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17 February 2023

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

Sent to climatereportingconsultation@treasury.gov.au

Dear Sir/Madam,

QBE Submission: Consultation Paper – Climate-related financial disclosure

Thank you for the opportunity to comment on the proposals outlined in the Consultation Paper *Climate-related financial disclosure*.

QBE Insurance Group Limited (QBE) is an Australian-based public company listed on the Australian Securities Exchange. QBE is Australia's largest international insurance and reinsurance company with operations in 27 countries and territories.

In line with QBE's purpose of *enabling a more resilient future*, QBE supports an orderly and inclusive transition to a net-zero economy and has committed to supporting the objectives of the Paris agreement by working towards being a net-zero emissions organisation across our operations by 2030, and through our investment and underwriting activities by 2050, with consideration of the latest science.

Since 2018, QBE has applied the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in preparing climate-related disclosures in the Annual Report. We welcome increased disclosure of climate-related financial information within Australia that is consistent with the global baseline being developed by the International Sustainability Standards Board (ISSB) to support international comparability for performance, risks and opportunities.

Overall comments and recommendations

- QBE supports mandatory disclosure of climate-related financial information. We also support a phased approach to introduction as this will provide time to develop more complete and meaningful disclosures, for instance addressing data gaps including for Scope 3 emissions where data is generally not currently available or of sufficient quality.

- A phased approach to disclosure could include mandating TCFD aligned disclosures for large entities in 2024, with subsequent adoption of IFRS S2 *Climate-related disclosures*. We consider a minimum implementation period of two years would be required from release of the final standards, to allow data and capability gaps to be addressed and audit methodologies to be developed in support of high-quality and comparable disclosures. This approach would address the urgent need for climate disclosures and the ambition to implement in a consistent timeframe with other comparable jurisdictions whilst also providing entities with sufficient time to evolve capabilities and resolve data challenges.

- We recommend practical expedients are introduced to enable entities to progressively increase disclosures and address data limitations. We also support the emerging approach by the ISSB to include Sustainability Accounting Standards Board (SASB) metrics as guidance, rather than mandating disclosure, and recommend that these are field-tested to ensure that the metrics present useful information for investors and other users of general-purpose financial information relative to the cost of producing the information.

- We recommend the development of a specific safe harbour regime in Australia for climate-related disclosures that involve forward-looking information and analysis. This would enable entities to provide the most useful information, rather than limited 'safe' information that avoids legal liability. We consider further information on the application of continuous disclosure requirements for ASX-listed entities would also be required.
- We recommend that, consistent with the approach adopted by jurisdictions such as the UK and Europe, when a parent entity reports climate-related disclosures for a consolidated group, the individual entities within the group should be exempt from the reporting requirements to avoid duplication and cost and ensure prioritisation of disclosures that are most useful to investors.
- In developing Australia's internationally-aligned climate-related disclosures, we recommend that there be coordination between all the relevant Australian regulators (including ASIC and APRA) to minimise duplication and help ensure the reporting burden on entities is reduced through coordination of requirements. In addition, we recommend that consultation for climate-scenario analysis is undertaken, and further guidance is provided, as this is an area where divergent practice could occur as well as inefficiencies in implementation costs across the economy.
- We consider that any of the structures proposed by the Consultation Paper for the development of climate reporting standards might be feasible, provided the responsible standard-setting body comprises a mix of sustainability as well as financial reporting expertise; the structure allows for coordination with the maintenance and development of accounting standards; and any new standards are subject to the same consultation and due process steps that currently apply to accounting standards.
- We support the plans to implement appropriate arrangements for comparable Commonwealth public sector entities and companies to also disclose their exposure to climate-related risk.

Attachment A to this letter outlines QBE's responses to the specific questions in the Consultation Paper. Should Treasury have any questions or would like to meet to discuss QBE's comments further, please contact [redacted] Head of Group Statutory Reporting & Accounting Policy at [redacted]

Yours sincerely

[redacted]

Group Chief Financial Officer

Attachment A – QBE's feedback on Consultation Paper questions

Process

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?

Stakeholder expectations in relation to disclosure of climate-related risks continue to evolve. For listed entities in particular, stakeholders such as investors, regulators[1] and customers expect that climate-related risks which drive aspects of an entity's business and have the potential to impact on the entity's financial position and performance will be reported.

