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The Australian Chamber of Commerce and Industry (ACCI) appreciates the opportunity to provide further comment on the Climate-related Financial Disclosure legislation following the release of the exposure draft.

ACCI is Australia's largest and most representative business association. Our members are all state and territory chambers of commerce, which in turn have 430 local chambers as members, as well as over 70 national industry associations. Together, we represent Australian businesses of all shapes and sizes, across all sectors of the economy, and from every corner of our country.

ACCI supports 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 reasonably engage in the global emissions reduction challenge.

We recognise business has an important role in meeting these commitments and the climate-related financial disclosure can assist in focusing emissions reduction efforts at the business level.

However, as it is currently drafted, there are elements of the climate-related financial disclosure legislation that create a heavy administrative burden, are not fully developed and represent substantial risk to business. These require further consideration before the legislation is finalised.

During earlier consultation ACCI raised a number of issues with the Climate-related Financial Disclosure requirements that have not been addressed in the legislation, specifically:

- The Climate-related Financial Disclosure legislation requires a separate Sustainability Report to be prepared, in addition to financial statements. This will greatly increase the administrative burden on businesses without improving the quality of the information that is reported. ACCI's submissions during the consultation stages proposed reporting be included in the annual report using a simple, consistent approach to disclosure, to reduce costs and increase certainty for business.

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- The sustainability report must include a climate statement and associated notes, prepared to meet the requirements of the AASB Sustainability Reporting Standard. However, the AASB Sustainability Reporting Standard is still at a nascent stage. Consultation on the exposure draft closes on 1 March 2024 and it is unlikely the Standard will be finalised before the proposed commencement date of the climate-related financial disclosure from 1 July 2024. Businesses are unfamiliar with the content of the Standard and have not the opportunity to apply it. It is imprudent to introduce mandatory reporting before release of the final version of the Standard. The introduction of the climate-related financial disclosure should be delayed until the AASB Sustainability Reporting Standard is finalised and business has had time to familiarise themselves with it.
- While entities are not required to report Scope 3 emissions in the first year during the transition period, it is mandatory from the second year of reporting. Scope 3 includes indirect emissions associated with the production of inputs (upstream) and the use of a product (downstream). There is no standardised reporting framework for reporting Scope 3 emissions. It is very difficult for entities to calculate Scope 3 emissions as they don't directly hold the data, but rely on third parties (customers and suppliers) to provide this information or must estimate it. As a result, this data is often incomplete and inaccurate. Requiring entities to report Scope 3 emissions, have them audited and assurance provided represents a considerable risk to businesses.
- As an example of the complexities in dealing with Scope 3 emissions, for a major sporting event the organising entity would need to obtain data on emissions associated with fan travel and accommodation, freight for equipment used, international travel for event staff and athletes, and a wide range of other factors down to the food sold in the kiosks and paper used to print the tickets. There are currently no clear boundaries set around the ownership of these emissions and the list of associated sources of emissions appears endless.
- Further, although the threshold for reporting is set at businesses with revenue above \$50 million, assets above \$25 million and/or 100 employees, small businesses are part of supply chains of large organisations, so will inevitably be caught up in the disclosure requirements. To disclose their Scope 3 emissions, large organisations will compel small businesses to monitor their carbon emissions and report that information. There is a material risk small businesses will lose contracts and/or be excluded from procurement if they are unable to provide sufficient data (auditable and with assurance) on their carbon emissions. Appropriate tools, information and support will need to be provided to small businesses to assist them with their carbon accounting and reporting.
- The sustainability reports must include at least two possible future scenarios, with one of the scenarios aligning with the Climate Change Act 2022. This two-scenario approach, where each business determines its own scenarios and metrics, will only lead to confusion. ACCI had recommended entities provide only one scenario and that a common baseline of metrics established, and guidance provided, to ensure consistency in the data reported.



- The legislation offers a modified liability approach for Scope 3 emissions and scenario analysis, with liability for misleading and deceptive conduct temporarily suspended during the transitional period (to 30 June 2027) to allow reporting entities time to develop experience and practice to report to the required standards. Yet, as noted in the explanatory memorandum, these are the most uncertain parts of the climate statement, so reporting this information represents a considerable risk for businesses, particularly for medium and small-scale businesses. While the legislation prevents ASIC from bringing legal action against a person or entity in relation to Scope 3 emissions or scenario analysis during the transition phase, the protection does not apply to civil actions, so it won't stop activist groups bring forward vexatious legal claims. ACCI recommends that this reporting be voluntary until businesses (large and small, all along the supply chain) are able to measure Scope 3 emissions and undertake scenario analysis with a reasonable level of confidence in the accuracy of the data.
- Entities will be required to undertake mandatory audit and assurance of climate disclosures to the same level as financial reports, with the AASB Sustainability Standards given legal effect through amendments to the Corporations Act. Yet the accounting sector is in the very early stages of developing expertise in climate-related auditing and assurance. Few accounting consultants and auditors 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. ACCI has argued that time is needed for the necessary expertise in the climate-related auditing to develop and mature, so climate-related assurance can be provided with accuracy and certainty. Only limited assurance should be required while this expertise is being developed.

Overall, ACCI is greatly concerned that the process to introduce the Climate-related Financial Disclosure legislation is being rushed, so that it can be in place to commence on 1 July 2024. There are many important elements such as the AASB Sustainability Standards, reporting of Scope 3 emissions and scenario analysis, auditing and assurance requirements, as well as protections for businesses from vexatious litigation, that are only partially developed or have not been fully considered. These elements of the legislation represent a considerable risk for entities require to make climate-related financial disclosure.

We ask that the release of the legislation be delayed and the transition period be extended, so that there is time to address these issues. It is not in anyone's interest that the Climate-related Financial Disclosure legislation be rushed and reporting requirements introduced that entities cannot meet.

Yours sincerely

Peter Grist

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