



The Australian Industry Group
Level 2, 441 St Kilda Road
Melbourne VIC 3004
PO Box 7622
Melbourne VIC 3004
Australia
ABN 76 369 958 788

9 February 2024

Climate Disclosure Unit
Climate & Energy Division
The Treasury
climatereportingconsultation@treasury.gov.au

AI GROUP RESPONSE TO THE CLIMATE-RELATED FINANCIAL DISCLOSURE CONSULTATION PAPER

The Australian Industry Group (Ai Group) welcomes the chance to make a submission on the [exposure draft legislation for Climate Related Financial Disclosures](#) (the Exposure Draft).

Ai Group is a peak national employer organisation representing traditional, innovative and emerging industry sectors. We have been acting on behalf of businesses across Australia for over 150 years. Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, waste services, the defence industry, retail, aged care, civil airlines and ICT.

As we noted in the previous stage of consultation, our members are affected by climate change and climate policy in many different ways, but all have a stake in a successful transition that avoids as much climate change as possible and positions Australia to prosper in a net zero emissions world. Some of them already make climate-related financial disclosures, others do not and may be directly caught up in the Government's proposals, while others will not be covered but may be impacted through information requirements imposed by other participants in their supply chains.

Broadly the Exposure Draft presents no unwelcome surprises and represents a straightforward implementation of the Government's intention to mandate reporting according to the standard currently being finalised by the Australian Accounting Standards Board (AASB). There are some remaining issues which require comment, however.

Timing is our highest priority. Climate related financial disclosures can be complex and require specialised skills. While some of our largest and most climate-involved members already undertake comparable disclosures, many are unfamiliar with the issues. Businesses in Groups 2 and 3 generally have much more ground to make up before they are ready to meet these requirements, and before the advisory sector has scaled and upskilled to support them.

Previously Ai Group proposed that the commencement of the mandate be deferred by 12 months for all Groups, so that Group 1 would commence from 1 July 2025, Group 2 from 1 July 2027, and Group 3 from 1 July 2028. That remains our firm preference, and would provide both a strong signal for covered businesses to prepare and adequate time for them to do so.

The Government's [Policy Position Statement](#) raises the question of a more modest deferral, moving the start of Group 1 obligations back from 1 July 2024 to 1 January 2025. This would be an important improvement on the current proposal; there may be little time between the finalisation of the mandate (through passage of the legislation and completion of AASB's work) and 1 July 2024, making it very difficult to be ready for continuous disclosure obligations in particular. However a six month delay is not much, and raises further complex questions around potential inequities and differential impacts between companies that report using the 1 July-30 June financial year and businesses that use a different financial year. On that basis we strongly prefer a 12-month deferral as described above.

Group 3 entities include many who will have both relatively little capacity to engage with the more complex elements of climate, and less material impacts than others. Ai Group therefore welcomes s296B of the Exposure Draft, which excludes from the application of the full disclosure obligations those Group 3 entities that are not large enough to be in Group 2 and which do not face material climate risks or opportunities. We note that this reduces, but does not eliminate, the need for upskilling of Group 3 businesses and the advisory services they draw upon. Making a defensible statement that the business has no material climate risks or opportunities will still require familiarity with the standards and climate matters.

Scope 3 emissions remain the most complex and potentially costly element of the mandatory disclosure framework. While some scope 3 emissions are a strong focus for investors, companies or other stakeholders – such as downstream combustion emissions of fossil exports; upstream production emissions of natural gas; and embodied carbon in energy-intensive construction materials – the full analysis of upstream and downstream emissions is likely to involve many small sources and large uncertainties and information gaps. We anticipate that Scope 3-related information gathering by large entities will wash through the economy, producing many queries to smaller entities not directly covered by the mandate. If Scope 3 obligations were interpreted in an overly broad way – whether by regulators or just by reporting businesses – there would be reporting costs disproportionate to the benefits to investors, businesses or Australia’s climate transition.

The proposed answers to this concern are the materiality element of the AASB standard; and the limited immunity in proposed s1705B for statements about Scope 3 emissions and scenario analysis in reports for financial years 2024-25 through 2026-27. Both are welcome; barring most related civil actions for a period, while leaving ASIC able to issue directions for the correction of any incorrect statements, is an appropriate transitional approach. However the duration and scope of the limited immunity could be improved.

The state of the art in Scope 3 analysis is evolving locally and globally and the construction of better data sets and revision of the GHG Protocol will take time. For individual disclosing entities it will take time to fully understand their unique value chains. We therefore propose:

- Section 1705B be extended to include the financial year commencing 1 July 2028; and
- Section 1705B should apply to the first year in which a covered entity must disclose Scope 3 even if that year commences after 1 July 2028.

In addition, we have had feedback from members that transition plans and forward-looking statements also present novel challenges and uncertainties. We propose that these be included in s1750B.

Once the final form of the legislation passes the Parliament and the AASB standard is finalised, there will be a large task for government, regulators, professional bodies, industry associations, investors and businesses to educate covered businesses and their supply chains to enable preparation for efficient compliance. We urge the Government to resource this effort appropriately. Ai Group will play our own part in connecting our members with the best information and assistance available.

For any questions in relation to this submission, please contact Ai Group Director of Climate Change and Energy Tennant Reed (tennant.reed@aigroup.com.au, 0418 337 930).

Sincerely yours,



Peter Burn
Chief Policy Advisor