Deloitte Touche Tohmatsu
ABN: 74 490 121 060
[redacted]

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Climate Disclosure Unit
Market Conduct and Digital Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: climatereportingconsultation@treasury.gov.au

Consultation on Climate-related financial disclosure

We welcome the opportunity to comment on this paper. Deloitte Australia has over 13,000 professionals across our Audit and Assurance, Consulting, Financial Advisory, Risk Advisory and Tax and Legal practices. Our responses to the proposed positions in the consultation draw on our breadth and depth of expertise.

We support the valuable work by Treasury in establishing legal requirements and its commitment to ensuring large businesses and financial institutions provide Australia and investors with greater transparency and accountability when it comes to their climate-related plans, financial risks, and opportunities. We commend the six Reform principles and acknowledge their alignment to our own Public Policy statement.

We strongly support the alignment of Australia with international practice, including the adoption of the International Sustainability Standards Board's (ISSB) IFRS S2 *Climate-related Disclosure* standard as a first step towards achieving a global baseline of climate-related information. We believe this is in the best interest of Australia and participants in its economy and will aid Australian businesses' economic competitiveness through the issuance of high-quality, transparent, relevant, and comparable climate-related information that is connected to financial reporting.

Connected reporting that links mandatory climate-related factors and financial information will highlight how physical and transition risks and opportunities faced by business drive enterprise value over time and how they relate to shorter-term financial performance and longer-term success and resilience of a business.

We note that Treasury is not currently contemplating adoption of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information,* as a standalone standard. We encourage Treasury to work closely with the Australian Accounting Standards Board (AASB) such that there is alignment with IFRS S1 principles to enable the robust and high-quality climate-related disclosure required.

We welcome broader consultation of the Government's Sustainability Finance Strategy, as they consider future arrangements that strengthen the development and disclosure of companies' transition plans. We encourage Treasury to develop guidance to support high-quality transition plans providing clarity in both implementation and disclosure.

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Climate-related information is business critical and goes to the heart of understanding how businesses create or erode value. It should therefore be as credible and robust as financial information. External assurance by the financial auditor of climate-related information helps to increase confidence in the quality and reliability of that information and drives trust with stakeholders.

Whilst our detailed observations are included in the attached appendix, we would like to highlight certain key matters for Treasury's consideration.

Group reporting relief

We understand from the proposals that the ultimate reporting entity in Australia will be required to report should it meet the proposed reporting thresholds. The Consultation Paper is silent as to whether relief will be provided such that when an entity is controlled and consequently consolidated, and reported on, by a foreign entity (for example a European or US MNC) whether the Australian subsidiary will be permitted to lodge the ultimate parent's consolidated sustainability report as an alternative (subject to determined equivalence criteria, such as the adoption of ISSB sustainability standards) or whether separate sustainability reporting at the Australian jurisdictional level will be required. We recommend that Treasury is clear in its next steps as to whether it is contemplating any such relief.

We are also aware that in Australia there may be members of a group that report their own entity level financial statements in addition to those of their ultimate parent (by which they are consolidated). An example would be entities holding Australian Financial Services (AFS) Licences which may be required to lodge audited financial statements with the Australian Securities and Investment Commission (ASIC) in their own right. We are concerned that possible duplication of reporting between a consolidated group report and supplementary reports of individual members within a group may result in duplication of reported information. Duplication may create confusion and result in the generation of information that is not necessarily portraying an accurate picture, say of Scope 1, 2 and 3 greenhouse gas emissions. We recommend that further consideration is given as to the situations in which a concept of group reporting relief may result in better information being reported and eliminate undue administrative burden at subsidiary level where there appears to be little benefit from that reporting.

Timing of lodgement

The proposals state that the timing of annual financial report lodgement with ASIC would stay consistent with current requirements (three months for Disclosing entities and registered managed investment schemes and four months for all other companies). The proposals further note that for listed entities annual reports containing climate disclosures would need to be sent to members by the earlier of four months after financial year end or 21 days before the next AGM. Such entities would also need to provide the Australian Securities Exchange (ASX) with a copy no later than three months after the end of the reporting period in line with current requirements.

