Investor Group on Climate Change

Submission – Treasury 2nd Consultation Paper on Climate-related financial disclosure

July 2023

Introduction

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 and opportunities.[1]

The Investor Group on Climate Change (IGCC) supports internationally aligned mandatory climate disclosure building on the ISSB baseline and welcomes the opportunity to provide feedback on the Treasury's June 2023 consultation paper.[2]

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.

The Consultation

The consultation paper seeks views on proposed positions for the detail, implementation and sequencing of standardised, internationally-aligned requirements for the disclosure of climate-related financial risks and opportunities in Australia. In particular, views are sought the proposed positions relating to coverage, content, framework and enforcement of the requirements.

This submission builds on IGCC's response to Treasury's first consultation paper released December 2022, which focused on key considerations for design and implementation of standardised, internationally aligned requirements for disclosure of climate-related financial risks and opportunities in Australia.

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[1] Peak Australian Bodies submission to ISSB on draft standards (July 2022).
[2] Australian Treasury, Climate-related financial disclosure: Consultation paper, June 2023.

Summary of IGCC response

We acknowledge the progress that the Australian government has made towards implementing mandatory climate-disclosure requirements in Australia. As this next phase moves into the detail of policy proposals, we look forward to working with Treasury on key elements to support implementation, including clarity on the implementation process, application of reporting requirements to different entity types including asset owners and fund managers, and detail and timing of guidance and supporting materials.

Process and next steps

We recommend that Treasury, AASB and regulators prioritise working together to clearly communicate policy process, timing and responsibilities for delivering reporting standards, regulatory framework and guidance ahead of scheme commencement. This is necessary to build investor and stakeholder confidence in how proposed elements and roles and responsibilities come together to deliver a robust and fit for purpose disclosure regime.

Coverage - reporting entities and phasing

We welcome Treasury's timebound roadmap for implementation, including proposed coverage of private companies and process for establishing comparable arrangements for government entities. We recommend:

- Phase in should occur over a maximum three year period (instead of four years), with the final year no later than 2026/27. Commencing reporting earlier for Groups 2 and 3 with additional transitional reliefs where necessary is preferable than to delay commencement all together.
- Extend Group 1 to capture ASX300 and equivalent sized unlisted companies, and adjust Group 2 thresholds accordingly; and revise Group 1 thresholds for asset owners and asset managers to a minimum of $5b to reflect Treasury's intention of capturing larger entities in Group 1 and similarly review thresholds for Group 2 and 3.
- Test application of proposals to asset owners and fund managers to ensure they are fit for purpose and engage with investors on how the proposals apply to different entity types.

Reporting content

Institutional investors welcome the development of internationally aligned climate-related risk disclosure requirements in Australia. Ensuring clear, mandatory requirements adopting and building on ISSB standards will help to align regulation with industry expectations and global standards.

Scenario analysis

- We recommend reporting entities disclose climate resilience assessment against at least *three* future states to ensure adequate consideration of the range of plausible scenarios, one of which must be *consistent with 1.5˚C* (rather than the broader range in the Climate Change Act), and one aligned with a high warming scenario. We also note the importance of considering not only temperature outcomes but also differences in risks and opportunities between an orderly vs delayed disorderly transition scenario.
- Provide guidance with reference to existing materials on the importance of considering a range of scenarios, and disclosing inputs, assumptions and limitations of scenarios.

Transition planning and climate-related targets

- Noting Treasury's proposal for further consultation on transition planning via the sustainable finance strategy consultation, we support Treasury establishing arrangements for developing and disclosing transition plans which supports a whole of economy just transition aligned with limiting global temperatures to 1.5˚C. This would include introducing best practice regulatory guidance and minimum requirements for transition plan disclosure in Australia. This should build on the ISSB baseline, draw on international examples, and involve close consultation with finance sector representatives, industry experts and the wider community.

Risks and opportunities

- IGCC encourages Treasury and the AASB to ensure physical risk considerations receive adequate attention in the context of Australian reporting standards and guidance. 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.

