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To whom it may concern

**Climate-related financial disclosure - Consultation paper (June 2023)**

I am pleased to make this submission on the *Climate-related financial disclosure - Consultation paper (June 2023).*

I have extensive experience in accounting advice on Australian Accounting Standards and International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

I discuss:

- Whether there is a general need for climate-related disclosures
- Post-Implementation Cost/Benefit Review
- Scope 3 should not be mandated
- Internationally aligned
- Proposed Roadmap – Mandatory Application
- Proposed Roadmap – Phased approach - Commencement
- Proposed Roadmap – Phased approach – Assurance
- Not-for-profit companies

**Whether there is a general need for climate-related disclosures**

The proposed imposition of costs on preparers, and their suppliers and customers, for climate-related disclosures should be considered in the wider context. That is:

- Global emissions have continued to grow despite all the Net Zero commitments, and are expected to continue growing until at least 2030:
  Source: Tracking emissions by country and sector | Brookings https://www.brookings.edu/articles/tracking-emissions-by-country-and-sector/

- There is only marginal difference in global cumulative constant USD GDP between no-policy baselines and 1.5°C scenario by 2100:
  "Under the no-policy baseline scenario, temperature rises by 3.66°C by 2100, resulting in a global gross domestic product (GDP) loss of 2.6% (5–95% percentile

range 0.5–8.2%), compared with 0.3% (0.1–0.5%) by 2100 under the 1.5°C scenario and 0.5% (0.1–1.0%) in the 2°C scenario."

(GDP will increase by around 450% compared to a 434% increase.)

Source: Chapter 3, Global Warming of 1.5°C. An IPCC Special Report, 2018, p.256

Only a marginal difference (same GDP measure) in 2100 between SSP1 (Sustainability–taking the Green Road), and SSP2 (Middle of the road - Trends do not shift markedly from historical patterns).

Source: Riahi, K. et al., 2017 in Chapter 5, Global Warming of 1.5°C. An IPCC Special Report, 2018

- The Paris Agreement will have only marginal effect on the level of the emissions reductions needed for the 1.5°C scenario:

  The Paris Agreement, if fully implemented, will cost $819‐$1,890 billion per year in 2030, yet will reduce emissions by just 1% of what is needed to limit average global temperature rise to 1.5°C. Each dollar spent on Paris will likely produce climate benefits worth 11 ¢ .

  Source: Welfare in the 21st century: Increasing development, reducing inequality, the impact of climate change, and the cost of climate policies, Bjorn Lomborg, The Copenhagen Consensus Center.

- There are increasing community concerns on the cost and intrusion of implementing Net Zero commitments, raising the issue of whether they can be implemented:

  Source: Joyce unites farmers in renewable energy transmission lines battle https://www.theaustralian.com.au/nation/joyce-unites-farmers-in-renewable-energy-transmission-lines-battle/news-story/970d349d41d69350a90e0da2417bbfbe

  Source: The anguish and anger behind Australia's clean energy plan https://www.theaustralian.com.au/nation/trandgrids-humelink-the-anguish-and-anger-behind-australias-clean-energy-plan/news-story/2a64de7aaffcd3462adaff39c9f5d485

  Source: Wind farm will no longer be located off Central Coast https://coastcommunitynews.com.au/central-coast/news/2023/07/wind-farm-will-no-longer-be-located-off-central-coast/

  Source Snowy 2.0 power lines clearing 'will despoil' long swathe of Kosciuszko national park, wildlife groups say, Peter Hannam, The Guardian https://www.theguardian.com/environment/2022/oct/06/kosciuszko-national-park-to-be-cleared-of-10000-hectares-for-snowy-20-power-lines

While there is demand from investors and others for climate-related information, this appears to be primarily from those applying ESG in the context of imposing their subjective and idealistic values on others by being able to claim they are investing / financing using 'ethical', 'responsible', 'green', 'environmentally-aware', 'sustainable' or similar terms.

