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

via email: climatereportingconsultation@treasury.gov.au
cc: Hon Chris Bowen MP, Minister for Climate Change and Energy
Hon Hon Stephen Jones MP, Assistant Treasurer and Minister for Financial Services

February 17, 2023

Consultation on climate-related financial disclosure

We welcome the opportunity to respond to your invitation to comment on the climate-related financial disclosure consultation.

We enthusiastically support and value the government's commitment to requiring certain entities to provide greater transparency on their climate-related plans, financial risks, and opportunities. We also welcome the government's approach to considering initial views on the key considerations for the design and implementation of standardised, internationally-aligned climate-related financial disclosure, with a view to then further engage following a review of submissions to this consultation paper, and the finalisation of the first two sustainability standards from the International Sustainability Standards Board (ISSB) expected in June 2023.

We support the timeframe proposed in the consultation paper that would require certain entities to report on climate-related financial disclosures for the financial year 2024-25 (in line with conventional statutory timeframes). We would encourage the government to implement the mandatory disclosure requirements in a manner that balances the increasing demands from investors and stakeholders for climate-related financial disclosures, against the practical challenges associated with data and system readiness within reporting entities. This should include an incremental approach commencing with mandatory application for a selected group of entities, then gradually expanded as climate reporting is institutionalised in Australia.

Climate first, but not climate only

The ISSB has taken the approach of establishing two initial standards, the first being the General Requirements for Disclosure of Sustainability-related Financial Information (draft IFRS S1) and the second being IFRS S2 Climate-related Disclosures (draft IFRS S2). It is our understanding that the government intends to only focus on IFRS s2 through this consultation, but in doing so ensure that

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,
GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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the framework established through this process would then apply to future sustainability disclosures, for example biodiversity.

In our view, Australia should ultimately seek to adopt both IFRS S1 and IFRS S2 into a new set of Australia sustainability standards in a manner consistent with how we currently adopt international accounting standards. We see the approach outlined in the consultation paper as practical and recognises the urgency with which investors and stakeholders have in regards to climate change.

Materiality of emissions and criticality to the economy should be the key criteria for determining mandatory entities for reporting

We agree with the proposal outlined in the consultation paper that the initial application of climate-related financial disclosure be mandatory only for a selected group of entities, then gradually applied to a wider group of entities as climate reporting is institutionalised in Australia. In consideration of the reform principles of *Scale and flexible* and *Proportional to risk,* we would recommend that the government consider a subset of the ASX listed companies, all large financial institutions and those entities already captured by the National Greenhouse and Energy Reporting (NGER) scheme.

In our view, the government should also include *Critical infrastructure providers* in the initial cohort of entities. Given their importance to the successful functioning of the economy and society, stakeholders - in particular governments and citizens - place high expectations on their reliability and performance. These entities already have additional mandatory requirements placed on them, particularly around risk management, so extending those requirements to include climate-related financial disclosures could be seen as appropriate and aligned to their overall accountability.

When considering the type of disclosures to be applied by the initial group of entities, we support an incremental approach. This recognises the challenges that would initially exist for some types of disclosures, for example scope 3 emissions. For scope 3 emissions disclosure to be reported to a level acceptable by investors and other intended users, a broader range of entities including Not for Profits (NFPs) and small listed entities would need to be able to provide robust emissions information to larger entities.

Assurance providers for climate-related financial disclosures should be licensed, with rigorous internationally aligned quality systems and independence frameworks

It is acknowledged that independent assurance is more trustworthy and credible than information that is not assured. That trustworthiness and credibility relies extensively on the regulatory and quality frameworks that oversee assurance providers.

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. Existing assurance providers with extensive systems of quality management management and stringent independence requirements, including the Accounting Professional Ethics Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* and *Auditing Standard ASQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* are well placed to take on the role of providing assurance over sustainability disclosures in Australia. Further, with well established regulators like the Australian Securities and Investment Commission (ASIC), and professional bodies such as Chartered Accountants Australia & New Zealand (CAANZ) and CPA Australia, already overseeing the existing audit profession, it would seem the most efficient way of delivering assurance over these new disclosures is through the existing profession of assurance providers.