Metrics and Targets

GHG emissions:

- 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.

Industry based metrics:

- Industry-specific metrics in addition to sector neutral metrics are important to support disclosure of relevant and comparable information. We recommend Treasury and the AASB consider opportunities to include industry based metrics from the outset where practical and engage in ISSB work on metrics based on SASB and support a common baseline of metrics and supporting guidance, including on physical risk metrics and targets.

IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information

- We recommend Treasury and the AASB consider IFRS S1 carefully as part of its climate- first approach to ensure general provisions intended to underpin climate-related reporting are incorporated in Australian standards.

Guidance and supporting information

- We welcome Treasury's emphasis on the need for supporting information. Guidance and supporting resources will be critical to support implementation and communicate regulatory expectations for new reporting requirements. This should be developed in consultation with industry in time for scheme commencement.

Reporting framework

- We support integration of company climate reporting within company's financial reporting package, including critical elements in the annual report. In consultation with investors we recommend review of proposals for full reporting in annual reports to ensure they are fit for purpose for different reporting entitles captured by the regime.

Assurance

- IGCC supports expansion of assurance coverage over time. We note existing concerns about market readiness and proportionality of proposed scope and timing of mandatory assurance. We recommend assurance should be further consulted on and phased in following implementation of AASB standards and release of draft IAASB standards.

Modified legal liability settings

- We acknowledge the need for Treasury to respond to concerns regarding legal liability for reporting in relation to forward looking statements and scope 3 emissions. We recommend additional regulatory guidance and capacity building around application of ISSB standards within Australian regulatory settings, including with regard to the modified legal liability settings proposed by Treasury.

Process and next steps

The consultation paper (Figures 1 and 2) briefly outlines the policy and standard setting process by Treasury and AASB respectively, with some reference to ASIC guidance. Figure 2 notes consultation on AASB draft standards followed by issuance final standards by Q2 2024*, ahead of mandatory requirements beginning in 1 July 2024*[3]. Treasury also notes that:

- Further consultation on guidance and progress on data challenges will be undertaken through development of the sustainable finance strategy later in the year.
- Separately, the Minister for Finance is leading related work to implement appropriate arrangements for comparable Commonwealth public sector entities and companies to also disclose their exposure to climate-related risk.

Further clarity and engagement is needed as a matter of priority to build investor and stakeholder confidence in how proposed elements and roles and responsibilities come together to deliver a robust and fit for purpose disclosure regime. This includes for example providing clarity on the intention that AASB standards (closely aligned with and building on ISSB standards issued in June 2023) and initial guidance will be finalised and fit for purpose before mandatory reporting requirements commence from 1 July 2024.

We recommend that Treasury, AASB and regulators work together to prioritise clear communication and engagement on policy process, timing and responsibilities for delivering reporting standards, regulatory amendments and guidance.

Coverage - reporting entities and phasing

It is positive to see a roadmap for implementation outlined for consultation. However, several further considerations and revisions need to be addressed in relation to timing and entities covered.

Reporting entities

Proposal 1

The consultation paper proposes that:

all entities that meet prescribed size thresholds and that are required to lodge financial reports under Chapter 2M of the Corporations Act 2001 (Cth) (Corporations Act) would be required to make climate-related financial disclosures.

In addition, all entities that are required to report under Chapter 2M of the Corporations Act that are registered as a 'Controlling Corporation' reporting under the National Greenhouse and Energy Reporting Act 2007 (Cth) would be covered under climate-related risk disclosures requirements, even if they do not meet the threshold criteria above.

IGCC Response

Many asset owners like superannuation funds and managed investment schemes are invested across the economy. Given climate change represents a systemic economic risk, it is important that

[3] Subject to passage of legislation.

mandatory disclosure requirements apply to entities operating across the economy and the entire investment supply chain. This supports both investor and regulatory decision making.

Therefore, IGCC supports wide coverage including 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.

