
**AIGN Submission to
Climate-Related Financial Disclosure
Second Consultation Paper
(June 2023)**



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1 PREFACE – OBJECTIVE AND TIMING

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to engage with the Treasury on the *Climate-Related Financial Disclosure* consultation paper (June 2023).

This submission is divided into two parts.

Section 1 (this section) explores AIGN’s highest priority feedback to the consultation paper and the process for developing the climate-related financial disclosure framework.

Section 2 provides a summary of all feedback, and sections 3 and 4 comprise more detailed reactions and feedback.

The feedback in sections 3 and 4 is given in the event the Government chooses to adhere to its original timeline despite the earnest concerns expressed by many across industry, including AIGN members. However, AIGN notes that addressing these issues in haste will not be sufficient to develop a robust and flexible climate disclosure framework.

1.1 Objective of mandatory climate-related financial disclosure

- The objective of this undertaking is outlined on page 3 of the consultation paper: “The Government has committed to ensuring large businesses and financial institutions provide Australians and investors with greater transparency and accountability when it comes to their climate-related plans, financial risks, and opportunities. As part of this commitment, the Government will introduce standardised, internationally-aligned reporting requirements for businesses to make disclosures regarding governance, strategy, risk management, targets and metrics – including greenhouse gases.”
- The development of a mandatory climate-related financial disclosure framework is generally supported by AIGN members, with a clear objective of showing how climate-related financial risks and opportunities are being defined, assessed and managed by reporting entities. The framework should be focused on providing better information to direct investments and capital allocation; the increasing of the compliance burden on entities must be warranted by adding value and filling a legitimate market gap.
- AIGN is concerned that the objective is not clearly guiding the development of the framework, as it appears at times to be diluted by auxiliary matters. The consultation paper refers to other objectives, such as driving investor demand or standardising information. These should not guide the development of the framework – it is not the purpose of this policy to fulfil those objectives.
- Despite some stakeholders wishing to see this framework diversified beyond the objective, there is no defensible reason to do so. Other matters (e.g., details regarding emissions and offset sources) are addressed in bespoke policy instruments, and greenwashing is a matter for the ACCC that should not be conflated with climate risk reporting.

1.2 Development timeframe

- AIGN members do not agree that the strongest focus of this process is the need for standards to be developed quickly (p3). The strongest focus needs to be developing high integrity, easily implementable standards. The current timeline is extremely short for the sort of deep consultation required to develop a robust and enduring policy.

- The AASB has not yet begun formally developing climate-related standards. These are to be consistent with ISSB standards, which are not yet finalised (p5). In addition, several other elements of the proposed framework are identified in the consultation paper for further work.
It is not possible to properly evaluate the proposed framework without understanding these as-yet undefined variables.
- AIGN members' resources are under significant pressure from the Government's workload in the climate policy space; often, many climate-related areas of work are the responsibility of a very small team, or even of only one person. These individuals are currently working on various phases of consultation and implementation, including the reformed Safeguard Mechanism requirements, consulting on and/or applying to the Powering the Regions Fund, consultation on the Climate Change Authority's *Setting, tracking and achieving Australia's emissions reduction targets* issues paper, and managing decarbonisation projects at their facilities. Given these existing demands, adding this work with a very short consultation timeline to meet an arbitrary deadline will reduce the quality of industry feedback and ultimately imperil the integrity of the framework.
- AIGN members are generally supportive of climate risk disclosure – but it is crucial to ensure the objective is upheld and prescriptivism avoided where possible. AIGN is not in favour of rushing the development of the climate risk disclosure framework.
AIGN members are also concerned that the rushing of policy development due to the extremely short timeframe for implementation risks compromising the quality of the framework.
- AIGN would be supportive of postponing the implementation of the framework by at least one year to allow for sensible sequencing of the workload, adequate consultation to be conducted, and necessary outstanding matters to be resolved.

1.3 AIGN feedback – order of priority

- All other feedback given below is of secondary importance to the concerns raised in section 1.
- The feedback in sections 3 and 4 is given in the event the Government chooses to adhere to its original timeline despite widespread stakeholder concern. However, AIGN notes that addressing these issues in haste will not be sufficient to develop a robust, durable and flexible climate disclosure framework.
- With respect to flexibility – appropriate flexibility and review mechanisms are needed to help refine the framework and give it stability (e.g., 5-yearly review cycle).

