Australian
Finance
Industry
Association

17 February 2023

Robert Jeremenko
Acting Deputy Secretary
Market Conduct Division
Climate Disclosure Unit
The Treasury
Langton Crescent
Parkes ACT 2600
Via email only: climatereportingconsultation@treasury.gov.au

Dear Mr Jeremenko,

Climate-related financial disclosure – Consultation paper (December 2022)

The Australian Finance Industry Association (AFIA)[1] appreciates the opportunity to respond to Treasury's Consultation Paper ('Consultation Paper') on Climate-related financial disclosure.[2]

AFIA is the only peak body representing the entire finance industry in Australia.

We represent over 150 providers of consumer, commercial and wholesale finance in Australia, including bank and non-bank lenders, finance companies, fintechs, providers of vehicle and equipment finance, car rental and fleet providers, and service providers in the finance industry. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

We collaborate with our members, governments, regulators and customer representatives to promote competition and innovation, deliver better customer outcomes and create a resilient, inclusive and sustainable future. We provide new policy, data and insights to support our advocacy in building a more prosperous Australia.

[1] www.afia.asn.au.
[2] Treasury (December 2022), Climate-related financial disclosure - Consultation paper.

INTRODUCTORY COMMENTS

AFIA welcomes the opportunity to provide feedback on the Treasury's climate-related disclosure consultation paper and the Australian Government's commitment to a sustainable finance strategy.

AFIA members are at the forefront of Australia's transition to a low carbon economy. Our members manufacture and distribute innovative finance products and project financing that enable Australian consumers and businesses to adopt low and zero carbon technologies. Many members have committed to stage 1 and 2 cuts to reach net zero by 2030.

A key strategic priority of AFIA is to support the sustainable and timely transition to net-zero carbon emissions through advocating for industry initiatives and commitments that encourage green finance.[3]

AFIA is proud to represent nine Buy, Now Pay Later (BNPL) providers, who finance 17.4 per cent of Australia's annual uptake of rooftop solar.[4] This has helped contribute to Australia having the highest rates of rooftop solar installations in the world.[5] Furthermore, our fleet members finance over 700,000 ongoing leases and play a pivotal role in driving down over 16 per cent of Australian emissions that come from the transport sector, by championing the move to electric vehicles and cleaner, greener forms of personal transportation.[6]

AFIA members have been actively engaged with the development of the Australian Government's National Electric Vehicle (EV) Strategy, working to expand EV uptake in Australia.[7] This is crucial, given only two per cent of new vehicles purchased in Australia are EVs, compared to 5 per cent in the United States, 15 per cent in the United Kingdom, 17 per cent across the European Union and as much as 72 per cent in Norway. [8]

Furthermore, AFIA recently provided technical input to the Australian Sustainable Finance Institute (ASFI) Taxonomy project to develop a green finance reporting taxonomy, to foster efficient financing of the low carbon transition. This recognises the importance of the development of an Australian framework to help direct capital and investment towards net-zero initiatives, which is necessary to reduce emissions and achieve our targets.[9]

The consultation paper refers to the International Sustainability Standards Board (ISSB) which was created to develop a comprehensive baseline of global standards for climate disclosure and sustainability reporting.[10] The Government is taking the right approach in acting on these issues to avoid the risk of Australia being left behind, as market expectations for certainty require government action alongside efforts by businesses to continue to improve the quality of their climate-related financial disclosures. The Government's proactive approach to this issue will protect the Australian economy's capacity to attract capital and investment.

[3] See AFIA's Annual Review FY22, page 13.
[4] Industry data provided to AFIA for compliance purposes.
[5] International Energy Agency (2022), Trends in Photovoltaic Applications 2022, 10 and 30.
[6] AFIA Appearance before the Senate Economics Legislation Committee) (23 August 2022). Angie Raphael, 'We don't have a second to waste': Australia lags behind world on one thing', The Australian (23 August 2022).
[7] See AFIA Submission on the National Electric Vehicle Strategy (NEVS) (31 October 2022).
[8] AFIA Submission to the Inquiry into the Treasury Laws Amendment (Electric Car Discount) Bill 2022, 2-3.
[9] ASFI Taxonomy Project (December 2022), Designing Australia's sustainable finance taxonomy.
[10] Please see IFRS Foundation, 'ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures' (31 March 2022) and IFRS Found Foundation 'ISSB Updates'.

