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11 April 2024

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Online submission: Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 [Provisions] – Parliament of Australia (aph.gov.au)

Senate Economics Committee Inquiry into Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 - Schedule 4 – Sustainability Reporting

Dear Sir / Madam,

I am pleased to make this submission on Schedule 4 – Sustainability reporting provisions of the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024.

I have extensive experience in accounting advice on Australian Accounting Standards and International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

I suggest changes for the following areas:

Yours sincerely,

David Hardidge
[redacted]

1) Scope 3 emissions – Reporting without undue cost or effort, and no additional cost burden on suppliers and customers

The Policy Position Statement and Policy Impact Analysis expresses the view that Scope 3 reporting is undertaken without undue cost or effort, and does not involve additional costs on suppliers or customers.

They do this with the Policy Position Statement stating:

- Scope 3 emissions (i.e. emissions that occur up or down their supply chain and emissions associated with their financing or investment activities) will be required from the second year of reporting. Scope 3 disclosures would represent information that is available at the reporting date without undue cost or effort.

and by the Policy Impact Analysis only including costs for the reporting businesses. The Policy Impact Analysis does not identify any additional costs for other businesses, or other individuals, community organisations (and implicitly no additional costs for commonwealth, state or local government agencies). Consequently, it can be inferred that the intention is that there will be nil costs intended to be proposed by the legislation.

There is currently confusion in the public with many advisers and consultants referring to how businesses will have to collect data from their suppliers and customers. As noted above, this is clearly not the policy. The final legislation should make it abundantly clear that Scope 3 reporting can be undertaken without undue cost or effort, and does not require any additional cost burdens on suppliers and customers.

Scope 3 reporting, that includes activities in the 'value chain', i.e. suppliers and customers, is not consistent with usual accounting reporting. Usual accounting reporting involves the reporting entity, or consolidated reporting entity. Consequently, usual accounting reporting does not include results of suppliers or customers that are not controlled.

The costs on business (particularly small business), and government agencies, of Scope 3 reporting advocated by many advisers and consultants would be very significant. Not only would 'value chain' suppliers and customers be required to report their Scope 1 and Scope 2 emissions (information they are likely not to collect), but such entities would also be required to report their 'Scope 3' emissions. Which, then of course, would force additional costs onto their 'value chain' suppliers and customers, and so on and so on.

This would result in enormous and unnecessary costs. The costs are unnecessary as each business should be responsible for what it controls.

2) Scope 3 emission disclosures should not be required by legislation (or accounting standards)

Scope 3 emission disclosures should not be required by the legislation as they do not provide useful information. Coles Group reported Scope 3 emissions in its 2022 Sustainability Report of "approximately 21m tCO2-e in FY21" (because at the time of reporting it was still finalising FY22). What does 21 million tonnes CO2 equivalent mean? How is Coles Group impacted by this? Yes, it will be impacted by the higher electricity prices we are encountering moving to Net Zero, but what does it mean in practice? How much of the 21m tCO2-e is affected by higher electricity prices, and how does that feed into higher prices for their goods, and the effect on sales and profits?

However, if Scope 3 emission disclosures is required, as noted above, the final legislation should make it abundantly clear that Scope 3 emission reporting can be undertaken without undue cost or effort, and does not require any additional cost burdens on suppliers and customers (i.e. costs burdens on the 'value chain').

3) Scope 3 emission disclosures – If cost burden imposed on suppliers and customers

If Scope 3 emission disclosures is applied per many advisers and consultants (contrary to the Government policy expressed in Policy Position Statement and Policy Impact Analysis noted above), what is intended in future sustainability standards?

Will there be 'Scope 3' type reporting with reporting entities being attributed a share of the costs of the destruction and damage of natural habitat and farmland, and modern slavery issues, to users of renewable energy, and users of electric vehicles? For background, refer to:

> Rachel Williamson, "Modern slavery: The grim problem facing Australia wind, solar and battery supply chains", Renew Economy, Nov 29, 2022, viewed 11 April 2024: https://reneweconomy.com.au/modern-slavery-the-grim-problem-facing-australia-wind-solar-and-battery-supply-chains/

This approach would similarly to Scope 3 emission disclosures result in enormous and unnecessary costs. The costs are unnecessary as each business should be responsible for what it controls.

If there are no 'Scope 3' type disclosures planned for other sustainability issues, then they should not be required for emission disclosures. As I stated above, Scope 3 emission disclosures should not be required by this legislation.

4) Group 3 entities should not be included in the scope of the legislation

The Policy Impact Analysis states that it is expected that "5 per cent" of Group 3 companies would have material climate risks (and opportunities). Therefore, 95% of the Group 3 companies would be provided relief. However, the relief is not an exemption, as a statement stating that there are 'no material climate-related risks (and opportunities)' would have to be audited. Consequently, Group 3 entities would still be subject to non-trivial costs, as there will still be significant audit work for 'completeness' of such statements.

While the notional relief is welcomed, it would be much easier and less costly to simply exclude these entities from the legislation.

Large emitters are already included with the NGER reporters. It is not necessary to include other entities.

5) Group 1 and Group 2 – Only large emitters should be included

As stated above, only large emitters (NGER reporters) should be included in the scope of the legislation. It is not necessary to mandate climate-related reporting, and the imposition of the subsequent costs, on other entities.