In our experience Australian disclosing entities will generally seek to lodge audited financial statements with the ASX as part of their Preliminary final report under Appendix 4E. The Listing Rules require such information to be provided within two months after the end of the accounting period.

We recommend that Treasury and other government agencies such as ASIC, work with the ASX in managing investor expectations on the timeliness of climate reporting, particularly in the early years of adoption. As is widely acknowledged there will be significant pressure on resources, both in preparers and in the assurance profession, with the introduction of mandatory climate reporting, and consequently reporting may be delayed in comparison to current practices in Australia. It is important investors maintain appropriate expectations about the timeliness of reporting.

Assurance providers

Assurance over climate-related financial disclosures is essential to increase confidence in quality, reliability of information and build stakeholder trust. We acknowledge and support the proposal that assurance is to be carried out by a qualified and experienced independent provider, conducted, or led by the financial auditor that is subject to existing quality control and ethical standards and will allow for the continuance of established mechanisms for regulatory oversight.

The Consultation paper proposes that further consultation be made on areas that extend beyond climate disclosure assurance. We welcome this proposal and stand ready to provide specific input on the consultation on professional audit and assurance requirements.

We note that the Treasury seeks feedback on the proposed positions relating to coverage, content, framework, and enforcement of the requirements. Our detailed response to these can be found in Appendix A.

Thank you, for the opportunity to provide our views. Should you wish to discuss the responses within our submission, please reach out to me [redacted].

Yours sincerely

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[redacted]
Managing Partner, Audit & Assurance
Deloitte Touche Tohmatsu

Deloitte.

Appendix A – Detailed responses

Deloitte welcomes the publication of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* as an important milestone in achieving a global baseline of consistent, high quality, and comparable sustainability information addressing the needs of capital markets. Adoption of the standards worldwide is needed to help achieve true harmonisation and avoid the risk of a fragmented approach to regulation. We agree with the reform principle 'Internationally aligned' and concur that new requirements should, as far as possible, be aligned with international reporting practices, to minimise compliance costs for Australian businesses that operate internationally, and to ensure Australia's regime is viewed with credibility by international markets. We encourage the AASB to consult expeditiously on the proposed Australian standards to afford Australian entities the best possible timeline to understand and prepare for implementation of mandatory Australian climate disclosures.

We set our key comments below. Where we have not commented specifically on a proposal Treasury should assume concurrence with, and support of, the proposal.

Proposal	Deloitte Response
Reporting Entities and Phasing	• The criteria and thresholds proposed under Chapter 2M of the *Corporations Act 2001* (Cth) (Corporations Act) for the scaled thresholds being consolidated revenue, value of consolidated gross assets and employee numbers are aligned to other major international markets that have already introduced mandatory climate-related disclosures. • We agree with the proposal for a phased implementation approach for mandatory climate-related financial disclosures, with Group 1 and Group 2 (as presented in Table 2 of the Climate-related financial disclosures - Consultation paper (June 2023)) only being subject to mandatory disclosure requirements in the transitional phase (2024/25 and 2026/27) and with full application of the mandatory reporting for all Groups of reporting entities from the 2027/28 reporting year onwards. • Large proprietary companies in Australia are familiar with the concept of annual reporting in accordance with Australian Accounting Standards, and represent an important part of the economy, both individually and as part of a broader value chain and are exposed to both individual and systemic climate-related financial risk. Treasury's proposed Group 3 thresholds are not dissimilar to other jurisdictions, such as the European Union, New Zealand and the United Kingdom (UK). • We note that the ISSB has considered the range of capabilities and preparedness of entities to apply the proposals and has included a number of mechanisms using a concept of 'proportionality'. This will allow entities time to build the capability and skills required to meet their obligations, in addition to investing in systems, processes and controls required to improve information flows. We welcome this concept, however, there still remains significant complexity, granularity, and a high volume of requirements of entities captured by these groupings. In order to deliver high quality corporate

