Submission – Treasury Consultation Paper on Climate-related financial disclosure

February 2023

Summary

IGCC represents investors with total funds under management of more than $3 trillion in Australia and New Zealand and $30 trillion around the world. Investors welcome the development of internationally aligned climate risk disclosure requirements in Australia.

Institutional investors understand that climate change is one of the most significant investment risks and opportunities facing the industry and economy today. The impacts of climate change present material risks to the investment returns of long-term asset owners, their beneficiaries, and the communities they operate within. The scale of these risks is systemic, can't be divested from, and investors are deploying a range of management strategies to mitigate this risk and better maximise opportunities. These strategies include company engagement and strategic capital allocation. Credible climate risk reporting by companies is critical for both.

As international standards are finalised and major markets move to mandate climate risk disclosure, Australia risks becoming less competitive as a destination for investment capital if our disclosure requirements are below that of international peers.

Investor groups representing the majority of Australian and global assets under management released a roadmap and detailed research piece[1] supporting the implementation of mandatory TCFD-aligned reporting in Australia. The roadmap emphasises that effective climate risk disclosure is important to both accurately price assets and identify risks and opportunities associated with climate change, and to support the efficient allocation of capital towards a climate-resilient, net zero emissions economy.

A lack of detail, standardisation, and enforceability regarding what must be reported can also be used as a scapegoat for lower performing companies to avoid addressing difficult questions and making adequate disclosures. This increases the likelihood of material risks being hidden until it is too late, assets being stranded, and promoting a disorderly transition[2] to net zero emissions.

Clear, mandated requirements for climate-related disclosures are needed to support comparable and decision-useful reporting. They are also important to level the playing field by requiring similar corporations to disclose in a standardised way, including those with high climate-related risk that are not currently reporting or are reporting insufficiently.

Additionally, minimum requirements for company transition plans for key sectors will promote transparency and insight into how Australia's largest emitters are thinking about how to pivot their existing assets, operations, and business model to align with a 2050 net-zero trajectory - distinguishing business as usual from credible plans, and supporting investor stewardship and regulatory responses.

IGCC supports the six policy reform objectives outlined in the consultation paper, which are compatible with the key elements and recommendations summarised below.[3] It is also essential that the management and disclosure of physical risks is given sufficient attention, especially given Australia's

[1] IGCC, CDP, PRI, *Confusion to clarity: A plan for mandatory TCFD-aligned disclosure in Australia* (June 2021).
[2] A disorderly transition is defined as a situation in which a transition to a low-carbon economy is achieved, but the impact of climate policies – in terms of reallocation of capital into low-carbon activities and the corresponding adjustment in prices of financial assets (e.g. bonds and equity shares) – is large, sudden and not fully anticipated by market players and investors.
[3] Support climate goals, improve information flows, well-understood, internationally aligned, scalable and flexible, proportional to risk.

unique and high exposure to both chronic (e.g. sea level rise) and acute (e.g. bushfire, flood, heatwaves) impacts.

Summary of key elements and recommendations

<table>
<tr><th>Key element</th><th>Recommendations</th></tr>
<tr><td>Interoperability / International alignment

(Q4, Q7, Q17, Q18)</td><td>Adopt International Sustainability Standards Board (ISSB) standards as globally aligned baseline disclosure requirements.[4]
Build on the ISSB standards to ensure comparability and compatibility with the activity of major markets that are expanding beyond these minimum standards, such as Europe, Asia and North America, and to ensure disclosures support climate goals in line with the Government's reform principles.</td></tr>
<tr><td>Economy-wide coverage

(Q2, Q3)</td><td>Commence reporting for first phase covered entities by no later than 2024-25 financial year.
Establish a clear, timebound roadmap to implementation representing economy-wide coverage, showing entities covered in each phase over a maximum 3 year period.
Phase in compliance requirements based on size starting with:
ASX 300-listed companies[5]
Large, unlisted companies (including government-owned companies) with annual consolidated revenue of at least $100 million
Large financial institutions (banking, superannuation, asset management[6] and insurance) with either annual consolidated revenue of at least $100 million or total assets under management of at least $5 billion.</td></tr>
<tr><td>Capture full supply chain risk (Q9, Q13)</td><td>Ensure emissions disclosure covers a company's equity exposure and the entire value chain, including material scope 3 emissions (including all fossil fuel exposed industries), recognising indirect emissions present the largest climate risk to many investments and companies.
Consider and report the impacts of physical climate risks on supply chains.</td></tr>
<tr><td>Strategy and decision making

(Q11, Q13, Q14)</td><td>Scenario analysis
Build on ISSB baseline for scenario analysis disclosure through standards and guidance. As a starting point, this should: promote use of standard scenarios such as IEA and NGFS scenarios and make clear that typically scenario analysis should include at a minimum an orderly transition to 1.5°C, an abrupt or delayed transition, (1.5°C to 2°C), current policies (3+°C) and hot house (4+°C) scenario and require disclosure of rationale for bespoke scenarios.[7]
Develop domestic climate scenarios and supporting data required for climate risk assessment and disclosure at a sector[8] and regional level. Scenarios should cover both transition and physical risks (including both chronic and acute physical impacts). These domestic scenarios</td></tr>
</table>

[4] For clarity, alignment with the ISSB standards does not mean limiting requirements to the ISSB standards. Rather, using the ISSB standards as a global baseline means ensuring foundational alignment with the ISSB standards, and then building additional requirements around that consistent baseline.
[5] Alternatively, a single annual consolidated revenue of at least $100 million for all companies (i.e listed and unlisted) would be suitable.
[6] Including sovereign wealth funds (i.e. The Future Fund).
[7] A single scenario provider may not currently produce a full suite of scenarios covering the range and type of that a company needs to report against. Developing Australian domestic scenarios will help to address this.
[8] This is consistent with the Government's agreement with Climate Change Authority (CCA) advice that sector-by-sector goals need to be developed. The development of sector-by sector emission pathways is critical too unlocking investment in Australian industries and the economy: IGCC, Making the Transition Happen: Investment Policy for a Net Zero Emissions Economy, September 2022.

