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Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
Parkes ACT 2600

c/- climatereportingconsultation@treasury.gov.au

17 February 2023

Dear Treasury,

Consultation submission: Climate-related financial disclosure

Thank you for the opportunity to participate in the consultation on the development of *Climate-related financial disclosure reform*.

BDO's sustainability practice (**BDO**) consults to a variety of Australian entities - state government, not-for-profit, exchange-listed and unlisted, with Australian and foreign assets, projects, and services. Through this experience, BDO has developed a deep understanding of corporate engagement with sustainability and environmental, social, and governance (ESG) matters. We have also met or presented to several regulatory and industry bodies on the topic.

BDO strongly supports the Government in its work towards climate-related financial disclosure reform.

With a working knowledge of many sustainability frameworks and standards (e.g. GRI, WEF-IBC, SASB, UNSDGs, TCFD, ISSB) alongside our strong experience in accounting and corporate reporting standards, we support the design of new requirements to extend the transparency, accountability, and comparability principles which are currently in place with the Australian financial reporting regime. This experience, together with our Firm's extensive history in audit and assurance gives us the in-depth knowledge to comment on the considerations for the provision of assurance as any resulting new requirements are introduced to the market as well.

We support the proposed approach of transitioning in climate-related financial disclosure requirements, leading with the large organisations most likely to have the greatest impact in this space, while allowing the market systems to mature, labour force to develop capability and capacity, and then introduce the checks and balances to ensure ongoing credibility.

We would be pleased to discuss our following comments in further detail. If you wish to do so, our contact details are below.



Yours faithfully,

BDO NATIONAL LEADERS, ESG & SUSTAINABILITY

[Redacted]

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Partner, Corporate Finance
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APPENDIX 1 - Specific matters for comment

Question	BDO's response
<p>1 What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)? In particular:</p>	
<p>1.1 What are the costs and benefits of meeting existing climate reporting expectations?</p>	<p>Australian entities that currently voluntarily meet the existing climate reporting expectations benefit from increased, easier and cheaper access to capital (equity & debt), markets (customers) and people (workforce). However, many of the current disclosures are not subject to any level of assurance, which is not aligned with the reasonable assurance over related and interrelated disclosure of financial information in audited financial statements.</p> <p>They key benefits would include:</p> <ul style="list-style-type: none"> • Continued access to foreign capital • Reputation as an open and well-regulated economy • Provision of quality, internationally-comparable disclosures to capital markets and investors. <p>From a cost perspective, this will create a compliance burden for entities that are not impacted significantly by climate change and not subject to difficulties around access to capital, markets or people due to climate risks.</p>
<p>1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?</p>	<p>We suggest divergence from the global community on baseline standards for climate reporting could prove very costly for the Australian economy, particularly if it affects the ability of firms to raise capital and obtain debt financing, or access international export markets. We agree with the principle outlined in the consultation paper around proportionality to risk, that is, "Climate disclosure requirements should be proportional to the risks they seek to address, particularly regarding whom they apply to, what costs those entities will incur, what data or capability they will require and what liability they may enliven".</p>
<p>2 Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?</p>	<p>We strongly support a phased approach. Not only would this emulate processes seen in other jurisdictions like the EU, NZ and the US, but it has specific benefits, including:</p> <ul style="list-style-type: none"> • Allowance for employment, training and learning by entities' staff