The consultation paper proposes coverage of listed and private companies and financial institutions and notes that comparable arrangements are also proposed to be developed for government entities. However, no detail is provided on this separate process. We look forward to working further with government to implement these arrangements for government-owned companies and sovereign wealth funds (e.g. the NBN Co and Future Fund) as well as relevant public sector entities.

We also note that the consultation paper does not differentiate between reporting entities in its discussion of reporting requirements and users of reported information. We look forward to working with Treasury to support quality and decision useful disclosures that are workable and fit-for purpose for different categories of reporting entities.

Thresholds for Groups 1, 2 and 3.

We understand that broadly the proposed thresholds for Group 1 cover ASX200 and equivalently sized private companies. We consider that this could reasonably be extended to capture closer to ASX300 and Group 2 could be similarly adjusted. This would help to meet investor information needs in a timely manner, while allowing time for smaller entities under Group 2 and 3 and supporting processes to build capacity. We suggest Treasury make public further analysis on breakdown of entities captured under each group.

Thresholds for assets under management
Currently there are no separate thresholds for asset owners or fund managers as distinct categories of financial institutions.

However, the structure of managed funds as distinct from companies warrants consideration of alternative thresholds to achieve the policy intent of phasing in requirements starting with larger entities. While $1B in total assets represents a very large company, in contrast it is small for an investment fund. For example, our initial analysis of APRA data suggests that the proposed assets thresholds for Group 1 would capture around 75 per cent of APRA regulated superannuation funds, which represents over 99% of Assets under management by APRA regulated funds.[4]

A $5b assets threshold would capture close to half of APRA regulated superannuation funds, which represent over 95% of assets under management by APRA regulated superannuation funds. Consolidated revenue may also not be an appropriate test for funds.

Recommendations

- Test application of proposals to asset owners and fund managers to ensure they are fit for purpose and engage with investors on how the proposals apply to different entity types.

[4] APRA Annual fund-level superannuation statistics June 2022, https://www.apra.gov.au/annual-fund-level-superannuation-statistics.

- Revise Group thresholds for asset owners and asset managers based on Assets under management to better reflect the structure of funds and Treasury's intention of capturing larger entities in Group 1 and similarly review Thresholds for Group 2 and 3.
- Extend Group 1 to capture ASX300 and equivalent sized unlisted companies, and adjust Group 2 thresholds accordingly.
- Make public further analysis on breakdown of entities captured under each group and application of standards to different entity types.

Phased implementation

Proposal 2
The consultation paper proposes a three-phased approach starting with a relatively limited group of large entities (Group 1) in 2024/2025 that expands to apply to progressively smaller entities (Group 2 commencing 2026/27, Group 3 commencing 2027/28).

IGCC response

We recommend phase in should occur over a maximum 3 year period, with the final year no later than 2026/27. Getting entities started sooner rather than later will help to build capacity during the transitional period and to provide disclosures to the market and to regulators in a timely fashion. This extended delay potentially has unintended consequences of disadvantaging those players by not bringing them in at an early stage where the focus is on getting started.

While transitional reliefs need to be considered carefully, it would be preferrable to commence reporting earlier for Groups 2 and 3 with additional transitional reliefs where necessary rather than to delay commencement all together. Treasury may consider starting Group 2 in 2025/26 and Group 3 in 2026/27, or integrating Group 2 and 3 together commencing 2026/27.

Recommendation

- Phase in should occur over a maximum 3 year period, with the final year no later than 20226/27. Commencing reporting earlier for Groups 2 and 3 with additional transitional reliefs where necessary is preferable than to delay commencement all together.

Reporting content

Institutional investors welcome the development of internationally aligned climate risk disclosure requirements in Australia. Ensuring clear, mandatory requirements adopting and building on ISSB standards will help to align regulation with industry expectations and global standards. We support ongoing focus on international alignment and interoperability to promote efficient reporting and capital flows towards climate solutions. This is particularly important for investors and companies operating across multiple jurisdictions.