Key element	Recommendations
	should be aligned with best practice global scenarios (see point above) to support comparability. Treasury should lead this work and establish an expert finance, science and industry consultation group to inform scenario design. The initial scenarios should be published by the end of 2023. Transition plans • Establish a cross sector taskforce to define minimum requirements for climate transition plans, to be applied to the economy's highest emitting companies and sectors. To streamline and promote international alignment Treasury should endorse existing best practice frameworks under development, for example by the UK Transition Plan Taskforce.[9] • Support corporate transition planning and reporting, including through the development of Australian-specific guidance and sector pathways, including with consideration to just transition issues. • Avoid a 'paper decarbonisation' with limited real word impact: Disclosures should give sufficient context for investors and stakeholders to understand the issue that the entity's action is seeking to address and the associated outcomes for the company and/or the real economy.
Capability and implementation support (Q6, Q10, Q13, Q14)	• Align regulatory work programs and initiatives to deliver standards, auditable data and scenarios (including at a sector level) for the disclosure of climate risks. • Issue guidance and resources and educational material to support implementation and communicate regulatory expectations in the context of new reporting requirements. • Take a leading role in developing best practice disclosure standards where Australia has significant expertise, for example, for physical risk.
Increasing expectations for disclosure (Q4, Q12)	• Establish iterative review process to allow a build-up of practice by reporting entities over time and ensure requirements reflect rapidly shifting policy, practice and science to ensure the Australian economy remains competitive in capital markets. • Encourage continuous improvement, not just compliance with minimum standards.
Reliability (Q5, Q6, Q8, Q12)	• Establish a robust assurance framework to ensure investors and other stakeholders can rely on the integrity of information provided, similar to audited financial statements and NGERs, including independence requirements and quality management standards. • Engage with the IAASB work on a global sustainability assurance framework.[10]

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[9] Transition Plan Taskforce, Consultation: The Transition Plan Taskforce Disclosure Framework (November 2022).
[10] Page 8, FSB progress report on climate-related disclosures (October 2022).

Introduction and overview

The Investor Group on Climate Change (IGCC) welcomes the opportunity to provide feedback on the Treasury's consultation paper[11] on climate related financial disclosure. The consultation seeks views on key considerations for the design and implementation of standardised, internationally aligned requirements for disclosure of climate-related financial risks and opportunities in Australia.

IGCC is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over $3 trillion in Australia and New Zealand and $30 trillion around the world.

As the long-term custodians of trillions of dollars in retirement funds, investors have a fiduciary duty to deliver long-term returns for their beneficiaries that are commensurate with the level of risk taken. Due to the systemic nature of climate change, unless it is addressed in an orderly and just way, the long-term retirement savings of millions of Australians are under threat.

Effective disclosures are critical to manage systemic risk and opportunities associated with climate change

Investors welcome the development of internationally aligned climate risk disclosure requirements in Australia. Given climate change represents a systemic economic risk, it is important that mandatory disclosure requirements apply to entities operating across the economy and the entire investment supply chain. These include both listed and unlisted companies, financial institutions and government-owned companies and sovereign wealth funds (e.g. the NBN Co and Future Fund) as well as relevant public sector entities.

There is unprecedented consensus across financial and non-financial entities on the need for globally consistent, comparable and decision-useful public disclosures of climate-related financial risks.[12] The latest TCFD status report emphasised while disclosure is improving, there are ongoing concerns about lack of consistency and comparability in existing reporting practices.

> *The percent of companies disclosing TCFD-aligned information continues to grow, but more urgent progress is needed. For fiscal year 2021 reporting, 80% of companies disclosed in line with at least one of the 11 recommended disclosures; however, only 4% disclosed in line with all 11 recommended disclosures and only around 40% disclosed in line with at least five.*[13]

Disclosures can also be a central tool for regulators to inform policy, financial supervision and stability, by improving understanding and visibility over the system-wide implications of decarbonisation, as well as the physical impacts of climate change.

[14]*Addressing physical risk*

Management and disclosure of physical risks requires increased attention, especially given Australia's unique and high exposure to chronic (e.g. sea level rise) and acute (e.g. bushfire, flood, heatwaves) impacts. Clear disclosure on material physical risks, alongside proposed and ongoing risk management

[11] Australian Government, The Treasury, Climate-related financial disclosure consultation paper, December 2022.
[12] Peak Australian Bodies submission to ISSB on draft standards (July 2022).
[13] TCFD, 2022 TCFD Status Report (October 2022), p5.

and adaptation strategies, will be essential to increase investor confidence and ensure maladaptation is avoided.

The Australian Government's upcoming National Climate Risk Assessment can provide a useful shared evidence base for understanding physical risk. Aligning government and regulatory work programs, and ensuring close consultation with scientists and industry is essential to streamline and amplify efforts and ensure outputs are fit for purpose beyond government use.

There is an opportunity to position Australia as a leader on climate disclosure related to physical risks, which is much less developed internationally than transition risk disclosures. An overarching international focus to the assessment, management, and disclosure of physical climate impacts will support core objectives of international alignment, and consistency and comparability.

Actions the Australian government may take in consultation and collaboration with scientific bodies, finance, and business industries, include:

- Utilise Australia's scientific expertise in natural hazards and climate change to contribute to the development of internationally consistent physical risk metrics. These will need to be industry-specific and sufficiently granular to capture both risk and resilience, and consider indirect impacts. Australia's high exposure to physical risks means it has significant existing expertise and will benefit from robust metrics being developed.
- Support CSIRO and relevant government agencies to consolidate and make available existing government data on physical impacts, in consultation with industry to ensure the data is fit for purpose.
- Develop guidance on suitable data and scenarios
- Require the development and disclosure of risk management and adaptation plans for material physical risks

Building capability

The government, regulators and standard setting bodies have a critical role in building support and capability for reporting across the market. Accordingly, Treasury should consider and prioritise approaches (such as the development of region and sector-based scenarios) which may assist with the speed of adoption and clarity of climate related reporting.

