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Climate Disclosure Unit
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Climate-related financial disclosure – design consultation

As the representatives of over 300,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide feedback on Treasury's second consultation paper on the design of climate related financial disclosure ("the CP"). We make this submission on behalf of our members and in the public interest.

We continue to believe that sustainability reporting will in the future achieve equivalent standing with financial reporting, reflecting increasing demand from investors and stakeholders for such sustainability-related information. It is critical that the foundations of climate-related financial disclosures, as proposed in this consultation paper, are aligned to existing legislation and reporting requirements while considering the balance between the practical costs and benefits in determining the appropriate population of reporting entities.

Appendix A contains our detailed responses to the proposed positions in the CP. Our key observations and recommendations are set out below.

- The Australian Accounting Standards Board (AASB) and Australian Auditing and Assurance Standards Board (AUASB) will be pivotal in developing reporting and assurance standards respectively for climate-related financial disclosures in Australia, and it is important that they are adequately funded and properly resourced in this key piece of work.
- Legislation for climate-related financial disclosures should be drafted the same way as it is for financial reporting which enables the AASB and AUASB to determine the appropriate framework and applicable requirements for reporting and assurance of climate-related financial disclosures.
- Climate risk is just one of a range of sustainability risks which may impact an entity. Therefore, we consider climate-related financial disclosures to be the starting point for wider sustainability-related financial disclosure requirements for business. Legislation will need to include sufficient flexibility to enable future sustainability-related disclosures to be captured under the one overarching reporting framework, to avoid fragmentation and excessive reporting burden for entities.
- We recognise that Treasury and the AASB are working in parallel on an accelerated timeline to meet the first reporting period proposed to commence on 1 July 2024. The AASB is expected to consult on detailed climate-related disclosure standards in the second half of 2023, which

may occur before legislation is released. It will be challenging for us, and our members, to respond appropriately without knowing the legislative context in which these disclosures will sit.

- We are concerned that the current reporting threshold for Group 3, which aligns with that for financial reporting by large proprietary companies, is too low for the purposes of climate-related disclosures and assurance. To balance the regulatory burden and complexity for business against decision useful information, we propose that the threshold for Group 3 is re-evaluated and modified to align with other similar existing reporting thresholds, being consolidated revenue of A\$100 million for unlisted entities and include all listed entities regardless of size.
- We recommend that the proposed transitional arrangements for disclosure and the modified liability approach are made available to all entities reporting under the regime. The current proposed 'end state' occurs before entities in Group 3 have prepared their first report and yet we consider Group 3 entities would benefit most from such arrangements.
- The scope and level of assurance provided over climate-related disclosures should be proportionate to the size and risk of the reporting entity. At present, we consider there is insufficient information to indicate that the benefit to users from reasonable assurance over all climate-related disclosures for smaller and less risky entities would exceed the costs of such assurance.
- It will be important for Government to take a leading role in building and improving knowledge in climate-related risks within reporting entities to help support effective and genuine decision useful climate-related information.

If you have any questions about our submission, please contact [REDACTED]

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Sincerely,

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Appendix A

Funding

Australian Accounting Standards Board (AASB)

We are concerned that budgeted funding is inadequate for the AASB to meet the key activities and strategies set out in their expanded scope of work to develop climate disclosure standards. We note that in the October 2022 budget, the Government committed to 'a further \$6.2 million (to) help implement Government's commitment to introduce standardised, internationally aligned climate disclosure requirements for large businesses.' Our expectation was that resourcing for the AASB would increase in line with their expanded remit in the subsequent budget, but this has not been forthcoming. We note that as a result of the funding allocated to the AASB in the 2023-24 Federal Budget the average estimated staffing levels will decrease from 25 to 22 with a corresponding decrease in total departmental resourcing of approximately 15%.

As a result, the AASB has had to re-evaluate its workplan with a prioritisation of climate-related disclosure standards and de-prioritisation of certain financial reporting projects in order to deliver climate-related disclosure standards in time for the proposed 2024-25 reporting period. We consider it fundamental that the AASB be adequately funded and resourced to deliver its expanded scope of work, and that a longer-term view is taken that aligns with the proposed staged approach from 2024-25 to 2027-28 and beyond.

