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Market Conduct Division
The Treasury
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Submission via email: climatereportingconsultation@treasury.gov.au

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Climate-related financial disclosure, December 2022

Rio Tinto welcomes the opportunity to make a submission to the Treasury on the Climate-related financial disclosure consultation paper (**Consultation Paper**).

Climate risks and opportunities have formed part of our strategic thinking for over two decades.

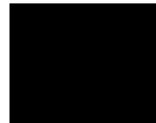
We are a signatory to the Paris Pledge for Action in 2015, and supported the outcome agreed by 195 governments at the international climate negotiations at COP21. We signed the International Mining & Minerals Council (**ICMM**) Climate Change Position statement in 2021 which includes commitments to accelerate action and reduce to net-zero by 2050 or sooner.

We also recognise the importance of keeping our investors informed about how climate-related matters affect our business. Our annual climate change reports are produced consistent with the Task Force on Climate Related Financial Disclosures (**TCFD**) framework, and we provide detailed information on our greenhouse gas emissions, Climate Action Plan, our progress on abatement, and how we are preparing our business for a low-carbon future.

Therefore, in principle, we support the introduction of mandatory climate reporting and assurance requirements as a logical progression in Australia's journey towards a low-carbon economy. A well-designed climate reporting framework will enhance the competitiveness of Australian businesses in the global market, help to attract international investment and accelerate Australian economy's transition. Much care and work will be needed to ensure that Australia's climate report framework will be fit-for-purpose. But we firmly believe this is a necessary and responsible course of action to take, and we applaud the Government's decision to embark on this consultation process.

Our specific responses to the questions in the Consultation Paper are set out in the Appendix of this Submission. Rio Tinto looks forward to engaging further with the Treasury on the content of the Consultation Paper. We would welcome the opportunity to discuss this submission with you further. In the interim, if you have any questions, please contact [REDACTED]

Yours sincerely



[REDACTED]
Chief Executive, Australia

Appendix: Further detail on specific matters from the Consultation Paper

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?

Rio Tinto supported the TCFD recommendations and has been reporting under this framework since 2018. Further, as a dual listed company, Rio Tinto is required to comply with the climate-related disclosures in the UK Companies Act (which are aligned with the TCFD recommendations), which came into operation on 6 April 2022.

A significant number of Australian entities already publish annual or sustainability reports that align with the TCFD recommendations, and an even greater number of entities will at least have some familiarity with the TCFD recommendations.

Therefore, a climate reporting regime which is closely aligned with the principles-based TCFD recommendations (for example, the UK regime) will generate less “education and compliance burden” on Australian entities than a novel bespoke Australian climate-related disclosure regime.

Further, the International Sustainability Standards Board (ISSB) has been developing climate-related disclosure standards with input from international stakeholders, including Australian Accounting Standards Board (AASB) and the Council of Financial Regulators (CFR). Therefore, it would make sense to leverage this work and align closely with the ISSB’s climate-related disclosures when they are finalised.

For the foreseeable future, climate-related disclosure regimes around the world will be in a state of flux. It would be sensible for Australia to support international convergence of climate-related disclosure than divergence.

Furthermore, aligning with an existing international reporting approach would afford greater opportunity for Australia’s reporting regime to evolve in line with international reporting expectations. This could be a useful feature as the international community finds ways to enhance climate-related disclosure approaches.

Finally, adopting climate reporting requirements that are aligned with international standards would ensure that climate reporting by Australian entities can be easily understood by international investors. This will in turn enhance Australian entities’ competitiveness in the international capital market.

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

If Australia were to develop its own bespoke climate-related reporting requirements, it could be tailored to the Australian context.

However, having reporting requirements that are specific to Australia will involve certain unintended negative consequences such as:

- Creating a separate reporting framework would unnecessarily raise the cost of climate reporting without necessarily delivering much value for Australia.
- Australia-specific reporting regime will increase fragmentation of international climate reporting regimes.
- Australia-specific reporting regime will have a lower degree of compatibility or comparability with those of Australia's key trading partners.
- Climate reporting produced by Australian entities may be of limited value to international investors. This may erode competitiveness of Australian entities in international capital markets.
- Australia-specific reporting regime may operate as a barrier to entry into the Australian market for multi-national businesses who already have climate reporting obligations in other jurisdictions.

