

6 February 2024

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Climate-Related Financial Disclosure: Exposure Draft Legislation Consultation

This submission is made in response to the exposure draft legislation and accompanying explanatory materials released on 12 January 2024. This submission is made by our private equity business, Adamantem Capital, and our public equities business, Melior Investment Management.



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Treasury consultation on Climate-related Financial Disclosure: Exposure Draft Legislation

Adamantem Capital and Melior Investment Management (the "Adamantem Group") submission

Who we are

Adamantem Capital

Adamantem Capital (Adamantem) is a private equity investment manager, established in 2016, specialising in the Australian and New Zealand mid-market. It invests with conviction behind clear, well-articulated and well-researched value creation opportunities. Adamantem currently manages three private equity investment funds. Adamantem fully integrates responsible investing into its investment approach, focussing on delivering financial returns, including through a strong focus on creating positive environmental and social outcomes.

Melior Investment Management

Melior is a specialist equities manager founded in Australia in 2018 and is manager of the Melior Australian Impact Fund. Melior's seeks to deliver long term competitive returns and contribute positively to the United Nations Sustainable Development Goals (SDGs). Melior's investment philosophy is that investing in companies that contribute to the SDGs, and have strong financial and ESG credentials, has the potential for benchmark outperformance over time. Melior seeks to contribute to the SDGs through allocating its investment capital to positive impact companies, engaging management, and boards to improve their sustainability practices and company impact and publicly advocating for better social and environmental outcomes.

Our response to prior Treasury Consultations

We have made submissions to both prior Treasury consultations on the introduction of climate-related financial disclosures in Australia: '[Climate-related financial disclosure](#)' and '[Climate-related financial disclosure: Second consultation](#)'.

Our Response to the Consultation

This submission outlines elements of the exposure draft legislation and accompanying explanatory materials which we support, suggest require further consideration, or feel need additional detail or review prior to finalisation.

Elements of the exposure draft legislation we support

Reporting entities: the introduction of a separate and specific threshold for the application of the disclosure obligations to asset owners based on funds under management. However, the term “asset owner” in the exposure draft legislation is not sufficiently clear in its application and should be considered in more detail by Treasury to enable financial market participants to determine whether they fall within its ambit – for example, it is not clear whether this threshold also applies to asset managers.

Phasing: the phased introduction based on entity size or level of emissions. Given the work required for companies to prepare for compliance with the new mandatory reporting obligations we would support the proposal to amend the legislation to delay the commencement date for Group 1 entities to the “first annual reporting period starting on or after 1 January 2025¹” to improve the quality of reporting during the transition year. Treasury could consider requiring those Group 1 entities to include details of their workplans underway to meet these obligations as part of their 2024 reporting to enhance transparency to investors in the interim.

We are also supportive of the proposed phased inclusion of Scope 3 emissions reporting, applying only from year 2 onwards. See our later comments in this submission in relation to Scope 3 (financed) emissions for asset managers and asset owners.

Industry-based metrics: the concept of industry-based metrics reporting being introduced over time as disclosure practices mature. We believe this is important to enable investors to analyse information. However, given the early stages of climate reporting, we support the proposal that entities should only be required to disclose against well-established and understood industry-based metrics, which will take time to develop. We encourage the development of these metrics with industry and investor consultation and input, and regard to global developments (e.g. industry metrics included within ISSB guidance), with the goal of improving usability and comparability of metrics across sectors and markets.

Reporting framework: that climate-related financial disclosures will sit within a sustainability report, which will form part of annual financial reporting obligations and be contained in an entity’s annual report. This remains a helpful step towards integrated reporting and avoidance of multiple reporting periods for companies. We continue to note that many private companies do not release an annual report, and it should be expressly provided that these companies may make their climate-related disclosures in a standalone report.

¹ As many Australian companies have a 30 June financial year end, the legislation should make it very clear whether the new 1 January date means that reporting would apply to the FY25 financial year (which does not represent a significant extension to the earlier proposal) or the FY26 financial year. It should be clear that reporting entities do not need to report in respect of any half-year periods as a result of this amendment.

