

21<sup>st</sup> July 2023



ABN 37 650 959 904

Climate Disclosure Unit  
Market Conduct and Digital Division  
Treasury  
Langton Cres  
Parkes ACT 2600

*Via online submission*

Dear Climate Disclosure Unit, Market Conduct and Digital Division, Treasury,

The Victorian Chamber of Commerce and Industry welcomes the opportunity to provide a submission on the Federal Government's second consultation on climate-related financial disclosures in Australia.

As Victoria's leading business and industry body, each year the Victorian Chamber informs and services more than 65,000 members, customers, and clients across the State. Our work encompasses all industry sectors, spanning small, medium, family, and large enterprises.

The position presented in this submission has been informed by our ongoing member consultation. We would be happy to meet to discuss this submission.

If you would like to discuss this in more detail, please contact [REDACTED], Senior Advisor, Policy and Advocacy on [REDACTED]

Yours sincerely,

[REDACTED]

[REDACTED]  
**Chief Executive**

## Introduction

The Victorian Chamber of Commerce and Industry welcomes the opportunity to provide a submission on the second consultation of climate-related financial disclosures in Australia. As Victoria's leading industry body, the Victorian Chamber is the voice of over 65,000 members, customers, and clients across the State. We represent all industries and businesses – small, medium, family and large.

This submission contains 14 recommendations to the Federal Government on how to shape the climate-related financial disclosures framework in Australia, so that businesses can sufficiently understand and prepare to meet these new reporting requirements. This submission has been informed by extensive consultation with our members.

The Victorian Chamber broadly agrees with the 12 proposals put forward in the Federal Government's second consultation paper. Many of our recommendations from the first consultation round have been addressed. We strongly support the commitment to international alignment with the International Sustainability Standards Board (ISSB) and believe that the Australian standards should be based on the newly released ISSB standards.<sup>1</sup> We welcome the exclusion of small, medium and family enterprises (SMFEs) from the reporting thresholds and appointment of the Australian Accounting Standards Board (AASB) as the body responsible for administering the Australian standard.

Businesses are cognisant that emissions reporting is necessary. However, they are unanimously apprehensive about the reporting of Scope 3 emissions. Their concerns primarily lie with obtaining all the necessary data from supply chains. The Federal Government must set the business community up for success, with a strong focus on SMFEs, by equipping it with the right tools and guidelines to reach the proposed targets in the desired timeframe.

Although climate-related disclosures do not intend to capture SMFEs, they are frequently in the supply chains of large organisations. Therefore, large organisations will require carbon emissions information from their smaller suppliers to meet their own Scope 3 emissions reporting requirements. With small business accounting for 98 per cent of all businesses in Australia,<sup>2</sup> the Federal Government must prioritise simplicity and efficiency when developing the system to measure and report carbon emissions.

In Victoria, the recent increases to the cost of doing business through taxes, levies, and increased superannuation contributions, combined with economic headwinds, have left SMFEs in survival mode. Carbon emissions reporting will be a laborious exercise and pose an additional administrative burden on businesses. There needs to be one simple and standardised process for carbon data collection, with set metrics and guidelines to facilitate a straightforward reporting process and to reduce the occurrence of unintentional deceptive conduct or double-up of regulatory burden.

The business community wants clarity on why the Federal Government is mandating climate-related financial disclosures and how their emissions data will be used once reported. Understanding the *why* and the nuance of *financial* disclosures will give businesses the impetus to start gathering emissions data and improve reporting uptake in industry, even for businesses that are not directly captured in the reporting thresholds.

Explaining the risks of inaction is also important. If businesses do not comply, they will encounter difficulties trading internationally, initially with jurisdictions such as the European Union (EU). After all, Australia's proposed climate-related financial disclosures framework is in response to the international standards of the ISSB.

The following submission is divided into six sections that focus on simplifying the emissions reporting process, supporting SMFEs, preparing large organisations, detailing Scope 3 emissions, allowing time for assurance sector maturity, and aligning the AASB with international frameworks.

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<sup>1</sup> IFRS (2023). *ISSB issues inaugural global sustainability disclosure standards*. Accessible at: [https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/?utm\\_medium=social&utm\\_source=linkedin&utm\\_campaign=s1\\_s2](https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/?utm_medium=social&utm_source=linkedin&utm_campaign=s1_s2)

<sup>2</sup> ASBFE0 (2023). *Small Business Matters*. Accessible at: [https://www.asbfeo.gov.au/sites/default/files/2023-07/Small%20Business%20Matters\\_June%202023%20%281%29.pdf](https://www.asbfeo.gov.au/sites/default/files/2023-07/Small%20Business%20Matters_June%202023%20%281%29.pdf)

