Sustainable Finance Unit
Climate and Energy Division
The Treasury
Langton Crescent
PARKES ACT 2060

SustainableFinanceConsultation@treasury.gov.au
Consultation Paper November 2023

Grant Thornton Australia Limited
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW 1230

T +61 2 8297 2400

1 December 2023

To whom it may concern

We welcome this opportunity to provide our views on the Consultation Paper for Sustainable Finance Strategy.

Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight. Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations and are the leading business advisor to mid-market business internationally. Grant Thornton belongs to an international affiliation and are structured as a public unlisted company within Australia.

Priority 1: Establish a framework for sustainability-related financial disclosures

- *What are the opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations?*
- *How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?*

In our view, there are significant opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations.

In particular, we would support Government published guidance to support preparers by reducing the level of significant judgements to be applied, and increasing the accessibility of relevant information needed for reporting. In our view, these measures would increase the comparability of climate-related financial disclosures, reduce the cost of compliance for entities, and help to bridge the capability-deficit of finance professionals in Australia.

- **Publish common activity-based emissions factors for Scope 3 reporting:**
  - One of the largest challenges in preparation of high quality Scope 3 emissions calculations is the availability of appropriate Scope 3 emissions factors. Government could support less resourced companies in preparing Scope 3 emissions calculations by publishing common activity-based and spend-based emissions factors, or providing access to a centralised database of readily accessible, current, and available emissions factors for use in preparing

Scope 3 emissions calculations. This could be similar to the emissions factors published by UK BEIS to support SECR reporting from 2019.

- This will permit standardisation in the application of emissions factors and reduce the extent of professional judgements required by preparers and assurance providers, thereby increasing comparability and reducing the cost of compliance. The current National Greenhouse Accounts emissions factors publication could be expanded to include these on an annual basis.

- **Reducing the number of locations where data is published.**
    - At present, there are a significant number of sources of data that preparers are required to consult in order to calculate greenhouse gas emissions. This may include: the National Greenhouse Accounts, NGER Scheme legislation, Climate Active technical guidance etc. It would be helpful for preparers if all the relevant emissions factors were located in one single publication, to support consistency and quality in reporting.
- **Publish base assumptions for climate scenario analysis:**
    - At present, there are a wide range of climate models available across different sources of information that preparers can select from. While the largest and better resourced companies will be able to identify which climate information to use and incorporate into their qualitative and quantitative modelling, it presents a significant capability challenge for smaller entities.
    - By publishing example qualitative and quantitative data to be used in specified climate scenario models, including the 1.5 degree scenario as required in [draft] ASRS 2, the Government could support preparers of climate-related disclosures to produce higher quality climate-scenario analysis "without undue cost or effort" as required by [draft] ASRS 2. In particular, publishing assumptions around the transition policies, costs and opportunities expected to occur in a 1.5 degree scenario will reduce the extent of professional judgements required by preparers and assurance providers, thereby increasing comparability and reducing the cost of compliance.
- **NGER Methodology training directed at non-NGER reporters:**
    - The current National Greenhouse and Energy Reporting (NGER) Scheme training (run annually) is directed at this core user base, being NGER controlling corporations. As such, the current webinar training and guidance videos are focused on correct usage of the reporting portal, and the process of reporting in compliance with the NGERS.
    - However the current [draft] ASRS 2 introduces an Australian specific hierarchy of calculating greenhouse gas emissions, by which preparers are required to apply the methodologies in NGER Scheme legislation in the first instance. To support the draft requirement that all non-NGER controlling corporations calculate their emissions using NGER methodologies in the first instance, we would support additional training being released to explain the hierarchy of emission calculation methods in the NGER Scheme legislation and accompanying regulations, which is what finance professionals and preparers need to understand, in order to prepare their reporting. We would also support publication of a clear and accessible guideline to the methodologies in the NGER Scheme legislation (which is based on Greenhouse Gas Protocol Corporate Standard (2004) but only for Scope 1 & 2).
- **Clarify the role of the Climate Active Organisation Standard**
    - The voluntary Climate Active Carbon Neutral Standard for Organisations (Organisation Standard) is current used to certify "Climate Active Carbon neutral" organisations, however the standard is an adaptation of the Greenhouse Gas Protocol. Due to the adaptation of the Greenhouse Gas Protocol, there is a risk that compliance with the Organisation Standard does not mean compliance with the current proposed [draft] ASRS, which would require use of the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Standard. This is often a source of confusion for companies who consider the Climate Active program to be government sponsored.