Assurance requirements: the inclusion of phased in assurance requirements – we believe that, like financial-related disclosures, climate-related disclosures carry significantly more value and reliability once data disclosures have been audited and assured, but also recognise the significant uplift in resourcing and skills that is required to support this approach. We are supportive that:

1. The Australian Auditing and Assurance Board (AUASB) will develop assurance standards in line with the International Auditing and Assurance Standards Board's (IAASB) final standard.
2. The AUASB will set out a flexible pathway for phasing in requirements over time, which would commence with limited assurance of Scope 1 and 2 emissions disclosures in the early years and end with assurance of all climate disclosures made from years commencing 1 July 2030 onwards. This is important to ensure that auditors and assurance providers have adequate time to build capacity ahead of 1 July 2030. If the reporting date for Group 1 entities is delayed to reporting periods commencing on or after 1 January 2025 the assurance timelines should also be adapted.

Liability framework: ultimately, climate disclosures will be subject to the existing liability framework under the *Australian Securities and Investment Commission Act 2001* and the *Corporations Act 2001 (Cth)*. However, in recognition of the fact that this is a new and emerging form of reporting, we agree that a modified liability framework that is being proposed for a fixed three year period, providing relief for disclosures relating to Scope 3 emissions and certain forward-looking climate statements. Scope 3 greenhouse gas emissions and scenario analysis remain nascent areas of climate reporting globally, therefore it is appropriate to introduce modified liability to allow for capacity building to support higher quality reporting over time. We note that further detail needs to be provided on precisely what areas of reporting will be subject to the modified liability regime. We also note that the regulator will still be able to utilise injunctions and declarations to reports issues between 1 July 2025 and 30 June 2028, and suggest that Treasury work closely with the regulator to provide clear guidance to companies on how the regulator intends to approach this.

Elements of the exposure draft legislation we suggest require further consideration

In addition to various areas noted above, we suggest there are some broader areas covered by the exposure draft legislation which require further consideration before finalisation:

Scope 1 and 2 Emissions Methodology: as noted in our previous submission, we understand Treasury's desire to use NGERS methodology for Scope 1 and 2 emissions, however, the number of entities that will be within the scope of the mandatory climate disclosures by end state will be far greater than the number of companies currently covered by the NGERS legislation. It is important to consider international alignment of greenhouse gas emissions reporting and to avoid a situation where companies have to use different methodologies to calculate their emissions for different purposes. It is also relevant to note that NGERS does not cover international emissions, which will be relevant under the mandatory climate reporting framework.

Elements of the exposure draft legislation we suggest requires further detail

Consistency with the AASB's standards: It is important that all defined terms and requirements set out in the legislation are consistent with the terms and requirements being developed in the *ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*.

Group 3 materiality exemption: We are supportive of the newly proposed materiality-based exemption for smaller Group 3 entities. However, in order to ensure this exemption is appropriately and transparently applied, and to provide confidence in the robustness of Australia's mandatory climate disclosure framework, Treasury should consider providing more detailed guidance to support companies to determine whether their exposure to climate-related risks or opportunities is material, including whether it will require independent third-party validation.

Climate resilience assessments: We continue to endorse the idea of entities initiating qualitative scenario analysis and subsequently transitioning to quantitative analysis. However, it is important for the Treasury to clarify whether all Groups are anticipated to shift to quantitative analysis starting from July 1, 2027, or if a phased approach will be employed for this requirement. We continue to believe that reporting entities must clearly and transparently report on the methodologies that underpin their quantitative scenario analysis to assist investors in analysing the disclosures. Over time, and as the market develops, Treasury should review whether a more standardised scenario selection approach should be considered, particularly as downscaled Australian scenarios become available.

Transition planning: The third priority in the Treasury's Sustainable Finance Strategy currently states that 'transition plan disclosure requirements will be contained in the proposed requirements for large companies and financial institutions to disclose climate-related opportunities and risks.' However limited detail has been provided in the consultation documents on transition planning and anticipated standards for reporting entities. Transition planning is a critical component of the climate-related financial disclosures therefore clear guidance is recommended ahead of the commencement of Group 1 reporting.

Financed emissions guidance: The consultation documents do not incorporate or refer to guidance for asset owners and managers on estimating financed emissions. In alignment with our prior submission, we propose that the Treasury actively consider offering clear guidance on how both asset managers and asset owners should disclose their Scope 3 (financed) emissions, particularly when those emissions pertain to the Scope 1 and 2 emissions of entities that are not concurrently subject to mandatory climate disclosure requirements.

Review of climate-related financial disclosures requirements in 2028-29: we strongly recommend that Government commit to including industry consultation and input into this review. We would expect the Treasury to adopt a consultation-based approach to any substantive changes or additions to the legislation or reporting requirements following their introduction.