

10 February 2023

Corporations Branch  
Market Conduct Division  
Treasury  
Langton Cres  
Parkes ACT 2600

By email: [climatereportingconsultation@treasury.gov.au](mailto:climatereportingconsultation@treasury.gov.au)

Dear Sir/Madam,

## Response to Climate-related Financial Disclosure Consultation Paper

We welcome the opportunity to provide our views on Treasury's *Climate-related Financial Disclosure Consultation Paper*.

Nexia Australia Pty Ltd represents the six independent chartered accounting firms comprising the Nexia Australia network with 80 partners servicing clients from small to medium enterprises, large private companies, not-for-profit entities, subsidiaries of international companies, and listed public companies.

We make the following limited comments on the Consultation Paper. The following paragraph numbers correspond to the questions in the Consultation Paper.

*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 Australian Accounting Standards Board ('AASB') has not yet published a project plan to address Climate-related Financial Reporting or Sustainability Reporting<sup>1</sup>.

General practice is for the AASB to set the mandatory application date of Accounting Standards at least two years from its issue date to enable preparers sufficient time to implement any new requirements.

In our opinion, it is inappropriate to set an implementation date of 2024-25 before the extent of the proposed disclosure requirements are known. We recommend a period of at least two to three years after the date of issue of the final requirements and the commencement of the reporting period to which those disclosures first mandatorily apply.

This proposed transition period is consistent with the AASB and AUASB joint submission on ISSB Exposure Drafts on [Draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [Draft] IFRS S2 *Climate-related Disclosures*<sup>2</sup>.

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*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?*

- 3.1 Our preference is to see the nature and scope of the final climate-related reporting requirements issued by the AASB before expressing a view on which entities such disclosures should mandatorily apply.

Notwithstanding, an appropriate reporting threshold may be listed entities with annual consolidated revenue of more than \$100 million. This proposed size threshold would be broadly consistent with that in the *Modern Slavery Act 2018* but limited to listed entities.

We do not believe that climate disclosures should be required for all listed entities. We see no compelling reason to mandate unlisted financial institutions or other entities within the scope of the proposals.

In our opinion, the cost of preparing mandatory climate disclosures would outweigh the benefits of doing so for smaller listed entities, including exploration entities, and other unlisted entities with a limited number of stakeholders and users.

- 3.2 We disagree with any proposal to extend mandatory climate-related reporting to other types of entities, whether those required to prepare an annual report in accordance with the *Corporations Act 2001*, *Australian Charities and Not-for-profits Commission Act 2012* or any other Commonwealth legislation.

There is no compelling rationale to require unlisted entities to mandatorily prepare and report audited or unaudited climate related disclosures. In our opinion, the cost of preparing climate disclosures would add an unreasonable regulatory cost on those entities, especially if those disclosures were also required to be subject to assurance. If those entities wish to voluntarily present climate-related disclosures, they may do so.

*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?*

We disagree with the inclusion of climate reporting as part of the annual report. Our preference is for any climate-related information to be reported outside the annual report.

Chapter 2M.3 of the *Corporations Act 2001* sets out the deadlines for the preparation and lodgment of an annual report. We are concerned that requiring significant additional non-financial information to be prepared and lodged as part of an entity's annual report will:

- i) Impose additional burden on financial report preparers by requiring them to provide climate-related information at the same time as resources are dedicated to the preparation of financial information;
- ii) Impose additional burden on auditors who are required to perform additional procedures on potentially significant climate-related information included as part of the annual report in accordance with ASA 720 *The Auditor's Responsibilities Relating to Other Information* at the same time as resources are dedicated to the audit of the financial information;
- iii) Make it necessary for any climate-related information subject to assurance requirements to be prepared and audited before the entity can finalise and lodge its annual report, which may delay an entity's planned finalisation and lodgment of its annual report; and

- iv) Audit firms, currently under significant industry-wide resourcing constraints, will be subject to further resourcing pressure if the climate-related information becomes subject to assurance.

*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?*

Due to the difficulties in identifying and measuring Scope 3 emissions in the specific circumstances of all entities and industry sectors, we disagree with inclusion of mandatory reporting of Scope 3 emissions.

In our opinion, the above recommendations will balance the objective of reporting key climate disclosures for those larger listed entities while not imposing an unreasonable regulatory and cost burden across the broader Australian business community.

Should you wish to discuss any aspects of our submission, please contact [REDACTED] at [REDACTED]

Yours faithfully

**Nexia Australia Pty Ltd**

*Nexia Australia*

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<sup>1</sup> <https://www.aasb.gov.au/media/weailmn3/workprogramdecember2022.pdf>

<sup>2</sup> [https://www.aasb.gov.au/admin/file/content106/c2/ISSB\\_submission\\_IFRS\\_S1\\_and\\_S2a\\_1658989276306.pdf](https://www.aasb.gov.au/admin/file/content106/c2/ISSB_submission_IFRS_S1_and_S2a_1658989276306.pdf)