Australian
Finance
Industry
Association

21 July 2023

Hannah Skewes
Acting Director
Climate Disclosure Unit
The Treasury
Langton Crescent
Parkes ACT 2600
**Via email:** climatereportingconsultation@treasury.gov.au

Dear Ms Skewes,

**Climate-related financial disclosure – Second consultation (July 2023)**

The Australian Finance Industry Association (AFIA)[1] appreciates the opportunity to respond to Treasury's second consultation paper ('consultation paper') on climate-related financial disclosure and the Australian Government's commitment to a sustainable finance strategy.[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 (July 2023), Climate-related financial disclosure: Second consultation

**INTRODUCTORY COMMENTS**

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 AFIA members have committed to stage 1 and 2 cuts to reach net zero by 2030.

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.[3]

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.[4] We strongly support work to develop consistent standards which recognise the importance of managing climate-related financial risks. In AFIA's submission to the first Treasury discovery consultation in February 2023, we welcomed the Government's commitment and proactive approach to address climate disclosure and sustainability reporting, to ensure that the Australian economy is protected and has the capacity to attract capital and investment.[5]

On 26 June 2023, the International Sustainability Standards Board (ISSB) published its global sustainability disclosure standards (IFRS S1 and IFRS S2).[6] IFRS S1 provides a set of disclosure requirements designed to enable companies to communicate to investors about the sustainability-related risks and opportunity they face over the short, medium, and long term. IFRS S2 sets out specific climate-related disclosures.

AFIA recognises the importance of disclosure obligations to ensure that Australia remains aligned with other major international markets, ensuring that disclosures are credible and comparable to other jurisdictions. AIFA members are affected by the development of climate-related reporting standards in other jurisdictions, and it is crucial for entities to be able to report in a way that avoids duplication.[7] AFIA therefore endorses a global approach to the development of climate-related disclosures and supports the Government continuing to coordinate with the ISSB to promote international comparability.

The ISSB standards recognise that reporting entities will be impacted and face costs when implementing climate-related financial disclosure requirements, and importance of proportionality.[8] AFIA supports this recognition in the Australian requirements by mitigating where possible the resource implications and complexity in climate-related disclosure reporting by building proportionality into the framework.

[3] See AFIA Submission (31 October 2022), National Electric Vehicle Strategy (NEVS)
[4] See AFIA's Annual Review FY22, page 13.
[5] See Treasury (December 2022), Climate-related financial disclosure - Consultation paper and AFIA Submission (February 2023), Climate related disclosure.
[6] IFRS Foundation (26 June 2023), ISSB issues inaugural global sustainability disclosure standards. See also, IFRS S2 (June 2023), IFRS Sustainability Disclosure standard: Climate-related Disclosures and IFRS S1 (June 2023), IFRS Sustainability Disclosure Standard: General Requirements for Disclosure of Sustainability-related Financial Information.
[7] Other jurisdictions such as New Zealand, the United States, United Kingdom, and Europe. Please see a list of AFIA membership on our website: www.afia.asn.au.
[8] IFRS Sustainability Disclosure Standards (June 2023), Effects Analysis, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosure (n 6), page 9.

AFIA recommended in our earlier submission that, to assist in ensuring reporting is comprehensive, and to provide a proportionate response to the inherent uncertainty of some climate disclosures, the Government should consider phased transition periods and enhanced guidance for reporting entities to meet the requirements. We believe climate-related disclosures require phasing, streamlined processes and consistency with existing frameworks to enhance their effectiveness and avoid duplication. 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'.[9]

We welcome that many of the recommendations have been commented on within this second round of consultation on the sequencing, coverage, content, framework, and enforcement of the proposed requirements.

AFIA recommends that Government should play a key role, working with industry, to provide enhanced support for reporting entities, including on data challenges and best practice for disclosures. We to forward to engaging with the Government as the Sustainable Finance Strategy and climate-related financial disclosure requirements continue to develop.

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

**CLOSING COMMENTS**

Thank you once again for the opportunity to comment on the Government's second consultation paper for climate-related disclosures. We appreciate the collaborative approach taken to help ensure that the proposals are workable.

Our members look forward to playing their part in financing Australia's transition to net zero and providing further input on the next consultation process.

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

Yours sincerely

**Roza Lozusic**

**Executive Director, Policy and Public Affairs**

[9] Treasury, Climate-related financial disclosure - Consultation paper (n 5), page 13.