Scenario analysis

Proposal 3
The Consultation Paper proposes that: *From commencement, reporting entities would be required to:*

- *use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state.*
- *disclose climate resilience assessments against at least two possible future states, one of which must be consistent with the global temperature goal set out in the Climate Change Act 2022.*

IGCC response

IGCC's response to the initial consultation outlined investor expectations for company scenario analysis and noted that while the ISSB standard provides baseline coverage of scenario analysis, additional provisions and guidance are necessary.[5] IGCC welcomes additional specificity to provide a consistent basis for comparison across a range of sufficiently robust and challenging scenarios.

We strongly recommend that the proposed scenario consistent with the global temperature goal set out in the Climate Change Act 2022 is refined to more precisely align with 1.5˚C.

The Climate Change Act aligns to the Paris Agreement that has a goal of limiting warming to well below 2˚C, with an aim of limiting it to 1.5˚C. As currently proposed, this allows reporting entities to adopt a range of scenarios which do not provide a consistent basis for comparison for 1.5˚C alignment.

This lack of consistent basis for comparison causes challenges in comparability and limits robustness of assessments in relation to Paris-aligned scenarios.[6]

Investors also expect to see a wider range of scenarios, including 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/high case (4+˚C) scenario, as well as disclosure of rationale for bespoke scenarios.

Of these, the lower and upper ends for are particularly important to assess resilience. The delayed disorderly scenario vs an orderly transition also helps entities asset risks and opportunities in an environment with sudden policy shifts which seek to reduce emissions on steeper trajectory and can cause increased transition risks.

We note IFRS S2 paragraph 22 requires entities to disclose information on inputs and assumptions used for scenario analysis, and encourage this to be extended to include limitations. This both demonstrates understanding on the side of the entity but also allows those reading the disclosures to better understand their usefulness. For example, limitations in existing scenarios may make it challenging to adequately capture potential financial damage from the physical impacts of climate change.

Recommendations

- We strongly recommend revising the proposed Paris-aligned future state to a 1.5˚C scenario.
- We recommend reporting entities disclose climate resilience assessment against at least *three* future states to ensure adequate consideration of the range of plausible scenarios, one of which must be consistent with 1.5˚C (rather than the broader range in the Climate Change Act), and one aligned with a high warming scenario.[7]

[5] IGCC, Submission – Treasury Consultation Paper on Climate-related financial disclosure, February 2023.
[6] Climate Analytics, Influential oil company scenarios for combating climate change don't actually meet the Paris Agreement goals, our new analysis shows, August 2022.
[7] A minimum 3 scenarios including a 1.5˚C scenario is consistent with Aotearoa New Zealand Climate Standard (NZ CS 1), para 13.

- Consider additional baseline scenarios, including a delayed or abrupt transition scenario and a hot house / high case scenario.
- Provide supporting guidance with reference to existing materials on the importance of considering a range of scenarios, and disclosing inputs, assumptions and limitations of scenarios.

Domestic climate scenarios

IGCC has also previously recommended development of domestic climate scenarios and supporting data required for climate risk assessment and disclosure at a sector 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.[8]

We note the intention to consult further on this area via Treasury's sustainable finance strategy paper later in the year.

Transition planning and climate-related targets

Proposal 4 The consultation paper notes that Treasury will consider arrangements that could strengthen the development and disclosure of company transition plans as part of broader consultation on the Government's Sustainable Finance Strategy later this year.

IGCC response

Establishing these arrangements for developing and disclosing credible company climate transition plans in the Australian context, building on ISSB's baseline and international best practice, is a top priority for investors, especially in relation to emissions intensive companies.

In additional to general guidance, specific guidance should be provided on transition plan disclosure expectations for different entity types, for example asset owners and managers, as distinct from companies.

Guidance on the application of materiality to reporting requirements including in relation transition plans would also assist companies to understand the extent of reporting expected.