    - We note that at the time of responding, the Climate Active program is undergoing formal public consultation, however this particular nuance does not appear to be addressed in the current Climate Active program proposed reforms.
- **Accessible climate competency training directed at directors, executives, and finance professionals**
    - To support the capability upskilling process across finance professionals, particularly in senior levels, it would be helpful to make available clear and accessible climate competency training. This could cover, for example:
        - Identification of climate-related risks and opportunities;
        - Climate scenario analysis; and
        - Greenhouse gas emissions accounting.

In relation to how should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD, we note the following comments:

- Broadening the current framework from climate-related to sustainability-related is a shift in the Australian market, especially as the regulators and government has signalled until now, that they were primarily focused on climate only.
- The current proposed amendments to [draft] ASRS 1 from the international IFRS S1 standard have specifically removed sustainability-related as a term from the [draft] ASRS 1 in line with the government's previous stance.

  Should the government be proposing that they intend to broaden the scope of sustainability-related risks and opportunities for disclosure beyond climate, this should be communicated with the AASB, in order to provide optionality of outcome for the AASB – either to amend [draft] ASRS 1 to align further with IFRS S1, or to ensure that a work program is established by the AASB to incorporate into its work plan potential amendments to ASRS 1 which would be required to support this outcome.
- Globally, regulation of sustainability reporting is being developed from different perspectives. The current approach proposed in Australia follows the IFRS Sustainability Disclosure Standards as a base, which applies a financial materiality threshold. Other markets, primarily the European Union, are also considering "impact materiality". When considering the issue of availability of capital, Australia should consider whether external markets will be less willing to invest in Australia when the impact materiality is not disclosed, or regulation requires that providers of capital undertake an impact materiality assessment of their investments.
- To support Australian entities in preparing for upcoming changes in reporting, the international alignment and interoperability of Australian sustainability reporting requirements with international standards is of primary importance.

  Where our local reporting requirements align to the international standards, the AASB and Australian finance professionals are able to leverage international guidance materials, which reduces the cost of compliance and international business for Australian companies. These efficiencies are reduced where Australian reporting requirements depart from the international baseline. We note that the majority of the changes in the [draft] ASRS from the international version of the standards were made by the AASB in direct response to the Treasury consultation dated 27th June 2023, and feedback from the Department of Climate Change, Energy, the Environment and Water (DCCEEW).

  In our view, this significantly increases the regulatory burden on Australian companies, and reduces the pool of available expertise of international financial professionals, thereby increasing the skills-deficit in relation to sustainability-related financial disclosures.

Priority 2: Develop a Sustainable Finance Taxonomy

- *What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy? What are the key insights from international experience to date?*
- *What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?*
- *What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?*

We would encourage policy developers to be conscious of the need to develop a taxonomy that has interoperability with the multiple other areas of legislation affecting climate or sustainability reporting.

Noting the proposed medium term option of "requiring large firms to disclose the degree of alignment of their activities with the taxonomy", in our view it is important that the drafters of the taxonomy are cognizant of the differences between the climate-related or sustainability-related financial disclosures, which are based on a financial materiality threshold for disclosure, and a sustainability finance taxonomy, which tends to additionally incorporate some form of an impact assessment (e.g. DNSH provisions, or the EU Taxonomy Regulation). This is a different mindset to approaching materiality of sustainability issues as the one currently required in the [draft] ASRS reporting requirements, also sometimes referred to as "double materiality".