## Recommendations

1. Incorporate carbon emissions reporting into an existing online government portal (e.g., MyGov or Online services for business) and establish one standard template with set metrics and guidelines for all businesses to use to accurately report emissions.
2. Appoint a reputable scientific body (e.g., CSIRO) to establish standardised climate scenarios for businesses to use as guidance when reporting climate-related risks to prevent fragmentation and enhance comparability.
3. Fund industry associations to run educational trainings, workshops, and webinars on Scope 1, 2 and 3 emissions to demystify complex climate-related terminology and increase uptake of emissions reporting among SMFEs.
4. Establish a hotline for businesses to call for assistance while the reporting framework is being phased in to provide industry with additional support to meet reporting requirements.
5. Incentivise businesses through tax breaks or grant programs to commence carbon emissions reporting early to encourage wide uptake in industry.
6. Apply the principal of materiality when determining whether SMFEs need to participate in Scope 3 emissions reporting in supply chains.
7. Fund industry associations to equip large organisations with toolkits on carbon emissions reporting for them to provide adequate advice and guidance to SMFEs in their supply chains.
8. Ensure the AASB consults on the specificities of Scope 3 emissions to provide businesses with a robust reporting framework.
9. Leverage carbon calculation tools that already exist (e.g., the Climate Active calculator) and expand them to cover all Scope 3 emissions categories for carbon measurement across all industries.
10. For major sporting and tourism events, apply special consideration when reporting Scope 3 emissions and set clear boundaries for ownership of associated emissions.
11. Apply safe harbor provisions to the reporting of Scope 3 emissions to encourage uptake across all industries.
12. For Scope 3 emissions, only require reporting entities to provide limited assurance to give the business community certainty that assurance is attainable.
13. Allow sufficient time for assurance sector maturity and capacity building to provide businesses with accurate assurance of Scope 1, 2 and 3 emissions.
14. Provide businesses with sufficient lead time of at least one year to prepare for climate-related reporting under AASB standards.

## Simplifying the emissions reporting process

Throughout the Victorian Chamber's consultation with industry, one overriding theme came to the fore: simplification. The business community is seeking a simple, standardised and efficient reporting process for disclosing carbon emissions.

The Federal Government needs a coordinated approach to carbon emissions reporting. All reporting information should be captured in one online government portal (e.g., MyGov or Online services for business) and have one standard template with set metrics and guidelines, in alignment with ISSB Standards, for all businesses to adhere to. The template should be easy to use and practical. More businesses will adopt climate-related financial reporting if the process is straightforward and user-friendly. All business reporting, whether financial, environmental or social, should be done on the one portal.

The online portal should also be accompanied by one standard, publicly accessible emissions calculator to enable accurate carbon measurement. The portal should produce a downloadable certificate with estimated gross emissions data per year for businesses to provide to supply chains upon request.

As stated in the Victorian Chamber's first submission on climate-related financial disclosures, a reputable scientific body (e.g., CSIRO) should establish standardised climate scenarios for businesses to use as guidance

when reporting climate-related impacts, risks and opportunities. This would help to prevent fragmentation and enhance comparability across business reports.

## Supporting small, medium, and family businesses

While carbon emissions reporting is in its nascent stage, SMFEs will need guidance and support to track emissions data. The greatest cost to businesses will be the data collection process. There are 2.5 million small businesses in Australia that contribute \$500 billion to the national economy, equating to one-third of Australia's GDP.<sup>3</sup> Many of these will be indirectly impacted by this new reporting framework. If they are unable to provide carbon emissions data to large organisations in their supply chains, they risk reduced economic activity or even closure.

There is a lot of confusion and apprehension surrounding the reporting process. SMFEs do not know how to capture carbon emissions data, with some not even knowing what qualifies as carbon and what business assets emit it. They will need practical and easy-to-use tools to monitor and report carbon emissions.

Industry associations are well-placed to provide education on the difference between Scope 1, 2 and 3 emissions and how to report them. Funding should be provided to industry associations to run educational training, workshops and webinars on the different carbon emissions. These educational opportunities would help to demystify complex climate-related terminology, such as carbon, carbon neutral, offsetting and net zero. The Victorian Chamber would be pleased to fulfil this role.

During the transition period (2024-25 to 2029-30), the Federal Government should establish a hotline for businesses to call and talk to a person for assistance whilst the reporting framework is being phased in. Once the business community has fully adopted the new reporting requirements, the hotline could be phased out.

As well as being an increased administrative burden, the calculation of carbon emissions data will be costly to businesses. To encourage generalised reporting uptake among industry, the Federal Government should incentivise businesses through tax breaks or grant programs to commence carbon emissions tracking and reporting. This should include providing SMFEs with free consultancy hours with specialist carbon accountants so that they can access professional advice to report their emissions with precision.

The Victorian Chamber welcomes the application of the principal of materiality. We also believe that it should apply when determining whether SMFEs need to participate in Scope 3 emissions reporting in supply chains.

## Preparing large organisations

In a recent information session with Treasury on climate-related financial disclosures, the Victorian Chamber posed the question of whether there will be support for SMFEs to provide large organisations with their emissions data. The response was troubling: the onus will fall on large corporations to influence SMFEs.

