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**Victorian
Chamber of Commerce
and Industry**

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Via online submission

Dear Climate Disclosure Unit, Market Conduct Division, Treasury,

The Victorian Chamber of Commerce and Industry welcomes the opportunity to provide a submission on the design and implementation of the Government's commitment to standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities in Australia.

As Victoria's leading business and industry body, each year the Victorian Chamber informs and services more than 65,000 members, customers, and clients across the State. Our work encompasses all industry sectors, spanning small, family, medium, and large-sized enterprises.

The position presented in this submission has been informed by our ongoing member consultation. We would be happy to meet to discuss this submission.

If you would like to discuss this in more detail, please contact [REDACTED], General Manager, Policy and Advocacy on [REDACTED] or [REDACTED].

Yours sincerely,

[REDACTED]

[REDACTED]
Chief Executive

Introduction

The Victorian Chamber of Commerce and Industry welcomes the opportunity to provide a submission on the design and implementation of climate-related financial disclosures in Australia. As Victoria's leading industry body, the Victorian Chamber is the voice of over 65,000 members, customers, and clients across the State. We represent all industries and businesses – small, family, medium, and large.

This submission contains 17 recommendations to the Australian Government on how to shape the climate-related financial disclosures framework in Australia, so that businesses can sufficiently prepare to meet these new reporting requirements.

The reporting of climate-related financial disclosures will impact the entire business community, particularly small, medium and family-sized enterprises (SMFEs). Businesses will need support and training to meet these new reporting requirements, as well as any additional social and governance reporting requirements in the future.

Businesses that are not currently reporting carbon emissions will experience increased initial costs to comply with these new reporting standards. It takes a significant amount of time and resources to gather all the data required to report on Scope 1, 2 and 3 emissions. Scope 3 emissions are particularly challenging to report and many businesses will need to modify their supply chains. This will be a lengthy and expensive exercise.

Australia will be more competitive if this new regulatory framework is consistent with that of international markets. Businesses that import and export goods and services to overseas jurisdictions with mandatory climate reporting (e.g., the European Union) will only be able to do so if they comply with international climate reporting standards. The new climate-related financial disclosures framework in Australia should comply with international standards to enable international trade. This will also attract more foreign investment in Australian products and services.

Non-compliance with international climate reporting standards would cripple our export industry and economy. This would also lead to increased reputational risks and have an adverse impact on the younger generation of workers. Millennials want to work for businesses that align with their values and ethics.¹ Actively reporting and reducing environmental impacts will improve Australia's reputation as a trading partner and help businesses to attract and retain staff.

Further, monitoring carbon emissions will equip businesses with the knowledge and tools to become more environmentally sustainable. Although the initial costs of purchasing new technologies and upgrading existing infrastructure remains high, once businesses become more energy-efficient their operating expenditure will decrease. Transitioning from coal power to renewable energy sources will also drive down energy costs.² This transition will result in more businesses meeting their ESG requirements, which for SMFEs will allow them to continue to participate in supply chains and provide goods and services to large companies.

This submission has been informed by extensive consultation with our members.

¹ Jenkin, M. (2015). Millennials want to work for employers committed to values and ethics. *The Guardian*. <<https://www.theguardian.com/sustainable-business/2015/may/05/millennials-employment-employers-values-ethics-jobs>>

² Victorian Chamber of Commerce and Industry. (2023). *Achieving a Net-Zero Economy: Roadmap for Victorian Businesses*, <<https://www.victorianchamber.com.au/policy-and-advocacy/initiatives/netzero>>