Other than these activist / virtue-signalling entities, are investors applying ESG in the context of taking environmental, social and governance issues into account when trying to assess the potential risk-adjusted returns of an asset wanting the same level of detailed information?

Should the costs of the upcoming sustainability standards, with climate-related disclosures in the hundreds of pages (including industry guidance) be imposed, particularly to those that are not large emitters, when it is not really needed?

**Post-Implementation Cost/Benefit Review**

A post-implementation review of the cost-effectiveness of the requirements should be made before the requirements are expanded from Group 1. As I state below, I believe mandatory application should be restricted to NGER reporting entities.

Any imposition should initially be restricted specifically to climate-related disclosures. While this seemed to be the intention of the proposals, if the proposals are not specifically limited, then the imposition of ‘sustainability standards’ (currently ‘climate first’), and their cost, will expand as additional international sustainability standards are issued. The International Sustainability Standards Board is currently undertaking an agenda consultation for its next series of projects. These include:

- biodiversity, ecosystems and ecosystem services
- human capital
- human rights
- integration in reporting

So, it will not be long before there are more detailed sustainability standards.

**Scope 3 should not be mandated**

Scope 3 emissions should not be mandated as costs will not only be imposed on the reporters, but significant costs on their supply chains, including small business. While I understand the argument for including upstream and downstream emissions, having just one aggregate amount does not seem useful.

Determining Scope 3 emissions is a significant undertaking, with data potentially being required to be collected from dozens, hundreds or even thousands of suppliers and customers.

While a ‘spend-based’ method is available for Scope 3 estimates, there are some known weaknesses. For example, business travel and variable flight prices at different times when the flight is for same destination – so you end up with different reported emissions depending on the variable flight price for the same emissions. Also, often buying eco-friendly goods is more expensive than conventional manufacturers – so you would get higher reported emissions using eco-friendly goods.

Will the spend-based method (and known deficiencies) be ‘permitted’ when Scope 3 disclosures are subject to limited assurance and then reasonable assurance? If not, then the costs to fulfil Scope 3 reporting should not be imposed on the wider Australian economy, including small business.

Below is a list of the Scope 3 categories and the sources where the information needs to be obtained:

| **Cat** | **Category – Scope 3** | **Source** | **Source** |
|---|---|---|---|
| 1 | Purchased goods and services | Upstream | Suppliers (of goods and services) |

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|---|---|---|---|
| 2 | Capital goods | Upstream | Suppliers (of goods and services) |
| 3 | Fuel and energy-related activities (not included in Scopes 1 or 2) | Upstream | Suppliers of fuel and electricity providers |
| 4 | Upstream transportation and distribution | Upstream | Transport providers |
| 5 | Waste generated in operations | Upstream | Waste treatment providers |
| 6 | Business travel | Upstream | Employees |
| 7 | Employee commuting | Upstream | Employees |
| 8 | Upstream leased assets | Upstream | Lessor |
| 9 | Downstream transportation and distribution | Downstream | Transport provider |
| 10 | Processing of sold products | Downstream | Customer (downstream manufacturer) |
| 11 | Use of sold products | Downstream | Customer (end user) |
| 12 | End-of-life treatment of sold products | Downstream | Waste treatment provider |
| 13 | Downstream leased assets | Downstream | Lessee (e.g. tenant) |
| 14 | Franchises | Downstream | Franchisee |
| 15 | Investments | Downstream | Investees (portfolio companies) |

Using information directly from suppliers will be costly. Those suppliers will also have to incur costs in not only preparing their own Scope 1, Scope 2 emissions but will have to collect upstream Scope 3 emissions to report up the supply chain.

These costs are going to be far higher than what large businesses are imposing on small business and contractors for their 'Modern Slavery' sign-offs. I have talked to various small business owners and contractors and they are very frustrated getting these 8-10 page Modern Slavery forms for sign-off. While they tend to 'just sign' them, given there is no real risk (the large salary underpayments seem to be predominately large companies), having to determine emissions reporting is orders of magnitude more costly.