AFIA welcomes that the Government has committed in the 2022 Federal Budget (October) to allocate funding towards the development of reporting standards and in the consultation paper to introducing internationally aligned reporting requirements for businesses to make disclosures, which are, in line with the reform principles, designed to be scalable, flexible, and proportional to risk.[11]

To ensure Australia remains aligned with major international capital markets, disclosure obligations need to be credible and comparable to other prominent jurisdictions. We endorse a global approach to the development of climate-related disclosures and believe there should be a globally consistent, comparable, reliable, and verifiable corporate reporting system to provide all stakeholders with a clear and accurate picture of an organisation's ability to create sustainable value over time.

A coordinated approach between the Government, other jurisdictions, and the ISSB to develop sustainability standards is critical to avoid any risk of regulatory arbitrage and fragmentation by aligning key definitions, concepts, terminologies, and metrics on which disclosure requirements are built.[12] We consider it crucial for entities to be able to collect data efficiently and report in a way that, in Treasury's words, 'minimises duplication'.[13] Therefore, AFIA supports alignment with the ISSB. However, we note that their standards still remain in development, with key aspects still to be finalised.

Our recommendations include that the Australian requirements need to be implemented in a phased, scalable, and proportionate manner. This will ensure reporting entities are supported and provided with appropriate time to prepare and make necessary system, policy and practice changes. We further comment on the challenges entities will face to collect the necessary data and time to upskill to prepare for the disclosure requirements.

AFIA recommends that in order to ensure reporting is comprehensive, and to provide a proportionate response to the inherent uncertainty of some climate disclosures, the Government should consider safe harbour provisions that provide protection for entities that act in good faith in complying with new disclosure requirements.[14] It will also be critical that reporting entities are provided with ample support and guidance by the Government to meet the requirements.

Attachment A provides further detail on AFIA's position to the consultation paper and includes specific recommendations.

We look forward to working with Government when further detailed proposals are published for consultation, once the final ISSB framework has been released.

[11] Climate-related financial disclosure - Consultation paper (n 2), 6 .
[12] International Sustainability Standards Board (ISSB) webpage.
[13] Climate-related financial disclosure - Consultation paper (n 2), 13.
[14] Climate-related financial disclosure - Consultation paper (n 2), 5 – discusses similar safe harbour regimes.

CLOSING COMMENTS

Thank you once again for the opportunity to comment on the Government’s consultation paper for climate-related disclosures.

Our members look forward to playing their part in financing Australia’s transition to net zero.

Should you wish to discuss our submission or require additional information, please feel free to contact me or Leisha Watson, Senior Policy Advisor.

Yours sincerely

Diane Tate
Chief Executive Officer

ATTACHMENT A

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?

AFIA agrees with Treasury that climate change poses a 'material risk to the financial system'.[15] We note that this risk has been discussed by the Australian Prudential Regulation Authority (APRA) in their Prudential Practice Guide 220 on 'managing the financial risks of climate change'.[16] We strongly support work to develop consistent standards which recognise the importance of managing climate-related financial risks.

We note that the existing obligations and guidance related to climate reporting in Australia include the following:

- The *Corporations Act 2001* (Cth) (the *Corporations Act)* obligates company directors to disclose various aspects of a business performance in annual reports. As supplemented by the Australian Securities and Investments Commission (ASIC)'s Regulatory Guide, RG 247, this requires the disclosure of 'material business risks', which has been interpreted to include climate risks where they have a 'material impact' on the 'future performance, position or prospects' of a reporting entity.[17]
- The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.[18]
- ASIC has publicly committed to 'foster the continued improvement' of climate-related financial disclosures in Australia and 'promote' companies providing 'climate related disclosures that will enable investors to make fully informed decisions'.[19] ASIC has also emphasised Directors and Boards must 'ask if material climate-related disclosures have been made and updated where necessary and appropriate' in line with their statutory duties.[20]
- ASIC has encouraged Australian companies to make voluntary disclosures related to climate-change risk to Australian investors, in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework.[21] Research by the Australian Council of Superannuation Investors (ACSI) found, following this guidance, the number of ASX 200 listed companies making climate related financial disclosures in line with the TCFD standards rose from just 11 in 2017 to 103 in July