It would be more efficient to align Australia's climate reporting framework with the TCFD as closely as possible. Doing so would also enhance compatibility and comparability of Australian climate disclosures to those of international trading partners.

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

Rio Tinto considers that the first report for initially covered entities being financial year 2024-25 could be a feasible target, provided that the climate disclosure requirements are finalised during 2023 so that initially covered entities can prepare the necessary internal systems and processes by the start of financial year 2024-25. The adoption pattern should ideally be aligned internationally.

3. *To which entities should mandatory climate disclosures apply initially?*

Rio Tinto invites the Australian Government to consider the following points:

- (1) How should the Australian climate reporting requirements apply to businesses that also have climate reporting requirements in other jurisdictions?

In this case, it would be more efficient for businesses to rely on one set of climate disclosure rather than preparing multiple sets of climate disclosure to fulfil reporting requirements in multiple jurisdictions.

This outcome will be more easily achieved if Australia's climate reporting regime has a high degree of alignment with an existing international climate reporting baseline.

Further, it is submitted that in such multi-jurisdictional climate reporting, covered entities should not be required to provide jurisdictional or regional breakdown of greenhouse gas (GHG) emissions. This would not add value to investors and nor does it make sense from a global climate action perspective.

To the extent it is important to understand GHG emissions generated within Australian territory, such a requirement can be satisfied by other existing reporting mechanisms (e.g. Emissions and Energy Reporting System under the *National Greenhouse and Energy Reporting Act 2007* (Cth) (**NGER Act**)).

- (2) How should the Australian climate reporting requirements apply to businesses that comprise multiple entities?

Requiring each covered entity in a corporate group to make their own climate disclosure may be unduly burdensome without a corresponding benefit. Australia's climate reporting regime should allow businesses that have the corporate group structure to meet reporting requirements by filing a consolidated report, not on an individual or jurisdictional basis. For Rio Tinto Limited, it would mean that we report under our dual-listed companies structure.

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

One of the challenges with climate reporting is that there are parallel developments initiated by international standard setters and governments. Consequently, there is a lack of consistency and comparability between different climate disclosure frameworks. For the foreseeable future, it appears that global climate disclosure framework development will continue to be in a divergence phase.

In principle, Rio Tinto supports international convergence rather than divergence of climate reporting across jurisdictions. We consider it would increase effectiveness of global climate action for standard setters and governments to establish a set of standards that apply as consistently and broadly as possible.

The ISSB is developing a global baseline to elevate sustainability disclosure to the same level of financial standards that companies use around the world to communicate with investors. It issued two Exposure Drafts for comments, one on climate and one on general sustainability topics, with the aim of publishing the final standards in the first half of 2023. The ISSB Exposure Drafts build on the disclosure requirements of the TCFD and the Sustainability Accounting Standards Board (**SASB**) widely used globally, incorporating them but adding extra layers of granularity to facilitate more transparent and comparable information.

Therefore, it is reasonable to expect that the ISSB climate-reporting standards will provide for a fit-for-purpose baseline, and it would make sense for Australia to adopt a climate reporting regime aligned to that of the ISSB.

5. What are the key considerations that should inform the design of the new regulatory framework in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

We have listed below certain design issues that should be considered.

- Australia should avoid compounding the currently developing a multiplicity of climate reporting regimes across different jurisdictions.
- To the extent possible, Australia should align with an international baseline which has or is likely to be adopted most broadly.
- Australia should avoid creating additional regulatory or standards bodies. To the extent possible, Australia should augment the resources and capabilities of existing regulatory and standards bodies to oversee climate disclosure and assurance.