Are Scope 3 emissions relevant (apart from ESG investors imposing their values)? For example, a retailer (think Harvey Norman) selling Apple products. These would include different products such as Mac computers, iPad tablets, iPhones, and Apple watches, each with different manufacturing processes, supply chains and environmental footprints. If Harvey Norman asks Apple for its Scope 1, Scope 2 and upstream Scope 3 emissions, how are these applied to the different products, and converted into the different quantities of different products purchased by Harvey Norman?

Another example, is a retailer selling Heinz products which include Heinz sauces, soups, Beanz and spaghetti, mayonnaise, frozen vegetables, canned meals and other canned goods. For one product, (say) frozen mixed vegetables, will have carrots, peas, green beans & corn kernels. Similarly, this would mean getting Scope 1, Scope 2 and upstream Scope 3 emissions data from the farmers.

In the end, what does the aggregate data really mean?

Coles Group did report Scope 3 emissions in its 2022 Sustainability Report of "approximately 21m tCO2-e in FY21" (because at the time of reporting it was still finalising FY22). What does 21 million tonnes CO2 equivalent mean? How is Coles Group impacted by this? Yes, it will be impacted by the higher electricity prices we are encountering moving to Net Zero, but what does it mean in practice? How much of the 21m tCO2-e is affected by higher electricity process, and how does that feed into higher prices for their goods, and the effect on sales?

**Internationally aligned**

The focus should not just be on internationally accepted standards, but which entities are mandated overseas to comply with those standards.

Specifically, reference should be made to what the largest emitters are doing. Are companies in China (emissions twice as high as the USA), India, Russia etc. If companies of a similar size in China, India, Russia and other large emitters are not subject to similar mandatory requirements, companies in Australia should not be forced to incur the costs in preparing the required information.

I understand that the proposed US SEC requirements will only apply to registered entities (i.e. equivalent to our listed and disclosing entities).

**Proposed Roadmap – Mandatory Application**

Mandatory application should be restricted to the large emitters, and the costs should not be imposed on small emitters. Therefore, mandatory application should be restricted to companies reporting under the NGER Act. This covers a significant proportion of emissions in Australia. Expansion to other entities might be 'nice to have' but are not needed.

Mandatory application should not apply to other listed and non-listed companies. If those out of scope of mandatory application wish to produce information under the sustainability standards, they should be able to.

The proposed threshold of 'large' (matching to large proprietary companies), is a very low threshold compared to other Western countries imposing similar requirements. I believe imposition on such relatively smaller companies is unnecessary.

**Proposed Roadmap – Phased approach - Commencement**

As I stated above, I believe mandatory application should be restricted to NGER reporting entities.

The phased approach (to inclusion of the different scope disclosures, and the different assurance levels) should be applied to any future company having to comply with the requirements. For example, any company commencing reporting under the NGER Act should have the same transition requirements, and not be subject to all the requirements from day 1. This relief should be available for similar reasons the phasing in is proposed – so the company can get ready when they previously had not been subject to these reporting requirements.

**Proposed Roadmap – Phased approach – Assurance**

As I stated above, I believe mandatory application should be restricted to NGER reporting entities.

The Consultation Paper does not seem to have undertaken any analysis on the number of skilled auditors needed to undertake the proposed work. There is already a shortage of auditors.

**Not-for-profit companies**

The proposals do not discuss not-for-profit entities. Such entities can be companies limited by guarantee that report under the Corporations Act (ACNC registered companies report under the ACNC Act). Therefore, so-called 'large' not-for-profits (that are companies, and not registered with ACNC) will be subject to these requirements.

Is that intended? Presently, the international sustainability standards have been written using concepts and terminology for for-profit companies.

Yours sincerely,

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