



28 July 2023

Corporations Branch
Market Conduct Division
Treasury
Langton Cres
Parkes ACT 2600

By email: climatereportingconsultation@treasury.gov.au

RE: Consultation on climate-related financial disclosures

The Minerals Council of Australia (MCA) representing Australia's minerals exploration, mining and processing industry welcomes Treasury's consultation on the climate-related financial disclosures.

The Australian mining industry supports the government's efforts to establish a Climate-related Financial Disclosure (CFD) regime and understands its value for international trade and investment. Noting the global footprint of many MCA members this regime should align with similar international models and be flexible enough to integrate with numerous systems.

While the recent *Climate-related Financial Disclosure Consultation paper* is a significant step forward to establishing a necessary framework, the MCA has identified several areas where proposed policy position falls short.

As clearly stated in our previous submission, mining sits at the beginning of the value chain, and Treasury should ensure that undue burden is not directed at specific sectors.

This is important because Australia needs a strong mining industry. In FY22, Australia's exports of minerals, metals and energy commodities was worth \$413 billion and accounted for 69 per cent of the nation's export revenue.

Over the last decade the industry has paid \$254 billion in taxes and royalties. These contributions support stronger communities by helping to fund hospitals, schools, doctors, nurses, police, teachers and other essential services and infrastructure.

The industry is also critical in supporting regions and communities, with 1.1 million jobs in Australia supported by the mining, mining equipment, technology and services sectors.

The MCA requests that Treasury examines closely the opportunities set out in this submission and looks forward to continuing to work with government on the development of this framework.

Yours sincerely

[Redacted signature]

[Redacted name]

Chief Executive Officer

MINERALS COUNCIL OF AUSTRALIA

Submission to Climate-Related Financial Disclosures (Treasury)

Reporting Entities

Treasury proposal

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

This means 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.

MCA response

CFD reporting threshold

As noted in the cover letter for this submission, Australian mining companies contribute a significant proportion of export revenues. Many of these entities will likely be captured regardless of how thresholds are set – and some of these encourage the broadest possible coverage for CFD.

However, there are concerns from some members that the government's proposed thresholds may not align well with the corporate capabilities of smaller companies.

It's important to consider that mining is a capital-intensive industry, and the current thresholds could inadvertently include entities with small workforces that are operating projects with unusually high-value gross assets.

In its February submission, the MCA proposed CFD reporting for:

- Companies that have more than 500 employees and have either transferable security admitted to trading on the Australian Stock Exchange and a turnover of more than A\$1 billion
- Registered companies not included in the category above, which have more than 500 employees and a turnover of more than A\$1 billion
- Proprietary limited companies, which are not traded or banking entities, and have more than 500 employees and a turnover of more than A\$1 billion

These thresholds are consistent with models used in New Zealand and the UK, where most entities captured under their legislation are involved in the financial industry, and improves international alignment.

After the implementation phase has been completed and as reporting processes are revised and refined, the threshold for reporting might be lowered via a staggered process (similar to Groups 2 and 3 as proposed in the consultation paper), with support made available to entities with limited resources to ensure the integrity of CFD data for government and investors.

MCA recommendation: Raise the proposed thresholds to protect capital-intensive sectors.

Reporting timelines

Treasury proposal

Table 3: Proposed assurance roadmap and timeline for climate disclosures

Group	Timeline						
	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-2031
1	Limited assurance of Scope 1 and 2 emissions Reasonable assurance of governance disclosures	Reasonable assurance scope 1 and 2 emissions Limited assurance of scope 3 emissions, scenario analysis and transition plans (specific requirements – process/ methodology/assumption assurance)	Reasonable assurance scope 1 and 2 emissions and other climate disclosures Limited assurance of scope 3 emissions, scenario analysis and transition plans (full quantitative assurance)	Reasonable assurance all climate disclosures			
2			Limited Assurance of Scope 1 and 2 emissions Reasonable assurance of governance disclosures	Reasonable assurance scope 1 and 2 emissions Limited assurance of scope 3 emissions, scenario analysis and transition plans (specific requirements – process/ methodology/assumption assurance)	Reasonable assurance scope 1 and 2 emissions and other climate disclosures Limited assurance of scope 3 emissions, scenario analysis and transition plans (full quantitative assurance)	Reasonable assurance all climate disclosures	
3				Limited Assurance of Scope 1 and 2 emissions Reasonable assurance of governance disclosures	Reasonable assurance scope 1 and 2 emissions Limited assurance of scope 3 emissions, scenario analysis and transition plans (specific requirements – process/ methodology/assumption assurance)	Reasonable assurance scope 1 and 2 emissions and other climate disclosures Limited assurance of scope 3 emissions, scenario analysis and transition plans (full quantitative assurance)	Reasonable assurance all climate disclosures

MCA response

The government needs to acknowledge the challenges associated with implementation by setting realistic timelines that are suitable for all companies. The MCA suggests postponing the proposed start of reporting for Group 3 entities by 12 months to 2028-29.

The MCA does not agree that Group 3 entities can easily learn from the systems and methodologies implemented by Group 1 entities. The MCA considers there are significant differences in scale between the two groups and is not aware of any evidence Group 3 entities can learn from Group 1.