We also note the substance of sustainability-related disclosures is different to that of accounting standards, both in terms of terminology, approach, and time dimension. This requires a dedicated and specific skill set, that could conceivably only be partly leveraged from the existing resources within the AASB.

Further, the longer-term governance arrangements for who has the mandate to develop climate-related disclosure standards is ongoing and not addressed in the CP. As raised in our previous submission, we support the establishment of an adequately resourced standalone Australian Sustainability Standards Board. The recent re-evaluation of priorities by the AASB has highlighted the challenges of a single body having responsibility for both sustainability and financial reporting.

Australian Auditing and Assurance Board (AUASB)

In line with the above, we are also concerned that the AUASB is not appropriately funded and resourced to meet the key activities and strategies, which will be required in its expanded scope of work which will include the development of assurance standards to support climate-related financial disclosures in Australia.

In addition, the International Auditing and Assurance Standards Board's (IAASB) proposed workplan, which includes the International Standard on Sustainability Assurance 5000 *General Requirements for Sustainability Assurance Engagements* (ISSA 5000), will need to be considered by the AUASB, especially its applicability in an Australian context.

Extensive outreach and education will also be needed to accompany the future work of the AUASB.

requirements to prepare financial reports. We therefore recommend that the legislation is drafted in a way such that these exemptions would also apply.

Listed entities

We agree that the size of an entity is an important consideration, but we also urge that “public accountability”, as defined in [AASB 1053 Application of Tiers in Australian Accounting Standards](#), be considered in determining which entities should be required to report climate-related financial disclosures. We note that the CP does not consider the distinction between public and proprietary companies, whose users have differing abilities to obtain the information they need to make informed decisions about their investments. Proprietary companies are generally owned by a small number of shareholders, who have sufficient influence in the business that they can access, or require management to produce, the information they require to make their decisions. Shareholders in public companies cannot generally demand information from management that management is not required to make public.

As a part of the reform principles to improve information flows, it is noted that reforms should strengthen transparency and improve the flow of useful information to investors. The criteria listed for reporting entities (Group 1, 2 and 3) has excluded small, listed entities. The comparability of data for listed entities is important regardless of their size because investors could be relying on climate-related information to inform their decisions.

For example, the minimum admission criteria for an entity to be listed on the Australian Stock Exchange (ASX) is based on the number of shareholders as well as satisfying size requirements through either a profit or asset criteria (as listed below)¹. This is clearly lower than the threshold set for Group 3 within the CP.

Number of shareholders	Minimum 300 non-affiliated investors @ A\$2,000 each
Profit	A\$1 million aggregated profit from continuing operations over past 3 years + A\$500,000 consolidated profit from continuing operations over the last 12 months
Asset	A\$4 million net tangible assets OR A\$15 million market capitalisation

Our recommendation is that all listed entities should be a reporting entity for climate-related disclosures. However, we suggest consideration should be given to allowing reduced disclosures proportional to the size of the entity (refer below).

¹ [Listing requirements – Admission criteria](#)

National Greenhouse and Energy Reporting Act 2007 (Cth) (NGER Act)

The inclusion of 'and' in Table 2 of the CP is confusing and it is unclear whether an NGER Act reporting entity would also need to be a reporter under Chapter 2M of the Corporations Act and fulfil two of the three listed thresholds to be in Group 1, 2 or 3.

Reporting entities under the NGER Act have been identified as emitters with associated risks. We suggest these reporting entities should be reporting entities for climate-related disclosures regardless of whether they are reporters under Chapter 2M of the Corporations Act. However, we also note that some state and territory government agencies report under NGERS and would be outside the remit for this requirement. We suggest Treasury reconsiders the current wording in Table 2 which references NGER Act reporting entities.

Reporting framework and international alignment

Location

We support requiring climate-related disclosures to be published within the entity's annual report. However, we are concerned about the increasing length and complexity of the annual report with more disclosures being added, starting with climate but likely expanding to other sustainability disclosures over time. Digital reporting has the potential to overcome such complexity by enhancing the ability of users to access the information in annual reports effectively and efficiently. We continue to advocate for the adoption of mandatory digital reporting in Australia.

The CP notes that "Where climate-related risks and opportunities have a material impact on the financial position of an entity, this would be included in the financial report ..." We wish to highlight that the existing accounting standards already require this.

