

Productivity Commission

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We welcome the opportunity provide to our feedback on the Productivity Commission's inquiry into improving non-financial business reporting. We have responded only to those matters for which we have specific comments.

Grant Thornton's global network maintains an open and constructive relationship with national governments, standard-setters and regulators, consistent with our policy of embracing external oversight. Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations and are the leading business advisor to mid-market business internationally. Grant Thornton belongs to an international affiliation and is structured as a public unlisted company within Australia. Our clients span all three groups subject to annual sustainability reporting, and as a company under the Corporations Act, we are also a reporting entity for sustainability reporting, and other forms of non-financial reporting.

We are providing a response to Treasury in relation to their current consultation on improving the efficiency of climate-related financial disclosures and have provided publicly available submissions to various government departments in the past on some of these issues. In the interests of efficiency and in the spirit of "tell us once", some of our submission below also makes reference to our publicly available submissions to other government departments and agencies.

Sustainability and environmental reporting

Sustainability reports are part of the general-purpose financial report

We wish to clarify some of the comments made in the call for inquiry, as the Productivity Commission has explained the terms of reference of this inquiry direct the PC to not consider financial reporting or continuous disclosure obligations. The call for inquiry states that "some large businesses must report on their sustainability and environmental impacts", of which climate-related financial disclosures is listed as an example.

Climate-related financial disclosures are not focused on the sustainability and environmental impacts of the business. Rather, climate-related financial disclosures are focused on providing material information for investors and other primary users of the general-purpose financial report about how climate change is currently or is anticipated to result in risks or opportunities for future cashflows, access to finance, or cost of capital (together referred to as "prospects") of the reporting entity.

Climate-related financial disclosures are, by design, part of the general-purpose financial report. General purpose financial reports in Australia include the directors' report, the financial statements, and other management commentary, such as the OFR for listed entities, and other disclosures under continuous disclosure obligations. It is a requirement of AASB S2 that the sustainability report is connected to these other forms of reporting, including using the same financial year end, using the same data and assumption as the financial statements (to the extent permitted by accounting standards), and providing disclosures in a connected way, including potential cross referencing. See also the ASIC Report Rep 839 that emphasises the importance of connections to the related financial statements. Acknowledging the limitations of your existing terms of reference, we strongly urge the Productivity Commission to recognise that the sustainability report should not be separately considered from other parts of general-purpose financial reporting.

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Costs in first time adoption of AASB S2

AASB S2 is a disclosure standard only and therefore does not require an entity to change anything about how they are doing business, merely to disclose the information necessary to achieve the objective of the standard. As a principles-based standard, there is significant flexibility in how the disclosures can be prepared. Additionally, an entity is permitted to cross reference its disclosures to other existing reporting subject to the conditions in AASB S2.[D]63 and AASB S2.[D]B45-47. However, assurance requirements may increase complexity and therefore cost of assurance where there is significant cross-referencing of disclosures to other locations.

The costs in first time preparation of the sustainability report are therefore dependent on the extent to which the reporting entity is already aware of the climate-related risks and opportunities that could reasonably be expected to affect its prospects. Where an entity has already identified and is monitoring or managing its business risks (including climate-related risks), the bulk of preparation cost and effort is spent in establishing the report itself to meet the disclosure requirements of the standard. This is largely expected to be a transitional cost. In our experience, the transition cost has been largest for those entities that did not already have existing risk management processes or had not previously considered climate change having the potential to affect the prospects of their business.

Further information on this topic, including the costs of assurance and factors that influence those costs, are included in our response to Treasury's consultation on improving the efficiency of climate-related financial disclosures. We recognise that compliance costs are higher for certain entities caught by overlapping reporting requirements, discussed below.

Interactions between the sustainability report and other reporting that uses intersecting data

The vast majority of the information reported in the sustainability report is either not subject to other forms or specific reporting or is able to be cross-referenced between the sustainability report and other reporting (enabling reporting without substantial duplication).

There is, however, a specific area where legislative requirements prevent this from occurring and that is in relation to greenhouse gas emissions.

Some sustainability reporting entities also have an obligation to report separately to the Clean Energy Regulator under the *National Greenhouse and Energy Reporting Act (2007)* (NGER Act). Large emitters may also have facility level targets under the Safeguard Mechanism. Other entities may have reporting obligations in relation to *Ozone Protection and Synthetic Greenhouse Gas Management Act (1989)*.