As our current [draft] ASRS do not require any consideration of an impact materiality assessment, proposed disclosure of alignment of assets, activities or expenditure aligned to the taxonomy would not necessarily align to the ASRS compliant disclosures. This potential point of difference might also need to be considered in the context of regulatory action in relation to this potential misalignment.

To reduce cost of development, maintenance, and implementation, and to maximise the benefits thereof, we would suggest that taxonomies developed should utilise those available internationally and used in markets that act as source of originated capital for Australia.

Priority 3: Support credible net zero transition planning

- *What are key gaps in Australian capability and practice, including relative to 'gold standard' approaches to transition planning developed through the TPT and other frameworks?*
- *To what extent will ISSB-aligned corporate disclosure requirements improve the transparency and credibility of corporate transition planning? What additional transition disclosure requirements or guidance would be most useful in the medium-term?*
- *Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?*

In relation to the key gaps in Australian capability and practice, we note the following observations:

- **Uncertainty around government transition planning:**
  - The UK TPT makes it clear that the expectation for private sector business is to decarbonise the entity and contribute to an economy wide transition. The UK TPT Recommendation 1.1 Strategic Ambition, includes disclosure of how the entity has taken into account and aligned with "any external requirements, commitments, science-based targets, transition pathways, roadmaps, or scenarios".
  - Until quite recently Australia's policies towards meeting our international and national commitments in relation to climate change have been fragmented, and therefore many entities that would be required to make disclosures under the proposed mandatory reporting and finance professionals more broadly (especially those charged with preparation of corporate disclosures beyond the largest companies i.e. mid-market and below) do not have a clear understanding of what the Government's transition plan is, making it difficult to develop strategic plans aligned to Government.

- **Measurement of carbon emissions to support decarbonisation progress:**
  - A significant part of decarbonisation planning and transition planning is being able to effectively measure the impact on carbon emissions. The proposed departures from the IFRS sustainability disclosure standards in the measurement of disclosed greenhouse gas emissions as required by the [draft] ASRS at present is creating significant additional compliance burden on Australian entities who may have, or be party to, global transition planning strategies by multi-national corporates. These proposed departures are explicitly in response to feedback from the DCCEEW comments according to the ASRS Basis of Conclusions.
- **Decarbonisation and transition planning guidance**
  - The current [draft] ASRS corporate disclosure requirements only require disclosure of what that plan is, if they have one. It does not require entities to disclose that they have a transition plan. Any plan that they do disclose only needs to be materially verifiable to enable assurance. It does not need to be scientifically sound. As noted in our previous response under Priority 1, to enable effective transition planning, it would be helpful for the government to publish assumptions around the transition policies, costs and opportunities anticipated in a 1.5 degree scenario, to contextualise transition planning in smaller and less resourced entities and improve the credibility of transition plans.

Priority 4: Develop a labelling system for investment products marketed as sustainable

- *What should be the key considerations for the design of a sustainable investment product labelling regime?*
- *How can an Australian model build off existing domestic approaches and reflect key developments in other markets?*

While we do not have specific views, we consider the design of the labelling system should incorporate:

- Interoperability with international labelling and international sustainability taxonomies
- Consistency in thresholds of eligibility criteria between the labelling regime and other sustainability related reporting areas (e.g. financial disclosures, sustainability taxonomy reporting)
- Consistency in definitions and terminology between different government programs (e.g. Climate Active Climate Neutral certification uses the term climate neutrality differently to the [draft] ASRS concept of climate neutral)
- Development and issuance of regulatory guides subject to regulatory oversight

Priority 5: Enhancing market supervision and enforcement

- *Are Australia's existing corporations and financial services laws sufficiently flexible to address greenwashing? What are the priorities for addressing greenwashing?*
- *Is there a case for regulating ESG ratings as financial services?*

We would defer to legal specialists in relation to the flexibility of the laws.

