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Consultation submission

Climate-related financial disclosure:
Second Consultation

July 2023





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21 July 2023

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

Email: climatereportingconsultation@treasury.gov.au

Dear Treasury

Consultation Submission: Climate-related financial disclosure: Second consultation

Thank you for the opportunity to participate in your second consultation regarding climate-related financial disclosure.

SW Accountants & Advisors (SW) is a fast-growing national accounting and advisory firm with an 85-year history in Australia. Our services and expertise span Business Private Client Advisory, Assurance and Advisory, Tax and Corporate Finance.

In 2018 SW recognised an increasing need to support our clients with their broader needs as they pertain to ESG.

The firm participated in a joint venture with ReThink Sustainability to create a full-service sustainability offering. We have been closely involved in the scoping and advisory aspects related to a range of areas such as the United Nations Sustainable Development Goals (SDG), Modern Slavery reviews, Energy reviews and implementation, and ESG reporting and tools.

We have identified six key SDGs that align with our commitment to our people, our clients and our communities – Goal 2, Goal 3, Goal 4, Goal 5, Goal 8 and Goal 13.

You have requested views over coverage, content, framework and enforcement of the requirements in your consultation document. Our submission will address the following key points:

1. Reporting entities and phasing
2. Reporting content
3. Reporting framework and assurance
4. Liability and Enforcement

Yours sincerely

Partner/Director
Head of Assurance & Advisory

Partner/Director
Head of Accounting Technical

Brisbane

Melbourne

Perth

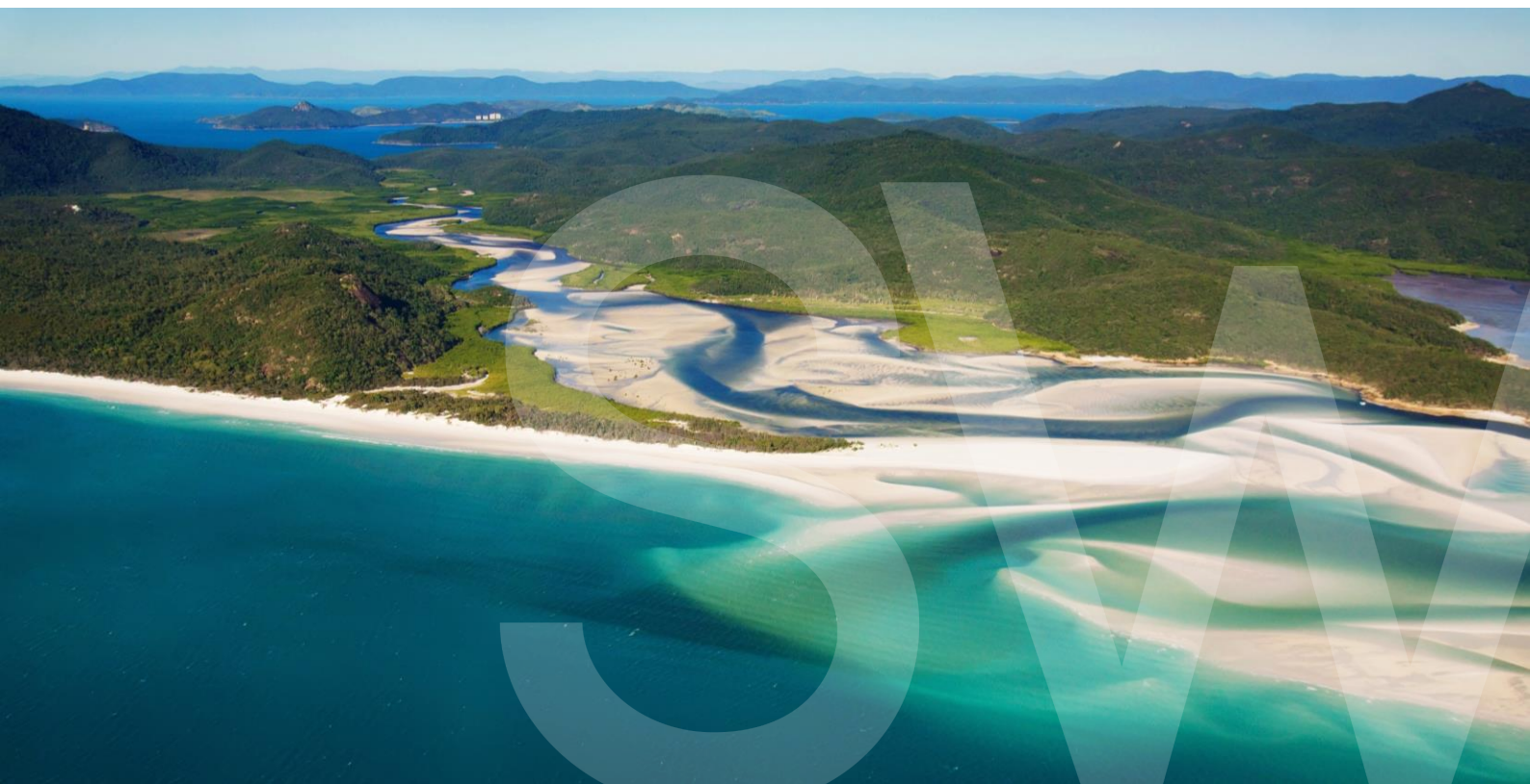
Sydney



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1. Reporting entities and phasing

Proposal	SW response
<p>That all entities that meet prescribed size thresholds and that are required to lodge financial reports under Chapter 2M of the Corporations Act 2001 would be required to make climate-related financial disclosures.</p>	<p>The proposed three-phased approach outlined in the consultation paper will require many entities at the smaller end of the spectrum to make climate-related disclosures who may not have a significant climate impact or to whom significant climate related risks may not apply.</p> <p>We support the application of the concept of materiality to disclosures to ensure that those entities who do not have a significant or material exposure would not need to incur excessive costs when the standards become mandatory.</p> <p>For clarity we would support entities disclosing what their 'materiality' is for quantitative and qualitative disclosures and omitting all disclosures below that level.</p>
<p>A three-phased approach is proposed, starting with a relatively limited group of very large entities that expands over two years to apply to progressively smaller entities.</p>	<p>We support the phased approach outlined in the consultation document, which is broadly consistent with the approach recommended or adopted in other jurisdictions.</p> <p>A phased approach will also allow time for smaller entities to set up the required systems and processes, engage the necessary consultants, and train employees to ensure a successful and less onerous roll out when it becomes mandatory.</p>





2. Reporting content

Proposal	SW response
Principles of financial materiality would apply.	We strongly support applying the concept of materiality. However, we note that in Australia the materiality concept should be consistent with the application of materiality in ISSB and IASB standards to ensure Australia continues to be consistent with international reporting standards.
From commencement, companies would be required to disclose information about governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities.	In terms of what is required to be disclosed, we are supportive of following the standards set by the International Sustainability Standards Board with minimal amendments to ensure that Australian businesses are not facing an unfair disclosure burden, but instead are staying comparable and consistent with their international competitors.* <i>*Please note, this 'SW response' also applies to the other content related proposals in the consultation document. For this reason we have not included references to those proposals.</i>