Timing of lodgement

IFRS S1 incorporates transitional arrangements which allows an entity to report its sustainability-related financial disclosures after it publishes its related financial statements for an entity's first annual reporting period. (Appendix E section E4). We recommend Treasury considers a similar transitional arrangement to IFRS S1, to allow entities to publish their climate-related financial disclosures at a later date to their annual report in the first year.

A transitional period will be important to ease pressure and capacity issues in the initial reporting period, both for reporting entities and assurance practitioners.

Use of IFRS S1

Treasury's reform principle, for internationally aligned reporting practices, can only be achieved if Australia's climate-related disclosure regime meets the global baseline established by the ISSB.

As included in our response to the discovery consultation in February 2023, we proposed that IFRS S1 and IFRS S2 be implemented together. However, we note that the CP makes no reference to IFRS S1. IFRS S2 requires key aspects from IFRS S1 to be effective and to align with the global baseline, such as materiality and reporting boundaries and it is unclear how these would apply if both standards were not implemented together, or aspects of IFRS S1 at a minimum.

Further, there are a number of existing regulatory requirements in the Australian environment that are driving sustainability-related disclosures beyond climate, including reconciliation action plans, human

rights charters and modern slavery statements. These could arguably form thematic areas that would be included within the broader general sustainability-related disclosures under IFRS S1. Issuing IFRS S1 in Australia would provide a framework for organisations to disclose information on a voluntary basis relating to wider sustainability risks and opportunities, alongside climate.

Transitional period and the end state

The CP defines the 'end state' to be from the 2027-28 reporting year onwards, which coincides with Group 3 entities first reporting period. We do not consider that this would be reflective of a true end state for climate-related disclosures, as it does not capture the completion of transitional arrangements for Group 3 entities (i.e., Scope 3 GHG emissions disclosures) nor the completion of the assurance roadmap. We consider a more appropriate end state to be 2030-31, when reasonable assurance is provided on all climate-related disclosures.

Further, the timing of the transitional period from 2024-25 to 2026-27, which involves less onerous disclosure requirements, ends before Group 3 entities commence reporting. Whilst we appreciate the intent to minimise the transitional period, most Group 3 entities are unlikely to have already commenced climate-related disclosures in a voluntary capacity and will therefore benefit the most from a transitional period in their first reporting cycle. We therefore recommend that the transitional period is extended to allow Group 3 entities appropriate time to meet disclosure requirements.

Reporting content

Reduced disclosures – proportional to risk

As noted above, we are concerned about the cost to benefit ratio of climate-related disclosures for some entities within Group 3. We believe that the level of disclosure required by an entity should be proportional to the size and risk of the entity.

It is important to note that different tiers of reporting entities within the scope of Chapter 2M present different levels of disclosures for financial reporting because some do not have "public accountability" in accordance with AASB 1053. Therefore, we propose a similar principle be considered and developed by the AASB to determine the appropriate level of climate-related financial disclosures for some reporting entities to strike the right balance between cost and benefit.

We point to the requirements of IFRS S1 and IFRS S2 being proportional to the skills,² capabilities and resources available to the organisation. IFRS S2 also recognises that reporting requirements such as scenario analysis would not be uniformly applied across industries or business size. We suggest consideration be given to lower disclosure obligations for certain components, such as qualitative scenario analysis and scope 3 greenhouse gas (GHG) emissions metrics that are commensurate with the skills and capabilities available, particularly in the short to medium term.

For financial reporting, [AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-profit and Not-for-Profit Entities](#), provides reduced disclosure requirements for reporting entities without "public accountability" (i.e., Tier 2 entities). These are consistent with the Tier 1 disclosure requirements but are simplified and reduced. A similar approach should be considered for climate-related financial disclosures, particularly for scope 3 GHG emissions and scenario analysis. In

² IFRS S2 – Climate related financial disclosures. IFRS Foundation, pg. 25 (B6-B7).

addition, it will be important that legislation is drafted to allow the AASB to determine, practically, the most appropriate reporting requirements proportionate to size and risk.

Existing financial reporting exemptions

We support climate-related financial disclosures for entities that are required to lodge financial reports under Chapter 2M of the Corporations Act. However, climate-related financial disclosures should not be mandated where financial reports are not required to be lodged under Chapter 2M.

