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

Via email: climatereportingconsultation@treasury.gov.au

Climate-related Financial Disclosure

The Financial Services Council (FSC) welcomes this Treasury consultation on implementing the Federal Government's commitment to standardised, internationally aligned- requirements for the disclosure of climate related- financial risks and opportunities in Australia. Our asset manager members are major allocators of capital domestically and globally who invest on behalf of diverse clients in a range of asset classes globally such as equity, debt and alternative securities. To ensure capital continues to flow to Australia, it is imperative that they are able to analyse in the Australian context how climate change can affect different geographies, industries and companies, then factor material risks and opportunities into their research, portfolio construction and investment decisions.

The FSC is very supportive of efforts to drive greater domestic and international consistency in climate-related financial disclosure, given that our members operate in the global economy. We believe these efforts will improve the effective functioning of the capital markets in Australia and globally. Australia's commitment to net zero emissions by 2050 will need to be financed largely by the private sector. Institutional investors as allocators of capital need reliable and consistent data to identify where there are material risks and opportunities created by climate change, potentially impacting an investee company's cash flows, business operations and strategy and therefore the valuation investors attribute to that company.

The risks and opportunities to the value of their portfolio that asset managers need to integrate include physical risks to real assets and supply chains from severe weather events, and transition risks such as regulatory change, technological change and changing consumer preferences as more jurisdictions and companies globally seek to align their activities with a temperature increase below 1.5°C as aspired to in the Paris Agreement. These risks are often non-linear and subject to unexpected feedback loops that can create disruptive impacts on asset valuations, global financial markets and economic stability. To properly price risk, effective disclosures from investee companies are needed.

While investment strategies vary, asset managers all have a fiduciary duty to act in the best financial interests of their clients. Proper consideration of climate risks and integration into the investment process is vital for the preservation and growth of the savings of millions of Australians, particularly the $3.4 trillion invested in our compulsory superannuation systems.

Our members have extensive experience with integrating climate change risks, data and information into their investment processes. Via their stewardship activities, our members actively seek to motivate and engage investee companies to manage climate change risk and opportunity in their operations, management, strategies, products and services, and to hold boards and management accountable for performance in this area.

However, the experience of our members in seeking to integrate climate risk into their investment processes is that there are significant challenges due to continued inconsistencies and weaknesses in corporate

Financial Services Council Ltd
Level 5, 16 Spring Street
Sydney NSW 2000

E. info@fsc.org.au
W. fsc.org.au
ABN 82 080 744 163

@FinServCouncil
@FinServCouncil
@financial-services-council

disclosures around climate change risks, opportunities and the strategy and management of these risks. While Taskforce on Climate-related Financial Disclosure (TCFD) aligned reporting is improving, there remain variability and gaps in current disclosures which frequently fail to capture material, financial climate risks faced by companies and markets.[1] When disclosures are inconsistent and of low quality, undermining investor efforts and the effective functioning of capital markets, investors need to expend significant resources to identify, collect, estimate and manage climate disclosures and data.[2] Efforts include purchasing data from third-party vendors, reconciling gaps in these products and company disclosures, consulting with industry and scientific experts and developing proxy data from alternative sources.

Mandating climate-related disclosure will accelerate awareness in the Australian economy of the growing risks and opportunities stemming from climate change. It will also help companies prepare and plan for this transformation and protect investors and Australian competitiveness. It will support the efficient allocation of capital to help drive the Australian economy's transition to net zero. Finally, it will also help to reduce the burden on reporting entities from multiple and various requests for climate-related information from investors, data providers and other stakeholders.

We recognise that the introduction of this regime will involve the need for Australian companies to develop the capability and expertise within their firms, and it will take time for companies to achieve best practice. Our recommendations centre around the need for a phased approach with enough flexibility to allow for continual improvement over time, while encouraging companies to report usable data as early as possible. For asset managers in particular, phasing should recognise that asset managers are at the end of the disclosure chain, and therefore their ability to report on climate-related financial risks is dependent on the disclosures of their underlying investments. Therefore their scope 3 emissions should only be required for disclosure in a later phase once the scope 1 and 2 emissions of Australian companies within the threshold have been embedded.

Our key recommendations include:

- **International alignment:** The Australian disclosure requirements should be internationally aligned, comparable and compatible with the TCFD and International Sustainability Standards Board (ISSB) standards.
- **Phased approach and flexibility with obligations:** Australia should adopt a phased approach to climate disclosure, with the first phase including public companies, large private companies and large financial institutions. Aspects of the reporting requirements should be on a 'comply or explain' and 'best endeavours' basis as data availability, metrics and targets evolve. The first reporting period should aim to be a year after the release of the finalised ISSB standards. Particular detailed requirements could also be phased in on the basis of industry classification having regard to relative exposure to climate risk.
- **Applicability to asset managers:** We would welcome further discussion on the application of the regime to asset managers, and the extent of required reporting of climate-related financial risk both to their Responsible Entity (RE) business and to their underlying portfolio investments. Asset managers should only be required to disclose climate-related financial risk to their underlying

[1] See Task Force on Climate-related Financial Disclosures 2022 Status Report, October 2022 <https://assets.bbhub.io/company/sites/60/2022/10/2022-TCFD-Status-Report.pdf>
[2] See ERM and the SustainAbility Institute's Cost of Climate Disclosure Survey Fact Sheet May 2022.

portfolio investments once disclosure is embedded for Australian companies, many of who constitute their underlying investments.

- **Thresholds for captured entities:** Treasury should determine the appropriate thresholds after undertaking analysis of what would be appropriate to ensure broad coverage, having regard to entity resourcing. For asset managers, assets under management is a more appropriate threshold than consolidated revenue.
- **Alignment of public and private markets:** It is important that public and private market reporting requirements are aligned.
- **Scope 3 emissions**: We support the encouragement of scope 3 emissions disclosure in line with the Greenhouse Gas (GHG) Protocol on a financial risk materiality basis. There should be allowance for flexibility where companies can explain why they are unable to estimate scope 3 emissions at this stage, on a 'if not, why not' basis.
- **Design of the regulatory framework:** We support the regime being broadly consistent with the existing framework for financial reporting. Legislation should set out the broad architecture of the regime and overarching obligations, with details in regulation and guidance.
- **Location of climate risk reports:** Disclosures should be contained in the Operational and Financial Review and should not be treated separately from other financial risks. Annual reports and sustainability reports should cover the same time period. Consideration should be given to template-based reporting to ensure consistency and data that is easily downloadable for ease of usability.
- **Financial materiality:** The reporting framework should focus on financial materiality, with companies responsible for determining what represents material climate-related financial risks and opportunities to their business.
- **Assurance requirements:** The first phase should not require mandatory external assurance, but reports should be signed off by the board and there should be disclosure about the company's approach to assurance. Requirements for assurance could be phased in based on the relative risk of climate to particular industries.
- **Metrics:** Government should develop consistent industry-specific metrics aligned with the TCFD, SASB and ISSB.
- **Transition plans and offsets:** We support requiring entities to publish transition plans on a 'comply or explain' basis. Plans could be disclosed every three years with annual disclosures providing an update on performance against the plan. There should also be transparency around the use of offsets to meet targets.
- **Data gaps:** Treasury and regulators should cooperate with international work to develop data and scenarios.
- **Climate scenarios:** Entities should be encouraged to undertake climate scenario analysis in line with the Network for Greening the Financial System scenarios, but with sufficient flexibility to build capability overtime and having regard to resourcing. Government should provide guidance on applying scenario analysis.
- **Other sustainability reporting:** The focus of the Government's work should be on climate-related disclosure. However, we support flexibility for entities to voluntarily develop reporting. The Government should monitor international developments.