3. Reporting framework and assurance

Proposal	SW response
To maintain alignment with existing corporate reporting practices, climate disclosures would be required to be published in an entity's annual report.	<p>We agree with Treasury's statement that a separate report could:</p> <ul style="list-style-type: none"> • Result in duplication of some disclosures; • Give investors a disjointed narrative, inhibiting their ability to make accurate and fair assessments; and • Result in non-standardised and inconsistent reporting. <p>For these reasons, we support climate-related disclosures to be made in the annual report as part of the annual reporting process.</p>
It is proposed that further consultation on areas that extend beyond climate disclosure assurance is conducted by the AUASB, after the release of draft international sustainability assurance standards.	<p>We support for Australian sustainability auditing standards to align with international sustainability assurance standards.</p> <p>While these international standards are being developed, we would like the Australian standard setters to be closely involved and consulted during the process.</p>
<p>Scope 3 emissions: Due to complexity it is proposed that scope 3 calculation methodologies would be assured at a minimum.</p> <p>This provides an interim step that balances data limitations with the need to ensure the reliable provision of information to the market.</p>	<p>As with all other complex assurance matters, the auditor must make a judgement based on materiality, risk, complexity, level of estimation etc, whether the auditor needs to use an expert in the audit of complex balances. We would expect this concept to also apply in the sustainability assurance standards and the audit of Scope 3 emissions would be assessed accordingly.</p> <p>The ability to provide assurance over scope 3 emissions disclosures depends upon the reliability and availability of data underlying the disclosure. In many cases the underlying data will be produced in overseas jurisdictions, often in developing nations, where the skills, systems and expertise to produce reliable data may not exist.</p> <p>There is therefore a risk that misleading disclosures are made if the underlying data to determine the calculation is unreliable. We suggest that Australian standards align with international requirements in this regard.</p>
<p>Transition plans and scenario analysis: In the absence of agreed frameworks to assure transition plans, assurance requirements will be more flexible.</p> <p>This would involve an assurance provider assessing an entity's process of determining its transition plan and checking it off against established best practice. The scope of assurance requirements would increase as entities progress on the pathway from qualitative to quantitative transition plans.</p>	<p>International sustainability assurance standards are currently being developed by the IAASB. While these standards are being developed, assurance practitioners will apply general assurance concepts to sustainability related engagements.</p> <p>Non-authoritative guidance is already available on-line from accounting professional bodies as various climate and sustainability related assurance services are already being performed by many firms; and IAASB guidance on the application of ASA3000 already exists.</p>
<p>International sustainability auditing and assurance standards: To minimise compliance costs for entities that operate internationally, assurance should be aligned with IAASB standards as far as possible.</p>	<p>We strongly agree, in particular as many assurance engagements will require assurance work to be carried out in various jurisdictions.</p> <p>Adopting standards which diverge from international standards reduces the comparability of disclosures across jurisdictions which would be detrimental to the interests of investors and other users of the annual report</p>