There are exemptions for certain entities from preparing and lodging financial reports. It is important that these are replicated where required for climate-related financial disclosures. As some of these exemptions are issued as Class Orders by the Australian Securities and Investments Commission (ASIC), we recommend ASIC is given the appropriate powers to issue exemptions for certain entities or classes of entities from climate-related disclosures in the same way as they can from the lodgement of financial reports.

Consolidated reporting and stapled securities

The requirements to produce consolidated financial reports in Australia depends on how the group is structured. We suggest Treasury gives consideration to how climate-related financial disclosures would apply to various group structures. For example, if they are prepared at the consolidated group level, it may be appropriate that other entities within the group are exempt from climate-related disclosures.

Likewise, we suggest special consideration be given to the application to other structures such as stapled entities, that currently are required to produce two financial reports whereas a single set of climate-related disclosures may be most appropriate.

Public sector

The consultation paper notes that currently separate work is being led by the Minister of Finance to implement appropriate arrangements for comparable Commonwealth public sector entities to disclose their exposure to climate-related risks. The AASB, as a part of their remit, develops (and maintains) financial reporting standards for for-profit entities, and both private and public sector not-for-profit entities (NFP). At its last meeting, the AASB agreed to take the same approach to developing climate-related disclosure standards as it does for accounting standards – that is a sector-neutral approach. This means that the same reporting requirements largely apply to both the for-profit and NFP sectors. We encourage Treasury to liaise with the Minister of Finance to entrust the AASB to establish an appropriate sector-neutral climate-related financial disclosure framework in Australia, which considers the current work being undertaken for the public sector whilst also being consistent and comparable with the wider reporting scope.

There is no indication on how the climate-related financial disclosure requirements will translate to state and territory Government disclosures. We note the current State and Territory Government legislation directs agencies to apply financial reporting requirements which are mainly sector-neutral. We recommend Treasury draft the legislation in such a way that State and Territory Governments can similarly point their agencies to the climate-related disclosure requirements. Further, we encourage the federal Government to collaborate with states and territories, through national cabinet, to adopt climate-related financial disclosures for a cohesive whole of Government approach.

Materiality

Proposal: Principles of financial materiality would apply

We support the proposal for financial materiality to apply to ensure harmonisation with existing definitions for reporting entities. However, IFRS S1, which addresses the concept and applicability of materiality has not been considered in the CP. To be effective and align with the global baseline IFRS S1 should be implemented in conjunction with IFRS S2, or at a minimum with reference to IFRS S1 and certain concepts such as materiality.

Governance

Proposal: From commencement, companies would be required to disclose information about governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities.

We support the proposal for reporting entities to disclose these aspects which will align with current practice of financial reporting. We foresee that this will be addressed by the AASB as a part of its standard-setting mandate.

Strategy

Scenario analysis

Proposal: From commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state.

The development of qualitative to quantitative scenario analysis to inform disclosures will be an important exercise that reporting entities will need to properly understand and resource. However, the expectation that by end state (2027-28 reporting year onwards) disclosures would have moved to quantitative is unreasonable, particularly for Group 3 entities as they will be commencing their first climate-reporting period and will be adjusting to what is required.

IFRS S2 states that "The entity is required to use an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort". The AASB, in its development of the Australian climate-related disclosure standards, should incorporate the inclusion of undue cost or effort particularly in areas of scope 3 GHG emissions and scenario analysis.

We also suggest consideration be given to enabling some reporting entities, perhaps through the reduced disclosure regime proposed earlier, to continue with qualitative scenario analysis.

Proposal: From commencement, reporting entities would be required to disclose climate resilience assessments against at least two possible future states, one of which must be consistent with the global temperature goal set out in the Climate Change Act 2022.

We recommend the Government develop an Australian scenario that is consistent with the temperature goal within the *Climate Change Act 2022* (Climate Change Act) help reporting entities undertake this assessment consistently, and at reasonable cost, when the requirement moves from qualitative to quantitative scenario analysis.

Additionally, we note the temperature goal within the Climate Change Act is represented as a range and we suggest, for these purposes, an absolute temperature is required.