[15] Climate-related financial disclosure - Consultation paper (n 2), 5
[16] APRA (November 2021): Consultation on draft Prudential Practice Guide on Climate Change Financial Risks.
[17] ASIC (August 2019): RG 247 Effective disclosure in an operating and financial review.
[18] ASX (February 2019): Principles and recommendations. These are explained in the Governance Institute of Australia's (February 2020): Practical Guide to Reporting on Climate Change Disclosure Risk.
[19] Sean Hughes (ASIC Commissioner) (14 October 2021), 'Corporate governance update: climate change risk and disclosure'
[20] Ibid.
[21] Cathie Armour (ASIC Commissioner) (February 2021): Managing climate risk for directors.

2022, covering a market capitalisation equivalent to 70 per cent of the ASX's total market capitalisation or $1.59 trillion.[22] However, the same research found investors were still concerned about the way in which such reporting was being provided to the market, including the metrics used, the types of scenarios catered for, consistency across reporting and the level of detail provided.[23]

For these reasons, AFIA welcomes the positive strides Australian companies have made in relation to climate-related financial disclosures. It is important that we continue to develop standardised and consistent reporting standards, in line with best practice as indicated by the ISSB. Consistent reporting standards will ensure there is clarity for users of this information, including but not limited to, shareholders, investors, market and credit analysts, governments and regulators, and other stakeholders.

It will also be important that any mandatory standards recognise entities of different sizes and scales who may have different abilities to report and should not necessarily be subject to equally onerous requirements, compared to larger ASX 200 companies.[24] AFIA welcomes continued and clear guidance from ASIC on their expectations regarding directors' duties and material risk reporting thresholds under the *Corporations Act 2001*.[25]

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

The intention of the TCFD recommendations were to provide a framework for disclosing 'clear, comparable and consistent information about the risks and opportunities presented by climate change'.[26] They were developed to promote informed investment, credit, and insurance underwriting decisions that 'would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks'.[27]

The TCFD recommendations encourage the disclosure of forward-looking information through scenario analysis to enable users to understand the potential impact of different scenarios on the company's businesses, strategy and financial planning. It noted that inadequate information about climate related risks can lead to a mispricing of assets and misallocation of capital and can potentially give rise to concerns about financial stability since markets can be vulnerable to abrupt corrections.[28] AFIA observes

[22] Simone Fox-Koob (July 2022) The Sydney Morning Herald: 'Net-zero doubles for top 200 firms, but investors want more detail'. See too ACSI, Research Report (July 2022):Promises, pathways & performance – climate change disclosure in the ASX200.
[23] Ibid.
[24] Climate-related financial disclosure - Consultation paper (n 2),8 (n 2).
[25] See Part 2D.1 of the *Corporations Act* on directors' duties, specifically ss 180-183 and 191. Regarding director's obligations to disclose 'material business risks', which include climate risks, see s 299A(1) of the *Corporations Act*, as supplemented by ASIC Regulatory Guide RG247.66, which discussed the need to report climate related risks.
[26] Task Force on Climate-related Financial Disclosures (TCFD) (June 2017), Final report: Recommendations of the Task Force on Climate-Related Financial Disclosures , (i).
[27] Ibid, 2.
[28] Ibid, 1.

the commentary within the consultation paper that since the TCFD released its recommendations in 2017, there has been a steady increase in demand for disclosure by investors and jurisdictions mandating TCFD-aligned disclosures.[29]

As described in our introductory comments, AFIA believes there are significant benefits of a global approach to climate-related disclosures as an important feature for a holistic international architecture for the management of sustainability risks and opportunities. This helps to address the needs of stakeholders for appropriate disclosures on climate change.