Guidance to support implementation and communicate regulatory expectations in the context of new reporting requirements should be developed in consultation with industry. Where it is available and applicable, leveraging guidance by the ISSB will help to streamline efforts and promote international alignment.

Capability building programs will also be important in the phase in process to build internal skills and experience.

Increasing expectations for disclosure

Reporting standards and guidance should not remain static and must both allow for and drive an increase in quality of reporting over time. Outlining clear review timelines and established responsibilities for maintenance of the disclosure regime will help to minimise potential disruption caused by the need to update standards and expectations. Ultimately, reporting entities should be preparing for reporting expectations to increase over time, not diminish.

Indeed, this was explicitly referenced in the Final TCFD recommendations (2017) which stated: "The Task Force's recommendations aim to be ambitious, but also practical for near-term adoption." But the TCFD also recognised its role in improving reporting over time and that it expected: *"to advance the quality of mainstream financial disclosures related to the potential effects of climate change on organizations today and in the future and to increase investor engagement with boards and senior management on climate-related issues*."[13]

Treasury should establish an iterative review process to allow a build-up of practice by reporting entities over time and ensure requirements reflect rapidly shifting policy, practice and science to ensure the Australian economy remains competitive in capital markets.

Comments on specific consultation paper questions

Climate-related financial disclosure consultation paper December 2022

Question	IGCC Response
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?	Costs of not aligning with international practice include increased systemic climate-related risks, and difficulty for companies to attract capital in international markets. There is wide investor and industry support in Australia and internationally for the phase in of mandatory economy-wide internationally aligned disclosures.[15] Investors recognise that the ongoing absence of adequate information on climate risk and opportunities is already contributing to systemic financial stability risks and barriers to investment in zero emissions and climate resilient economic activity. Australia risks becoming less competitive as a destination for investment capital if our disclosure requirements are below that of international peers. There are significant benefits to international alignment on climate-related disclosures in Australia. Setting clear requirements and supporting guidance will help: • align regulation with industry expectations and global standards • reduce ambiguity in requirements, reducing and streamlining reporting effort • address existing inefficiencies in reporting, along with litigation and regulatory compliance risk, by removing uncertainty and offering necessary direction and accountability on practice • Australian investors and companies to continue to attract capital and manage reporting requirements for international stakeholders given that the international community is rapidly progressing disclosure requirements. Australia avoids becoming less competitive in attracting capital due to sub-standard disclosures and the perception of unmanaged risks associated with climate change (e.g. reliance on high-emitting sectors and regions of high physical risk) • level the playing field by addressing the issue of some corporations with high climate-related risk not reporting or not reporting sufficiently, and removing barriers for smaller entities to participate. • position Australia as a leader internationally on climate disclosure related to physical risks, which Australia is uniquely exposed to due to its climate and geography and is much less developed internationally than transition risk disclosures.
Question 2: Should Australia adopt a	Universal ownership and systemic risk

[15] IGCC media release, major consensus reached on climate risk reporting (June 2022).

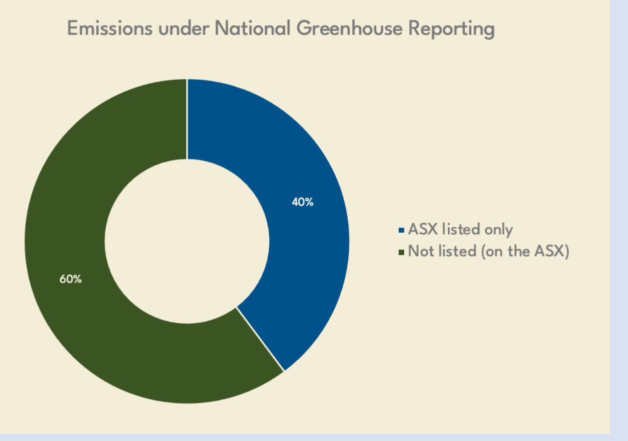
Question	IGCC Response
phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?	Asset owners like superannuation funds are invested broadly across the economy. Given climate change represents a systemic economic risk, it is important that mandatory disclosure requirements apply to entities operating across the economy and the entire investment supply chain. These include both listed and unlisted companies, financial institutions and government-owned companies and sovereign wealth funds (e.g. the NBN Co and Future Fund) as well as government sector entities.
2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?	Timing and phased approach ISSB draft standards (*Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* "ISSB general standards" and *Exposure Draft IFRS S2 Climate- related Disclosures* 'ISSB climate standards") are expected to be finalised for adoption by June 2023 with a proposed effective date for annual reporting periods on or after 1 January 2024. Assuming this timing, a first reporting period starting in 2024 is practical, and would mean that covered entities would be report their first disclosures in 2025. All entities should be encouraged to begin reporting voluntarily ahead of the first mandatory reporting period. As outlined in question 3 below, it would be practical to commence reporting for larger entities first (including across listed, unlisted and government-owned entities), and expand coverage of reporting entities over a maximum 3 year period. Where practical, aligning with existing reporting thresholds and categories under the *Corporations Act 2001 (Cth)* and existing tiers of Australian accounting standards[16] would help to streamline reporting requirements. Australia needs to move expediently to avoid falling behind global practice and therefore risking competitiveness as an investment capital destination. The government should signal early the thresholds and timing for subsequent cohorts to encourage capacity building and preparation ahead of mandatory obligations commencing. Advanced publication of details and timing of key stages for phasing in reporting will help to enable relevant entities to build expertise and capacity in advance. Capability building programs will also be important in the phase in process to build internal skills and experience. Recommendations • Commence reporting for first phase covered entities in 2024-25 financial year • Establish a clear, timebound roadmap for implementation over maximum 3 year period – showing which entities will be required to report in each phase and encouraging voluntary reporting by all entities from day 1. • Increase quality of reporting through phased compliance periods and step-by-step approaches and iterative review.
Question 3: To which entities should	

[16] AASB 1053 Application of Tiers of Australian Accounting Standards.

