

24 February 2023

Climate Disclosure Unit
Market Conduct Division
The Treasury



By email: climatereportingconsultation@treasury.gov.au

Dear Sir/Madam

Thank you for the opportunity to provide a submission in response to the Climate-related financial disclosure Consultation paper (the paper) released by the Treasury.

FINSIA – the Financial Services Institute of Australasia – is the leading professional body in the financial services industry in Australia and New Zealand with a membership base of more than 10,000 members across the two markets. Our members operate in a range of sectors across the financial services industry including banking, institutional markets, funds management, securities and financial advice. Our purpose, since 1886, has consistently been to support the financial services industry by driving the highest levels of professionalism for the betterment of our community through consistent standards of competency and conduct.

FINSIA's response to questions contained in the Climate-related financial disclosure consultation paper is set out below.

What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure? Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

Given the global nature of business in Australia, it is important to align our climate reporting requirements with international practice on climate related financial disclosure. Any obligations for climate related financial disclosures that are developed in Australia should align with the reporting requirements currently under development by the International Sustainability Standards Board (ISSB) when they become available for jurisdictional adoption.

This alignment of Australian reporting obligations with international standards should provide the following benefits:

- Facilitate access to international capital markets by Australian firms.
- Streamline the compliance obligations and costs for Australian firms that operate internationally.
- Maintain and enhance Australia's international reputation and credibility as a trade partner.
- More accurate pricing of climate related risks and opportunities to allow for a more efficient allocation of capital.

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Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25? To which entities should mandatory climate disclosures apply initially?

FINSIA supports the application of a phased approach to the implementation of climate related financial disclosure. Larger entities', given their scale of activities and potential climate impacts, have a greater capacity to respond within the suggested timeframe. In order to assess Australia's overall carbon outputs, it would be appropriate for the thresholds to determine whether an entity is large and therefore within the initial phase of the reporting obligations, to include both listed and unlisted entities

While disclosure requirements could gradually be applied to smaller entities we also suggest consideration of a sector-based approach that considers the significance of the particular sector's contribution to climate change

Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating and financial review, or in an alternative separate report included as part of the annual report?

The location of the new climate reporting requirements should form a part of annual financial filings. Given climate related issues are, or could be, material for many entities their inclusion in annual reporting will help to ensure appropriate controls govern the production and disclosure of required information.

What considerations should apply to materiality judgements when undertaking climate reporting? What should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

FINSIA supports alignment with ISSB guidance on materiality judgements.

While enterprise value is relevant to climate reporting requirements, it is important to also consider carbon emissions and climate risk and any relevant sector considerations.

What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?

Investors and government need to have confidence in climate reporting and assurances. Furthermore, in order for Australian companies to remain attractive to international investment, global expectations of assurance should also be considered. Therefore it is important assurance is provided by appropriately qualified and accredited auditors who are subject to independence and quality standards.

What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks? Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

At a minimum, it would be appropriate for Scope 1 and 2 reporting to be required when reporting on emissions. While FINSIA recognises the costs involved in reporting Scope 3 emissions could be problematic for smaller, less resourced entities, it is important to consider how Scope 3 emissions are included. This consideration should reduce the risk of entities externalizing emissions to improve reporting metrics.

Any new climate reporting requirements will also need to consider the potential for double counting of Scope 3 emissions.

Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures, including industry-specific metrics?

Consistency in reporting (including environmental accounting) is important to allow investors to make meaningful comparisons and government to meaningfully aggregate data.

A common baseline of metrics is critical, possibly with specified minimum levels below which the reporting obligations may not apply. It may also be appropriate to consider industry specific metrics to allow comparisons across a sector. Furthermore reporting on transition plans and emissions offsets are important inclusions in a new climate reporting regime.

Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

Scenario style analysis is helpful when reporting on Scopes 1, 2 and 3 emissions. While many large listed companies already utilise scenario analysis a consistent approach would be beneficial for companies and investors alike.

Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed? While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting should be considered in the practical design of these reforms?

It is important that any new reporting obligations are able to be updated as further information becomes available or global standards are refined. Furthermore, there should be flexibility to incorporate additional sustainability reporting such as biodiversity reporting and sustainable land management.

There will be some overlap between proposed climate disclosure requirements and existing requirements under Australian accounting standards when assessing the impact of climate change on financial statements and consider this a useful reinforcement of requirements.

Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support the introduction of climate related risk reporting?

The potential structure of the entity that will support the implementation of the climate disclosure standards and the ongoing efficiency and effectiveness of the financial reporting system must take account of the differences inherent in disciplinary cultures between accounting and environmental sciences. Of the options presented, it would be worthwhile focusing on either expanding the role of the AASB to incorporate climate related risk reporting, or alternatively, to utilise the opportunity of this reform to serve as a catalyst to introduce greater efficiency in the regulatory environment by amalgamating the work of the FRC, AASB and AUASB into one over-arching body. There is merit associated with either approach, especially given the extensive experience and strong market-based reputation that already exists in respect of the work of the AASB in the area of financial disclosures. In our opinion, the least preferred option is to establish a new regulatory body separate and distinct from the existing bodies already in place.

Closing

We trust that you find the points made above helpful in your deliberations as part of this consultation. We look forward to continuing to provide input to you over coming weeks and months. If you have any specific questions in respect of the views set out in this submission, please contact me or Ms Kylie Blundell on +61 2 9275 7900.

Yours sincerely



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