- We consider it is appropriate for the AASB and AUASB (with appropriate augmentation of resources and capabilities) to be the standard setting bodies for climate disclosure and assurance requirements.
- Climate disclosure requirements are undergoing rapid development in multiple jurisdictions. Over time, there is likely to be further evolution and convergence of climate disclosure requirements. Therefore, Australia's climate disclosure framework should have built-in flexibility to enable Australia to adapt to evolving international climate reporting best practice.
- At present, there are significant challenges to accurate reporting/estimation of Scope 3 emissions. Therefore, Scope 3 reporting should be approached in a different way to Scope 1 and Scope 2 emissions. There should be clear guidance on how the covered entities can fulfil Scope 3 emissions reporting requirements.
- Between the two options suggested in the Consultation Paper, we consider the second option is preferable as it allows Australia to adopt standards and guidance developed by others, which will help to increase consistency of climate reporting internationally.
- Consideration should be given to the reporting period for greenhouse gas emissions – e.g. Should emissions reporting period be aligned to Australian annual reporting cycle (July-June) or calendar year cycle (January-December). It may be worthwhile considering a flexible mechanism so the covered entities can select the reporting period for GHG emissions which best suit their business.

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?

Given the importance of climate-related disclosures to investors and other stakeholders, it would be appropriate for climate disclosure to be incorporated into annual reports.

Requiring climate disclosures as part of annual reporting cycle will help to maintain momentum for action on climate change.

Having said that, many of Australia's covered entities will likely have investors and stakeholders in multiple jurisdictions. Therefore, to the extent Australia's climate disclosure requirements differ from the global baseline, it would be sensible to allow the covered entities to meet Australian climate reporting requirements by filing a supplementary document to the annual report.

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)?

Materiality as it relates to climate disclosure continues to be a subject matter in a state of flux. As noted in the Consultation Paper, the ISSB recently indicated that the ISSB will use the same definition of materiality as in IFRS accounting standards.

Fundamentally, materiality as it relates to climate risks and opportunities should be the same for other risks and opportunities for the covered entities.

In addition, when considering the concept of materiality for Australia's climate reporting regime, it would be worth considering that Australia's covered entities will benefit from greater comparability of their climate disclosures in international markets. It will enable Australian covered entities to compete

on a more level playing field when it comes to attracting international investors who are focussed on climate change issues.

In view of this, it would be sensible for Australia to align the concept of materiality with international baseline (such as that being developed by the ISSB). We note that the ISSB is considering additional sustainability-related guidance on materiality.

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 independent and quality management standards?*

When compared to traditional financial reporting, climate disclosure encompasses a more diverse range of matters not all of which are capable of being subjected to reasonable or limited assurance.

Matters such as Scope 1 and Scope 2 emissions are capable of being subject to reasonable assurance. In contrast, Scope 3 emissions are far more complex and there is a paucity of readily measurable and auditable data points. Therefore, it is difficult to see Scope 3 going beyond the limited assurance standard. Further, other aspects of climate disclosures involve future projections or qualitative matters. Such disclosures currently do have set standards to assure against and they readily lend themselves for assurance.

As an integral part of a functional climate disclosure regime, care needs to be taken to ensure there is a set of clear and robust assurance standards. Further, assurance standards that are aligned with international baseline will enhance international comparability of Australian climate disclosures.

While we do not believe it is necessary for climate disclosure auditors to be a financial auditor, we consider climate disclosure auditors should be subject to independence and quality management standards. Also, there should not be any prohibition against an auditor performing financial and climate disclosure auditing for a covered entity.

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

Currently, Australian companies are mandated to report their GHG emissions under the NGER Act. The Corporate Emissions Reduction Transparency (**CERT**) has been set up as a voluntary climate-related disclosure initiative. In addition, a significant number of Australian businesses publish TCFD-aligned reports.

Reporting under the NGER Act is well-established and, together with the safeguard mechanism, forms a crucial framework supporting Australia's climate action. However, it is not an all-inclusive framework. For example, it does not include land clearance and rehabilitation and there is no allowance for offsets or market-based Scope 2 reporting. The reporting is done on a corporation basis, not an economic basis (i.e. where only owned equity owned percentage would be reported). CERT, on other hand, is a voluntary initiative and its reporting approach differs from international emissions reporting protocols. To avoid undue reporting burden and duplication, it is reasonable to consider phasing out CERT reporting so covered entities can focus on mandatory climate-related reporting.