Recommendations

1. Adopt a phased approach when implementing climate disclosures, starting from the financial year 2024-25 for large listed and non-listed companies, to ensure businesses have time to prepare. SMFEs should be given three years' notice and have access to government support to meet reporting requirements.
2. Align climate reporting requirements with the International Sustainability Standards Board (ISSB) to facilitate trade and investment with global markets and investors.
3. Provide support and training to businesses to help them understand the new regulatory framework and meet reporting requirements.
4. Fund industry organisations to deliver educational and awareness programs so that businesses can easily comply with reporting requirements. This should include funding for business coaching.
5. Integrate climate reporting requirements into annual reports to avoid duplication of reporting.
6. Provide businesses with enough time to complete materiality assessments, including stakeholder engagement, to ensure they meet materiality requirements in climate reporting.
7. Ensure climate disclosures have independent assurance for large listed and unlisted companies.
8. Include Scope 1, 2 and 3 emissions in reporting requirements as well as percentage of renewable energy use.
9. For Scope 3 emissions reporting, seek to deepen businesses' reporting requirements in areas where they can bring about positive change, rather than broaden requirements to report on every aspect of their supply chains.
10. Publicly disclose the management of climate-related risks, including any offsets. Offsetting should only be used as a last resort.
11. Commence all disclosure requirements and assurance (where applicable) at the same time. However, allow some leniency in reporting Scope 3 emissions.
12. Seek climate-reporting data from overseas jurisdictions to help facilitate reporting of Scope 3 emissions in supply chains.
13. Ensure businesses provide appropriate statements of uncertainty and assumptions when reporting climate-related disclosures and apply penalties for intentional misrepresentation of data.
14. Combine all financial and climate reporting obligations into the one process to avoid duplication of reporting processes.
15. Provide standard reporting templates to limit the burden on businesses to report disclosures.
16. Gradually include social and governance parameters into climate reporting and give businesses as much notice as possible to sufficiently plan for these new reporting requirements.
17. Provide training and support to businesses on digital reporting.

Responses to key consultation questions

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 the long-term, there are more benefits than costs of Australia aligning with international practice on climate-related financial risk disclosures. If Australian companies want to trade internationally, the country must align with international standards. Otherwise, we risk being left behind.

The initial costs to businesses include increased administrative processes, capital expenditure, time to collect relevant data, and money to pay for assurance. However, once businesses comply with new reporting standards and become more energy-efficient, business operating expenditure will decrease.

The benefits of complying with international standards include increased import and export opportunities, improved competitiveness, and greater investment in Australian products and services.

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

Australia should adopt a phased approach when implementing climate disclosures. Companies need 12 months from the point of legislation to prepare for new reporting requirements. The earliest possible start date for the reporting of climate disclosures is the financial year 2024-25. Large listed and un-listed companies should start reporting first. SMFEs should be given three years to prepare and have access to government support to meet reporting requirements. The reporting requirements for SMFEs should also be condensed and kept to a minimum. This would ensure all businesses have time to prepare.

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

In the initial phase, mandatory climate disclosures should apply to any business with 200 employees and over. This includes government. Entities must be transparent in their reporting practices.

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

Australia should align climate reporting requirements with the International Sustainability Standards Board (ISSB). On top of environmental reporting, the ISSB is also expected to soon include social and governance parameters in their reporting standards. When this happens, Australia should assess the new parameters to ensure they are in line with our national legislated targets. Importantly, there should be no exception for certain industries (e.g., the gas and oil industry). Aligning with this global standard would facilitate trade and investment with international markets and investors.

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)?*

The new regulatory framework for climate-related disclosures should consider the complexity of implementing sustainability and climate change strategy. The time and resources required, as well as specific location of businesses, should all be taken into consideration. Planning is easy but implementation is challenging and costly. Businesses will need help understanding the new legislation, reporting requirements, and any penalties for non-compliance. This new regulatory framework must align with pre-existing frameworks and standards to make it as easy as possible for businesses to successfully comply.

Question 6: *Where should new climate reporting requirements be situated in relation to other periodic reporting requirements?*

Climate reporting requirements should be integrated into annual reports for listed entities. If they are not, and instead incorporated into a separate report, they risk being siloed and disregarded. For unlisted entities, climate reporting requirements should be included in standard reports. All businesses should be provided with a standard reporting template for consistency and ease of use.

Question 7: *What considerations should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality?*

Materiality judgements must consider the timeframe required to complete climate reporting. This includes stakeholder engagement to understand what environmental, social and governance information needs to be contained in the report. Again, Australia should align with existing materiality standards such as those of the ISSB. Enterprise value is useful to consider with reference to materiality.

Question 8: *What level of assurance should be required for climate disclosures, who should provide assurance, and should assurance providers be subject to independence and quality management standards?*

Climate disclosures should be required to have independent assurance for large companies. This would give businesses added credibility and a certain level of protection when going to market to avoid things like greenwashing. Scope 1 and 2 emissions, which are within businesses' control, should have stricter assurance than Scope 3 emissions. Assurers should be specialised in climate risks.

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?*

Emissions reporting requirements should include Scope 1, 2 and 3 emissions. For Scope 3 emissions, large businesses can help drive social change in SMFES. However, reporting Scope 3 emissions will likely be an extensive process and businesses may feel overwhelmed at the magnitude of this task.

