CEMENT INDUSTRY FEDERATION

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SUBMISSION

Mandatory Climate-Related Financial Disclosures, including:

Exposure Draft – Treasury Laws Amendment Bill 2024: Climate-related financial disclosure

Policy Position Statement

Policy Impact Analysis

9 February 2024

ADBRI BORAL CEMENT AUSTRALIA

1. Introduction

Thank you for the opportunity to contribute to consultation on the *Climate-related financial disclosure: exposure draft* legislation and accompanying explanatory materials.

The Cement Industry Federation (CIF) is the national body representing all Australian integrated cement manufacturers – Adbri Ltd, Boral Cement Ltd and Cement Australia Pty Ltd.

Australian cement production is a **critical manufacturing industry of national importance**, supporting over 1,200 employees in high paid positions as well as hundreds of apprentices, contractors and transport operators. The cement, lime[1] and concrete value chain supports over 15,000 jobs in Australia. Australian made cement and concrete are essential for defence infrastructure, homes, schools, hospitals, mining, airports and for renewable energy assets such as hydroelectricity and wind turbines.

The CIF supports the Government's policy of improving the quality of climate-related financial disclosures, providing investors with greater transparency. From an industry perspective, overall sustainability and the associated reporting of key metrics, is fundamental to maintaining a social licence to operate. This is especially the case for CIF members with facilities located in regional and sometimes small communities, where there is a strong focus on key sustainability metrics (e.g., dust, noise, air quality etc.) as part of the day-to-day operation of the facility.

Further, as a sector which is considered hard to abate, understanding and communicating performance and identifying risk to stakeholders has always been a fundamental aspect of doing business for integrated cement manufacturers in Australia.

The CIF has provided comments in earlier consultations on climate-related financial disclosure (February, July and December 2023). These earlier submissions provide contextual information about the Australian cement sector and should be read in conjunction with this submission.

This submission focusses on specific aspects of the proposed exposure draft and associated documents.

2. Summary of Treasury's Policy Options

The *Policy Impact Statement* outlines in detail the three policy options assessed by Treasury. These are summarised in Table 1. The proposed roadmap for mandatory disclosure is included for information at Appendix A.

Option 1	Consistent with the approach proposed in Treasury's design consultation, would mandate climate disclosures for large listed and unlisted companies from 2024-25 financial year. These entities will be phased-in depending on their size (and split across Groups 1, 2 and 3). Entities would be required to report on their climate strategy and governance processes as well as scope 1 and 2 emissions from commencement, with scope 3 reporting being required as the reforms mature. Entities will also be required to conduct scenario analysis from commencement. Assurance requirements would also be phased in and scaled up over time to allow for capability and capacity uplift.
Option 1a	A variation on Option 1 that amends the breadth of coverage of these reforms. Under this option, entities captured under Group 3 would be required to do a materiality assessment. Only where the entity has material risks, disclosure would be required in line with the relevant Australian standard as per entities in Groups 1 and 2. Additionally, a specific 'assets under management' threshold would be applied to significant financial institutions.
Option 1b	A variation on Option 1a that amends the assurance framework, not mandating a roadmap for the phasing in and scaling up of assurance requirements over time. Under this option, all disclosures in reports issued after 1 July 2030 must be assured with a flexible pathway to achieve this being set by the Auditing and Assurance Standards Board (AUASB). A modified liability regime will operate for the first three reporting years.

It is noted that in the *Policy Impact Statement* Treasury recommends the Government adopt Option 1b.

[1] CIF members also produce lime, either in conjunction with clinker and cement or at stand-alone facilities.

As such, Treasury notes the policy positions outlined in the *Policy Statement* reflect Option 1b as set out in the *Policy Impact Analysis*.

3. Key Comments

The CIF considers that the legislation should be amended to delay the commencement date for mandatory reporting for Group 1 entities to 1 July 2025.