We endorsed this position within our joint submission as a member of the Peak Australian Bodies to the ISSB consultation on Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ([Draft] IFRS S1) and Exposure Draft IFRS S2 Climate-related Disclosures ([Draft] IFRS S2) in July 2022.[30]

As above, there should be a globally consistent, comparable, reliable, and verifiable corporate reporting system to provide all stakeholders with a clear and accurate picture of an organisation's ability to create sustainable value over time. A coordinated approach is critical to avoid any risk of regulatory arbitrage and fragmentation by aligning key definitions, concepts, terminologies, and metrics on which disclosure requirements are built. A consistent baseline is needed for there to be trust and confidence in the information provided and to avoid confusion or misunderstanding amongst investors and other stakeholders.

AFIA members are affected by the development of mandatory climate-related reporting standards within other jurisdictions such as New Zealand, the United States and Europe. We consider it crucial for entities to be able to collect data efficiently and report in a way that avoids duplication.[31]

The consultation paper asks specifically on what the costs are to align with international practice. We believe that there will be significant up-front, as well as ongoing, compliance costs which will pose challenges, in particular for smaller and less resourced entities. These costs include additional resources around data collection and instructing external expert advisory services to conduct risk assessments, scenario analysis, measurement, verification, and assurance.

[29] Climate-related financial disclosure (n 2), 12.
[30] ISSB, Exposure Draft: Climate-related Disclosures (March 2022), Peak Australian Bodies Submission dated 18 July 2022.
[31] Climate-related financial disclosure - Consultation paper, page 13 (n 2).

Question 2: Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25? 2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

AFIA firmly believes that the implementation of requirements must be scalable and practical. We support a phased approach with realistic timelines for preparation. This will help to promote participation and recognise that there will be implementation challenges for reporting entities, particularly where they have complex and diverse portfolios.

A phased approach will also allow for progress and maintain momentum towards targets.[32] As the consultation paper indicates, a phased approach is consistent with the implementation taken by other jurisdictions.[33] For example:

- the European Union's Sustainable Finance Disclosure Regulation (SFDR) came into force on 19 December 2019 and phasing in commenced on 10 March 2021.[34] The SFDR sets out the duties of financial market participants to integrate ESG risks and disclosing information on these.
- in New Zealand, the new disclosure regime within New Zealand is being gradually phased in, with reporting against new climate reporting standards beginning after 1 January 2023.

As a further example, there was a phased transition period for the new prudential standard CPS511 (Remuneration) issued by the Australian Prudential Regulatory Authority (APRA). The implementation was phased by size of entity. For the largest entities, the obligation to comply commenced with the beginning of the entity's financial year.[35]

AFIA notes that ASIC, APRA, the Reserve Bank of Australia, and the Treasury previously raised, in relation to the ISSB consultation on IFRS S1 and IFRS S2 standards, the issue of scalability for smaller or less resourced entities, as well as highlighting the need for reporting requirements to be phased to allow entities adequate time in preparing and upskilling for any new disclosure requirements.[36] This is especially relevant given the large number of small to medium sized listed entities in Australia which may be placed under excessive pressure depending on the disclosure requirements.[37] We recommend that Government provide clear guidance on their proposed phased approach and outlook for future financial years.

[32] Peak Australian Bodies Submission dated 18 July 2022 page 2, (n 29).
[33] Climate-related financial disclosure page 13, (n 2).
[34] Sustainable Finance Disclosure Regulation (November 2019) European Union Regulation 2019/2088.
[35] Peak Australian Bodies Submission dated 18 July 2022 page 10, (n 29).
[36] Australian Council of Financial Regulators (27 July 2022): Comment Letter on the ISSB Exposure Drafts, Australian Council of Financial Regulators Comment Letter.
[37] Ibid.