Ensuring the arrangements are appropriately integrating into the disclosure framework is important to promote the same rigour and accountability for credible transition plan disclosure as other elements of the disclosure requirements.

Recommendations

- Establish a clear framework for developing and disclosing transition plans which supports a whole of economy just transition aligned with limiting global temperatures to 1.5˚C. This would include introducing best practice regulatory guidance and minimum requirements for transition plan disclosure in Australia. This should build on the ISSB Climate Standard, draw on international examples, and involve close consultation with finance sector representatives, industry experts and the wider community.

[8] See [IGCC Submission: Climate Change Authority - Setting, tracking and achieving Australia's emissions reduction targets - Issues Paper, June 2023](#).

- In additional to general guidance, provide specific guidance, in consultation with industry, on transition plan disclosure expectations for different entity types including for asset owners and asset managers.

Risks and opportunities

> **Proposal 5**
>
> The consultation paper proposes that:
>
> *from commencement, entities would be required to disclose information about material climate-related risks and opportunities to their business, as well as how the entity identifies, assesses and manages risk and opportunities.*
>
> *In addition to risks and opportunities themselves, entities would be required to disclose information about where risks and opportunities are concentrated in the entity's supply chain, the anticipated time horizon and metrics that help investors understand the scale and impact of risks and opportunities.*

IGCC response

IGCC supports this proposal and encourages Treasury and the AASB to ensure physical risk considerations receive adequate attention in the context of Australian reporting standards and guidance.

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

The Australian Government's upcoming National Climate Risk Assessment[9] 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.

Recommendations

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

[9] IGCC, Investor Expectations: National Climate Risk Assessment, July 2023.

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.

Metrics and Targets

Greenhouse gas (GHG) emissions

Proposal 6

The Consultation Paper proposes that:

> *From commencement, scope 1 and 2 emissions for the reporting period would be required to be disclosed.*
>
> *Disclosure of material scope 3 emissions would be required for all reporting entities from their second reporting year onwards. Scope 3 emissions disclosures made could be in relation to any one-year period that ended up to 12 months prior to the current reporting period.*

It further notes"

> *...the scope 3 emissions disclosed could have accrued in any one-year period that ended up to 12 months prior to the current reporting period. For example, scope 3 emissions reported in the 2027-28 financial year could be those incurred (either actual or estimated) in the company's supply chain in the 2026-27 financial year. This recognises that other reporting entities' scope 1 and 2 emissions may form inputs for an entity's scope 3 estimation. This is particularly important for financed scope 3 emissions where banks, superannuation funds and insurers are likely to need to model or estimate a significant proportion of the economy.*
>
> *...the proposed requirements would take a proportional approach, in line with what has been indicated by the ISSB to date.*

IGCC response

Reporting boundaries and use of NGER data

Under the reporting framework section, the consultation paper proposes that: "To ensure consistency, companies should report the same emissions and energy data in their company reports as they do in their NGER reporting."

This consideration of NGER data reporting to be considered in the context of greenhouse as emissions disclosure requirements, and not as "timing of lodgement" consideration.

While we agree the company report should include data consistent with the NGER Reporting, it should not be limited to that data. This is because the boundary setting requirements for the purpose of national greenhouse gas accounting, which use operational control for scope 1 and 2 emissions and are limited to emissions produced in Australian borders, may not be appropriate for the purpose of climate-related disclosures.

Importance of equity share for investors

Operational control vs equity share

From an investment perspective, company 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 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

Review and guidance should address specific needs and considerations for asset owners and managers as distinct categories of reporting entities with unique challenges and reporting audiences.

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] is necessary to support effective implementation and to support consistent and comparable disclosures. This should be reviewed iteratively as reporting practice evolves.

Recommendations

- 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 (ie on a comply or explain basis).
- 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.
- Provide greater clarity on regulatory expectations for measuring financed emissions, including with reference to PCAF.

Industry-based metrics

The consultation Paper proposes that "By end state, reporting entities would be required to have regard to disclosing industry-based metrics, where there are well-established and understood metrics available for the reporting entity."