In our view assurance providers should be licensed. In the current assurance market, many certified practitioners in audit firms who provide assurance over NGER-related and TCFD related disclosures are not Registered Company Auditors (RCAs), although they are individuals within firms that have extensive quality and independence frameworks. In our view this has resulted in higher quality assurance. As the government moves to its next round of consultation, we would welcome the opportunity to work with the government, regulators and others in the profession to ensure an appropriate licensing regime is introduced to reflect the depth and breadth of sustainability reporting.

In response to our clients needs, and market demands, we have established an ESG business[1] within our Assurance Practice, and also established an Energy Transition business[2] to help clients unlock the environmental, social and economic impact of Australia's energy transition. We are ready to support our clients with these proposed disclosures including supporting them with the steps they will need to take in order to reach the standard necessary for assurance. As an assurance provider we have been working extensively with other PwC network firms across the globe, as well as with our clients as they have prepared for both the voluntary and mandatory adoption of sustainability disclosures, including climate-related financial disclosures. In doing so we have enhanced our assurance frameworks, methodologies and training to meet the demands of these new types of disclosures.

International alignment as far as practicable is critical

We welcome the reform principle number 4, *Internationally aligned*. We agree with the principle that the new requirements should, as far as possible, be aligned to international reporting practices. This will create credibility in reporting across global markets and will create a more simplified approach to standard setting and adoption, and aligns with the intent to drive consistency across reporting entities and harmonisation. We also welcome the government's acknowledgement that

[1] https://www.pwc.com.au/assurance/environmental-social-and-governance-reporting.html
[2] https://www.pwc.com.au/energy-transition.html

even with the adoption of international standards such as the ISSB standards, there are likely to be additional and sometimes different reporting requirements for Australian entities with international reporting obligations, particularly in the US and the EU. We also acknowledge there may be other existing legislation and regulatory reporting obligations in existence in Australia that will need to be navigated.

Entities should be required to report on sustainability disclosures in a separate report (included as part of the annual report)

In our view, a single annual report that communicates to investors and other stakeholders how an organisation has performed and created value holistically over time would be ideal. Given the increasing interest in climate-related financial disclosures we believe it is important that entities report in a separate report included in the overall annual report. In recognising the challenges that might be posed in the initial phase an alternative could be to allow entities to report on climate-related financial disclosures at a date later than the release of financial statements.

In attachment 1 we have provided answers to the majority of the 19 questions posed in the consultation paper, this elaborates on our comments above.

We thank you for considering this submission and we hope it helps to inform the design and implementation of standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities. If you have any queries or would like to discuss this submission further, please contact either [redacted] on [redacted] or [redacted] on [redacted].

Yours sincerely

[redacted]

[redacted]

[redacted]
Chief Operating Officer and ESG Executive
PwC Australia

[redacted]
Assurance Managing Partner
PwC Australia

Attachment 1 - Detailed responses

Question	PwC Response
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?	● In comparison to other similar jurisdictions, Australia has not moved as quickly in its consideration of mandatory climate-related disclosures. To ensure we maintain global and regional leadership on climate change issues, it's imperative that we adopt international best practice on climate-related financial risk disclosure. ● Investment decision-making is increasingly being informed by sustainability information, with stakeholders demanding greater transparency and comparability of disclosures, especially climate related disclosures from organisations typically categorised as heavy emitters. A failure to align to international reporting standards may impede our ability to attract and retain investment, in particular in-bound capital. ● Without internationally aligned standards, investors and other stakeholders will continue to be challenged on comparability and consistency. ● More disclosure requirements will inevitably result in a number of one-off costs for Australian businesses, for example new systems, training and data governance frameworks, and ongoing costs such as system maintenance and assurance.
Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25? 2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?	● We support the timeframe proposed in the consultation paper that would require certain entities to report on climate-related financial disclosures for the financial year 2024-25 (in line with conventional statutory timeframes). This aligns to the expectations of the International Organization of Securities Commissions (IOSCO), the global standard setter for securities markets regulation. A 2024-25 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. ● A phased approach to adoption would be the most pragmatic and will reflect