Costs and benefits of meeting existing climate reporting expectations

Existing climate reporting expectations/obligations, such as the TCFD recommendations, have provided a framework for disclosing material climate risks, driving increased transparency and consistency in reporting of climate-related risks. We consider it has also encouraged organisations to better analyse and quantify these risks and exposures (e.g. scenario analysis and metrics), ensuring that management has relevant information to develop strategies for managing climate risks.

The costs and challenges of meeting existing climate reporting expectations/obligations include:

- Gathering climate-related information relevant to the business (e.g. data for measuring some Scope 3 emissions in respect of the supply chain, finance and underwriting) and the preparation of climate-related disclosures (e.g. identifying suitable measurement methodologies – noting there are currently gaps).
- Identifying the impact from climate change that is over and above usual weather events.
- Undertaking detailed quantitative analysis (such as scenario analysis), often requiring reliance on external providers. This is likely to be cost prohibitive for many small to medium organisations, and may not be undertaken on a regular (e.g. annual) basis by large organisations given the cost, effort and limited change over the long term in results, e.g. transition and physical impacts.
- The need to weigh-up the level of detail of disclosure obligations against the cost of providing the information, particularly when the obligations involve commercially sensitive information which may be of limited value to investors.
- Increased compliance costs across regions in which mandatory climate-related disclosures are required or imminent, including the EU, UK, New Zealand and Singapore. Every effort should be made to ensure the frameworks and guidelines on climate-related disclosures remain compatible across jurisdictions to minimise these costs where possible.

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1 Australian insurers apply Australian Prudential Regulation Authority (APRA) Prudential Practice Guide CPG 229 *Climate Change Financial Risks* (CPG 229). In the event that an insurer publicly discloses the results of their climate risks scenario analysis or stress testing under CPG 229, they also disclose significant design features and decisions that are necessary for stakeholders to be able to effectively interpret the results and compare them between institutions.

Alignment with international practice and global baseline standards

QBE notes that the TCFD recommendations are being leveraged in the development of the ISSB IFRS S2 *Climate Related Disclosures*. QBE supports the ambition to align with the international global baseline standards under development by the ISSB on climate-related financial risk disclosure.

International alignment is crucial to ensuring that information provided to stakeholders is useful and comparable between entities and requirements are not duplicative or overlapping across jurisdictions resulting in increased compliance costs.

QBE also considers that alignment with international practice of mandating climate disclosures for certain entities is necessary to accelerate progress towards reporting high quality, timely and decision-useful information about the impacts of climate change across the market.

Key considerations

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?

QBE supports a phased approach to the introduction of climate-related disclosure requirements, with initial application limited to larger entities.

Initial timing

We consider that climate-related financial information released by an entity should align with its financial reporting to enable users access to financial and broader climate information at the same date. Therefore, the effective date for climate-related financial information should be for a financial period "beginning on or after" a particular date. This would be consistent with implementation approach for accounting standards and [Draft] IFRS S1.

We note that it is unclear at this stage when any ISSB standard is likely to be effective and relevant auditing standards have yet to be finalised. Given the current rapid rate of change in climate-related standard setting and varying levels of reporting maturity across the market, we recommend:

- From 2024, as proposed on page 9 of the Consultation Paper, the initial step could be to apply the TCFD guidelines with no assurance requirement. We believe this would facilitate an uplift in disclosures, consistent with the approach taken by comparable jurisdictions such as New Zealand and the UK, but we particularly emphasise the importance of safe harbour provisions as per our response to Q16.
- From 2025 these disclosures could be subject to limited assurance aligned with the International Auditing and Assurance Standards Board's planned release of final auditing standards on sustainability. This would be consistent with the two-phase approach on assurance being adopted in New Zealand.
- Once the ISSB issues its climate-related disclosure standards and identifies an application date, entities could transition from the TCFD recommendations to the ISSB standards. The timing of adoption of ISSB standards in Australia should, however, be subject to a separate consultation to identify the necessary transition period[2] to allow entities time to update their

2 Based on the current proposals, we consider that a **minimum** period of 2 years from the effective date will be required.

systems and data preparedness for compliance with the industry specific climate metrics we expect to be required.