Industry-specific metrics in addition to sector neutral metrics are important to support disclosure of relevant and comparable information. Therefore, we encourage the government and AASB to prioritise engaging in the development of cross-sector and industry specific metrics that are fit for purpose in Australia.

Australia should also 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.

Recommendations

- Consider opportunities to include industry based metrics from the outset where practical and 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;

Application of IFRS S1 and related standards

The ISSB Standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related disclosures* (IFRS S2) and are designed to work as a package. IFRS S1 provides general provisions that apply to climate-disclosure as well as broader sustainability-related disclosure. The ISSB intends that IFRS S1 would apply in a climate-first approach to the extent that the S1 provisions are relevant to the climate-related disclosures. This includes key general provisions intended to address proportionality challenges and ensure information is decision useful.

Recommendations

- We recommend both Treasury and the AASB consider IFRS S1 carefully as part of its climate-first approach to ensure general provisions intended to underpin climate-related reporting are incorporated in Australian Standards.

Sustainable finance taxonomy alignment

We note that the Australian sustainable finance taxonomy is currently under development. Once established, the taxonomy will play an important role in supporting entities to validate climate-related claims, such as alignment with Paris goals.

Where entities make such claims, they should be required to disclose the level of alignment with the Australian taxonomy. We anticipate there will be opportunity to provide further comments in response to the Government's sustainable finance strategy consultation later this year. We encourage the Government to actively consider and communicate how the disclosure requirements will incorporate taxonomy alignment.

More widely, there is value in considering integration of established reporting standards such as GRI Standards, which can support entities to identify material impacts and their links with material risks and opportunities.[10]

Recommendations

[10] See Box 1, GRI 3_Material Topics 2021 and Box 1 in GRI 1_Foundation 2021 for further information on sustainability reporting and financial and value creation reporting.

- Consider and communicate how the disclosure requirements will incorporate disclosures against sustainable finance taxonomy criteria.

Guidance and supporting information

Proposal 7

The consultation paper notes that:

> *...further guidance and progress on data challenges is necessary to support broad adoption of best-practice disclosure in the medium term.*
>
> *Stakeholder feedback widely called for more guidance on scope 3 estimation methodologies, including guidance on the interpretation of materiality, boundaries for estimation and how best to disclose data gaps and changes in methodologies and assumptions. With regard to scenario selection, stakeholders requested assistance with selecting appropriate scenarios, with calls for downscaled regional scenarios to support the Australian context. In transition planning, requests for gold-standard and leading examples of transition plans were made.*
>
> *The Government is currently developing a Sustainable Finance Strategy which will look in more detail at options and priorities for addressing key data challenges and providing clearer guidance in these areas. As part of the consultation process on the Strategy, stakeholders will have an opportunity to provide further input on these issues.*

IGCC response

Guidance and supporting resources will be critical to support implementation and communicate regulatory expectations in the context of new reporting requirements, and 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.

Reporting framework

Proposal 8

The consultation paper outlines proposals for the location of climate-related disclosures, format requirements and timing of lodgement. It also proposes that all covered entities would be required to make climate disclosures available to the public.

Location

To maintain alignment with existing corporate reporting practices, climate disclosures would be required to be published in an entity's annual report.

Format requirements

Some stakeholders have raised concerns that additional requirements in the annual report may lead to lengthy and impractical reports. The following conditions would improve readability of annual reports containing climate disclosures:

- *Entities must include an index table within their annual report that displays climate disclosure requirements (i.e., governance, strategy, risk management, metrics and targets) and the correlating disclosure section and page number.*
- *Listed entities may report the proposed 'metrics and targets' standards in a separate report, provided it is referenced in the directors' report.*

IGCC response

Company integration of financially material reporting within the annual reporting suite is a priority for users. To provide value to investors, we support the majority of company disclosures in the annual report and financial reporting package.