There has been significant development of climate-related disclosure schemes, with net zero commitments being the norm for Australian companies with $1.59 trillion or 70% of the ASX200's collective market capitalisation adopting net zero commitments. It has been found that most companies in the ASX200 are now adopting and disclosing against the TCFD.[38]

A report by the Australian Council of Superannuation Investors (ACSI) which analysed public reporting by ASX200 companies up to 31 March 2022 found that management and disclosure of climate-related risks and opportunities has continued to significantly improve. However, key challenges remain for companies in strengthening the standard of reporting.[39]

As a result, whilst we consider that some Australian entities are reasonably prepared for the introduction of new disclosure standards, such as large globally connected listed entities and heavy emitters, many others will require time to scale up their expertise and capacity. They will be impacted by high upfront costs and resource needs to address financial, regulatory, legal, and public interest risks.

AFIA agrees with Treasury that 'larger entities with more resources' should be included in the regime first, as they have the most capacity. The reporting requirements could then be appropriately phased to smaller entities in a gradual manner.[40]

AFIA believes the current availability and reliability of data and methodologies will present challenges for certain disclosures (such as scenario analysis where the is a lack of consistent methodologies used) and structured transition periods may be required. For example, the United Kingdom (UK) Financial Conduct Authority (FCA) report on their review of TCFD-aligned disclosures by premium listed commercial companies found that over 90 per cent self-reported that they had made disclosures consistent with the TCFD's governance and risk management pillars. However in some instances the disclosures themselves appeared to be very limited in content.[41]

As a result, AFIA recommends careful consideration be given to a phased approach to adoption across entity types, sectors, and sizes to ensure entities have the necessary data and time to upskill. We recommend the Government consider additional time for small to medium sized entities within Australia based on set size metrices (for example, entities with less than 500 employees).

The currently proposed period for the first report for initially covered entities may not be realistic given delays in the finalisation of the ISSB standards and considerations noted above.

[38] ACSI (July 2022), Promises, pathways & performance: Climate change disclosure in the ASX200, pages 5 and 6.
[39] *Ibid*, page 5, key findings.
[40] Climate-related financial disclosure - Consultation paper (n 2), 8-9.
[41] UK Financial Conduct Authority (FCA) (29 July 2022) report: Review of TCFD-aligned disclosures by premium listed commercial companies.

Question 3: To which entities should mandatory climate disclosures apply initially? 3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively? 3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

As above, AFIA strongly believes that disclosure requirements need to be proportionate and introduced in a phased manner. We note that it is proposed within the consultation paper that standardised climate-related financial disclosure requirements would initially apply to certain listed entities covered by the *Corporations Act*.

The consultation paper states that the most progress to date in uptake of climate reporting has come from listed companies. It is proposed that requirements would apply initially to large financial institutions including banks, insurers, credit unions and superannuation funds.

The ASFI Roadmap previously recommended the ASX 300 and financial institutions with more than $100 million in consolidated annual revenue to report in line with the TCFD recommendations by 2023.[42] In New Zealand, financial institutions with assets of more than $1 billion and listed issuers with a market price or quoted debt in excess of $60 million are required to produce climate-related disclosures from 2023.[43]

AFIA recommends that a phased and Australian tailored approach is most appropriate, initially commencing with a subset of the largest for-profit entities. This reflects our comments above that larger, listed entities will likely be more mature and prepared. AFIA recommends the Government utilise existing Australian definitions of 'large entity' or 'large financial institution' and consider possible avenues for consistency, while ensuring that the thresholds are appropriate and proportionate to risk in this context.[44]

AFIA urges the Government to provide guidance and detail on what entities are captured in the next consultation and clearly advise on the ultimate coverage to allow the market to prepare.

Question 4: Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the 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

[42] The Australian Sustainable Finance Initiative (ASFI), Australian Sustainable Finance Roadmap: A plan for aligning Australia's financial system with a sustainable, resilient and prosperous future for all Australians (Recommendations), 55.
[43] New Zealand, Ministry for the Environment, Mandatory climate-related disclosures.
[44] For example, APRA Letter (20 July 2022): Minor amendments to centralise the definition of a significant financial institution.

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?