To enable the covered entities to make climate disclosures that are valuable not only to Australian stakeholders but international stakeholders, Australia's climate disclosure framework should not be unduly prescriptive. Rather, the covered entities should be allowed to satisfy Australian reporting requirements by using recognised international reporting approaches.

These are additional matters to consider when designing Australian emissions reporting framework:

- Forced alignment with international standards would create a lot of administrative burden.
- The reporting framework should allow flexibility for the covered entities to choose between reporting on economic interest basis and controlling corporation basis. In general, reporting on an economic interest basis would provide a fairer reflection of emissions accountability.
- Currently, Scope 2 emissions reporting is location-based in Australia, while internationally would require both location-based and market-based reporting. This would require equivalent state and territory-based electricity residual mix factors to be published.
- Offsets reporting and other areas currently not covered by NGER could be introduced in alignment with the ISSB where reporting is triggered by materiality.
- We are supportive of Scope 3 emissions reporting, but in a constrained format as proposed by the ISSB with acknowledgment that Scope 1 and 2 reporting regime should be different to that of Scope 3 reporting (also refer to the assurance level discussed in point 8 above). For example, at this stage there is little value in compelling covered entities to bound by Scope 3 emissions targets.

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

To ensure comparability between covered entities, it would be sensible to have a common baseline of metrics (including industry-specific metrics). Further, metrics based on an international baseline will entail the additional benefit of making Australian climate disclosures internationally comparable.

The Australian Government should consider providing clear guidance on matters such as the baseline year for emissions, and intensity metrics.

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?

Disclosure of how companies manage climate related risks is already part of the TCFD-aligned climate reporting and is proposed to be reflected in the climate reporting standards being developed by the ISSB. Therefore, it would make sense for Australia to take a consistent approach to the international climate reporting practice.

Further, due care should be taken to avoid unintended consequences such as these.

- The climate reporting framework should not discourage covered entities from announcing ambitious and aspirational targets for the fear of missing the target and facing potential liabilities.
- The covered entities should not be discouraged from using carbon credits and offsets. While the use of carbon credits and offsets are viewed with scepticism by some, the practical reality is that carbon credits and offsets will form an integral part of the world's climate action. It

would be more efficient and pragmatic to ensure that there is a robust and functioning carbon credits and offset market in Australia.

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

In principle, we support a sensible phasing in of the assurance requirements, subject to the following matters.

It is critical that clear and robust assurance standards are developed. This will enable covered entities to understand the level of rigour they need to apply with respect to internal checks and balances, data collection and reporting. It will also assist the investors and stakeholders to have confidence in the climate disclosures.

It is important to recognise the fundamental difference between data-based climate reporting (e.g. Scope 1 and Scope 2 emissions) and qualitative climate disclosures (e.g. scenario analysis). Therefore, certain aspects of climate disclosures will not be able to be assured.

Similarly, at present, there are significant data challenges to producing Scope 3 emissions disclosures that can satisfy the reasonable assurance standards. Until such data challenges can be overcome, Scope 3 emissions will not be able to exceed the limited assurance standards.

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

In climate disclosures, the most significant data challenge is in Scope 3 emissions. Because Australia has an open economy, there is a free flowing of goods (manufactured and primary produces) into Australia. Australia exports great volumes of natural resources and primary produces. This means there are significant Scope 3 emissions associated with Australia's economic activities. It also means that many of Australian businesses' suppliers and customers are foreign entities, and it is not possible to mandate sharing of data that will enable Australia's covered entities to measure or estimate Scope 3 emissions with a high degree of accuracy.

While it is sometimes possible to obtain emissions figures from overseas suppliers and customers, such data is generally of limited value in Scope 3 emissions calculations and our business has complexity of having thousands of different suppliers.

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?

