

Climate-related financial disclosure: exposure draft legislation

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Dear Treasury,

RE: Submission for consultation on climate-related financial disclosure: exposure draft legislation

Please find below Nde vr Environmental's response to the Government's position for the exposure draft legislation to introduce mandatory requirements for large businesses and financial institutions to disclose their climate-related risks and opportunities.

Who We Are

Nde vr Environmental, part of Anthesis Group, is a specialist climate change and human rights advisory firm dedicated to accelerating the transition to a net zero future. For over a decade we have forged partnerships with companies and government entities to design innovative business-led solutions to meet the planet's emerging challenges and ensure the sustainability and prosperity of Australian businesses. Anthesis Group is the largest group of dedicated sustainability professionals globally.

Nde vr Environmental is one of only a few specialist environmental consultancies that are accredited auditors under the NSW Independent Pricing and Regulatory Tribunal (IPART) Energy Savings Scheme, the Victorian Government's Essential Services Commission VEU Scheme and historically on the Clean Energy Regulator's Auditor panel. Nde vr Environmental is led by Matthew Drum who is one of Australia's most experienced and highly accredited Registered Greenhouse and Energy Auditors (RGEAs) and holds the highest level of greenhouse and energy audit accreditation in Australia, Category 2 RGEA. The wider team has completed many climate-related compliance audits, managed complex projects, and provided specialist consulting services and strategic advice for some of Australia's largest and most well-respected corporations, including expert advisory on climate risk and transition planning.

General Position

Nde vr Environmental welcomes the Exposure Draft of the legislative framework in Treasury's proposed mandatory disclosure requirements. The draft framework clarifies a number of key reporting and disclosure elements, and represents an important step in the Australian Government's commitment to improving the quality of climate-related financial disclosures. Companies and investors stand to benefit immensely from the development of a rigorous, internationally aligned and credible climate disclosure regime, which will facilitate more effective measurement and management of both transition and physical climate risks. Moreover, they will contribute to the efficient allocation of capital as the global economy undergoes a transformative shift towards achieving net zero emissions.

Contents of Annual Sustainability Report

Proposal: Exposure Draft of the Treasury Laws Amendment Bill 2024: Climate-related financial disclosure

296A Contents of annual sustainability report

(3) For the purposes of paragraph (1)(c), the Minister may, by legislative instrument, require a sustainability report to include statements relating to matters concerning environmental sustainability.

In response to Section 296A Contents of annual sustainability report, and in particular subsection (3), our position is to extend the option for the Minister to include statements relating to other sustainability matters, not limited to environmental sustainability, i.e. remove “environmental”. In line with the intent of International Sustainability Standards Board (ISSB) and international mandatory reporting requirements, we recommend allowing the legislation to be current if the ASRS standards evolve in the future to include all the ISSB requirements and broader ESG disclosures.

Reporting Entities

Proposal: A Group 1 entity is any of the following:

- *an entity that meets at least two of the following three criteria:*
 - (...)
- *an entity that is a registered corporation under the NGER Act or required to make an application to be registered under subsection 12(1) of the NGER Act and that meets a publication threshold in subsection 13(1) of the NGER Act.*

The draft legislative framework refers to subsection 13(1) of the National Greenhouse and Energy Reporting Act 2007 (NGER Act) in identifying thresholds for NGER entities and delineating between Group 1 and Group 2 entities. Subsection 13(1) of the NGER Act in fact refers to the NGER reporting threshold, which determines which entities are required to submit reports in line with the NGER Act. In other words, **all** entities currently reporting under the NGER Act meet this threshold.

Our assumption is that the publication threshold that delineates whether NGER reporters fall under Group 1 or 2 is detailed in section 24 of the NGER Act, specifically subsection 24(1B), which defines thresholds that an NGER reporting entity must meet in order for the Clean Energy Regulator to publish the relevant information on the National Greenhouse and Energy Register.

We recommend that the Treasury clarify and/or confirm our understanding of reporting and publication thresholds, and provide a definitive distinction between NGER entities which fall under Group 1 vs. Group 2.

Phasing

Proposal: The Government welcomes stakeholder feedback on whether amending legislation to require a 1 Jan 2025 commencement date for Group 1 entities would improve the quality of reporting during the transition year.