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	the approach taken internationally. An example of a phased approach could be, in the first year of reporting, that climate-related financial disclosures are provided within six months of the provision of the financial statements; in the second year, provided within three months of the financial statements, and so on. If this was adopted, consideration would need to be given to the timing of mandated assurance. ● The key factors to consider when determining the cohorts of entities for each phase include: ○ Current reporting requirements, in particular whether an entity is a tier 1 or 2 reporter; ○ Impact on capital markets, for example their market capitalisation; ○ The credibility of the type of information entities will be able to produce (this would include the type of underlying information systems and processes) ○ Level of emissions; and ○ Importance to the economy.
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?	● In consideration of the reform principles of ***Scale and flexible*** and ***Proportional to risk***, we would recommend that the government consider a subset of the ASX listed companies, large financial institutions and those already captured by the National Greenhouse and Energy Reporting (NGER) scheme. ● Another option for the government is to include *Critical infrastructure providers* in the initial cohort.

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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?	• 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 benefits of alignment to the ISSB are numerous, including a more efficient translation from the international level to the domestic level, better comparability and a higher likelihood of adoption. We therefore strongly advocate for the Australian government and the AASB to continue to focus its efforts on influencing the international debate by actively contributing to the developments of ISSB. As a next order priority, we would advocate for a focus on how, and to what extent, the ISSB standards would need to be adapted for segments of the economy such as not-for-profit entities or public sector entities.
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 current system prescribes through legislation who needs to report, when and what (at a very high level). However, the detailed requirements of what must be reported are set out in accounting standards. This approach has, in our view, served Australia well. It provides sufficient flexibility to adapt the reporting requirements to changes in the economic and broader environment without requiring changes to the legislation that would have to be debated by Parliament. Giving the standards the status of (disallowable) legislative instruments provides them with authority and the regulator a basis for enforcement in situations of non-compliance. • We therefore recommend using a similar approach for the ISSB standards. That is, the *Corporations Act 2001* should set out which entities have to apply the ISSB equivalent standards but leave the details of what is to be reported to the ISSB equivalent standards. These standards should have the status of legislative instruments. • This also applies to the content of the proposed ISSB standard IFRS S1 which covers the overarching climate disclosure obligations. In our view, these

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	should not be included in legislation but should be issued as a separate standard consistent with the proposals by the ISSB. This will provide the necessary flexibility to update the standard if and when necessary without putting each amendment through Parliament.
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?	● Under the draft ISSB standard, entities would be required to ensure that the sustainability-related disclosures are clearly identifiable and not obscured by other information that must be included in the operational and financial review (OFR). ● The ideal scenario would be for one integrated annual report that communicates to investors and other stakeholders how an entity has performed and adds value holistically over time. Given the increasing interest in climate-related and sustainable disclosures, we believe that it is important climate-related financial disclosures are included in a separate part of the annual report.
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)?	Consistent with our previous submissions and commentary, we recommend adopting the ISSB's definition of materiality. While we have previously supported the materiality definition *enterprise value* as originally defined by the [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial, we are aware that the ISSB is considering removing references to it. However, regardless of the outcome and consistent with our overall recommendations, we believe that international consistency is more important than individual views on particular issues, and because of that we believe that the ISSB standards should be adopted in their entirety.

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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?	● We support the work being undertaken by the IAASB and AUASB to establish standards for assuring sustainability reporting. ● 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. Competent assurance engagements rely on specialist skills and extensive training, and we believe that investors would have more confidence in reports issued by experienced assurance professionals that adhere to similar assurance quality standards as those required of financial statement auditors. Assurance professionals regularly involve the use of individuals with specialist expertise as relevant and existing risk and quality systems account for this. ● In our view assurance providers should be licensed. In the current assurance market, many certified practitioners in audit firms who provide assurance over NGER-related and TCFD related disclosures are not Registered Company Auditors (RCAs), although they are individuals within firms that have extensive quality and independence frameworks. In our view this has resulted in higher quality assurance. As the government moves to its next round of consultation, we would welcome the opportunity to work with the government, regulators and others in the profession to ensure an appropriate licensing regime is introduced to reflect the depth and breadth of sustainability reporting. ● Regardless of the type of assurance, preparers of entity reporting need to be ready for that assurance; equally the auditor needs to be comfortable that that level of assurance can be provided. Given the proximity of the proposed initial year, we would recommend that the government communicates clearly the expectation on Australian businesses that they need to get disclosures to the point they are ready to be assured at or soon after the initial year. ● If *limited assurance* is the dominant form of assurance for climate-related