2 SUMMARY

The Australian Industry Greenhouse Network Limited (AIGN) appreciates the opportunity to engage with the Treasury on the *Climate-Related Financial Disclosure* consultation paper (June 2023).

AIGN is a network of industry associations and corporations. AIGN provides a forum for discussion on key climate change issues, providing information and analysis in the consideration of national and international climate change policy and the role industry can play in the transition to net zero emissions by 2050.

In considering this submission, the Treasury should note AIGN's broad range of members, and give regard to specific sector and corporate matters raised in member submissions. Several AIGN members have prepared input to the consultation paper directly, covering a range of issues and perspectives from different industry sectors and individual entities. AIGN members will direct their industry-specific responses through industry association submissions. Please consider the AIGN submission alongside input from our members.

- AIGN supports the Government's commitment to the Paris Agreement and to meeting its goals, recognising the need for increasing ambition to keep the 1.5°C warming goal within reach and to achieve carbon neutrality by 2050 or sooner.
- AIGN supports mandatory climate-related financial disclosure. This will be a first for Australia; the development of this framework should be guided by a clearly defined objective. Given the complex nature of this work, the unfinished status of dependant standards, and the pressure on corporate resources in this space, AIGN has concerns that the short timeframe allocated to developing the reporting framework risks compromising its quality.
- The planned timeframe for implementation is the most problematic aspect of the proposals outlined in the consultation paper. AIGN recommends postponing the implementation of the framework by at least one year to allow for sensible sequencing of the workload, adequate consultation to be conducted, and necessary outstanding matters to be resolved.
- AIGN beseeches the Government to have continuous regard to the objective of the framework – "...ensuring large businesses and financial institutions provide Australians and investors with greater transparency and accountability when it comes to their climate-related plans, financial risks, and opportunities." (p 3) Other objectives – such as providing information on emissions and offsets, driving investor demand or standardising information – should not guide the development of the framework. These objectives are either met by other policies, or are not the duty of reporting entities or the Government to fulfil.
- Due to the proliferation of issues to be addressed, AIGN recommends the Treasury holds a workshop (or series of workshops) to examine the use of NGERS data within the reporting framework.
- The reporting framework should be designed to support alignment across jurisdictions to improve efficiency and transparency. This should include reporting obligations at different levels of government within Australia, as well as international reporting obligations.
- AIGN recommends the reporting framework be finalised only after the AASB's climate-related financial disclosure standards are published. The development of these standards is in its early stages; AIGN supports open and transparent consultation during the development process.

- AIGN members have concerns with the proposed modified liability approach, including the fixed-three-year limited liability period. In-depth consultation on liability and enforcement with respect to forward-looking statements and scope 3 emissions reporting is strongly recommended.
- The complexity of assessing materiality in financial risk reporting has given rise to a range of views on how this should be addressed in the reporting framework. AIGN believes more consultation is needed on this issue.
- AIGN urges the Government to take more time to discuss the details of scope 3 emissions reporting with stakeholders, especially those that will have obligations under the framework, to form a better understanding of the uncertainties and challenges of scope 3 reporting.
- While AIGN supports the consultation paper's conclusion as to the importance of allowing flexibility in scenario choice for scenario analysis, many details remain to be finalised. Further consultation is needed to ensure the framework does indeed provide the required level of flexibility while meeting its objective around transparency and accountability.

3 INTRODUCTION

AIGN members represent a substantial portion of entities with obligations under current climate change policies and have a strong record of compliance and voluntary reporting. Many are multi-national corporations involved in the parallel development of international reporting obligations. As such, they are well placed to provide feedback on the proposed methods for implementing standardised, internationally aligned requirements for disclosure of climate-related financial risks and opportunities.

AIGN welcomes the Treasury's invitation to share expertise with the Government as the climate-related financial disclosure framework (the framework) is designed. As outlined, AIGN recommends a longer consultation and implementation timeframe to allow for higher quality consultation and a sensible sequencing of steps required to design and implement the framework.