In terms of the initial use of TCFD recommendations, feasibility of the proposed timing will also be influenced by the extent to which the requirements would be voluntary and/or mandatory. In-scope organisations will require lead time to build systems, processes, controls and other capabilities to support compliance[3]. Therefore, if some or all the TCFD disclosures are mandatory, some flexibility or practical expedients should be introduced to account for known data limitations and other challenges in order to support application in 2024:

- For example, certain quantitative disclosures could be made on an 'as far as able basis' or subject to 'undue cost and effort' expedients (noting that the ISSB is currently deliberating on similar expedients in relation to Scope 3 GHG emissions[4]).
- An alternative could be to phase in mandatory application of specific requirements (such as Scope 3 GHG emissions and scenario analysis where methodologies for measurement are evolving), such that for some types of information, standards could initially be guidance only and focus on qualitative information. Subsequently, quantitative information can be made mandatory only once the relevant methodologies have developed and sufficient experience has been gained with the information.

Detailed consultation should be conducted to identify expedients appropriate to the Australian market and these should be assessed as part of the Policy Impact Analysis.

Considerations for subsequent phases of mandatory disclosure

In determining the cohorts to be covered in subsequent phases of mandatory disclosure, and the timing of future phases, consideration should be given to:

- identifying entities whose reporting might be most impactful on the availability of climate-related information generally for the whole market, and level of dependence on this information by others in the entities' value chain;
- identifying sectors that are likely to be more significantly exposed to climate risk; and
- significance to economic activity within Australia.

QBE considers that, in principle, the legal form (e.g. listed or unlisted) of an entity alone should not be a basis for applying the requirements. We note, for example, that:

- unlisted entities of economic significance should be required to apply the same requirements, either initially, or at least in later phases;
- all types of investment vehicles that accept money from members of the public should be subject to the same requirements, whether they take the form of managed investment schemes or superannuation funds; and
- significant public sector entities should also be considered for inclusion.

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3 We note that the UK announced its approach (and initial roadmap) in **2020** to make TCFD-aligned disclosures fully mandatory by 2025 which it appears is intended to apply to large companies, asset managers, life insurers and pensions funds.

4 In respect of the proposals in [Draft] IFRS S2 Climate-related Disclosures, the ISSB has recently tentatively agreed on a number of forms of relief/guidance, including:

- allowing Scope 3 GHG emissions to be measured using information from entities in its value chain with reporting cycles that are not aligned with the entity's reporting period, with a number of conditions, such as using the most recent data available without undue cost or effort to estimate and disclose its Scope 3 GHG emissions;
- implementation guidance to help entities assess which sustainability-related risks and opportunities in its value chain are relevant to users of general purpose financial reporting, using Scope 3 GHG emissions as an example; and
- only requiring an entity to reassess the scope of its sustainability-related risks and opportunities if a significant event or a significant change of circumstances occurs.

Reporting at a consolidated Group level

Consideration should also be given to how reporting requirements should be applied to a group of entities. We recommend, consistent with the approach proposed by other jurisdictions such as the UK and Europe, that:

- Climate-related reporting (and therefore any scope thresholds – discussed in Q3 below) should apply at the consolidated group level; and
- Reporting exemptions for subsidiaries within a group should be provided where financial reporting and relevant climate-related disclosures are included in a consolidated report of a parent entity.

We consider that consolidated group level climate-related information is likely to be of most significance and benefit to investors and other users. Group-level reporting will also reduce potential duplication and overlap, and therefore would be the most cost-beneficial to produce.

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?

QBE supports the proposal to initially target large listed entities and large financial institutions. Other large unlisted entities should be considered for inclusion where they might be considered to be economically significant.

In relation to size thresholds, we suggest consideration should be given to:

- leveraging existing reporting thresholds where possible – for example, in relation to large listed entities, these could initially be limited to the ASX200;
- thresholds should aim to ensure the stability of entities in scope (limit entities fluctuating between in-scope and out of scope) – this may be achieved through applying multiple criteria to determine scope[5]; and
- an asset-based threshold (i.e. based on balance sheet net assets) is likely to be more relevant given the potential exposures and impacts of climate change on future cash flows and profitability (which may not be reflected in current period profit or loss). Whilst turnover may be a relevant indicator of size of the entity in many cases, for example for the insurance industry[6], it may not always be the case for all sectors where entities may have a low turnover but high net assets and potential exposure to climate risks. Therefore, applying a threshold based on a subset of a number of criteria (similar to the EU approach) may be a reasonable approach.