**ATTACHMENT A**

**Reporting Entities and Phasing**

We note the proposal within the consultation paper to introduce climate disclosure requirements in a phased manner between 2024 and 2028.[10]

The consultation paper proposes that all entities that meet prescribed size thresholds (see below) and that are required to lodge financial reports under Chapter 2M of the *Corporations Act 2001* (Cth) ('*the Corporations Act'*), would be required to make mandatory climate-related financial disclosures. [11]

In summary, entities (including financial institutions) lodging financial reports under Chapter 2M of *the Corporations Act* that meet two of the following criteria would be covered under climate-related risk disclosures legislation by 2027-28:

- the consolidated revenue for the financial year of the company and any entities it controls is $50 million or more
- the value of the consolidated gross assets at the end of the financial year of the company and any entities it controls is $25 million or more
- the company and any entities it controls have 100 or more employees at the end of the financial year.[12]

Additionally, 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) ('*NGER Act'*) are also covered under climate-related risk disclosures requirements (without the need to meet the thresholds requirements above).[13]

A three-phased approach is proposed to implement the new requirements, starting with a group of large entities that expands over two years to apply progressively to smaller entities.[14] Please see the table below.

[10] Climate-related financial disclosure: Second consultation (n 2), page 6.
[11] Ibid. See also the Corporations Act 2001, Chapter 2M.
[12] Climate-related financial disclosure: Second consultation (n 2), page 6.
[13] National Greenhouse and Energy Reporting Act 2007, Sections 12 and 13. A 'controlling corporation' must apply for registration under Section 12 of the *NGER Act* if it triggers one or more of the thresholds under Section 13 for a financial year.
[14] Climate-related financial disclosure: Second consultation (n 2), pages 8-9.

| Group | Year of initial reporting | No. of employees | Consolidated gross assets ($) | Consolidated revenue ($) |
|---|---|---|---|---|
| 1 | 2024-25 | Over 500 | $1 billion or more | $500 million or more |
| 2 | 2026-27 | Over 250 | $500 million or more | $200 million or more |
| 3 | 2027-28 | Over 100 | $25 million or more | $50 million or more |

As outlined in our introductory comments, AFIA continues to support a phased and proportionate approach to implementation, which recognises the challenges that reporting entities will face and provide them with sufficient time to prepare and scale up their expertise and capacity.[15]

In relation to the impact climate-related disclosure requirements will have on reporting entities, the ISSB standards recognise that companies face costs relating to:

- recruiting additional staff or acquiring necessary expertise
- changing data collection and analysis
- establishing or modifying internal systems
- producing or modifying production of reported information.[16]

The ISSB state that:

> *[A]llmost all preparers who commented on the IFRS S1 and IFRS S2 exposure drafts said that the costs of initially applying the proposals were likely to be substantial*.[17]

It was noted that by the ISSB that costs might be new for many first-time preparers of sustainability-related financial disclosures. However, costs are also '*likely to decrease over time, as preparers set up systems and become familiar with the disclosure requirements*'.[18]

The ISSB has considered efforts to mitigate costs and recognised the importance of proportionality, by introducing targeted relief measures and scaling some requirements.[19]

[15] AFIA Submission, Climate related disclosure (n 5), page 8.
[16]IFRS Sustainability Disclosure Standards, 'Effects Analysis', on IFRS S1 and IFRS S2 (n 8), page 7.
[17] Ibid.
[18] Ibid.
[19] IFRS Sustainability Disclosure Standards, 'Effects Analysis' on IFRS S1 and IFRS S2 (n 8), page 9.

AFIA previously recommended that implementation of climate-related financial disclosures should start initially with a subset of the largest entities who are more resourced, with smaller to medium sized entities being phased in a gradual manner.[20]

We agree with Treasury that including entities based on their size is proportional to risk, a key principle of the reforms, and appropriately excludes smaller entities from the requirements to ensure that they are not subjected to additional regulatory burden.[21] Smaller entities who have not previously disclosed climate-related financial information will face challenges in getting the necessary systems in place to report. As noted in our previous submission, 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.[22]

The timeline for the first reporting period for Group 1 appears to be quite narrow, with the aim of the standards being drafted by Q2 of 2024, the regime commencing 1 July 2024, and Group 1 reporting to be expected for the 2024-25 financial year. This could lead to a risk of Group 1 having little time to review the requirements of the standards ahead of preparing the necessary processes. Additionally, larger entities who will fall under the new definition of Group 1, and who are not currently reporting on a voluntary basis, will require time to uplift their capacity to meet the new requirements in a short timeframe.

Given the above, AFIA recommends that consideration be given to providing additional time for Group 1 to prepare. Additionally, we recommend Treasury considering allowing time to review the regime after the first reporting of Group 1, before the requirements are implemented for Groups 2 and 3.

AFIA agrees with the consultation paper, consistent with our previous submission and the reform principles, that existing Australian definitions be utilised to minimise additional costs, enhance consistency in reporting and avoid duplication.[23]

We welcome the recognition within the consultation paper that the new requirements will increase the level of demand for professional services and that progressive expansion over time will look to minimise the risk of supply shortages, particularly in audit and assurance. We believe that the demand for these services, in an emerging and evolving area of expertise, will create further challenges for reporting entities.