It is important that Australia's financial reporting bodies align with international standard-setting priorities on climate and sustainability reporting. AIGN therefore supports the Government's intent for Australia's framework to be aligned with the current work of the International Sustainability Standards Board (ISSB). This is best achieved by aligning development timeframes so outcomes can be sequentially finalised.

3.1 International context

AIGN supports the Government's commitment to the Paris Agreement and to meeting its goals, recognising the need for increasing ambition to keep the 1.5°C warming goal within reach and to achieve carbon neutrality by 2050 or sooner.

AIGN members are committed to playing their part in this transition, as attested by the climate statements, goals and actions of our association and corporate members. These send a clear signal that Australia's private sector supports the implementation of the Paris Agreement.

It is proper for the Government to establish a suitable policy architecture to support all sectors to transition at the least cost, in line with Paris goals.

3.2 Development timeframe

To meet its 2030 and 2050 targets, the Government is moving rapidly on many areas of climate change policy development and reform of existing policies to align with the Climate Change Act 2022. AIGN acknowledges the inevitability of this situation to an extent, given the need for strong action in the 'critical decade' and the effect of economic transformation.

However, AIGN has serious concerns that the quality of the framework will be compromised if the timeframe is rushed. The current implementation deadline of FY2024/25 for Group 1 entities is arbitrary; it is out of sync with the revision of international standards and the development of Australian standards that the framework will be linked to.

While the Government is able to spread its work throughout a number of departments, the input required for these processes often comes from a relatively small number of professionals with the necessary knowledge and expertise in each company.

The Corporate Emissions Reductions Transparency (CERT) report is an example of a complex report developed quickly to combat the perceived lack of corporate disclosure. It creates a significant workload for reporters and the Clean Energy Regulator. Its low profile (e.g. minimal media coverage) suggests that the CERT is not yet meeting end user requirements or existing public expectations. Developing this framework in haste potentially compromised its value.

During the Treasury's information session on 13 July 2023, the assertion was made that Corporate Sustainability Reports do not meet shareholder requirements. For most large entities, Corporate Sustainability Reports have developed over more than twenty years in response to increasing disclosure expectations and stakeholder feedback. Although in many cases climate-related financial disclosures will build upon existing frameworks, the proposed phased approach will not allow sufficient time to

develop the level of robust reporting expected, particularly for scope 3 estimations and scenario analysis.

Implementing hastily designed policy can have troubling business and public consequences if Government and stakeholders are not able to adequately assess and analyse it first. These consequences can include creating confusion where data is misaligned with other publicly available reports, overly complex information that cannot be readily interpreted or compared by end users, and directing resources away from decarbonisation projects and planning.

AIGN encourages the Government to prioritise the integrity and smooth operation of the framework while working to design and implement it in a timely manner.

4 DETAILED FEEDBACK ON CONSULTATION PAPER

All feedback in this section is of subordinate to the timing concerns expressed in section 1. This feedback is given in the event the Government chooses to adhere to its original timeline despite the earnest concerns expressed by many across industry, including AIGN members. However, AIGN notes that addressing the below issues in haste will likely not be sufficient to develop a robust, flexible and durable climate disclosure framework.

4.1 Key considerations for the framework

In AIGN's submission to the previous consultation paper, we explicitly supported the Treasury's reform principles, ensuring that the climate-related financial disclosure framework:

- Supports Australia's climate goals;
- Improves information flows;
- Is well understood;
- Is internationally aligned;
- Is scalable and flexible;
- Is proportional to the risk.

These principles must be consistently applied to the development of the framework, which will enter a policy space that is already populated with many other instruments. Duplication should be avoided, and streamlining and simplifying obligations on entities at all levels of government must be a priority.

The focus on reporting of future climate impacts should not be significantly greater than what would be required for other forward-looking financial reporting obligations.

AIGN notes that NGERS reporting and climate-related financial risk reporting, though they have links, are fundamentally different. While NGERS is a robust and mature reporting framework, it should not automatically be assumed that the climate risk framework should be modelled on NGERS alone.