Australia should seek to deepen businesses' reporting requirements in areas where they can bring about positive change, rather than broaden requirements to report on everything. So, if there is one part of a business' supply chain that it can change/monitor emissions (e.g., because the business is the main buyer of a particular supplier), then that should be the focus of their Scope 3 emissions reporting instead of reporting every aspect of their supply chain. Depth is better than breadth.

The NGER and TCFD frameworks are both useful and highly regarded. Australia should select one framework for businesses to comply with to ensure consistency and minimise duplication of reporting.

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

The common baseline metrics for climate disclosures should be gross greenhouse gas emissions. All businesses should report Scope 1, 2 and 3 emissions as well as their percentage of renewable energy use. Industry-specific metrics are not encouraged as they would be complex and hard to implement, especially for emerging industries or transnational companies located overseas that have less stringent operating standards.

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?*

All business entities must transparently disclose their management of climate-related risks, including any offsets. However, offsetting should be only used as a last resort in cases where entities can prove that all auditable resources have been exhausted to reduce climate-related risks.

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

All disclosure requirements and assurance, where applicable, should commence at the same time. This includes Scope 1, 2 and 3 emissions. However, leniency in reporting of Scope 3 emissions should be allowed in the initial 12 months of implementing these reporting requirements. The Australia Government must understand that supply chains will not change immediately. The costs businesses will endure to change their supply chains will likely be significant. Leniency in reporting will give businesses the time to plan any changes to their supply chains to meet Scope 3 emissions.

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

Businesses should be provided with educational training that raises awareness of climate reporting requirements. It will be difficult for businesses to implement these new requirements, particularly finding the time and resources to gather all required data. To do this effectively and efficiently, industry associations should be funded to develop and deliver appropriate programs, including mentoring programs, to support businesses to meet these reporting requirements.

In addition, it will be especially challenging to meet Scope 3 emissions reporting requirements. Complex supply chains overseas that may not align with Australian reporting standards will cause uncertainty for assurers. Businesses, particularly SMFEs, will need support to meet these requirements. The Federal Government must source reporting information from overseas jurisdictions to help facilitate reporting of Scope 3 emissions. Businesses can then draw on this information to meet reporting requirements.

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?*

A scientific body, such as CSIRO, should provide businesses with the same climate scenarios to use as guidance when reporting climate-related financial risks. Businesses also need access to the historical environmental data of the site(s) they operate on. This will help them to determine climate-related risks. Australia should look to the TCFD framework for guidance when formulating this part of the framework.

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?*

The 'reasonable grounds' requirements are suitable in climate reporting. Predicting climate events and making assumptions involve a lot of uncertainty. Businesses should provide as much information as possible on their due diligence with respect to climate reporting. Australia should ensure that businesses provide appropriate statements of uncertainty and assumptions. There should be penalties for non-compliance and misrepresentation of information.

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?*

Australia should take all measures to combine reporting obligations into the one process to limit the burden on businesses to report disclosures. Standard reporting templates should be provided, and businesses should make reports publicly available on their websites. This would also facilitate comparison of different companies' data.

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?*

Other sustainability reporting, including social and governance parameters, should eventually be included in this new reporting framework. Businesses should be given as much notice as possible to sufficiently plan for the inclusion of these parameters in reporting requirements. All environmental, social and governance parameters should be reported at a federal level, not state, to enable businesses to operate across Australia.

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

Initially, digital reporting should not be mandated for sustainability risk reporting. While some businesses (e.g., large companies) may be able to complete digital reporting, other businesses particularly SMFEs may not be well placed to do so. Instead, Australia should work towards future digital reporting by providing training and support to businesses on digital technologies.

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?*

Potential Structure 1. *Confirm the AASB (Australian Accounting Standards Board) as the entity responsible for developing, making and monitoring climate and sustainability related standards*

Potential Structure 2. *Establish a separate sustainability standards board*

Potential Structure 3. *Reform existing financial reporting bodies into a single, flexible entity (combine the functions and powers of the FRC (Financial Reporting Council), AASB and AUASB (Auditing and Assurance Standards Board) into one entity)*

Consensus among the business community is mixed on the most appropriate body to monitor and report climate-related standards. However, the overall tone of business regarding climate-related financial disclosures is to avoid duplication of reporting processes. Therefore, preference is given to Potential Structures 1 and 3.

Concluding remarks

Climate reporting of Scope 1, 2 and 3 emissions will reshape the way the world does business. The Victorian Chamber has provided these industry insights for the formation of this new climate reporting framework. We urge Treasury to it to adopt our 17 pragmatic recommendations.