Transition planning and climate-related targets

Proposal: From commencement, transition plans would need to be disclosed, including information about offsets, target setting and mitigation strategies.

We support reporting entities disclosing their transition plans but suggest disclosure of their use of offsets should be separate.

We welcome Treasury's intention to consider arrangements to strengthen the development and disclosure of transition plans as part of its consultation on the Government's Sustainable Finance Strategy. We encourage the Government to develop best practice guidance to improve the quality, and increase the consistency, of transition plan disclosures. International developments, including the UK Transition Plan Taskforce (TPT) disclosure framework³ would provide a strong basis for Australian guidance. The TPT aims to provide a standard to assist preparers (including management teams and boards of directors) in producing credible, useful and consistent transition plans and to encourage the creation of standardised and comparable disclosures.

Proposal: From commencement, all entities would be required to disclose information about any climate-related targets (if they have them) and progress towards these targets.

We support this proposal and note that in line with IFRS S2, climate-related targets may be qualitative and/or quantitative. Further, we note that the requirement to include information about the entity's strategy to achieve the target appears to differ to the related requirements in IFRS S2.

Risks and Opportunities

Proposal: From commencement, entities would be required to disclose information about material climate-related risks and opportunities to their business, as well as how the entity identifies, assesses and manages risk and opportunities.

We support reporting entities disclosing material climate-related risks and opportunities.

As it relates to the disclosure of commercially sensitive climate-related opportunities, we refer to the provisions in IFRS S1 around commercially sensitive information that comprehensively set out requirements for an entity to qualify for an exemption.⁴

From an Australian perspective, we recommend [ASIC Regulatory Guide \(RG\) 247 Operating and Financial Review](#) is reviewed to ensure it is sufficient to address the matter of commercially sensitive climate-related disclosures as well as the requirements of the ASX Listing Rule 3.1.

Metrics and Targets

Greenhouse gas emissions

Proposal: From commencement, scope 1 and 2 emissions for the reporting period would be required to be disclosed.

We support the proposal for the disclosure of scope 1 and 2 emissions from the commencement of reporting.

³ [Transition Plan Taskforce | Setting a robust standard \(transitiontaskforce.net\)](#)

⁴ IFRS S1 – General requirements for sustainability-related disclosures. IFRS Foundation, pg. 31 (Par. B35(a)-(c)).

As it relates to the standard-setting activities that will be undertaken by the AASB, we seek clarity on how the NGER scheme calculation methodology would satisfy the requirements of IFRS S2, which requires the use of the Greenhouse Gas Protocol. This approach may affect the level of alignment with the ISSB global baseline.

Proposal: Disclosure of material scope 3 emissions would be required for all reporting entities from their second reporting year onwards. Scope 3 emissions disclosures made could be in relation to any one-year period that ended up to 12 months prior to the current reporting period.

We support the disclosure of scope 3 emissions by reporting entities from their second reporting period. We also support the flexibility in relation to the reporting period for scope 3 emissions. However, we are unclear why the reference to materiality in this proposal is required and how it would differ from the overall application of materiality for the reporting requirements as whole.

We strongly support the development of additional guidance on scope 3 emissions estimation methodologies, including guidance on the interpretation of materiality, boundaries for estimation and how best to disclose data gaps and changes in methodologies and assumptions.

Industry-based metrics

Proposal: By end state, reporting entities would be required to have regard to disclosing industry-based metrics, where there are well-established and understood metrics available for the reporting entity.

The proposal to disclose industry-based metrics aligns with the requirements of IFRS S2. The ISSB has provided accompanying 'Industry-Based Guidance on Implementing Climate-Related Disclosures', which has been derived from the Sustainability Accounting Standards Board (SASB) Standards.

We are aware of the decision by the AASB to exclude reference to the SASB Standards within the Australian standards. We suggest local standard-setters provide guidance on industry-based metrics for Australia for the interim period. Further, from the perspective of global alignment and to meet the needs of international investors, we suggest the Australian industry-specific-based metrics are aligned with the ISSB accompanying guidance as much as possible.

Assurance

Assurance roadmap

There is a critical role for independent external assurance to enhance the credibility of climate-related disclosures, which have an important role in decisions about the allocation of capital to achieve a just transition to a more sustainable and low-emissions economy.