Ultimately, NGERS data is only one input into climate risk reporting, which is purposed for the disclosure of financial risks and opportunities associated with climate change. NGERS boundaries do not align with financial reporting boundaries, and caution is advised in adapting the NGERS framework for a different purpose.

Using NGERS data may not reduce workload due to reporting differences, particularly for some multinational entities. For example, NGERS did not adopt updated global warming potentials (GWPs) released in 2014 until the 2020/21 reporting year.

Additionally, disclosures such as Climate Emissions Reduction Transparency (CERT) should be reconsidered in the context of mandatory climate disclosures, and the Government should consider a single point of reporting, integrating all relevant aspects.

Financial risks can result from physical or transitional impacts on a company's operation directly, on its global supply chains, and/or on its customers. There are many examples of relevant risks, including (but not limited to):

- Shifting or contracting customer markets;
- Physical impacts on suppliers'
- Natural disasters (droughts, floods, hurricanes, etc) in a country connected to a company's value chain;
- Political instability (e.g., food shortages impacting commodities, shipping, energy, food prices, and labour shortages);
- Geopolitical conflict disrupting global trade.

The current TCFD standard, for example, provides a level of flexibility in carrying out reporting requirements via high-level guidance that allows reporting entities to meet reporting requirements reflecting each of their unique set of risks and circumstances.

In addition to consistency with international frameworks, consistency is needed in several other areas:

- Consistency of metrics across different levels of government to avoid unnecessary overlap and duplication;
- Consistency of data reported by enabling multinational entities to align with the jurisdiction in which their main reporting occurs (e.g., calendar vs financial year reporting, noting international variations in financial year);
- Consistency with existing financial reporting requirements (e.g., Corporations Act and regulations).

A further key consideration relates to lead time for new mandatory requirements. Reporting entities will need appropriate time and support to understand the scope of mandatory requirements and disclosures.

They will need to build systems and processes once the full detail of reporting requirements is known.

Ideally, at least one full reporting year is needed to have the best chance of accurately meeting reporting requirements. Flexibility in the first reporting cycle or two could be a valuable measure. (This could be calibrated to the different reporting periods of domestic and international entities, as was done with reporting under the *Modern Slavery Act 2018*.)

Furthermore, substantially more time may be needed to fully assess, understand, and accurately report scope 3 reporting requirements. By their very nature, many scope 3 emissions will need to be estimated and it may be difficult to improve accuracy.

4.2 Current climate disclosure reporting compliance and costs

Existing climate reporting expectations have increased significantly in recent years, in both domestic and international contexts. Aligning Australian reporting with international expectations is important. Equally as important is alignment, within Australia, of Federal and State-level reporting requirements.

The costs involved in climate disclosure reporting increase with each new framework AIGN members

are required to report under. As such, alignment with existing frameworks should be prioritised.

Globally, corporations have been asked to participate in numerous climate reporting frameworks, including but not limited to the:

- International Sustainability Standards Board (ISSB)
- Taskforce on Climate-related Financial Disclosures (TCFD)
- Global Reporting Initiative (GRI)
- Corporate Emissions Reduction Transparency (CERT) framework
- Carbon Disclosure Project (CDP) - climate transition plan discussion paper
- Science Based Targets initiative
- Leadership Group for Industry Transition (LeadIT) - Roadmap planner
- Climate Action 100+ Initiative's Net Zero Company Benchmark
- Transform to Net Zero initiative
- Climate Pledge
- UN Race to Zero.

Compliance costs are a part of doing business, and AIGN members accept the necessity of ensuring any policy framework is robust and transparent. The reporting framework needs to be designed with the intention of keeping compliance costs as low as possible.

4.3 Alignment of reporting

Alignment to avoid duplication should be front and centre – designing a framework that supports harmonisation across jurisdictions to improve efficiency and transparency. Harmonised and consistent reporting across multiple schemes also supports the Government's objective of providing Australians and investors with greater transparency and standardisation in this space.

Generally, entities already subject to disclosure requirements at a portfolio level also set their climate

targets to reflect the breadth of their business. It makes sense that their climate risks, opportunities and plans are presented to investors on the same basis.