[20] AFIA Submission, Climate related disclosure (n 5), page 10.
[21] Climate-related financial disclosure: Second consultation (n 2), page 6.
[22] Australian Council of Financial Regulators (27 July 2022), Comment Letter on the ISSB Exposure Drafts, Australian Council of Financial Regulators Comment Letter.
[23] AFIA Submission, Climate related disclosure (n 5), page 10. See also Treasury, Climate-related financial disclosure - Consultation paper (n 5), page 6.

AFIA recommends that clear guidance is provided on how the requirements will apply for subsidiaries where their parent entity is required to report and understand that this will be addressed in the AASB standards. AFIA recommends clarification is provided on the definitions to be used for entities, subsidiaries. For example, if the requirements will be aligned with the Australian Accounting Standards Board (AASB) and the reporting of consolidated financial statements.[24]

We also recommend further information and guidance be provided on the implementation of reporting requirements for Government authorities and public bodies. We understand that the implementation of commensurate arrangements will be progressed separately and ask for clarification if the timeline for this will be in line with the Treasury's proposals within this consultation paper.[25]

**Reporting Content**

Phasing of reporting requirements

AFIA continues to endorse a global approach to the development of the standards for climate-related disclosures. 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.

As stated above in our introductory comments, AFIA supports the Australian disclosure standards aligning with the ISSB. We note that the AASB will develop the climate-related financial disclosure standards to align with IFRS S2 Climate-related disclosures, with a public consultation expected in later 2023.[26]

The proposal is to introduce less onerous disclosure requirements over the transition period (between 2024 -2028) and we are strongly in support of the requirements being phased. AFIA recommends that further clarity on the timeline for Australian standards being drafted and implemented is provided. It would be helpful for the understanding of reporting entities for guidance on the transitional periods and the reporting expected to be clearly outlined to reduce any risk of confusion in reporting.

Materiality, governance and strategy

In line with our previous submission, AFIA supports in principle using financial materiality principles when making climate disclosures, aligning with the definition of material by the International Auditing and Assurance Standards Board (IASSB).[27] There will be a need for further tailored guidance on the materiality of climate disclosures specifically to assist reporting entities.

[24] AASB Accounting Standard 10: Consolidated Financial Statements
[25] Climate-related financial disclosure: Second consultation (n 2), page 5.
[26] Ibid. See also the Australian Accounting Standards Board.
[27] AFIA Submission, Climate related disclosure (n 5), page 17. See also the International Auditing and Assurance Standards Board (IAASB).

For many global entities, climate governance, strategy and risk management decisions are made at a global as opposed to a local level. Reporting entities may not currently have Australian-specific climate targets and accompanying information. We believe that further work to recognise the workability of requirements around the disclosure of information about governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities, particularly by the AASB when developing the standards.

AFIA acknowledges the importance of information on governance arrangements to understand and assess climate-related processes, oversight, and management. We believe that reporting entities will need clear guidance and support to understand expectations when producing disclosures around governance.

In relation to the proposals in the consultation paper for requirements around scenario analysis, AFIA's continued position is that there will be challenges for reporting entities when conducting scenario analysis due to the current availability and reliability of data and methodologies, including a lack of consistent methodologies used.

We support structured transition periods for scenario analysis, to allow Australian methodologies to develop over time. We recognise the importance of understanding what analysis has been undertaken by entities when making climate disclosures, which should be appropriately balanced with the recognition of the challenges above.[28] AFIA continues to recommend that Government play a role in providing accessible and quality data to support reporting entities conducting scenario analysis and provide consistent reporting.[29]

Transition planning and climate related targets

AFIA notes that the proposed approach is to mandate the disclosure of any relevant transition plans, while avoiding prescribing the form of the transition plans required, in order to allow for flexibility. Similarly, the proposal is to mandate the disclosure of any climate-related targets, without prescribing the target.[30]

We support the Government providing support for reporting entities on developing and disclosing transition plans, with learnings from other jurisdictions where possible. Such as the UK Transition Plan Taskforce launched by HM Treasury to help develop a 'gold standard' for private sector climate transition plans.[31]

[28] See the APRA Climate Vulnerability Assessment which highlighted that climate scenario analysis is an emerging and maturing discipline.
[29] AFIA Submission, Climate related disclosure (n 5), page 16.
[30] Climate-related financial disclosure: Second consultation (n 2), page 14.
[31] See the Transition Plan Taskforce website.