3. Reporting framework and assurance

Proposal	SW response
Assurance providers to be independent, and for financial auditors to lead climate disclosure assurance engagements, supported by technical climate and sustainability experts, when required. To maintain alignment with existing corporate reporting practices, climate disclosures would be required to be published in an entity's annual report.	<p>We fully support the proposal for financial auditors, i.e., ASIC registered company auditors (RCA's) who meet the independence requirements of professional bodies to lead climate disclosure assurance engagements.</p> <p>With regards to the comments in the proposal relating to The Register of Greenhouse and Energy Auditors that was established under the NGER Scheme legislation and is maintained by the CER, we note that getting accreditation and becoming a registered greenhouse and energy auditor is onerous, and whilst we understand that such accreditation would require highly technical skills and knowledge, we are concerned that not enough assurance providers would be able to obtain accreditation resulting in a shortage of accredited auditors in the market.</p> <p>The Greenhouse and Energy Auditor regime was established under legislation over 10 years ago for a specific purpose, not for financial reporting purposes.</p> <p>Our recommendation would therefore be to disregard this register for the purposes of the sustainability disclosures that are currently being proposed.</p>
Proposed assurance roadmap and timeline for climate disclosures	<p>We support the proposed assurance roadmap and timeline for climate disclosures. We believe this provides sufficient time for assurance firms to upskill and prepare as required.</p>





4. Liability and Enforcement

Proposal	SW response
<p>Climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act.</p> <p>The application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three years.</p>	<p>We have noted that ASIC appears to be taking various actions against companies for 'green washing' disclosures.</p> <p>We are supportive of greater clarity and guidance being available to companies regarding what would constitute 'green washing', what may constitute misleading and deceptive conduct and what the legal ramifications, penalties and other consequences would be.</p>

About SW

SW is an Australian owned advisory and accounting firm with an 80+ year history that understands relationships make all the difference in delivering great outcomes.

12,000

people globally

19 + 120

combined jurisdictions
with Praxity Alliance

95+

offices globally

300+

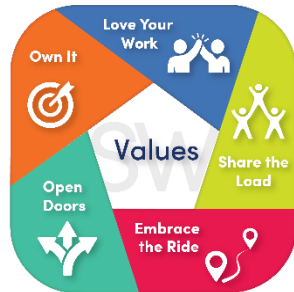
people nationally

85

years Australian owned

\$685.9m

worldwide revenue 2022
(USD)



Purpose | Build lasting relationships with our clients and people to achieve shared success

