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21 July 2023

Climate-related financial disclosure: Consultation Paper (June 2023)

We welcome the opportunity to respond to the proposed positions for the detail, implementation and sequencing of standardised, internationally-aligned requirements for the disclosure of climate-related financial risk and opportunities in Australia, outlined in the 'Climate-related financial disclosure Consultation Paper' (June 2023) (the Consultation Paper).

Overall, we are supportive of the proposals set out in the Consultation Paper. We support the alignment to International Financial Reporting Standards (IFRS) S2, the role of the Australian Accounting Standards Board (AASB) in anchoring Australian standards with local consultation in due course, alignment to existing reporting obligations under the Corporations Act, and the need for independent assurance by the financial auditor.

There are some areas that could benefit from further clarity, guidance or consideration.

1. Scope of entities required to report climate-related financial disclosures

Tiered reporting

We support the proposal for the scope of climate-related financial disclosure reporting to be anchored in those entities reporting under Chapter 2M of the *Corporations Act 2001*. We agree that there is broad stakeholder demand for high quality climate-related financial information, and therefore agree that those entities that have to provide publicly available financial reporting should also be required to provide publicly available climate-related financial information.

However, Treasury should consider whether applying the same level of disclosure requirements to those entities in Group 3 as to those entities in Group 1 (page 8-9 of the Consultation Paper) is proportionate to the needs of their respective stakeholders. For financial reporting purposes, AASB 1060 *General Purpose Financial Statements - Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* provides a simplified disclosure regime for those entities that are

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required to prepare financial reports under Chapter 2M but do not have public accountability. This results in financial reporting which is proportionate to the needs of the stakeholders of those entities.

We consider that there are some disclosures that should be made by all entities reporting climate-related financial disclosures, such as the disclosure of Scope 1, 2, and 3 greenhouse gas emissions. However, we would suggest the consideration of a tiered reporting framework, similar to that used for financial reporting, when implementing the scope proposed in the Consultation Paper. This will also facilitate the timeline proposed in the Consultation Paper, as those less sophisticated entities would have fewer requirements to comply with and are therefore more likely to be able to provide high-quality assurable information by 2027-28.

Risk of structuring

We suggest the Treasury considers the potential for entities restructuring their operations to avoid being captured by the requirements proposed in the Consultation Paper. For example, Section 292(2)(b) of the *Corporations Act 2001* requires small proprietary companies that were controlled by a foreign company to prepare a financial report (subject to certain exceptions). This means that foreign headquartered groups cannot structure their operations in Australia across a number of small proprietary companies in order to avoid the reporting requirements that would apply to a large proprietary company. Given the Consultation Paper proposes that an entity is only required to report climate-related financial information where they are required to report under Chapter 2M and exceed the Group 3 size threshold (unless they are reporting under the National Greenhouse and Energy Reporting (NGER) Act), the proposed scope would not appear to protect against structuring in the same way.

Reliefs to simplify reporting

We note that for financial reporting purposes there are a number of reliefs available via legislative instruments, that aim to simplify reporting across group structures within Australia. For example, *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785* enables groups to prepare and lodge a single set of consolidated financial statements where certain conditions are met, relieving the need to prepare financial reports for each entity within the group whilst ensuring the information needs of stakeholders are met. It is unclear from the Consultation Paper whether similar reliefs would be available in the context of climate-related financial reporting; we recommend that similar reliefs are introduced to simplify the reporting burden.

Inadvertent exclusions from scope

We suggest the Treasury considers whether any entities have been inadvertently excluded from the scope where there might be a demand for climate-related financial reporting. For example, entities listed on the ASX that fall below the Group 3 size threshold would not be required to report (unless they are reporting under the NGER Act). It might be expected that entities accessing the capital



markets would provide climate-related financial reporting given investor demand for this information.

Readiness of non-Australian entities

We note other countries may have a later timeline for adoption, or a reduced scope of entities that need to prepare climate-related financial reporting. This may impact the ability of Australian entities that have overseas investments to prepare high-quality reporting, as the downstream overseas investments may not have the same level or quality of information available. This would particularly be the case where the Australian entity does not have a controlling interest in the overseas entities, and will become increasingly important as the information begins to require reasonable assurance.