Where decision-useful information is already provided for investors and other stakeholders, duplicate reporting that separates out the part of the business operating in Australia may in fact be more confusing than allowing these entities to report at the portfolio level. This is particularly the case where investors are taking a global perspective when deciding where to allocate capital. For those investors, separating out information related to Australian operations is arbitrary and poorly aligned, and therefore not likely to serve the objective of providing decision-useful transparency and accountability.

4.4 Phased implementation

AIGN supports the principle of adopting a phased approach to implementing the framework. With respect to the proposals outlined in the consultation paper, the timeline for both the development and first year of introduction of the framework is rushed and risks being of compromised integrity as a result. Moving the implementation date forward by at least one year would improve the transparency and credibility of disclosures.

Many AIGN members fall into Group 1 as defined in Table 2 (p8), and therefore have some experience with reporting to a range of requirements (including the Corporations Act and NGERs).

There are a number of specific timing and implementation issues AIGN members would like to further engage with the Treasury on, including how their obligations under this framework may be able to align with their international reporting obligations. For example, many entities have data collection patterns aligned to a January-December financial year due to obligations in other jurisdictions, location of head offices, voluntary international reporting, etc.

There are also issues to be resolved around the different reporting bases for NGERs and the Corporations Act (controlling corporation and equity share, respectively). Under the Greenhouse Gas

Protocol guidelines, adopted by the ISSB, joint venture emissions are reported as scope 3.

Standardisation of group definitions will be critical in reducing duplication of effort where entities have obligations to report in multiple jurisdictions.

There are perhaps options for simplifying how reporting entities are phased and how they report.

Broadly, a phased approach should include consideration of:

- The ability of entities to absorb implementation costs and resourcing requirements;
- The availability of qualified auditors able to carry out assurance of climate-related financial disclosures;
- The need to avoid duplicative reporting for multi-national entities, including with respect to cost;
- The ability of entities to obtain and provide quality information. Emissions scope reporting could also be phased, i.e., scope 1 and 2 emissions first, allowing time to develop scope 3 guidelines by phasing in scope 3 reporting later.

4.5 Reporting content

The nascency of elements of the reporting content is reflected in the lack of detail in the consultation paper about what information will need to be reported.

We know that the AASB's climate-related financial disclosure standards are intended to be consistent with the ISSB's global baseline for sustainability and climate-related financial disclosure. However, the finalised ISSB standard is not yet available and the AASB has yet to begin developing the Australian standards.

It is concerning that, according to the consultation paper, the Treasury will only conduct further consultation if the final ISSB standards "...differ markedly from what is anticipated..." (p10). Aside from the evident subjectivity of this condition, it is poor practice (and inconsistent with the guidance

provided through the March 2023 *Australian Government Guide to Policy Impact Analysis*) to implement a policy without full and proper engagement with stakeholders affected by it. AIGN does not support finalising the framework before affected entities are able to fully understand the obligations it would subject them to. This requires access to the standards entities will have to report against.

4.6 Materiality in financial risk reporting

AIGN maintains that entities have unique exposures and levels of climate-related resilience. Therefore, assessing materiality is highly individual to each separate entity.

Materiality as per TCFD and CDP guidelines is defined by the reporting entity, this is also common for other risks. The ISSB is expected to issue updated guidance on this.

Noting the consultation paper's reliance on "...the anticipated position on materiality from the ISSB..." (p11), this is one area that causes AIGN concern; AIGN members cannot agree with this position on materiality given its fluidity. This is exacerbated by the vagueness of the Treasury's undertaking to consult further on ISSB standards if they 'differ markedly from what is anticipated.' While we are not operating in a vacuum of information, no corporate entity can be reasonably required to agree to adhere to a mandatory, legally binding standard before it is appropriately and clearly defined.

4.6.1 Assessing materiality

The complexity of assessing materiality contributes to AIGN's concerns regarding the timeline for designing and implementing the framework.

Most companies' risk registers define what they consider to be a 'material financial impact' – this information is reported in their operating and financial reviews (these may include the financial impact of a manufacturing breakdown, an incident, movement in commodity prices, etc.).