At first glance, setting a default climate scenario for all covered entities (or a particular industry sector) to use in their climate reporting appears conceptually attractive. However, we believe that such an approach is likely to generate a sub-optimal outcome.

For one entity (presumably, a regulatory agency or a scientific institute) to mandate a default climate scenario and a coherent set of information for all covered entities would be technically challenging (if

not impossible). A default climate scenario and information set mandated by such an entity are likely to be inappropriate and of limited value to covered entities, investors and stakeholders.

Instead, it would be far more efficient to allow each covered entity to generate climate scenarios that are appropriate for its particular business, and let it explain and justify the climate scenarios to its investors and stakeholders. This is something many global businesses (including Australian businesses) have been doing for several years in their climate reporting.

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?

We have been producing climate reports since 2018. From this work, we experienced first-hand the particular challenges associated with forward-looking statements relating to climate disclosures.

It is important to recognise that there are some aspects of climate disclosures that are fundamentally different from traditional financial reporting.

In traditional financial reporting, the majority of disclosures relate to financial performance in the past. There are certain aspects of climate disclosures that relate to past matters with ascertainable data set (e.g. Scope 1 and Scope 2 emissions).

However, other aspects of climate disclosures are more challenging.

- Scope 3: There is a general paucity of reliable data to accurately measure or estimate Scope 3 emissions.
- Risks & Opportunities: These matters are future matters involving inherent uncertainty and myriad of factors outside the control of covered entities.
- Targets & goals: To a significant degree, the realisation of targets and goals rely on technological advancements as well as political, regulatory and economic environment.

If the disclosure framework were to apply the same exacting standards of financial reporting to disclosures matters such as these, it would set an insurmountable hurdle for covered entities to meet. Further, it would discourage covered entities from setting ambitious targets and goals, only stick to the most conservative of targets and goals, or abstain from setting them altogether. Such an outcome would hinder rather than support Australia's climate action.

We would welcome clear and robust additional guidance on the appropriate "reasonable grounds" requirements to apply to some of the more challenging aspects of climate disclosures which will encourage and enable covered entities to be more ambitious and transparent.

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?

We consider that climate disclosures are just as relevant to continuous disclosure and fundraising as matters that are currently required to be disclosed. Therefore, we would welcome clear regulatory

guidance on the type of disclosures and the level of detail required for the purposes of continuous disclosure and fundraising.

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?

While the importance of climate change cannot be overstated, it is important to acknowledge that sustainability is multifaceted. Already, international standard setters (e.g. ISSB) and governments (e.g. UK and the EU) are developing disclosure requirements that cover sustainability issues beyond climate. Therefore, it would be prudent for Australia to ensure that the design of climate disclosure framework can evolve to cover broader range of sustainability issues.

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

We consider that the priority should be given to designing a climate reporting framework which will enable Australia's covered entities to publish climate disclosures that will be meaningful to international investors and stakeholders.

Given the market's response to the introduction of digital financial reporting in 2010, it appears that digital reporting is not a priority for Australian businesses. This is not to say that digital reporting is something that should be precluded once and for all. However, for the time being, we see digital reporting as a secondary matter that could be revisited once the climate reporting framework has had a chance to be embedded in Australia.

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 offer the following points for the Australian Government's consideration.

- Generally, we consider it is preferable for there to be separation of oversight function and standard setting/implementing function.
- From the perspective of covered entities, there is efficiency in interacting with the existing agencies on financial and climate reporting matters as it would reduce multiplicity of regulatory/oversight/standard-setting bodies. Therefore, it would be preferable to expand the capabilities of AASB and AUASB to deal with climate reporting matters.
- We query whether Potential Structure 3 is in substance fundamentally different from Potential Structure 1. As the Consultation Paper states, New Zealand has adopted a model similar to Potential Structure 3. However, in the New Zealand model, the standard setting/implementing function has been delegated to NZASB and NZAUASB (equivalent to AASB and AUASB). Therefore, in substance, Potential Structure 3 could be said to be similar to Potential Structure 1.