

# Climate-Related Financial Disclosure

**ACCI Draft Submission**

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# Introduction

The Australian Chamber of Commerce and Industry (ACCI) appreciates the opportunity to make a second submission on climate-related financial disclosure and the implementation of standardised, internationally aligned requirements for disclosure of climate related financial risk and opportunities in Australia.

Overall, businesses, investors, and consumers support the Australian government's commitment to reduce greenhouse gas emissions to 43 per cent below 2005 levels by 2030 and net zero by 2050. This is an ambitious goal which shows Australia's commitment to take a leadership role in the global emissions reduction challenge.

Australian businesses face significant risks imposed due to climate change, which encompasses both physical risks associated with the impact of climate change and transition risks arising from policy, regulatory and technological changes aimed at mitigating climate change. Acknowledging that this is a continually evolving area, there are some gaps in participation and credibility of climate-related disclosure.

In ACCI's earlier submission to the initial consultation on climate-related financial disclosure, we put forward the following recommendations: -

1. The reporting requirements, whilst closely aligned to international standards, be tailored to the Australian context and consistent across states and territories.
2. The climate-related financial disclosure requirements should be aligned with international requirements.
3. Small and medium-sized businesses should be excluded from the initial phase of the disclosure requirements. They should be phased in following ample preparatory time and with additional government support.
4. The design of the regulatory framework takes a proportionate approach and builds upon existing disclosure requirements.
5. The periodic reporting requirements of climate-related financial disclosure continue to be incorporated into annual operating and financial reviews to avoid duplication.
6. In consultation with industry, a common baseline of metrics be established to provide consistency to data reported and a guideline for business to follow.
7. Scope 3 emissions be included in the later phases of climate-related disclosure following a review of the initial phase and further consultation with industry. Its inclusion should be phased to apply to larger entities first, then subsequently medium-sized and smaller entities, granting appropriate lead times.
8. Any penalties relating to inaccurate but unintentionally misleading claims or assumptions are proportionate, taking into account good-faith reporting.
9. The climate-related financial disclosure framework should remain flexible for voluntary business participation in other nature-related sustainability disclosures
10. Digital reporting of sustainability disclosure should remain voluntary.
11. The government adopt 'Potential Structure 1', establishing the AASB as responsible for developing, making and monitoring climate and sustainability-related standards, offering the most efficient method to incorporate climate risk disclosures into the financial reporting system.

ACCI is pleased to see that the second round of consultation pursues a more standardised, internationally-aligned approach to disclosure of climate-related financial risk and opportunities in Australia. We see benefit in adopting standardised reporting frameworks that are appropriately weighed

against the barriers placed upon the stakeholders engaging in the Australian market, and the regulatory burden placed on business.

We acknowledge that many of our recommendations from the initial consultation have been addressed in the second-round consultation paper. However, there are some elements of the proposed climate-related financial disclosure that require further consideration.

## Phased implementation approach

The consultation paper proposes mandatory climate-related financial disclosures be implemented in a phased approach, extended over four years from 2024-25 to 2027-28.

The phased approach applies to entities reporting under Chapter 2M of the Corporations Act 2001, with the timing of its introduction based on the size of the entity, as shown below:

Group	First year of reporting	Meets two or more of these thresholds		
		Employees	Consolidated assets	Consolidated revenue
1	2024-25	More than 500	\$1 billion or more	\$500 million or more
2	2026-27	More than 250	\$500 million or more	\$200 million or more
3	2027-28	More than 100	\$25 million or more	\$50 million or more

ACCI supports the phased approach which is consistent with our recommendation 3 from the first round of consultation. Here, we proposed the mandatory disclosure requirements should only apply to large companies covered by the Corporations Act 2001. We also recommended the ASIC definition of small proprietary companies be used as a threshold to exclude small entities.

