

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

[climatereportingconsultation@treasury.gov.au](mailto:climatereportingconsultation@treasury.gov.au)

21 July 2023

---

Grant Thornton Australia  
Limited

To whom it may concern

## Consultation Paper June 2023

We welcome this opportunity to provide our views on the Consultation Paper for Climate-related financial disclosure.

Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight. Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations and are the leading business advisor to mid-market business internationally. Grant Thornton belong to an international affiliation and are structured as a public unlisted company within Australia.

Broadly, we support the goals in the Consultation paper, noting that the goals identified will assist in both the continued access to capital for Australian entities and the provision of meaningful information desired by a broad range of stakeholders. In particular we support the current project of AASB to develop Australian sustainability reporting standards, prioritising alignment with international climate-related financial disclosure requirements (including IFRS S2 *Climate-related Disclosures*). Please see below specific responses in relation to the proposed methodology and thresholds for phasing, reporting content and reporting framework and assurance.

### Proposed methodology on reporting entities and phased implementation approach

The proposal sets out that all entities that meet prescribed size thresholds under chapter 2M of the Corporations Act 2001 would be required to make climate-related financial disclosures over a phased period.

The proposed scope would not include certain categories of entities that do not report under Chapter 2M of the Corporations Act. These entities include:

- Entities not classified as companies – trusts, partnerships etc;
- Entities that report under a different paragraph of the Corporations Act – like AFSL holders who are otherwise not subject to Chapter 2M; and
- Not-for-profit entities registered with the ACNC (which are exempt from requirements of Chapter 2M).

[www.grantthornton.com.au](http://www.grantthornton.com.au)  
ABN-41 127 556 389 ACN-127 556 389

---

Grant Thornton Australia Ltd ABN 41 127 556 389 ACN 127 556 389. 'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Limited is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 ACN 127 556 389 and its Australian subsidiaries and related entities. Liability limited by a scheme approved under Professional Standards Legislation.

We note that the focus on Chapter 2M will potentially create differences in applicability of climate-related disclosures in some sectors. In particular the not-for-profit sector would have disparity in disclosure requirements, as only entities registered with the ACNC are exempt from Chapter 2M reporting requirements. We also would like to bring to the attention of Treasury a summary of those companies impacted by the requirement of Chapter 2M of the Corporations Act, we have therefore included Appendix A highlighting these specific requirements.

We support the phasing in of reporting requirements. Our greatest concern is the implications for the non-listed market, particularly the proportionality of reporting requirements. This market, of which the majority elected to apply Tier 2 reporting requirements (simplified disclosures), would require time to develop the expertise, and resources for reliable and effective internal reporting. We are concerned that the general lack of availability of appropriately skilled resources, access to reliable data and mature systems designed to identify, monitor and report on sustainability matters will have a detrimental impact on the Australian corporate environment.

When compared to the scope of the Corporate Sustainability Reporting Directive (CSRD) in the European Union, CSRD requirements are estimated to impact approximately 30,000 companies across the whole of the EU, whereas the proposed implications of the phased approach in Australia expected to extend to over 20,000 companies within Australia.

We would encourage Treasury to consider the users of the financial statements and whether the increase in the reporting requirements would be beneficial to those outside the listed market. Market forces may drive voluntarily disclosure for smaller entities but at least this disclosure is limited to the exact needs of its stakeholders.

Our proposal would be to consider limiting the applicability of the Australian equivalent of IFRS S2 *Climate-related Disclosures*, particularly to proposed Group 2 & 3, reflecting the need for proportionality of reporting requirements.

### **Reporting Content**

Treasury should consider the concept of the reporting entity and its interaction with climate-related disclosures. Financial statements prepared in accordance with Chapter 2M require reporting in accordance with the accounting “reporting entity”, and the IFRS S1 standard requires that sustainability disclosures are prepared on the same basis. However, through discussions with Treasury, we understand that they are of the view that required disclosures on areas such as governance would only be appropriate at a global consolidated level, which is in many cases, unlikely to align to the entity reporting under Chapter 2M. We have elaborated on this nuance in Appendix A. We propose that Treasury should therefore consider whether disclosures should be limited to an Australian consolidated level.