Question	IGCC Response
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?	While standardised reporting requirements bring clear benefits, it is important to ensure entities, particularly smaller entities are not disproportionately or unnecessarily burdened. Starting with larger entities and prioritising international alignment will support streamlined and proportionate reporting requirements. We propose starting with ASX 300 companies and large, unlisted companies (including government-owned companies) with annual consolidated revenue of at least \$100 million. Alternatively, a single annual consolidated revenue of at least \$100 million for all companies (i.e. listed and unlisted) would be suitable. For large financial institutions (banking, superannuation, asset management[17] and insurance), we recommend a threshold of either annual consolidated revenue of at least \$100 million or total assets under management of at least \$5 billion. Asset managers should be explicitly referenced as a category of reporting entity (which is not clear in the consultation paper). Unlisted companies must be covered in the initial phase The Australian Government has committed to implementing reporting requirements for large Australian businesses, however the timeframe for including companies not listed on the ASX ("unlisted companies") is unclear in the consultation paper. Private equity represents a significant portion of many institutional investor's portfolio holdings, and therefore exposure to climate risk as well as opportunity. Analysis of emissions reported under NGERs[18] shows that while about 65 per cent of Australia's national emissions are reported under NGER, only 108 published NGER reporters are listed on the ASX – 301 are not. Companies not listed on the ASX are responsible for around 60 per cent of scope 1 emissions reported under NGERs (shown in Figure 1 below). Ensuring these and other large unlisted companies are captured by climate reporting requirements is necessary for investors to get an accurate picture of transition risks and opportunities in the Australian economy.[19]

[17] Including sovereign wealth funds (i.e. the Future Fund).
[18] Analysis by Energetics, based on NGER published data 2020-21 available here; 'Greenhouse and energy information by controlling corporation 2020-21', available here; and 'Quarterly Update of Australia's National Greenhouse Gas Inventory: June 2022', available here.
[19] Note coverage of large unlisted companies not captured by NGERs will also be important to capture physical risks as and emissions exposure and transition risk of non-NGER reporting entities, including for example in the Agricultural sector.

Question	IGCC Response

	
	Figure 1. Percentage of Scope 1 emissions (CO2-e) reported under NGERs FY2020-2021 by ASX listed companies vs non-ASX listed companies
	
	The Clean Energy Finance Corporation notes that "with more than A$33 billion of assets under management in Australia's private equity and venture capital industry, engaging this sector is critical to the continued decarbonisation of the Australian economy."[20]
	
	Recommendation
	• Entities and thresholds in the initial phase should include, at a minimum:
	    o ASX 300-listed companies
	    o Large, unlisted, non-financial companies (including government-owned companies) with annual consolidated revenue of at least $100 million.
	    o Large financial institutions (banking, superannuation, asset management and insurance) with either annual consolidated revenue of at least $100 million or total assets under management of at least $5 billion.

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the	Institutional investors welcome the development of internationally aligned climate risk disclosure requirements in Australia. Investors support the ISSB as the appropriate body to establish international standards that promote international alignment and interoperability in reporting across markets. Ensuring clear, mandatory requirements adopting and building on international standards will help to align regulation with industry expectations and global standards.[21]

[20] CEFC, CEFC: Mid-market private equity can bring 'far reaching change' on carbon emissions (19 March 2021).

[21] For more information on voluntary vs mandatory disclosure, see IGCC's report (section 4).

Question	IGCC Response
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?	In the Australian context, first nations rights and protections should be considered. See further notes at question 13 on Australian specific considerations. Recommendations • Adopt the ISSB standards as globally aligned baseline disclosure requirements. • Build on the ISSB standards to ensure comparability and consistency with the activity of major markets that are expanding beyond these minimum standards, such as Europe, Asia and North America, including through coverage of reporting entity impacts on society and environment, and by addressing local considerations in the Australian context.
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)?	Reporting obligations need to be mandatory to effectively promote consistent, comparable and reliable disclosures for investors, regulators and other users. Enforceability is an important element of mandatory requirements. Given ASIC guidance is not enforceable, it would be sub-optimal to set overarching disclosure obligations through regulatory guidance. While streamlining reporting requirements and building on existing frameworks is preferred where practical, it needs to be balanced with the objectives of implementing a mandatory disclosure framework that is internationally interoperable and workable for preparers and users. Relying on guidance to give effect to aspects of the ISSB standards would likely compromise international alignment and reduce the clarity of the reporting process. Recommendation • The overarching obligations for climate disclosure should be built into legislation or mandated standards, and the detail of those obligations built out through mandated standards. Guidance should then be used to support understanding and implementation and encourage best practice.
Question 6: Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For	Integrating financially material reporting within the annual reporting suite is a priority for users. To provide value to investors, the majority of company disclosures should sit in the annual report and financial reporting package, and require full audit and director signoff. For asset owners and asset managers, reporting should be included in financial reporting package, with some flexibility for reporting entities to determine where the information is best placed.

Question	IGCC Response
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?	Transitional requirements may be needed, for example initially accompanying reporting with a map or index to disclosures. .This would help to address difficulties for the market to consume the reported information and promote comparability, particularly during transitional periods where reporting requirements are being phased in and may not cover all entities equally. Additional guidance and support may be required for unlisted companies that are not required to produce comprehensive annual reports under current rules. Recommendations • The majority of company disclosures should sit in the annual report and require full audit and director signoff, with transitional arrangements in place to promote comparability. For asset owners and asset managers, reporting should be included in financial reporting package, with some flexibility for reporting entities to determine where the information is best placed. • Consider providing guidance and support particularly for unlisted companies.
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)?	It will be important to have a definition of materiality that is internationally aligned, investor-focused and recognises that sustainability risks are financial risks over the long-term. The ISSB decision to align its definition of materiality with the definition of materiality in the IFRS accounting standards is consistent with this. The ISSB also plans to issue further guidance on the application of existing materiality definitions to sustainability considerations. It may be necessary to review this guidance with an Australian lens. Recommendation • Adopt ISSB definition of materiality and provide/support guidance in Australian context where necessary.
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	The ISSB standards are designed to be auditable. In order to provide value to investors, the majority of disclosures by companies should sit in the annual report and require full audit and director signoff. Assurance should be carried out by experts with relevant qualifications and expertise, who are subject to independence and quality management standards. Governance and oversight arrangements should be in place to a similar level as for financial reporting. Alongside the ISSB global baseline reporting standard on climate, global assurance standards will be important to drive reliability of disclosures.