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	financial disclosures, it must be accompanied by communications from auditors, preparers and regulators on the definition of *limited assurance* and how it differs from *reasonable assurance* to ensure that investors and other intended users clearly understand the difference between the two. ● Assurance has a critical role in building trust in the information being reported. In order to meet investor and other stakeholder expectations, reasonable assurance over the entirety of the entity's climate-related disclosures, taken as a whole, must be the ultimate ambition. In support of that we believe a roadmap to reasonable assurance should be established, clearly articulating the when and how it will be achieved. ● Reliance on limited assurance is likely to be necessary, at least in year 1.
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?	We support the proposals that an entity should be required to provide an aggregation of all seven greenhouse gases for Scope 1, Scope 2 and Scope 3 – expressed in CO2 equivalent. As far as possible and practical, we recommend that Australian specific reporting frameworks, for example NGERs are leveraged.
Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?	We acknowledge that investors and other users are looking for consistency in reporting. Providing simplified metrics as industry guidance, instead of mandatory templates, would support comparability and uphold the approach of setting principles-based standards.
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 response.

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Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?	Refer to our answer in question 2 (disclosures) and 8 (assurance).
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?	Preparers are currently implementing and developing systems and processes required to produce relevant and transparent climate-related financial 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 finalise the investments they need to implement further systems and processes, as well as upskill their teams. With respect to Scope 3 emission, there are specific capability and data challenges. This is largely due to the reliance that entities have on third parties in their supply chain, many of whom may not be collating emissions data.
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?	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.
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	We noted the ISSB tentatively decided to introduce the concept of 'reasonable and supportable information that is available at the reporting date without undue cost or effort' into IFRS S1 and IFRS S2. We think this concept is similar to 'reasonable grounds' as required by ASIC.

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within some required climate disclosures?	When reporting information includes uncertainties, disclosures of critical judgements, assumptions and estimates made and some sensitivity analysis would be helpful in balancing the need to provide comprehensive disclosures and the risk of inaccuracy in forecasting. Entities are familiar with this requirement as part of their financial reporting. We also noted the ISSB tentatively agreed to provide guidance on the disclosure of judgements, assumptions and estimates that an entity is required to make in applying IFRS Sustainability Disclosure Standards.
Question 16: Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed?	No response.
Question 17: While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?	There has been overwhelming support for climate-related financial disclosures to be the first priority for sustainability reporting under the ISSB banner. Adopting climate-related financial disclosures will involve a significant amount of effort from preparers, auditors, regulators and professional bodies. We acknowledge that there is demand for further sustainability reporting standards, in particular on matters such as biodiversity/nature, 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. Once that is established, additional themes should be added in line with investor and community expectations.
Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?	We support digital reporting and believe the provision of structured data will make information more easily accessible for the purposes of aggregation, comparison, and other filtering by investors and other market participants. However, given the level of

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	effort that entities will already face developing the disclosures, we believe that this requirement might be best introduced in phases. The highest priority and of most benefit will be tagging the numerical figures reported in sustainability information. We also support exploring the tagging of narrative information, but comprehensive tagging of such information is likely to be challenging and therefore should be considered as a second phase.
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?	In our view, proposal three should be considered separately and not part of this consultation given the length of time it would likely take to assess the feasibility of the proposal and the time to implement. Given the urgency many investors and stakeholders have on ensuring these standards are set up in a timely manner, and to mirror the structure of the IFRS Foundation, we recommend that proposal two be adopted within the next 3 years.