For clarity, greenhouse gas emissions are a very small part of sustainability reporting; its inclusion as a cross-industry metric is because emissions serve as a proxy measure for a reporting entity's transition risk exposure. There are seven greenhouse gases considered in sustainability reporting: carbon dioxide (CO₂); methane (CH₄); nitrous oxide (N₂O); hydrofluorocarbons (HFCs); nitrogen trifluoride (NF₃); perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). These seven gases are expressed as carbon dioxide equivalent by using a global warming potential (GWP), a factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given greenhouse gas relative to one unit of CO₂.

We have previously responded to Treasury on the Climate-related Financial Disclosures: Draft Legislation consultation in January 2024 at length on the inconsistencies between the NGER legislation and sustainability reporting requirements. These issues were also articulated to the AASB in our feedback on ED SR1 in March 2024. The benefits of international alignment were a significant part of the AASB's decision to not require the use of NGER measurement methodology for the measurement of greenhouse gas emissions in sustainability reporting.

A concise summary is below of areas where inconsistency is creating potentially unnecessary duplication for entities reporting under both schemes includes:

- **Differences in reporting period:** sustainability reporting is prepared for the reporting entity's financial year. The NGER Act currently requires reporting for a 1 July to 30 June reporting year, irrespective of the financial year end of the NGER registered entity.
 - Australian entities commonly adopt a financial year other than 30 June to align to overseas parent reporting, to use a 52-week financial period, or for regulatory reasons outside of Australia. Internal controls, systems, and processes are commonly developed also for financial year timings. As we have included in response to Treasury on improving the efficiency of climate-related financial disclosures, maturity of internal controls,

systems and processes also significantly contributes to the cost of compliance for both preparer and assurance provider

- **Differences in reporting entity boundary:** NGER applies to an individual facility level, which may be only a part of a reporting entity. This also applies to Safeguard Mechanism targets that apply at a facility level rather than reporting entity level.
- **Differences in the definition of greenhouse gases:** NGER does not include nitrogen trifluoride (NF₃) as a greenhouse gas. However, this is not anticipated to have a very widespread or material impact. See also AASB Board paper *Agenda paper 5.5 Definition of greenhouse gases* at Board Meeting 6-7 June 2024.
- **Differences in information subject to assurance:** Mandatory limited assurance is being provided on sustainability reports to the extent required by ASSA 5010. That assurance is in relation to whether the disclosures are in accordance with AASB S2 and the Corporations Act. NGER submissions & associated Safeguard Mechanism target outcomes are not required to be assured for all reporters but may be required by the CER or entities may request voluntary assurance. The scope of that assurance will depend on the purpose of the engagement (e.g. to check compliance with the NGER legislation). Due to the different criteria being evaluated, the same underlying activity data used to estimate the resulting emissions for the period may need to be assured for compliance with different criteria (and therefore different focus) multiple times.
- **Differences in assurance standards:** The Clean Energy Regulator, when it requires assurance, requires the assurance using assurance standards ASAE 3000/ASAE 3410. Sustainability reports are assured using assurance standard ASSA 5000. Due to the different assurance standards, there may be some duplication in assurance effort required to be performed over internal processes, controls and the activity data used to estimate the resulting emissions for the period may need to be assured multiple times.
- **Difference in assurance provider:** The Clean Energy Regulator requires assurance using an auditor on the CER's greenhouse and energy auditors register. The Corporations Act requires the assurance is provided by an RCA. This may result in instances where despite assuring the data for the purposes of the Corporations Act, the RCA is not able to also provide assurance for CER purposes.
- **Differences in global warming potential values:** The *Ozone Protection and Synthetic Greenhouse Gas Management Act* (1989) uses GWP from the IPCC Fourth Assessment Report (AR4). NGER Measurement Determination uses GWP from the IPCC Fifth Assessment Report (AR5). Sustainability reporting (and the international version IFRS S2) requires the use of the most recent IPCC assessment report, which is currently the Sixth Assessment Report.

We have outlined suggestions for improving the efficiency of these overlapping areas in our response to Treasury.

Acknowledging that it is outside the scope of this inquiry, we also observe that the description of the business structure, operations, and supply chain of an entity disclosed for Modern Slavery statement purposes may have some crossover, but not perfect alignment with the description of the business model and value chain in sustainability reporting.

We thank the Productivity Commission for considering Grant Thornton's submission and we would be pleased to assist further if required.

Yours sincerely

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