ACCI agrees the phased approach is appropriate as it affords businesses sufficient time to adopt the necessary procedures and develop the necessary skills to meet mandatory disclosure requirements. Most of the larger ASX200 businesses included in Group 1, and many of the ASX300 businesses included in Group 2, already provide climate-related financial disclosure at some level. Fewer of the medium-sized businesses included in Group 3 provide climate-related financial disclosure, so it is appropriate they are afforded more time to prepare their financial and emissions reporting systems before disclosure becomes mandatory. Medium-sized businesses face a proportionately higher administrative burden and have limited finances and resources to develop the systems to prepare these reports. Currently, most of these businesses do not have the systems and processes in place to prepare the necessary financial and emissions reports. These businesses will need to develop systems that improve their data availability using automation and controls and enhance governance to meet the set requirements<sup>1</sup>.

In addition to covering all the entities reporting under Chapter 2M of the Corporations Act 2001, the reporting requirements are proposed to apply to entities registered as a 'controlling corporation' reporting under the National Greenhouse and Energy Reporting Act 2007 (NGER) irrespective of the size thresholds. Given the NGER covers entities that are emissions-intensive and small businesses are also excluded, ACCI agree that it is appropriate for NGER entities to also provide climate-related financial disclosures.

<sup>1</sup>EY, Navigating the new frontier of sustainability standards

# Subsidiary Reporting

Many multinational enterprises (MNEs) operating in Australia are likely to provide climate-related disclosure (CRD) in their parent country. To reduce the compliance burden on these entities, considerations should be given to allowing the MNEs a subsidiary exemption. The MNE would not be required to report in Australia if it already publishes its CRD at an aggregate level in its parent country. The CRD requirements in the parent country would need to be International Sustainability Standards Board (ISSB) compliant to be consistent with the Australian reporting requirements.

Similar exemptions apply in other jurisdictions. For example, Singapore's CRD provides a subsidiary exemption, allowing multinational entities to report at an aggregate level where its parent company prepares climate or sustainability reports consistent with the prescribed CRD in Singapore or deemed equivalent.<sup>2</sup>

In Australia this would involve offering MNEs the option of issuing one ISSB compliant disclosure, covering its Australian subsidiaries, rather than providing a separate disclosure for Australia.

## Reporting content

ACCI agrees strong international alignment is important to minimise compliance costs for Australian-based multinational corporations. The initial ACCI submission recommended that the taskforce on climate related financial disclosure (TCFD) approach be followed while the ISSB was in the process of updating its standardised climate disclosure framework (ISSB-2). Now that the final ISSB-2 standard has been released, we agree that this should be used as the base for developing the Australian standard.

We also agree that the AASB is the most appropriate entity to be responsible for developing the Australian climate disclosure standard. It is critical that the Australian climate disclosure standard is aligned with the new ISSB-2 standards to ensure consistency at the international level and avoid duplication.

However, the process to adapt the ISSB-2 standard into an Australian standard by the AASB is ongoing and is unlikely to be completed before the second quarter of 2024. Therefore, it is premature to be introducing mandatory climate-related financial disclosure in Australia from 1 July 2024.

While it is proposed that the disclosure requirement would be phased in over the transition period between 2024-25 and 2027-28 with 'less onerous disclosure requirements' and 'modified liability settings', it is inappropriate to introduce mandatory and enforceable disclosure requirements before the Australian standard for reporting has been fully developed.

Until the Australian standards for reporting are finalised and businesses have sufficient time to adapt their financial reporting systems, climate-related financial reporting should be voluntary and require only limited assurance.

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<sup>2</sup> See: <https://www.acra.gov.sg/docs/default-source/default-document-library/legislation/listing-of-consultation-papers/public-consultation-on-srac's-recommendations/consultation-paper-recommendations-by-srac.pdf>. p.17

## Materiality

Again, ACCI agrees that the approach to materiality should align with the ISSB standard to ensure international consistency of the reporting requirements.

However, the standards set should allow flexibility to businesses to determine which sustainability-related risks and opportunities are material to the organisation's goals and can have a financial consequence on the company's reports.

## Governance

ACCI agrees that, to accompany climate-related financial disclosure, company policy should be developed, and procedures introduced, to oversee and monitor climate-related risks to support climate-related financial disclosure.

However, careful consideration should be given to any reporting requirements regarding factors influencing a corporation's governance. Climate-related factors are only some of the many factors companies must consider in their governance. It is necessary for directors to balance all competing factors so one should not be given primacy. Any decision for these issues to be a factor in executive remuneration should be at the discretion of the remuneration committee of an entity's board.

