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via email: ClimateReportingConsultation@treasury.gov.au

Treasury consultation on Climate-related financial disclosure: exposure draft legislation

We welcome the opportunity to respond to your invitation to comment on the climate-related financial disclosure exposure draft legislation consultation. We continue to support the government's overall program of work in support of Australia's ambition to reach net zero by 2050, and the interim targets set for 2030.

We continue to advocate for Australia to adopt a climate-related financial disclosure regime that is aligned to the standards set by the International Sustainability Standards Board (ISSB), backed by comprehensive assurance. We believe this would best support investors and other stakeholders with credible, consistent and comparable climate related information to support their decision making.

In our view, there is still more refinement necessary to ensure the successful implementation of climate-related financial disclosures by applicable entities. We note some inconsistencies between the policy statement, previous consultations and enabling draft legislation which need to be resolved. The most important of which in our view is the absence in the draft legislation as to how assurance will be developed over the period from 1 July 2024 until 30 June 2030. There was an expectation that the draft legislation and explanatory materials would provide clarity on how the pathway for phasing in assurance over time would be developed, and by whom.

We have sought to focus our feedback on the draft legislation and draft explanatory materials. We will separately provide feedback to the Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) as the standards to enable reporting and assurance are developed. Our feedback is set out below:

Clarity on definitions and thresholds:

- Paragraph 1.1 of the explanatory materials states that the exposure draft legislation is intended to apply to entities that lodge financial reports under Chapter 2M of the Corporations Act. It is not clear how this is reflected in the exposure draft legislation, as s292A does not include whether

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an entity lodges a financial report as a threshold to be in scope of sustainability reporting.

- *Entity*, as specified in Section 292A (1), should be clarified or there is risk that this broad definition may capture organisations not intended by the Treasury. The definition of *entity* in section 64A of the Corporations Act extends to a body corporate, partnership, unincorporated body, an individual or trustee(s). The Treasury should consider how it defines the scope for who has to prepare annual sustainability reports, similar to how the scope of financial reporting has been set. The scope of financial reporting in Section 292 of the Corporations Act is comprehensive and explicit in defining the types of entities that are required to prepare a financial report.
- It would be helpful if the definition of an *employee* and *revenue* could be clarified. Whilst employees and revenue are currently used to determine whether a proprietary company is a large company (and thus whether financial reporting applies) these terms become even more important in the context of sustainability reporting as they help determine not only whether an entity has to prepare a report, but also when they have to start reporting:
 - The definition of employee will be particularly relevant in industries that have a high percentage of subcontractors / labour hire, and those that utilise non-traditional workforces (e.g. the gig economy).
 - The exposure draft legislation is clear that revenue should be determined by applying accounting standards, however the accounting standards require significant judgement to be applied in determining what constitutes revenue (for example, whether fair value gains on investment property held by real estate investment trusts would represent revenue and whether revaluations of financial assets should be considered on a gross basis for each asset or net basis for a group of assets) which could lead to inconsistency in the conclusions reached by different entities regarding whether and when they must prepare a sustainability report.
- The definition of *Asset Owners* for the Group 2 cohort of reporters should be clarified:
 - The Policy Position Statement refers to *assets under management* whereas the legislation refers to assets that are *controlled* (through the reference to the accounting standards). Assets under management are different to assets which are controlled for accounting.
 - For the \$5 Billion threshold, it is not clear from the legislation as to whether this is *net* or *gross* assets, and whether the threshold should consider consolidated assets (determined by applying accounting standards) or aggregated assets (i.e. without consolidation adjustments).

- There appears to be an inconsistency between the exposure draft explanatory materials and the legislation on how NGER thresholds apply to Group 1 and Group 2 cohorts. The draft explanatory materials require that Group 1 NGER entities are those that meet the publication threshold, and Group 2 captures all other NGER entities. To ensure this intention is mirrored in the legislation, we recommend that paragraph 1705 (5) (b) be amended to reference the publication threshold.
- With reference to the threshold set out in Section 292A (3) (b), there is no exemption for the Minister to alter the value of consolidated gross assets, whereas the draft legislation allows for the Minister to amend other thresholds. We seek clarification on whether this anomaly is deliberate.

Timeframes: Under Section 1705D of the draft legislation there is a clear expectation for the AUASB to have implemented the first set of auditing standards before 1 July 2024. Practically this would be a challenge for the AUASB given the international standard, *International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements*, is not expected to have finalised by this date. In our view there is no need for the legislation to have specific dates for when relevant standards need to be finalised.

Role of the Auditor: We welcome the need for climate-related financial disclosures being subject to similar assurance requirements to those currently in the Corporations Act for financial reports; and that those entities are required to obtain an assurance report from their financial auditor. We think it would be beneficial to clarify as to whether this applies to the individual auditor or the audit firm, noting that for financial reports it is the audit firm that is appointed notwithstanding the requirement for the individual auditor to sign the assurance report in their own name.

References in the draft legislation to the International Sustainability Reporting Standards: Section 296A (6) states: *The directors' declaration is a declaration by the directors of the following: (a) if the entity has included in the notes to the climate statements, in compliance with the sustainability standards, an explicit and unreserved statement of compliance with international sustainability reporting standards—that this statement has been included in the notes to the climate statements.* There is no other reference to international sustainability standards in the legislation. It may be beneficial for the word "Australian" to be substituted for "international" if that is the intention.

Differences between financial reports and sustainability reports: The drafting of the legislation and explanatory materials appears to utilise financial reporting terminology that may not practically align to sustainability reporting. The most notable example is the reference to the climate statement and the notes to the climate statement. For financial reporting, there are well defined and well recognised financial statements, for example the Statement of Financial Position. For climate-related financial disclosures there are no equivalents, meaning there may be no substantive difference between the



statement and the notes. The government may wish to consider narrowing the mandated contents of the sustainability report and delegate this responsibility to the AASB.

We would be pleased to discuss our comments with you. Please contact Caroline Mara on +61 402 304 594 should you require any further information.

Yours sincerely,

A handwritten signature in black ink that reads 'C. Mara'.

Caroline Mara
PwC Sustainability Reporting and Assurance Leader

PwC Australia's commitment to climate-related reporting: PwC publishes relevant climate-related disclosures in our annual Sustainability Report. Our climate-related disclosures for financial year 2022/23 can be found here: <https://www.pwc.com.au/about-us/assets/firmwide-transparency-report-fy23.pdf>