AFIA endorses a global approach to the development of climate-related disclosures. It is common among international jurisdictions with mandatory climate disclosure that those requirements are TCFD-aligned.[45]

While we believe that the TCFD recommendations have seen strong uptake in Australia, however they leave significant scope for disclosures to vary in reporting across entities. We understand that the ISSB aims to fill this gap by providing the necessary standardisation and comparability between climate disclosures, as part of a comprehensive global baseline of sustainability-related disclosure standards. AFIA therefore supports alignment with the ISSB however note that their standards remain in development, with key aspects still to be finalised.

Australian reporting entities require clear guidance and support to ensure that they produce forward-looking statements, given the challenges they face with many complex and diverse portfolios. The development of climate related financial reporting requirements which apply in Australia should consider the context and previous regulatory guidance, as noted in response to question 1.1. We believe that special attention be paid to consider how any changes to future Australian regulations may vary from:

- The annual reporting and disclosure duties of Australian companies and directors under section 299A(1) of the *Corporations Act*, as supplemented by ASIC RG 247's comments related to disclosure requirements for 'material business risks' and especially 'climate risks'.[46]
- The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.[47]
- ASIC Commissioners previous public statements and guidance on climate risks.[48]

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)?

AFIA agrees with Treasury that the regulatory framework should be consistent with the existing regulatory framework for financial reporting and, in line with the Treasury's reform principle of 'proportional to risk' which we believe is key.[49]

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[45] We have previously stated that we encourage prompt and comprehensive adoption of the ISSB IFRS S2 by entities in our region, with finite and structured transition periods for certain specific disclosures. Please see Peak Australian Bodies Submission dated 18 July 2022 page 10, (n 29).
[46] ASIC: RG 247 Effective disclosure in an operating and financial review
[47] ASX (February 2019): cgc-principles-and-recommendations-fourth-edn.pdf (asx.com.au). These are explained in the Governance Institute of Australia's (February 2020), Practical Guide to Reporting on Climate Change Disclosure Risk.
[48] Sean Hughes (ASIC Commissioner) (14 October 2021): Corporate governance update: climate change risk and disclosure. Cathie Armour (ASIC Commissioner) (February 2021): Managing climate risk for directors.
[49] Climate-related financial disclosure - Consultation paper, pages 10-11 (n 2).

AFIA supports, in principle, legislation setting out the details of the covered entities, where the reporting requirements are located, and the requirements to follow the appropriate standards. The first option proposed in the consultation paper to incorporate the overarching obligations for climate disclosure into legislation and building out the detail of the obligations through standards and guidance would ensure the new requirements are clear and consistent for the organisations to whom it is applicable.

AFIA urges the Government to provide organisations with support and guidance to aid understanding of the expectations of the legislation and what must be reported. Therefore, updates to ASIC RG 247 and associated guidance would be useful in providing greater clarity in this area.

Any such updates to RG 247 should be preceded by extensive public consultations, to allow appropriate stakeholder input.

Question 6: Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

AFIA is supportive of the principle of building on existing practice in Australia to minimise, as far as possible, any additional regulatory burden and costs and avoid duplication. We urge the Government to allow entities to be able to collect data efficiently and report in a way that avoids duplication. Such as continuing to utilise the director's report as part of an operating and financial review. We understand that existing National Greenhouse and Energy Reporting (NGER) GHG emissions reporting requirements are for an Australian financial year, 30 June, which may not align with an entity's financial year.[50]

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)?

AFIA recognises that while Australia's corporate law requires material risks to be disclosed, there is an evolving area of understanding around assessing materiality of climate and sustainability reporting.