Question	BDO's response
	<ul style="list-style-type: none"> Building the resources and capacity of assurance providers throughout the broader market. <p>As stated in the consultation paper, we support the thinking that: “There are advantages to phasing in disclosure requirements by initially targeting larger entities, maximising the initial benefit from increased transparency. Larger entities have more resources to adequately respond to new requirements, while smaller firms have time to benefit from the institutionalisation of reporting in the market prior to commencing their own reporting”.</p>
<p>2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?</p>	<p>The following two considerations should be applied:</p> <ol style="list-style-type: none"> Size of the entity, and/or Extent of emissions. <p>If the initial phase rolled out in Australia starts from FY2024/25, which is broadly aligned with international timelines, we would consider the timing of future phases to also be aligned with the global approach, which is currently expected to be up to 2028.</p>
<p>3 To which entities should mandatory climate disclosures apply initially?</p>	<p><u>Consideration 1 - Size of entity</u></p> <p>In relation to size of the entity, we believe the ASX 200 would be appropriate as the initial cohort.</p> <p><u>Consideration 2 - Extent of emissions</u></p> <p>In relation to extent of emissions, we suggest that the Clean Energy Regulator (CER) provide guidance on how to assess and determine the category of ‘large emitters’ in the Australian context.</p> <p>Currently, there are two types of thresholds that determine which companies have an obligation to report under the <u>National Greenhouse and Energy Reporting Act 2007</u> (NGER Act). They are:</p> <ul style="list-style-type: none"> Facility threshold - that is, “25,000 tonnes or more of total greenhouse gases (carbon dioxide equivalence (t CO₂-e)), or production or consumption of 100,000 gigajoules (GJ) or more of energy” Corporate threshold - that is, “50,000 tonnes or more of total greenhouse gases t CO₂-e, or production or consumption of 200,000 GJ or more of energy”.¹

¹ [NGER Threshold calculator user guide 2021-22 \(cleanenergyregulator.gov.au\)](https://www.cleanenergyregulator.gov.au/nger/Threshold-calculator-user-guide-2021-22)

Question	BDO's response
	<p>For consistency, we believe this is a good mechanism to determine the initial cohort of organisations that are considered large emitters, then continue to phase in a greater cohort as needed over time.</p>
<p>3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?</p>	<p>A large listed entity would be classified as one in the ASX 200, irrespective of industry or type of organisation.</p> <p>All other organisations should be assessed on the basis of their emissions.</p>
<p>3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?</p>	<p>We believe that the size of the organisation is only one consideration. Entities that are large emitters (as defined by the Clean Energy Regulator) should also be considered for inclusion in the initial phase (i.e. public sector entities, not-for-profits, private companies, superfunds, managed investment schemes, and so on).</p> <p>Entities should be considered due to size or significance of emissions.</p>
<p>4 Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?</p>	<p>Yes, similar to Australian Accounting Standards (AASs) alignment to International Accounting Standards Board (IASB), we believe that alignment of Australia's climate-related reporting requirements should align with the global baseline, particularly for the purpose of integrated reporting.</p> <p>This approach would also acknowledge the inter-relationship with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.</p>
<p>4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?</p>	<p>The governance requirements should be aligned to the <i>ASX Corporate Governance Principles and Recommendations</i>.</p>
<p>4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should</p>	<p>The climate disclosure standards being issued by the ISSB are the most appropriate for Australian entities due to its inter-relationship and linkage with the International Financial Reporting Standards, which are</p>

Question	BDO's response
<p>alternative standards be considered?</p>	<p>already well embedded in Australia across all entities preparing general purpose financial statements.</p> <p>By continuing with similar definitions, methods and concepts, barriers to participation will decrease which will increase ease of implementation, while ensuring no barriers to offshore markets.</p>
<p>5 What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?</p>	<p>Following a similar design process to the implementation of IFRS, we suggest the incorporation of the required overarching obligations for climate disclosure (governance, strategy, risk, and so on) into legislation, then building out the requirements of those obligations through detailed standards and guidance.</p> <p>Additionally, design of a new regulatory framework should align with the existing frameworks and requirements of the NGER Act and Clean Energy Regulator to reduce barriers to compliance for organisations mandated to meet multiple expectations.</p>
<p>6 Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?</p>	<p>Our preference is integrated reporting in order to achieve holistic communication of financial and non-financial information to stakeholders of an organisation.</p> <p>Integrated reporting would require the inclusion of the climate disclosures in the financial report, preferably as a sustainability report or as part of the operating and financial review (OFR).</p> <p>However, we acknowledge that a requirement to prepare sustainability reports at the same time as financial statements would put additional pressure on organisations, as well as their assurance providers, to adhere to the current reporting deadlines, particularly in this environment of ongoing staff shortages.</p> <p>We believe there is an opportunity to review the current reporting timelines and bias towards the fiscal year end with the introduction of a mandatory integrated reporting regime that introduces phased reporting by industry sectors. For example: reporting periods for all retailers could be February, financial institutions could be June, mining in December, and so on.</p> <p>This would enable the effective and timely provision of high quality information to the capital markets, provide comparability across industry sectors, and contribute to alleviating the additional pressures that organisations and assurance providers face in respect of resource requirements.</p>