**Metrics and Targets**

Greenhouse gas emissions

AFIA continues to support the disclosure of Scope 1 and 2 greenhouse gas emissions in the Australian climate-related financial disclosure requirements. We support the disclosure of Australian-based emissions that are consistent with the methods set out in the *NGER Act 2007* (Cth), in line with our previous recommendation on the use of Australian emission reporting frameworks.[32]

The approach proposed is that all reporting entities will disclose material Scope 3 emissions in their second reporting year onwards, therefore providing a one-year exemption. The consultation paper proposes that Scope 3 emission disclosures can be in relation to any one-year period that ended up to 12 months prior to the reporting period.

The ISSB previously agreed reliefs for the disclosure of estimations of Scope 3 emissions, including a temporary exemption for a minimum of one year following the effective date, to give time for companies to implement their processes. Including, as is proposed by Treasury, to include information that is not aligned with its reporting period.[33]

As raised in AFIA's earlier submission, calculating scope 3 emissions poses various challenges in gathering the data, methods, and tools. We believe therefore that flexibility is required when introducing requirements around scope 3 emissions reporting. We welcome the recognition in the consultation paper that that the reporting of material Scope 3 would be an estimate. AFIA agrees with Treasury that, in relation to Scope 3 emissions, there are:

> [C]*oncerns that there are significant data availability issues that do not allow for confident and accurate reporting of these emissions would appear well-founded in the short term*.[34]

The challenges above create a risk that estimations of Scope 3 emissions may not be comparable between entities and could provide inconsistent or misleading results if entities use their own methodologies for decision-making around materiality. AFIA recommends consideration of this unintended consequence and the possibility of more consistent and comparable results being provided when methodologies have time to advance.

There is a risk that without clear standards and guidance, Australian reporting entities with international operations may provide differing emissions results. AFIA believes it will be crucial for the AASB to provide clear guidance on the requirements around emissions reporting for Australian entities with international operations.

[32] AFIA Submission, Climate related disclosure (n 5), page 14.
[33] IFRS (15 December 2022), ISSB announces guidance and reliefs to support Scope 3 GHG emission disclosures
[34] Climate-related financial disclosure: Second consultation (n 2), page 27.

**Reporting Framework and Assurance**

AFIA is supportive of the proposal to maintain alignment with existing corporate reporting practices and include climate disclosures in an entity's annual report. We believe that this will build on existing practice and minimise, as far as possible, additional costs and avoid duplication. This will help to provide investors with a clearer and more streamlined picture. We welcome flexibility being provided for entities to provide a separate sustainability report, to be referenced in the annual report as appropriate.

We recommend that confirmation is provided from the AASB when developing the disclosure standards around the requirement to publicly publish the annual report, that this does not include commercially sensitive information.

As advised in our earlier submission, AFIA recognises the importance of assurance of climate reporting.[35] We previously recommended that flexibility be provided for smaller and less resourced entities when creating assurance requirements. As noted above, expertise in this area is evolving and maturing, and AFIA believes that scalability and adaptability will be key for assurance requirements. In line with our recommendation, it is proposed that there will be a phased approach to assurance requirements for climate-related disclosure.[36] We note that limited assurance will apply initially for reporting groups, moving to reasonable assurance on all disclosures in a phased manner.

We welcome clarification on the expectations around the independence of professionals undertaking the assurance such as the current arrangements for audit assurance applying.[37]

**Liability and Enforcement**

The consultation proposal is that climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act.[38] We recommend further guidance is provided on what the maximum civil penalty will be for non-compliance.

AFIA agrees with Treasury that protection is required for reporting entities in relation to forward-looking statements and Scope 3 emission reporting.[39] As discussed above, there are significant challenges around the availability of data, and the quantification of climate-related financial risks has inherent uncertainty.

We note that Treasury proposes a 'modified liability approach', in the application of 'misleading and deceptive conduct' provisions, to Scope 3 emissions and forward-looking statements. This modified liability approach will apply to limit claims by private litigants for a fixed period of three years, from 1 July 2024.

[35] AFIA Submission, Climate related disclosure (n 5), page 13.
[36] Climate-related financial disclosure: Second consultation (n 2), page 23.
[37] Such as the requirements under Part 2M.4 and Section 307C of *the Corporations Act* and auditing standards.
[38] Climate-related financial disclosure: Second consultation (n 2), page 27.
[39] Ibid.

Without this protection, AFIA agrees with Treasury that there is a risk that disclosures will be overly cautious and not meet the objective of the requirements to provide decision-useful information that is reliable and sufficient, for the market and investors.[40] We note that the intention is to apply this modified liability approach to all misleading and deceptive conduct norms from the date of commencement of the legislation, so as not to affect current proceedings.

Given the fixed period of three years for the modified liability approach, we note that Groups 2 and 3 will see more limited benefit of this protection, in comparison to Group 1. As stated above, we believe that smaller to medium sized reporting entities will face challenges in upscaling to meet the new requirements. AFIA therefore recommends that Treasury consider extending the proposed modified liability protection for Groups 2 and 3 for those reasons.

[40] Ibid.