Curtin University

Climate-related Financial Disclosure

2nd Treasury Consultation – June 2023

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This memorandum serves as a submission to The Treasury (Australian Government) for its second consultation on climate disclosure reforms, which commenced on 27 June 2023. Our team comprises academics from School of Accounting, Economics and Finance at Curtin University, namely Dr Lien Duong, Professor Grantley Taylor, and Dr Baban Eulaiwi. We appreciate the opportunity to offer our insights in the development of this critical framework. We have worked in a research project wherein we examined how ASX300 firms (excluding financial firms) reported their voluntary climate disclosures based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Our investigation spanned the period from 2008 to 2019 covering approximately 2,000 firm-year observations, allowing us to gain valuable insights into the reporting practices of these companies. The first paper from our research has been published in *Business Strategy and the Environment*[2], a peer-reviewed academic journal with an impact factor of 10.08.

With regards to this consultation, we specifically aim to provide input and feedback concerning the coverage, reporting content, reporting framework and assurance. We are committed to supporting the development of transparent and robust climate-related financial disclosures, and we are grateful for the opportunity to share our research and insights with The Treasury. We hope that our contributions will aid in shaping a progressive and impactful climate disclosure framework that aligns with global best practices and contributes to the broader goals of sustainable and responsible financial reporting.

1. Reporting content

The proposed reporting content demonstrates strong alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in 2017 and the adheres to

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[2] Alshahrani, F., B. Eulaiwi, L. Duong and G. Taylor. 2022. "Climate Change Performance and Financial Distress". *Business Strategy and the Environment* (Forthcoming). https://onlinelibrary.wiley.com/doi/10.1002/bse.3298

the requirements outlined in the IFRS S2 *Climate-Related Disclosures* issued by the International Sustainability Standard Board (ISSB) in June 2023. The requirement for firms to report in the four key areas: Governance, Strategy, Risks and Opportunities, Metrics and Targets, signifies a comprehensive approach to climate-related reporting. This development is particularly a welcome news for Australian entities that are already in compliance with the TCFD recommendations. According to KPMG's reports, 38% of ASX200 companies have made disclosures to their shareholders regarding the implementation progress of the TCFD recommendations to their shareholders (*2022 Corporate Reporting Trends*[3]), and 74% of ASX100 firms have reported their climate risks in alignment with the TFCD criteria (*2022 Sustainable Reporting Survey*[4]). Our research data show that a significant proportion of ASX300 firms, more than 59%, adopted the TFCD recommendations for the climate-related disclosures in their annual reports or part of their sustainability reports over the period 2008-2019.

We believe there should be a gradual transition towards reporting Scopes 1, 2 and 3 GHG emissions since Scope 3 reporting is very complex and requires a different approach compared to Scope 1 and Scope 2 emissions. The disclosure of Scope 1 and Scope 2 emissions from the commencement, followed by Scope 3 emissions from the second reporting year, showcases a thoughtful and progressive approach of the proposed reform to address climate impacts. Providing clear guidance on how covered entities can fulfil Scope 3 emissions reporting requirements is essential to ensure a consistent and transparent reporting process. We acknowledge that the Australian Accounting Standards Board (AASB) will be responsible for formally establishing detailed disclosure standards.

2. Reporting entities and phrasing

We support the first mandatory reporting to commence in the financial year 2024-2025 as it aligns with comparable jurisdictions' practices. With more half of Australia's listed companies already adhering to the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, adopting a gradual approach starting from the financial year 2024-2025 appears reasonable for Australian businesses. The reform is in line with the approach taken by the European Union, where climate-related financial disclosures will be mandated through the Corporate Sustainability Reporting Directive (CSRD) from the financial year 2024, with a phased implementation until 2028.

In the previous section, we presented evidence that a significant portion of ASX300 firms made climate-related disclosures in their annual or sustainability reports using the TCFD recommendations during the period 2008-2019. However, upon closer examination of our data,

[3] https://assets.kpmg.com/content/dam/kpmg/au/pdf/2022/asx200-corporate-reporting-trends-2022.pdf

[4] Sustainability Reporting Survey 2022 | ASX100 & G250 - KPMG Australia

it was found that more than half of these firms had total assets and total revenues of $2.16 billion and $1.35 billion, respectively.

The proposed requirements mandate reporting of Scope 1 and 2 emissions from the commencement and Scope 3 emissions from the second reporting year. While 59% of ASX300 firms have voluntarily reported the TFCD disclosures, the reporting rates for Scope 1, Scope 2, and Scope 3 emissions are notably lower. Specifically, only 16.7% of ASX300 firms report Scope 1 emissions, and this figure decreases to 10.91% for Scope 2 and 4.57% for Scope 3 emissions. In addition, firms that report Scope 1 emissions are much bigger with total assets and total revenues of $4.15 billion and $2.30 billion, respectively. The figures for Scope 3 emissions reporting increase substantially to $7.79 billion for total assets, and $6.91 for total revenues.

With less than a year remaining until the first reporting for Group 1 firms, it is crucial to provide them with sufficient time to prepare for emissions reporting. To ensure firms are adequately prepared for the changes in climate-related reporting, we recommend increasing the threshold figures for total assets and total revenues for Group 1. References to the benchmark of ASX200 can be adopted with the current lowest market capitalisation of approximately $1.6 billion. Considering that Group 2 firms have an additional two years before the mandatory reporting requirement comes into effect for them, we can maintain the current threshold figures for Group 2. This approach will allow Group 2 firms ample time to adapt to the upcoming reporting requirements while ensuring Group 1 firms are given the necessary preparation period to comply with the new standards effectively.

3. Reporting framework and assurance

We broadly support the requirement of location, frequency and timing of climate-related disclosures. A reporting entity must include the climate-related financial disclosures its annual report, in accordance with the rules governing the submission of annual reports outlined in Part 2M.3 of the Corporations Act, and fundraising documents.

The Australian Government proposes to take a phased approach to assurance requirements, which is highly favourable development. This approach recognises the challenges associated with reporting Scope 3 emissions and allows for a gradual transition towards more comprehensive and reliable reporting. Under the proposed plan, Group 1 will have limited assurance of Scope 1 and Scope 2 emissions, along with reasonable assurance of governance disclosures starting from 1 July 2024. It will progress to reasonable assurance for Scope 1 and 2 emissions in 2025-2026, and for all climate-related disclosures in 2027-2028. The assurance roadmap further outlines that reasonable assurance will be provided for all climate disclosures by the financial year 2030-2031. This staged process demonstrates a commitment to improving the accuracy and credibility of climate-related reporting over time, allowing companies to adapt and enhance their disclosure practices gradually.

The assurance requirements highlighted in the proposal reinforce the necessity of revising the threshold for Group 1, as discussed earlier. Our data analysis indicates that only 2.59% of ASX300 firms offer either limited or reasonable assurance for any Scope 1, 2, or 3 emissions reporting. Furthermore, among the firms that do provide such assurance, the average figures for total assets and total revenues are notably higher, standing at $14.19 billion and $13.23 billion, respectively. Considering these insights, adjusting the threshold for Group 1 is essential to ensure that the requirements are realistic and attainable for a broader range of companies.