Question	IGCC Response
and quality management standards?	IGCC understands that the International Auditing and Assurance Standards Board (IAASB) is working to develop a new sustainability related assurance framework and the International Ethics Standards Board for Accountants (IESBA) is developing sustainability-related ethics and independence standards, in both cases supported by IOSCO. [22] The IAASB's work on assurance standards is expected to be available for public comment in 2023 and aiming for final approval in Dec 2024-March 2025. Government, financial regulators and the AUASB should actively engagement in this work to ensure applicability and prompt adoption in the Australian market. Assurance requirements could be phased in after reporting requirements commence, with further consultation on the assurance framework. Recommendations • Engage with the IAASB work on a global sustainability assurance framework (expected to be available for public comment in 2023 and aiming for final approval in Dec 2024-March 2025).[23] • Establish a robust assurance framework to ensure investors and other stakeholders can rely on the integrity of information provided, including independence requirements and quality management standards similar to audited financial statements and reporting under NGERs. • Assurance requirements could be phased in one year after reporting requirements commence, with further consultation on the assurance framework.
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?	Effective risk management requires understanding and addressing risks throughout the company value chain, including upstream and downstream. Accordingly, investors expect and the ISSB standard will require company disclosures on scope 1, scope 2 and scope 3 greenhouse gas emissions.[24] Establish processes and capability support for high quality reporting and assurance, ensuring emissions reporting addressing carbon risk exposure embedded in the company's broader value chain, supply chain or fossil fuel reserves, represented by scope 3 emissions. Operational control vs equity share From an investment perspective, reporting must capture equity exposure to significant carbon holdings from lending or investing activities.[25] The *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (GHG Protocol Corporate Standard)[26] allows for reporting based on an operational control approach *or* equity share approach. A concern is that while the GHG Protocol Corporate Standard encourages both approaches, it does not *require* both. For assessing risk, equity share and financial

[22] Page 8, FSB progress report on climate-related disclosures (October 2022)
[23] Page 8, FSB progress report on climate-related disclosures (October 2022).
[24] ISSB, *ISSB unanimously confirms Scope 3 GHG emissions disclosure requirements with strong application support, among key decisions* (October 2022).
[25] Emissions should also be reported consistent with segmented reporting of financials in the accounts. For example, when assessing reporting by large or diversified companies, this more granular information helps investors to understand where emissions are occurring, supporting assessment of jurisdictional risks and considerations based on where the emissions sit within the business.
[26] The proposed methodology for measuring emissions under the draft ISSB climate standard.

Question	IGCC Response
	control gives the most comprehensive coverage of liability and risks and therefore is generally most decision useful. However, for management and performance tracking, operational control is also important for real world impact in emission reduction. Therefore, to provide investors with a complete picture of material risk exposure and opportunities, and track against emissions reduction targets, it will generally be necessary to report emissions against both operational and equity share. Australia's disclosure requirements and regulatory guidance should reflect this, emphasising that companies should generally report both operational and equity share emissions. Where only one approach is applied (e.g. operational control only), that companies must explain why that is appropriate in the circumstances. Finance sector measurement and disclosure of financed emissions It will be important to promote consistency and comparability in approaches to reporting of financed emissions by the financial sector including asset owners and managers. Further guidance in consultation with industry on application of the ISSB standards and available reporting frameworks and approaches to measuring financed emissions such as PCAF [27]may assist to support consistent and comparable disclosures. This should be reviewed iteratively as reporting practice evolves (see also question 10, metrics). Recommendations • Recognising indirect emissions present the largest climate risk to many investments, including those in coal, oil and gas industries, emissions disclosure should cover the entire value chain, including material scope 3 emissions. • In consultation with users, issuers and preparers, define in the next phase of policy consultation, specific categories of scope 3 emissions that must be reported in the first year and those that must be disclosed within 3 years of the first reporting period. • Ensure company emissions are measured based on both equity share (for comprehensive coverage of risk) and operation (for management and performance tracking) under the GHG Protocol Corporate Standard, or that they explain why an only one approach is appropriate in the circumstance. • Provide industry targeted guidance, support and resources for emissions reporting, particularly for scope 3 emissions (including financed emissions), as well as Scope 1 and 2 emissions.
Question 10: Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?	An internationally aligned baseline of standardised metrics and targets should be set to ensure comparability, both regarding the progress of the organisation itself, and with other organisations. These should prioritise metrics that connect to real world impact. These should include a range of metrics that are cross sector and sector specific. Common taxonomies should also be provided wherever practicable. Defining a common set of cross-sector and industry specific metrics helps to promote consistency and comparability between reporting entities and within entity reporting over time. This should not restrict entities using additional metrics which they deem relevant to their circumstances, but rather provides a consistent baseline of comparable information.

[27] Partnership for Carbon Accounting, Financials, Global GHG Accounting and Reporting Standard for the Financial Industry.