Question	BDO's response
	<p>It is a big shift for Australian entities to also include climate-related financial disclosures in financial reports, so we recommend at least in the short term implementation only in annual reports. In future, consideration could be given as to whether this information should also be required in interim reports.</p>
<p>7 What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?</p>	<p>For consistency of expectations and understanding, we submit that judgement of materiality align with ISSB guidance, which will also ensure compliance with ISSB and be aligned with the materiality considerations used in IFRS. Increasingly, emissions have a financial consequence and therefore alignment will provide useful and more universal guidance.</p>
<p>8 What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?</p>	<p>What level of assurance should be required for climate disclosures?</p> <p>The expected maturity of entities' systems for reporting cannot be the driver of the level of assurance that is mandated in legislation. Indeed, if these systems are unable to generate disclosures that are capable of being assured to a level of reasonable assurance, they will also be unable to be assured at a limited assurance level. Indeed, while the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, these differences are not driven by the quality of the underlying subject matter or the resulting subject matter information. If an entity's systems are unable to accurately and completely produce subject matter information (e.g. disclosures required under the proposed disclosure standards), they will not be able to be assured to any level.</p> <p>However, we propose that for entities in scope of these mandatory disclosures, there must be a mandatory minimum level of assurance. Not requiring assurance over climate-related disclosures is an untenable long-term proposal, as it is unlikely to meet investor demands, or the expectations of the community. It also opens the market to a greater risk of greenwashing, and an increased risk of incomplete or inaccurate information being disclosed to the market. Should the Government choose to implement 'no assurance' in the short term, to enable direction to be given to entities on their</p>

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	<p>systems, a clear roadmap to reasonable assurance should be communicated, as has been the experience in other jurisdictions.</p> <p><u>Who should provide assurance?</u></p> <p>A person or firm should only accept an assurance engagement over climate disclosures if they are satisfied that those who will perform the engagement collectively have the appropriate competence and capabilities, in both assurance skills and techniques, and in the underlying subject matter, and its measurement.</p> <p>Currently, practitioners in professional services firms with expertise in assurance engagements skills and frameworks, working with subject-matter experts, provide assurance over NGER-related and TCFD-related disclosures. These firms are also subject to independence and quality management standards including ASQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements, and we believe that this has resulted in high quality assurance services being provided.</p> <p>We therefore suggest that a licensing regime be introduced for professional services firms to become accredited providers of assurance.</p> <p><u>Should assurance providers be subject to independence and quality management standards</u></p> <p>It is critical that assurance providers are subject to similar levels of independence and quality management standards as those who provide financial statement audits.</p>
<p>9 What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?</p>	<p>We believe that disclosure of material scope 3 emissions will be an important metric in establishing the standards for climate-related financial disclosures in Australia. This may require a separate timeline - like in the US, but will a very important measure.</p>
<p>10 Should a common baseline of metrics be defined so that there is a degree of consistency between</p>	<p>We agree that a common baseline metric should be defined. We believe a practical approach to this could include the development of metrics by industry, along with the publication of detailed illustrative</p>

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disclosures, including industry-specific metrics?	examples to provide scope for judgement and materiality assessments based on the nuance while allowing comparability across the industry.
11 What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?	A requirement for information to be subject to some form of assurance will enhance the reliability of the disclosures.
12 Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?	<p>Following our response in question 8, a phased approach to the provision of assurance should be introduced; but this should not be restricted to specific disclosure requirements. However, as climate-related standards are not currently as clearly defined as financial information, and the systems for data collation and reporting are not as mature in the market in general, auditors may find it difficult to comfortably provide reasonable assurance. So in the initial year, limited assurance could be considered, with a clear roadmap from the Government on the expectation for organisations to be prepared for reasonable assurance at or soon after the initial year.</p> <p>Again we note that communication and education may be required to ensure organisations understand the limitations and implications of the limited assurance process.</p>
13 Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?	<p>Climate-related financial disclosure will be a relatively new concept for many organisations. To ensure high quality disclosures, capability building programs may be required to ensure accurate, relevant, timely and consistent data is provided.</p> <p>Currently, the NGER Scheme that oversees greenhouse gas (GHG) emission reporting does not mandatorily include Scope 3 GHG emissions; and the available Scope 3 factors under the National Greenhouse Accounts (NGA) Factors as prescribed by the Department of Climate Change are limited. There is a risk that if insufficient resources are put into expanding the Scope 3 factors, companies may</p>