## Strategy

ACCI accepts the need for greater transparency of climate-related risks and opportunities in a business' financial reports, and that this should follow ISSB standards. However, the development of climate scenario analysis for the corporate sector is in its nascent stage. Few businesses currently undertake climate-related scenario analysis and report on it. There is no established framework to undertake scenario analysis.

In our initial submission, ACCI recommended that a common baseline of metrics need to be established to provide consistency in data reported and guidance for businesses to follow. A two-scenario approach where each business determines its own scenarios and metrics, would only lead to confusion, as the outcomes would not be comparable across businesses. If scenario analysis was to be included in the climate-related financial reporting, it would need to be standardised to avoid fragmentation and improve comparability across company reports. Even if the government mandated specific scenarios that all businesses were required to disclose, there is a risk the mandated scenario might be relevant to some businesses but not others. It is likely that significant climate-related risks and/or opportunities would be overlooked in this approach.

Redesigning the regulatory framework will add considerably to the administrative burden on businesses and cause major disruption to business activity.

## Transitional planning and climate-related targets

ACCI recommends a well-developed transition plan, such as that implemented in the UK-TPT Disclosure Framework. This focuses on translating ambitious strategic objectives into steps to be taken in the short

and medium term. A well-developed transition plan helps the businesses to disclose a credible, useful and consistent pathway to achieving climate-related targets. By laying the groundwork, it provides investors a lens through which to assess the practicality and feasibility of climate-related targets.

## Metrics and targets

With regards to the proposed approach to scope 3 emissions disclosures, entities are provided a temporary one-year exemption requirement from reporting scope 3 emissions, following the commencement of mandatory requirements.

The calculation of Scope 3 emissions is still in its infancy. There is limited guidance and a robust framework for calculating Scope 3 emissions is yet to be developed. It will be a challenge, for large businesses to develop a robust system to estimate their scope 3 emissions in only one year. The reporting system would need to estimate material emissions both upstream and downstream the business activities. Although medium-sized businesses have more time to prepare their databases and reporting systems for these disclosures (2027-28 onwards), it still represents a huge administrative burden with a high compliance cost. While these statements are becoming increasingly popular among investors, any business unable to develop these reporting structures within the required timeframe to meet these requirements would be placed at a competitive disadvantage.

Scope 3 emissions carry a risk that affect businesses along the entire supply chain. Even though larger companies are initially responsible for reporting their scope 3 emissions, they need data from smaller businesses further down their supply chain to report their emissions. If these smaller businesses cannot provide the necessary information, they risk losing contracts with larger business. Furthermore, if these small-scale businesses are then required to also provide data on their scope 3 emissions, that would be a huge administrative burden and challenging task for them to estimate these emissions without a standardised framework.

There are inconsistencies around the disclosure of Scope 3 emissions, including data availability, calculation methodologies, scoping and organisational barriers. In addition, there are inherent limitations of the methodology for Scope 3 emissions accounting and reporting, which can result in double counting the emissions.<sup>3</sup>

Without a standardised framework and methodology around Scope 3 emissions, businesses are left to develop their own metrics to estimate their Scope 3 emissions, which will significantly limit comparability and contribute to inaccurate valuation of emissions.

Nonetheless, reporting Scope 3 emissions does provide vital information to companies and investors about where transition risk is present in the supply chain.

ACCI's initial submission recommended that appropriate lead times and phased introduction of Scope 3 disclosure must be provided to allow medium and small-scale businesses appropriate time to develop the relevant data-gathering capacities.