Question	IGCC Response
	The disclosure of consistent industry metrics and corresponding targets for emissions-intensive sectors is relevant for investors. Government established sector emissions pathways and targets are a practical means for financial institutions to achieve real-world emissions reductions, incentivising and pivoting capital support to companies with best carbon performances within their sector, and financing the global economy's transition to net zero. Currently the ISSB standards propose to require disclosure of financed emissions to be aggregated at the total assets under management level. Overtime, metrics should be reviewed in consultation with the investment industry to determine which additional finance-sector metrics are most decision useful and would support comparability and a level playing field.[28] Recommendations • Engage in ISSB work on metrics based on SASB and support a common baseline of metrics (including cross-sector and sector specific) and supporting guidance, including on physical risk metrics and targets. • Australia should utilise its scientific expertise in natural hazards and climate change to contribute to the development of internationally consistent physical risk metrics. These will also need to be industry-specific, sufficiently granular to capture both risk and resilience, and consider indirect impacts. Australia's high exposure to physical risks means it has significant existing expertise and will benefit from robust metrics being developed.
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?	Critically, investors want companies to show not just that climate risk is being assessed but how this is informing and changing their strategies and decision making from board governance to capital expenditure to future business opportunities. Investors expect to understand companies' time-bound action plans to pivot their existing assets, operations, and entire business model to align with a 2050 net-zero trajectory.[29] Investors use climate transition plans to: • inform capital allocation and investment decisions • support ongoing engagement and stewardship priorities with companies • support voting on climate-related shareholder resolutions, director elections, remuneration, Say on Climate votes and other matters at company AGMs • support their disclosures against their climate targets and commitments to their stakeholders • assess portfolio alignments with their climate policies and targets.

[28] E.g. emissions intensity of a financial product (i.e. at the portfolio or strategy level) may provide more granular information for comparing financial products which is not clear at a total AUM level.
[29] IGCC, Corporate transition plans: A guide to investor expectations (March 2022)

Investor expectations on corporate transition plans

What are the basic principles for a credible plan?

IGCC has identified five common principles important for credible transition plans from a review of existing transition plan frameworks and guidance. [30] These principles are specific to the key technical and financial expectations of a robust, net zero transition strategy:

1. Set comprehensive, science-based quantitative targets across all material emission scopes.
2. Outline a strategy to deliver targets, identifying enablers and disclose quantifiable impacts.
3. Set sector-specific commitments and actions aligned with 1.5 ˚C decarbonisation pathways.
4. Ensure investment commitments (capital expenditures) align with targets.
5. Commit to annual transparent disclosure and monitoring with external verification.

Plans should include emission reduction targets, interim milestones and KPIs, business strategies and actions to include those KPIs, as well as the governance structures responsible for successfully implementing this plan. These disclosures should include actions to align industry and public sector engagement and lobbying activities with their transition strategy.[31]

In response to significant private sector demand, the UK Government established the Transition Plan Taskforce[32] to develop the gold standard for private sector climate transition plans in the UK and build on the ISSB standards. Listed companies and large regulated asset owners and asset managers will be required to disclose transition plans as part of their TCFD-aligned disclosures from 2023, initially on a comply or explain basis. There is a strong case to establish a similar initiative in Australia to develop granular transition plan standards and guidance suitable for incorporation into regulatory frameworks in Australia.

On paper vs real world outcomes

Reporting requirements including for transition plans should ensure disclosures are clear about the issue that the entity's action is seeking to address and the associated outcomes for the company and/or the real economy.

For example, an energy company selling a coal-related asset may reduce that company's immediate risk exposure but this sale does not reduce emissions in the real-economy and could have negative consequences if the company buying the asset has not committed to a Paris-aligned transition Progress against decarbonisation targets and emissions reduction resulting from disposals, divestments or similar structural changes are currently being conflated leading to confusion and potential greenwashing.

The UK Transition Plan Taskforce recommends entities take a strategic and rounded approach considering 'the full range of levers at their disposal to contribute to and prepare for an economy-wide transition to net zero. This will help avoid potential unintended consequences such as 'paper decarbonisation' with limited real-world impact.'[33]

Recommendations

- Require Australian businesses and financial institutions to publish transition plans, aligning with and building on ISSB standards.

[30] IGCC, Corporate transition plans: A guide to investor expectations (March 2022)

Question	IGCC Response
	• Establish a government, cross sector (including finance sector, science and industry) taskforce to develop minimum standards for climate transition plans drawing on international developments such as UK Transition Plan Taskforce, to be applied to the economy's highest emitting companies. • Support corporate transition planning and reporting, including through Australian-specific guidance and sector pathways.
Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?	Some reporting requirements may need to be phased in over time. The ISSB is closely considering this question and is building relief and timing provisions into its standards, including for scope 3 emissions. While these details are yet to be confirmed, as a general principle alignment with the ISSB standards and guidance should be followed. Similar to approaches taken in New Zealand and other jurisdictions, relief from assurance requirements in the first reporting phase may be a practical measure to allow time for capacity building for both preparers and auditors, and allow sufficient time for assurance frameworks to be established (see question 8) and capabilities and resourcing to be scaled up. Advanced publication of details and timing of key stages for phasing in reporting (recommended above at Question 2) will help to enable relevant entities to build expertise and capacity in advance. Recommendations • Establish iterative review process to allow a build-up of practice by reporting entities over time and ensure requirements reflect rapidly shifting policy, practice and science to ensure the Australian economy remains competitive in capital markets. • Encourage continuous improvement, not just compliance with minimum standards.
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?	Government and regulators can play a critical role in encouraging better practice, addressing common information gaps and barriers and ensuring disclosure is not perceived as a merely compliance and box ticking exercise. The NZ XRB aptly remarked: *Climate-related disclosures are not intended to be a compliance exercise. Embedding consideration of climate-related issues into an entity's strategy allows for better decision making. This results in more informed capital allocation decisions, both within an entity and by investors into an entity.*[34]

[31] The Financial Stability Board's Taskforce on Climate related Financial Disclosures has also published guidance on transition plans.
[32] The Taskforce includes representatives from companies, financial institutions, regulators, policymakers, and civil society.
[33] Transition Plan Taskforce, Consultation: The Transition Plan Taskforce Disclosure Framework, p.10
[34] XRB, Aotearoa New Zealand Climate Standard 1: Governance and Risk Management Consultation Document (October 2021) p.6.