It is noted in the *Policy Position Statement* that the commencement date for Group 1 entities included in the exposure draft of the legislation is 1 July 2024, and that the '…Government welcomes stakeholder feedback on whether amending legislation to require a 1 Jan 2025 commencement date for Group 1 entities would improve the quality of reporting during the transition year.'

While amending the legislation to require a 1 January 2025 commencement date for Group 1 entities would be an improvement on the current date of 1 July 2024, a full year postponement to 1 July 2025 is recommended.

As stated in our previous submissions the CIF considers that the development of an overarching Sustainable Finance Strategy and associated mandatory reporting requirements should not be rushed. This is for several reasons, including:

- Critical Australian Sustainability Reporting Standards are still in draft form with consultation open until 1 March 2024. These are:

    - *[draft] ASRS 1 General Requirements for Disclosure of Climate-related Financial Information*
    - *[draft] ASRS 2 Climate-related Financial Disclosures* and
    - *[draft] ASRS 101 References in Australian Sustainability Reporting Standards*

  In addition, and as noted in the Policy Impact Statement, the development of a key international standard on sustainability assurance (ISSA 5000) is not expected to be finalised until the end of 2024.

  Even with an accelerated development timeframe for the finalisation of these standards the 1 July 2024 commencement date for mandatory reporting leaves little time for even established and well-resourced reporters to fully understand and comply with the requirements.

  A 1 July 2025 commencement date would allow time for reporters to ensure they have the right systems and procedures in place to comply with the new and extensive mandatory reporting obligations.

- The Policy Impact Statement notes that '…under Treasury's recommended approach (option 1b), this policy is expected to add between $1.0m to $1.3 million per year per entity in initial transition costs to the regulatory burden of captured entities…'.

  While Group 1 entities most likely already account for the cost of existing climate-related reporting in their existing budgetary processes, the expected increased costs associated with the introduction of mandatory reporting on 1 July 2024 will not, in most cases, have been budgeted for.

  The proposed disclosure requirements are extensive and include emissions data, scenario analysis, climate resilience assessments, governance processes, controls and procedures, transition plans, targets, material climate-related risks and opportunities as well as industry-based metrics.

  Delaying the commencement of mandatory reporting will allow time for captured entities to not only ensure they have a robust and efficient reporting regime in place, but also appropriately account for the related costs and benefits.

  Such an approach would also allow for the development of related services (e.g., audit capacity) and for further consideration of less well-defined reporting elements (such as Scope 3 emissions for example).

- The capability uplift required in the assurance and audit industry to accommodate the new reporting requirements is likely to be substantial and uncertainty remains as to how long it will take to build capacity in this area. This is noted as one of the reasons for Treasury recommending that the Government adopt option 1b.

Appendix A - Proposed roadmap for mandatory disclosure requirements

Timing	Reporting entities
Group 1 2024-25 onwards	Entities required to report under Chapter 2M of the Corporations Act and that fulfill two of the three thresholds: - Has over 500 employees; - The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is $1 billion or more; - The consolidated revenue for the financial year of the company and any entities it controls is $500 million or more. AND Entities required to report under Chapter 2M of the Corporations Act that are a 'controlling corporation' under the NGER Act and meet the NGER publication threshold.
Group 2 2026-27 onwards	Entities required to report under Chapter 2M of the Corporations Act and that fulfill two of the three thresholds: - Has over 250 employees; - The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is $500 million or more; - The consolidated revenue for the financial year of the company and any entities it controls is $200 million or more. AND Entities required to report under Chapter 2M of the Corporations Act that are a 'controlling corporation' under the NGER Act and meet the NGER publication threshold.
Group 3 2027-28 onwards	Entities required to report under Chapter 2M of the Corporations Act and that fulfill two of the three thresholds: - has over 100 employees; - The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is $25 million or more; - The consolidated revenue for the financial year of the company and any entities it controls is $50 million or more. AND Entities required to report under Chapter 2M of the Corporations Act that are a 'controlling corporation' under the NGER Act.

Source: Climate-related financial disclosure: Consultation Paper (June 2023)