Additionally, climate scenario analysis is a required aspect of IFRS S2 strategy disclosures. While IFRS S2 has proportionality elements that allow an entity to use an approach that is commensurate with its circumstances, the proposal that “by end state, reporting entities would be required to undertake some form of quantitative scenario analysis”, in our view, reduces the proportionality introduced in the final version of IFRS S2. Undertaking quantitative scenario analysis requires technically sophisticated access to climate data, climate modelling, and expertise in assessing the relevant impact to the entity. This may be the most difficult requirement for entities to implement, and to assure, given the lack of resources, data and sophistication in scenario modelling in Group 2 & 3 entities. We propose that Treasury considers how their proposal removes the proportionality aspects that were introduced specifically by the ISSB to address global concerns around feasibility of preparing quantitative scenario analysis for smaller reporting entities.

### **Reporting framework and assurance**

We would also encourage clarification regarding the timing of annual financial report lodgement which is required for listed entities. The confusion comes in whether this is incorporated in other annual reporting financial reporting obligations for listed companies such as Appendix 4E. Consideration should also be given to how these would be disclosed in the financials to ensure that the audited elements are clear to the users of the financial statements. Inclusion in the Operating and financial review may be more appropriate and allow for the clear determination of the level of assurance provided.

Our proposal would be that all assurance is limited assurance rather than reasonable assurance. It is extremely unlikely auditors will be able to provide reasonable assurance on prospective information.

Yours sincerely

GRANT THORNTON AUSTRALIA LIMITED



National Managing Partner – ESG

## Types of entities that report under Ch 2M

Type of entity	Entities included in definition	Reporting obligations in Ch 2M CA2001	Current reporting obligations
Disclosing entity	Listed entities  Entities that meet enhanced disclosure securities definition per CA2001 (s111AF – s111AH)	Continuous disclosure (s111AP)  Annual reports (s292.1.a)  Half-year reports (s111AO)  Audited (s301) & HY review (s302)  Listed companies only: additional inclusions in the annual report (s299A, s300A)	GPFS – Tier 1  Half-year interim FS  Audited & reviewed
Registered schemes	A managed investment scheme registered with ASIC	Annual reports (s292.1.d)  Audited (s301)  Prepared in accordance with Australian Accounting Standards (s296)	GPFS – Tier 1  Audited
Unlisted public companies	All other public companies	Annual reports (s292.1.b)  Audited (s301)  Prepared in accordance with Australian Accounting Standards (s296)	GPFS – Tier 1 OR Tier 2 <sup>1</sup>  Audited  <i>Significant proportion prepare Tier 2 GPFS</i>

<sup>1</sup> Tier 2 is permitted unless they have “public accountability” per AASB 1053, or they are a government entity