However we observe that high-quality enforcement requires adequate climate-competency and sustainability-competency from regulators, legislators, and preparers and well as a strong understanding of what the disclosure requirements of the [draft] ASRS are. We are of the view that supporting the upskilling of the finance professionals market will ultimately support high-quality reporting and enforcement outcomes.

Priority 6: Identifying and responding to potential systemic financial risks

- *Are there specific areas where the Government or regulators could further contribute to market-wide understanding of systemic sustainability related risks, including climate-related financial risks?*

As the scope of sustainability reporting widens beyond climate-related financial risks to encompass other topics where sustainability-related financial disclosures are required, Government and/or regulators could continue to support market-wide understanding of systemic sustainability-related risk by timely, and accessible publication of their assessments and findings. Similar to our comments noted in relation to Priority 1, we would support the creation of a centralised location in which all of the relevant sustainability-related guidance, assessments and other information is published, which would promote a single "source of truth" for market participants, preparers, and the financial community more broadly to consider in their strategic development, transition planning and sustainability-related financial disclosures.

Priority 7: Addressing data and analytical challenges

- *What are the priorities for ensuring that data-related initiatives already underway are tailored to meet the needs of firms and investors?*
- *What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?*

The focus of this feedback question was primarily in relation to data gaps for financial institutions. However in our view, the biggest group of entities affected by the data gaps are not the financial institutions, but the large array of non ASX-200 companies, many of them large proprietary companies with limited availability of resourcing and climate capability, who are being asked to make mandatory climate-related financial disclosures in their financial statements under proposed amendment to the Corporations Act.

As such, we would refer to our response to Priority 1 for data-related publications that would support investors and firms.

Priority 8: Ensuring fit for purpose regulatory frameworks

- *Do you agree that existing regulatory and governance frameworks and practices have adapted well to support better integration of sustainability-related issues in financial decision making? Are there barriers or challenges that require further consideration? This may include:*
  - *Corporate governance obligations, including directors' duties*
  - *Prudential frameworks and oversight, including in relation to banks and insurers*
  - *Regulation of the superannuation system and managed investment schemes*
- *What steps could the Government or regulators take to support effective investor stewardship?*

In our view, Australian directors are exposed to greater individual risk than directors in most comparable international markets when making forward looking statements around climate-related risks and opportunities.

With superannuation funds also now being captured by Part 2M of the Corporation's Act, consideration should be given to the stated objectives regarding the measure of 'returns' to ensure that superannuation funds are acting in the best interests of members.

Priority 9: Issuing Australian sovereign green bonds

- What are the key expectations of the market around issuance of, and reporting against, sovereign green bonds? What lessons can be learned from comparable schemes in other jurisdictions?
- What other measures can the Government take to support the continued development of green capital markets in Australia?

No comment

Priority 10: Catalysing sustainable finance flows and markets

- What role can the CEFC play to support scaling up of sustainable investment in Australia, as part of a more comprehensive and ambitious sustainable finance agenda?
- What are the key barriers and opportunities for the CEFC to support financing and market development in areas with significant climate co-benefits, including nature and biodiversity?

No comment

Priority 11: Promoting international alignment

- What are the key priorities for Australia when considering international alignment in sustainable finance?

In our view, international alignment of definitions, reporting requirements and measurement to facilitate interoperability should be key.

Where our current domestic regimes are departing from international baseline, it would be more cost-effective in the long term to amend Australia's local requirements to bring us into alignment with international requirements rather than to modify and depart from it. Refer also to our comments in Priority 1 in relation to this matter.

Priority 12: Position Australia as a global sustainability leader

- What are other key near-term opportunities for Australia to position itself as a global leader in sustainable finance and global climate mitigation and adaptation?
- What are some longer-term international sustainability goals for Australia where sustainable finance can play a role?
- What are the key market, regulatory and institutional barriers to increasing private sector engagement in blended financing opportunities? How can these barriers be overcome?
- What are other means to mobilise private sector finance toward sustainability solutions in the Indo-Pacific region?

No comment

Yours sincerely

GRANT THORNTON AUSTRALIA LIMITED