We agree, in principle, with the TCFD recommendations of using financial materiality principles when making climate disclosures.[51]

We consider the illustrative guidance document provided by the ISSB on materiality to be helpful. However, we previously noted in our response to the ISSB that the definition and application of

[50] The Clean Energy Regulator, Reporting cycle webpage.
[51] TCFD Recommendations, page 63. See also IFRS - ISSB unanimously confirms Scope 3 GHG emissions disclosure requirements with strong application support, among key decisions.

materiality are dependent on the definition and application of significance in the context of sustainability-related risks and opportunities.[52] Likewise, we stated that paragraph IG6 could increase its emphasis on the importance of qualitative factors in the materiality assessment of sustainability-related financial information.[53] We note the recent updates from the ISSB from 21 October 2022 removing the terms 'enterprise value' and 'significant'.[54] Therefore, the term 'enterprise value' may not be helpful in this context.

The definition of material by the International Accounting Standards Board (IFRS Standard) provides that: 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.[55]

AFIA believes that this definition is clear and helpful for a broad audience, as well as being internationally aligned, while recognising there will be tailored guidance required for climate disclosures specifically.

AFIA recommends the Government support entities by providing clarity on the interpretation of materiality and expectations of its application in Australia, as well as providing illustrative guidance on how to apply materiality judgements when undertaking climate reporting.

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 and quality management standards?

A consistent baseline is needed for there to be trust and confidence in the information provided and to avoid confusion or misunderstanding amongst investors and other stakeholders. We believe that setting out suitable criteria for assurance would help to underpin the appropriate use of reasonable assurance engagements.

As previously stated to the ISSB, our view is that there is a role for independent external assurance to lend credibility to sustainability information.[56] The goal should be for investors and other stakeholders to rely on the assurance performed and the integrity of the information provided, similar to how they rely on audited financial statements.

AFIA recommends that flexibility Is provided for smaller and less resourced entities. In line with the Treasury's reform principle of 'proportional to risk', a proportionate response could be for those entities

[52] Peak Australian Bodies Submission dated 18 July 2022, (n 29).
[53] IFRS (March 2022): Illustrative Guidance on Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.
[54] IFRS (21 October 2022):ISSB unanimously confirms Scope 3 GHG emissions disclosure requirements with strong application support, among key decisions.
[55] IFRS Standards Project Summary and Feedback Statement (October 2018):Definition of Material (Amendments to IAS 1 and IAS 8).
[56] Peak Australian Bodies Submission dated 18 July 2022 n (29), 2.

to subject their disclosures to relevant appropriate internal governance processes to ensure that the disclosures are verifiable and of high quality. Alternatively, a phased approach can be considered for smaller entities meeting assurance requirements.

There are challenges with assurance related to scenario models and Scope 3 emissions, given the levels of estimation and variability in assumptions while assurance is maturing. It is important for users to be able to understand the information by clearly disclosing any assumptions and limitations. Additionally, we recommend the Government consider if there are risks of capacity issues for independent assurers who may also struggle to meet demand.

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?

AFIA believes that relevant Australian emissions reporting frameworks should be utilised to assist entities when applying disclosure reporting requirements. Including use of the Safeguard mechanism which aims to drive down carbon emissions and the National Greenhouse and Energy Reporting Scheme.[57]

As previously stated to the ISSB, we support a common purpose for improved comparable and consistent disclosures and support the disclosure of Scope 3 emissions.[58] We stress that while there are existing data, methods and tools for calculating Scope 3 emissions, there will be challenges in obtaining complete data in the early reporting periods for some reporting entities. Transitional arrangements for some entities at the national level and clear disclosure of assumptions, limitations and uncertainties in the data, will be important in early reporting periods to enable users to understand the information.

Given the above, AFIA recommends that the Government consider options for implementing safe harbour provisions and protections regarding entities reporting of scope 3 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?

AFIA believes that achieving consistency between disclosures will be key to avoid potential confusion. We urge the Government to provide support and guidance to reporting entities in the expectations around the baseline and industry-specific metrics. This will help stakeholders and investors understand and compare between the different disclosures, as well as the organisations in how they can improve.

[57] Australian Government, Clean Energy Regulator, The safeguard mechanism.
[58] Peak Australian Bodies Submission dated 18 July 2022, page 12 (n 29).

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?

The disclosure of transition plans is in line with the ISSB and can be a key tool for the finance sector. We believe requirements to disclose these should be based on best practice.[59] Covered entities should be provided with clear guidance and support from the Government to ensure they provide transparent information on how they are managing climate related risks.