We support the provision of an assurance roadmap and the proposed phasing of assurance requirements over time, both in terms of the scope of assurance and level of assurance. However, clarity on the assurance implications on comparative disclosures when moving from no assurance to assurance, and from limited assurance to reasonable assurance, would be well received.

The timing of this phasing must remain flexible so it can be adapted depending on how reporting entities' data quality improves, and reporting systems and processes mature, over time. We recommend the legislation is drafted in such a way that the level, extent and scope of assurance over climate-related disclosures is determined by the AUASB. We also support encouraging entities to voluntarily obtain assurance that is over and above the minimum mandatory requirement.

Further, we note the roadmap proposes the same end state for all entities of reasonable assurance over all disclosures. In our opinion, the level of assurance provided over climate-related disclosures should be proportionate to the size and risk of the reporting entity. At present, we consider there is insufficient information to indicate that the benefit to users from reasonable assurance of all climate-related disclosures for smaller and less risky entities would exceed the costs of such assurance. The auditor of financial statements would continue to read and consider the other information (i.e., including the climate-related disclosures) in the entity's annual report in accordance with ISA 720 *The Auditor's Responsibilities Relating to Other information*.

Assurance standards

We support a global approach to the development of sustainability-related assurance standards and are supportive of the IAASB as the global body to issue these standards. We believe the goal should be a globally consistent, comparable, and reliable assurance framework for sustainability-related reporting. Therefore, we agree that the AUASB standards should be aligned with the IAASB standards as far as possible.

We note that the IAASB is planning to release the exposure draft of ISSA 5000 by 2 August 2023 with final approval in late 2024. This would leave the Australian market with a 6-month period to adopt ISSA 5000. We are concerned that this would not provide adequate time for the AUASB to complete its due process, and for assurance practitioners to implement the new standard. Treasury may wish to consider deferring the assurance requirements by one year in a similar way to the transition arrangements within New Zealand. However, we note ISSA 5000 is aligned with ASAE 3000 *Assurance Engagements other than Audits* which practitioners are currently using for sustainability reporting assurance.

Assurance practitioners

We have interpreted "financial auditor" to mean the lead engagement partner for the audit of the entity's financial statements. If this is correct, then we support the proposal that the financial auditor leads the climate-related disclosure assurance engagement, supported by internal or external technical climate and sustainability experts when required. The financial auditor would be able to provide connectivity and synergies increasing the integrity of information being assured. The multidisciplinary model is the most effective structure to serve the audit function as it is one of the best mechanisms to develop the skills, expertise and consistency needed for quality audits.

The Clean Energy Regulator's (CER) auditor register has been identified as a tool that assurance practitioners can use to connect with climate experts. However, those listed on the CER register have expertise in the assurance of GHG emissions under the NGER Act. The NGER Act does not have the same organisational boundaries and scope as IFRS S2 and instead mainly focuses on GHG emissions.

If the CER auditor register is to be used to identify assurance practitioners for climate-related disclosures beyond GHG emissions, the CER will need to ensure those identified on the register meet the CER's current requirements. It will also be important to ensure the CER complaints handling policy is updated to include mechanisms to provide feedback and identify issues with auditors included on the register.

Mandatory accreditation or licencing

It is not clear what is meant by a “qualified” and “experienced” independent provider. We recommend these terms are defined to provide clarity around *who* can conduct the assurance engagement.

We note that detailed and specific consultation on professional audit and assurance requirements is proposed to be conducted at a later stage, rather than prior to the commencement of first phase reporting and assurance requirements. Having no regulatory oversight of assurance over climate-related disclosures could be perceived as contrary to the objective to enhance the trust and confidence users place in climate-related disclosures.

In our view, the risk this poses to the trust and confidence users are able to place on such disclosures is mitigated by requiring the assurance engagement to be conducted or led by the financial auditor. However, we do have a residual concern that there will be no regulatory oversight of the assurance of climate-related disclosures for a period of time at the beginning of the regime.

Without clarity around what is meant by ‘qualified’ and ‘experienced’, it is possible that some assurance practitioners who are currently performing climate-related disclosures assurance engagements would not meet the future accreditation or licensing requirements.

Liability and enforcement

Modified liability approach

Proposal: Climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three years.