If you wish to follow up on this submission or have any questions, please contact [redacted], **Policy Manager at** [redacted]

Sincerely,

[redacted]
Executive Director, Policy and Advocacy

Summary of Recommendations

Recommendation 1: Internationally aligned, comparable and compatible sustainability reporting standards

- We support a globally consistent set of baseline sustainability reporting standards that align with the TCFD framework and support aligning with the work conducted by the ISSB to create global baseline reporting standards.
- Interoperability with overseas frameworks is of key importance to investors. Regulators and standard-setting bodies should take a coordinated approach across jurisdictions to facilitate high-quality, comparable and compatible climate-related disclosures.
- Treasury should leverage the existing work of standard and framework setting bodies to inform guidance and potential rulemaking at the sector and industry level.

Recommendation 2: A phased and flexible approach

- The government should provide a phased approach, with public companies, large private companies and large financial institutions included in the first phase.
- A flexible approach should be taken to liability, with liability commensurate to the evolving nature of disclosure. We submit that a 'comply or explain' or 'best endeavours' approach should be taken to reporting.
- Clarification and further consultation on the application of the regime for asset managers requested. The first phase should only capture scope 1 and 2 for asset managers. As a matter of practicality, asset managers should only be required to disclose the risk to their underlying portfolio investments (scope 3) once disclosure of scope 1 and 2 are embedded for Australian companies.
- The first implementation period should be a year after the release of the finalised ISSB standards. A roadmap of subsequent phases should be provided over three years with increasing reporting quality and scope 3 reporting.
- Adequate time should be provided in the initial implementation for companies to develop high-quality disclosures. Giving companies adequate time (eg: 120 days) after their fiscal year-end to accurately collect and analyse this data will increase the quality of the climate-related information investors receive.

Recommendation 3: Entities to which the regulatory regime should be applicable

- Treasury should determine the appropriate thresholds after undertaking an analysis of which thresholds would provide appropriate broad coverage across key sectors of the Australian economy, and having regard to resourcing available to entities.
- For asset managers, assets under management rather than annual consolidated revenue is a more appropriate threshold for application of the regime.
- Requirements should be aligned across public and private markets and should ensure that reporting entities do not adopt structures designed to avoid reporting requirements.
- Public business enterprises should be subject to reporting requirements.
- Reporting should be permitted at the group level where a company's climate strategy and performance is captured by parent company reporting, as long as there is consistency with Australian specific reports.
- Disclosures should be required of all local issuers of debt.

Recommendation 4: ISSB and Scope 3 Emissions

- We support the ISSB's goal of providing a global baseline of standards. We encourage Treasury to align Australia's climate reporting requirements to the standard currently being developed by the ISSB, including industry-specific standards to be developed based on SASB.
- We support the enhancement of disclosure around Scope 3 emissions in line with the Greenhouse Gas (GHG) Protocol. The disclosure of Scope 3 emissions should be prompted by financial risk materiality.

Recommendation 5: Key considerations informing design of the framework

Key considerations include:

- Legislation should set out the high-level architecture of the regime (entities captured, location of reporting and general obligations to report) along with overarching obligations to report in line with the TCFD framework, with regulation and guidance providing detail.
- Alignment with international baseline and standards.
- Staying aligned with the TCFD framework.
- Liability should be commensurate with the evolving nature of climate-related disclosure.
- Apply a flexible approach to Scope 3 GHG emissions disclosure, based on materiality and a 'comply or explain' approach.
- Maintain established standards of financial risk materiality.
- A flexible approach to assurance should be adopted to allow entities to provide and compile data without prohibitive cost.
- There should be a preference for quantitative data over qualitative data, similar to that of financial reporting methodology, but with enough flexibility for situations where some climate data can only be qualitative.
- Australian-based subsidiaries of multi-national organisations that fall within the disclosure threshold should be able to rely on the reports and policies at a group level, where the

group is subject to similar reporting requirements in other overseas jurisdictions, as long as these requirements are consistent with Australian requirements.
- We support the maintenance of a whole of board approach to governance of climate risk.

Recommendation 6: Appropriate location of climate reports

- Disclosure should be contained in the operational and financial review (OFR), and for all captured entities climate-related financial disclosures should not treated separately from other financial risks.
- Annual reports and sustainability reports should be aligned in covering the same time period.
- Consideration should be given to requiring template based reporting to ensure consistency. It should be in a format easily downloadable and usable.

Recommendation 7: Materiality

We support ISSB and SASB's focus on financial materiality, where companies are responsible for determining which disclosure topics represent financially material risks and opportunities.

Recommendation 8: Assurance requirements

- In the first phase, external assurance should not be mandatory but there should be board sign off of reports. We expect third-party assurance to become the norm over time, but it should be recognised that capability and availability of assurers will take time to develop.
- Companies should be required to disclose in the sustainability report that internal or external assurance has been conducted. Disclosure should explain the approach that has been taken to identify potential deficiencies and whether a remediation plan has been developed.

Recommendation 9: Scope 3 emissions

- For the first phase, we propose that Scope 3 emissions be required to be disclosed on an 'if not, why not' basis, having regard to materiality. However, even if scope 3 emissions are not initially mandated, they should be encouraged and supported.
- Government should consider requiring that entities that report under the new climate related financial disclosures should also upload the data to the National Greenhouse and Energy Reporting system.

Recommendation 10: Metrics

The Government should develop clearly defined, consistent metrics including industry-specific and sector-specific metrics, aligned with the TCFD, SASB and the ISSB forthcoming climate standard.

Recommendation 11: Publication of transition plans and use of offsets

- The requirement to publish a transition plan should apply to large public and private companies and large financial institutions on a comply or explain basis. Transition plans

could be disclosed every three years with annual disclosures of updated performance against those plans.
- Companies should disclose separately any use of greenhouse gas emissions offsets and be transparent on how they intend to use those to meet their published targets. They should provide transparency on the types of carbon offsets they intend to use.

Recommendation 12: Phased approach for specific disclosure requirements and assurance requirements

We support a phased approach for disclosure requirements and assurance requirements, to allow data, methodologies and capabilities to improve. A phased approach to particular requirements could be based on industry classification having regard to exposure to climate risk.

Recommendation 13: Data gaps

- We support Treasury and regulators cooperating with other work to develop data and scenarios. Treasury and regulators should also work with the ISSB on industry metrics and develop domestic guidance for relevant sectors.
- We emphasise the need for companies to have access to high quality resources for the following data:
    - Historical data and future projections for acute physical climate change risks, particularly the frequency and severity of weather events, by type and location.
    - Historical data and future projections of chronic physical climate change risks by location, such as average temperature, rainfall and sea-level.
    - Historical and current carbon emissions and sequestrations data by type and location, particularly where data would facilitate the determination of Scope 3 emissions.