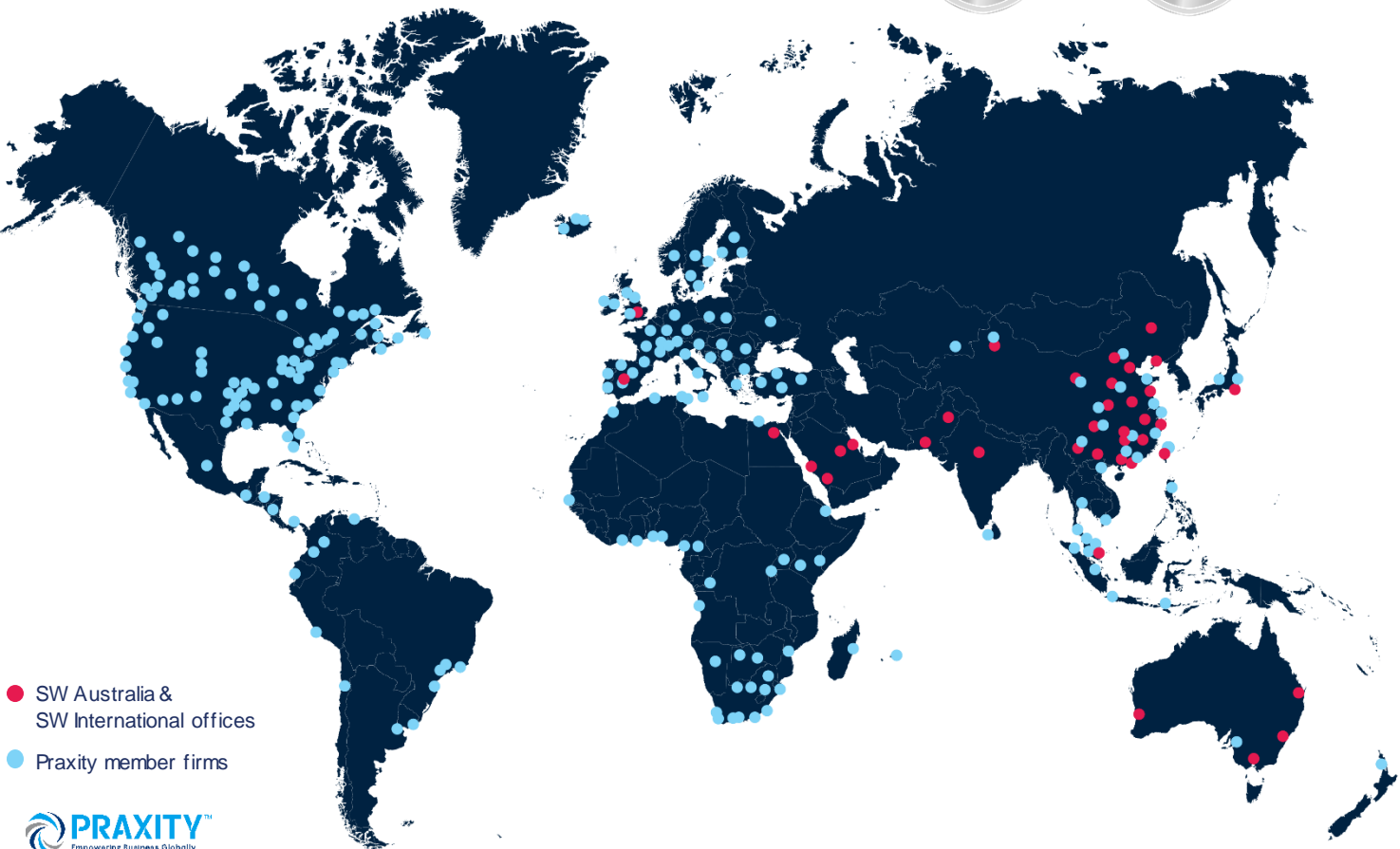
Values | We are a values led firm with these values embedded into our everyday behaviour and language and our unique to our people. They also reflect the manner in which we work with you.

We have 300+ people across four locations, and are ranked 22nd largest firm by revenue in the 2022 AFR Top 100 Accounting Firms. Of all national practices in Australia, we rank 10th.

As a member firm of SW International, one of the world's leading member organisations of independently owned and managed accounting and advisory firms, we also have access to professionals across the globe to support our clients in their global aspirations.



Connected to support you globally



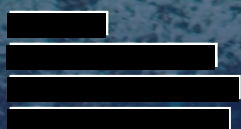
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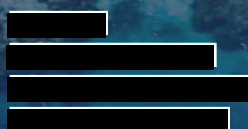
Yuggera Nation

Brisbane



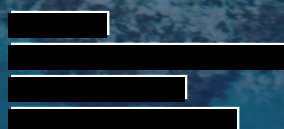
Kulin Nation

Melbourne



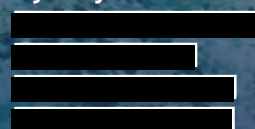
Whadjuk Nation

Perth



Eora Nation

Sydney



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SW acknowledges and pays respect to the past, present and future Traditional Custodians and Elders of this nation and the continuation of cultural, spiritual and educational practices of Aboriginal and Torres Strait Islander peoples.