To equip large companies with the appropriate tools and information to guide SMFEs reporting, the Federal Government should fund industry associations to provide large organisations with toolkits on carbon emissions reporting. Only then will they be able to give SMFEs sufficient advice on how to monitor and report Scope 3 emissions.

Until this occurs, industry innovations that empower SMFEs on their emissions reduction journeys should be encouraged. Walmart's Project Gigaton<sup>4</sup> is a great example of how large organisations can give supply chains templates to kick start their decarbonisation.

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<sup>3</sup> ASBFE0 (2023). *Small Business Matters*. Accessible at: [https://www.asbfeo.gov.au/sites/default/files/2023-07/Small%20Business%20Matters\\_June%202023%20%281%29.pdf](https://www.asbfeo.gov.au/sites/default/files/2023-07/Small%20Business%20Matters_June%202023%20%281%29.pdf)

<sup>4</sup> Walmart (2023). *Walmart Sustainability Hub*. Accessible at: <https://www.walmartsustainabilityhub.com/climate/project-gigaton>

In the absence of a standard reporting framework, comparability of Scope 3 emissions will be limited. This will lead to inaccurate or misleading evaluation of emissions throughout value chains. This could result in company directors being liable for unintentional deceptive conduct. The Federal Government must set all businesses up for success by equipping them with the same tools and frameworks for emissions calculation.

## **Detailing Scope 3 emissions**

The calculation of Scope 3 emissions remains in its infancy, with great uncertainty around the methods to measure both upstream and downstream business activities. The business community, whether small, medium or large, requires further details on the extent of Scope 3 emissions reporting. The Federal Government needs to ensure that the AASB consults on the specificities of Scope 3 emissions.

Businesses require practical solutions to report Scope 3 carbon emissions. The Federal Government should leverage tools that already exist (e.g., the Climate Active calculator) and build on them to cover all Scope 3 emissions categories. Full public accessibility to such tools will be required. Equally, where there exist examples of larger businesses providing support to SMFEs, consideration should be given to rolling-out a similar program.

For major sporting and tourism events, the AASB should apply special consideration when reporting Scope 3 emissions. Reporting frameworks should consider the collection difficulties associated with obtaining data on commuter emissions for fan travel, event owner freight, and international travel of event owners. There also needs to be clear boundary settings in place for ownership of associated emissions. For example, there needs to be a clear distinction between emissions owned by local event stadium owners versus emissions owned by global touring event companies.

Financial penalties should not apply to Scope 3 emissions reporting. Instead, safe harbour provisions should be implemented. This is because Scope 3 emissions reporting relies on a number of assumptions and proxy data from multiple sources. Complete accuracy is, therefore, likely unachievable. Australia must reward improvement of reporting accuracy, not discourage reporting altogether. Safe harbour provisions would also help to safeguard the small and medium business community from eradication from large supply chains.

For reporting entities, Scope 3 emissions should only ever require limited assurance. The proposed reasonable assurance by end state is unrealistic and will merely foster greater apprehension in the business community. On top of this, businesses need ample lead time of at least one year to prepare for climate-related reporting under AASB standards. Until then, climate-related reporting should be voluntary.

## **Allowing time for assurance sector maturity**

The assurance sector requires time to mature and build capacity so that it has adequately trained carbon accountants to provide businesses with accurate assurance of Scope 1, 2 and 3 emissions. Only recently have consulting firms been rushing to hire new ESG recruits in their assurance arms,<sup>5</sup> with many transitioning over from the tax branches of firms. It will take some time for them to gain experience in carbon accounting.

Reasonable assurance can also be arduous to acquire, much more so than limited assurance. The Victorian Chamber approves of the limited assurance requirement for Scope 3 emissions and insists that this requirement does not progress to reasonable assurance. Scope 3 emissions are dependent of third-party information and proven accuracy is unlikely.

## **Aligning the AASB with international frameworks**

The Victorian Chamber approves of the AASB as the Australian standards body and welcomes its alignment with the ISSB framework. However, industry needs to see the detail on Scope 3 emissions reporting.

The businesses community should have at least one full year to prepare for Scope 3 emissions reporting once the AASB has fully adopted the ISSB standards. Therefore, mandatory reporting should not commence on 1 July

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<sup>5</sup> Financial Times (2021). *Big Four accounting firms rush to join the ESG bandwagon*. Accessible at: <https://www.ft.com/content/4a47fb4a-4a10-4c05-8c5d-02d83052bee7>

2024. Instead, it should commence the following financial year at the earliest. Until then, climate-related reporting should be voluntary.

### **Concluding remarks**

The reporting of Scope 1, 2 and 3 emissions will reshape the entire business ecosystem. The Victorian Chamber provides these industry insights for the formation of this new climate-related financial disclosures framework. We urge Treasury to adopt our 14 pragmatic recommendations and look forward to playing a vital role to help educate and inform businesses about their obligations.