Recommendation 14: Responsible reporting entity and scenario analysis

- On a particular entity providing the information and governance, the entity that is responsible for the financial related disclosures should be the same authority that governs ESG related disclosures.
- Entities should be encouraged to undertake scenario analysis based on an order transition to 1.5 degrees, an abrupt or delayed transition of 1.5 or 2, or no transition at 4 degrees in line with the Network for Greening the Financial System scenarios, but with sufficient flexibility to build capability overtime and having regard to resourcing and data availability. The Government should work to develop and provide guidance on applying scenario analysis, including key assumptions to be used, as part of the mandatory regime.

Recommendation 15: Liability and reasonable steps or best endeavours

Reporting entities be required to exercise ‘reasonable steps’ or ‘best endeavours’ to gather data, review their operations and report on the results of their review.

Recommendation 16: Non-climate related sustainability reporting

We see climate-related financial disclosure as the priority. We note the growing interest and the development of social and broader environmental-related sustainability reporting. We encourage the government to monitor and review international developments and consider their suitability for the Australian market at the appropriate time.

Recommendation 17: Digital reporting

Digital reporting should be considered from the outset as it would be beneficial for investors as data users.

Recommendation 18: Structures to ensure framework is fit for purpose

We would not support the establishment of new separate boards which risks decoupling climate risk from and financial impacts.

Question 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:

1.1 What are the costs and benefits of meeting existing climate reporting expectations?

1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

There are costs to a lack of mandated climate risk disclosure. A lack of useful data means that investors cannot adequately price in climate risk, and this creates systemic risks for the Australian financial system. It also stymies the capital flow needed to fund a lower emissions economy, with investors less able to identify where climate-related opportunities lie. Further, investors and reporting investee companies who are uncertain of existing requirements have to expend significant resources on seeking and producing this data themselves. Importantly, greater standardisation of disclosure will provide investors with greater information to identify the transition risks and opportunities in highest emitting sectors.

A lack of alignment with international standards will lead to regulatory and standard setting fragmentation, where key definitions, concepts, terminologies and metrics on disclosure requirements do not align, making international comparison of climate risks and opportunities more difficult. A domestic reporting regime that is unaligned with international standards will be of limited value for investors while increasing compliance and reporting costs.

Aligning mandated rules around climate-related disclosures with international practice to the maximum extent possible consistent with Australian market conditions will help reduce cost for investors by:

- Providing greater certainty in what is required to report climate risk, reducing red tape and cost and the risk that comes with compliance uncertainty.
- Australian fund managers and investee companies who operate in a global economy can reduce costs by aligning their Australian reporting requirements with their reporting requirements for international stakeholders in other jurisdictions.

Interoperability with overseas frameworks is also of key importance to investors. Climate risk is a global issue, and the global risk will be best managed if regulators and standard-setting bodies take a coordinated approach across jurisdictions to facilitate high-quality, comparable and compatible climate-related disclosures. Treasury should leverage the years of research and experience globally, including learning from what hasn't worked. We support a collaborative approach between policy makers, regulators and industry to develop greater convergence and to foster investor understanding of, and trust in, sustainable investments. The desirability for compatibility applies to all aspects of the investment chain, particularly product disclosures, corporate reporting and ESG ratings and data providers.

The FSC strongly supports a globally consistent set of baseline sustainability reporting standards that aligns with the TCFD framework and supports aligning with the work conducted by the International Sustainability Standards Board (ISSB) to create global baseline reporting standards. While corporate reporting in line with the TCFD is improving, there remains inconsistency in reporting and comparability,[3] which is why a mandated TCFD-aligned regime is welcome.

The TCFD framework is the foundation for climate-related disclosures, which address companies' climate risk exposure, scenario analysis, governance, strategies, metrics and targets.[4] It is a principles-based approach, developed with input from investors and companies. The TCFD recommendations have garnered support from more than 4000 companies, as well as investors, as disclosure against the recommendations provides critical information for investors that allows them to effectively allocate capital and manage risk. Regulators and government agencies from several major economies have also begun to structure climate disclosure requirements based upon the TCFD recommendations.

Treasury should leverage the existing work of standard and framework setting bodies to inform guidance and potential rulemaking at the sector and industry level. In particular, Treasury should review the 77 Industry Standards developed by the Sustainability Accounting Standards Board (SASB) over several years of industry and investor consultation,[5] as well as the TCFD's sector-specific guidance for financial and non-financial issuers.[6] The Treasury should also engage with the five standard setters that are collaborating to develop a comprehensive climate-related reporting system for corporations to understand how the Treasury could leverage and integrate this work into its own climate disclosure requirements. The five standard setters are comprised of CDP, the Climate Disclosure Standards Board, the Global Reporting Initiative, International Integrated Reporting Council and SASB.[7]

[3] TCFD, 2022 TCFD Status Report (October 2022)
[4] Task Force on Climate-related Financial Disclosure Overview, March 2021. https://assets.bbhub.io/company/sites/60/2020/10/TCFD_Booklet_FNL_Digital_March-2020.pdf
[5] SASB Industry Standards https://www.sasb.org/standards/download/
[6] Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017. https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf
[7] Progress Towards a Comprehensive Corporate Reporting System, September 2020. https://www.sasb.org/blog/progress-towards-a-comprehensive-corporate-reporting-system/

Recommendation 1: Internationally aligned, comparable and compatible sustainability reporting standards

- We support a globally consistent set of baseline sustainability reporting standards that align with the TCFD framework and support aligning with the work conducted by the ISSB to create global baseline reporting standards.
- Interoperability with overseas frameworks is of key importance to investors. Regulators and standard-setting bodies should take a coordinated approach across jurisdictions to facilitate high-quality, comparable and compatible climate-related disclosures.
- Treasury should leverage the existing work of standard and framework setting bodies to inform guidance and potential rulemaking at the sector and industry level.

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

> **2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?**

The FSC supports a phased approach for disclosure and external assurance requirements. The regulatory requirements need to be properly sequenced and correspond to current market realities. Transition to the new requirements should recognise that smaller companies can be resource constrained and so should be given more time to build capacity and meet required standards, given all companies have a part to play in delivering decarbonization.

A phased approach is also sensible given the need for flexibility in areas where the relevant data, methodologies and controls are still emerging, allowing time for companies to develop and implement their processes. For fund managers, compliance with disclosure requirements depends on receiving relevant corporate data. We note that most jurisdictions in the Asia region have taken a phased approach when also adopting mandatory climate related disclosure.

In terms of determining which entities are covered in different phases, there will be different advantages and disadvantages depending on the size threshold chosen. Market capitalization can be volatile and not necessarily reflect the scale of emissions a company has, for example where a company's total assets are high, but market capitalization is low because it is highly leveraged. Revenues can fluctuate significantly especially for commodities, even though it does not change the physical emissions and the capital expenditure spent on operations that contribute to emissions such as a mine. Total assets alone may not capture high emitting low asset base business models, such as those in the technology sector.