Question	IGCC Response
13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?	Guidance and adoption provisions can provide further information not just on what meeting that floor requires but what better and best practice might involve. This would also allow the market to prepare for any future step changes in the standards or guidance in following years. As evidenced by APRA's recent climate vulnerability assessment, addressing the gaps in the availability and quality of data including for physical impacts is important for the development of high-quality climate risk assessments. However, these barriers should not delay assessments and disclosure. APRA notes "Institutions can adopt a staged approach to climate risk assessment, leveraging available data while building their internal capacity, and incorporating modelling and data developments over time." [35] To support robust and decision useful implementation, investors support ongoing efforts to align regulatory work programs and initiatives to deliver standards, auditable data and scenarios (including at a sector and regional level) for the disclosure of climate risks. Relevant actions in the Australian context include: • Developing, internationally comparable but also Australian specific scenarios for physical and transition risks (see further detail at Q14). • Implementing standards and guidance for mandatory transition plans for high emitting entities, drawing on approaches under development internationally (see further detail at Q11) • Supporting relevant government agencies to aggregate and make available existing government data on physical impacts, in consultation with industry to ensure the data is fit for purpose. • Developing guidance on fit-for-purpose data and scenarios • Requiring the development and disclosure of risk management and adaptation plans for material physical risks • Defining and proscribing metrics for physical and transition risks and supporting guidance (in consultation with ISSB processes) • Publishing sector pathways to support target setting and transition planning. Recommendations • Align regulatory work programs and initiatives to deliver standards, auditable data and scenarios (including at a sector level) for the disclosure of climate risks. • Engage in ISSB work on industry metrics based on SASB and consider development and guidance on domestic industry metrics for energy intensive sectors. • Encourage better practice, not just in the minimum expectations of standards themselves but through guidance.
Question 14: Regarding any supporting information necessary to	While the ISSB standard provides baseline coverage of scenario analysis, additional provisions and guidance are necessary.

[35] APRA, Information Paper: Climate vulnerability assessment results (November 2022), pp. 9-10.

Question	IGCC Response
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?	Regarding scenario analysis, the TCFD notes that scenario analysis is a well-established method for developing strategic plans that are more flexible or robust to a range of plausible future states. However, the 2022 TCFD status report highlights that disclosure of the resilience of companies' strategies under different climate-related scenarios continues to have the lowest level of disclosure across the 11 recommended disclosures. Domestically, low uptake of 1.5˚C scenarios by Australian companies suggest many may be failing to stress-test their portfolios against sufficiently challenging and robust scenarios. Further, many companies in sectors with high exposure to transition risk do not disclose scenario analysis.[36] Mandated standards and regulatory guidance can help to address these gaps. Treasury should lead this work and establish an expert finance, science and industry consultation group to inform scenario design. The initial scenarios should be published by the end of 2023. Investor expectations for company scenario analysis include: • Apply sufficiently challenging and robust scenarios, including a 1.5˚C, a disruptive/delayed scenario and unmitigated warming scenario, drawn from commonly referenced transition and physical risk sources to promote comparability, standardisation and disclose the core input assumptions (e.g. climate impacts on GDP, technology costs, demand factors carbon price, national emission reduction target assumptions and scope of portfolio analysis applied to for example) • If applying a bespoke scenario analysis model, disclose the input assumptions, and show comparisons and variance to the standard set of assumptions (e.g. avoid black box disclosures) • Report scenario analysis impacts at both the divisional-wide and project/asset levels, and increase balance and credibility by reporting negative impacts (particularly for high emitting companies) • Report on the impact on company strategy and actions taken as a result of the scenario analysis, as well as the outputs of the analysis. Recommendations • Build on ISSB baseline for scenario analysis disclosure through standards and guidance addressing key expectations. As a starting point, this should promote use of standard scenarios including IEA and NGFS scenarios, and require disclosure of rationale for bespoke scenarios, and make clear that typically scenario analysis should include at a minimum an orderly transition to 1.5°C, an abrupt or delayed transition (1.5°C to 2°C) and current policy (3+°C) scenario and hot house (4+°C). • Develop domestic climate scenarios and supporting data required for climate risk assessment and disclosure at a sector[37] and regional level. Scenarios should cover both transition and physical risks (including both chronic and acute physical impacts). These domestic scenarios should be downscaled from best practice global scenarios (see point above) to support comparability. Treasury should lead this work and establish an expert , science and industry consultation group to inform scenario design. The initial scenarios should be published by the end of 2023.

[36] ACSI, Promises, pathways and performance, Climate change disclosure in the ASX200 (July 2022).
[37] This is consistent with the Government's agreement with Climate Change Authority (CCA) advice that sector-by-sector goals need to be developed. The development of sector-by sector emission pathways is critical too unlocking investment in Australian industries and the economy: IGCC, Making the Transition Happen: Investment Policy for a Net Zero Emissions Economy, September 2022.

Question	IGCC Response
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?	Investors need confidence that investment decisions are based on a properly informed basis. It is appropriate that directors must consider whether a forward- looking statement has a reasonable basis. To address questions about whether the requirements regarding forward looking statements under the ISSB Climate-related Exposure Draft present heightened liability risk, and to what extent a safe harbour attaching to forward looking statements is necessary or desirable to manage liability exposure, IGCC, with ACSI and RIAA, obtained a legal opinion by barrister Sebastian Hartford-Davis and Kelly Dyon.[38] The legal opinion concludes that the existing reasonable grounds requirement is suitable and that a "safe harbour" aimed at climate and/or sustainability-related disclosures is not necessary or desirable. Key conclusions include that: • For diligent company directors properly supported by competent management, the ISSB Draft Standards should not increase directors' exposure. • Increasing expectations and enhanced practices driven by the ISSB standards could be viewed as "heightened" risk which may expose bad practice, but simply reflects the need for directors to adapt and respond to climate risks facing their companies. • the legal requirement to have a "reasonable basis" for the making of forward-looking statements can be sensitive to the inherent uncertainties in the impacts of climate change. • a specific "safe harbour" aimed at climate and/or sustainability-related disclosures is not necessary or desirable. The opinion also provides practical steps directors can take to minimise liability concerns from forward looking climate disclosures. It may be helpful for ASIC to issue further guidance on reasonable grounds for forward looking statements in the context of new climate reporting requirements. Recommendations • Existing reasonable grounds provisions are suitable, and measures such as legal safe harbours which provide immunity from liability are not necessary or desirable. • ASIC provide guidance related to considerations for directors in making forward looking statements under new climate reporting requirements. • ASIC provided guidance focused for superannuation funds on the interaction between new climate reporting requirements and areas of disclosure deemed to provide consumers with sufficient information for a reasonable superannuation fund member to make an informed decision.[39]

[38] Sebastian Hartford-Smith and Kelly Dyon, Advice regarding potential liability of directors under the ISSB draft standards for forward looking statements, December 2022.