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

As stated in our position above, there should be a phased transition period for certain sustainability disclosures that are continuing to evolve to help avoid confusion. The challenges in relation to scenario analysis and scope 3 emissions in particular are described above including the lack of available data. A consistent set of climate scenarios should be used to ensure that results are comparable, as without this, there will be increased costs for individual reporting entities and inconsistent outputs. It is important for Australian data and methodologies to be developed over time which reporting entities can use to inform their risk assessments and scenario analysis.

A transition period for Scope 3 emissions in particular is sensible, as the data around this improves, as well as the methodologies. Even where proxy data and assumptions are used, for example, there will be gaps in data leading to inconsistency. Therefore, we must understand that a phased approach to the introduction of Scope 3 emissions reporting will be necessary.

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? 13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

As stated above, we acknowledge that there is existing data, methods and tools for calculating Scope 3 emissions. However, there will be challenges in obtaining complete data in the early reporting periods for some reporting entities. Transitional arrangements for some entities at the national level and clear disclosure of assumptions, limitations and uncertainties in the data will be important in early reporting periods, to enable users to understand the information.

AFIA recommends that the Government take the lead in supporting entities address capability and data challenges that they will face, including providing climate-related data, guidance on the quality of data,

[59] For example, please see the UK Transition Plan Taskforce webpage and Glasgow Financial Alliance for Net Zero (GFANZ) webpage.

accessibility, and appropriate modelling. We are working with members to enhance industry-level data reports to include data sets that will assist better overall reporting outcomes.

Question 14: Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

AFIA believes the Government should play an important role in providing accessible and quality data to support reporting entities conduct scenario analysis. If a single entity were established to provide information for use in climate-related financial disclosures in Australia, they would require the ability to be at the forefront and up to date on advancements in climate science, methodologies, risk assessment approaches domestically and internationally.

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?

AFIA agrees with Treasury that liability for climate disclosures must be proportionate given the inherent uncertainty.[60] This is particularly important in the context of scope 3 emissions.

We note that the Financial Markets Authority in New Zealand takes a broadly educative and constructive approach, focusing on issuing high-level guidance on compliance expectations in early stages, and then a proactive regulatory role as the reporting regime is matured.[61]

The Government may wish to consider review periods to assess how regulatory intervention is impacting reporting and encourage entities to consider the TCFD's guidance to ensure that they are not making disclosures that are potentially misleading.

AFIA further recommends the Government incorporating a safe harbour provision that provides protection or immunity for entities that act in good faith in complying with the requirements. This would provide a proportionate response to the inherent uncertainty within some required climate disclosures. Furthermore, we strongly suggest clear guidance from regulators and support on expectations around 'reasonable grounds'.

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[60] Climate-related financial disclosure - Consultation paper, page 15 (n 2).
[61] Financial Markets Authority (FMA) (November 2021) Climate-related-disclosures-implementation-approach.

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?

AFIA supports the growth of other sustainability reporting and to incorporate flexibility within the reporting regime for this. However, we recommend focusing to ensure the climate reporting requirements are implemented effectively.

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

AFIA supports including digital reporting for sustainability risk reporting and recommends that the Government provide flexibility to reporting entities in how they report on the requirements given the various initial implementation and costs challenges that they will face as comments on above. They may also face additional costs if required to implement digital reporting.

Question 19: Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

An independent body focused on international harmonisation that will build relationships with international standard-setting bodies would require the capacity to incorporate a deep level of sustainability related knowledge as well as be focussed on the introduction of climate-related risk reporting. The Australian Accounting Standards Board (AASB), which has already commenced steps, has existing experience to leverage which could help to develop consistent standards.[62] However, we agree that a separate sustainability standards board would provide the benefit of a focused and committed body, which highlights the significance of this topic. We understand that the creation of this body could risk delays to the proposed regime. The third proposal would give rise to uncertainty for stakeholders and further risk delaying the proposed regime.

[62] Australian Accounting Standards Board webpage.