The government could consider using several criteria, such as total assets, revenues and number of employees, to determine the size threshold. This is also consistent with the EU and UK approaches, which determine thresholds on a range of measures.

In the first phase of reporting, we would support the inclusion of public companies, large private companies and large financial institutions, with smaller private/unlisted companies being brought into the regime in subsequent phases. Mandating reporting by companies across both public and private markets from the outset is critical to averting unintended consequences, as further explained in question 3.

We submit that in the first phase, there should be a flexible approach to improving disclosures. Any liability introduced for failure to comply with the mandatory disclosure requirements should be commensurate with the evolving nature of that disclosure, to encourage rather than discourage higher-quality disclosure. We believe that regulators should allow companies to meet some requirements of any new disclosure regime on a 'comply or explain/if not, why not' basis or a 'best endeavours' basis while data availability and certain metrics and targets are still evolving. A flexible approach to disclosure will likely encourage more and more companies to provide such disclosure, encouraging the disclosure of existing data without penalising companies for challenges they face in reliability, collection and calculation of climate data from third parties and counterparties.

We seek clarification as to the application of the regime to asset managers and whether reporting is to apply to the responsible entity as a whole or whether each fund operated by a fund manager would be considered a reporting entity. For asset managers, where there is an expectation that they should be disclosing material climate risks to their business which might include the exposure of their investments to climate risks (effectively the disclosure of an asset manager's scope 3 emissions), there should be a recognition that the quality of the analysis and disclosure of climate risk in investment portfolios will depend on the development of scope 1 and 2 disclosures in the first phase. Further, if an asset manager manages, for instance, a multi asset fund which has investments in some proprietary companies that are not within scope of the first phase of the disclosure requirements, it will not be possible for the asset manager to fully disclose the risk associated with that fund.

Therefore, we submit that in the first phase, asset managers should only be required to disclose their scope 1 and 2 emissions. Requirements to disclose climate-related financial risk to their investment portfolios should only be required in subsequent phases, recognising that asset managers are at the end of the disclosure chain and therefore proper disclosure is only practical once reporting of scope 1 and 2 emissions is embedded for Australian companies. We would be happy to have further discussions with Treasury about the detail of the regime's application to asset managers.

Given that the next drafts of the ISSB standards are expected to be finalised by mid 2023, and that final standards may not be ready until later in the year, the Government should consider allowing adequate time to properly account for these standards as well as providing enough time for Australian companies to prepare. We submit that the Government should aim to have the first reporting period a year after the release of the finalised ISSB standards. The Government should also provide a clear implementation roadmap over three years, with an expectation that the quality of reporting will improve overtime, including the introduction of scope 3 reporting.

We also note that climate-related disclosures often require companies to collect and aggregate data from various internal and external sources. Giving companies adequate time (e.g 120 days) after their fiscal year-end to accurately collect and analyze this data will increase the quality of the climate-related information investors receive. This timeline should still result in companies producing climate-related data in advance of their annual meetings, giving investors time to assess it before making proxy voting decisions.

Recommendation 2: A phased and flexible approach

- The government should provide a phased approach, with public companies, large private companies and large financial institutions included in the first phase.
- A flexible approach should be taken to liability, with liability commensurate to the evolving nature of disclosure. We submit that a 'comply or explain' or 'best endeavours' approach should be taken to reporting.
- Clarification and further consultation on the application of the regime for asset managers requested. The first phase should only capture scope 1 and 2 for asset managers. As a matter of practicality, asset managers should only be required to disclose the risk to their underlying portfolio investments (scope 3) once disclosure of scope 1 and 2 are embedded for Australian companies.
- The first implementation period should be a year after the release of the finalized ISSB standards. A roadmap of subsequent phases should be provided over three years with increasing reporting quality and scope 3 reporting.
- Adequate time should be provided in the initial implementation for companies to develop high-quality disclosures. Giving companies adequate time (eg: 120 days) after their fiscal year-end to accurately collect and analyse this data will increase the quality of the climate-related information investors receive.

Question 3: To which entities should mandatory climate disclosures apply initially?

> **3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?**
> **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?**

We submit that Treasury should determine the appropriate thresholds after undertaking an analysis of which thresholds would provide appropriate broad coverage across key sectors of the Australian economy and which entities would have the appropriate resourcing in the first phase.

In line with the principles we outlined above for a phased approach, the first phase should include large listed and unlisted public companies, large private companies and large financial institutions including banks, insurers, and asset managers.

In other jurisdictions, multiple threshold criteria are used to determine what constitutes a large company. Treasury could consider having multiple threshold indicators. For example, in the EU the Corporate Sustainability Reporting Directive proposed 3 criteria to determine which companies should be in scope: number of employees, balance sheet and net turnover.

We note that for asset managers, annual consolidated revenue is not an appropriate threshold given that revenue can change significantly in volatile markets, resulting in entities that would not normally be captured by the reporting threshold being captured for a reporting period and vice versa. As such, assets under management is a more appropriate indicator given it is less likely to fluctuate. We would submit that for the first phase, government should determine a threshold for assets under management that ensures that the regime begins with large players in the industry who have the necessary resources to be subject to reporting requirements in the first phase.

We emphasise the need for reporting alignment across both private and public markets. The reality of climate change affects both listed and unlisted entities. Alignment will help avoid unintended capital market consequences such as the sale of physical assets to private companies to avoid disclosure, and private companies being potentially disincentivised from going public, decreasing choice for public market investors. For instance a material emitter could delist from an exchange, thus removing the requirement for climate reporting. Alignment will also avoid forcing public companies to step into the role of policing their value chain partners and clients through negotiating the implementation and monitoring of the data they need for their own disclosures, such as private companies' GHG emissions reporting. Market participants would also have a clearer understanding of climate risks and opportunities across the entire economy.

Measures should be adopted to ensure reporting entities do not adopt structures that may be designed to avoid the reporting requirements (eg: demergers, offshoring etc). In addition, companies that are required to report at the outset of the regime but in future fall short of the relevant threshold (eg: by falling out of a ASX300 index) should retain their reporting obligations going forward.

Public business enterprises including public investment institutions should also be subject to the reporting requirements.

Where a company's climate strategy and performance are captured by parent company reporting, the regulatory regime should not require duplicative reporting, (which adds to administrative burdens without providing valuable information to users), as long as there is consistency with Australian specific reports.

We also submit that proposed disclosures be required of all local issuers of debt, including entities not publicly listed on equity markets (eg: universities, airports and utilities) and not just those who issue in AUD (ie, including those that are unlisted from an equity perspective but have issued bonds into debt capital markets both domestically and offshore). At present, climate disclosures have significant room for improvement for these entities, and there is minimal coverage from external ESG ratings agencies on these issuers.

Recommendation 3: Entities to which the regulatory regime should be applicable.

- Treasury should determine the appropriate thresholds after undertaking an analysis of which thresholds would provide appropriate broad coverage across key sectors of the Australian economy, and having regard to resourcing available to entities.
- For asset managers, assets under management rather than annual consolidated revenue is a more appropriate threshold for application of the regime.
- Requirements should be aligned across public and private markets and should ensure that reporting entities do not adopt structures designed to avoid reporting requirements.
- Public business enterprises should be subject to reporting requirements.