Question	BDO's response
	<p>be expected to report on these risks without a government-mandated way to do so.</p>
<p>13.1 How and by whom might any data gaps be addressed?</p>	<p>The CER currently has ownership of climate-related reporting within Australia, and as such we would expect them to guide the additional data required to correctly disclose climate-related risks. For example, the Guarantee of Origin scheme could be expanded to a life cycle analysis scheme providing high level estimates of the emissions intensity of certain industries for companies to calculate their Scope 3 GHG emissions. To do so they could leverage the Emissions and Energy Reporting System (EERS) that companies use to report under the NGER scheme. The use of production-adjusted safeguard baselines means that the EERS system has the capability to require production numbers to be entered when companies produce their annual NGER reports. Expanding this requirement to all NGER reporting entities would provide the CER with both the production and emissions on a facility by facility basis. The CER would then be able to calculate industry-specific emission intensities that could be used as Scope 3 emission factors for climate-related financial disclosures.</p> <p>To enable this, the NGER legislation would need to be updated prior to any implementation of the Climate-related Financial Disclosure legislation to allow time to collect the required data.</p>
<p>13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?</p>	<p>New Zealand could be considered as a similar jurisdiction which has recently introduced the <i>Aotearoa New Zealand Climate Standards</i>.</p>
<p>14 Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?</p>	<p>Given the complex scientific form of scenario analysis and the required data, some boards may be reluctant to incorporate meaningful disclosure on scenarios due to lack of competency, or liability. This may result in high-level and boiler-plate disclosure. The expectation for inclusion of an expert report in these circumstances would be reasonable, however, there should be some requirement on disclosures acceptable for expert report/letter reliance and inclusion.</p>

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<p>15 How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?</p>	<p>The 'reasonable grounds' requirements for future statements, that is targets and commitments, within Australia are embedded in Australian law and precedent. Softening of this existing legal requirement for climate-related financial disclosures could create an unwanted precedence for all other disclosures.</p>
<p>16 Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed?</p>	<p>Climate disclosures should also be reported in Initial Public Offerings to meet the currently statutory requirement to provide potential investors with the information required to make an investment decision.</p> <p>Disclosures should also follow the principles of clear, concise, and effective, as is required within fundraising and mergers & acquisitions.</p>
<p>17 While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?</p>	<p>The ISSB is expected to finalise IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information</i> and IFRS S2 <i>Climate-related Disclosures</i> before the end of March 2023. If Australia aligns sustainability reporting requirements to that of the ISSB, we would expect Australia to adopt both IFRS S1 and S2 as IFRS S2 outlines climate risk disclosures, and the adoption of IFRS S1 would also enable entities to also disclose broader sustainability related informations.</p>
<p>18 Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?</p>	<p>Not in the immediate term.</p> <p>Digital reporting is not well established across financial reporting currently, therefore the introduction of digital reporting in the sustainability reporting space could create barriers to compliance</p>

Question	BDO's response
	<p>where the level of change required to meet both requirements is too great.</p>
<p>19 Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?</p>	<p>Our preference is to implement structure two for the betterment of the financial and sustainability reporting system.</p> <p>While we support the AASB and its work in implementing and upholding stringent accounting standards in Australia, we also acknowledge the inputs the AASB has already contributed to the sustainability standards being developed by the ISSB.</p> <p>In the short term, and in the interest of gaining immediate momentum for Australia in the sustainability space, we support the AASB taking the reins to begin this vital work.</p> <p>In the medium to long term, we believe that Australia's sustainability standards require specialised sustainability knowledge to lead the development of local standards and guidance, allowing the AASB to continue to focus on not-for-profit and public sector organisations. Globally, the IASB works closely with the ISSB to develop aligned standards. We believe that mirroring this approach to create an Australian sustainability board to work in conjunction with the AASB would best serve the needs of Australian organisations.</p>