However, before reporting of Scope 3 emissions is required, a standard reporting framework, and guidance on the necessary data to be included in the reporting of Scope 3 emissions, is needed. This must be consistent with international Scope 3 reporting requirements of the ISSB to ensure consistency of the approach taken at the international level. The data reported must be comparable with that reported

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<sup>3</sup> Task Force on Climate-Related Financial Disclosures, Guidance on Metrics, Targets and Transition Plans, October 2021.



by other businesses, both domestically and internationally. The development of a reporting framework for Scope 3 emissions will take some time. Therefore, mandatory reporting of Scope 3 emissions should be delayed until a standardised reporting framework has been developed, and businesses have time to work with suppliers and customers, both domestically and internationally, to develop the necessary databases and reporting frameworks. This should not be rushed. The commencement of Scope 3 reporting for Group 1 entities from 2025-26 is likely to be too soon. The reporting of Scope 3 emissions should be delayed until a standard reporting framework and guidance is developed and businesses have time to adapt their reporting frameworks to be able to make accurately this disclosure.

## Reporting framework and assurance

As proposed, the framework for climate-related financial disclosure uses the pre-existing framework, where climate-related risks are incorporated into annual operating and financial reviews which is in line with ACCI's recommendation.

The consultation proposed an alternative option, requiring entities to disclose some climate-related information in a separate report. However, this would increase the administrative burden on business without improving the quality of the information that is reported. What is required is a simple, consistent approach to disclosure, which would lead to less uncertainty and costs in relation to a company's reporting obligations. Furthermore, it creates a risk that investors might receive a disjointed narrative about the entity's climate-related risks and opportunities, thus impacting their ability to make accurate and fair assessments.

Assurance requirements for the climate-related financial disclosure would be subject to phased approach, with each group subject to a multi-year increase in the scope and level of assurance provided from an entity's first year of reporting.<sup>4</sup>

The climate-related assurance industry is currently in the early stages of development. While some consultants do provide assurance services, often this work is highly subjective, due to the lack of experience and the absence of an established consistent framework for undertaking these audits and making the certification. Few consultants have the necessary skills and experience to provide accurate assurance of Scope 1 and 2 emissions, with assurance of 3 emissions even more challenging and uncertain. In recent years, the Big Four and other consulting firms have been actively recruiting staff and building teams to undertake climate-related assurance work, but these young recruits often have a background in tax and not carbon accounting.

Time is needed for the climate-related assurance industry to develop and mature to be able to provide climate-related risk assurance with accuracy and certainty. Therefore, it is necessary to phase in assurance requirements progressively, with limited assurance required while a robust framework for assurance audit is developed by the Auditing and Assurance Standards Board (AUASB). The AUASB should also be directed to provide training and licencing of assurance auditors.

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<sup>4</sup> Deloitte, Action now for mandatory climate reporting in Australia, June 2023.

# Liability and enforcement

Climate disclosures require entities to report on their forward-looking statements, which require them to take positions on inherently uncertain matters. This may leave company directors open to liability for misleading and deceptive conduct.

Specifically, in the case of Scope 3 emissions, which will involve some estimation and guesswork due to data availability issues, directors are likely to be overly cautious in their disclosures, such that disclosures won't meet the needs and expectations of the market or the investors.

While the consultation paper has proposed a transitional “modified liability” framework where in the application of misleading and deceptive conduct provisions to Scope 3 emissions and forward-looking statements will be limited to regulator only actions for a fixed period of three years since the commencement.<sup>5</sup>

However, with no guidelines or standardised reporting framework for Scope 3 emissions, it still remains a risk for businesses, particularly for medium and small-scale businesses. They may make disclosures on potential future outcomes and uncertainties end up being inaccurate as a result of factors beyond their control. As ACCI advocated in our earlier submission, Scope 3 emissions disclosures should be delayed until a standardised approach to reporting is developed.

In addition, safeguards are essential to ensure confidential of commercially sensitive information is not disclosed. More clarity is needed on how confidential and commercially sensitive information is to be treated, how businesses can apply and qualify for an exemption from disclosure of this information.

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<sup>5</sup> The Treasury, Climate-related financial disclosure Consultation paper, June 2023.

## About ACCI

The Australian Chamber of Commerce and Industry represents hundreds of thousands of businesses in every state and territory and across all industries. Ranging from small and medium enterprises to the largest companies, our network employs millions of people.

ACCI strives to make Australia the best place in the world to do business – so that Australians have the jobs, living standards and opportunities to which they aspire.

We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth, and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety, and employment, education, and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies. We represent Australian business in international forums.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

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