- Reporting should be permitted at the group level where a company's climate strategy and performance is captured by parent company reporting, as long as there is consistency with Australian specific reports.
- Disclosures should be required of all local issuers of debt.

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

> **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?**
>
> **4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?**

We agree that Australia should align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards, particularly given the work of the IFRS Foundation to develop the ISSB. We support the ISSB's goal of providing a global baseline of standards. We view the ISSB's proposals as an important contribution to a multi-year, multi-jurisdictional effort towards improving the availability, quality, comparability, timeliness, and interoperability of sustainability-related disclosures. We expect the ISSB work to likely result in a global standard that will build on and supersede existing sustainability reporting frameworks. We encourage Treasury to align Australia's climate reporting requirements to the standard currently being developed by the ISSB, including industry-specific standards to be developed based on the Sustainability Accounting Standards Board (SASB).

In particular, we appreciate that the ISSB framework would ensure clear, consistent, and comparable foundational climate-related information, including uniform reporting of Scope 1 and Scope 2 greenhouse gas (GHG) emissions in alignment with the TCFD. We also support quantitative disclosure aligned with the Greenhouse Gas Protocol ("GHG Protocol") for scope 1 and 2 emissions.

We support the enhancement of disclosure around Scope 3 emissions but believe the trigger for disclosure of Scope 3 emissions should be prompted by materiality. We recognize that Scope 3 GHG emissions represent the majority of emissions for many companies and sectors. Entities' measurement and management of these emissions is often a signal to their awareness and integration of climate change risk to their business. Management of Scope 3 emissions can also indicate how well an entity is managing its impact on the communities and resources that it depends on to grow and maintain its business activities.
However, these disclosures come with challenges including data collection and availability, use of estimates, and varying calculation and verification methodologies. Lack of widely accepted methodologies and frameworks, as well as control of and transparency into entities' value chains can make Scope 3 emissions disclosures challenging to produce and verify today. Investors would be best served by more targeted, flexible and improving scope 1 and 2 disclosures than full Scope 3 requirements at the beginning.

The Greenhouse Gas (GHG) Protocol, which is the globally recognized standard for corporate accounting and disclosure of emissions, recognizes 15 categories of Scope 3 emissions.[8] We submit that companies should disclose emissions estimates for any of the fifteen Scope 3 categories that are material to them. Disclosure

[8] https://ghgprotocol.org/scope-3-technical-calculation-guidance

across all 15 categories consistent with the GHG Protocol would lead to unnecessary burden and cost for entities and ultimately shareholders, and lead to inefficiencies for investors who will have to process more information that is ultimately not material to their decision-making process. We would suggest that ISSB work with the GHG Protocol to publish sector or industry-specific, materiality-based Scope 3 emissions guidance to provide consistency globally.

It may be appropriate to require additional climate-related disclosures for a subset of companies or sectors that have more acute climate risks or that have set climate-related targets. For example, a fossil fuel company may determine that it has acute risk with respect to its Scope 3 emissions (ie, those occurring when the company's clients consume fossil fuels) because the Scope 3 emissions are intrinsically tied to the company's future cash flows.

If none of the fifteen categories are material, or if companies are not yet capable of estimating their Scope 3 emissions, they should have the option of explaining why that is the case, considering the development of common methodologies and guidance, market practices in different industry sectors, as well as existing or upcoming local requirements to disclose such emissions.

We support the ISSB's focus on developing standards using the financial materiality lens. This is consistent with our members' approach to ESG integration, considering material ESG and climate-related issues at each step of the investment process for relevant portfolios. On materiality, we support the SASB approach that companies are responsible for determining which disclosure topics represent financially material risks and opportunities for their business and which associated metrics to disclose, taking the company's business model, business strategy, and relevant legal requirements into account.

Recommendation 4: ISSB and Scope 3 Emissions

- We support the ISSB's goal of providing a global baseline of standards. We encourage Treasury to align Australia's climate reporting requirements to the standard currently being developed by the ISSB, including industry-specific standards to be developed based on SASB.
- We support the enhancement of disclosure around Scope 3 emissions in line with the Greenhouse Gas (GHG) Protocol. The disclosure of Scope 3 emissions should be prompted by financial risk materiality.

Question 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)?

We have expressed support in a previous submission for the Australian Accounting Standards Board (AASB) to develop and set the standards for disclosure.

We also support the proposal in the paper to have the climate-related financial risk reporting framework broadly consistent with the existing framework for financial reporting. This would involve legislation setting out the entities covered by the regime, the location of reporting requirements and obligations to report under prescribed standards. The first option in the consultation paper to set out overarching obligations in the legislation (governance, strategy, risk management, targets and metrics), while building out the details in regulation and guidance seems like a sensible approach. We would emphasise that such an approach should ensure that the regime remains flexible enough to allow for entities to report on a 'comply or explain' and 'best endeavours' basis.

We submit that other key considerations to inform the design of a new regulatory framework include:

- Adherence to an international baseline and standards to allow for better comparability with domestic and international peers.
- Staying aligned with the TCFD framework as we observe an increasing number of issuers are using the TCFD to provide disclosures that are becoming increasingly robust over time.
- Limit liability and provide a flexible approach where methodologies are still evolving. Liability should be commensurate with the evolving nature of climate-related disclosure. Entities should be encouraged to make a good faith effort in providing disclosures, with a 'best endeavors' obligation and a 'comply or explain' approach.
- Implement a flexible framework for continued evolution of GHG emissions disclosures, particularly for scope 3 emissions. Given the methodological complexity and lack of direct control by companies over the requisite data, we support a flexible approach to Scope 3 GHG emissions disclosure, based on materiality and a 'comply or explain' approach. This will give issuers the opportunity to develop the resources to comply with best practices as they emerge.
- Maintain established standards of financial risk materiality in determining what risks should be reported. Departure from well-established materiality standards in financial reports could obscure what information is material.
- While quality control is desirable, the Government should ensure that reporting doesn't become so complex that assurance is needed to provide and compile the data in the first instance. This becomes more important for extending sustainability reporting to small and medium enterprises, for which the cost of external assurance could be prohibitive.
- There should be a preference for quantitative data over qualitative data, similar to that of financial reporting methodology which allows analysis and comparability, but with enough flexibility for situations where some climate data such as climate plans can only be qualitative.
- Australian-based subsidiaries of multi-national organisations that fall within the disclosure threshold should be able to rely on the reports and policies at a group level, where the group is subject to similar reporting requirements in other overseas jurisdictions, as long as these requirements are consistent with Australian requirements.
- Further, on governance issues we support the maintenance of a whole of board approach to governance of climate risk. Robust oversight of climate-related risks and opportunities requires a whole-of-the-board approach. While a dedicated committee of the board can be beneficial, especially for companies where climate risk and opportunities are material, the formation of such a committee should be at the discretion of the board.