[39] Asset owners and investment managers are particularly reliant on information provided to them by the organisations in which they invest. Reporting requirements should account for reliance on third party information, including situations where reporting entities cannot reasonably obtain relevant information. For example, where an investee company does not provide the information. ASIC and APRA should also provide guidance specifically for

Question	IGCC Response
	• APRA provide guidance on relevant considerations for APRA regulated entities in the context of new climate reporting requirements.
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?	No response provided.
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?	Given the demand for sustainability reporting and ISSB pipeline of new sustainability standards which will follow in relatively quick succession, flexibility to bring in additional sustainability reporting is important. This initial reform should be flexible enough that the broad format can be adapted to different reporting requirements. Investors are increasingly focused on understanding and addressing social considerations related to the transition to net zero emissions[40], and social impacts from climate impacts (chronic and acute) and related policies such as planned retreat and insurance implications. The ISSB plans to provide iterative updates to the climate disclosure standards which need to be considered, including in relation to human capital (Just Transition issues) and connectivity between climate change and other issues such as biodiversity. ISSB focus areas could provide guidance for other areas to consider in reforming climate reporting, including related to: biodiversity, ecosystems and nature loss, circular economy, cybersecurity and customer privacy, economic inequality, human capital (Just Transition), human rights, water and marine resources Recommendation • Initial reform for climate reporting should be flexible enough that the broad format can be adapted to different reporting requirements.

superannuation funds. For example, guidelines from ASIC focused for superannuation funds on the interaction between new climate reporting requirements and areas of disclosure deemed to provide consumers with sufficient information for a reasonable superannuation fund member to make an informed decision.

[40] IGCC, Empowering communities: How investors can support an equitable transition to net zero, July 2021.

Question	IGCC Response
Question 18: Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?	Digital reporting[41] helps investors to analyse, compare and assess risks and opportunities. For regulators it can also improve compliance monitoring and supervision. Therefore, digital reporting will enhance the objectives of the proposed climate-related reporting reforms and in relation to sustainability reporting more broadly. Digital corporate reporting is becoming a global norm, 14 G20 countries have implemented mandatory digital financial reporting, including the United States, United Kingdom, France and Germany.[42] Chartered Accountants ANZ notes that in general, digital financial reporting would enable more meaningful and customised reporting for stakeholders, better-informed investors, and better decision making.[43] The Parliamentary Joint Committee (PJC) on Corporations and Financial Services Regulation of Auditing in Australia: Interim Report recommends the Australian Government take appropriate action to make digital financial reporting standard practice in Australia.[44] In response to the PJC recommendation and stakeholder feedback, The AASB is also currently working on the development of digital financial reporting practice in Australia. 22 Given global practice towards mandated digital financial reporting, all corporate reporting to be digitalised at the same time as sustainability reporting, rather than to require digital reporting for only sustainability reporting. To achieve high-quality tagged data, preparers and other stakeholders will need support, encouragement and education both at the operational level within the company and at the level of the Board who need to provide review and governance over the tagging.[45] Recommendations • Signal a commitment to mandated digital reporting. • Support a robust digital reporting infrastructure, with sufficient tagging applications underpinned by the IFRS and ISSB taxonomies, drawing on international experience. • ASIC and the AASB work with the ISSB and other jurisdictions to create educational materials that are understandable for stakeholders with limited XBRL knowledge. • Roll out mandated digital reporting for sustainability reporting at the same time as all corporate reporting.
Question 19: Which of the potential structures presented (or any other)	IGCC acknowledges that there are multiple potential solutions to providing an appropriate structure for delivering an effective reporting system covering sustainability standards, as evidenced by different approaches adopted internationally.

[41] ASIC, Digital financial reports, accessed December 2022.
[42] CPA Australia, Digital corporate reporting: Global experiences from the G20 and implications for policy formulation, 2022.
[43] CA ANZ, Report: The future of financial reporting, April 2020.
[44] PJC on Corporations and Financial Services Regulation of Auditing in Australia: Interim Report (February 2020).
[45] UK Financial Reporting Council, submission to the ISSB on future development of the IFRS Sustainability Disclosure Taxonomy for digital reporting, 5 September 2022.

Question	IGCC Response
would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?	Navigating the multi-faceted nature of climate and sustainability risks and opportunity requires knowledge and experience of the underlying drivers and solutions. It will also require dedicated resources and expertise over time as new international sustainability standards are developed and adopted.[46] IGCC considers option 2 proposing a sperate sustainability board is most likely to promote effective and efficient administration and governance of climate and sustainability standards. In establishing a separate board, it will be important to ensure that concerns regarding siloing between AASB and the new sustainability standards board are addressed. The process in establishing a separate sustainability board should not delay adoption of the standards, since in the interim the AASB will be mandated to administer the standards in line with recently proposed amendments.[47] Option 3, closer to the New Zealand model, may also be suitable and provide flexibility to respond to growing disclosure requirements while reducing the potential creation of siloed knowledge and information. However this approach presents a large change to the AASB's existing governance structure, and may require wider consultation. Recommendations • Establish a separate Sustainability Standards Board, with measures in place to ensure close working relationships between the AASB and sustainability standards board and to avoid siloing between the accounting and sustainability boards.

[46] See further considerations for skills and resourcing in IGCC, Submission: Empowering the AASB to deliver sustainability standards, 15 December 2022.
[47] IGCC, Submission: Empowering the AASB to deliver sustainability standards, 15 December 2022.