5 For example, European Union (EU) Corporate Sustainability Reporting Directive scope thresholds are based on meeting 2 out of 3 criteria (based on balance sheet total, net turnover and number of employees). UK scope threshold for mandatory TCFD reporting involves meeting 2 criteria (including number of employees). In Australia, thresholds that define large proprietary companies are also based on meeting 2 out of 3 criteria.

6 For the insurance industry, revenue/turnover thresholds might most usefully be based on gross earned premium revenue which, in the context of applying AASB 17 from 2023, would be ‘insurance revenue’ for a period.

As noted in Q2 above, we consider that entities controlled by a parent entity that makes climate-related disclosures for a consolidated group should be exempt from disclosure requirements to avoid duplication of effort and ensure prioritisation of disclosures that are most useful to investors.

For the insurance industry, the quality and quantity of climate-related data available might depend on the extent to which the climate-related disclosure requirements are applied by other entities, who may be insurers' customers and/or suppliers. Accordingly, the expectations around the quality of climate reporting and the level of assurance that can be associated with the information in the earliest phase should be tempered by that factor.

QBE also strongly supports the proposal to implement appropriate arrangements for comparable Commonwealth public sector entities and companies to also disclose their exposure to climate-related risk. We note that New Zealand also intends to adopt this approach. This will more likely facilitate the broader objectives of public disclosure of climate-related information. It should also ensure private sector entities have access to necessary information when they have material dealings with public sector entities. In this respect, consideration may need to be given to ensuring that the timelines for reporting climate-related information by public sector entities are compatible with the private sector. For example, we note that current general purpose financial reporting timelines for public sector entities often lag those imposed on publicly-listed companies.

International alignment of disclosures

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?

As a multinational insurer, QBE considers it would be beneficial for the Australian Government to have standardised, internationally-aligned reporting requirements for businesses to make climate-related financial disclosures. We therefore support the proposal to align the Australian requirements with ISSB standards (but careful consideration should be given to timing of adoption in Australia as noted in Q2 above). The ISSB standards are intended to be a global baseline and the major jurisdictions and standards setters such as the EU and Global Reporting Initiative (GRI) are seeking to achieve compatibility with ISSB standards which will be beneficial for jurisdictions such as Australia.

In developing Australia's internationally-aligned climate-related disclosures, QBE recommends that there be coordination between all the relevant Australian regulators (ASIC, APRA, and Clean Energy Regulator in respect of National Greenhouse and Energy Reporting) to minimise duplication and help ensure the reporting burden (and therefore cost) on entities is understood and minimised across different government agencies.

In the event that there remain competing different frameworks and guidelines on climate-related disclosures internationally, through its membership of international representative bodies, the Government should help to ensure that the requirements applicable to Australian entities are accepted in jurisdictions that may apply those different frameworks and guidelines. By way of analogy, this could mirror the acceptance of financial statements prepared applying IFRS Accounting Standards in jurisdictions (such as the USA and Japan) that have alternative sets of financial reporting standards for their 'domestic' entities.

If different levels of sophistication are needed for different types of entities, different tiers of reporting could be identified by the body that has responsibility for setting the requirements in Australia. These could operate in a manner similar to the tiers of general purpose financial reporting in Australia that have a common base of IFRS Accounting Standards.

Regulatory framework for required climate 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)?

QBE considers the key considerations should include:

- the ability to act on a timely basis and not depend on a potentially lengthy full legislative process;
- a focus on ensuring that only material disclosures are required;
- achieving a balance between providing useful information and avoiding the disclosure of competitively sensitive information, particularly sensitive forward looking information; and
- flexibility to potentially tailor requirements and the timing of their application for different classes of entity, since different metrics might be relevant for different entities and the current capacity to gather relevant information might vary across entity and information types.

We therefore consider it would be appropriate for the framework to be consistent with the existing financial reporting framework such that:

- the legislative framework would set out the overarching obligations for entities to report climate-related disclosures, scope of entities, location of reporting requirements, and which standards should be applied; and
- the more prescriptive/detailed requirements and any related guidance would be in a form that can be introduced and amended as necessary (similar to accounting standards).