Recommendation 5: Key considerations informing design of the framework

Key considerations include:

- Legislation should set out the high level architecture of the regime (entities captured, location of reporting and general obligations to report) along with overarching obligations to report in line with the TCFD framework, with regulation and guidance providing detail.
- Alignment with international baseline and standards.
- Staying aligned with the TCFD framework.
- Liability should be commensurate with the evolving nature of climate-related disclosure.
- Apply a flexible approach to Scope 3 GHG emissions disclosure, based on materiality and a 'comply or explain' approach.
- Maintain established standards of financial risk materiality.
- A flexible approach to assurance should be adopted to allow entities to provide and compile data without prohibitive cost.
- There should be a preference for quantitative data over qualitative data, similar to that of financial reporting methodology, but with enough flexibility for situations where some climate data can only be qualitative.
- Australian-based subsidiaries of multi-national organisations that fall within the disclosure threshold should be able to rely on the reports and policies at a group level, where the group is subject to similar reporting requirements in other overseas jurisdictions, as long as these requirements are consistent with Australian requirements.
- We support the maintenance of a whole of board approach to governance of climate risk.

Question 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?

As climate raises financial risks and opportunities, it is appropriate that disclosure should be contained for listed companies in the operational and financial review (OFR), and for all captured entities it should not treated separately from other financial risks in annual reporting. For superannuation funds, this could be included in the directors' reports on an appendix to financial statements. Practically, we note the challenges of using sustainability data if the reporting timeframe is different to financial data, as they often must be used together as part of investment analysis. Annual reports and sustainability reports should be aligned in terms of covering the same time period particularly as issuers should be considering sustainability during the production of annual reports rather than as an afterthought.

Consideration should also be given to setting a templated based reporting approach to ensure consistency. Ideally the data should be provided in a format that can easily be downloaded and used as needed rather than being embedded in written reports.

Recommendation 6: Appropriate location of climate reports

- Disclosure should be contained in the operational and financial review (OFR), and for all captured entities climate-related financial disclosures should not treated separately from other financial risks.
- Annual reports and sustainability reports should be aligned in covering the same time period.
- Consideration should be given to requiring template based reporting to ensure consistency. It should be in a format easily downloadable and usable.

Question 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)?

Established standards of financial risk materiality in determining what risks should be reported should be maintained. Departure from well-established materiality standards in financial reports could obscure what information is material. Investors will not benefit from large volumes of data for its own sake. We want businesses to focus on information that is of material relevance to their business risk.

As noted above, we support the ISSB's focus on developing standards using the financial materiality lens. We also support the SASB approach. According to SASB's Conceptual Framework, information should be disclosed *'if omitting, misstating, or obscuring it could reasonably be expected to influence investment or lending decisions that users make on the basis of their assessments of short, medium, and long-term financial performance and enterprise value.'* Similarly, the IASB's definition is that '*Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'*

ASIC RG 247 *Effective Disclosure in an Operating and Financial Review* states that an Operating and Financial Review should include a discussion of environmental, social and governance risks *where those risks could affect the entity's achievement of its financial performance or outcomes disclosed, taking into account the nature and business of the entity and its business strategy.* Climate change is 'a systemic risk that could have a material impact on the future financial position, performance or prospects of entities.'

These approaches place the responsibility on companies to turn their minds to determining what climate-related factors represent financially material risks and opportunities for their business, and to decide which associated metrics to disclose, taking the company's business model, business strategy, and relevant legal requirements into account. We expect that over time, this is an area where norms will develop.

Recommendation 7: Materiality

- We support ISSB and SASB's focus on financial materiality, where companies are responsible for determining which disclosure topics represent financially material risks and opportunities.

Question 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?

We consider that a minimum level of quality control should be required and as sustainability reporting by companies matures, we would expect third-party assurance to become the norm. However, external assurance should not be mandatory at this initial stage, with effective Board sign-off sufficing without external assurance. In the first phase, it should be a matter for the company's internal audit committee.

Whilst assurance is desirable, it should be ensured that reporting doesn't become so complex that assurance is needed to provide and compile the data in the first instance. This is even more important for extending sustainability reporting to small and medium enterprises, for which the cost of external assurance could be prohibitive. Phasing in auditing requirements over a longer time horizon allows for more evenly spread use of resources, instead of very resource-intense focus over the next couple of years.

Making assurance voluntary in the initial stages also encourages sustainability competition, where those seeking to be viewed as advanced or leaders can differentiate themselves through assurance.

In subsequent phases, external assurance should become the norm, but we note that it will take time for capability and availability of assurers to develop. We support assurance being required for scope 1 and 2 in the first phase of required assurance, with scope 3 not auditable in that phase.

We agree that a requirement for companies to disclose in the sustainability report that internal or external assurance has been conducted is a reasonable one. We believe disclosure should focus on explaining the approach that has been taken to identify potential deficiencies and whether a remediation plan has been developed.

There are still considerable challenges in terms of capabilities and methodologies for providing assurance, but we anticipate more and more companies will provide limited or reasonable assurance for parts or all of their climate disclosures. This is helpful to investors. We also welcome the work of the International Auditing and Assurance Standards Board (IAASB) to develop common standards for assurance on sustainability reporting, which will be finalised in late 2024-early 2025. Treasury, regulators and the Auditing and Assurance Standards Board (AUASB) should be engaged with this process so that it can be introduced and adapted into Australia.

Recommendation 8: Assurance requirements

- In the first phase, external assurance should not be mandatory but there should be board sign off of reports. We expect third-party assurance to become the norm over time, but it should be recognised that capability and availability of assurers will take time to develop.
- Companies should be required to disclose in the sustainability report that internal or external assurance has been conducted. Disclosure should explain the approach that has been taken to identify potential deficiencies and whether a remediation plan has been developed.

Question 9: What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

As stated above, we support globally consistent reporting frameworks aligned with the ISSB. Given the increasing global support for the GHG Protocol as the reporting standard for GHG emissions, we encourage Australia to align with this framework. The increased focus on Scope 3 emissions for the financial services sector and having more concrete metrics and impact reporting requirements would support greater consistency and comparability.

As investors, we believe it is important to be able to evaluate companies' assessments of their emissions across their value chain, or Scope 3 emissions, as such emissions could affect the economic viability of issuers' business models. Climate risk and the economic opportunities from the transition are a top concern for our clients and a rapidly growing share of them have already committed to net-zero aligned portfolios. As investors, we use Scope 3 emissions as a proxy metric (among others) for the degree of exposure companies have to carbon-intensive business models and technologies.

Scope 3 disclosure provides important information for investors to assess transition risks, but we acknowledge the practical difficulties and costs involved in estimating the number for companies. We view Scope 3 emissions differently from Scope 1 and 2, given the methodological complexity and lack of direct control by companies over the requisite data to assess Scope 3 emissions. In our members' experience as investors, these issues, and the usefulness of Scope 3 disclosures more generally, vary significantly across industries and the 15 categories of Scope 3 emissions.

Not all companies can provide scope 3 information in a meaningful and comparable way. For example, it is not clear that everyone would follow the same methodology to estimate metrics such as the proportion of assets and/or operating, investing, or financing activities materially exposed to transition risks. If the methodology is not similar, the results will not be entirely comparable. Users need to understand the limitations in regard to both estimation and comparability, and must make efforts to interpret the information accordingly.