Preparing emissions reporting information is complex for many reasons, including the evolving nature of information, the impracticality of using direct measurement as a primary data source for several emissions sources, and the estimations needed to prepare climate-related financial disclosures.

4.6.2 Assessing boundaries for multinational entities

The consultation paper did not include information on boundaries for multinational entities, so the expectations of entities that have a parent company located outside Australia are unclear.

To align with the intent of the framework to avoid duplicative reporting, flexibility could be given to such entities to report in alignment with the parent company. This will also help avoid confusion among investors, who see data published at a corporate level.

Another issue to be addressed for multinational entities is how governance and risk is assessed. If governance and risk is managed at a parent entity, requiring a duplication of the governance structure in the reporting framework would impose an additional burden on the company with no added benefit to investors.

Other implications may need to be considered for multinational entities with obligations under legislation in other jurisdictions (e.g. reporting through the EU's Corporate Sustainability Reporting Directive). It will take time for these entities to work through their various obligations and identify duplicative reporting and opportunities to address unnecessary additional costs. It would be prudent for more time to be allocated to examine issues for entities with complex, cross-jurisdictional disclosure requirements.

For multinational corporations that are not listed in Australia and report on a limited disclosures basis, consideration should be given to introduce limited climate related financial disclosures to improve transparency.

4.7 Scenario analysis

AIGN agrees with the consultation paper that methods of scenario analysis can vary, for many reasons. Reporting entities should disclose their approach to factoring possible climate-related future impacts into their plans and strategies in a transparent manner. This will be best supported by ensuring entities have access to the methods of scenario analysis that suit their business.

4.7.1 Standardising scenario selection

Any proposals to mandate or limit the use of scenarios would be opposed on the basis of introducing systemic risk (e.g., that the mandated scenarios may not be best suited to reflecting all relevant climate risks and opportunities for all entities). At the same time, scenario analysis is a different process to forecasting with different inputs and outcomes. While it would be reasonable to require inclusion of a scenario aligned with the Paris Agreement or the *Climate Change Act 2022* with respect to factors such as temperature goals, any prescriptivism is strongly discouraged. It may in fact hinder the ability of entities and stakeholder to articulate and manage emerging financial or climate risks.

AIGN supports the consultation paper's conclusion as to the importance of allowing flexibility in scenario choice, but does not support the idea of standard scenarios. Consideration should be given to the development of common guidelines to provide a framework for the selection of scenarios. This would provide the flexibility to enable investment-specific analysis while promoting alignment with the Paris Agreement. Entities could then interpret the impact of the scenarios around direct impacts on their business, supply chains, cost of energy, and markets.

Some stakeholders expressed a desire to improve comparability across company reports. While understandable, this position fails to consider that climate risks and opportunities across diverse entities and industries are, by nature, not all comparable. What is achievable is the provision of quality, transparent information, aligned with the Paris Agreement, that best reflects each entity's individual position. This will better equip primary users of the

information to make decisions than trying to compare situations that are too different to be properly compared.

4.7.2 Litigation risks

AIGN understands the desire to move towards quantitative scenario analysis over time. We would welcome the opportunity to discuss how 'false or misleading representation' might be defined beyond the three-year grace period of protection against private litigants. For example, it would be useful to know on what basis claims might be made (e.g. scenario analysis, assurance processes/audited data, etc).

The modelling of potential climate-related risks, particularly as it uses forward-looking data, is inherently rife with uncertainty and variability. To comply with this framework, entities will be required to take positions on intrinsically uncertain matters in forward-looking statements supported by scenario analysis. This is a continuous concern, going beyond the first three years of the framework – both for forward-looking data/statements and for some scope 3 emissions information. Clarity and guidance on how a genuinely false or misleading representation might differ from a case where company officers have acted honestly and had reasonable grounds for their assumptions would be informative.

For example, stakeholders could discuss the usefulness of entities disclosing known trends or uncertainties that have, or would reasonably have, a material impact on the company's financial condition, cash flow, or performance of operations. This could be supplemented with a set of mandatory disclosures on how scenarios were created (e.g., following the example of the CDP by requiring disclosure of which externally recognised scenarios were employed). This would yield genuinely useful information for investors.

