In reality, all mid-tier organisations are going to default to a standard set of climate scenarios. Therefore if a central body could provide the basic structure of that climate scenario, this would increase efficiencies and consistency across these climate scenarios. It would not be appropriate to mandate the use of these specific climate scenarios if different organisations wanted to use different scenarios or modelling inputs that should be permissible.

Having one central scenario source, will lead to efficiencies for preparers in producing the scenario analysis, and better quality data being used in the scenario analysis. It will also be more efficient and easier for assurance providers if there is one central body providing this data. If a central body was not established, it is likely that a small number of providers in the marketplace would ultimately end up producing scenarios that are used by the majority of mid-tier organisations anyway, but discrepancies between these different services providers may reduce the comparability of the scenario analysis

In addition to assist organisations estimating GHG emissions, a central authoritative view on common GHG emissions to assist companies in preparing their Scope 1 and Scope 2 emissions would significantly simplify the process for preparers and assurance providers. For example centralised data on the GHG emissions from the average 1KwH of electricity or 1km of truck transportation. Whilst we acknowledge there will be some differences, for example if organisations elect to use green electricity or invest in electric trucks etc, having an agreed baseline inputs would simplify and streamline the GHG emission disclosures.

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 specific comments

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?

Sustainability related financial disclosures should be considered equivalent to financial information. Accordingly, continuous disclosure requirements should also apply equally to sustainability disclosures. As the ISSB Draft Standards are structured to focus of sustainability information needs of Investors, it is essential that the continuous disclosure requirements also capture this sort of information as well.

Similarly, if it is considered that this information is important to investors, it would be appropriate that climate and sustainability-linked financial disclosures should also be required in fundraising documents.

Not including sustainability-linked information in continuous disclosure, fundraising documents or other similar aspects that require disclosure of financial information would establish the sustainability-linked disclosures as a second tier of less important information which would not be beneficial to markets.

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?

Any new reporting framework that is put in place should be sufficiently forward looking such that it would be able to incorporate other elements of sustainability reporting as they arise, rather than the need to re-legislate when broader sustainability topics arise.

If Australia was to adopt the ISSB standards, the propose IFRS S1 *General Requirements for Disclosures of Sustainability-related Financial Information* is a broad-based sustainability standard, and as it is the foundation standard, which IFRS S2 *Climate-related Disclosures* builds on. Therefore, we would implicitly be adopting and implementing a broad-based sustainability financial reporting framework, without the need to legislate.

The proposed IFRS S1 requires that disclosures be made around other sustainability matters, even if there are no specific IFRS Sustainability disclosure requirements for them at this point. Careful consideration would need to be applied to the expectations that would be expected of preparers in satisfying this requirement, such that we don't end up inadvertently adopting a broad range of sustainability disclosures immediately rather than focusing on just the climate-related disclosures specified in draft IFRS S2.

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

Yes. Digital Reporting is an area that is continuing to develop overseas with more jurisdictions requiring companies to report with digital reporting for their financial reporting and other matters. Accordingly, in order to future proof any sustainability reporting in Australia it would appear to be prudent, to adopt digital reporting from the outset, rather than trying to retrofit digital reporting requirements at a later date.

We would encourage Treasury not to consider voluntary adoption of digital reporting for sustainability disclosures, as it has been evidenced via the current regime permitting voluntary adoption of digital reporting for financial reporting that a voluntary regime does not result in adoption of the new technology.

We acknowledge that there are additional costs and complexities involved with preparing digital reporting for these disclosures. We do think the benefits overall will outweigh the costs. It would be an appropriate discussion to consider whether all entities required to prepare sustainability-related disclosures should apply digital reporting, or just a subset (such as disclosing entities or listed entities), should be required to adopt digital reporting to mitigate this cost.

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?

Our preference would be either proposed structure 2 or 3, not proposed structure 1 (AASB being the responsible entity for sustainability standards). Whilst we acknowledge the leadership that the AASB has shown in this space, and their expertise in the financial reporting space, we question whether individuals can have sufficient knowledge and expertise across the full gamut of financial reporting and sustainability reporting requirements to ensure that we are producing high quality standards for these different elements.