For asset managers, scope 3 is the largest component of their carbon footprint. For reporting to be meaningful, the information reported has to be accurate. However, Scope 3 reporting methodologies across portfolio holdings are still in preliminary development and do not cover all asset classes. For financed and facilitated emissions, we note that data, controls and methodologies for computing GHG emissions associated with some asset classes are still emerging, and flexibility will be needed as this area develops. For asset managers considering portfolio emissions, understanding the scope 1, 2 and 3 emissions of portfolio companies is key, and while the significant share of unreported values can be estimated, the methods to that estimation can vary significantly across data providers and other users, leading to inconsistent reporting. We note that, in its latest communications[9], the ISSB acknowledges that companies need help, as best practice continues to develop, in measuring Scope 3 GHG emissions and that relief and guidance are necessary. We urge regulators to consider such appropriate relief and allow for sufficient time to ensure companies have the opportunity to develop the resources necessary to comply with regulatory requirements, industry standards and best practices as they emerge.

[9] https://www.ifrs.org/news-and-events/news/2022/12/issb-announces-guidance-and-reliefs-to-support-scope-3-ghg-emiss/

We do not believe the purpose of Scope 3 disclosure requirements should be to push publicly traded companies into the role of enforcing emission reduction targets outside of their control. Over time, we believe that Scope 3 emissions will become a routine part of material risk disclosure for many companies as methodologies pertaining to the measurement of GHG emissions improve.

For the first phase, we propose that Scope 3 emissions be required to be disclosed on an 'if not, why not' basis, having regard to materiality. However, even if scope 3 emissions are not initially mandated, they should be encouraged and supported.

Government should consider requiring that entities that that report under the new climate related financial disclosures should also upload the data to the National Greenhouse and Energy Reporting system, which allows for easier data consumption given all NGER data is downloadable in csv format.

Recommendation 9: Scope 3 emissions

- For the first phase, we propose that Scope 3 emissions be required to be disclosed on an 'if not, why not' basis, having regard to materiality. However, even if scope 3 emissions are not initially mandated, they should be encouraged and supported.
- Government should consider requiring that entities that that report under the new climate related financial disclosures should also upload the data to the National Greenhouse and Energy Reporting system.

Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

We support a common baseline of metrics and targets, including industry-specific and sector-specific metrics, based on the TCFD, SASB and the ISSB forthcoming climate standard.

Industry and sector specific metrics and targets are central to achieving consistent and comparable data cross entities, which helps investors to allocate capital to the best performing companies in a particular sector. It is appropriate for the Australian Government to be developing metrics and targets for the Australian context. The Government should develop clearly defined, consistent metrics which allow for better comparability and reduce barriers of reporting for companies.

Recommendation 10: Metrics

- The Government should develop clearly defined, consistent metrics including industry-specific and sector-specific metrics, aligned with the TCFD, SASB and the ISSB forthcoming climate standard.

Question 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?

Climate change is a key factor in many companies' long-term financial prospects. As such, as long-term investors our members are interested in understanding how companies may be impacted by material climate-related risks and opportunities and how these factors are considered within strategy in a manner consistent with the company's business model and sector. Specifically, investors look for companies to disclose strategies they have in place that mitigate and are resilient to any material risks to their long-term business model associated with a range of climate-related scenarios, including a scenario in which global warming is limited to well below 2°C, considering global ambitions to achieve a limit of 1.5°C.

We submit that the disclosure of transition plans should be part of disclosure requirements for companies as they help investors and other stakeholders assess the likelihood that the company delivers on its targets and commitments and serve to monitor progress over time. The requirement to have a transition plan should apply to large public and private companies and large financial institutions on a comply and explain basis such as in the UK. Transition plans inform the investment decisions of investors, help them to assess their own portfolio risk and alignment with their own climate-related targets, and inform their engagement and stewardship priorities with investee companies. Transition plans could be disclosed every three years in line with the UK Transition Plan Taskforce recommendations, with annual disclosures of updated performance against those plans.

Such plans should include the strategy to meet climate-related targets, actions undertaken or planned, quantifying impacts, science based quantitative targets (ie aligned with scienced based scenarios such as a 1.5 degree Paris-aligned pathway) for scope 1, 2 and 3 emissions, relevant metrics such capital allocation and expenditure and whether it aligns with targets, share of green revenues or output. Companies should also be required to disclose their methodology and calculations in producing their transition plan, including disclosure of data and limitations. These transition plans could in subsequent phases be subject to external verification.

Treasury should look at the UK's Transition Plan Taskforce, which was set up to develop best practice standards, building on the ISSB standards, for private sector climate transition plans.

Companies should also disclose separately any use of greenhouse gas emissions offsets and be transparent on how they intend to use those to meet their published targets. They should provide transparency on the types of carbon offsets they intend to use.

Recommendation 11: Publication of transition plans and use of offsets

- The requirement to publish a transition plan should apply to large public and private companies and large financial institutions on a comply or explain basis. Transition plans could be disclosed every three years with annual disclosures of updated performance against those plans.
- Companies should disclose separately any use of greenhouse gas emissions offsets and be transparent on how they intend to use those to meet their published targets. They should provide transparency on the types of carbon offsets they intend to use.

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

We support a phased approach for disclosure requirements, given the need for flexibility in areas where the relevant data, methodologies and controls are still emerging and to give time for companies to implement their processes.

Regarding assurance, we anticipate more companies will provide climate-related disclosure assurance in the coming years. At first instance, assurance should not be mandated. Future requirements in the area could be envisaged, but sufficient time should be allowed for assurance providers to adjust and develop capabilities.

An approach to phasing in particular disclosure requirements and/or assurance of those requirement could be to phase them in based on their industry classification, given the level of exposure to climate risks vary by industry. We believe any industries suggested for priority by a finalised Australian sustainable finance taxonomy could be the most appropriate basis for doing this given the local context it provides.

Recommendation 12: Phased approach for specific disclosure requirements and assurance requirements

- We support a phased approach for disclosure requirements and assurance requirements, to allow data, methodologies and capabilities to improve. A phased approach to particular detailed reporting requirements could be based on industry classification having regard to exposure to climate risk.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

13.1 How and by whom might any data gaps be addressed?

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

Ensuring that high-quality, easily operable climate-related data provided by independent sources are available to reporting entities is extremely important to enable climate-related disclosures. The value of climate-related disclosures to investors is dependent on the quality and reliability of the underlying data used to make such disclosures. Further, ensuring that higher quality data with complementary structures are available to companies will reduce the technical burden on those issuers associated with making disclosures. Higher quality data sources and consistency in structure are also likely to facilitate data-literacy for the people consuming those disclosures, increasing confidence, value and accountability.

We support Treasury and regulators working with other work to develop data and scenarios. Treasury and regulators should also work with the ISSB on industry metrics and develop domestic guidance for relevant sectors.

The Financial Stability Board identified data gaps in their report 'The Availability of Data with Which to Monitor and Assess Climate-Related Risks to Financial Stability'. In particular, we emphasise the need for companies to have access to high quality resources for the following data:

- Historical data and future projections for acute physical climate change risks, particularly the frequency and severity of weather events, by type and location.
- Historical data and future projections of chronic physical climate change risks by location, such as average temperature, rainfall and sea-level.
- Historical and current carbon emissions and sequestrations data by type and location, particularly where data would facilitate the determination of Scope 3 emissions.

