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[redacted]

Climate Disclosure Unit
Market Conduct and Digital Division
Treasury
Langton Cres
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Submission – Climate-related financial disclosure
How wide to cast the net?

Dear Sir / Madam,

I am writing in response to the Climate-related financial disclosures Consultation Paper issued in June 2023.

By way of background, as an accounting professional and then an academic teaching and researching in the area of financial reporting for over 40 years I have significant knowledge and experience of financial reporting. I have an ongoing interest in the development of corporate reporting, and most recently this has been focused on digital reporting. (To this end I would add than any expansion of corporate reporting must include the provision of digital reports to avoid information overload).

A watershed moment occurred in the evolution of corporate reporting globally, with the International Sustainability Standards Board (ISSB) issuing IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and IFRS S2 Climate Related Disclosures (IFRS S2). Doubtless this is a consequence of an increasing demand for this type of information, and an historic diversity of approaches taken to the provision of this type of information. Harmonisation must be regarded positively and hopefully these standards will provide a focal point for this.

To facilitate the evolution of corporate reporting in Australia the consultation paper proposes that the Australian Accounting Standards Board issues similar standards for application in Australia, much as they presently do in relation for financial reporting standards. This is not controversial and the same arguments for harmonisation of financial reporting standards apply in this context. Hence, I am in support of this aspect of the consultation paper.

However, there is one aspect of the Consultation Paper that is extremely problematic. This is the intention to expand corporate reporting for all entities preparing and lodging financial reports with ASIC in accordance with the Corporations Act, Part 2M. This includes many private companies (meeting two out of three of the conditions of over 100 employees, gross assets of over $25m and revenue over $50m) and other entities. At last count this was 23,144 entities. This raises some important practical questions which are not addressed:

- Who will use this mountain of information (which will in many instances be immaterial)?
- Who will prepare this information?

- Is here a sufficiently skilled workforce?
- What will be the costs (and benefits)?

Furthermore, by casting the net so widely, there is a question of whether the reform principle identified in the consultation paper, proportional risk, has been adhered to.

Surely a more efficient solution would be targeting entities where the sustainability risks are greatest. Materiality should be an overriding consideration and it should reflect sustainability criteria rather than financial criteria (a clear mismatch). Such as approach is already operating for National Greenhouse and Energy Reporting. This is required for entities emitting more than 50 kilo tonnes of carbon dioxide equivalents annually. Doubtless these entities face the greatest sustainability risks, and at last count there were 409 registered organisations. This is only 1.8% of those entities that will potentially be required to report on sustainability. Even more problematically, a mere 51 entities accounted for 80% of net energy consumption reported. This is only 0.2% of entities that will potentially be required to report on sustainability.

Clearly, better targeting of this development in corporate reporting is required. It should be mandated only for entities where there is something meaningful (material) to disclose. Furthermore, for many entities the primary source of emissions is from electricity and gas, and details of these emissions will doubtless be provided by suppliers who are generally among the largest emitters and would be captured by any reporting requirement. For these entities a more cost-effective solution would be to simply require disclose of electricity and gas expenses. This is not to say that voluntary adoption can't occur, and if there is sufficient demand this may occur. However, if this does occur it should be required to be fully consistent with the standards to avoid potential 'greenwashing'.

While some might claim that this will lead to relevant information not being disclosed, it must also recognise that there is also a significant requirement for climate risk disclosures in general purpose financial reports. This is not creating a reporting vacuum.

This is a peculiarly Australian problem, and we can't rely on a solution being provided globally. In most jurisdictions preparation of financial reports prepared using accounting standards consistent with IFRS accounting standards is only required for the very largest entities. So, the problem doesn't arise. However, in Australia the impacts on small and medium business in Australia may be pronounced, and the net must be cast more narrowly.

Hence my recommendation is that a much more targeted reporting requirement be adopted or there will be a significant cost for many entities with little benefit.

Yours faithfully

Peter Wells

Entities Preparing and Lodging General Purpose Financial Reports in accordance with the Corporations Act, Part 2M. (source – ASIC Annual Report)

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**	