The proposed two-year gap between Group 1 and Group 2, starting from 2024-25, allows Group 1 entities to test the framework and implement industry-leading methodologies. These processes can then be adjusted and refined as needed throughout 2025-26.

During the implementation phase, industry peak bodies can collaborate with their Group 1 members to provide guidance and support to Group 2 entities. This collaboration has the potential to reduce costs and regulatory burden while ensuring the integrity of reporting mechanisms.

Group 3 entities continue to benefit from the delayed timeline as they can learn from the experiences of Group 2. It's important to note that this benefit applies not only to the initial phase (limited assurance of Scope 1 and 2 emissions and reasonable assurance of governance disclosures) but also extends to the final phase where all entities are expected to provide reasonable assurance for their disclosures.

MCA recommendation: Under a three-tier reporting system with a phased and fixed-timeline, delay mandatory reporting for Group 3 entities by one year.

Reporting requirements

The MCA agrees that the Corporations Act is an appropriate model for developing a CFD framework. CFD reporting obligations should be fulfilled in a manner consistent with requirements for financial disclosures under the Act.

Global alignment

MCA members and Treasury consultations highlighted the importance of global alignment. This is crucial to the minerals sector given the multinational structure of many entities, and the flow of capital from international investors.

There should be alignment with the finalised International Sustainability Standards Board (ISSB) disclosure standard released in June 2023. This will be foundational to building global consistency and comparability in climate-related financial reporting which, in turn, should help reduce duplication and regulatory burden.

Assurance

The MCA questions the value of mandating 'limited assurance of Scope 3 emissions, scenario analysis and transition plans' for Group 1 by 2025-26.

The mining sector recognises the importance of CFD reporting and some large entities are committed to meeting this timeline. Achieving this demonstrates industry leadership and may establish a competitive advantage for investment. Smaller entities are concerned that the short timeline may lead to low-quality reporting; there is a risk that rapid implementation of new systems may not bear scrutiny under audit.

As such, it is recommended that limited assurance for Scope 3 emissions, scenario analysis and transition plans be delayed by 12 months.

Resources

Regarding resources, there will be a significant cost and resource increase for entities to comply with the international Taskforce for Climate-related Financial Disclosures (TCFD) reporting requirements.

Entities not captured within the proposed 'Group 1' will most likely require external consultants for the necessary research, updates, and reporting.

For unlisted entities (e.g., Australian private groups with foreign listed parent company reporting in their country), there is duplication of effort, cost, resources etc and no subsequent value in the reporting requirements.

Treasury should look to provide more supporting guidance on what disclosures are expected, and the dividing line between adequate disclosure, and inadequate disclosure that gets penalised. The absence of guidance may result in legislation that prompts excessive rather than useful climate disclosure.

Such an outcome would undermine the original intent of TCFD - to focus on climate-related risks that are material to a business.

Reporting for subsidiaries and dual-listed companies

Some entities will be mandatorily reporting TCFD in the United Kingdom this year – Treasury should provide more clarity on how consolidation will work. TCFD should be reported at the group level and include subsidiaries and dual-listed companies.

Format requirements

Treasury proposal

These reforms aim to produce high quality and useful climate disclosures. Some stakeholders raised concerns that additional requirements may lead to lengthy and impractical annual reports.

The following conditions would improve readability of annual reports containing climate disclosures:

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

MCA response

The MCA does not support mandatory reporting across all four pillars (Governance/Strategy/Risk Management/Metrics and Targets) if disclosures from the previous financial year are being repeated.

Annual reports should be focussed on new and important content. Previous disclosures that remain current across multiple years can be referenced within the latest report, in a manner proposed for 'metrics and targets' in the Treasury dot point above.

MCA recommendation: Treasury (via the Australian Accounting Standards Board) clarifies necessary inclusions within annual reports with an emphasis on information which is new and relevant to shareholders and investors.

Scope 3 emissions

Treasury proposal

While capability and capacity are being developed, it is proposed that Scope 3 calculation methodologies would be assured at a minimum. This provides an interim step that balances data limitations with the need to ensure the reliable provision of information to the market. Scope 3 emissions are historically difficult to determine due to the distributed nature of their origin and reliance on data provided by third parties.

MCA response

The MCA acknowledges ISSB's recognition of the challenges associated with forward-looking statements, scenario analyses, and estimations for Scope 3 emissions, considering their complexity, uncertainty, and resource requirements.

While MCA members generally support the move towards reasonable assurance reporting for Scope 1 and 2 emissions, there isn't the same level of consensus when it comes to Scope 3 emissions. The consultation paper highlights the significant difficulties in disclosing Scope 3 reporting starting from the second year, particularly for Scope 3 emissions that require modelling or estimation.

The lack of specificity and detailed guidance regarding Scope 3 emissions can raise concerns about the decision usefulness of reporting if it relies heavily on models or estimations. Treasury should reconsider this: the requirement for reasonable assurance of all climate disclosures may not be possible (or useful), particularly regarding transition risk analysis.

This transition should be approached with the expectation of providing "reasonable and supportable information available to the entity at the reporting date without undue effort or cost." It is important for entities to report in a manner that is valuable to investors and feasible as a business.

MCA recommendation: Mandatory reporting of Scope 3 emissions should be further staged and transitioned using an initial requirement for 'reasonable and supportable information that is available to the entity at the reporting date without undue effort or cost'.