



# OWNERSHIP MATTERS

21 July 2023

Climate Disclosure Unit  
Market Conduct & Digital Division  
The Treasury  
**Email:** [climatereportingconsultation@treasury.gov.au](mailto:climatereportingconsultation@treasury.gov.au)

**RE: Consultation on climate-related financial disclosure**

Dear Treasury,

Thank you for the opportunity to comment on Treasury's second *Climate-related financial disclosure* consultation paper. Ownership Matters (OM), formed in 2011, is an Australian owned governance advisory firm serving institutional investors although this submission represents the views of OM and not those of its clients. Our submission is focused on listed entities as this is the universe of reporting entities with which we are familiar.

As noted in OM's submission to the first consultation paper in February 2023, the critical and increasing importance of climate change to society, markets and investors makes rapid adoption of standardised climate disclosures essential for allowing markets to function efficiently in pricing increasing climate risks. To this end OM supports the proposed phased implementation of reporting requirements as balancing the need for speedy adoption against the capacity of entities to disclose climate related information. In addition, the Commonwealth Government's intention to adopt the International Sustainability Standards Board (ISSB) reporting framework should also allow rapid implementation given ISSB has already finalised and published its climate-related disclosure and its general sustainability reporting standards (IFRS S2 & IFRS S1 respectively) and the process, under the AASB, of adapting these standards to an Australian context should be relatively rapid enabling reporting by large entities to commence from FY25.

In relation to the specific implementation approach proposed in the consultation paper:

- **Phased implementation approach:** The entities that would be required to report climate-related disclosures from FY25 (the year ending 30 June 2025) should be able to meet the swift adoption timetable given they are large entities with significant resources. These Group 1 entities will include the entities that collectively account for the overwhelming majority of the market capitalisation of entities listed on ASX and many of these entities already report climate-related information.
- The inclusion in this group of initial reporters of entities already required to report emissions data under the NGER framework is also appropriate. It would be perverse if entities that are material emitters and already accustomed to reporting emissions data were not required to be in 'Group 1' in the event they did not satisfy the size thresholds. Group 2 – required to commence reporting from FY26 – would likely include most other large entities listed on ASX not already captured in Group 1.

- **Materiality:** Aligning the concept of 'materiality' for climate disclosures with the concept as understood for financial reporting is also appropriate, and as the consultation paper notes, this is the approach adopted by ISSB in its new standard, IFRS S1, *General Requirements for Disclosure of Sustainability-related Financial Information*.
- **Scenario analysis:** The requirement for entities to report climate resilience against two 'future state' scenarios of which at least one is aligned to the temperature goals of the Paris Agreement is also appropriate as it ensures reporting entities are not able to 'cherry pick' scenarios most advantageous to their prospects. It will however still allow reporting entities to select other scenarios they feel are relevant to their operations and users of their financial statements.
- **Transition planning – offsets:** It is essential that any entity planning to rely on offsets to meet its climate targets and as part of its transition planning be required to provide sufficient detail for investors (in the case of traded entities) to be able to assess the credibility of these offsets. For this reason OM supports the approach of requiring entities to disclose whether or not their offsets are verified through a recognised standard but also considers that more stringent requirements might be necessary including requiring entities to disclose the name of the standard, and if this external entity does not make public a register of offsets, the type and location of offset projects relied upon.
- **Scope 3 reporting:** The proposal to defer reporting of scope 3 emissions for all entities to their second reporting year is a pragmatic response to the greater difficulty in reporting this category of emissions. This is also the case with the proposal to allow scope 3 emissions to be reported with a delay to accommodate the need for many entities to have access to the reporting of other entities on their scope 1 & scope 2 emissions in order to determine their own scope 3 data.
- **Location:** Requiring entities to include their climate disclosures within their annual report is a sensible approach as it consolidates disclosure into the document most users of financial statements would expect to find material information. Similarly, the proposed requirement for an index table summarising the location of climate disclosures would also make climate disclosures more usable (a similar formal requirement for financial accounts would also be useful given many, but not all, listed entities provide similar summaries for location of data in their financial reports).
- In relation to the requirement for listed entities, requiring climate disclosures in the operating & financial review of the directors' report would align with the approach some listed entities have already adopted. Allowing entities to refer to additional disclosures in a separate report would also allow listed entities that already provide separate 'TCFD' reports to easily adapt their existing disclosure practices to the new requirements.
- **Continuous disclosure:** OM supports the Government's decision not to exclude climate disclosures from continuous disclosure obligations – allowing listed entities to omit material climate-related information with a material financial impact with a separate carve-out because it relates to climate would create the potential for a misinformed market. The economic impacts of climate change & and the energy transition are unlikely to become less material for major listed entities.
- The proposal to exempt scope 3 emission disclosures and those relating to transition planning & scenario analysis – involving forward looking statements – for three years from private litigants alleging false & misleading representations or deceptive conduct is also appropriate. This transition period will enable listed entities to adjust to the new disclosure regime. This exemption is also proportionate as it targets the areas of disclosure likely to

involve the highest degree of difficulty in assuring information (scope 3 data) and the highest degree of uncertainty (transition planning disclosures).

- **Assurance:** Putting the onus for climate assurance on financial auditors is also appropriate as it allows the use of the existing assurance regime; similarly, allowing auditors to delegate assurance of information to specialist providers is also a way to broaden the available entities able to perform climate assurance. Using the existing Clean Energy Regulator Register of Greenhouse and Energy Auditors as a source of climate assurance specialists is also a way of meeting the expanded need for climate assurance.

Please feel free to contact us concerning any aspect of our submission. For the avoidance of doubt we are happy for our submission to be made public.

Yours sincerely,

[Redacted signature]

[Redacted name]

Ownership Matters Pty Ltd