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Climate-Related Financial Disclosure Consultation Paper

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to Treasury's *Climate-Related Financial Disclosure* ('Consultation Paper').

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

As Australia transitions to a net-zero economy, it is essential that social trust is maintained. One of the biggest challenges to social trust is the transition becoming, or is perceived to be, too costly. Recent world events have unfortunately brought this challenge to the forefront of public discussion. If implemented correctly, these reforms can help Australia navigate these pressures by enabling the efficient allocation of capital for Australia's decarbonisation journey.

The AEC therefore supports Treasury empowering the Australian Accounting Standards Board ('AASB') to develop and implement a climate-related financial disclosure framework aligned with international standards proposed by the International Sustainability Standards Board ('ISSB'). The energy sector has already made great strides in its disclosure statements [compared](#) to other sectors,¹ and businesses like Origin Energy have been [highlighted](#) for their proactivity in this area.²

At the same time, this is a rapidly evolving space and participating businesses will have different levels of experience and skills with this regulatory framework. The challenge for Treasury will be how to rollout implementation smoothly while managing the administrative burden and costs of compliance. Positively, from the roundtables and briefings the AEC has attended, Treasury seems cognisant of this balancing act.

Purpose of Climate-Related Financial Disclosure

While the Consultation paper does not give a purpose for these reforms, Treasury has made clear at roundtables and briefings that it is about facilitating the efficient allocation of capital for Australia's

¹ AASB-AUASB Research Report, *Climate-related disclosures and assurance in the Annual Reports of ASX-listed companies*, December 2022, p12, https://aasb.gov.au/media/xu5leeby/aasb-auasb_rr_climaterelateddisclosures_12-22.pdf.

² Governance Institute of Australia, *Climate change risk disclosure: a practical guide to reporting against ASX Corporate Governance Council's - Corporate Governance Principles and Recommendations*, February 2020, p24, <https://www.asx.com.au/documents/asx-compliance/gia-climate-change-guide.pdf>.

transition to net-zero. The AEC supports this objective and considers it to be a helpful framing point when determining the design elements for this framework.

Design Elements of the Regulatory Framework

Reporting Period (Question 2)

The AEC supports the 2024/25 financial year as the most practical commencement period. Where possible, Treasury should provide early signals to participating entities about the design of the framework to ensure capacity building can commence in time. The phasing in of reporting content should also help participating entities, as well as auditors, spread the costs and resources of capacity building in the early stage. The need for phasing will depend on the progress of ISSB's standards being finalised in a reasonable time.

The AEC favours a review cycle of three years to ensure Australia remains aligned with international best practice.

Participation coverage (Question 3)

Consistent with the intention of these objectives, it seems reasonable to initially phase in large, publicly listed entities (e.g. the equivalent of ASX 200-300) and large financial institutions as these businesses have the most exposure to capital flows. Noting this is Commonwealth law, the Federal Government should engage with state and territory governments with respect to expectations around climate disclosures for government-owned entities.

The AEC considers Treasury should also indicate through a roadmap when it intends to extend coverage to large, unlisted entities and what threshold it will use to determine if a company is large.

Alignment with international standards (Questions 4, 5)

The AEC supports alignment with, and adoption of, the ISSB's standards to the extent practical. The ISSB standards seek to leverage the Taskforce on Climate-Related Financial Disclosure (TCFD) disclosure pillars, which are already well understood by regulators investors, businesses, and auditors alike. Their use then will help reduce compliance burdens for these participants and ensure consistency.

With that being said, there must be consideration of Australian circumstances, particularly since two of the ISSB's sustainability-related reporting projects standards are still under development and their final design has not been determined yet. A blanket enforcement of international standards would be unwieldy and risks creating legal inconsistencies between disclosure requirements and other corporate requirements around competition and commercially sensitive information.

The adoption of ISSB standards should necessitate a closer examination of existing legislation, in particular the *National Greenhouse and Energy Reporting Act (2007)*, to ensure there is no duplication or inconsistencies. The AEC considers existing reporting practices should prevail, unless there is good reason to switch.

