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19 July 2023

Corporations Branch
Market Conduct Division
Treasury
Langton Cres
Parkes ACT 2600

By email: climatereportingconsultation@treasury.gov.au

Dear Sir/Madam,

Response to Climate-related Financial Disclosure Consultation Paper

We appreciate the opportunity to provide our comments on Treasury's *Climate-related Financial Disclosure* Second Consultation Paper dated June 2023.

Nexia Australia Pty Ltd represents the six independent chartered accounting firms comprising the Nexia Australia network with 80 partners servicing clients from small to medium enterprises, large private companies, not-for-profit entities, subsidiaries of international companies, and listed public companies.

It is important to acknowledge that Treasury has stated that detailed climate disclosure standards will be formally established by the Australian Accounting Standards Board ("AASB"). Hence, we accept that Treasury is not proposing disclosure requirements that differ to, or are distinct from, the disclosure project being undertaken by the AASB. Treasury's Consultation Paper addresses which entities would be required to apply the AASB's standard and where, when, and how those entities would report such information.

We make the following limited comments on the Consultation Paper. The following sections correspond to the sections and related proposals in the Consultation Paper.

Reporting entities and phasing

We understand Treasury proposes that the AASB's climate-related disclosure standard would apply to entities that:

a) are required to prepare financial reports under Chapter 2M of the *Corporations Act 2001*; and

b) meet two of the three proposed size criteria.

We disagree with Treasury's proposal relating to Group 3 reporting entities and make the following comments:

- Under subsection 45A of the *Corporations Act 2001* ("the Act"), proprietary companies are limited to 50 shareholders and are unable to offer shares by way of an offer document under Chapter 6D of the Act.

  Many proprietary companies are closely-held by family groups and often have no or few external stakeholders or users of their financial information. In many cases, their financial reports are prepared solely to meet their reporting obligations under the Act and, where relevant, are provided to external lenders.

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We remain concerned that extending mandatory climate reporting to large proprietary companies would impose on them a significant time, cost, and resource burden of preparing and auditing such information which would be disproportionate to any expected benefit of doing so. Refer our comments in the Implementation Costs section below.

- The International Sustainability Standards Board's IFRS S1 and IFRS S2 standards are the first in potentially many future sustainability-related disclosure standards. While Treasury's current focus is on climate-related financial reporting, we are concerned that if legislation requires all proprietary companies to comply with all sustainability standards issued by the AASB, then the mandatory application of all sustainability-related standards to proprietary companies would become a significant future regulatory impost.

To more appropriately balance the actual regulatory cost and the potential benefits on affected entities, we recommend that a more appropriate threshold is:

- Disclosing entities [as defined in subsection 111AC of the Act] required to report under Chapter 2M of the Corporations Act 2001 and that fulfill two of the three thresholds:
  - has over 100 employees;
  - The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is $25 million or more;
  - The consolidated revenue for the financial year of the company and any entities it controls is $50 million or more.

  and
- Entities required to report under Chapter 2M of the Corporations Act 2001 that are a 'controlling corporation' under the NGER Act.

Disclosing entities have a wider group of stakeholders than proprietary companies and are generally deemed to have public accountability for the purposes of Australian Accounting Standards. In our opinion, it is appropriate that entities with a wider group of external stakeholders be subject to mandatory climate reporting.

Should Treasury disagree with our recommendations, we alternatively request that Treasury makes any legislation clear that the reporting obligation arises only where the entity is required to both prepare financial reports under Chapter 2M of the Act and meets two of the three proposed size tests.

We are concerned that other entities required to report under Chapter 2M of the Act, such as certain companies limited by guarantee, may inadvertently be subject to climate reporting requirements if those criteria are not clearly articulated in legislation.

Transition planning and assurance

Treasury proposes that financial auditors would lead climate disclosure assurance engagements, supported by technical climate and sustainability experts, when required.

The Australian auditing profession has been beset by staffing shortages for a number of years, exacerbated by the Covid-19 pandemic affecting the number of inbound qualified professionals.

We are concerned that the proposed staged timetable for implementation of the proposals will not provide sufficient time for mid-tier audit firms (that is, outside the Big 4 accounting firms) to upskill and develop the capabilities and capacity to provide climate-related assurance services to companies within the timetable proposed by Treasury.

Consequently, we recommend that Treasury extend each of the assurance transition periods by at least 12 months.

We also request that Treasury and the Australian Securities and Investments Commission clarify whether:

a) Assurance engagements of climate-related information can only be performed by a Registered Company Auditor;

b) Additional qualifications will be required by a Registered Company Auditor in order to undertake assurance engagements of sustainability and climate-related information.

Reporting location, frequency, and timing

We acknowledge the alternatives and arguments described in the 'Reporting framework and assurance' section of the Consultation Paper. Whilst the principal aim of integrating climate disclosures within the annual report is to foster consistency and mitigate redundant narratives across multiple reports, our previous concerns remain.

We maintain a preference for reporting climate-related information outside the annual report and limit the auditor's responsibility to provide limited or reasonable assurance to the separate report. We remain concerned that requiring significant additional non-financial information to be prepared and lodged as part of an entity's annual report will:

i) Impose additional burden on financial report preparers by requiring them to provide climate-related information at the same time as resources are dedicated to the preparation of financial information;

ii) Impose additional burden on auditors who are required to perform additional procedures on potentially material climate-related information included as part of the annual report in accordance with ASA 720 *The Auditor's Responsibilities Relating to Other Information* at the same time as resources are dedicated to the audit of the financial information;

iii) Delay an entity's planned finalisation and lodgment of its annual report due to the requirement to provide assurance over any material climate-related information before the entity can finalise and lodge its annual report; and

iv) Audit firms, currently under significant industry-wide resourcing constraints, will be subject to further resourcing pressure because of the requirement to have the technical knowledge to be able to provide assurance over climate-related information even if that information has been prepared by an external subject matter expert.

Implementation costs

Based on our preliminary discussions and analysis, and depending on the extent and number of locations of an entity's operations, we understand that the costs associated with the proposals for large proprietary companies could be in the ranges of:

Requirement	Approximate cost range
First year implementation of IFRS S2	$40,000 - $150,000
Ongoing annual reporting under IFRS S2	$20,000 - $50,000
First year limited assurance of climate reporting	$20,000 - $50,000
Ongoing annual reasonable assurance of climate reporting	$25,000 - $65,000

We consider that such costs would represent an excessive regulatory burden on the majority of large proprietary companies and would outweigh any perceived benefits to the Australian economy.

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Furthermore, if legislation requires all proprietary companies to comply with all future sustainability standards issued by the AASB, then the above indicative costs would multiply and would impose a further substantial regulatory impost.

Consequently, we recommend limiting the scope of entities that would be subject to the proposals.

Should you wish to discuss any aspects of this submission, please contact [redacted] at [redacted].

Yours faithfully

Nexia Australia Pty Ltd

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