Periodic reporting requirements

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?

QBE considers the location of climate-related disclosures should remain flexible. That is, the information could be included in the operating and financial review or provided in a separate part of the Annual Report. This flexibility would allow entities to present the information in a manner that best suits the circumstances. For instance, in some cases the climate-related information may be sufficiently limited to be included in the operating and financial review and, in other cases, the amount of information might obscure existing content of the operating and financial review and be better located in a separate part of the Annual Report.

We note that the ISSB had decided not to mandate where the required information should be disclosed within the general purpose financial reporting package so as not to limit an entity's ability to communicate information in an effective and coherent manner. A similar approach to the draft

IFRS S1 could be applied by setting out a set of principles that must be followed, such as requiring the information to be:

- issued on the same terms and at the same time as other information presented for general purpose financial reporting; and
- presented as part of the Annual Report (noting that this is additional to the requirement in the draft ISSB S1 which allows for the information to be cross-referenced).

Materiality of climate risks

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)?

QBE notes that the enterprise value approach proposed for the ISSB guidance is being redeliberated by the ISSB and there is likely to be greater alignment with the definition of materiality applied to general purpose financial reporting.

QBE supports aligning with the ISSB's direction on materiality, including the likelihood that this will involve leveraging the guidance in Practice Statement 2 *Making Materiality Judgements*, which is already being applied in practice in Australia to general purpose financial reporting.

The requirements should not preclude entities from providing additional climate-related disclosures that may be considered relevant, provided that they do not reduce understandability of the overall disclosures by obscuring other material information. We note that, while materiality for general purpose financial reporting purposes is focused on whether information is material to the reporting entity, consistent with GRI principles and in the context of climate-related disclosure, entities seek to report simultaneously on matters that are:

- financially material in influencing business value; and
- material to the market, the environment, customers, community and other stakeholders in explaining the impact that the reporting entity can have on the climate.

Assurance of climate risks

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?

QBE considers that some form of limited assurance should be obtained on climate-related disclosures. However, we also note that:

- some types of disclosures might pose greater assurance challenges than others;
- obtaining a high level of assurance on some types of information may not be cost-beneficial or feasible; and
- there may be a case for introducing assurance requirements progressively as more experience is gained with the disclosure requirements [please see the response to Q12].

QBE considers that the following disclosures are most likely to pose challenges in terms of verification and assurance:

- scenario analysis for short, medium and long term timeframes;
- modelled and non-modelled natural catastrophes as every model would have its own assumptions and limitations;
- industry disclosure specifically related to discussion of products that incentivise health, safety and environmentally responsible actions/behaviours.

Assurance related to scenario analysis would be challenging particularly over the medium and long term horizons due to model data limitations and assumptions with respect to forward-looking information. Disclosing key inputs, proxies and assumptions would help minimise the auditing and assurance challenges. However, we also note that Australian regulators may need to consider removing barriers in the form of legal liability risks to entities making available forward-looking information. In the absence of this, Australian entities are likely to be constrained in their ability to fully adopt standards such as the ISSB standards. [Please also see our response to Q15.]

We also note that, to the extent assurance is required, it might most efficiently be provided through an entity's existing financial report auditor, due to their knowledge of the entity's business, and the governance and systems for managing material risks (including climate) and considering these for the valuation of assets and liabilities. It is expected that the external auditor would use the services of relevant experts on climate-related disclosure, as needed.

Reporting of metrics (including emissions), offsets and transition plans

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?

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

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?

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

Emissions reporting

QBE supports using the Greenhouse Gas (GHG) Protocol to measure GHG emissions for Scope 1, 2 and 3 given it is currently the most widely used basis. We would also support consideration being given to other industry-specific methodologies for Category 15 emissions, for example Partnership for Carbon Accounting Financial's (PCAF's) finance emissions and the Net Zero Insurance Alliance (NZIA)/PCAF underwriting emissions, which are applicable to the financial services sector.