2. Assurance requirements

Australian assurance standards and guidance

We are supportive that assurance will be performed using Australian equivalent standards to the IAASB, issued by the AUASB. Acknowledging that assurance standards are principles-based, there is an opportunity to supplement the IAASB standards with local Australian guidance in order to aid in the consistency of procedures and quality of work performed. Areas where additional guidance would be of benefit include:

- Assuring qualitative information (for example assurance over the anticipated effect of risks and opportunities on business model, business strategy and value chain)
- Assuring forward-looking information and climate-related scenario analysis (for example assurance over benchmarking an entity's transition plan against "established-best practice") at both limited and reasonable assurance levels
- Assuring entity processes such as "stress testing"
- Extent of procedures required under limited assurance
- Extent of reporting the assurance procedures performed in limited assurance engagements, and
- Examples of assurance procedures expected for specific industries.

The timeliness of any such guidance will be very important, considering the assurance roadmap set out in the Consultation Paper.

Assurance roadmap and timeline for climate disclosures

We fundamentally agree with the need for independent assurance in order to build trust in society that companies are reporting robust and reliable climate-related disclosures. However, as mentioned under "Tiered reporting" above, we feel that the roadmap and timeline for reporting climate



disclosures may result in less sophisticated entities being unable to provide 'high quality and useful climate disclosures' in the initial phases.

The *Framework for Assurance Engagements* issued by the AUASB, states that there must be certain pre-conditions for assurance in place prior to an Assurance practitioner accepting an engagement. In the context of assuring climate-related disclosures, we can foresee that some entities may not be able to meet certain pre-conditions in the initial reporting periods, specifically¹:

- “The criteria that the assurance practitioner expects to be applied in the preparation of the subject matter information are suitable to the engagement circumstances”, and
- “The assurance practitioner expects to be able to obtain the evidence needed to support the assurance practitioner’s conclusion”.

As companies develop their internal processes and reporting, the sophistication of criteria and availability of assurance evidence will improve. IFRS S2 will be an internationally aligned starting point, but entities will need to supplement this with their own Basis of Preparation for certain metrics. Under the current timeline and level of assurance requirements (including the increase from limited to reasonable assurance for Category 3 entities), it is possible that entities will either not pass the current pre-conditions or that assurance reports will have a modified conclusion or opinion.

Of particular note, is the challenge for entities capturing Scope 3 emissions. Achieving reasonable assurance may be ambitious for all Categories within the time frames provided, especially those entities with overseas supply chains and diversified business activities. Additionally, clarification is sought regarding completeness and accuracy in determining 'material' disclosures, including Scope 3 emissions. Calculation methodologies and guidance will be vital for entities and assurance practitioners.

We suggest that the Treasury consider these factors in the scope of entity reporting, timeline and level of assurance required.

Assurance providers and professional requirements

We agree with Treasury that the financial auditor is a suitably qualified Assurance practitioner to provide assurance on climate-related disclosures and that subject matter experts may be required to be engaged in order to assure the suite climate-related information. The Consultation Paper highlights that 'leveraging the CER register is a cost-efficient way to maintain the quality of climate disclosure auditors', in order to support financial auditors. It is important to note that the CER

¹ Extracted from *Framework for Assurance Engagements*, paragraph 22, noting that these pre-conditions are also set out in the proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements (paragraphs 71 and 72) that was approved for exposure by the IAASB in June 2023.



register lists assurance practitioners who have the expertise in assuring greenhouse and energy information, but may not have the expertise over the full spectrum of climate-related disclosures required and therefore there may be insufficient subject matter experts in order to assure all scoped entities within the proposed timelines in the Consultation Paper.

We seek clarification from the Treasury as to whether the term ‘financial auditor’ is the Registered Company Auditor (RCA) who signs the financial statement audit opinion for the in-scope entity, or the appointed Assurance firm broadly. The latter would allow Assurance firms to have flexibility as to whether the RCA for an entity, or an alternative assurance practitioner within the Assurance firm, would be most appropriate in each sustainability assurance engagement circumstance, drawing on the appropriate skill set and capacity to ensure the highest levels of assurance quality.

3. Requirement to publish reports and associated assurance provider liability

Whilst many companies have been making their sustainability disclosures and associated assurance reports publicly available, this has been done on a voluntary basis. Currently, the public release of the assurance report is at the discretion of the assurance practitioner and based on the commercial agreement, noting the assurance report is addressed to and intended for use of the Directors only. If the intention is that these assurance reports are to be publicly available, this creates an incremental risk to the assurance provider. We suggest that Treasury consult with CAANZ so that they can obtain appropriate industry-wide perspectives on this matter.

Thank you for considering this submission and we hope it helps to inform standardised, internationally-aligned requirements for the disclosure of climate-related financial risk and opportunities in Australia. If you have any queries or would like to discuss this submission further, please contact me on [REDACTED].

Yours sincerely

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[REDACTED]

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