In addition, it could be useful for the Government (e.g., Treasury) to advise the carbon price that companies in Australia should use in climate-related financial disclosures to aid comparability of disclosures.

4.8 Transition planning

AIGN supports the consultation paper's proposal to align with the ISSB's proposed approach to transition planning by focusing on transparency instead of prescribing transition planning activities.

4.8.1 Alignment with global targets

AIGN notes the view reflected in the consultation paper that some stakeholders support the adoption and disclosure of transition plans 'that reflect actions to limit global warming to 1.5°C.' (p15) While AIGN supports the framework being designed in a way that aligns with the Paris Agreement, it must be remembered that the targets of individual companies are not comparable to country and global targets (though they may, and should, be aligned). This must be reflected in further consultation on additional actions to improve corporate transition planning as part of the work program under the Sustainable Finance Strategy.

4.8.2 Alignment with framework objective

In this section, the consultation paper states that, "...the aim of the requirements is to improve transparency, with the view that investor demand will drive improvements in transition planning and target-setting." (p15) While AIGN agrees that transparency is part of the objective of the framework, the focus is on improving access to information on reporting entities' climate-related plans, financial risks and opportunities. This may, indeed, in some instances, have a subordinate effect of causing investor demand to drive improvements. However, this is not the objective of the framework – a subtle but important distinction.

4.8.3 Disclosure related to offsets

The consultation paper proposes that entities should provide information within the framework about offsets where they are contributing to transition plans. AIGN notes that this is not directly related to the objective of the framework to provide Australians and investors with greater transparency and accountability with respect to reporting entities' climate-related plans, financial risks, and

opportunities. The framework should be designed to specifically meet its objective.

Additionally, there is no market information gap with respect to emissions and offsets. It is already being gathered via NGERs) and the opportunity to report on an entity's net emissions position is provided by the CERT reporting framework.

4.9 Risks and opportunities

AIGN supports the consultation paper's position on the disclosure of information about material climate-related risks and opportunities, including where risks and opportunities are concentrated in an entity's supply chain, the anticipated time horizon and metrics to elucidate their scale and impacts.

The consultation paper remarks that greater specificity of information with respect to both transition and physical risks will be detailed in the forthcoming Australian standards. AIGN looks forward to the development process for these standards commencing, noting again that the standards should, logically, be finalised before the reporting framework can be properly settled so that liable entities fully understand their compliance obligations.

AIGN agrees with the position that standardising the value of internal carbon prices across companies is not the intention of this framework.

4.10 Greenhouse gas emissions

This section reflects on the role of emissions in understanding transition risk. The consultation paper states that scope 1 and 2 emissions relate to immediate transition risk faced by reporting entities resulting from energy consumption, while scope 3 emissions help ascertain the level of interconnectedness for transition risk (e.g. where risks sit within an entity's supply chain).

Given the close relationship to information reported under NGERs, AIGN recommends the Treasury hold a workshop (or series of workshops) on the use of NGERs data within the reporting framework. There are many issues to resolve, some of which will be specific to entities or sectors.

The emissions information to be gathered by the framework will be duplicative, but on a different basis to NGERS data. If handled poorly, administrative costs could increase disproportionately.

While NGERS does not provide methods for estimation of land-based emissions, the National Greenhouse Gas Inventory (NGGI) has been recording these emissions for many years and would make a good starting point for the purposes of this framework. A timeframe that includes land-based emissions as close to inception as possible will assist with augmenting transparency and accountability aligned to the objective of the framework.

4.10.1 Scope 3 emissions

AIGN recognises that scope 3 emissions are an important part of the climate risk narrative. While the inclusion of scope 3 emissions in the framework is a convoluted matter, the significance of supply chain climate risks cannot be overlooked.

The issues relating to the ability to accurately report – and, crucially, to verify – scope 3 emissions are, for the most part, continuous. While the consultation paper states that most scope 3 disclosures would be estimates ‘in the immediate term,’ (p17) AIGN contends that some scope 3 emissions always will be estimates, because improving this data is anywhere from cost-prohibitive to impossible. Scope 3 disclosures will probably experience some improvement over time, but the Government needs to retain a realistic view of these improvements, particularly with respect to scope 3 emissions that occur outside Australia’s jurisdiction.