As companies will have a mix of Australian-based and globally distributed assets and operations, it would be ideal for such data resources to have global coverage. However, given that sufficient coordination in standards, regulation or technology may not yet exist to immediately enable this, we recommend that:

- Data resources supporting disclosures related to Australian-based assets and operations be established as a priority. Importantly, data requirements and disclosures specific to the Australian context should aim to have a similar or complementary structure to globally relevant data requirements and disclosures. This would help ensure that an undue technical burden is not created for entities who may have to integrate disclosure requirements in multiple jurisdictions.
- For globally distributed assets and operations, companies should be enabled to estimate climate-related risks by statistical inference as a second-line method before declaring an insufficiency of available data. For example, global statistical models of geospatial carbon emissions may be used by entities to estimate emissions along their supply chain or global geospatial projections of rainfall may be used to evaluate climate-risks for overseas landed assets under various emissions scenarios. This would enable entities to make more extensive climate-related disclosures in cases of data scarcity, producing less information gaps for investors. Importantly, disclosures based on data resources of lower reliability should be identified as such as part of the disclosures.

As highlighted above, consistent private and public market disclosure standards are essential, to avoid creating a data gap that forces public companies to step into the role of policing their value chain partners and clients through negotiating the implementation and monitoring of the data they need for their own disclosures, such as private companies' GHG emissions reporting.

Recommendation 13: Data gaps

- We support Treasury and regulators cooperating with other work to develop data and scenarios. Treasury and regulators should also work with the ISSB on industry metrics and develop domestic guidance for relevant sectors.
- We emphasise the need for companies to have access to high quality resources for the following data:
    - Historical data and future projections for acute physical climate change risks, particularly the frequency and severity of weather events, by type and location.
    - Historical data and future projections of chronic physical climate change risks by location, such as average temperature, rainfall and sea-level.

- Historical and current carbon emissions and sequestrations data by type and location, particularly where data would facilitate the determination of Scope 3 emissions.

Question 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?

On a particular entity providing the information and governance, the entity that is responsible for the financial related disclosures should be the same authority that governs ESG related disclosures. This also reflects the interrelatedness of financial and ESG disclosures.

Scenario analysis is an important tool to help understand the potential effects of change on companies' business models, financial performance, and position. The ISSB standards will require that scenario analysis be disclosed. Investors need to understand how the scenarios were selected, including whether the entity has used a scenario aligned with the latest international agreement on climate change, what the main sources of uncertainty are, and the source(s) of the input assumptions in the analysis such as the impact of climate on costs, economic growth, the effect of government policy etc.

However, we note that the quality of scenario analysis across Australian companies varies. Many companies are not stress testing their operations against the 1.5 degree scenario and other scenarios, and companies with high transition risks are not disclosing scenario analysis.

Entities should be encouraged to undertake scenario analysis based on an order transition to 1.5 degrees, an abrupt of relayed transition of 1.5 or 2, or no transition at 4 degrees in line with the Network for Greening the Financial System scenarios, but with sufficient flexibility to build capability overtime and having regard to resourcing and data availability. The Government should work to develop and provide guidance on applying scenario analysis, including key assumptions to be used, as part of the mandatory regime. Again, it should be appreciated that it will take time for specialist service providers to emerge and to develop more robust quantitative methodologies for scenario analysis.

Recommendation 14: Responsible reporting entity and scenario analysis

- On a particular entity providing the information and governance, the entity that is responsible for the financial related disclosures should be the same authority that governs ESG related disclosures.
- Entities should be encouraged to undertake scenario analysis based on an order transition to 1.5 degrees, an abrupt or delayed transition of 1.5 or 2, or no transition at 4 degrees in line with the Network for Greening the Financial System scenarios, but with sufficient flexibility to build capability overtime and having regard to resourcing and data availability. The Government should work to develop and provide guidance on applying scenario analysis, including key assumptions to be used, as part of the mandatory regime.

Question 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?

As we have argued above, the liability attached to climate-related disclosure should be commensurate with the evolving nature of that disclosure to encourage rather than discourage higher-quality disclosure. While the current Australian requirement of 'reasonable grounds' under section 769C of the *Corporations Act 2001* provides some confidence that future looking statements are made on a reliable basis, the requirement would present a serious limitation on the making of statements about climate risks and opportunities given the inherent uncertainty and difficulty in making forward looking statements and the collecting and calculating of climate data from third parties and counterparties. Any requirement should ensure that it does not place a fetter on or provide an excuse for reporting entities not to make required climate disclosures.

We submit that reporting entities be required to exercise 'reasonable steps' or 'best endeavours' to gather data, review their operations and report on the results of their review. To the extent that the results of the review are based on assumptions, those assumptions, and the source of information from which any estimates are made should be disclosed. This approach would require that reasonable efforts be made to review, assess and report on climate risks and opportunities rather than focus on the grounds.

Recommendation 15: Liability and reasonable steps or best endeavours

- Reporting entities be required to exercise 'reasonable steps' or 'best endeavours' to gather data, review their operations and report on the results of their review.

Question 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?

This will require further detailed analysis once a direction for the framework is established.

Question 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?

Climate disclosure is where the greatest urgency lies and where the disclosure frameworks and methodologies are more mature. This is where the focus should be until climate risk reporting is well and truly established.

We note there is a growing interest in the realm of sustainability reporting that relates to the setting and reporting of social impacts and objectives. In particular, there is a rising trend of consumers and decision-makers basing their choices on social impacts and objectives, such as those under the United Nations Sustainable Development Goals, which demands greater oversight of more immediate positive impacts (noting the long-term nature of climate change/action).

Climate-related disclosure is just one aspect of sustainability related financial information.

We encourage alignment with the global sustainability and industry-specific standards being developed by the ISSB. We also encourage the Government to monitor and review developments in international reporting requirements and consider their suitability for Australian markets at the appropriate time.

Recommendation 16: Non-climate related sustainability reporting

- We see climate-related financial disclosure as the priority. We note the growing interest and the development of social and broader environmental-related sustainability reporting. We encourage the government to monitor and review international developments and consider their suitability for the Australian market at the appropriate time.

Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

Given the volume of information to be provided under future climate and other sustainability-reporting, and their different uses in investment processes, ratings etc, digital reporting should be considered from the outset. Digital reporting would be beneficial from a data users perspective. We encourage coordination in the area at global levels and note the work taking place under the Net Zero Public Utility (NZDPU), to work towards the digitisation of core climate data.

Recommendation 17: Digital reporting

- Digital reporting should be considered from the outset as it would be beneficial for investors as data users.

Question 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?

We agree with the proposal to confirm that the ASSB is the entity responsible for developing, making and monitoring climate and sustainability risk disclosure standards. This would prevent fragmentation of Australia's financial reporting framework, avoid resourcing inefficiencies and recognise that climate change and financial impacts are interrelated. A single entity would ensure a level of consistency across ESG and financial reporting.

Recommendation 18: Structures to ensure framework is fit for purpose

- We would not support the establishment of new separate boards which risks decoupling climate risk from and financial impacts.