We support the inclusion of the modified liability approach in relation to scope 3 emissions and forward-looking statements and for regulator-only actions over a fixed period of three years. We see this as bringing a practical balance between accountability for disclosures and allowing time for the market to mature.

However, the modified liability approach, which will apply for three years from the commencement of the regime, does not allow all reporting entities the same protections in the first year/s of their reporting. Currently, the protection will only apply to Group 1 and Group 2 (partially) and will end before the first reporting period commences for Group 3 entities.

Treasury has expressed, as a part of its information sessions, that it is expected that by the commencement of reporting for Group 3 entities that there will be sufficient examples for the market to use to guide scope 3 GHG emissions disclosures and forward-looking statements. However, we raise concerns about this timing and caution the expectation as climate reporting in Australia will still be in its infancy and there is a significant gap in knowledge, processes and resources, particularly for Group 3 entities.

We recommend the fixed three-year period from the commencement of the regime should be reconsidered and be extended to all reporting entities for at least their first reporting period, whether voluntary or mandatory.

Education

As professional accounting bodies, we have seen a varying range of knowledge when it comes to the fundamentals of climate-related risks within our own memberships and the wider business community, emphasising a full spectrum of knowledge in the market. It will be important for Government to take a leading role in building and improving knowledge in climate-related risks within reporting entities to help support effective and genuine decision useful climate-related information.

There is a significant learning curve for all parties that will be involved with climate-related financial disclosure requirements in Australia, especially over the next five to 10 years. Businesses, climate experts, auditors and users of disclosures will all need to upskill in certain aspects to contribute to the production and use of quality, decision useful disclosures.

Businesses will need to adjust internal processes to capture how their entity will consider and disclose climate-related risks, climate experts will be required to translate their expertise into data and information that will be used by business for disclosures and assurance practitioners for audit purposes. Auditors will adapt their current discipline to provide confidence to the market in relation to forward-looking information and climate-related disclosures, and users of climate-related disclosures will need to determine how this new information will affect their investment decisions.

Government will need to be mindful of the capacity and capability uplift that will need to happen to keep pace with climate-related reporting requirements domestically and internationally. We suggest a whole of Government approach which involves collaboration across Government portfolios that will build capacity and invest in domestic capability.

We encourage Government to provide support through targeted education and practical guidance particularly for those industries, sectors, users and businesses involved with and relying on reporting. Also, potential incentives to support businesses with reporting requirements that do not have the resources to engage external expertise should be considered.

Post-implementation review

We recommend that a requirement for a post-implementation review is included in legislation to enable an appropriate assessment to be conducted to determine if the climate-related disclosure regime in Australia is meeting its objectives, including international comparability.

Appendix B

Description	Number	Source for population numbers
ASX listed Australian formed entities	2,190	Derived from data on Morningstar DatAnalysis - 23 May 2023.
NSX listed Australian formed entities	42	NSX listed entities at 5 May 2023.
Unlisted public companies limited by shares	4,428	Number of financial reports lodged in the 12 months to 30 June 2022.
Unlisted public companies limited by guarantee	1,328	Number of financial reports lodged in the 12 months to 30 June 2022.
Registered schemes	3,656	Number of registered schemes as at 30 June 2022 per ASIC Annual Report 2021-22.
Corporate Collective Investment Vehicle sub-funds	4	As at 23 May 2023 ASIC had registered 3 CCIVs that have 4 sub-funds in total.
Registrable Superannuation Entities (excluding Small APRA funds, Approved Deposit Funds and Pooled Superannuation Entities)	140	From APRA statistics at 15 May 2023. Legislation was enacted last week to bringing these entities under Chapter 2M from years commencing on or after 1 July 2023.
Large proprietary companies that are not disclosing entities	6,544	Number of financial reports lodged in the 12 months to 30 June 2022.
Grandfathered large proprietary companies	1,104	Maximum number from notifications in 1995/6 less those that ceased to exist or since lodged financial reports. These companies are required to lodge for year ending on or after 10 August 2022.
Small proprietary companies that are controlled by a foreign company for all or part of the period and where the company's profit or loss for the period is not covered by the statements lodged with ASIC by a registered foreign company, company, registered scheme, or disclosing entity	3,708	Number of financial reports lodged in the 12 months to 30 June 2022.
TOTAL	23,144	