Where climate modelling is used, the AEC supports referencing the Intergovernmental Panel on Climate Change (IPCC) or International Energy Agency (IEA) scenarios, with consideration to the Australian Energy Market Operator's (AEMO) Integrated System Plan (ISP). Modelling requirements should not be overly burdensome for organisations, and mandatory requirements should require core scenarios to be used.

Location of climate-related disclosures (Question 6)

While participating entities should be encouraged to follow standard practice, the AEC considers participating businesses should be allowed to choose how to meet their reporting obligations. This will promote efficiency and even innovation in the way businesses communicate their reporting requirements.

Materiality judgments (Question 7)

Noting the purpose of these reforms is to facilitate the efficient allocation of capital, the AEC is comfortable with the ISSB's recent clarification to link materiality to financial materiality: 'information is important if omitting, misstating, or obscuring it could reasonably be expected to influence investors decisions'. The definition draws on the publicly available *IFRS Practice Statement 2 Making Materiality Judgements*.

The AEC also supports the ISSB's description of "sustainability" as 'the ability for a company to sustainably maintain resources and relationships with and manage its dependencies and impacts within its whole business ecosystem over short, medium and long term'.

Assurance (Question 8)

Robust assurance is obviously critical to the long-term integrity of any climate disclosure framework and the AEC expects assurance expectations to grow along with the framework. However, the AEC understands that auditing capabilities and resources in this field are still immature and this will create some challenges in the short-term.

The phasing in of entities over time should alleviate some of this pressure, and Treasury should also consider some other interim arrangements in place (such as a lengthening of the first assurance and reporting window) or a period of grace while assurance capabilities mature. The AEC does not anticipate assurance constraints to be a long-term challenge so any interim arrangements could have a sunset clause.

Scope 3 emissions and other reporting requirements (Questions 9 to 12)

The ISSB recommended at its meeting in December 2022 to temporarily exempt Scope 3 greenhouse gas emissions from mandatory reporting for at least one year after the effective date of the IFRS S2. The AEC considers that aligning with this recommendation is sensible and will allow companies more time to develop a system for capturing the data across their value chain.

The AEC supports the ISSB proposal to use the global warming potential values issued in the latest assessment by the IPCC for companies to disclose information on managing climate related risks and transition plans to meet their individual emissions reductions targets. Adopting the international framework should make Australian companies more competitive on capital markets.

The AEC considers Treasury should follow the ISSB's decision to not require industry-specific metrics be mandatory at this time and allow for these metrics to develop with guidance from the International Accounting Standards (IAS) and Sustainability Accounting Standards Board (SASB). Mandating industry-specific metrics now will increase the administrative burden on initial participants and likely result in implementation delays, hindering a smooth rollout.

Data capability (Question 13)

The AEC proposes that Treasury work with the Australian Energy Market Operator to amend its Carbon Dioxide Equivalent Intensity Index (CDEII) from its current daily basis to a dispatch interval basis and extend it to the Western Australian Wholesale Energy Market. Shifting the CDEII to a dispatch interval

basis will allow more accurate estimations of emissions associated with electricity production and use. This is particularly important for estimating emissions intensity as more renewable energy is dispatched throughout the day.

Other sustainability reporting (Question 17)

When contemplating the inclusion of other sustainability reporting features like biodiversity or social and governance disclosures, Treasury should keep in mind the purpose of these reforms. While the AEC understands the desire to grow sustainability reporting, some of these features do not neatly relate to the facilitation of efficient capital. They are about achieving other social or equity objectives.

Notwithstanding the above, the reporting regime requires in-built flexibility anyway to ensure alignment with the standards as they evolve, and ensure Australia keeps pace with international best practice. Ensuring this flexibility can later be used, if necessary, to incorporate other disclosure requirements appears intuitive.

Digital reporting (Question 18)

While there are obvious accessibility advantages to digital reporting, the capability to provide it is not currently there. Making it mandatory will require participating businesses, as well as likely regulators, to learn how to use new reporting tools, upskill their personnel, and upgrade their existing hardware and software. This process will occur at a time when many businesses are still familiarizing themselves with the new regulatory framework, creating inefficiencies. The AEC considers then that digital reporting should be considered later down the track once the framework is more mature.

Any questions about this submission should be addressed to [REDACTED], by email [REDACTED] or mobile on [REDACTED]

Yours sincerely,

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