We believe consideration should be given to the inherent data limitations and methodology challenges to complex Scope 3 areas such as supply chain emissions, investments emissions (sovereign bonds, infrastructure and unlisted investments) and underwriting emissions (particularly those related to products for individuals, small and medium sized enterprises and unlisted companies). We consider that disclosure of Scope 3 emissions should be required based on "best data available" with transparent disclosures on data limitations.

It is also important for Australian entities' emissions reporting to be harmonised with the existing NGER's reporting and measurement requirements for the Australian region.

Baseline metrics

QBE notes that any baseline metrics, such as in the ISSB's standards, would need to accommodate industry guidance from other sources, at least until the baseline requirements embed industry guidance. We note that there are:

- Sustainability Accounting Standards Board's (SASB's) industry based standards;
- the NZIA/PCAF insurance associated emissions framework; and
- a Australian Sustainable Finance Institute (ASFI) sustainability finance taxonomy being developed to bring standardisation to industry reporting.

We note that several other industry bodies, for example, in the extractives industry, also have existing guidelines.

We support disclosure of industry-based information as it will be crucial in achieving consistent and comparable reporting. However, in our view, many of the disclosures proposed by the ISSB in [Draft] IFRS S2 require review and extensive additional consultation with a broader group of stakeholders, including field testing to understand the appropriateness of industry metrics, consistency in measurement and data challenge. We consider this is particularly the case for the finance and insurance sectors.

We consider that mandating particular metrics may be counterproductive because methodology and/or metrics can be improved over time and allowance should be made for such improvements.

Covered entities

In managing their climate related risks, in the interests of transparency, QBE considers that entities should disclose the following key information (if applicable):

- the entity's transition plan towards a lower-carbon and/or net-zero economy, including how the entity plans to achieve its climate related targets.
- the entity's use of carbon credits and offsets.

Over time alignment to science based credible/verified transition plans is most desirable. However, we note that the Science Based Targets initiative (SBTi) has yet to identify the transition pathways for all industries.

In addition, we recommend that consultation for climate-scenario analysis is undertaken, and further guidance is provided, as this is an area where divergent practice could occur as well as inefficiencies in implementation costs across the economy.

Transition arrangements

QBE considers that the level of certainty around some disclosures will be greater than for others, particularly for quantitative disclosures. We think there would be a need to consider the maturity of the methodologies by industry to identify those disclosures that could be phased in quickly compared with those that may need to be deferred, and the availability and quality of data e.g. Scope 3 emissions data.

We note that having to obtain assurance on some types of information might limit the usefulness of the information that entities are willing and able to provide, particularly for information that relies on the use of measures, models and methodologies that are evolving. Therefore, there may be cases for not requiring assurance requirements for some disclosures initially, in particular where assurance mythologies are not yet sufficiently developed.

Data and capability to support climate reporting

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?

It is important for the new requirements to acknowledge the inherent methodology and data gaps in measuring scope 3 emissions, particularly emissions across the supply chain, certain investment asset classes and underwriting emissions, including reliance on third party data. In our experience, data is generally more mature for large, listed companies but for non-listed, small and medium entities, at a global scale, data is almost non-existent. We believe it will take a long time for data coverage to be anywhere near complete, and given this makes up the vast majority of scope 3 emissions, it will not necessarily be specific to a portfolio (rather based on industry proxies) for a long time to come. For the benefit of transparency and greater disclosure, the new requirements should encourage "best endeavour" practices in initial measurements and disclosures as entities evolve and mature in their methodology, systems and data. Expectations around assurance should be considered in the context of these data quality challenges.

As noted at Q10, QBE recommends field testing industry specific metrics with large Australian corporates to understand the appropriateness of industry metrics, consistency in measurement and data challenges.

QBE considers there are no specific capability or data challenges or advantages in the Australian context. Accordingly, we note that it would be inappropriate for the AASB to impose additional requirements for Australian entities. There is a risk that any Australian-specific requirements would pose a barrier to Australian-based entities adopting consistent industry-based conventions for climate-related disclosures that are developing internationally.

Governance of supporting information for disclosures

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?

QBE considers that specified climate scenarios may improve comparability and would welcome a framework being developed, preferably from a suitable international source. In the event that climate scenarios do not become available from a suitable international source, we would support a Commonwealth government body being responsible for developing those scenarios.

Proportionate application of liability

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?