Type of entity	Entities included in definition	Reporting obligations in Ch 2M CA2001	Current reporting obligations
Large, previously grandfathered, proprietary companies	<p>Proprietary companies that:</p> <ul style="list-style-type: none"> <li>met the 'exempt proprietary company' definition at all times since 30 June 1994;</li> <li>were 'large' at end of first financial year ending after 9 December 1995;</li> <li>were audited for 1993 financial year and each subsequent financial year; and</li> <li>lodged a notice within four months of end of the first financial year ending after 9 December 1995</li> </ul> <p>Estimated over 1,000 companies in this category</p>	<p>Annual reports (s292.1.c)</p> <p>Audited (s301)</p> <p>Prepared in accordance with Australian Accounting Standards (s296)</p>	<p>Annual financial statements audited &amp; sent to members</p> <p>As of 30 Jun 2022, first time application of GPFS, first time consolidation, and for some companies, first time adoption of all Australian Accounting Standards</p> <p>First time requirement to lodge with ASIC for financial years ended 31 Dec 2022 or 30 Jun 2023</p> <p>It is probable that the majority of these entities will elect to report Tier 2 GPFS</p>
Other large proprietary companies	All proprietary companies that meet 2 of the 3 thresholds for a large proprietary company	<p>Annual reports (s292.1.c)</p> <p>Audited (s301)</p> <p>Prepared in accordance with Australian Accounting Standards (s296)</p>	<p>GPFS – Tier 1 OR Tier 2<sup>2</sup></p> <p>Audited</p> <p>As of 30 Jun 2022, first time application of GPFS, first time consolidation, and for some companies, first time adoption of all Australian Accounting Standards</p> <p>Prior to 30 June 2022, the majority of these companies prepared special purpose financial reports. Since the removal of SPFS, the majority of these companies prepare Tier 2 GPFS.</p>

<sup>2</sup> Tier 2 is permitted unless they have "public accountability" per AASB 1053, or they are a government entity

Type of entity	Entities included in definition	Reporting obligations in Ch 2M CA2001	Current reporting obligations
Small foreign controlled companies	<p>A company that does not meet the definition of a 'large' proprietary company but:</p> <ul style="list-style-type: none"> <li>was controlled by a foreign company for all or part of the year; and</li> <li>was not consolidated for that period in the financial statements lodged with ASIC of a registered foreign company, or other company, registered scheme or disclosing entity.</li> </ul>	<p>Annual reports (s292.2.b)</p> <p>Audited (s301)</p> <p>Prepared in accordance with Australian Accounting Standards (s296)</p>	<p>GPFS – Tier 1 OR Tier 2<sup>3</sup></p> <p>Audited</p> <p>As of 30 Jun 2022, first time application of GPFS, first time consolidation, and for some companies, first time adoption of all Australian Accounting Standards.</p> <p>Prior to 30 June 2022, the majority of these companies prepared special purpose financial reports. Since the removal of SPFS, the majority of these companies prepare Tier 2 GPFS.</p>

### The concept of the 'reporting entity' for climate-related and financial reporting

The concept of the reporting entity is in the AASB Conceptual Framework for Financial Reporting. As explained in 3.10 of the Conceptual Framework, “a reporting entity is an entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity”.

In accordance with AASB 10 Consolidated Financial Statements the reporting entity consolidates all investees over which it has control<sup>4</sup> to form consolidated financial statements. An entity must consolidate its investees in order to comply with AASB 10 unless it meets one of the scope exceptions in paragraph 4.

Additionally AASB 10 paragraph Aus4.2 requires that “the ultimate Australian parent shall present consolidated financial statements...when the ultimate Australian parent is required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards”. As all companies required to prepare financial statements under Ch 2M of the Corporations Act are required by s296 to prepare them in line with Australian Accounting standards, this essentially will catch all entities that are affected by the proposed climate-related disclosures.

The identification of the reporting entity, and its subsidiaries in accordance with AASB 10, form the implied organisational boundaries for all financial related disclosures. This is required in the ISSB's IFRS S1 paragraph 20: “an entity's sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements”.

<sup>3</sup> Tier 2 is permitted unless they have “public accountability” per AASB 1053, or they are a government entity

<sup>4</sup> An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. (AASB 10 - Appendix A Defined Terms)

Consequently, the Australian climate-related financial disclosures as proposed would need to be prepared at the Australian reporting entity level (i.e. specific to the operations controlled by the ultimate Australian parent entity), irrespective of whether an ultimate international parent entity (e.g. a listed entity on an overseas exchange) already prepares compliant climate-related disclosures at a global level.

Internal processes and reporting systems, even for entities that presently have climate-reporting at global consolidation level, will need to be re-developed or amended to enable the data used in disclosures to be disaggregated at a level specific to the reporting entity.