Given the scheme captures a range of reporting entities with different structures and end user needs, we recommend Treasury review proposals to ensure they are workable and practical for different reporting entitles captured by the regime. While the proposals consider that listed entities may report some information in a separate report, it is not clear how this translates to other entities.

For superannuation funds in particular, a primary audience of TCFD-aligned reporting is individuals who are members or prospective members. Feedback from superannuation funds currently publishing TCFD-aligned climate reporting is that these climate reports are more widely read then their annual reports. There is a concern that requiring all disclosures to be included in annual reports would not necessarily serve the interests of members as primary users of the information.

The proposed index table will be valuable to improve readability of climate reports. Consideration should be given to how the index table links with digital reporting.

Recommendations

- Review proposals to ensure they are workable and practical for different reporting entitles captured by the regime.
- For asset owners and asset managers, reporting should be included in financial reporting package, with flexibility for reporting entities to determine where the information is best placed.

Assurance

Proposal 9

The consultation paper notes that:

> *Consultation feedback indicated broad agreement for phasing and scaling of assurance requirements. This would allow for skills, capacity, and processes to be developed in the market at a workable pace.*
>
> *The roadmap expands assurance coverage over a 4 year period for each Group, starting with limited assurance of scope 1 and 2 emissions and reasonable assurance of governance disclosures, with the end objective being reasonable assurance of all climate disclosures from 2027/28 for Group 1, 2029/2030 for Group 2 and 2030/31 for Group 3.*

IGCC response

Assurance provides an important role in supporting the delivery of robust and reliable information. IGCC supports expansion of assurance coverage over time and appreciate the detailed roadmap as a base for consultation. We recommend that scope and timing for mandatory assurance should be further consulted on and phased in following implementation of AASB standards and release of draft IAASB standards.

Significant questions over the market's readiness for assurance, and in particular reasonable assurance within the timeframes outlined. Data challenges, proportionality and capacity considerations for both reporting entities and assurance providers present significant challenges in achieving the proposed timing and scope of coverage. Assurance requirements and frequency also need to be sensitive to the entities types captured and proportionate with existing assurance frameworks to the extent practical.

We also note the International Auditing and Assurance Standards Board (IAASB) work currently underway 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. This will provide a useful basis for further consultation on how this will applied in the Australian context to promote international alignment.

Voluntary assurance should be encouraged from the outset to build capacity and quality of disclosures. Tangible support and incentives (including for voluntary assurance) may be desirable to encourage the development of assurance capabilities and expertise.

- We recommend further consultation on assurance framework is completed after reporting requirements are confirmed, draft international standards are available, and anticipated limitations across the market are better understood.

Modified legal liability settings

Proposal 10 Climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three years.

We acknowledge the need for Treasury to respond to concerns regarding legal liability for reporting. The proposals seek to achieve this by capturing requirements under civil penalty provisions and limiting the ability to bring claims in relation to scope 3 emissions and forward-looking statements to ASIC only.

We also note several provisions in the ISSB standards which are designed to assist with proportionality challenges and facilitate application, including the concept of 'reasonable and supportable information available without undue cost or effort'.[11]

Further guidance regarding the criteria to be used to determine whether a reasonable basis exists for the inclusion of forward looking and the adequacy of climate related disclosure should facilitate more comprehensive reporting.

Recommendations

We recommend additional regulatory guidance and capacity building around application of ISSB standards within Australian regulatory settings, including the modified legal liability settings proposed by Treasury. This should include:

- Guidance from ASIC on how disclosures should be framed, including disclosure of assumptions, uncertainties and methodologies, along with guidance as to what constitutes a 'reasonable

[11] See IFRS S1 Basis of Conclusions, Table 1 – summary of ISSB decisions that assist with proportionality or in the application of IFRS S1.

basis' for forward looking statements under the modified liability regime to give reporters comfort that their disclosures align with regulatory requirements.[12]

- Guidance from ASIC 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.
- Guidance from APRA on relevant considerations for APRA regulated entities in the context of new climate reporting requirements.

[12] 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.