We propose that the reporting year for entities be aligned with their respective financial years. A commencement date of 1 Jan 2025 for entities whose financial statements commence on 1 July 2024 would create uncertainty and a greater reporting burden for measuring and reporting ‘half-year’ disclosures across

all their climate-related disclosures. For example, this would necessitate separate half-year emissions inventories for carbon accounting, which would not align with NGER reporting requirements. We recommend leaving the commencement dates as they currently stand.

Group 3 Materiality Exemption

Proposal: Group 3 entities would only be required to make climate-related financial disclosures if they face material climate-related risks or opportunities. Where Group 3 entities assess that they do not have material risks or opportunities, they would only be required to disclose a statement to that effect.

We believe that the size thresholds for reporting entities adequately capture businesses and organisations for whom climate change is likely to pose a material risk and/or opportunity. If an exemption for certain Group 3 entities is allowed, the requirements for this materiality assessment should be made more prescriptive. This would ensure that entities applying this exemption have conducted a robust assessment and determined that they do not in fact have material climate-related risks or opportunities. As it stands currently, the draft Australian Sustainability Reporting Standards do not prescribe a methodology for determining material climate-related risks and opportunities. While this allows sufficient flexibility for organisations publishing climate disclosures to assess risks and opportunities specific to their industry and circumstances, it is not adequate as a means of concluding that the entity faces no material climate risks and opportunities, and hence as a means of applying the exemption and avoiding disclosures altogether.

We recommend that Group 3 entities which apply the materiality exemption should be required to demonstrate that they have conducted a robust materiality assessment in line with global best practice, e.g., in line with the Global Reporting Initiative's standards (GRI 3: Material Topics 2021). This will provide users of general-purpose financial reports to have sufficient confidence that the entity does not face material climate-related risks and/or opportunities.

We appreciate the desire to reduce regulatory burden on businesses, however this would be enhanced by removing any ambiguity on how that is applied in practice.

Assurance Requirements

Proposal: Climate disclosures will be subject to similar assurance requirements to those currently in the Corporations Act for financial reports, and will require entities to obtain an assurance report from their financial auditors who will use technical climate and sustainability experts where required.

In our submission to the Treasury's second consultation, we expressed concern about the requirement for the assurance of climate disclosures to be led solely by financial auditors. We appreciate that these assurance engagements require expertise across financial accounting and statements. However, climate-related disclosures include detailed measurements, judgments, assumptions, statements and commitments relating to climate-related risks and opportunities, e.g., complex Scope 3 emissions accounting.

In theory, financial auditors should lead the assurance of financial disclosures, but we recommend a requirement for dedicated climate experts to be a key part of the assurance team for climate-related disclosures. This will ensure both financial and climate-related matters are adequately and robustly assured.

We therefore recommend the removal of "where required" from this clause. This would not preclude audit firms who have that expertise in-house, it would just require that they utilise it. We furthermore ask

Treasury to consider that as this is such a historic piece of legislation, it must be crafted to be equitable for all stakeholders. The final design of the policy must ensure that assurance is financially accessible for all reporting entities to ensure compliance is achievable, which we understand is a sentiment shared by other non-financial auditors.

Implementation Options

Proposal: The Impact Analysis assesses three options to implement the Government's election commitment.

- *Option 1, consistent with the approach proposed in Treasury's design consultation, would mandate climate disclosures for large listed and unlisted companies from 2024-25 financial year.*
- *Option 1a is a variation on Option 1 and amends the breadth of coverage of these reforms. Under this option, entities captured under Group 3 would be required to do a materiality assessment. Additionally, a specific 'assets under management' threshold would be applied to significant financial institutions.*
- *Option 1b is a variation on Option 1a and amends the assurance framework, not mandating a roadmap for the phasing in and scaling up of assurance requirements over time. Under this option, all disclosures in reports issued after 1 July 2030 must be assured with a flexible pathway to achieve this being set by the Auditing and Assurance Standards Board (AUASB).*

Treasury recommends the Government adopt Option 1b.

Ndevr Environmental recommends that key elements from each Option be implemented to develop a robust mandatory reporting policy. Specifically, we support the implementation of the following elements:

- Option 1: Timeframe, coverage of reporting entities without a Group 3 exemption, and reporting content requirements
- Option 1a: The inclusion of a separate threshold for financial institutions in terms of assets under management
- Option 1b: The ability for the AUASB to determine an assurance roadmap in line with global developments in sustainability assurance standards.

Closing

Ndevr Environmental appreciates the opportunity to submit a response to the Treasury's Consultation Paper and welcomes the development of a climate-related disclosure regime in Australia.

Yours sincerely,



Hannah Meade

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