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	reporting, companies will need time to collect data and to build processes, systems, internal controls, and governance structures that are needed to support high-quality corporate reporting which is a pre-requisite for high-quality independent assurance. To allow sufficient time for companies to get ready, Treasury should clarify reliefs for consolidation purposes and overseas components. • We concur with the proposals in respect of National Greenhouse and Energy Reporting (NGER) Entities given that as large emitters and/or energy consumers NGER Reporting Entities are exposed to material climate-related risks and consequently their disclosures are relevant for transparency and accountability purposes within the Australian economy. We note that the concept of operational control is central to determining an entity's obligation in accordance with the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act), and we would welcome further clarification of this concept, and interactions with the financial reporting boundaries. • We encourage collaboration with overseas jurisdictions when setting expectations for reporters, given the various global reporting requirements to ensure climate-related disclosure is consistent, comparable, and connected to financial reporting.
Reporting Content - Materiality	• We support the approach to materiality, being that the principles of financial materiality would apply, and the identification of the primary users of general-purpose financial reports. We believe that this approach to materiality is appropriate because of the objective of climate-related financial disclosures on strategy is to enable users of general-purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities. We strongly encourage the alignment of materiality within the Australian reporting environment with the definition of materiality, and identification of primary users of general-purpose financial reports, adopted by the ISSB. • A globally aligned definition of financial materiality supports the achievement of global interoperability and equivalence of sustainability reporting frameworks. This will allow Australian entities operating in multiple jurisdictions to provide investor focused information to be readily identified and should allow them to collect data targeting the same audience only once.
Reporting Content - Governance	• No specific comments
Reporting Content - Strategy	• The objective of climate-related financial disclosures on strategy is to enable users of general-purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities. We support the proposal that, from commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative analysis by end state. However, earlier adoption of quantitative scenario disclosure prior to end state should be encouraged.

Reporting Content - Transition Planning and climate-related targets	• We acknowledge that investors and other users of the general-purpose financial reports would seek clarity in transition plans, including the disclosure of any climate-related targets and is an important part of an entity's overall response to climate change. Transition plans and targets help companies to develop credible actions, milestones, and metrics consistent with their overall ambitions in relation to the transition to the low-carbon economy • Consistent, comparable disclosures are needed to enhance transparency and accountability. We recommend alignment to ISSB, as an appropriate baseline. • We encourage collaboration with overseas jurisdictions e.g., the UK, where disclosure of listed entities and financial institutions' net zero transition plans have been proposed by the UK. In 2021, the Taskforce on Climate-related Financial Disclosures (TCFD) updated its Guidance for All Sectors to include disclosures on an organisation's plans to transition to a low-carbon economy. UK listed companies, required to prepare a statement setting out whether they have made disclosures consistent with TCFD recommendations, must use this updated guidance in doing so. In 2023, the UK Government is expected to consult on the introduction of transition plan disclosure requirements for the UK's largest companies, drawing on the work of the UK's Transition Plan Taskforce (TPT). • Given the inherent limitations and complexities of transition plans, guidance should consider definitions, principles, and elements of transition plans, to ensure these are high-quality and are fully embedded in the overall strategy. We would welcome further consultation on the Government's Sustainability Finance Strategy future development and disclosure.
Reporting Content – Risks and Opportunities	• No specific comments
Reporting Content – Metrics and Targets	• Disclosure of Scope 1 and Scope 2 gross greenhouse gas emissions generated during the reporting period, should be expressed as tonnes of CO_2-equivalent (tCO-e), and reported in accordance with NGER Scheme Legislation. • There is an opportunity for the Clean Energy Regulator (CER) to harmonise Australia's greenhouse gas disclosure requirements with the ISSB Standards including reporting requirements, terminology, methodology, industry classifications and boundaries. This would also allow for minimal duplication in effort and reporting and facilitate increased comparability. • We acknowledge disclosing Scope 1 and Scope 2 greenhouse gas emissions may be challenging for some Australian entities that currently rely on NGER data, for example, that may not be aligned with annual reporting as such. We are supportive of the extension of IFRS S2's relief to use information from a reporting period that is different from an entity's reporting period in specific circumstances. • Disclosure for Scope 3 greenhouse gas emissions should include the categories within the entity's measure of Scope 3 greenhouse gas emissions, in accordance with the Scope 3 categories described in the Greenhouse Gas Protocol *Corporate Value Chain* (Scope 3) *Accounting and Reporting Standard* (2011) and include additional information about the entity's Category 15 greenhouse gas emissions or those associated with its investments (financed emissions), if the entity's activities include asset management, commercial banking, or insurance.
Reporting Content – Industry-based Metrics	• We support the industry-based metric proposal, that by end state entities would disclosure industry-based metrics supported by appropriate Australian industry-specific sectors. The industry-based Guidance on Implementing IFRS S2 suggests possible ways to apply some of the disclosure requirements in IFRS S2. The guidance does not create additional requirements. In applying IFRS S2, an entity is required to refer to and consider the applicability of the information set out