Even within Australia, supplier/customer climate-related financial disclosure reports including scope 1, 2 and 3 emissions will not support upstream/downstream scope 3 reporting for circumstances such as nature gas use or downstream processing when an emissions intensity for the particular commodity is required. In some cases, improving the accuracy of scope 3 emissions will be extremely problematic for entities.

4.10.2 Industry-based metrics

In order to form a position on the proposal for reporting entities to eventually report against industry-based metrics in disclosures, AIGN members need to understand several related matters, including the process for selecting metrics, the specific metrics in question, and the consultation and review processes involved. AIGN looks forward to further consultation and a much clearer outlining of the process, inputs, decision points, and opportunities for active engagement in developing these metrics.

Some stakeholders advocated for industry-based metrics to facilitate comparability between different entities’ disclosures. AIGN members do not support this proposal. This is because comparability is not the objective of this exercise. The objective is to enhance transparency and accountability with respect to reporting entities’ climate-related risks, opportunities and plans.

Primary users of this information (‘existing and potential investors, lenders and other creditors’ – p11) may undertake their own comparisons and further assessments of the information provided by entities, but it is not the responsibility of reporting entities or the Government to make comparisons for them. Indeed, aside from not aligning with the objective of the framework, it may be inefficient. As explored above, the businesses of reporting entities are by nature not always comparable; nor will the basis for comparability of primary users be uniform.

4.11 Supporting information

AIGN has questions around what the Treasury envisages under guidance for selecting appropriate scenarios and scope 3 estimation methodologies, and looks forward to further engagement on how supporting information would be developed. Generally, guidance is developed only once a policy has been fully finalised, and by the implementing body/regulator. This allows guidance to be consistent with the agreed principles of the policy and minimises the risks of it going beyond agreed parameters. Guidance should be geared towards clarifying obligations, rather than stipulating how an

obligation must be met beyond legislative requirements.

In view of the large amount of work to be undertaken in what is currently an exceptionally tight timeframe, AIGN recommends the development of guidance is considered once crucial details of the framework have been designed, consulted on, and finalised.

4.12 Liability and enforcement

AIGN members have concerns with the proposed modified liability approach. Alignment with existing similar provisions is certainly sensible, though the proposed approach has some limitations.

4.12.1 Modified liability approach

The proposal to limit the application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements for a fixed period of three years is not equitable. Entities that fall into Group 3 (Table 2, p 8/9) with respect to implementation timing would not receive the benefit of any protection under this proposal. Group 1 entities that do not report based on the Australian financial year will be covered for less than three years.

At minimum, the fixed three-year liability limitation period should commence from the time entities disclose their first reports. This will give all reporting entities the same benefit.

The limited liability period for scope 3 reporting, while welcome, does not address the inherent variability and uncertainty of some scope 3 reporting that has not been addressed in the consultation paper (see section 4.10.1). AIGN members would welcome further opportunities to discuss these issues and possible approaches to solving them.

4.13 Skills and capability

AIGN infers that there is an assumption about the level of skill and capability with the Australian market to enable climate-related financial disclosures to occur within the proposed timeframe. Some AIGN

members believe this may not be a reliable assumption.

Some of the larger and more experienced entities are more likely to be in a reasonable position, but others are likely to take longer to upskill to the appropriate level.

Assurance providers will also need time to upskill and expand their businesses.

Tools such as education materials and specific assistance for companies will take time to develop.

Discussions with stakeholders would also be useful to explore the kinds of tools that might be useful (e.g. templates for transition plans).

This work takes time. Before it can start, the framework must be more clearly delineated, with elements such as the AASB standards finalised. All of this would be extremely challenging in the proposed timeframe.

5 CONCLUSION

Thank you for the opportunity to provide input to Treasury on the climate-related financial disclosure consultation paper.

AIGN's position on climate change and energy policy is underpinned by our principles, which have been the basis of AIGN's contributions to the climate change policy discussion for many years (available on our website: www.aign.net.au).

AIGN welcomes future opportunities to engage with the Government. Please direct any queries on this submission to [REDACTED] (Chief Executive, AIGN).