QBE supports the development of a specific safe harbour regime for companies, directors and officers in relation to climate-related disclosures that involve forward-looking analysis. We consider that this would be beneficial in having entities provide the most useful information, rather than limited 'safe' information that avoids legal liability.

QBE considers that a 'reasonable grounds' test such as that applied in the Corporations Act might not be sufficient to prevent entities from deliberately curtailing their disclosures to avoid potential breaches of the law. This is because there may be cases when meeting climate-related disclosures in a helpful way would be reasonable but not based on data that meets the 'reasonable grounds' threshold. A more suitable approach might be a 'best endeavours' test using 'reasonable and supportable information available without undue cost or effort', which is a benchmark widely used in IFRS Accounting Standards.

Interaction with other reporting obligations

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?

Additional guidance should be developed to set out expectations in relation to the extent to which the ASX continuous disclosure requirements are to cover climate-related disclosures. Events with an immediate impact, such as extreme weather events, already give rise to disclosure for some insurers because they can have a material effect on the price or value of an insurer's securities. It would be useful to know if regulators envisage, relative to existing disclosures, additional climate-related information as being likely to be the subject of the continuous disclosure requirements.

QBE regards it essential that consideration be given to improving safe harbour provisions more generally for climate-related disclosures that may be expected to appear in continuous disclosures and fundraising documents, particularly where they relate to forward looking statements or disclosures that are reliant on data from third parties that are outside an entity's ability to reasonably verify and control. This would include considering updates to the due diligence defence for prospectuses [Corporations Act, s731].

Other implementation issues

Sustainability reporting

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?

QBE considers it would be a missed opportunity to focus reforms only on climate-related disclosures. Accordingly, we would support the reforms being designed with a view to them also catering for a range of sustainability disclosures in future, such as those that we might adopt from the ISSB. However, we also note that with sustainability reporting evolving at a rapid pace any future moves to incorporate the broader range of sustainability disclosures in Australian reporting should be subject to consultation to help ensure the content and timing is suitable for Australian stakeholders.

Digital sustainability reporting

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

QBE considers that digital reporting should not be mandated for sustainability risk reporting.

There has been negligible adoption in Australia of digital reporting for conventional financial reporting. We suggest that sustainability risk reporting would not be a suitable candidate for leading a digitisation of reporting, particularly since, relative to conventional financial reporting, sustainability risk reporting is likely to be at least as qualitative in nature, and depend at least as much on entity-specific context.

Any move to require digital external reporting of information should be based on a thorough analysis of the costs and benefits to all stakeholders.

Structure: Ensuring the financial reporting framework is fit for purpose to support climate risk disclosures

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?

QBE considers that the consultation and research processes required for setting sustainability standards are similar or the same as for conventional financial reporting standards. Accordingly, QBE considers it would be appropriate for any Australian sustainability standards capacity to benefit from the experience of the AASB and AUASB. In that respect, we note the ISSB is operating largely on a similar model to the IASB in terms of the methods of research and consultation under the governance of the IFRS Foundation and its Board of Trustees with respect to oversight of the standard-setting process. We also note the ISSB includes some former IASB members and some of the staff supporting work of the ISSB have IASB experience.

We also note it is proposed climate-related disclosures apply to both private sector and public sector entities and the AASB has experience in adapting IFRS Accounting Standards designed for private sector application to the circumstances of public sector entities. Those skills may be useful in setting climate-related disclosure Standards.

However, we also consider that while many of the skills required of staff and board members for analysing and contributing to the development of international sustainability standards are the same as for conventional financial reporting standards, much of the needed expertise is different.

Accordingly, we consider that sustainability reporting standard setting might feasibly be governed by the AASB, or by a separate Board, or by a separate committee of the AASB, but consider that in any/all cases, the following factors are necessary:

- The responsible body should possess a mix of skill sets, including in the areas of sustainability, financial reporting, and with access to other skills that may be required for particular projects such as actuarial and catastrophe modelling expertise. We note that the AASB has recently appointed to its board new members with sustainability reporting expertise.

- Climate-related disclosure standards should be developed on a basis that utilises the existing expertise in standard setting within the AASB and AUASB and allows for coordination with the maintenance and development of accounting and auditing standards.
- Climate-related disclosure standards should be subject to the same consultation and due process steps that currently apply to accounting standards.