	in the guidance. Specifically, the guidance suggests ways to identify and disclose information about climate-related risks and opportunities associated with particular business models, activities or other common features that characterise participation in an industry. The industry-based guidance has been derived from Sustainability Accounting Standards Board (SASB) Standards, which are maintained by the ISSB. Because the guidance is industry-based, only a subset is likely to apply to any entity. • Given the inherent limitations and complexities of these industry-based metrics specifically for Australian entities further consultation would need to be considered to strengthen the development of disclosure. We acknowledge that the ISSB is also consulting on a project to enhance the international applicability of the SASB Standards.
Reporting Framework and Assurance	• We are supportive of the proposal that the location of climate-related disclosures maintain alignment with existing corporate reporting practices. In accordance with Part 2M.3 of the Corporations Act this requirement would be as part of both the Directors Report and the Financial Report, and agree that for listed entities, climate related disclosures should be disclosed in the operating and financial review (OFR). • We agree with the proposed assurance roadmap and timeline for climate-related disclosures as presented in Table 3 of the Climate-related financial disclosures - Consultation paper (June 2023), however we note that both businesses and assurance providers will need time to prepare, upskill and adequately resource their teams. • We acknowledge the current timing of lodgement, with regards to the Australian Stock Exchange (ASX) Listing Rules – Chapter 4, and note it is Australian practice that the presentation of information in Appendix 4E is audited on its' submission, which aligns to investor expectations. Given increased information, and disclosure for both reporters, and the financial auditor, we encourage Treasury engage with the ASX on the appropriateness of the current timing of lodgement for listed entities. This initiative, as part of a wider Government education agenda can be further supported by the Australian Securities and Investments Commission (ASIC). We highlight that the deadlines posed to unlisted entities comparable to global legislative deadlines, would result in capacity and resource constraints to achieve the current timeline. • Assurance over climate-related financial disclosures is essential to increase confidence in quality, reliability of information and build stakeholder trust. We acknowledge and support that assurance is to be carried out by a qualified and experienced independent provider (conducted or led by the financial auditor) that is subject to existing quality control and ethical standards and will allow for the continuance of established mechanisms for regulatory oversight. The approach of an independent provider working to high-quality ethics and quality controls standards is consistent with other overseas mandates for climate-related financial information, and provides a framework, which can be leveraged for future mandated non-financial requirements, given the depth and breadth of sustainability reporting. • We note that the implementation of digital reporting for climate disclosure will not be pursued ahead of any plans to make digital reporting for existing financial reporting mandatory. However, we believe that there would be significant economic benefits of implementing digital reporting for climate-related data and encourage its use. We believe the adoption of digital reporting would improve efficiency and transparency for auditors, investors, and regulators. • We welcome the opportunity to provide feedback on a specific consultation on professional audit and assurance requirements, particularly on the assurance provided to transition planning, climate-related targets including scenario analysis, and Scope 3 greenhouse gas emissions and the implementation of ISSA 5000 *General Requirements for Sustainability Assurance Engagements*.

Liability and Enforcement	• No specific comment